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June 4, 1936

Mr. Bewley came in to see the Secretary. The first remarks were made by the Secretary who said to Mr. Bewley: "I want to talk to you straight from the shoulder and not diplomatically. The situation is so critical that if we use the usual diplomatic procedure we may have a smash-up in Europe. On the surface people seem far more nervous than the situation seems to justify, but they are very nervous and, of course, this French strike is getting very much worse."

Mr. Bewley inquired, "What people do you mean particularly?" HM, Jr. answered, "The financial people all over the world -- the heads of the big banks. I have not had time to prepare a very beautiful statement in answer to yours and to learn it by heart, but I do know what the situation is and I think I appreciate perhaps as much as anybody else in the country the seriousness of it, not so much to us because whatever France does we are pretty much isolated and insulated and I am not looking at it from a selfish viewpoint, but I do look at it as the psychological time."

Continuing, HM, Jr. told Mr. Bewley, "What I have in mind is this -- the statement which you gave me, I can call it "Outlining Your Fiscal Policy." I can say this, that making the same hedges as you people have done as to possible deflation, we are not far apart at all. I cannot make a very beautiful speech, I again repeat, because I have not had the time, but I can tell you that using the same hedges as you have we are fairly well satisfied with our price level which has been pretty steady and which gets down to this point.

"I have just had telephone information that the French have advanced their program and will form their Cabinet tonight and go before Parliament on Saturday for approval. When they form this Government, the biggest thing that they have facing them is what are they going to do with the franc and if the French could know that your Government and our Government would be willing to sit by and see them devalue between 20 and 30% and that we would not try to go under them, they would then have the assurance that they could take this jump from the springboard and would land on solid

ground and they must be really in a desperate situation because they do not know what to do and what your Government will do and what we will do." Bewley then said, "I was wondering if our people have discussed it with them at all."

The Secretary inquired of Mr. Bewley, "In the first place, do you feel you can say -- as our expression goes -- 'off the record' whether you agree with me in spirit as far as I have gone, without committing your Government, that what I am saying is 'horse sense'." Bewley replied, "I can certainly say that."

HM, Jr. continued, and said, "You came in here with a very important verbal statement. I come back and tell you that as far as we can see, we are looking at this thing alike. I can also tell you that your Government, each day, is supporting the franc more reluctantly. We figure that you have \$500,000,000 worth of gold earmarked in the Bank of France with a possible mob rising and you cannot show you are afraid and say you are going to take it out, because that would be putting a match to it."

"What I am leading up to is this: I have the authority to talk. I think it may be the right moment if we could tell the French, in this room, what you have told me or if you could get permission to tell the French right here that this is the message I have brought to Mr. Morgenthau and I want to repeat it to you. And I can turn to the French and say, 'We look at this thing alike.' If the French would want to announce a fixed devaluation over the week-end then if we could do this thing all at one time, I may be prepared to say to your Government that we will earmark gold for you here. The pound is now up to 5.03-7/8. The only way to stop the pound from rising is to buy gold in the United States. I may be rebuffed." Bewley's comment was, "I do not know what my Government has been saying to the French." HM, Jr. then stated, "I could not say anything to the French without your permission, and would not. On the other hand, up to now we have worked very closely with the French. I see the possibility that we might accomplish what everybody wants to accomplish. This is the 'horse sense,' sensible thing to do and you can only do it if the three Governments move simultaneously and the thing may be accomplished right here in this room, and looking at it from your standpoint, what we want to get out of it, what the selfish motive of the United States (if you want to

call it that) is that this will bring about general world stabilization of currencies and out of it we will get our share of what the world's increase of trade is. I do not even feel that we will have to draw up written papers or memorandums, but we want the assurances as to what extent the French will devalue, and Great Britain and the United States will, in turn, give France assurances that we will not try to go below them." Bewley inquired, "Do you think it will be somewhere between 20 and 30%?" and HM, Jr. replied, "That is the highest I have heard." Bewley then asked, "Do you interpret that that would be reasonable?"

Mr. Morgenthau then said, "Your Government is in a very embarrassing position. You made this 90-day loan to the French and you cannot get out of it." Lochhead interrupted to say, "This was not a British Government loan but a syndicate of British banks and firms." HM, Jr. remarked, "But it's all tied in together." And Lochhead added, "Any loan of this nature must be made with the sanction of the British Government."

Addressing Mr. Bewley again, the Secretary said, "I think this is a time we can do something if we can be sufficiently intelligent and civilized to act." Bewley asked, "Do you think the time when the new Government will be formed will be Saturday?" And HM, Jr. answered, "Yes. I should think between now and Saturday we should all get together. I will not say a word to the French until I hear from your Government. Do you want to ask me anything?" Bewley replied, "The only point I do want to make is this: it seems impossible for us to have made this loan to the French without having talked to them and discussed our policy." HM, Jr.'s comment was, "Let's say you have and the new Government that is coming in certainly could not make any promises to the British that they would not put an embargo on gold. With this rising and suddenly increasing strike, you could not get your gold out, if you wanted."

Mr. Bewley then asked the Secretary the following: "Have you any information that if we both did say this to the French, they would be willing to do this?" HM, Jr. answered, "I do not work like that. I would tell you if I knew anything. The only thing I do is to get information that they volunteer.. I have not tried to feel them out. You are the first person I have talked to outside of our own Government." Bewley then stated, "I will be very glad to put this before

my Government. Speaking personally, I think it seems extremely sound."

The Secretary's next statement was, "I am talking with full authority from the President to make this suggestion. On a thing like this, either day or night do not hesitate to have the Treasury call me at home. The very fact that they are so nervous without there being a visible reason for it increases my nervousness. It was a similar situation that started the march in Rome. The Hitler situation was just like this.

"Incidentally," the Secretary added, "here is my press release on the German countervailing duties and this also is fairly important." Mr. Bewley thanked him and said, "Yes; yes. I agree." Continuing, HM, Jr. said, "When the Attorney General gives out his formal opinion, Taylor will give you a copy." This concluded the meeting.

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After Bewley's departure, the Secretary reviewed with Mr. Oliphant the conversation with Bewley and asked Mr. Oliphant to prepare the legal documents which might be needed in the event England agreed to go through with the Secretary's suggestion.

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HM, Jr. asked Lochhead to arrange with the Customs Bureau to send the Treasury decision on countervailing duties to the consular offices in London, Paris, Berlin, Shanghai and Kobe, with the request that they make the decision available to the Embassies at those points. He also wanted the Shanghai office to give a copy to Buck.

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Thursday
June 4, 1936

Operator: Go ahead.

HMjr: Hello - hello -

H. M.
Cochran: Hello, Mr. Morgenthau

HMjr: What news have you got? What's new?

C: I tried to see this man -

HMjr: Yes

C: Will not be available until tomorrow.

HMjr: I see.

C: I'm to be in touch with their Chef de Cabinet, that's the Chief of his office -

HMjr: Yes

C: - at quarter past eleven tomorrow morning.

HMjr: Yes

C: See, they were just going - they were just getting together the Cabinet when you phoned.

HMjr: I see.

C: And I couldn't find them any place. They said that they were between the Chamber of Deputies and the palace, going back and forth.

HMjr: I see.

C: You see the one government resigned between four and five.

HMjr: Oh yes

C: Then they were presenting the others you see immediately afterwards.

HMjr: Yes

C: And so I tried through several friends to get in touch but I just couldn't do it.

HMjr: All right.

C: But I'm to get in touch with people of his office at eleven. You see the turnover takes place in the

Treasury tomorrow at eleven.

HMjr: Well, just as soon as you've talked to him put in a call for me.

C: Beg pardon?

HMjr: As soon as you've talked to him telephone me.

C: All right.

HMjr: Will you?

C: Fine

HMjr: All right.

C: I'll get him just as soon as I possibly can.

HMjr: Yes, and then you telephone me.

C: Then I'll put in a call to you.

HMjr: O. K.

C: That's right.

HMjr: Goodbye.

C: All right, sir.

HMjr: Goodbye.

C: Good night.

Friday
June 5, 1936

Operator: Mr. Cochran - go ahead.

HMjr: Hello

H. M.
Cochran: Hello, Mr. Morgenthau

HMjr: Yes, Cochran

C: Hello?

HMjr: Yes, I hear you.

C: I saw our friend out at the bank at six o'clock.

HMjr: Yes

C: He said that - he had asked -- only to indicate -

HMjr: Had what?

C: Only to indicate -

HMjr: Yes

C: That is without any commitment or without any written promise whatever that if there should develop some hitch, that is through disturbances here - or to lack of , that is - if the local banks would not be able to take care of this situation -

HMjr: Yes

C: Because of such an emergency then the Federal could in such emergency borrow available resource through the Bank of France against gold earmarked here by the bank for shipment on the first available steamer.

HMjr: Well, how much does he want?

C: He said that - a big amount.

HMjr: How much?

C: He said that - the big amount like last year.

HMjr: Yes - he doesn't want as big an amount?

C: A transaction which would probably be perhaps twenty million dollars.

HMjr: Twenty million?

C: Yes

HMjr: He'd be satisfied with twenty million?

C: Beg pardon?

HMjr: Twenty million?

C: Yes

HMjr: Over the weekend?

C: No, he said for longer than that.

HMjr: Yes

C: A few days.

HMjr: How many days?

C: The next few days.

HMjr: I see. Well now does he make any special offers?

C: I asked him, I said, 'Is the situation like it was last year?' I said, 'What if an embargo comes?' And he said, well he didn't think an embargo would come but if it should come he was absolutely sure that gold earmarked for a foreign Treasury or Central Bank would not be subject thereto.

HMjr: Yes

C: And I asked him confidentially how much our friends across the Channel were holding under earmark here.

HMjr: Yes

C: What's that?

HMjr: How much?

C: Twelve billion francs - that's eight hundred and sixty million dollars about.

HMjr: No

C: That's the highest it's ever been I think.

HMjr: Twelve billion francs?

C: Twelve billion francs held here for them under earmark.

HMjr: Yes

C: And no guarantee other than what we would have.

HMjr: Yes

C: With the promise that it wouldn't be connected with an embargo --

HMjr: Now all he wants is twenty million dollars?

C: He thinks he would rather not fix it.

HMjr: He doesn't want to fix the amount?

C: No, but he said that he thought that would be the maximum. He didn't think anything would be required -

HMjr: Yes

C: - but he does want us to do that if the emergency should arise -

HMjr: Yes

C: - to have some reserve to fall back on.

HMjr: All right. Well now you can tell him that he can have up to twenty-five million.

C: Up to twenty-five?

HMjr: And I'll have the Federal work out the details right away.

C: I see. He said that you didn't need to wire him anything.

HMjr: What's that?

C: He said he didn't need any written statement whatever.

HMjr: Well, you can tell him.

C: He says that if I can simply tell him that you approve of the - of such an operation, that will be enough to his mind.

HMjr: Well, you can tell him that I do.

C: And up to twenty-five million?

HMjr: Yes

C: All right.

HMjr: Yes

C: And then we can come to that later.

HMjr: What's that?

C: I mean this is the only thing for the present. If the situation gets worse then we can take it up again.

HMjr: All right, this is just for him to fall back on so he can sleep?

C: Yes

HMjr: So he can sleep well.

C: That's right.

HMjr: Yes

C: And he also mentioned that he is already shipping to the United States and has on the water now about twelve billion dollars of gold for the account of his own bank.

HMjr: Yes

C: It is tending to build up deposits under earmark with the Federal.

HMjr: I get you.

C: So if there should be some emergency this - resulting also.

HMjr: Well, that's a very good move.

C: Yes - I said, 'Well I hope you continue it'.

HMjr: Yes

C: He said, 'I can. We want to build it up to twenty-five million'.

HMjr: Yes.

C: He said that it has been hard to re some time the favor of such - for

HMjr: How much does he want to build it up to?

C: At least twenty-five million.

HMjr: How much?

C: Hello?

HMjr: How much?

C: At least twenty-five million.

HMjr: Twenty-five million, I see. Well, that's all right. Now - well, that's that. Hello?

C: Yes - well, I'll tell him this evening.

HMjr: You'll do what?

C: I shall tell him this evening that - that you O. K. that idea.

HMjr: Yes - and you might be interested that the allotments on our bonds were fourteen per cent.

C: Is that so?

HMjr: And on the notes fifteen per cent.

C: Fourteen on bonds - notes fifteen per cent?

HMjr: That's right - on the allotments on this - for the cash offering.

C: Yes, yes

HMjr: And the conversions were ninety-seven per cent.

C: Already?

HMjr: Well, it's finished.

C: It's finished now, conversion ninety-seven?

HMjr: Ninety-seven per cent -

C: Ninety-seven per cent - congratulations, that's fine.

HMjr: - of the people converted. It's - it's the best issue, I mean it's the greatest success we've ever had.

C: That's wonderful.

HMjr: Ninety-seven per cent conversions and on the cash the bonds were fourteen per cent and the notes fifteen per cent.

C: Yes, yes - we used to figure eighty per cent converted was normal, didn't we?

HMjr: Yes, well that was under Mr. Mellon.

C: Yes (Laughs) well, things have changed.

HMjr: Yes (Laughs) all right.

C: Well, let me tell you just one more thing.

HMjr: Please

C: On the market today dollar sales totaled about twenty million.

HMjr: Twenty million?

C: Yes

HMjr: Yes

C: - done by the British control.

HMjr: Twenty million by the British control?

C: They bought some francs, then they sold them again this afternoon because sterling - on account of sales from New York.

HMjr: Well now, how do you explain that?

C: Well, certainly it sailed from New York. On the other hand I heard that London was buying dollars- or put it either way you want, I don't know which to say.

HMjr: Yes - wait a minute, just wait a minute - (Spoken to Mr. Lochhead: You understand that?) Lochhead thinks that must be just a temporary hourly adjustment.

C: Yes, it may have been.

HMjr: Yes

C: But anyway that was the peak of the day, that the British control sold absolutely no gold until today.

HMjr: Yes - and I haven't got your cable yet.
 C: The one I sent this morning?
 HMjr: No
 C: - they were working on it at one-thirty-
 HMjr: Yes
 C: - when I was talking with you I gave it to them at once.
 HMjr: Yes
 C: I've sent one more since then.
 HMjr: Well, we may get that tomorrow.
 C: So -
 HMjr: Yes
 C: And at noon today I - after I talked with you I talked with and Chen.
 HMjr: Yes
 C: And this taller one of the two, the younger one, is not air-minded.
 HMjr: Oh -
 C: And so I think they're going ahead by Genoa.
 HMjr: Oh, well that's too bad.
 C: Well anyway said that he would probably go the other way.
 HMjr: Who Chen?
 C: - as early as possible.
 HMjr: Chen?
 C: Beg pardon?
 HMjr: How will Chen go?
 C: Nicholson wants to go as soon as Chen.

HMjr: Yes, he'd better go on and get back there, tell him.
 C: That's what he wants to do and then it's better to go by boat -
 HMjr: Yes, that's right.
 C: They have their passage and they don't want to have to wait in Vladivostok.
 HMjr: Well, tell Nicholson to go back the quickest way and never mind the expense.
 C: All right.
 HMjr: Tell Nicholson to go the quickest way and never mind the expense.
 C: All right.
 HMjr: See?
 C: Yes
 HMjr: Is that all right?
 C: Yes
 HMjr: You tell him, I mean, he can go and we can pay for it out of a special fund, see?
 C: All right.
 HMjr: Tell him to get back the quickest way he can.
 C: Fine
 HMjr: All right.
 C: They don't think the situation is as bad as you had heard.
 HMjr: Well, they don't know.
 C: I mean, they have talked with their Embassy here and I asked Wait and Nicholson to fix up a ^{this} afternoon.
 HMjr: Good, good - well they just don't know or else they -
 C: Yes - anyway there's a meeting of ^{at Basel} on Sunday.

HMjr: Yes

C: And I think I'll go down Sunday morning - I'd be back here Tuesday morning - I'll be away just one day.

HMjr: Now, you'd better be in Paris Monday.

C: But I miss the meeting if I am.

HMjr: What?

C: I say I miss Basel if I'm here.

HMjr: Well -

C: Do you think there'll be anything Monday?

HMjr: Well, I want you where I can get you. What's doing in Basel?

C: That's the monthly meeting of the Directors. Tannery will be down there, Gorman, Schacht and all the rest.

HMjr: Well then, you'd better go. - But leave word where I can get you by phone.

C: You can get me at the Hotel Schweitzerhof, -

HMjr: Schweitzerhof?

C: At Basel - all day Sunday -

HMjr: Yes

C: - all day Monday -

HMjr: Yes

C: up until eleven o'clock that night.

HMjr: I see. All right.

C: I'll be back here at seven o'clock in the morning.

HMjr: Now, has there been any comment on our countervailing duties?

C: I haven't seen any yet.

HMjr: You haven't?

C: The main reason is there were only three newspapers published here today.

HMjr: Oh - did Wait show you a copy of it?

C: I have the broadcast statement which came through our private

HMjr: Well, I sent Wait a special cable on that.

C: Well, I'll get a copy from him then.

HMjr: He has the full cable, Wait.

C: Well, I'll get it from him.

HMjr: I'd be very much interested in what the reaction is at Basel.

C: Well, I'll see our friend the Doctor down there.

HMjr: O. K.

C: And then I'll go ahead and tomorrow night I'll try and get a wire off to you after Blum delivers his speech to the Parliament.

HMjr: All right.

C: And then I'll go on Sunday morning.

HMjr: O. K.

C: Fine

HMjr: Goodbye.

C: Goodnight.

June 4, 1936

Just before press conference today, the Secretary called the Attorney General and said, "I am having a press conference in a few minutes and I have your very excellent opinion on countervailing duties on my desk. Is it agreeable to you, when answering questions of the men, to say that copies of this opinion will be made available by the Attorney General?" The Attorney General replied that he would be very glad to make it available.

June 4, 1936

Mr. Lochhead and Mrs. Klotz were with the Secretary just after he arrived at the office this morning. He expressed his thoughts to them as follows:

"The European situation is getting clearer and clearer to me. There is such a thing as being too slow and missing one's opportunity. The time the British need us is when sterling goes up a cent a day and the time that the French need us is when they are making up their mind to devalue.

"In view of the fact that the President is so busy and I can't get to him, I will call him in a little while and want to get his permission to send for Bewley and say to him, 'Telephone your Government and ask them if I can send for the French and have a meeting here and have you tell them what you told me the other day.' I want to tell Bewley that the time has come when the three countries can move together. If the French know that when they jump off a springboard they will land on solid ground, it makes all the difference in the world. The quicker Blum knows how we feel, the better.

"It may be too late if we wait over the week-end and I feel that I want to send for Bewley this morning."

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HM, Jr. called the President. He said, "This European situation is getting steadily worse. The franc is .0658 $\frac{1}{2}$ and the pound, 5.03 $\frac{1}{4}$. It is up from 5.01 yesterday. I would like to have your permission, if you think it is sound, to send for Bewley. When I saw Bewley yesterday he asked if it were possible for the British to get gold here. My answer was that it was. I cannot work in this roundabout political way. I want to tell him that we have been close friends with the French and that I want to send for them and either alone or in Bewley's presence tell the French what Bewley told me and give them the assurance that unless something unforeseen happens that Great Britain and the United States would not devalue further if the French devalued 20 to 25%. If I can do that now and get that to

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Blum over the week-end, he might be able to save his country. To sit here until the catastrophe blows up in our face, I think is stupid."

The President thought very well of HM, Jr's idea and said, "It would tide them over for the next five or six days," to which Mr. Morgenthau replied, "Oh, no! Mr. President. It might help them permanently."

HM, Jr. also said to the President, "On the tax bill, after it passes the Senate and before our boys talk to the conferees, I would like to bring them over to have a talk with you first." The President said he would be very glad to see them.

June 4th

The following group were present at the 9:30 meeting in Secretary Morgenthau's office this morning:

Mr. Daniel W. Bell
Mr. Herbert Gaston
Mr. Stephen B. Gibbons
Mr. George C. Haas
Mr. Guy T. Helvering
Mr. A. S. McLeod
Mr. William H. McReynolds
Mr. Herman Oliphant
Miss Josephine Roche
Mr. Lawrence H. Seltzer
Mr. Wayne C. Taylor

Mr. Bell: I have a problem in New York. When we took over the accounting from the WPA we reduced the force by about 400 employees. Now we have been studying the disbursing set up and we can reduce again by 100 people. We are prepared to go through with that but it has political consequences. New York Congressmen will be on your neck.

Mr. Morgenthau: You don't need the 100 people?

Mr. Bell: No.

Mr. Morgenthau: Well let them go then.

Mr. Bell: O.K. we will go ahead then. I just wanted you to know about it.

Mr. McReynolds: You have to keep the ones left to do the work?

Mr. Bell: Yes.

Mr. Morgenthau: Why is it increasing so rapidly?

Mr. Bell: We are consolidating - we have had so many payments scattered throughout the city.

Mr. McReynolds: You cut the thing in half when you first took it over.

Mr. Bell: We took the figures of Finance Officer of WPA and he said we reduced it 400 less.

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Mr. Morgenthau: Let the Socialists out first.
(Hearty laughter by the group)

Mr. Morgenthau: That is being bi-partisan isn't it.
(More hearty laughter by the group)

Mr. Morgenthau: Now taxes. I spoke to the President this morning and he said on account of the death of the Speaker he does not know what will happen. He wants to sit down and go over each item himself.

Mr. Oliphant: No!

Mr. Morgenthau: He said, "why of course I do. Where did you get the idea I didn't? I want to go over item by item". I think that is very encouraging. Certainly if we have it and the President said this and he wants that and it comes from the President it makes all the difference in the world. You fellows look a little weather-beaten - punch drunk. (Laughter by the group) So I think that is about all for you (meaning McLeod and Seltzer)

Note: At this point McLeod and Seltzer left, having been excused by the Secretary.

Mr. Morgenthau: Are we ready on this thing?

Mr. Gaston: Yes we have it in two sections - a short release with the T. D.

Mr. Morgenthau: T. D.?

Mr. Gaston: Treasury Decision.

Mr. Morgenthau: Will you be in at 10:15?

Mr. Gaston: Yes.

Mr. Morgenthau to Mr. Oliphant: Want to come?

Mr. Oliphant: No - I don't think anybody ought to be here from Counsel.

Mr. Morgenthau: I called up Oliphant this morning before breakfast - I think it was at 7:30 - and I said, "I just read the Attorney General's opinion and it looks as though he copied Gaston's press release" and Oliphant got sore. (Laughter by the group)

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Mr. Oliphant: (Laughing heartily). I didn't get sore. I had only one eye open and I was trying to think of something good to say to you.

Mr. Oliphant: Had you seen the Attorney General's opinion before he read the press release?

Mr. Gaston: Yes.

Mr. Morgenthau: This narrative form it has taken was Herbert Gaston's. I have been darned careful to read them all but the Attorney General smatters very much of the narrative form of Herbert Gaston's press release. We will have a dress rehearsal at 10:15.

Mr. Oliphant: I will be in at the rehearsal but not at the Press Conference.

Mr. Morgenthau: Now the other thing - are we going to give a list of the manufacturers that they can go through the legal papers?

Mr. Gaston: I haven't any list but we can get it.

Mr. Morgenthau: I think it would be helpful for you. Find out. This thing hits on the AP and UP.

Mr. Gaston: There was a story yesterday morning how they had so many million harmonicas in exchange for oil.

Mr. Morgenthau: Will you get the list of manufacturers?

Mr. Gaston: Yes.

Mr. Morgenthau: Mac?

Mr. McReynolds: Nothing.

Mr. Morgenthau: What's the matter?

Mr. McReynolds: Not a thing. I'm feeling fine.

Mr. Morgenthau: Cy?

Mr. Upham: Nothing

Mr. Helvering: I want to call attention to the situation on the money for refunds which we are trying to work out to the best advantage we can and I am mentioning it for this reason. I know there will be thousands and thousands of those little refund claims in and you will not have the money.

Mr. Morgenthau: Haven't I got it?

Mr. Helvering: Not yet. The bill has not passed yet.

Mr. Morgenthau: Are they coming in now - all those?
Are you answering them and telling them that pending the legis-
lation we can do nothing?

Mr. Helvering: Well of course nobody has insisted yet.

Mr. Morgenthau: What do you suggest?

Mr. Helvering: I want to report to you that we have
been endeavoring to get an amendment in the bill which justifies
the Secretary of Agriculture releasing money to us.

Mr. Morgenthau: Is it up to me to do anything?

Mr. Helvering: Nothing you can do just now.

Mr. McReynolds: He is just telling you there will be a
lot of people on your neck.

Mr. Bell: You can't use your regular refund appropriation.

Mr. Helvering: No.

Mr. Gibbons: (Laughing) James J. Hoey said you are the
dumbest Commissioner of Internal Revenue we have had.

Mr. Helvering: (Laughing) I will be kind to him and say
he is one of the best Collectors we have.

Mr. Bell: Have you any idea how much the refunds amount
to?

Mr. Helvering: Approximately 50 million.

Mr. McReynolds: I have an estimate on my desk.

Mr. Morgenthau: Is it up to me to do anything or just
let it float?

Mr. Helvering: Nothing you can do now.

Mr. Morgenthau: I would get out a form letter so that
they don't get worked up.

Mr. McReynolds: There is nothing to do now because we
may get a chance to get money.

Mr. Morgenthau: Mac, please! I write in - I don't hear from the Bureau for 30 days. Now if I get a letter saying pending action by the legislature we are trying to do something but for the moment we can't the fellow gets some kind of an answer.

Mr. Helvering: We will do that. I again call your attention to the fact that when those export claims came in you rode me very severely.

Mr. Morgenthau: Well I most likely will again. (Laughter) The fellow should have something to show that he has heard from his government.

Mr. Helvering: The Secretary of Agriculture will show that the money which was made available has been allocated.

Mr. Oliphant: I am not sure but what I have a letter from him to that effect now.

Mr. Morgenthau: Let's bring it up again at 9:30.

Mr. Gibbons: Nothing.

Mr. Haas: Nothing

Miss Roche: Nothing.

Mr. Taylor: What happened with your Investment Trust people yesterday?

Mr. Oliphant: They sent word to me to forget it that they were 100% satisfied.

Mr. Morgenthau: Did they take the book?

Mr. Oliphant: I forget that.

Mr. Taylor: Who satisfied them?

Mr. Morgenthau: The President.

Mr. Oliphant: Turney had worked it out and did fine.

Mr. Gaston: Chief Moran spoke to me about his bill for his annuity. Mott was designated to go up and make an objection which he did. He wanted to know if I knew a man from Oregon who was close to Mott but I didn't know of anybody.

Mr. Morgenthau: What can I do?

Mr. Gaston: I don't know.

Mr. Oliphant: Hester reported to me on that bill and he said everything was being done that is possible.

Mr. Morgenthau: If anybody can do anything I would be more than delighted.

Mr. Gaston: I got all the agencies but have not been able to talk to Jesse Jones or O'Connor.

Mr. Gibbons: I thought I was going to talk to John O'Connor this morning. He can straighten it out. That fellow from Oregon is a real good fellow.

Mr. Oliphant: John Collier, Interior Department, takes over the deposits of Indians on the reservations.

Mr. Morgenthau: That is Bell.

Mr. Bell: Well it comes up under the Permanent Appeal Appropriation Act and the Civil Service is trying to force the Treasury into the Trust Fund under that Act and there was a bill introduced not only to change that law but prohibit the Treasury from taking over the disbursing funds of the Indians of the Interior Department. We reported to Secretary of Interior that we had no objection to the first part changing the appropriation act but then if he did that he wouldn't need the second part. I understand that Interior is satisfied.

Mr. Oliphant: I reported it. Collier is head of the Bureau of Indian affairs.

Mr. Morgenthau: Would you mind giving him a ring?

Mr. Bell: No I will call him up.

June 5, 1938

When HM, Jr. saw the President, this morning, he said that he had overruled the Vice President and they are going to have eight conferees in the Senate and among them will be La Follette and in order to reach La Follette they are increasing the number of conferees.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Friday, June 5, 1936.

Press Service
No. 7-54

Secretary of the Treasury Morgenthau today announced the subscription figures and the bases of allotment for the cash offering of 2-3/4 percent Treasury Bonds of 1951-54 and of 1-3/8 percent Treasury Notes of Series B-1941.

Reports received from the Federal Reserve banks show that subscriptions for the cash offering of Treasury bonds, which was for \$600,000,000, or thereabouts, aggregate \$4,282,000,000. Subscriptions in amounts up to and including \$5,000 were allotted in full and those in amounts over \$5,000 were allotted 14 percent, but not less than \$5,000 on any one subscription.

For the cash offering of Treasury notes, which was for \$400,000,000, or thereabouts, subscriptions aggregate \$2,772,000,000. Cash subscriptions in amounts up to and including \$5,000 were allotted in full and those in amounts over \$5,000 were allotted 15 percent, but not less than \$5,000 on any one subscription.

Preliminary reports of exchange subscriptions, in payment of which Treasury Notes of Series E-1936, maturing June 15, 1936, and of Series A-1936, maturing August 1, 1936, were tendered, indicate that practically all of the maturing notes will be exchanged for the new issues, and that over 90 percent of the exchanges are for the bonds.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

IMPORTANT COLLATERAL PROVISIONS TO BE CHANGED IN CONFERENCE.

1. Longergan amendment on estate tax insurance to be eliminated.
2. Copeland Liquor Tax amendment to be eliminated.
3. Review of Excise taxes by Board of Tax Appeals to be eliminated.
4. Windfall tax (title III) - 30-day rebate provision to be eliminated.
5. Preferential rate for sales of oil and gas properties (§ 104) to be eliminated.
6. Preferential rate of tax for Canadians and Mexicans (§§ 211(a) and 231(a)) to be eliminated.
7. Common trust provisions (§ 169) to be revised.
8. Floor stock, etc., refunds, (§§ 601 and 602) - \$10 limitation to be restored.
9. Title VII - Refunds of taxes under Agricultural Adjustment Act. \$10 limitation to be restored.
10. Corporate Reorganization Amendment (§§ 112 and 113) not to be relaxed.

- Note - The following amendments do not concern Treasury Policies
- a. Additional taxes on importation and processing of oils.
 - b. Tariff on sardine oil.
 - c. Extension of tax on imported lumber.
 - d. Provision for quota on imports of shingles.

1.

Lonergan Amendment to Tax Bill Permitting Deduction From Gross
Estate of Proceeds of Insurance earmarked For Payment of Death Duties

1. Without legislation anybody can take out insurance to provide quick funds at death to pay estate taxes. But such funds would not be exempt from death duties, and should not be, any more than should funds accumulated for the same purpose in any other way, for example, in savings accounts or by purchase of Governments.
2. While the Lonergan amendment would result in no loss of revenue in 1926, it would cause an estimated loss of \$9,000,000 during 1927 and of \$12,000,000 yearly thereafter.
3. It would discriminate against small estates because as the estates increase the amount of the deduction increases and the tax decreases more than proportionately due to the fact that the rates on larger estates are higher. For example, on an estate of \$100,000, without the insurance deduction the tax would be \$9,280, and with the deduction \$8,198, a saving of \$1,082 or 11.6%. On an estate of \$1,000,000, without the deduction the tax would be \$222,600, and with the deduction \$158,724, a saving of \$63,876 or 28%. On an estate in the highest bracket the maximum saving would be \$175,000. Also inequities as between estates are possible because one taxpayer might be in a position to adjust his affairs to meet the amendment and thus obtain its full benefit, while other taxpayers might not be in a position to adjust.
4. No restrictions are placed on the type of insurance deductible or the period of time it must have been in force, and policies in amount up to \$250,000 are deductible. Because of the diversity of forms of insurance existing and the ingenuity of insurance agents in devising additional forms, various subterfuges which would enable both taxpayers and insurance companies to profit at the expense of the Government are possible.
5. The amendment might be prejudicial to states whose death taxes are so devised as to secure the maximum amount for which credit may be allowed against the 1926 Federal tax and might induce taxpayers to change their residences.
6. It will give preference to insurance over other classes of investments. Why should the proceeds of insurance policies be deductible from estate taxes and not other property, including Government bonds, when such other property is used, as it may be, to make estate tax payment immediately on death? This preference would tend to make Government securities less desirable and interfere with the Government's program of financing.
7. For all practical purposes, the general effect of the amendment would be a boon for insurance companies and agents; and a discount at a rate equal to the highest rate of tax applicable to each estate, or from 2% to 70% depending upon the size of the estate, will be allowed for prompt payment of death taxes with insurance proceeds. It is too high a price to pay.
8. The amendment would result in serious administrative difficulties.
9. If it is desired to provide additional ways of meeting estate taxes by the "instalment payment" method, time should be given to the Bureau to develop such a plan, which might include instalment deposits with the Treasury prior to death and which would avoid the discriminations, loss of revenue, and other objections mentioned above.

2.

2. Copeland Liquor Tax Amendment.

This amendment provides for the collection of the liquor taxes from the retailers. It was attached to the FACA Bill last year and eliminated in conference.

The plan contained in the amendment is impractical and unworkable. It would greatly increase the administrative and enforcement work of the Bureau and would undoubtedly promote bootlegging and cause loss of revenue.

3.

3. Review of Excise Taxes by Board of Tax Appeals.

The Senate amendment giving the Board of Tax Appeals jurisdiction to review cases involving excise taxes should be eliminated.

Excise taxes are on a monthly return and collection basis, and the machinery of the Board of Tax Appeals is not adapted to handling this class of cases. The amendment is not adequately drafted to cover the extensive procedural changes in the law that would be necessary.

The Board of Tax Appeals is already far behind in its docket. No good reason is seen for dissatisfaction with the present method of handling excise tax cases or for loading this additional work on the Board. It may be noted that under existing law most of the excise taxes in question will automatically cease to be in force on July 1, 1937.

4.

4. Windfall Tax - 30-day Period for Rebates to Customers.

The Senate amendment giving taxpayers under Title III of the Bill a deduction for tax rebates to customers made within thirty days after the enactment of the Act should be eliminated, and the House provision should be restored, so that allowance will be made only for rebates made on or before March 3, 1936 or under a written contract existing on that date.

The Senate provision will stimulate taxpayers to build up good will by making these rebates to their customers and saving the 80 per cent tax. There is no real possibility of these rebates being passed along to the ultimate consumer who really bore the burden of the tax. The consequence is that the dealers who receive the rebates will become subject to the tax on unjust enrichment. This means that instead of having a few thousand taxpayers to deal with the Bureau may have in excess of a hundred thousand. This will multiply by several times the investigative work and litigation under title III, and in the end will probably mean the loss of most of the revenue under title III.

61 Preferential Rate on Sales of Oil or Gas Properties
— Sec. 104.

Section 104 of the Senate Bill granting preferential treatment to income from sales of oil or gas properties should be eliminated. This provision limits the tax attributable to such income to 30 per cent of the selling price of the property.

Prior to the Revenue Act of 1934 a similar provision appeared in the law. See section 102 of the Revenue Act of 1932. The elimination of this provision when the Revenue Act of 1934 was enacted apparently recognizes (1) that the oil industry is not today in a situation which calls for tax benefits to stimulate production, and (2) that the complete revision of the capital gains provision was a suitable occasion to drop the special provision. Under the old law gains on property held by a taxpayer for not more than two years were taxed as any other income, while gains from assets held more than two years were subject to a limitation that the tax could not exceed 12 1/2 per cent. The Revenue Act of 1934 introduced a system of taxing such income upon a percentage basis graduated according to the length of time the property was held, and starting the preferential treatment at one year.

The arguments for section 104 of the Senate Bill are presumably that gains on this type of property are sudden and sporadic and that the business will be driven into the hands of corporations to escape the high surtaxes. The first argument is largely met by the new capital gains provisions, and the second argument is no more convincing with respect to oil or gas property than with respect to any other type of saleable asset.

6. Preferential Rate to Residents and Corporations of
Canada and Mexico - Secs. 211(a) and 231(a).

The preferential rate given to (1) income of nonresident aliens living in Canada or Mexico, and (2) dividends received by Canadian and Mexican Corporations (5% in lieu of the 10% rate generally applicable) should be eliminated from sections 211(a) and 231(a).

The State Department opposes this as a discrimination against other countries and there seems to be no reason for allowing such a low flat rate to nonresident aliens and foreign corporations.

7.
7. Common Trust Provision - Sec. 169.

This provision (sec. 169 of the Senate Bill) taxes a "common trust" as a partnership of trusts. In effect, the provision will allow banks and trust companies to operate investment trusts under this exception rather than under the general rule. It is true that the regulations of the Federal Reserve Board at present restrict this activity, but the American Bankers' Association is attempting to have these restrictions relaxed.

The Senate amendment will give rise to distressing legal and administrative problems. The court decisions on the partnership provisions involved are in confusion, and it is undesirable to project these controversial questions into a new field.

Approximately the same results can be reached by a provision that common trusts shall be treated for income tax purposes as strict trusts. If the principle of the Senate amendment is to be retained, it is highly desirable that this alternative treatment be adopted.

8.

84 Title IV - Export, Charitable Delivery, and Floor
Stocks Refunds - \$10 Limitation on Claims.

The provisions limiting allowance to claims for \$10 or more should be restored to sections 601 and 602, relating to refunds on exports and charitable deliveries and payments on floor stocks as of January 6.

The injustice which could result from this limitation is negligible. Not more than \$2,000,000 would be involved in claims for less than \$10 even if such claims were all filed, but the exclusion of these claims will save a vast and disproportionate amount of administrative labor.

9.
9. Title VII - Refunds of Taxes under Agricultural Adjustment Act - \$10 Limitation on Claims.

The retention of this title as adopted by the Senate is highly important, but for administrative reasons it would be desirable to restore the \$10 minimum limit on claims which was stricken out on the floor of the Senate.

10.

10. Corporate Reorganization and Liquidation Provisions
(SS 112 and 113).

This Senate amendment is acceptable, but it is important, if it is retained, that it be kept intact and that none of the safeguards be eliminated.

June 5, 1936

Cochran's telephone conversation with HM, Jr. in which Cariguel had asked Cochran if US would make arrangement similar to last year in the amount of \$20,000,000. Cochran said Cariguel had informed him British were holding about \$860,000,000 in earmarked gold in France.

Filed in Stabilization Folder under date of June 5, 1936.

141 /
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 5, 1936, 2 p.m.

NO.: 459 FROM COCHRAN.

RUSH.

At 11 o'clock this morning Minister of Finance Auriol took over his office. I was the first one to call on him.

Auriol said that the declaration of Blum to be made tomorrow will survey the general situation, and will give a summary of the policies of the Government.

Auriol intimated that they plan no immediate steps in the financial or monetary field. Tomorrow no separate declaration will be made by the Minister of Finance. He will, within the next ten days or two weeks, reveal problems and suggestions of the Ministry of Finance - probably in and before the Chamber's Finance Committee.

The Minister of Finance mentioned the following division of problems:

First. Monetary: Blum has already declared that he is against franc devaluation; this was the pledge of the Popular Front when it came into power. Here the situation is at present in many ways similar to that which faced President Roosevelt when he was inaugurated, but Auriol said the big difference is that there has already been one devaluation of the franc. It is his opinion that it is likely there would be a very different reaction

reaction in France from a second devaluation compared with the single devaluation in the United States.

Second. Economic: A reflation policy, similar to that of the United States, is to be followed.

Third. Fiscal: The tax question will be taken up immediately, but it will take perhaps two months to work out a plan.

The first plea which Auriol makes to foreign countries will be for their cooperation with respect to frauds in connection with funds which are held abroad; I take it from this that the flight of capital from France will be investigated by the Government, and an endeavor to procure its return will be made.

As to a large monetary conference, Auriol said he had no faith in such an undertaking. A confidential contact with two or three parties is his preference, for the purpose of seeing if points of agreement can be found. The Minister of Finance believes that accords that may thus be consummated will draw others into agreement more effectively than open debate and long discussion in large international meetings would be likely to do.

The Minister of Finance told me his immediate task is to attend to the cash question of the Treasury. There-
fore

- 3 -

fore tonight he is meeting with the chief of the Ministry's movement of funds section for the purpose of discussing this matter.

Auriol expressed admiration of the manner the United States is bringing about recovery. He indicated interest in having close contact with us while he is helping to work out the problem of his own country.

STRAUS.

EA:LWW

TREASURY DEPARTMENT

142

INTER OFFICE COMMUNICATION

DATE June 5, 1936.

TO Secretary Morgenthau
FROM Mr. Herman Oliphant

In connection with the imposition of countervailing duties on certain imports from Germany by Treasury Decision 48360, I should like to make record of the fact that I attended a conference on this subject at the State Department on November 25, 1935, beginning at three o'clock, Mr. Turney accompanying me. Those present, whose names I recall, were Messers. Livesey, Hickerson, Feis and Schoenfeld of the State Department. On that occasion, I repeatedly called attention to the fact that the Secretary of the Treasury had no option under the law except to enforce it, and that, if action was not to be taken, it would be necessary for the law to be changed by legislation.



June 5, 1936

HM, Jr. called Secretary Hull and told him that at ten minutes past seven this morning, Cochran had called him from Paris. He also told Mr. Hull the following:

"At my suggestion, Cochran called on the Minister of Finance of France this morning and it was the first call that the Minister had received officially. He has given us the whole inside story and I told Cochran to rush a cable over repeating his conversation with the Minister. It is most significant and most interesting. Nothing will happen over the week-end and they really don't know 'where they are at'. We have a room full of charts and what we want to do is to fight for 15% devaluation, but we would take 20%. Would you mind doing two things for me? Please tell your people that the minute Cochran's cable comes in, to decode it and rush it over and tell the embassies in Europe to cable us, at our expense, the reaction to our announcement on countervailing duties. I called Bewley in again yesterday and we had some more talks. I dropped the hint, with the authority of the President, that we might give up gold to England provided the French devalued and arrangements with England and ourselves were all simultaneous. The thought I had in mind was that the English could bring pressure on France, but we could not, and in order to be able to get gold from us they might bring the French back into line and if France knew that if she jumped, England and the United States would not go under her devaluation it would encourage her. If we were able to get this French-England thing straightened out as far as money goes, I think it would be the most wonderful thing for this country and this whole question of trade barriers would begin to drop."

After the conversation Mr. Morgenthau said that Hull had told him that if we could get France to devalue 20%, it would be satisfactory.

June 5, 1936

Cochran's telephone conversation with HM, Jr. in which Cariguel had asked Cochran if US would make arrangement similar to last year in the amount of \$20,000,000. Cochran said Cariguel had informed him British were holding about \$860,000,000 in earmarked gold in France.

Filed in Stabilization Folder under date of June 5, 1936.

OFFICE CORRESPONDENCE

DATE June 5, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoks

WITH BANK OF FRANCE.

I called Mr. Cariguel at 12:19 p. m. today to let him know that I could not give him an answer to his inquiry of yesterday before this afternoon or tomorrow morning. Inasmuch as he might not be in tomorrow he suggested that I call on Monday which would be early enough. Referring to our telephone conversation yesterday, he tried to make it clear that whereas last year the arrangement was for him to sell dollars against gold, what he had in mind now was to give us gold in Paris and take dollars from us, such gold to be shipped immediately or as soon as possible, at his expense, to New York (in other words, he wants us to take the gold at \$35 per ounce less a quarter delivered in New York). I suggested that it was conceivable that it might be more convenient for us, in order to avoid unnecessary gold imports, to take the gold for delivery in Paris at about \$34.74, all shipping charges to be for our account, which was the arrangement in the latter part of 1935. This, I understood, was equally satisfactory to him. However, I repeated that I was not as yet in a position to give him an answer as I had not succeeded in getting hold of the right people.

With reference to today's market, Cariguel said the British had operated only to the extent of 20,000,000 francs; the Bank of France's gold losses to New York would probably be \$20,000,000 for the day. Cariguel added that he was sending us some more gold for earmark. I asked him whether his reason for making these latter shipments was to avoid the possibility of a tie-up in transportation facilities and he confirmed this.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 5, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Mr. Bolton at 12:30 p. m. today. He said that they had had a very quiet day with practically no business at all and no news from Paris. New York seemed to have been a big seller of sterling in the London market, which does not altogether tally with what I have been able to find out here. Bolton said he shared the feeling that nothing was likely to happen in France over the weekend, though nobody, of course, knew. Amsterdam was today the tender spot in Europe, not on any particular news but because the situation there seemed to be a very difficult one. Holland was losing gold to the United States and to Belgium, but was not shipping any to London just now. Bolton said there was a lot of talk in their market about our operating in sterling. I assured him that this talk was entirely without foundation. There was again some hoarding demand from the Continent for Bank of England notes, of which he estimated about £20,000,000 were salted away on the Continent. I inquired whether he still thought the "blow-up" would come on the ninth and he said around about then. Blum, he thought, could not tackle the franc situation until he had the strike situation in hand.

I referred to the Central News dispatch from London to the effect that the communistic elements in the new French Government might demand that the gold holdings held by the Bank of France for account of the British Fund be handed over to the Government. Bolton called that absolute nonsense and journalism; they are not the least bit worried, he said.

LWK:KMC

June 5, 1936

Cable from Cochran. Auriol took office this morning; Cochran first to visit him. Auriol gave Cochran outline of the monetary, economic and fiscal policies of the new Government.

Filed in Stabilization Folder under date of June 5, 1936.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 8, 1936.

TO

FROM

Subject: Meeting at Secretary's home, 7 to 10:30 P.M., Friday, June 5, 1936.

- Present: Secretary Morgenthau
 Assistant Secretary Taylor
 Mr. Earl Bailie - J. W. Seligman & Company
 Mr. S. Parker Gilbert - J. P. Morgan & Company
 Gov. G. L. Harrison, Federal Reserve Bank of N.Y.
 Mr. L. W. Knoke, Federal Reserve Bank of New York
 Mr. Robert Loree - Guaranty Trust Company
 Mr. O. P. McComas - Bankers Trust Company
 Mr. Gordon S. Rentschler - National City Bank
 Mr. Leo N. Shaw - National City Bank
 Mr. Siegfried Stern - Chase National Bank
 Mr. John Williams - Federal Reserve Bank of New York
 Messrs. Haas, Lochhead, and White

During dinner the conversation was confined to non-monetary subjects.

After dinner the Secretary stated that he was glad those present had been able to come. The Secretary explained that he had asked them to Washington because the international monetary situation was particularly acute and he wished to hear their views on the situation and their suggestions as to the best way of handling the problem. He said it was possible the path was cleared for clarification of the sterling-franc-dollar problem, and that the views of men who had had a great deal of practical experience in international monetary matters and who were operating all the time in international currencies would be most valuable.

The Secretary stated some data had been compiled in the Research Division of the Treasury which bore on some aspects of the problem which he would like to present to them for their consideration and criticism. Discussion of the particular aspects of the problem that would be presented would, he indicated, be followed by a consideration of the other aspects of the international monetary situation. The remainder of the evening was spent in examination of data presented on

charts bearing on some aspects of the changes in the competitive strength of leading countries during the past eight years. The more comprehensive aspects of the problem were left for the morning discussion.

The meeting was adjourned at 10:30 P.M. and all the men volunteered to remain in town over-night in order to continue with the discussion on the following morning. Mr. Loree was at first hesitant about staying, fearing that events might become more acute and require his presence in New York. The Secretary assured those present he had received word, through his special representative in Paris, from the Finance Minister in Paris that no action was contemplated over the week-end.

H.D. White

GA

June 8, 1936

I called Cochran and told him that he must see the Minister of Finance today and find out from him whether it would be helpful to the French if they could devalue knowing that the United States and England would not devalue further.

He said that Professor Riszt had asked him whether there was any truth to the rumors that England and ourselves had come to an agreement because if we had, everything would be very helpful. I pointed out to Cochran, who should tell the Minister, that if it was an international agreement all the things that Blum had said about not devaluing in France would take on an entirely different aspect. Furthermore, we had no understanding with England, but I did have direct connections with them. Furthermore, that the whole question of devaluation in France, from our standpoint, resolved itself as to how much they would devalue and I told him to get this message to the Minister of Finance and then telephone me back and Cochran said, of course if such a thing could be brought about it would save the situation there. The strikes are much worse today.

PARAPHRASE

PARIS

Dated June 6, 1936

Rec'd 9:20 p.m.

RUSH

467, June 6, 9 p.m.

FROM COCHRAN

ULTRACONFIDENTIAL

I called on Auriol at 6:45, at which time he had just returned from the chamber session during which the Cabinet declaration had been made and from a conversation with Caillaux, who is chairman of the Finance Committee *of the Senate*. After remarking that we knew the new French Government was opposed to independent devaluation by France, I broached the question whether the situation and the promises the Premier had publicly made would not take on another aspect if it were possible for Blum to be assured that the other two principal currencies would not undercut the franc if France devalued to a reasonable extent.

Auriol is unwilling to enter a separate ^{tripartite} agreement on these terms, namely, devaluation of the franc and maintenance of the approximate status quo of sterling and the dollar.

Personally he is willing to suggest to Blum and the French cabinet the idea of a monetary truce or peace on the basis of a leveling out of currencies in accordance with some common measure--the most reasonable would be the world price level provided that France, Great Britain
the

Paraphrase Paris June 6, #267.

the United States, Switzerland and Netherlands adhered to it and provided also that he be permitted to notify the Russians in advance as the ruble at the present time is attached to the franc. His idea is not that there should be a general conference but that the United States, just as we have today approached the French, should informally approach each of the above countries individually and ascertain whether it is possible to reach an agreement between the two currencies, i.e., between the dollar and the pound, the dollar and the guilder, etc., and each of these countries then agree with each of the others. Then announcement could be made to the world some Saturday when stock markets are closed that all these leading monetary powers have reached a general agreement for a general international monetary truce at the agreed rates. The agreement would have to contain some stipulation that the rates of exchange of the currencies involved would not subsequently be changed without the consent of the other parties to the agreement.

Saying that the major struggle is between the dollar and sterling, Auried asked whether Great Britain would reach an agreement with us. He feels that some understanding should first be reached between us and the British and that we should also approach the Swiss and the Dutch so that France would not be singled out. He wishes to preserve unity within the three countries which still constitute the gold bloc if it is possible to do so. It is impossible for

Paraphrase Paris June 6, #267.

for him to approach the British and he cannot be quoted as even personally favoring any devaluation scheme or as suggesting or inspiring any.

He showed an inclination to want to tie in peace and economic measures. I said that monetary stabilization was enough to try to accomplish at one time and that the situation was too urgent to allow the delay that a discussion of trade, raw material supplies, etc., would require. I said that the United States already has fair trade agreements with the countries of the gold bloc, including France.

Auriol will be glad to be advised informally of the American reaction to his suggestion. He must not be quoted in any way. If there should be any leak regarding his position stated above, he would be obliged to resign from the cabinet.

Caillaux, with whom Auriol talked this afternoon, is an advocate of "alignment of currencies."

Reynaud in debate in the chamber this afternoon set forth his usual arguments. He advised the Government to devalue at once, and said that if it does not, it will be forced into exchange control within a few days. He expressed the opinion that the United States and Great Britain would be receptive to the idea of "alignment of currencies."

Auriol, I should add in concluding, fears a currency

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Paraphrase Paris June 6 #267

currency depreciation race and expressed concern about Germany and Italy. He felt that after the major currencies were adjusted, the minor currencies would be taken care of.

At 10:50 this evening I leave for Basel, returning here by 6:45 a. m., Monday, June 8.

(Paraphrased by
F. Livesey
June 6, 1936)

JR

GRAY

Paris

Dated June 6, 1938

Rec'd 8:37 p.m.

Secretary of State,
Washington, D. C.

466, June 6, 8 p.m.

The Front Populaire Government presented itself early this afternoon to the Senate and to the Chamber of Deputies. In the Senate the proceedings were brief. Daladier as Vice Premier read the ministerial declaration and the only two interpellations will be heard in all probability on June 9 when the Senate next meets. The meeting lasted barely half an hour.

Blum appeared before the Chamber, with Herriot presiding, shortly after 3 o'clock. He was given a warm greeting by the Left parties while the Center and the Right maintained a stony silence. The ministerial declaration, which was of considerable length, dealt almost entirely with problems of interior political economy. The Prime Minister failed to include in his declaration any very specific reference to the strike movement and the Government's intentions with regard thereto nor did he touch on the thorny questions of devaluation, the gold movement, or currency control. The most important portion of

149 D

JR

-2- No. 466, June 6, 8 p.m., from Paris.

of the declaration concerned the Government, proposed draft laws which will be submitted to Parliament in the near future. These draft laws concern an amnesty, the forty hour week, collective labor contracts, paid vacations, a plan for public works, the nationalization of arms manufacture, the creation of a wheat market control board with similar boards for wine, meat and milk, the raising of the school age, the reform of the Statute of the Bank of France, and finally an abrogation or first revision of certain decree laws affecting salaries of certain categories of civil servants and veterans pensions. As soon as these measures will be voted the Prime Minister announced his intention of presenting to Parliament a second series of draft laws dealing with unemployment, agricultural debt and social insurance. Subsequent to the passage of these measures he promised to put forward plans for the simplification of the present fiscal system and destined to favor production and commerce.

With regard to foreign affairs, he expressed the ardent hope that the organization of collective security would put an end to the race towards rearmament and would bring about the reduction and effective control in the production of arms. Observers are of the belief that, if only

JR

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only by implication, he favored the maintenance of sanctions.

At the close of the Ministerial declaration which was on the whole favorably received it was decided that the Chamber would listen forthwith to the nine interpellations on general policy.

The first speaker, Fernand Laurant, a center deputy, proceeded to a lengthy analysis of the proposed draft laws and took the Government severely to task in connection with a number of these. In particular he inveighed against the 40 hour week which he considered most dangerous unless it could be preceded by an international agreement. Referring to the 8 hour day he pointed out that it had proved disastrous for the French merchant marine in the past and asked whether it was the Government's intention to renew this serious error.

The following interpell^{ation} was the former Minister of Finance and devaluationist, Deputy Paul Reynaud, who devoted most of his speech to the financial difficulties which faced the country. He pointed to England's successful fight against the crisis with its capitalistic liberal regime and demanded that France should follow the same course. Alluding to Butler's recent international labor office report urging monetary alignment he warned Blum that if his program was not

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not accompanied by monetary alignment it would lead to inflation and catastrophe. He stated there had been more than a twelve billion franc inflation up to the present time and that this figure would be more than doubled by the end of the year. He expressed the belief that the laboring classes whom the present Government was trying to help would be the first victims. He warned that if Blum refused to devaluate he was heading for controlled exchanges and that this would be a question not of weeks but of days. Finally he declared that England and the United States were not as hostile to the realignment of currencies as was generally believed. In conclusion he urged cheaper money and pointed out that France now pays twelve times more than England for loans. He concluded by reference to the success of the Roosevelt devaluation experiment and stressed the necessity for a balanced budget.

The remaining interpellators are ^wnot being heard following whom Blum will make his final reply on general policy which will terminate the debate. The vote of confidence will then be taken and there seems but little doubt that the Government will obtain a substantial majority.

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A second ^{telegram} ~~letter~~ will follow giving the high lights of the remaining interpellations and the result of the vote.

· STRAUS

WSB

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HJD

GRAY

Dis Paris

Dated June 6, 1936.

Rec'd. 10:50 p. m.

Secretary of State,
Washington.

468, June 6, midnight.

Our 466, June 6, 8 p. m.

The interpellations closed with nothing of much value added to the debate. A sensation was caused when Xavier Valad, Royalist independent, stated that for the first time in history "our Gallo-Roman country" was to be governed by a Jew. The remark caused so great an uproar that Herriot presiding stepped into the debate stating that he did not recognize Protestants, Catholics or Jews but only Frenchmen. The remainder of Valad's remarks were drowned in the general confusion and he concluded lamely by stating that in Blum nourished on the Talmud France would have her Disraeli.

Blum summing up the debate on general policy stated that he was not converted to devaluation. He hoped to get through the widening of credits what other countries had obtained through devaluation adding that the policy of deflation had proved unsuccessful.

With regard to his program of draft laws he would not ask

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not ask for full powers but would demand quick action and procedure of extreme urgency. He had no intention of transforming the present regime but would carry on the Front Populaire program. With regard to the strikes he stated that the workers were fighting to improve their conditions and that the strikes were a direct result of the crisis. He said however that if the strike movement should become subversive the government would undertake to suppress it. He admitted that the strikes were beyond control of the unions. The occupation of the factories he conceded to be illegal but inasmuch as the employers had not asked for armed force to dislodge the workers he had no present intention of using force. He asked the question "Do you want me to use force?", adding that in this eventuality the army and the police and even some of the extra parliamentary troops (who were responsible for much of the disorder) might become involved. The government's role would for the time being be limited to assuring food supplies and serving as arbiter between the employers and the workers. He announced that a special parliamentary commission would shortly be appointed for quick action on the proposed draft laws. Finally he stated that a general debate on foreign affairs would take place in the Chamber before the Geneva Council meeting.

Adhereing to strict party discipline a vote of confidence on

-3- # 468, June 6, midnight from Paris

confidence on the order of the day (Blum's proposed reforms embodied in the popular front program) gave the government the convincing majority of 384 to 210.

A final cheerful note was struck tonight when Jouhaux, leader of the labor union, saw Salengro, Minister of the Interior, and informed him that all organized labor will return to work on Monday morning. It is generally believed that the majority of non-organized strikers will follow suit in view of Blum's convincing majority, the promised reforms in the Front Populaire program and the government's avowed determination not to allow subversive activity.

STRAUS

June 6, 1936

Before Bewley came in at 4:45 today (Saturday), HM, Jr. said, "I have decided that I am going to act independently with the Stabilization Fund to hold this thing pending an agreement and I will not agree with England to do anything. I am going to be fairly direct, because I think the situation deserves it. After all, if after each talk the two countries can feel a little bit closer, that is what I want."

The following was their conversation:

Bewley: They were considering what you said and were going to telegraph fully as soon as they were ready.

HM, Jr.: But in the meantime the Bank of England did not think anything would happen in France over the week-end. Up to that time the British people had not spoken to the French regarding our last conversation?

Bewley: They have not spoken to the French about this since our last conversation.

HM, Jr.: I think the French are terrible nervous. The message which I sent them was this: I appreciate that when Blum says he does not want to devalue that he is talking about the internal situation and I realize that he is taking for internal consumption, but would it not be an entirely different thing if we were talking an international monetary situation with the possibility of the three countries getting together and would be care to consider that? The news I got back this afternoon was (and this is not Blum; it is the Minister of Finance), he is so afraid that if rumors that he might be considering devaluation got out, he would have to resign. It is so confidential. My assumption was correct, that what they were talking about is internal, but that if there was a possibility of arrival at a world agreement that they would listen. The French would like the United States, and also the British (of whom the French are particularly afraid) to sound out Holland and Switzerland, who are their partners. Any agreement which did not also include Holland and Switzerland, they would not be interested in, but they themselves would not sound out anybody. Then the French talked in terms of tying the currencies to a world price level. I asked them

what they meant and was informed that it was a new way of putting it -- something that the French people would accept. It does not mean anything to me and I do not know whether it means anything to you.

Bewley: It does not.

HM, Jr.: It simply means a suggestion has been given to the French which is entirely different from anything which they have ever said publicly and the suggestion made is acceptable if the five nations agree. Of course, the French would stabilize at a fixed devaluation. Cochran says that they have got to talk in the way of taking a half step by basing it on world prices. I asked two or three times and I did not understand. The big thing I will tell you is that the French Government is willing to talk and they say, although we are publicly pledged not to devalue we are willing to talk but we will not sound out anybody but would like the United States to do it and France feels that before they finally sign they would have to tell Russia.

Bewley: It seems irrelevant.

HM, Jr.: Because the Russian ruble is tied with the franc.

I am taking the attitude that your Government and ours are trying to get somewhere. If I told you this just before you sign, you would say (shrugged shoulders). If we get somewhere on a world agreement, it can't be but in Russia's interest because she has so much gold to sell. I am going to go ahead, and at Basle tomorrow I am going to have my man talk to the Swiss and Dutch and not to your people nor to anybody else.

Bewley: We do not want to have two channels. This is just between the Treasuries.

HM, Jr.: I told him absolutely not to talk to Norman. Up to now he has been one of our big hurdles. It is simply between the Treasuries. This is the way I see the picture: at the moment, Great Britain and the United States are both in a boat. We are going down a very turbulent stream. You are rowing an oar and we are rowing

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an oar. France is swimming for her life with her head just above the water. We have three empty oarlocks, one for France, one for Holland and one for Switzerland. In the meantime, it just so happens and both England and the United States are rowing in the same direction and I hope that we will be able to reach France before she sinks.

Over the week-end we did what we did a year ago. We told the Bank of France that we would, if necessary, take \$25,000,000 worth of gold under earmark. Up to tonight they have on board boat \$22,000,000 in gold which has not yet been sold. This thing is so bad it may blow up in our faces before we can move. Here I am trying to do this thing and what I want to say is that we have both, up to now, been rowing the same way. I am telling you what I have done. If the British Treasury has any suggestion on what we might do further to keep this situation going, I would be glad to receive their suggestions. If our Stabilization Fund can do anything pending this agreement I would be glad to receive suggestions. So that you may know, I am telling you that this \$22,000,000 is shipped to build up a fund of \$25,000,000 of gold in the United States.

I hope that you have other ways than cabling to communicate with your people. I hope that they will have this information when they wake up in the morning. We have been told that you have 12,000,000,000 francs gold earmarked in France. You ought to have the authority to 'phone England.

Bewley: Yes, I have.

HM, Jr.: We talked to you. We talk to France tomorrow. We will talk to Holland. I feel that we are making real progress.

Bewley: Have you envisaged any procedure between the five countries?

HM, Jr.: I do not see how we have the time.

Bewley: I do not see how there is time for a meeting here and I just can't leave the country.

HM, Jr.: The only way I can see is to do it the way we are doing.

Bewley: What you contemplate, really, is that your man at the International Bank will find out what he can from the other countries and the next move will be between you and France?

HM, Jr.: I do not feel that way, but the French seem to think it is hopeless to get together with you.

Bewley: I do not know why that should be.

HM, Jr.: The Minister of Finance is just petrified that this will get out.

Bewley: We will use every secrecy that this will not get out.

HM, Jr.: At least he did not say, Why no! We would not think of devaluing! What he said was, Sound out these other countries. If they are interested, we are interested.

When I do hear from Holland and Switzerland, I will let you know. In the meantime, if your Government has any suggestions as to what our fund can do, let me know. Our banks have done everything over the week-end to keep this thing stable.

Bewley: I am afraid that the French will just let this thing drift.

HM, Jr.: Oh, yes! I forgot to tell you that the Finance Minister said, "Possibly some Saturday morning we can do this."

Bewley: That puts it off for a week. The chances of complete secrecy with five countries involved is quite hard.

HM, Jr.: If France wants to tell the Russians before she agrees, that is her business. I can only suppose, if the French are particularly afraid of the English, that they would not take the two hints.

Lochhead: I do not think they will devalue, but will probably drift into exchange restrictions.

Bewley: Have you any idea how much more gold they would be willing to let out?

Lochhead: They always speak about maintaining a war chest.

HM, Jr.: The net figure we use is 52,000,000,000 francs that they have now, not counting the money you have earmarked.

Of course, you know Tannery is out. If their bank clerks go on strike and if transportation facilities are suspended, then they are just going to let this thing drift. Then it gets down to your fund and ours doing what we can.

Bewley: I had better go and get my telegram off while I can. I hope the British are not away for the week-end.

HM, Jr.: The President is leaving Monday midnight for an eight or nine day trip and after Monday it will be very difficult to reach him.

Bewley: We had an answer yesterday evening. The Chancellor of the Exchequer wants to thank you for your letter and, secondly, he wants to say that he thoroughly agreed with the idea that it would be much better for France not to put on restrictions.

HM, Jr.: His idea on that seems the same as ours.

Bewley: But the actual proposal which you made seems to present some difficulties to him.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 8, 1936.

TO

FROM

Subject: Meeting at Secretary's home, 9 to 11:30 A.M., June 6, 1936;
(continuation of meeting which adjourned Friday evening,
June 5, at 10:30 P.M.)

Present: Secretary Morgenthau
Assistant Secretary Taylor
Mr. Earl Bailie - J. W. Seligman & Company
Mr. S. Parker Gilbert - J. P. Morgan & Company
Gov. G. L. Harrison, Federal Reserve Bank of N.Y.
Mr. L. W. Knobe, Federal Reserve Bank of New York
Mr. Robert Loree - Guaranty Trust Company
Mr. O. P. McComas - Bankers Trust Company
Mr. Gordon S. Rentschler - National City Bank
Mr. Leo N. Shaw - National City Bank
Mr. Siegfried Stern - Chase National Bank
Mr. John Williams - Federal Reserve Bank of New York
Messrs. Haas, Lochhead, and White

Mr. Gilbert arrived an hour after the meeting began.

The Secretary opened the meeting with statement that now they have been thinking on the matter he would be glad to hear an expression of their views.

Mr. McComas spoke first; stated that he wished to offer something to shoot at and said he figured a reasonable dollar-sterling-franc ratio would be between \$4.75 and \$4.90, with a French devaluation of 25 per cent from parity.

Mr. Loree then stated that he and several others, including Mr. Bailie and Mr. Rentschler, had been talking the matter of parities over and felt that sterling at \$4.86 - which had the strong advantage of being the traditional rate - appeared to them to be the reasonable one. They also felt that the franc might devalue 25 per cent without hurting the United States. Mr. Loree stressed the opinion that if any arrangement was to be attempted -- which he believed would be highly desirable -- it should be with England alone. France, he stated, was less important to us and the French would doubtless fall in line after the sterling-dollar arrangement had been settled; England, being

Meeting on June 6, 1938 -- 3.

more interested in the franc, could take care of the franc. He recommended that the leeway in the sterling-dollar rate be similar to the old gold points - i.e., approximately plus or minus one per cent. This would make the sterling range in New York approximately \$4.83 to \$4.89.

The Secretary asked whether so narrow a range could be maintained at the start. He wondered whether it might not be desirable to begin with a wider range and then narrow it should events later justify a narrower spread. The Secretary in his question specified that he was for the moment postponing the question of a particular level of the rate, and that his discussion of the spread was not to be interpreted that he necessarily acquiesced with the \$4.86 recommended by Mr. Loree. Several present, including Mr. Bailie, Mr. Rentschler, Mr. Stern, and Mr. Shaw, stated that they agreed with the Secretary that a somewhat wider range would be desirable. They felt that the Secretary's tentative suggestion of $1\frac{1}{2}$ or 2 per cent spread either side of parity would be better to start with. Mr. Lochhead asked Mr. McComas whether he still felt that the wide ranges he recommended earlier were to prevail on all three currencies. Mr. McComas appeared to be influenced by the comments made since his earlier remarks and stated that he thought a narrower range than the one he first suggested would be desirable.

Mr. Rentschler then expressed his agreement with Mr. Loree that it would be important to get the dollar-sterling matter settled, but he also felt that an attempt might be made at the same time to include the franc. However, he too believed, he said, that it would be wise to let England take the initiative in the case of France since England was more interested in the level of the franc than we are. His view was that the Secretary could indicate to the British that if it were all right with them a 20 per cent devaluation would be agreeable to us, or anything moderately above that. If they felt it should go lower we would be willing to go along with them - his view being that the English being more interested than we in the franc situation would be in a better position to determine the rate. Should the British insist on a higher franc rate it would be the British rather than the United States who would have the onus of demanding it. England having a bigger stake in the franc situation, could be depended upon to get the best results. (I think Mr. Loree expressed similar views.)

The Secretary stated that the French have recently come out for a program of "reflation" without devaluing the franc. He admitted he could not understand what that meant and laughingly asked if anyone would explain it. Several stated that both together were impossible. Mr. Rentschler (and/or Mr. Shaw and Mr. Stern) stated that "reflation" without devaluation would sooner or later bring France face to face with her budget difficulties and she would be worse off

Meeting on June 8, 1936 -- 3.

than ever. The concensus of opinion was that a policy of reflation could not possibly work unless preceded by or accompanied by devaluation.

Mr. Williams said that if the French devalued and pursued a policy of reflation somewhat similar to what occurred in the United States France's competitive position would be less unfavorable to us. He said that a program of reflation following devaluation would be a desirable thing from our point of view.

The Secretary stated that the French at the moment did not appear to have a definite monetary policy but that he thought highly of Professor Rist and he understood from Rist that devaluation was desirable for the franc. Someone pointed out that Rist was close to Blum -- I believe it was said he was probably his economic adviser -- and that the recent speech by Rist was a device employed by Blum to pave the way for deflation. The Secretary asked if anyone knew anything about the new Governor of the Bank of France, Labeyrie, who replaced Tannery. None had any information, but Mr. Knoke and, I think, Mr. Gilbert, expressed the view that he had the reputation of being the best of the Leftish bankers.

At that point in the discussion, the Secretary said he would tell them frankly what the situation was between the British and himself. He said that for two and a half years he had been attempting to secure a channel for quick and frank discussion with the British, and that the British had been cold to the attempts. Nevertheless, he had continued to make the effort for the sake of the interests of the United States and that very recently efforts have been successful, and there is now a clear path to and from the British Treasury for an informal exchange of views. This opening up of a channel for easy co-operation constitutes an important first step. He stated that some idea of the importance of the point gained could be deduced from the fact that the State Department had informed him it was the most important diplomatic step that had happened in three years.

The Secretary said he was very glad to hear their views as to what procedure to take with regard to the sterling-dollar ratio, and as to the prospects of and reasonableness of particular rates of franc devaluation and would now like to have them give their advice on a specific problem. He posited the following question: Supposing Monday morning, or some other morning soon, the French were to declare an embargo on gold; what did they think would happen (a) to the franc, (b) to sterling, and (c) to the dollar?

Mr. Stern spoke first in reply. He said that in his opinion there would be some exchange restrictions imposed but, notwithstanding,

Meeting on June 8, 1936 -- 4.

the franc would depreciate in terms of sterling, and that sterling would, in turn, be strong, rising somewhat above \$5.00. Above that point there would also be a demand for dollars and as sterling rose above \$5.00 there would be some movement from sterling into dollars. But as the franc depreciated sterling, he thought, would weaken, and sterling would begin declining in terms of dollars. As the franc depreciated there would be some tendency for funds to flow back to France which would serve to check the franc depreciation. When the franc had reached some point 20 or 25 per cent below, they might, he felt, peg the franc to sterling. He also said that if the political situation got worse, or if the franc continued to depreciate, uncertainty might spread, and that there would be a demand for gold. The situation would be bad if it continued in that direction.

Mr. Loree expressed the view that he thought sterling would decline and not rise. The Secretary questioned him again on the point, saying that his view seemed to be different from the views expressed by most of the others. In the ensuing discussion it developed that all who expressed an opinion on the subject, except Mr. Loree, thought there would be a bulge in the sterling -- that is, it would rise somewhat -- and later decline. Mr. Loree thought there might be a bulge but it would be very short-lived. He added that no one could tell what would happen with sterling; it was an uncertain situation and anything might take place. The difference of opinion seemed to be chiefly one of time. Most of those present thought the rise in sterling would last a little longer than it appeared Mr. Loree did. All of the bankers expressed themselves on this point except, I think, Mr. Gilbert.

The Secretary then said that he would like their views on another important matter. He then put this question before them for their consideration:

Should we on Monday morning be confronted with a different situation, i.e., France might, let us say, declare an embargo on gold. Just what steps did they think he ought to take? The Secretary said he would like to get everybody's opinion. Someone suggested that they would like the Treasury's view on some of the things that had been said. The Secretary stated he would first like to hear from the private bankers, with the Federal Reserve Bank next, and then the Treasury last, and laughingly suggested that the order of the Federal Reserve Board coming before the Treasury was the usual one.

Mr. McComas stated he did not see any need for immediate action, that our position was very strong and we could easily wait a few days before anything was attempted other than conversations.

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Mr. Loree then spoke. He said in his opinion the thing to do was to sit tight over the week-end with regard to any operations, but to proceed with an understanding with England looking forward to a tentative settlement. However, he again stated that the important situation was with England. He reiterated his former position -- namely, that the important thing was not the French situation, but the arrangement with England. He later expressed the view that the gold market should be left open for England so long as some progress was being made in the conversations.

Mr. Rentschler likewise advised sitting tight over the week-end in the event of a French gold embargo, and stressed the need of an hour to hour policy since it is not at all certain what would happen, and the policy would have to be adjusted to the turn of events. He added that he thought nothing startling would happen over a few days.

Mr. Stern thought the Treasury ought to sit tight, but if necessary to lend gold to England against earmarked gold abroad, to avoid any sharp rise in the rates owing to lack of transportation facilities. He suggested a similar arrangement to that which had apparently taken place with France earlier. The Secretary stated that they already had an arrangement of that kind with France over the present week-end, but no commitment had been made with regard to any other period and a similar arrangement could be made with England.

Mr. Bailie also advised that we sit tight, but at the same time to press forward with talks with England and keep up the conversations looking toward an agreement even though efforts prove unsuccessful at first. He advised being persistent in the conversations but did not favor permitting gold flows to England.

Mr. Shaw also recommended sitting tight over the week-end.

Mr. Gilbert strongly favored opening the gold market to England and Central banks or Treasury Departments of other countries at once and keeping it open so long as there existed any chance of successful co-operation. He thought it would be an error not to open the gold market in the United States while the conversations were going on; that in the absence of an open gold market the fluctuations might be very upsetting and that it might be very difficult to control the situation after it once got started. He said we could afford to be generous and that the conversations could not be quickly consummated -- might drag on for several days or several weeks -- but that during that period it would be extremely desirable to have an open gold market so that gold could be sold to all Central Banks and treasuries. He thought the chances of an understanding with England were very excellent, did not anticipate any difficulties, and thought it would

Meeting on June 8, 1936 -- 4.

be time enough to stop selling gold if England definitely showed no desire to co-operate.

Mr. Harrison spoke at length, taking the position similar to Gilbert's. He stated we ought to open our gold market to Central banks and treasuries during the conversations. He thought it was a splendid thing the way was open and believed the conversations ought to continue, but that we ought not to be "small" in handling the matter. He was of the opinion that we should permit gold to move out until it was definitely certain there was no possibility of an understanding. He believed, as did Gilbert, that we would find the English quite ready to come to an understanding with us.

Mr. Taylor expressed the view that it would be sufficient to open gold to only England; there was no need of taking in the rest of the countries at this time.

The Secretary answered Mr. Harrison to the effect that he did not agree with him we should open our gold market and did not feel we had in any way been "small"; that he had been most generous and most patient with the British, but he did not think it desirable to give away the trump card he held in his hand. In commenting on Gilbert's remarks that we could stop selling gold if the British did not agree, the Secretary said he thought it would be a bad thing if we closed our gold market to them after it had been opened; it would be better not to start at all. Several of the men present agreed with him, including Shaw, Stern, and Rentschler.

Mr. Gilbert expressed the view that he did not think the Secretary was giving up any trump card since he could always stop selling gold and that it was understood the policy would be one which would be subject to change according to conditions.

Mr. Gilbert said we must not think we have the upper hand; that the British are very shrewd and they doubtless could make things difficult for us. They could let the pound depreciate. He pressed again for the maintenance of an open gold market during the conversations which he presumed would continue.

The Secretary said that he had frequently stated he was on a 24-hour policy and that he has used that expression to mean their policy was flexible, but it could be adapted to whatever new situation appeared; that it did not imply the absence of a policy.

The Secretary stated that obviously we could not give any guarantees with regard to their policy, but Vandenberg the day previously had said a foolish thing -- namely, that the President may wake up some morning and devalue. The Secretary

Meeting on June 6, 1936 -- 7.

said if Vandenberg believes that he is absurd. The Secretary stated that he did not mean there have not been foolish things said on the other side, but that Vandenberg had said this and it was of some significance.

Mr. Knoke felt that it would be necessary to help sterling out because if there were pressure on sterling they could not stop it without buying dollars and that they would hesitate to buy dollars because it would be paper money, since they could not get gold. It would help matters a great deal, he thought, if the United States would co-operate and let some gold out.

It was suggested by Mr. Loree that a pot of 50 million dollars each by the United States, England and France be made up and that when that was used up in keeping currencies within the agreed-upon range the situation could be canvassed again.

Mr. Harrison, after hearing the Secretary's disagreement with his position, defended his former position at considerable length, but he began to alter it slightly and place more stress on the negotiations and upon the fact that the gold sales could be contingent upon an expression by deed or word of co-operation by the British. By the end of his talk he seemed to approach more closely the view expressed by Mr. Rentschler, Mr. Bailie, and Mr. Shaw that the Secretary should not do anything unless there was some indication that the British were likewise demonstrating their willingness to do an equal amount.

Mr. Rentschler, Mr. Bailie, Mr. Stern, Mr. Loree, and Mr. Harrison stressed the fact that the Secretary had a trump card only if he used it in the privilege of sending gold to England.

The Secretary asked if gold were shipped could it be done publicly or privately, adding that he would be opposed to any public statement. Mr. Rentschler and Mr. Stern thought that it could be done privately, merely earmarking the gold out of the Stabilization Fund without any notice being given. If the matter were treated confidentially, it would be easier to withdraw if the negotiations fell through.

The Secretary thanked them all for their generous assistance and advice, and said he may find as the situation develops that he may wish to ask them to gather again to discuss the matter.

H. D. White

GA

Sunday, June 7, 1936

HM, Jr. took to the White House three sets of papers to be signed by the President:

- 1 - Public Announcement -
 - (A) Press release - President
 - (B) Letter to Federal Reserve Bank of New York - President
 - (C) Letter to Assay Office
- II - Sale without announcement
 - (A) {
 - 1. For sale to Bank of England
 - 2. For sale to any foreign Government or Central Bank
 - (B) Letter to Assay Office
- III - Sale from stabilization fund
 - (A) Letter to and authorization from President

The President signed the papers and asked in whose care they would be put. HM, Jr. told him that he would put them in Mrs. Klotz' care. The President said, "Will you tell Mrs. Klotz that if anything should happen to the President or the Secretary of the Treasury that I (the President) said she should destroy all these papers? It is up to her to destroy these papers." He also said, "The last one I want you to use is II-A-1, which is the agreement which would give England exclusively gold."

June 8, 1936

Bewley came in to see the Secretary at 11 o'clock this morning. Taylor and Lochnead were also present.

The following is stenographic transcript of the conversation at the meeting:

Bewley: We had an answer yesterday evening, but it was too late to do anything last night.

The Chancellor of the Exchequer, first of all, wants to thank you for keeping in touch and telling him what you did on Saturday and, secondly, he wants to say that he thought it would be much better for France not to put on restrictions of any sort, but to go off simply and devalue.

As regards the actual proposal which you made, he sees some difficulties. He does not like, in the first place, the idea of anybody outside the British authorities speaking for British policy. That I don't think is a matter of fundamental importance because it is obvious that nobody likes anybody else to speak for their policy, but it is clear you could speak here for the American policy and he on the British. It does not seem a matter of fundamental importance.

But on the question of taking the initiative in making a de marche to France, he felt rather differently from you on that. He felt that the French Government, the new Government, has not approached him in any way at all about their policy. There has been no communication between London and Paris about their monetary policy since the new Government came in. The present position, as far as they know in London, is they hope to remain on the gold standard, and the Chancellor feels that it might be very embarrassing to make a de marche to France or to take the matter up with them in a way which might possibly be represented as trying to push them off gold. He feels considerable doubt if, in the present circumstances, the French would welcome a statement of that sort unless possibly for the reason that it would help them to shift the responsibility on to other shoulders, which clearly would be embarrassing to all concerned and his conclusion, therefore, is that he is rather reluctant to take the initiative himself

at present, but if the French should approach you in any way, he would be perfectly willing to discuss the position with them. Perhaps I might dare to add myself that the French officer in London -- he drifts in and out of the Treasury a lot so it would be perfectly easy for him to raise the point if the French Government wanted to without any possible ...

HM, Jr.: What is his name?

Bewley: Monet.

HM, Jr.: Incidentally, either Monet talks too damn much or else he says things which are just unbelievable. I don't know. Is that your impression?

Bewley: I have seen so little of him.

HM, Jr.: He has been saying some of the strangest things. They don't seem to fit in at all with what his Government believes.

Bewley: No, I don't know at all. I met him a few times out here.

HM, Jr.: He seems to talk pretty freely on what his Government thinks. Let me ask you this: I don't think at any time I suggested that I wanted to talk for the British.

Bewley: You were saying you would make a statement here of policy and I thought your statement immediately covers what we had said.

(HM, Jr.)

Lochhead: You said something that you might speak in this room but with you and they being here, Bewley would speak for the British.

HM, Jr.: I said that you would be here representing Great Britain. I wish you would clear that up.

Bewley: That was not a fundamental thing. It was in his telegram so I thought I would mention it.

HM, Jr.: I thought you might mention to him that you

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asked me where this could take place and I said it might take place with you here representing Great Britain. So would you mind? He might think I was taking on more than I should. I am going to continue to be frank. I don't know the European situation and they all seem to be so terribly afraid of your country. I don't know why.

Bewley: Yes.

HM, Jr.: And certainly when Auriol spoke (although he is not one of the Baltimore varieties), I greatly doubt at this time if he would be willing to -- but let me back track a minute. Cochran did see the Dutch and the Swiss yesterday.

Bewley: Yes.

HM, Jr.: There is a long cable coming now which he sent this morning, but he told me the sum of it. And the Dutch attitude is that if they could devalue 20 to 25% and the Swiss about the same, knowing that the dollar and pound sterling relationship would stay practically the same, they would be very much interested.

Bewley: Yes.

HM, Jr.: Again, what would England do?

Bewley: You say the Dutch said this or the Dutch and the Swiss?

HM, Jr.: They both said it -- the Dutch and the Swiss would like to devalue if they felt that sterling (they particularly mentioned sterling) would not drop below -- they mentioned 4.86.

Bewley: 4.86 to the dollar; yes.

HM, Jr.: You see, the way they talked -- I have not in the slightest way indicated that I have talked to you.

Bewley: I see.

HM, Jr.: And they say, "Oh, we don't know what the English are doing." And I don't give them any indication.

But here's the way it stands. Pending this cable, which I understand is six pages long and which has not come in yet, it amounts to practically this: the Dutch and Swiss and French have practically all told us that if they could get some assurance from your Government that they would not have a depreciation war, they would like to devalue.

Bewley: Yes.

HM, Jr.: So everything we have done up to this point is encouraging. Now I think the thing we don't want to do -- let's think out loud -- is to get to the point where we say we won't take the initiative and the French say we can't because we are publicly committed against devaluation.

Bewley: Is it possible for either the Dutch or Swiss to take it? They have reasonably strong Governments. It does seem natural to me that if the Governments' real feeling is they can't do something because of something that another Government might do, the natural thing to do is to put out some sort of feeler to see if there is any basis for that fear.

HM, Jr.: Let's just talk. You think the Dutch -- the eyes of the world are not on them just now -- that they might take the initiative and sound out Great Britain?

Bewley: I don't like to say it is likely in the sense that they might, but I don't see any real difficulty in their doing it, if that is their real difficulty about going off gold.

HM, Jr.: Because our connection over there, with the Bank and the head of Holland is very good. Mr. Tripp. It isn't the Treasury. It so happens that the connection is with Tripp. And I think Tripp stands very well on the Continent.

Bewley: I think he does; very well.

HM, Jr.: What would you think of the suggestion if I sent word back, would Tripp be willing to take the initiative on this thing?

Bewley: I would not like to suggest where the initiative should come from. I don't feel I am in the position to do that.

HM, Jr.: Someone must, because we have taken the initiative up to now. Let's be frank. Your Government says they don't want to go any further unless they are approached by one of the Continental gold bloc.

Bewley: What they said was France, but presumably the thing applies to the other countries.

Taylor: More particularly with France than with anybody else.

Bewley: I imagine if France chose to act through the Dutch, I can't see that there is anything, in principle, different in the two.

HM, Jr.: Here's the situation -- all three gold bloc countries all say they are willing if your country and ours did not cut under.

Bewley: Yes. .

HM, Jr.: You and I have never talked what the level is or cross rates and it's too early to get down to that, because after all you have to say, we have a figure in mind and you have a figure.

Mr. Bewley: As a matter of fact, your Government might figure for France slightly lower than this. They said they thought a reasonable figure would be 15 to 20% but 25% would be the maximum.

HM, Jr.: Did I give you a figure?

Bewley: You said 20 to 30%.

HM, Jr.: I am going to revise that because I have made a lot of study since then and I would like to say for the moment 15 to 20%.

Bewley: That's exactly the same as us then.

HM, Jr.: For the moment I would like to say 20% is the maximum, but we are not very far apart on that.

Bewley: No; clearly together on that.

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HM, Jr.: Above 25% would be impossible. We could not stand that. But you say 15 to 20% and a maximum of 25%. Well ...

Lochhead: You were saying that different people have been saying 20 to 30%, but after that you asked our own people to study it.

Bewley: Oh, yes. I understood that was only a feeler you threw out.

HM, Jr.: Our people say 15 to 20% would be ideal and I could not say today that -- if they said 25% today, I could not say yes, but 30% is too much. So we are again together.

Bewley: Yes; we are together on that.

HM, Jr.: I am glad we brought this up. I can't quote it, but it means so many francs to the pound and then there is the relation of the pound to the dollar. It works out so many hundred francs to the pound.

Lochhead: Not quite a hundred, but that's the way it works out.

HM, Jr.: If they devalue 15%, your cross rate is so much and ours is so much. I have to call in technicians on that, but they have it all worked out and it also brings in a definite price of sterling in dollars. You go round but you enter the same place. You can get there in either direction, from sterling to dollars to francs or the other way, and it all works out the same way based on certain percentages of devaluation. If we ever get down to it, I would like to show you that, but I don't think the time is ripe.

Bewley: No, the time is not right. And your ultimate conclusion is 15 to 20%?

HM, Jr.: 15 to 20%. They would have to do an awful lot of fighting to get me to go to 25%, so we are again together.

Bewley: Yes, we are together.

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HM, Jr.: Now, then, how can we break this log jam?

Bewley: Well, I do feel it is delicate suggesting that a third country -- Great Britain, in this case -- should suggest to another country that they might take the initiative. If these people really want to do this on this line, which is open to possibilities ...

HM, Jr. Now, you see, I am out of my depth. You are getting into diplomatic usages. Here you and I know that the situation is -- the cherries are ripe.

Bewley: They did put forward various other things, such as basing their currency on world prices and getting an agreement with Russia.

HM, Jr.: I don't think that means much. I don't take great stock in that. If we could get the Dutch and Swiss to agree, could you not do this: could you not ask the Chancellor for a suggestion what the next move is now, knowing that the Swiss and the Dutch are willing?

Bewley: Yes. You are very sure of that, without deciphering the whole of the telegram; that their real fear is the British attitude?

HM, Jr.: Well, let's wait until it comes in. He filed it at ten, Paris time, this morning. Let's wait until it comes in and I will let you know when we have it. But, quite frankly, when we get down to diplomatic usages I am out of my field. I can sit down and talk to you and no one could be more frank with each other, but instead of having to talk about the terms -- we know pretty well the terms are acceptable and it's just who is going to talk first and that's something -- I have seen so many conferences break up on that, and I am just beyond my depth, but this thing is so important that we must not let the thing drop because we don't know who is to talk first.

Bewley: What I had in mind was a little more than that. It was not just diplomatic usages. It was if these countries don't want to ask this question, does it mean it's internal policy rather than that they would be afraid of what Great Britain might do? Is it perhaps that the British attitude is not the compelling factor?

-B-

HM, Jr.: Everything I have gotten so far indicates that. I am not saying this for trading purposes. They all seem to think Great Britain is the stumbling block. I don't see why, but I get it. Everything I get it's the same thing. I can't explain it. It isn't something I am imagining, but that's what comes back.

Bewley: Yes; quite.

HM, Jr.: You see, here Auriol says it's impossible for him to approach the British and he cannot be quoted as even personally favoring devaluation or suggesting or inspiring. (Reading from cable.)

Bewley: Do they give any reasons?

HM, Jr.: No. Then he goes on to say that if there should be the slightest leak on this thing it would mean he would have to resign at once. That gets into European politics, which I don't pretend to know and don't pretend to understand.

Bewley: I am out of my depth there because I can't see why it is the stumbling block and if they are anxious to do it why they don't put out some sort of feeler, because they are all in touch with the Government or with Norman. Tripp is always seeing Norman over the week-end.

HM, Jr.: Yes, he is still there today, but I had Cochran come right back. Let's wait until the full cable comes in and when it comes in I will give you a ring, but my own feeling this morning is that -- let's just see, and I have nothing else.

Taylor: I think it is important to emphasize that because I got a slightly different impression from the telephone conversation this morning than what you gave Bewley; a very minor difference, but I think when we see the cable that will all be cleared up, but it was minor in many ways. There was no material difference. This question of what the Dutch and Swiss and French, either individually or collectively, might do under certain eventualities.

HM, Jr.: I don't understand.

Taylor: I say let's wait until we see the full text of the cable because we were both listening on the telephone and there was no material difference, but there was a difference in impression that I got from what the Secretary got, but we can clear it up.

Bewley: There are two other points which are not fundamental. One is, I don't know why they telegraphed it to me, because I think it is clearly understood, but they did put it in the telegram, that it was understood we could not at the present stage promise a permanent and absolute stability in any case, whatever the French did. I think that's always understood. The French going down is not going to make us put the pound down too. I think they were just putting that in to make quite certain we are not getting an absolute stability right away.

HM, Jr.: No. As a matter of fact, you hedged it with "provided your internal price level remained stable."

Bewley: I think that's quite clear. And the other point was the publicity that got out in London which you mentioned to me on Saturday. When you mentioned it, I thought it was earlier, but I got back to the Embassy and checked and it was the thing in the Daily Chronicle. We inquired and they said they got it from America, so I don't know where it came from. I don't think that matters because it has had no repercussions at all. There was only this one notice and I don't think anybody paid any attention to it.

HM, Jr.: Is that a good paper?

Bewley: It's not a good paper, but he is very keen.

HM, Jr.: Someone may have seen you drop in, because these newspaper men just roam the halls all the time. One of them might have seen your car with the license number.

Bewley: I wouldn't have raised the point, only you mentioned it on Saturday.

HM, Jr.: I am curious and, as a matter of fact, to show you how these things go -- the United Press man, who now covers us here and who used to cover the State Department,

came in and asked someone what was a good book to read on monetary fractions. He wanted to read up on it.

Bewley: That's a hint they know something.

HM, Jr.: Where he got that, I don't know. He formerly used to cover the State Department. But it didn't do any harm. As a matter of fact, if it did get out and if it prepares the public mind, it's all to the good.

Bewley: Well, I will wait until I hear from you again.

HM, Jr.: Yes. It will be sometime in the middle of the afternoon, because if it is as long as that it will take them quite a long time, but I asked Hull to give it precedence.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 8, 1936, 10 a.m.

NO.: 469 FROM COCHRAN

RUSH

ULTRA CONFIDENTIAL.

This morning I returned to Paris from Basel. I did not wait for the formal meeting of the BIS to be held today, but I did have an opportunity for conversations with most of those persons whom I usually contact.

I had a talk with the President of the Netherlands Bank, Trip. He gave me in extreme confidence his personal and unofficial views on the question of international currency stabilization.

Trip's views on this question are not to be taken as binding, but he did not hesitate to tell me that he and Colijn see alike as regards stabilization, and he (Trip) is in constant touch with his Government.

With regard to the French situation, Trip told me that he had been hopeful about it until the control of the Government came into the hands of the Popular Front. He has been of the opinion that the franc is doomed because of the flight of capital that has since taken place, the weakness of the authorities now in power as regards the

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the dangerous labor situation, and the Government championing of increased expenditures of funds and other plans which are wholly irreconcilable with preserving the present parity of the gold franc.

Trip said he is sure that while this Government's tenure of office may not be long, it will wreck the franc.

He thinks that France should either devalue at once in the way Belgium devalued, or tie the franc to sterling, although not at a rate which would mean a depreciation of as much as 40 percent. For a while, he fears, it will be politically impossible to take either step. It is his opinion that the present Government will allow further deterioration of the situation and attempt to show France what a bad mess the outgoing regime passed on to it.

Trip said that this would lead to exchange control. Such control, he believes, would fail more miserably in France than in any other country that has attempted it; he said that neither the Bank of France nor the Ministry of Finance has the technical set-up and skill which is necessary for effectively carrying out exchange control.

The idea of attempts that may be made to force a return of capital to France was ridiculed by Trip - he said that the effect of such efforts would only be

to

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to force more capital out.

The replacement of Tannery, the man with whom Trip has been cooperating, by a man who has no experience in central banking has disgusted Trip.

Should the slightest restrictions on exchange be imposed by France, Trip said, the Netherlands would at once decide that France had left the gold standard and would no longer regard any gold bloc ties as binding.

Trip insisted that the Netherlands must reserve entire liberty of action, in view of the degree of chaos already existing in France. He mentioned that Great Britain, Belgium, and other nations have each acted independently in making decisions regarding their currencies, without consulting or informing their neighbors.

The Netherlands will take action as soon as the French make any official move toward restrictions on exchange or bankers (?) valuation, and there is even a chance that the Netherlands will take action before France, in view of the fact that the French situation has now become so bad. Action by the Netherlands, when it comes, will consist in that country leaving the gold standard, and then keeping the florin at around a certain rate vis-à-vis sterling. If necessary, it will
have

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have recourse to some sort of a stabilization fund arrangement between the Netherlands Central Bank and the Treasury.

Trip is unwilling to tie the guilder definitely to gold at a new rate until he sees what action other currencies, and particularly sterling, will take. He is convinced Schacht will tie the Reichsmark to sterling along his own plan when the Reichsmark leaves the nominal gold standard, but this would probably be at a rate of depreciation different from that which the guilder would maintain vis-à-vis sterling.

The opinion was expressed by Trip that the United States and Great Britain should take the first step in any international monetary agreement, and he urges that we should not try to exact a complete and definite return of the British to gold at a fixed parity. Trip insists that Great Britain is not ready for such a step, that we cannot force them to take it, and that should we insist on this it might mean wrecking at the start any plan formulated. He made the suggestion that at present the United States should not give up its legal right to devalue the dollar ten points more, but that we might enter a gentleman's agreement with the British to the effect that as long as the British did not allow the pound to drop

drop

drop below, say, 4.86, we would not make use of that authority. However, before exacting this much we will have to give the British the means to carry out their part of the agreement; in other words, we should permit London to purchase and export gold from the United States as long as sterling did not fall below the rate agreed upon.

Trip said that should it become necessary for him to leave the gold standard, he would be willing to try to time his departure with a devaluation of the franc, if the French are willing to enter into a concerted devaluation arrangement. Trip would feel free to tie to sterling independently of France if the latter resorts to exchange control; he would do so as soon as such exchange control was instituted by France, and as stated above, he may even anticipate the French action should the franc situation get worse and exchange control seem imminent.

Trip believes that were the lead taken by the Netherlands, this might even help France to reach a wiser solution than exchange control. Vis-à-vis the United States and Great Britain, Trip suggested a gentlemen's agreement under which the Netherlands would try to keep the guilder within certain limits vis-à-vis sterling - provided sterling does not drop below a rate of, say, 4.86. An arrangement of this kind would tend to force Great Britain to

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to maintain sterling at a rate not under 4.86, especially if the example were followed by Germany and other countries. The dollar-sterling rate would thus be the point about which the whole system would revolve.

It is Trip's opinion that at the present time it would prove difficult to get any very satisfactory understanding with the French; he believes it would be enough for the Americans and the British, after they had arrived at an agreement between themselves as to their currencies, simply to inform France that if there were franc devaluation, not beyond, say, 25 or 30 percent, they would not consider such action as a cause for changing their mutually agreed parities. Similar action might be taken in relation to Switzerland.

He intimated that the depreciation which he has in mind for the guilder under the contemplated tie-up with sterling might be about 25 percent.

I stress again that the foregoing suggestions by Trip are absolutely personal and confidential. He stated that the moment for action having arrived, some one should take the lead. He said that the lead is within effective grasp of the United States Treasury, if it only will not be too hard in its attitude toward Great Britain. He said that if the United States is too adamant, the British,

who

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who can go on indefinitely on their present basis, might bring up war debts and all manner of excuses. He expressed his conviction that Great Britain will not give up its cheap money policy and use the discount rate as a means of holding sterling. It is essential for this reason that the United States open its gold supply to them within certain exchange limits.

I had a conversation with Professor Bachmann, President of the Swiss National Bank, and I approached him along the same lines as I followed in my conversation with the President of the Netherlands Central Bank.

Bachmann admitted that the fate of the Swiss currency depends largely on the French franc. There are many differences, he said, in the positions of the Swiss and the French, since there is no political crisis in Switzerland and no serious social unrest. In addition, the Swiss budget is in balance, expenses have been reduced, and so on.

Bachmann did admit, though, that if the French franc should go off gold, the Swiss franc would be subjected to so much pressure that it might be imperative for Switzerland to take action.

Bachmann asked me if I had a talk with Dr. Trip; I said that I had a conversation with him, but could not relate Trip's reactions to him. It was then agreed that Bachmann should talk over the problem with Trip. The

former

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former thanked me for talking to him on the subject of an international plan, and said that naturally he was interested in such an undertaking, but he did not commit himself any further.

After I saw Bachmann, he and Trip talked together, and then Trip and I saw each other again. Trip expressed surprise at finding that apparently Bachmann favors action along his own line - i.e., to tie the Swiss franc to sterling in case the French franc goes off gold.

I saw Messrs. Niemeyer and Norman just to exchange greetings with them, but had no conversation with them.

I received a call from Dr. Schacht for me to see him. Schacht told me he felt hurt over the attitude Secretary Hull had taken towards him, especially since he had been hoping that the time was near when Germany and the United States could more easily find common ground for improvement in trade relations between the two countries. Schacht made specific reference to the imposition by the United States of countervailing duties on imports from Germany, and to our alleged insistence that Brazil impose quotas on certain imports from Germany or else payment for Brazilian coffee exports to our country would be denied. I replied that as for the last-mentioned affair, I knew nothing. But as regards the countervailing duties,

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duties, I said that this is action which the Treasury Department takes when facts showing justification for such action are presented to it. An assistant to Dr. Schacht told me that in Germany the impression was especially bad with the countervailing duty announcement coming just after payment by Germany of the coupon on the American tranche of the Young loan, on the first of June. The remark was made that our abrogation of the trade treaty with Germany happened to be timed somewhat similarly. I was asked by Dr. Schacht how he was expected to pay his debts to us if we make it impossible to sell German goods on the American market, or to gain foreign exchange through multilateral trade to apply on his indebtedness to us.

The Swedish economist of the BIS - Jacobsson - gave me, with his usual blunt frankness, his impressions on current affairs gained in conversations with bankers at Basel and from recent travels in Europe.

Jacobsson said that politically Germany is following a waiting policy, and that Germany is also trying to delay devaluation of its currency. Conceding that when Germany moves it will tie the mark to sterling, it is the opinion of experts that Germany does not have sufficient funds or resources to do this effectively at the present time; a

better

better time may be after proceeds from the autumn harvests are in.

It is Jacobsson's belief that in any international stabilization scheme Germany must still be considered a key country. He said that if the British and Americans hope to see Germany and other countries with depleted resources stabilize, these two capitalist countries, notwithstanding their lack of sympathy with religious persecution and re-armament projects, must open their markets to such foreign borrowers. Europe furthermore is not yet convinced that President Roosevelt would not cut the gold content of the dollar further should there be a considerable fall in American prices while he still has the power to do so. Observers in Europe do not know of any recent utterances by President Roosevelt which might indicate that he is convinced that international monetary stability is now desirable and that this country could pledge its part in it. Observers are not convinced that the United States would, before the election in November, take any binding steps in the international monetary field; on the other hand they are likely to attribute political motives to certain routine measures. An example is the countervailing duty decision coming years after the practices involved were started and only a few months before the national election in the United States.

Schacht has reached no decision - so far as I am aware -

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as to what his next move should be in the face of the two American developments I mentioned above. He requested me to do anything I could to get at least a postponement of the application of countervailing duties. Later this week he will begin a series of return calls upon Near Eastern central bank governors.

It is Schacht's opinion that adjustment of the political situation in Europe will be made more difficult by the existence of the Blum Government in France.

I had a talk with Beneduce, who said he thinks the French Government was showing a lack of force in dealing with the labor problem. Azzolini said he is much further contracting the Italian currency in spite of the fact that it was necessary to print more notes for use in Ethiopia. Italian note circulation at present is between 14,200,000,000 and 14,500,000,000 lire, of which 13,000,000,000 is in Italy and the rest in the colonies.

It is the expectation of most Basel observers that sanctions against Italy will be raised sometime this summer; that Great Britain will pursue a vigorous policy of strengthening its own forces, and that various neutral states will consider withdrawing from the League, and the League will drift into a sort of political BIS, maintaining an

expert staff for study of international problems but dropping more ambitious undertakings.

I heard comment on the growing isolation of France following Germany's reaction to the Soviet treaty with France, the unhappiness of Great Britain over the attitude of France towards the Ethiopian situation, the disappointment of the Danubian countries in French acquiescence in Rhineland militarization, and the Italian dislike for the Government set up by Blum.

Everyone is worried about the present French social and monetary situation.

Yesterday at the informal meeting of bank governors, the Bank of England made an offer to provide gold bars against gold coins to central banks possessing the latter when they find it necessary to dispose of them. The offer is for the purpose of preventing the hoarding of gold pieces as when the Netherlands Bank sells coins to maintain the exchange parity of the guilder.

For today's meeting the routine business is light. It includes study of correspondence which has been exchanged with the Federal Reserve Bank of New York on the Hungarian credit and the question of transfer of shares of the Bank for International Settlements.

END MESSAGE.

STRAUS.

EA:FL:LWW

June 8, 1936

HM, Jr. called the President. He said, "I can't keep up with you," and the President asked, "Why not? That is too bad." HM, Jr. inquired, "How about you?" and the President answered, "I am fine." HM, Jr.'s comment was, "You are too swift company. I went home and had a headache." They both laughed.

Getting down to business, HM, Jr. said to the President, "Things are temporarily quiet and Cochran got back and sent me a six-page cable which is coming in, but the main thing is that in talking to the Dutch and Swiss they are very sympathetic to the suggestion. As long as they can devalue 20% to 25% and sterling would not drop below 4.86, they would go along. We know that is entirely agreeable to the English. Bewley is coming in at 10:15." The President remarked, "Perhaps \$5.00 is too high. It is a damn sight easier figuring than 4.86." HM, Jr. answered, "I have never mentioned 4.86 or any figure. I have not tipped my hand one iota."

The President said, "Do you realize it would be a very interesting thing if we could work out a 5.00 pound and a 5 cent franc? The 5 cent franc would be about 20% devaluation." HM, Jr. answered, "It will be a little bit more. What we have here is if the French devalue 15% to 20%, then they talk 85 to 90 francs to the pound. What they are talking is 95 to 100 francs to the pound. Then they use the inverted figure in relation to the dollar. They figure 16 francs to the dollar. These tables are all worked out. It takes a foreign exchange man to work them out. I would not do a thing on that until I talk to you first. The interesting thing is, when you talk to any of these countries on the Continent they are all just scared of England. They must have behaved very badly lately. May I see you before the 4:30 meeting?" The President replied, "You are coming for lunch." HM, Jr. facetiously remarked, "Please have some black coffee for me." The President, also facetiously, asked, "Do you want some bicarbonate?" HM, Jr. declined, saying, "No, just black coffee." Both the President and HM, Jr. had a good laugh over this.

June 8, 1938

HM, Jr. called Phillips at 2:30 and said, "Have you seen Cochran's cables? I would like to know what your plans are for this afternoon and evening. Bewley was in this morning and I told him that I would have a further answer for him in the late afternoon. I have a press conference at four and a tax meeting at the White House at 4:30. I have an hour right now if you could come over." Phillips said he had to read the cables first and inform himself and that he had a formal dinner engagement tonight. HM, Jr. then asked him if he could come up after he dressed, at about 7:15 or thereabouts, and they could have a talk before he went to his dinner. Phillips said he would be there.

Monday
June 8, 1936

H. M. Cochran: Hello

HMjr: Hello

C: Mr. Morgenthau

HMjr: Good morning - good morning -

C: Good morning, sir

HMjr: What do you know?

C: I sent you a long cablegram early this morning.

HMjr: Yes

C: I had my trip there. I saw both the two men that I wanted to see.

HMjr: Yes

C: And I talked with each one of them.

HMjr: Yes

C: The one who you know, you know?

HMjr: The what?

C: The one who came up here last summer when you were here - you sat next to at luncheon -

HMjr: Yes, I know the one you mean.

C: I had a good visit with him. He is very much disturbed over this situation here.

HMjr: Yes

C: And is ready - to put a on any exchange control here.

HMjr: What's that?

C: I say that whenever these local people - they take any steps which look like exchange control -

HMjr: Yes

C: He would at once tie to sterling.

HMjr: Yes

- C: And at not necessarily at forty per cent depreciation but at some rate that he would choose.
- HMjr: Yes
- C: And he would be willing to give at his word, -
- HMjr: What's that?
- C: He would be willing to give at his word, -
- HMjr: Yes
- C: That he would hold that rate, namely twenty or twenty-five per cent against sterling provided sterling did not go below a certain rate the dollar, say four eighty-six.
- HMjr: I see.
- C: See? And he talked to his rich friend who would be probably interested in following the same procedure.
- HMjr: I see.
- C: And - but he insists that the first part of any arrangement is for us to get together with our President.
- HMjr: Yes
- C: And he said that we would have to refrain from trying to tie them up to - to a strict to the gold standard.
- HMjr: Yes
- C: And he said that if we do fix a limit below which they should not permit their currency to decline -
- HMjr: Yes
- C: - that you should give them the means of holding that equal, that is, that we should open up our market, our gold to them -
- HMjr: Yes
- C: - to withdraw provided their unit does not go below a certain level.
- HMjr: Yes

C: As they say, 'the old parity'.

HMjr: In other words, there'd be some gold point?

C: Yes - some lower gold point.

HMjr: Yes

C: And then these people here, the ones I spoke to yesterday -

HMjr: Yes

C: Especially the one, you know?

HMjr: Yes

C: - would tie his currency on to that unit -

HMjr: Yes

C: - but always conditional upon the dollar - the other rate being maintained not below the old rate, you see?

HMjr: Yes - well now, what you say, as I understand it, if our cousins kept the old rate -

C: Yes

HMjr: - and these gold countries didn't go more than twenty twenty-five, they'd be perfectly satisfied? Is that right?

C: - well, they just talked about that rate as - as 'for instance', you see?

HMjr: Yes

C: That's the rate that occurred to them.

HMjr : Yes

C: And I spoke about the rate -

HMjr: Yes

C: And I mentioned that Reese had figured that the difference between World prices and prices obtained in France are between twenty and twenty-five per cent.

HMjr: Yes

C: And he said, 'Well, that sounds reasonable'.

HMjr: Well now, let me ask you something?
C: Yes
HMjr: Have you seen anybody in Paris?
C: No, I haven't.
HMjr: You haven't?
C: No - I mean, I'll get your reaction to this first because it's a little different proposition, see?
HMjr: But you filed your cable? - When did you file your cable?
C: It started out from here at ten o'clock this morning.
HMjr: What's that?
C: My cable left here - part of it - at ten o'clock this morning.
HMjr: Has it all gone?
C: They're coding on the last part of it now.
HMjr: What's that?
C: I say they are still coding the last two pages.
HMjr: Yes
C: But six pages left here before noon.
HMjr: Well, I think I'd better wait until I get that.
C:
HMjr: And after I've read it I'll call you back.
C: All right.
HMjr: See?
C: Yes
HMjr: I'll wait until I get your cable now.
C: I think that's best, because I have a lot of things in there.
HMjr: What's this cable called, what number?

C: I don't know the number.

HMjr: Oh, well I'll tell them there is one coming. You have only sent one today, haven't you?

C: - cable -

HMjr: What?

C: - in sections -

HMjr: Yes, now do you keep - Mr. Straus sees these cables, doesn't he?

C: Yes, at half past nine.

HMjr: I say, Mr. Straus sees these cables, doesn't he?

C: I showed him this one, yes, and explained the situation.

HMjr: And you showed him the other ones?

C: Yes

HMjr: Yes, I want him to see them.

C: Yes, I showed it to him and I explained that you had called me after hours on Saturday -

HMjr: Yes

C: And that I figured out that you had already spoken to the judge across the street there.

HMjr: That's right. Was he satisfied?

C: Very well.

HMjr: What?

C: He was entirely up on the matter.

HMjr: Good, good - that's good.

C: Then, you'll call me back tonight, will you?

HMjr: Yes, now all right, I'll call you back when the cable comes. Now what is the situation now this morning in Paris?

C: It is better.

HMjr: Better?

C: The strike has been - there has been some agreement on the strike. On the other hand certain new strikes broke out in the mining industries and the situation is not yet clear by any means.

HMjr: I see.

C: On the money market there is practically no trading. The bank has strengthened fifteen -- fifteen fifty and a half, which is three and a half points from the gold point, you see?

HMjr: Yes

C: And it's also strengthened against sterling.

HMjr: Yes - now listen -

C: Yes

HMjr: I think that Auriol, is that the way you pronounce his name? - Auriol?

C: Yes

HMjr: - ought to know - I mean, I wouldn't go to see him just specially - but when you do see him I'd tell him about the offer that we made over the weekend, see?

C: Tell him about what?

HMjr: Tell him about the offer of support which we made over the weekend. Hello?

C: Yes

HMjr: The -

C: The offer that you what?

HMjr: The next time that you see Auriol, see?

C: Yes

HMjr: - tell him about the offer of cooperation -

C: Yes

HMjr: - which we made to the bank over the weekend.

C: Oh, yes, yes, surely.

HMjr: Because he may not know that.

C: Yes

HMjr: See?

C: Yes

HMjr: And, I wish that you'd call on the new Governor of the bank now.

C: He has not taken office yet.

HMjr: Well, when is he going to take office?

C: Friday, I think.

HMjr: Well, I wish you'd talk to him.

C: All right.

HMjr: Now, let me ask you this.

C: Yes

HMjr: I wish you'd talk to him today.

C: All right.

HMjr: And see what ideas he's got.

C: Yes

HMjr: Now the other thing, how freely can you talk to Professor Rist?

C: Very freely -

HMjr: You can?

C: Yes

HMjr: Well, then I think I'd go up and have a talk with him, you see?

C: Yes

HMjr: And get his most recent ideas.

C: Get his on these things of which I have spoken?

HMjr: Yes - what you are trying to do.

Yes

HMjr: Because wouldn't it be helpful if we could get his support?

C: If we could get what?

HMjr: His support

C: Not very, because in his speech Saturday night -

HMjr: Yes

C: Blum criticized very sharply these people who had just now come out with changed opinion.

HMjr: Oh -

C: You see?

HMjr: Well then maybe you'd better keep away from him.

C: I'm a little nervous/^{about}that -

HMjr: All right.

C: I'm a little afraid of it.

HMjr: Well, but I wish you'd call on the new governor of the bank and find out what his ideas are.

C: All right.

HMjr: I mean, I wouldn't tell him anything but I'd just find out what his ideas are, what plans he's got.

C: I see.

HMjr: And then give me a cable on that.

C: You want me to call today if possible?

HMjr: No, you can put that in the cable.

C: But I mean you want me to see him -

HMjr: Yes, yes

C: All right - even though he has not taken over office?

HMjr: Sure

C: All right.

HMjr: You know, he's got some ideas now.

C: Yes, yes

HMjr: All right, - and as soon as I get this cable I'll let you know.

C: All right, but if you can give me notice ahead -

HMjr: I will.

C: Then - then I would come down here at the office and take the call.

HMjr: All right.

C: The connection in my apartment is not so good.

HMjr: Well, I'll call the embassy and you let them - leave word to have them call you.

C: All right, if you could give me an hours notice you see, as to the time you are going to -

HMjr: I'll try to.

C: Well, all right.

HMjr: All right

C: Just leave word here as to when you are going to call me.

HMjr: All right.

C: Fine

HMjr: Goodbye.

C: I'll try to see this other man.

HMjr: Thank you.

C: All right.

HMjr: Goodbye.

C: Goodbye.

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DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER

June 9, 1936.

Mrs. Klotz:

Will you please make the correction as indicated on the enclosed sheet on the copy of the telegram which Secretary Morgenthau now has?

A handwritten signature in black ink, appearing to be the initials 'JH' or similar, written in a cursive style.

C O R R E C T I O N

June 9, 1936

In telegram from Paris No. 469, June 8, 10 a. m. (Section Nine) from Cochran at end message make read "the Italian currency circulation much (End Section Nine)".

DIVISION OF COMMUNICATIONS AND RECORDS

LARGE GOLD STOCK HELD BRITISH NEED

Metal Required to Offset Rise in Circulation Due to European Hoarders.

FATE OF FRANC THE KEY

Devaluation, the City Believes, Would Halt Demand for Notes of the Bank of England.

Wireless to THE NEW YORK TIMES.

LONDON, June 5.—The feeling of tension in the foreign-exchange market here has found reflection in abnormally quiet and dull security markets and a rising tendency in money rates. The monetary situation, indeed, is being influenced appreciably by the foreign-currency crisis. The appreciable diminution of credit supplies developed out of the heavy demand for currency notes.

In the week that ended on Wednesday circulation of the Bank of England rose by £7,390,000 to a new high record of £433,452,000. Probably less than half the week's increase can be ascribed to the Whitsun holiday, the balance representing Continental European hoarding which, in the last few days, received fresh stimulus from the great anxiety concerning the fate of the French franc. Compared with a year ago, circulation is £37,562,000 higher, and estimated

hoarding demands account for at least £30,000,000 of this expansion. The year's increase in circulation was accompanied by the addition of only £14,712,000 to the Bank's gold holdings and, as a consequence, the reserve of the banking department has fallen to the low level of £24,712,000, the lowest, in fact, since January, 1933, while the ratio is 25.8 per cent, also the lowest in three and a half years.

This position foreshadows further substantial purchases of gold by the Bank unless the French fiscal crisis soon is settled by devaluation. In that event, Bank of England notes would come out of hoarding and the note circulation would decline accordingly. It is, of course, open to the Bank to increase its fiduciary issue, but that is a proceeding which would be resisted strongly because of the unfavorable impression this step might create abroad.

In 1928 when the Treasury and Bank of England note issues were amalgamated the amount of the fiduciary issue was fixed at £280,000,000, and it has remained at that figure since.

Acceleration of gold purchases or the decline of circulation on both would restore the banking reserve to normal proportions, but the present position clearly points to the necessity for increasing gold purchases.

The security markets are endeavoring, without much success, to preserve a calm, firm front, but sentiment is being chilled by fears of Continental political and financial upheavals that might easily develop should France fall into a state of anarchy.

The Franc and the Dollar

Possible consequences of the French upheaval as they may affect the United States are not entirely clear, but it is likely that, short of an actual revolution, which appears most unlikely, the net result will in the end prove advantageous to this country.

Notwithstanding the fact that devaluation of the franc, or an embargo on gold exports—which amount to the same thing as far as maintenance of the present monetary parity is concerned—would be construed unfavorably in this country, it is dubious if the depressing immediate effect on values here would be as great as is popularly supposed. In any event, looking toward the future, it appears that such action would be a step toward reestablishing an international gold standard, the desirability of which action is questioned by very few.

At the present time there are three principal barriers in the way of such action which, if resolved, would permit the summoning of an international conference with reasonable prospects of success. The first is the attitude of Great Britain. The second is the question of what government will be in power in the United States, which question will be disposed of next November. The third is the putting of French exchange through the wringer, in order that that country can approach the conference with a view toward stabilization at other than the present level of the franc.

Of these three questions, time will possibly answer one and will certainly answer the other of the first two. But the question of French exchange will prevent any resumption of a gold standard as long as present parity is maintained. In this is the significance and the ultimate hope in the present outlook for the franc.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 8, 1926.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnokeWITH BANK OF FRANCE.

I called Mr. Cariguel at 11:26 a. m. today to make good on my promise of last Friday. Since the Secretary of the Treasury had in the meantime, through Mr. Cochran, answered the informal question that Cariguel had put to me on Thursday, and since the answer was in the affirmative, all he, Cariguel, would have to do now any time he wished to avail himself of the promised arrangement would be to cable us officially to that effect, whereupon we would give him our formal reply.

With reference to today's markets, Cariguel stated that everything was very quiet which was the natural reaction to last week's excitement. The British had done nothing at all. The settlement of the strike did not of course imply an equally satisfactory settlement of the monetary problem, he said. The only thing that he could be guided by was the public statement of the new Government to the effect that there would be no devaluation of the franc.

LWK:KMC

June 8, 1938

9 p. m.

Bewley met with the Secretary at the latter's home tonight.

The following is a report of their conversation:

HM, Jr.: The cable from Cochran has finally come through. This is part of Cochran's conversation with Tripp.

Bewley: Who is this man?

HM, Jr.: Cochran is the First Secretary of the Embassy in Paris. We do not have a Financial Treasury Attache, but he practically does that work. For five years he has been going to Basle. He used to be Consul General. Very few people know that he does this and we keep it very quiet. Most of his time is spent for us. They never built up a foreign service for the Treasury.

(Here the Secretary began to read the cable. He read practically the full cable, referring to France, Holland and Switzerland, received from Cochran today.)

That is the conversation in its entirety as between Cochran and Tripp.

Bewley: I am very grateful to you.

HM, Jr.: I am being entirely open. I may be doing an injustice to Tripp, but if we are supposed to approach each country and not say anything, how are we going to get anywhere? Of course, you realize that this is most confidential and I leave it entirely to your discretion as to how much to pass on to your people.

Bewley: I had a further telegram, which did not add much to their previous one, but they said that they had seen Blum's statement on policy which he made on Saturday. I have not seen it myself in full, but I saw in the Herald Tribune that he was not going to devalue, so I suppose that is what they were referring to. This made it more difficult than ever to make any de marche, if we want to put it as strongly as that, in the light of Blum's statement. They said that the position is very obscure and

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did not see that anything could be done and wanted to wait for a day or two and see if things did not clear up. The Foreign Office said that they would see Ray Atherton some day this week.

HM, Jr.: This does not mean that they will not communicate any further to you?

Bewley: I do not think so. Nothing will be communicated in the immediate future.

HM, Jr.: After hearing this, have you any suggestion?

Bewley: I do not know what to suggest. Tripp does not seem to think, from what he says, that the attitude of the British is really the stumbling block.

HM, Jr.: Is it an advantage or a disadvantage to have a country like Holland devalue and tie up to sterling?

Bewley: I do not think it is any real advantage. It means that in so far as trade relations go, the two countries would be on a par.

HM, Jr.: Would the same go for Switzerland?

Bewley: Yes, the same for Switzerland.

HM, Jr.: How about Germany?

Bewley: I do not think that Germany could remove their restrictions and keep any money in the country.

Lochhead: That would depend on the extent to which they devalued. I gather that from the word you received that the Treasury in England feels that they had better just sit tight for a couple of days.

Bewley: That is exactly what they said in their last telegram. They fully realize the importance of all this and are very glad you raised it with them, but they do not feel that they can take any step at the present stage. They could not take the initiative, but if the French did they would not refuse to discuss it. I think the difference to some extent between them and yourselves is that I do not think they believe that the British attitude is the main

stumbling block.

HM, Jr.: I, myself, have never said that. I am only repeating information. That is the impression that I got over the telephone, but one of the reasons that I read the whole thing to you tonight is not to leave you with a false impression. At least that is what they say. Of course, after all, it is not going to be easy for Blum to change his position and I suppose -- here it is Monday night, and about Friday morning everybody will again begin to get excited.

Bewley: I suppose so.

HM, Jr.: Everything will be quiet between now and Friday and on Friday everybody will begin to get nervous. I cannot help but feel -- and I am willing to go much more than half way, realizing these gold bloc countries could do what they really need to do and knowing the position of your Government and ours -- that the situation is ripe for them and it seems very regrettable that it cannot be brought about.

Bewley: I agree, but as far as Holland and Switzerland go, from what you have read, the situation does not seem to be bad. Of course, when the French brought in these other countries it made it much more difficult. The more countries you have to consult, the more difficult it becomes.

HM, Jr.: The original thought was to restrict it to France. Both Holland and Switzerland, as far as we are concerned, are relatively unimportant.

Bewley: Holland is important.

HM, Jr.: Holland regularly, once a week, goes below the gold point and nothing happens. The fact that Holland goes below the gold point has no significance.

Bewley: Well, they do export a lot of gold in the bulk.

HM, Jr.: The reason for that is that they have a lot of gold coins and our banks do not want to buy them.

Lochhead: The Dutch Central Bank reserves the right

to deliver their gold bars or gold coins and the experience of the American banks in handling the gold coins has been very unsatisfactory. They found that they lost in handling charges and in weight and have left this business entirely to the Dutch banks who make any shipments necessary.

Bewley: The main problem is the French situation, and from the English telegrams I gather that they have given the fullest consideration to it and they are in a position to know and they are convinced that even if they did something it would not have any effect on the French situation and would be dangerous, and the French would not welcome it.

HM, Jr.: How do you mean dangerous?

Bewley: Suppose it got out, for instance, that the English were making an approach to France. It could be interpreted as an attempt to influence France to go off gold and if that were divulged it would be extremely embarrassing to Great Britain and might cause trouble in France, too.

HM, Jr.: We are like the American Indians. We are very good sitters.

Bewley: You are in a very happy position.

HM, Jr.: Yes, we are in a very comfortable position. If, during the next few days, anything happens, call up Taylor and if it is important enough I would be delighted to have you come up and see me. By air it only takes 1 1/2 hours. My impression is that the English will not move for another week or ten days.

Taylor: They would do it during my Twentieth Reunion, which is next Saturday!

Lochhead: Can't we arrange that these crises occur in the middle of the week?

Bewley: The ultimate fact seems to be the weakness of the French Government. Is it not really that they are internally weak and are afraid to take any steps?

HM, Jr.: I would not want to pass on it. I have been

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just sort of taking everybody at face value and if Mr. Auriol says that he might do this thing, I am just taking it that he means what he says, but everybody who knows the French says that they will only move when they are forced to. People say they will never come through with a clean-cut devaluation. Just as long as we have this thing, it certainly keeps the world in turmoil.

Bewley: I would like to suggest something, but I really cannot.

HM, Jr.: Well, just wait and see what happens. If we get anything we will let you know.

Bewley: If I hear anything I will let you know.

HM, Jr.: I will surely be back Sunday night.

oOo-oOo

After Bewley left, HM, Jr. said, "What I got out of him was that I was not sure whether it was a good thing for Holland and he showed very definitely that England would not want it."

HM, Jr. also said that Phillips, when he stopped in earlier in the evening, had said that on the 18th the question of sanctions comes up in Geneva and, after all, England has a great many irons in the fire and this is just one of them and their relationship with France on a trading basis right now is of terrific importance to England and the reason why England will not do anything unless France comes and asks her, in Phillips' opinion, is that England definitely would want to put France under obligations to her. In other words, England would not make it easier for France to devalue unless through doing this she put France under obligation to her.

June 8th

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The following were present at the 9:30 meeting this morning:

Mr. McReynolds
Mr. Upham
Mr. Bell
Mr. Raas

Miss Roche
Mr. Taylor
Mr. Gaston
Mr. Oliphant

Mr. Morgenthau: Good morning everybody.

Group: Good morning.

Mr. Morgenthau: There is just one thing we must not let go by the Board and that is the material for monetary planks for Senator Wagner. Wallace tells me he worked some out on Agriculture Saturday. I don't see how we can do ours till we see the Republican money plank but if everything is all right and it is agreeable to the President I am going to leave tomorrow morning and, if everything stays quiet, I am going to stay away for the week and if Wagner wants to see me I could run him up in an hour or an hour and a half. I could send him on the plane. I take it that he flies. I would go up for the first two days and rest and then let Mrs. Klotz come up. Frankly, I am all washed up.

Mr. Gaston: We have some preliminary stuff, written on all phases which we expect to cover, in shape for going over and re-writing. I promised I would have a talk with John Fahey who has some ideas and also plan to see Marriner Eccles and Mr. Thurston. They have some ideas.

Mr. Morgenthau: He gave very definite instructions on those things. I would like to call up Wagner. I don't want to make good yet - I want to see the Republican's. I got this idea from listening to Wallace. If they have a bum money plan then you ought to send for the American Farm Bureau or Grange and give our money plan and if we could meet them half way and with the farm organizations ----

Mr. Gaston: I am afraid we will get into difficulty with those people trying to satisfy them.

Mr. Morgenthau: Well Herbert let me put it this way. What should I tell Wagner?

Mr. Gaston: Why couldn't I take it up to you in the middle of the week? We will have it in better shape than we have it now.

Mr. Morgenthau to Miss Roche: Have you been working on any planks?

Miss Roche: No, not very much sir. I have conferred with some of the relief people.

Mr. Morgenthau: Are you working on this Cy?

Mr. Upham: Oh I wrote a little bit.

Mr. Gaston: He has written as much as anybody else.

Miss Roche: I would be glad to help.

Mr. Morgenthau: This will be a big opportunity as far as the party goes.

Heard over the loud speaker:

Senator Wagner: You see if we wait for everything until the ---- on Monday I wanted to have something ready. It doesn't mean that it is going in that way because when the President comes back we have to sit down with him but, in confidence, as a matter of preparation that's all.

Mr. Morgenthau: I am going to ask you to give me a day or two more if you don't mind.

Wagner: All right. I am getting this together quietly and nobody knows anything about this at all.

Mr. Morgenthau: You see I had a bond issue last week.

Senator Wagner: I see that went over in great shape didn't it.

Mr. Morgenthau: They certainly can't say we can't raise the money or that there is anything wrong with government credit.

Senator Wagner: That's a good point to make.

Mr. Morgenthau: They can't laugh that off. Well I've got this thing very much in my mind if you will just be a little charitable.

Senator Wagner: I want you to understand this is nothing for publication. When we sit down with the President you may want to modify it.

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Mr. Morgenthau: We are all working on it but it just has not jelled.

Note: End of telephone conversation.

Mr. Mc Reynolds: Hester says if you will call Barkley and ask him to get the Committee together this morning that everything is set and if you can get the Committee together he says they can get it out and he thinks they can get it passed to-day. He got that Coast Guard Bill through - passed by the Senate on Saturday and ready for signature. He is some lobbyist.

Mr. Morgenthau: Who?

Mr. McReynolds: Hester.

Mr. Morgenthau: Can't they poll the Committee?

Mr. Oliphant: Well apparently the Committee has to meet.

Mr. McReynolds: It is a Special Committee in charge and Hester says if you would call Barkley that would be the push that they need to get the thing out. If they get it out this morning the Senate will pass it this morning.

Note: Secretary Morgenthau was trying to get Mr. Wilbur J. Carr on the telephone. Mr. Carr is Assistant Secretary of State. After hanging up Secretary Morgenthau said, "Mr. Carr lost his cane so he has not been able to come down to the office". (Laughter by the group).

Mr. Oliphant to Mr. Morgenthau: Tell her (meaning Operator) to put in a call for Barkley.

Mr. Morgenthau: I was going to let Steve spend the rest of the day on the Hill but Steve isn't here.

Mr. Gaston: Hester didn't take any chances on that.

Mr. McReynolds: You know Hester's background is a salesman for Fuller brushes. (Hearty laughter). He made his way through Law School selling Fuller brushes.

Mr. Morgenthau: They get them together and have a salesman's song and then they have regular instructions how to put your foot in the door and never take it out until the lady says yes. (More hearty laughter).

Mr. McReynolds: Hester can make more people mad, and then get them to do what he wants, than anybody I ever saw.

Mr. Morgenthau: Where is Hester?

Mr. McReynolds: On the Hill.

Mr. Morgenthau: I think everything except these planks are in good shape.

Mr. Oliphant: Will the Board of Tax Appeals be up to-day? I heard from Will Keleher. He says Beal is good.

Mr. Oliphant handed the Secretary a telegram and the Secretary read it and then said: "We can kick out the woman member of the Board of Tax Appeals provided we take a husband whose wife is acceptable to Molly Dewson." (Laughter)

Mr. Morgenthau: I think this woman member of the Board of Tax Appeals is very very mediocre. My attitude is it is much worse in government to have a poor woman. I would much rather not have any.

Miss Roche: Well we pay more heavily for it than men.

Mr. Morgenthau: They expect more.

Note: Senator Barkley's call came through and Secretary Morgenthau conversed with him as per the attached record of their conversation.

Mr. Oliphant: Would you mind asking her (meaning the Operator) to get Hester and we will have him go see Barkley.

Note: At this point Secretary Morgenthau called McIntyre at the White House reminding him that Mr. Farley and he are ready.

Mr. Morgenthau: Mr. Wallace says I do not know anything about it. I will tell you what he says. He says "you can't take his 296 million which is due the farmers for crops because it is just robbing the farmer of the money he is entitled to."

Mr. Oliphant: It should be used to take up these refunds. That was explicitly agreed to.

Mr. Bell: The 296 was to liquidate the obligations ----

Note: Mr. Bell was interrupted by a call coming through for Secretary Morgenthau from Mr. Wilbur J. Carr, of the State Department, the call having been placed shortly after the meeting was under way.

Mr. Morgenthau to Mr. Carr: Yesterday your Code Room sent me the original of Cochran's cable. Now if you don't want me to keep that in my own private file I will be glad to return it to you. I have a private safe and I will keep it. The one that is coming now is equally important and if I could have the original I am telling you that no one will see it but I will have - I have a private safe that only one person has access to. Normally I don't want the original.

Note: No part of Mr. Carr's reply could be heard as the loud speaker was turned off.

Mr. Morgenthau: Let's do this. Couldn't we send Wallace something showing how the 296 was arrived at - the breakdown? What do you want for Guy Helvering under that?

Mr. Bell: Well they want administrative expenses for all these refunds and then they want the original money. Now they don't know how much it is.

Mr. Morgenthau: Will you do this for me? It is purely a budget matter.

Mr. Bell: Well the Treasury was in it at the time.

Mr. Morgenthau: Well your*in the Treasury aren't you?

Mr. Bell: Yes.

Mr. Bell: What do you want me to do with it?

Mr. Morgenthau: What is fair and just.

Mr. Bell: I think what is fair and just has been done.

Mr. Morgenthau: I will leave it entirely in your hands.
Can I forget about it?

Mr. Bell: Yes.

Mr. McReynolds: I am in entire agreement with Dan.

Mr. Morgenthau: That's lucky (Laughter)

Mr. Morgenthau: Maybe you would rather handle it than turn it over to Bell.

Mr. McReynolds: I wouldn't think of it.

Mr. Morgenthau: All right with you Taylor?

Mr. Taylor: Splendid.

Mr. Morgenthau: And in the letter he says he is perfectly willing to give away the balance that is kept in Customs if we would use that. That's where he suggests that we get it but the 100 million from AAA must not be touched. He does not want the 100 million touched.

Mr. Oliphant: After the invalidation of the AAA we all sat down and asked how much it would cost to wipe the thing clean and these things were included.

Mr. Morgenthau: If everybody is willing to let me have it signify by saying aye.

Group: Aye.

Mr. Oliphant: What was the word on the Board of Tax Appeals.

Mr. Morgenthau: When I get word you will meet with me and we will have a rehearsal five minutes before. You can take Beal.

Mr. Oliphant: He wants Childress and Beal, he said, if you gave up the woman.

Mr. Morgenthau: Both Childress and Beal are married to Molly Dewson girls.

Miss Roche: We do have our use for some things. (Laughter)

Mr. Morgenthau: He is satisfied with Beal.

Mr. Oliphant: Why can't we have Beal and our good man from California - Traynor. We could strengthen that Board.

Mr. Morgenthau: We will have a rehearsal before I go.

Monday
June 8, 1936

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- HMjr: Henry Morgenthau, Junior - and
Senator I still say I'm 'Junior' to him.
- Alben
Barkley: Well, just keep up that illusion.
- HMjr: Well, it's all right. I'm calling up on not a very
important matter but I would appreciate the help.
And that's on this Treasury Agency Bill - consoli-
dating the Treasury Agencies you know?
- B: Yes
- HMjr: Which there has been all this argument about and
Keenan has been up there and all that business, you
know?
- B: Yes
- HMjr: Well now, Keenan wrote a letter to King Friday before
he left saying that the Department of Justice had no
interest and no objection. And Homer Cummings has
told me twice that he has no interest and no objection,
see? And I talked to the president last night and he
told me that I could quote him as saying he very
definitely would like this thing to get through. And -
well, I may have faults but I think you realize I am
truthful.
- B: I called - but Keenan was over there the other
day lobbying around against that bill -
- HMjr: Yes
- B: And I gave him the devil. I said, 'I wish - if you
fellows are opposed to this thing why don't you come
out in the open and come before the Committee and give
your reasons?'
- HMjr: Yes
- B: And then I said, 'Homer Cummings I understand is not
against it'. So I called Homer -
- HMjr: Yes
- B: And never got him and he called me later and told me
that he of course was not opposed to it. But I told
him to call King.
- HMjr: Yes
- B: I don't know whether he did or not.

HMjr: Yes, he did.

B: Yes

HMjr: He did call King. And Keenan - I finally got Keenan to write King a letter -

B: Yes

HMjr:- - saying that they wanted it.

B: Yes

HMjr: Keenan had no business up there doing that.

B: Well, of course he didn't.

HMjr: Now, would it be asking too much to either call the Committee or to poll them to your sub-committee?

B: Well, the Committee has already authorized the bill to be reported.

HMjr: Well, couldn't it - ?

B: King has been holding it up.

HMjr: Well, couldn't it be - couldn't it be gotten out today?

B: Well, I am going to see King today and insist that he make his report. He's got the authority to do it because the Committee voted on it last week.

HMjr: Well, Homer did call King.

B: Yes

HMjr: Because he told me so.

B: Yes

HMjr: And - if it got out you could pass it today.

B: Yes, I suppose so.

HMjr: I mean, I --

B: Is that story true that was in the paper the other day about this fellow Glavis?

HMjr: Absolutely not.

- B: Well, I - there'd be - if that were true it might cause some opposition over there.
- HMjr: Well, I don't mind telling you that I talked to the President about it last night and I said as far as I was concerned I just wouldn't have the man.
- B: Yes
- HMjr: And the President didn't seem to know anything about it.
- B: Yes
- HMjr: Well, I - I can give you my word -
- B: I suppose it's one of those - well I just simply want to be in the position because I know how - there's a lot of feeling against him over there on the Hill.
- HMjr: Well, I can give you my word, as long as I'm here Glavis won't head that Agency.
- B: Well, that's all right. I did want to put you wise to the fact that if that were - if it were thought that were true -
- HMjr: Yes
- B: There would be some opposition to the bill -
- HMjr: No
- B: - over in the Senate.
- HMjr: No, no
- B: Because, I don't know - they seem to hold him in suspicion over there.
- HMjr: No - we haven't - we haven't got anybody and when the bill passes I'll take it up with the President.
- B: Of course. Well, I'll see King - I'll see King today and see if we can't get it out.
- HMjr: Alben, I'd appreciate it very much because it's been kicked around and it's a move in the right direction.
- B: I was - listen, I was expecting King last week, after Homer told me he'd called him I didn't ask King if he'd

called him, but I thought he'd tell me because he had been telling me all along about the Department's opposition to it.

HMjr: Yes

B: But I'll see him today the first thing.

HMjr: Well, what I - I'm not going to do - may I say - leave it entirely with you?

B: All right -

HMjr: Do you mind - ?

B: Assuming that it will get in very poor hands - but I'll do the very best I can.

HMjr: Well, I disagree with you a thousand per cent.

B: Well, we'll see what happens.

HMjr: Yes, I know -

B: You may have to revise your judgment.

HMjr: No, I never have yet.

B: Well, I'll take it up with him right away.

HMjr: I heard you make one key note speech and I am looking forward to another one.

B: Well, I'll tell you this tax bill has gotten me so darn stale I'm afraid I'm going to make a flop.

HMjr: Oh, go on, you'll make the speech of your life.

B: Oh (Laughs) Well, I hope so.

HMjr: I know you will.

B: Well, I'll call you back later.

HMjr: Thank you very much.

B: Will you be in the office all day?

HMjr: You bet - the President ordered me to sit here. (Laughs) He said, 'Don't you go out of town until my train leaves and don't you leave your office until my train leaves'.

B: What time is he leaving?

HMjr: Ten something -

B: Tonight?

HMjr: Yes

B: Oh yes

HMjr: Yes

B: All right.

HMjr: .O. K.

Tuesday
June 9, 1936

HMjr: Mr. Phillips, please -

Operator: All right

HMjr: State Department - hello

Operator: Mr. Phillips

Wm.
Phillips: Good morning, Henry

HMjr: Good morning

P: I hope you are feeling a little more rested.

HMjr: Yes, I am going to leave in about ten minutes to go to the Farm.

P: Yes

HMjr: I talked to Cochran this morning.

P: Yes

HMjr: And he had nothing new.

P: Yes

HMjr: And he had not yet seen the new Governor of the Bank of France but he expected to see him today. He takes office at two-thirty. And he said that the new Governor had not cut off his old connections so I gathered he is having - taking sort of a leave of absence so if he didn't like what was going to go on he could go back -

P: Yes

HMjr: - to his old job. The only thing that I picked up - that up to the time I talked to him, Cochran, no gold had left - been engaged today. But the franc is again down below the gold export point and they expect another rush any time. The gentleman came to see me last night after you did --

P: Yes

HMjr: And he had had another message and - which sort of - I gathered that they didn't want to do anything for two or three days.

P: Oh -

HMjr: So - well I said, 'That's all right', I said, 'the way the American Indians are,' I said, 'I'm a very good sitter, I can sit a long time'. And, so he said, 'Well, after all, you people have got nothing to worry about'. - which I thought was rather interesting.

P: Yes

HMjr: And then I read him enough of the cables to let him know that the Dutch were thinking of tying to sterling and that seemed to worry him a great deal. And I asked him, I said, 'How does tha affect you?' 'Well,' he said, 'we wouldn't particularly like to have the Dutch tie to sterling'.

P: Yes

HMjr: '...or the Swiss'.

P: He said that?

HMjr: Yes, he did. So, it seemed - that seemed to bother him considerably and then of course again he said, 'We have had absolutely no information, we don't know, and unless they approach us we are going to sit tight'. And then in talking to Cochran this morning I sort of asked whether there was any possibility of getting the French to stop and talk to the British. And he said, '...out of the question'.

P: Oh, he said he couldn't talk to them, or --?

HMjr: No, he said, but, he said the way the conditions are now, he said if he just, he said they'd consider it an impertinence on his part if Cochran would suggest to the French that the French talk to the English.

P: Oh -

HMjr: He said they would consider it an impertinence on his part.

P: Isn't that curious?

HMjr: Yes - and so Cochran said, 'Well, your relations -' -I mean he was very careful in his talk, he didn't mention any names- 'but the English are still friendly, aren't they?' And I said, 'Oh, yes,' I said, 'They have been entirely friendly,' but I said, 'for a couple of days we will just sit back and wait'. And I said, 'I imagine by Friday or Saturday morning if things get acute again why we'll have another message'.

P: Yes, I see.

HMjr: But evidently during the day Bewley did get a message telling him to lay off for a couple of days.

P: Thank you very much, Henry, that's very interesting.

HMjr: Now that boils the whole thing down and of course I don't know what's going on over there and - and what I gave people who are with me, I mean, I gave the distinct impression - well, I - it's - I can wait, I have waited three years, I can wait three months more.

P: Well, I - -

HMjr: I mean I -

P: I think I understand the --negotiations of our tips - the political negotiations.

HMjr: Yes, I mean I showed no nervousness whatsoever.

P: Yes

HMjr: You see?

P: Yes

HMjr: You think things are very tense?

P: Oh, I know they are because they are getting up towards the sixteenth -

HMjr: I see.

P: - of this month when the Council of the League is supposed to meet in Geneva. No one knows definitely whether it's going to be, but that's the normal schedule.

HMjr: Well, Bill, if you get anything important will you phone me?

P: Yes, indeed

HMjr: And --

P: Of course I will.

HMjr: And if I get anything, but I don't intend to call Cochran now again until something happens.

P: Yes

HMjr: But we just got word from one of the New York banks. They think that the Russian gold is going to start again.

P: Yes

HMjr: But - we just have to sit. Do you see anything else?

P: No - not a blessed thing.

HMjr: All right.

P: Well, I do hope you'll get a good rest - have a chance to forget your troubles for a minute anyway.

HMjr: Yes - and if anything should happen that affects the currency as far as Italy and Germany are concerned you'd let us know too?

P: Oh yes

HMjr: I mean anything that you have on the currencies.

P: Yes

HMjr: Thank you very much.

P: Goodbye.

June 10, 1936

Earle Bailie called HM, Jr. on Tuesday and told him that there was some uneasiness among the banks as to whether there would be enough boats to take the gold which might be expected to arrive this week-end. HM, Jr. asked Lochhead to check up. Lochhead did so and found that there will be 13 steamers sailing between Wednesday and Sunday, inclusive, this week and, therefore, the alarm did not seem to be warranted.

Today when HM, Jr. telephoned from the Farm, he told Mrs. Klotz that Gordon Rentschler had called him this morning and had told him the same story that Earle Bailie had.

THEASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, June 10, 1936.
6-9-36.

Press Service
No. 7-59

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-3/4 percent Treasury Bonds of 1951-54 and 1-3/8 percent Treasury Notes of Series B-1941.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	2-3/4 PERCENT TREASURY BONDS OF 1951-54		Total Cash Subscriptions Allotted	Total Subscriptions Allotted
	Total Cash Subscriptions Received	Total Exchange Subscriptions Received (Allotted in full)		
Boston	\$ 404,340,200	\$ 25,001,200	\$ 60,519,300	\$ 85,520,500
New York	2,234,799,300	588,822,200	320,938,150	909,760,350
Philadelphia	239,235,800	12,167,000	37,688,300	49,855,300
Cleveland	244,664,450	11,846,400	40,564,200	52,410,600
Richmond	140,575,100	39,186,600	24,024,800	63,211,400
Atlanta	108,040,000	10,167,000	20,334,950	30,501,950
Chicago	376,426,700	157,923,400	65,039,650	222,963,050
St. Louis	112,264,300	19,540,400	22,941,000	42,481,400
Minneapolis	60,206,350	27,556,600	11,701,150	39,257,750
Kansas City	77,845,550	34,715,500	17,112,100	51,827,600
Dallas	83,406,950	7,140,100	18,641,150	25,781,250
San Francisco	198,264,100	18,212,400	30,986,600	49,199,000
Treasury	1,787,700	3,851,900	315,800	4,167,700
TOTAL	\$4,281,856,500	\$956,130,700	\$670,807,150	\$1,626,937,850

Federal Reserve District	1-3/8 PERCENT TREASURY NOTES OF SERIES B-1941		Total Cash Subscriptions Allotted	Total Subscriptions Allotted
	Total Cash Subscriptions Received	Total Exchange Subscriptions Received (Allotted in full)		
Boston	\$ 200,309,800	\$ 4,524,800	\$ 31,169,100	\$ 35,693,900
New York	1,440,293,800	45,934,500	217,654,300	263,588,800
Philadelphia	145,006,000	1,959,700	22,264,600	24,224,300
Cleveland	198,529,500	1,349,500	30,815,200	32,164,700
Richmond	94,809,300	803,300	15,199,300	16,002,600
Atlanta	72,664,500	565,200	12,437,400	13,002,600
Chicago	252,356,200	4,713,000	42,066,000	46,779,000
St. Louis	76,270,600	702,100	14,193,900	14,896,000
Minneapolis	40,824,200	2,816,000	7,167,000	9,983,000
Kansas City	57,140,500	1,911,300	10,507,200	12,418,500
Dallas	54,569,800	384,000	10,043,500	10,427,500
San Francisco	138,446,700	3,051,600	21,481,000	24,532,600
Treasury	1,500,000	20,000	225,000	245,000
TOTAL	\$2,772,720,900	\$68,735,000	\$435,223,500	\$503,958,500

June 11, 1936

The Secretary telephoned the following from the farm today:

HM, Jr.: Cochran just called me. In the first place, cables 483 and 488 are coming through and tell them over at the State Department to please rush the decoding.

The point is that Caillaux has just made a statement, which he has cabled us, which is word for word what Auriol told Cochran in the strictest confidence. He has come out with a flat statement and Cochran reminded me that before Cochran saw Auriol he had been in contact with Caillaux. Now Caillaux has come out with this statement in the paper, word for word, on stabilization as to what Auriol told him in confidence.

That's No. 1. I want you fellows to read it. I want you to discuss it with Phillips as to whether we should show Caillaux' statement to Bewley.

Now the other thing is, Bachmann, President of the Central Bank of Switzerland, called up Cochran and wanted to know if he had any answer, and I would like you to talk that over with Phillips, and after you ~~xxx~~ fellows have talked it over there I would like to have Phillips call me at the farm. But I want Phillips to read cables 483 and 488.

I want to know two things: (1) general advice; (2) whether we should bring Caillaux' speech to Bewley's attention and tell him that he seems to be talking officially and (3) whether we should give the Swiss and Dutch any answer, because the Swiss have asked what progress we are making.

I want you to have a talk with Phillips and after you have had that, you might ask Phillips if he could arrange it and knew when I would be here, he might drop over to my office so we could use the loud speaker and make a record of the conversation.

Taylor: I will get in touch with him right away.

HM, Jr.: Another thing, Phillips should certainly discuss this with Mr. Hull and get Hull's opinion.

Cochran also said that the thing in Paris is much worse; that the Crillion Hotel is closed up entirely; butcher shops, restaurants, everything are closing and the thing is much

worse, so while it isn't on the surface, underneath it is much worse.

The fact that Caillaux should come out with a public statement saying word for word what Auriol told us in confidence is terrifically significant. Furthermore, they really have devaluation in France now, but won't admit it.

Taylor: Any indications of that?

HM, Jr.: I don't know. He just told me that.

The best thing is for Phillips to drop into the office. If you have the cable around 5 o'clock your time, make an appointment for 5 o'clock and I would be home at that hour. The reason I want him to come to my office is because I like to make a record of my calls and I have the facilities to do it. If he raises any objection, you can go on over there, but tell him I would appreciate it.

Mr. Lochhead: I think you would be interested to know that the Federal Reserve talked to the Bank of England today and as far as operations are concerned against the franc, there is nothing doing today; very quiet.

HM, Jr.: That checks with what Cochran said. He said the British were out of the market.

Lochhead: Bolton thought they would probably have trouble by Tuesday when Auriol goes before the Cabinet and tells what he wants. He did not put it as a straight statement, but he thought that was the day he was looking for rather than the week-end.

HM, Jr.: Another thing, if we do see Bolton tonight, if you fellows chew it over, the question I would like to ask Bewley is to ask his Government what if anything they are going to do over the week-end, but I want you fellows to talk it over and don't do anything until you talk to me at five o'clock, your time.

Why don't I talk to four o'clock your time and five o'clock my time?

Lochhead: That is with Phillips over here?

HM, Jr.: Yes.

Lochhead: The significant thing about the Bank of England conversation this morning was this: you remember,

last Saturday a couple of banks said there were rumors that the British were operating in dollars? We had an opening today to speak about it and Bolton said "absolutely nothing. They have not operated in dollars; that the only small operations they do are against commercial accounts; that everything they do is put through the Federal Reserve Bank and will continue to do so. So we have that fixed up. But that was the most significant part of the conversation.

The market is quiet. Your bonds are off 2 or 3/32's.

HM, Jr.: Have you heard about the Federal Land Bank bonds:

Taylor: They closed the books at 11 o'clock with cash subscriptions of 4 times the amount of the offerings.

HM, Jr.: Good boy!

T.: And of course they haven't heard from the exchanges.

HM, Jr.: Oh, that's all right.

Taylor: Apparently went very well.

HM, Jr.: Miss Chauncey, will you tell Mrs. Klotz that I am going to call back again at four your time? And have her get from Gaston how many people are coming Sunday night, because Mrs. Morgenthau will talk to her at four o'clock and wants to arrange for supper. Also ask her to look up how much we paid Charles last summer and get McReynolds to dictate a memorandum on just what he has done with Charles about his pay and vacation.

FS

GRAY

Paris

Dated June 11, 1936

Rec'd 12:28 p. m.

Secretary of State,
Washington.

483, June 11, 3 p. m.

FROM COCHRAN.

Caillaux, former Minister of Finance and now President of Senate Finance Committee, contributed an article to today's LA REPUBLIQUE under title "objectivity" on France's monetary and economic problems. He urges immediate monetary alignment in concert with gold bloc countries first and then with great powers whose currencies are still unsettled, along with far-reaching commercial agreements calling for monetary and economic peace which accompanies political peace.

Caillaux recalls that a year ago he expressed the hope that unsettled currencies would align themselves as quickly as possible with the franc. He points out that recent events will lead to mounting prices in France and that such increases will inevitably result in a closed economic regime for the country. Such a regime could not be successful in France lacking raw materials and depending upon

FS No. 483, June 11, 3 p. m. from Paris

upon foreign outlets for its quality exports. France must be able to deliver exports at reasonable prices. He considers as impossible the suggested solution which envisages an increase of internal prices so as to provide a compensation for foreign sales which he explains would amount to nothing more than a huge indirect tax. He said disparity between French and foreign prices will become more accentuated. In 1935 he favored deflation not by cutting budget expenditures but by carrying out a far-reaching conversion of public and private debts and by administrative reorganization. Since economy measures will not be adopted under new Government, Caillaux says France must hurry monetary alignment. He adds that it will be said that threatened devaluation. To this he observes that devaluation is already here in fact and concludes that the moment when the great currents of international trade are established, the return of prosperity that will follow will compensate the inconvenience which may temporarily attach to the lowering of the value of the currency.

HPD

WILSON

FS

A portion of this telegram must be closely paraphrased before being communicated to anyone.
(A)

Paris

Dated June 11, 1936

Rec'd 12:55 p. m.

Secretary of State,
Washington.

488, June 11, 5 p. m.
(GRAY). FROM COCHRAN.

National City today invoiced to National City
34,000,000 francs gold bars PRESIDENT HARDING.

Paris exchange market quiet but very uneasy.
Small amount of business done in sterling at 76.25
without control present. At 3 p. m. Guaranty had sold
\$1,700,000. Rentes down another franc and one half
and French shares declining. Bank of France statement
as of June 5 shows gold loss one and one half billion;
circulation up 257,000,000; deposits down 694,000,000;
coverage 59.68 versus 61.01.

Strike situation in Paris district more serious with
many hotels, restaurants, meat shops, et cetera, involved.
It is rumored that motor buses may be stopped tomorrow.
Minister of Finance meeting with banking representatives
has reached certain wage agreement for bank and Bourse
employees and negotiations continue but possibility of
their striking is not yet unmoved. (END GRAY).

F-360-

The manager of a Paris-American Bank says that the withdrawals of deposits are continuing, and that deposits have reached record low levels. A careful watch is being kept at Ministry of Finance of rumors and operations against the franc. The foreign banks here fear that agents may be placed in their banks in order to watch their operations. According to one Paris-American stockbroker, some purchases of American securities are being made but

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 486
of June 11, 1936, from the American Embassy, Paris.

that he had not noticed any panicky haste in such operations. From a talk with him, it was gathered that his firm had been doing a fair amount of business, although it seemed that he did not want to convey this impression.

Another American firm which was contacted said that not much business was being done. It was their belief that most of the important transfers of capital from France had already been made, and that/^{now only}people not familiar with American securities were carrying out small purchases of foreign exchange.

This morning I visited friends at the Bank of France. I saw the Chief of the Office of Governor Labeyrie, Gelin. The office of Governor has nominally been taken over by Labeyrie, but he is still spending all his time outside the Bank working with the Treasury and legal experts on the drafting of a bill for revision of statutes of the Bank of France. This bill is to be filed this afternoon or tomorrow. Serious concern over the present state of social unrest is admitted by my friends at the Bank. They tell me that the smaller banks are facing the end of their resources, and since no one will pay loans, it is impossible for them to call them. Tax receipts for the month of June will be hard hit, in view of the demoralized state of business.

ness.

According to my banking contacts, branches or French subsidiaries of several well-known American manufacturers are meeting the present demands of labor, but at the same time they are making plans for moving their business from France to England.

I summarized Caillaux's remarks in my telegram No. 483, June 11, 1936, 3 p.m., since it (?) significant that he, the Senate Finance Committee Chairman, now tries out on the public a suggestion (?) for the international stabilization plan which the Minister of Finance is secretly considering (see my telegram No. 467, of June 6, 1936, 9 p.m.).

Reference final paragraph my No. 463, June 5, 5 p.m. A separate note prepared by Rist to supplement the Rist Committee's report has been published wherein Rist concludes that French recovery depends upon the indispensable condition that the franc be adjusted to the pound awaiting general stabilization on gold.

END OF MESSAGE.

WILSON.

EA:LWW

Thursday
June 11, 1936

HMjr: What's the matter?

Archie
Lochhead: It probably is the weather condition.

HMjr: You don't hear me well?

L: I can hear you fairly well but it's quite faint.

HMjr: Yes, well go ahead.

L: 488 - 'National City..... (not recorded)
(Mr. Lochhead read to the Secretary Cable No. 488
from H. M. Cochran at Paris, France)

L:altogether.

HMjr: Altogether?

L: about fifty-
five billion -

HMjr: Yes

L: Which would bring it down to about fifty and a half
after all the allowances were made.

HMjr: I see.

L: 'Strike situation in (not recorded)
(Mr. Lochhead read to the Secretary Cable No. 483
from H. M. Cochran at Paris, France)
We haven't got the rest.

HMjr: Well, that thing is - from Bachmann, he said he
didn't put that in the cable on purpose.

L: Oh, he didn't put anything in on Bachmann?

HMjr: No

L: I see.

HMjr: He - he said he wanted to - he was afraid to put it
in a cable.

L: I see. Well then there - I presume he hasn't put
anything in about then either, maybe.

HMjr: No, no

L: Well, still there is another section, at least one
more section coming.

HMjr: Well, if it comes, is Mr. Phillips coming over?

L: No, now Mr. Taylor is here now and he wants to speak to you and tell you how that's developed.

HMjr: O. K.

W. C. Taylor: Phillips is out of town -

HMjr: Yes

T: And I've made a tentative appointment with Secretary Hull for between three and three-thirty.

HMjr: Yes

T: I thought the only thing to do is go over and talk to him and tell him - show him the cables and get his advice.

HMjr: Yes

T: Now, I don't think I can get him to come over here and call -

HMjr: No, no - no

T: So we'll just have to do it on word of mouth.

HMjr: That's all right. Now, I've had a chance to think this over, see?

T: Yes

HMjr: And especially since hearing that cable on Caillaux -

T: (Laughs)

HMjr: - my thought is that we don't approach Bewley today.

T: It - that would - that would check with me, too.

HMjr: Yes

T: It - I don't think it's quite as important as it first looked.

HMjr: No - no, I think that we'd better sit tight and wait until we hear from Bewley.

T: O. K.

HMjr: I think you could go over there and if Mr. Hull - I'd like him to see that -

T: Yes

HMjr: And see whether he thinks - I wouldn't say anything about talking to Bewley - whether anything has happened that - that he knows about.

T: Yes, that we should do anything further.

HMjr: But what Cochran did say was that what Caillaux said was exactly word for word what Auriol said.

T: Well, in effect that's so.

HMjr: Yes

T: Of course we know that the other two people said they wouldn't play.

HMjr: What?

T: We know that the other two people said that they wouldn't play necessarily.

HMjr: Yes

T: They'd act independently.

HMjr: Yes - but in my mail, the mail that comes, be sure and send me those cables.

T: Right

HMjr: But you go over there and talk to Hull and then come back and call me.

T: Yes

HMjr: Can you hear me?

T: Yes, I can hear you.

Operator: Mr. Morgenthau --

HMjr: Yes

Operator: I'm sorry to interrupt you but Mrs. Klotz is back now and she wants to talk to you before you hang up.

HMjr: All right.

Operator: All right.

HMjr: All right.

HMjr: Hello -

T: Yes, I can hear you all right.

HMjr: O. K. Well, you go on over and see Hull, but I -
I think we'd better sit tight and not approach Bewley.

T: I think that's right. Now, how about Bachmann?
Shall I tell Hull about that?

HMjr: Yes, yes - that Bachmann called him up, yes.

T: Yes

HMjr: And was waiting to hear.

T: All right, fine.

HMjr: Yes

T: Right

HMjr: O. K. - all right, you call me when you get back.
Goodbye.

Mr. Luskhead

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE June 11, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoke

WITH BANK OF ENGLAND.

I called Mr. Bolton at 10:45 a. m. today. He told me there was remarkably little news available from France and that it began to look to them as though it might take a long time before the situation cleared up. As a matter of fact, observers now thought that matters might drag on for a month or so. There seemed, however, to be a little more anxiety about developments in France next week, when the French Minister of Finance was expected to publish his statement of the financial condition of France, which, obviously, would be a very poor story. This statement might be made on Tuesday. The market in Paris had been quiet for the past two or three days, the demand for dollars had continued but on a much smaller scale. The British Control had done nothing at all; was very much on the fence, as it were. As far as the dollar was concerned, it was probably fair to say that the seasonal demand was just beginning to be noticeable in London. The London market was in a state of lethargy this afternoon with nothing doing at all.

Reminding Bolton of his question/^{last week} as to whether we were operating in francs or sterling at present, which I had answered in the negative, I told him of rumors which I had heard last Saturday that there was definite evidence of the British Fund now trying to manage sterling through the dollar. Bolton was very emphatic in his denial, saying that he could assure me that they did not do a dollar transaction of any sort that did not show on their account with us. Occasionally, of course, they were getting good-sized dollar orders. In addition they had to handle the Australian gold shipped to San Francisco, which, from time to time, gave them substantial dollar balances. He could tell me quite frankly that

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 11, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knobe

WITH BANK OF ENGLAND.

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there had been no attempt to do any sort of Control ^{through} 1/4 dollars and that they would not dream of making such an attempt without telling us.

LWK:KMG

*Mr. Lockhead*FEDERAL RESERVE BANK
OF NEW YORK

177

OFFICE CORRESPONDENCE

DATE June 12, 1936.

CONFIDENTIAL FILES

SUBJECT: _____

FROM L. W. Knoke

One of the New York banks just told me orally that they had inquired of Paris as to the real reason for the inactivity on the part of the French Government in the face of the continued flight of capital from France. The answer telephoned from Paris to London and cabled thence stated that the reasons were rifts between the three component parties making up the popular front due to differences of opinion regarding devaluation which, combined with inherent weakness of the leaders, resulted in inability to take decisions.

LWK:KMC

June 12, 1938

HM, Jr. spoke to Cochran by telephone early this morning. He instructed Cochran to inform Cariguel of the Bank of France that the facilities covering the purchase of \$25,000,000 in gold to be earmarked for the Bank of France, which had been offered to the Bank of France over the last week-end, are to be considered as cancelled. This is due to the fact that there is a new set-up in the Bank of France and the Secretary feels that if these facilities are again desired the United States Treasury should be approached by the new administration of the Bank of France.

EXTRACT FROM MR. TAYLOR'S MEMO TO THE SECRETARY June 12, 1936:

I had a call from Phillips late this afternoon about a cable which had just been received from our Charge in Berlin. In effect, German exchange authorities want to send somebody over here to explore the possibilities of either postponing present action or devising some method which would be mutually satisfactory to the two countries. I talked to Johnson about the matter and he is preparing an answer. There is nothing we can do about delaying the application of the existing findings. When it comes down to finding a method it is questionable whether we can pass in advance on any method, but that will be a subject for further consideration.

* * * * *

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUNE 13, 1936.

TO Secretary Morgenthau:

FROM W. R. Johnson, Acting Chief Counsel of Customs.

Re: Countervailing duties on German goods.

Mr. Oliphant has instructed me to communicate directly to you, during his absence, any developments in regard to the recent order relating to countervailing duties on German goods.

On Thursday afternoon, June 11, Dr. Meyer, First Secretary of the German Embassy, talked about the order with Assistant Secretary Gibbons and myself in Mr. Gibbons' office. Meyer had received no communication from his government in regard to the order, probably because Schaact was not in Berlin. He wanted it clearly understood that he was not speaking officially for his government.

Dr. Meyer expressed his appreciation of the courtesy and consideration with which the Treasury had received his past representations. He said he understood that the Treasury acted under the compulsion of a mandatory law, and that any dispute as to the requirements of that law was a matter now to be decided in the courts. With this preface he continued for about two hours to discuss the order and the situation resulting therefrom. Although he expressly refrained from requesting any decision or assurance, his whole discussion amounted in substance to a presentation of three requests:

1. That the effective date of the order be postponed until the possibilities of some adjustment of German-American trade could be explored.

He was advised in this connection that there is no authority of law or precedent for delaying beyond 30 days from the date of publication the effective date of any order imposing new or increased duties. The granting of the 30-day notice in these cases is based solely on a practice which has been followed for many years, and I have been unable to discover a single instance in which the effective date has been longer delayed, although almost every notice has been followed by requests for a longer postponement.

2. That the order be reconsidered with a view to exempting some of the German procedures from its application, or of devising some basis for the continuance of German-American trade.

Dr. Meyer had apparently read the opinion of the Attorney General, although he stated he had not studied it. No purpose would be served by a reconsideration of the procedures covered by that opinion, and I believe this is understood by Dr. Meyer. His discussion of this point afforded an opportunity for me to refer courteously to the difficulties encountered by the Treasury as a result of steps taken by the German Government to prevent disclosure to our agents of the nature and operation of the German procedures. I suggested that full cooperation by the Germans with our efforts to ascertain the facts in connection with each shipment of goods would greatly expedite the settlement of duties and aid our efforts to administer the law with the least possible hindrance to trade.

3. That no addition be made for at least a fortnight to the list of commodities subject to the countervailing duties.

The thought in this connection seemed to be that two or three weeks without any addition to the list would afford a breathing spell for excitement to quiet down and for a calm consideration of the situation. No expression of any kind was made with regard to the plans of the Treasury in this respect. I believe it will be more than two weeks before we shall be prepared to add to the list.

- - - - -

At the meeting of the Executive Committee on Commercial Policy at the State Department on Friday morning, June 12, Secretary Wallace stated that his Department had received requests from cotton exporters that it endeavor to obtain from the Treasury an extension of the effective date of the countervailing duty order. Will Clayton, presumably of the Anderson Clayton Company, was mentioned as the principal applicant.

Secretary Wallace stated that about 100,000 bales of American cotton are contracted for sale to Germany in barter deals involving German goods which cannot reach the United States before July 12, the effective date of the order. It was intimated that enforcement of the order on July 12 would probably result in cancellation of the sales of these 100,000 bales.

Chairman Sayre asked me what would be the probable result if the Executive Committee on Commercial Policy requested the Treasury to give sympathetic consideration to the request that the effective date be postponed. I replied that it had been a practice of the Treasury without any exception to deny every request for the postponement for more than

30 days from the date of publication the effective date of administrative orders resulting in the imposition of new or increased duties. I also stated that several requests for postponement of the effective date of the order had been received; that I was not in a position to state what answer had been made to such requests; and that my recommendation would be that all such requests be denied for the reason that there is no authority of law or precedent for such postponement.

W. R. Johnson

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OFFICE OF THE ATTORNEY GENERAL

June 14, 1936.

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A group met at the home of Secretary Morgenthau for a supper conference.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

Marriner S. Eccles, Chairman of the Board of Governors of the
Federal Reserve System,

John H. Fahey, Chairman, Home Owners' Loan Corporation,

Stewart McDonald, Federal Housing Administrator,

Wm. A. Julian, United States Treasurer,

Stephen B. Gibbons, Assistant Secretary of the Treasury,

Herbert E. Gaston, Assistant to the Secretary,

Guy T. Helvering, Commissioner of Internal Revenue,

Elliott Thurston, Special Assistant to the Chairman of the
Federal Reserve Board,

C.B. Upham, Assistant to the Secretary.

Mr. Gaston read a draft of financial planks which had been prepared as suggestions to be given Senator Wagner at his request for consideration at the Democratic Convention at Philadelphia.

The general opinion of those present was that the document was excellent, although perhaps, longer than would eventually be found desirable, and perhaps not in as good platform language as some reworking might produce.

It was specifically agreed that it would be well to make no mention of the silver program as such in the platform.

It was suggested that something be added with respect to the Banking Act of 1935 and its change from private control of credit to public control.

Mr. Eccles was to furnish suggested language on that point to

Mr. Gaston.

Mr. McDonald stated that in his opinion there should be specific mention of the program of home saving carried out by the Home Owners' Loan Corporation.

Several indicated their agreement that this was one of the most praiseworthy activities of the New Deal.

Mr. Morgenthau suggested that if any of the agencies felt that their own activities should receive more recognition that they send in language to Mr. Gaston.

Mr. Morgenthau expressed his feeling that the section on taxation was not up to the standard set by the other parts of the memorandum and suggested that it be strengthened by material from Mr. Helvering on the efficiency and effectiveness of tax administration by the Bureau of Internal Revenue.

There was some discussion as to the section dealing with prohibition repeal and liquor revenue. Mr. Morgenthau stated that church people are pleased with the honest enforcement of liquor laws by the Treasury and that reference to it has some values.

There was general discussion of the monetary planks adopted by the Republican Convention and some general discussion of the problem of currency stability at home and abroad.

FISCAL AND MONETARY POLICIES

The fiscal and monetary policies of the Roosevelt Administration have been at once courageous and wise. We take pride in the great and essential part they have had in the winning battle against the depression, in rescuing us as a people from bankruptcy and in setting us on the pathway to sound and stable prosperity.

A ruinous deflation, disastrous alike to all classes of our citizens, had been in progress for almost four years when this Administration came into power and, instead of abating, was sweeping to a climax in complete paralysis of the monetary and credit system. There was a panic rush for liquidity of all property values which, in the very nature of things, could not be achieved; foreclosures were multiplying, values were being remorselessly wiped out with irreparable injury both to debtors and to creditors; businesses were going bankrupt; the wave of bank failures was mounting higher and higher; terror had replaced confidence in the strength and future of America; millions were out of employment and clamoring pitifully for aid that was not being granted except in the most grudging and ineffective way. This was the heritage handed over by an Administration that had boasted that it was the guardian of prosperity, an Administration that had sought to serve the powerful few and in the end was found to have served nobody.

Fear, vacillation in high quarters, mismanagement of the Nation's fiscal, monetary and credit problems were largely responsible for the magnitude of the disaster. Realizing that monetary measures undertaken

- 2 -

by European Nations to protect their own people had stifled our trade and were an increasingly menacing threat against our currency reserves, a Republican Administration knew of nothing more effective to do than to tell our European debtors that they could stop making payments to us and to prate about the soundness of a currency system that was already in process of disintegration before their eyes.

It is an unhappy, a mortifying situation to recall -- its grim irony is magnified by a reading of the confused sterilities of the Republican platform of 1932, which yet bears witness to the facts -- but to recall it is necessary for an understanding of what has happened since March 4, 1933.

On that date an Administration with a clear mandate from the people took charge on behalf of the American people. It had a leader gifted with understanding of America's problems, infused with American resourcefulness and American courage, inspired with American patriotism.

As a wise and skillful physician, ministering to a patient desperately ill, the Administration prescribed and with the cooperation of a Congress representing all the people, executed a series of swift measures which arrested the disaster, restored the confidence of the people and enabled them to go forward boldly on the march to a better day. Among the first and most important policies translated into execution were those dealing with monetary, credit and fiscal policies. The menacing drain upon the Nation's monetary reserves was stopped, the deflation of the prices paid for American goods and services was arrested, the dollar was placed in an impregnable position against all attacks, the banking system

- 3 -

was rehabilitated and reborn, new credit machinery was provided to protect alike millions of debtors and creditors and to restore values, and the credit of the Nation was mobilized to provide food and work for the people. The benefits have accrued to those in every walk of life. The steady march of recovery is unbroken.

- 4 -

1. Monetary Action

A domestic credit collapse, aggravated by monetary changes and disturbances abroad, was swiftly draining our monetary system of its gold reserves in 1932 and 1933 and the competition for gold forced prices lower and lower, so that measures both to protect the gold supply and to reverse the price trend had been urgently needed long before the Democratic Administration was charged with responsibility for the Government. Action had to await the coming to power of those with the decision and courage to act. The obvious and necessary first step was that which was taken without delay, to suspend gold payments and call in all monetary gold in the country. The current was turned, further deflation was stopped, a restoration of values set in, the dollar began to assume a more correct relation to foreign currencies, the selling prices of American commodities rose and the markets of the world were once more unlocked to American goods, while at the same time we gained a new measure of protection from the flood of competitive foreign products caused by devaluation of other currencies. The purpose was plainly stated by the President when, in a radio address on May 7, 1933, he said: "The Administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on the average, be able to repay that money in the same kind of dollar which they borrowed. We do not seek to let them get such a cheap dollar that they will be able to pay back a great deal less than they borrowed." This was amplified on July 2, 1933, in a message to the London Economic Conference in which the President said: "Let me be frank in saying that

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the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt paying power as the dollar value we hope to attain in the near future." The objective of a truly sound and stable currency, not subject to the wide fluctuations in value which, periodically throughout American history as the values of monetary metals rose and fell, have robbed in turn wage-earners and creditors on the one hand and debtors on the other, has been pursued steadfastly by this Democratic Administration. In pursuit of that objective the value of the dollar, adjusted to a fairer level by the operation of the gold embargo, was stabilized and under the wise administration of the Gold Reserve Act and the Silver Purchase Act we have built up the most ample metallic monetary reserves any nation has ever possessed. All components of our monetary circulation are now of equal value the world over, our currency possesses greater stability in purchasing power than at any time in our history and we have been placed in a position of unique advantage to deal with any monetary stresses to which the world may expose us. Through the stabilizing of the American currency there was achieved a new measure of de facto stability as between the principal world currencies which points the way toward international understandings to promote not only permanent exchange stabilization but permanent internal stability for all currencies. We believe that this result should be earnestly sought, but under no circumstances should the monetary system and the economic welfare of this country be endangered by the entanglements of any premature international agreement.

We approve without reservation the monetary policies and the monetary acts of the Roosevelt Administration, which will be recorded in American

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history as among the greatest achievements of the American genius and capacity for public affairs. We specifically approve the objective of a permanently sound currency, stable in purchasing and debt-paying power and the means adopted to effect it, including the restoration of silver to its rightful place in the monetary systems of the world.

2. Recovery Expenditures

The latent power of the Nation and the Nation's credit was mobilized to rescue its people from an economic disaster whose magnitude could not be realized until there came into responsibility a National Administration with the courage to seek out the facts and to meet them boldly. The new Administration was faced with the necessity of undertaking Government expenditures on a scale large enough to provide adequate relief for the destitute, to halt foreclosures and to create a flow of money sufficient to bring about restoration of the Nation's economic life. With the burdens of a war concluded fifteen years before still bearing heavily on the National Treasury, adding about a billion and a quarter dollars annually to the Federal Government's costs, some of the selfish, the timorous and the sluggish of our citizens counseled the kind of economy that meant National ruin. They would have sought to protect the National Treasury by forcing the American people into bankruptcy.

An Administration and a Congress truly representing the people turned their backs on that suicidal course. They realized that it is one of the duties and purposes of government to protect its people from disasters against which only governmental action can be effective.

We spent more than forty billions of dollars to carry out our part in the World War and to care for its consequences up to the present day. We are still paying its costs. This Administration has incurred a deficit of about one-sixth of this amount in the National business accounts to combat the depression. This expenditure is but a small fraction of the

increase in the people's wealth which the policies of a Democratic Administration have directly caused. Our National income has grown each year of recovery far more than the amount of the National deficit for that year. The estimated National income for 1936 is twenty billions greater than the National income for 1932. An insupportable burden of private debt has been lifted from the backs of our citizens by the rise in values of all property.

Increase in Federal revenues as well as in private incomes has marked each year of recovery, bearing testimony to the wisdom of the decision that the only sound road to a balanced budget lay through the gateway of a balanced recovery promoted by National action designed to that end. The amount by which expenditures both for the regular activities of government and for relief have exceeded revenue receipts has decreased steadily since the first year of the recovery program. We are moving steadily toward a true balance not only in the budget of the Federal Government, but in the larger budget that represents the adequacy of the people's income to meet the people's needs. We repudiate the narrow concept that would seek to balance Federal income against Federal outgo though the people starve. We indorse and approve the declaration of our great President that the National budget will be in balance just as soon as the needs and abilities of our people make that possible.

3. Financing Recovery

It was necessary that recovery expenditures be financed largely by borrowing rather than by taxation until the National income had been raised to a level that would yield enough to support necessary Government expenditures through taxation. Investors in Government securities have not been misled by the partisan attacks that have been made on the Nation's credit but have assayed the policies of this Administration as constructive. Quoted prices of Government securities have been constantly rising and the average interest rate has declined sharply, so that a rise in the gross public debt has been accompanied in the recovery period by a decreasing interest burden. The interest charges today are materially less than they were in any of the six years immediately following the World War. The latest big issue of Government obligations was sold at the lowest rates of interest and was eagerly oversubscribed many times in a single day. Our war debts have been refunded at lower rates in the midst of the recovery financing and the maturities of the public debt have been carefully spread over a range of years to facilitate repayment. Interest costs to private borrowers have declined and the prices of good commercial securities have risen along with the decline in Government interest rates and rise in the prices of Government securities. This has been an aid to business and has served as an added factor in promoting recovery. We acclaim the wisdom, initiative and prudent commonsense with which these vital fiscal operations have been directed under an Administration representing truly the interests of all the people.

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The Government's credit was never sounder at any time in the Nation's history than it is today.

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4. Banking and Credit

The record of the Roosevelt Administration in strengthening and rebuilding the banking and credit structure of the country commands the admiration of all. In March, 1933, when the Democratic party came into power and responsibility, banking was in a state of complete collapse, the country over. An unprecedented wave of bank failures had brought the fear of panic to our people. Hoarding was widespread. The credit mechanism had broken down. The farmer, the home-owner and the small merchant could not secure loans. Private financial institutions restricted their operations. Foreclosures were bringing social chaos close.

Out of this wreckage a new structure has been built. Sound banks were promptly licensed for reopening. Reorganized and reopened banks were given capital strength through subscriptions to their stock on the part of the Reconstruction Finance Corporation. Bank depositors were given assurance of the safety of their money by the establishment of the Federal Deposit Insurance Corporation, which insures their deposits.

We heartily endorse the record of the Administration in effectively reestablishing the banking business of the country upon a sound basis, in assuring to depositors safety of their funds, and in the restoration of normal credit activities.

Confidence has been restored. Bank deposits have shown a strong and steady increase. Bank losses have been turned into bank earnings. Bank failures have been stopped. The thousands which closed their doors during the twelve years of Republican misrule are being liquidated. Deposits in closed banks have been made available to their owners speedily,

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through loans against assets, the assets themselves being disposed of gradually to the better advantage of depositors.

Not only were the private financial institutions of the country given strength and safety. The Federal Government stepped into the breach caused by their temporary inability to meet the credit needs of business and the people. It has supplemented their activities in ways essential to the continued life of the Nation. While the Reconstruction Finance Corporation provided needed funds to innumerable lines of business activity, the needs of the common man were also considered and met. Through the nation-wide operations of the home-saving and home-financing agencies of the Government, millions of homes have not only been saved for those who struggled to acquire them, but real estate values have been revived, and the construction of new homes stimulated. Enormous losses to millions whose savings were invested in mortgages have been averted through assistance extended to banks, insurance companies, savings and loan associations and other financial institutions.

The credit needs of the farmer have had attention. Private financial institutions had withdrawn almost completely from this field. A comprehensive and integrated system to care for the long and short term credit requirements of Agriculture has been established. Under the wise administration of the Farm Credit Administration thousands of foreclosures have been averted, hard pressed farm borrowers have been given extensions of time, interest rates have been reduced and emergency loans have been granted.

5. Taxation

The Democratic party proclaims its continued adherence to the justice of the principle of taxation according to ability to pay and benefits received. This Administration in 1933 inherited a tax structure that bore too heavily proportionately on those least able to pay and permitted avoidance of their just share of taxation by those who receive the greatest benefits from the American system. A basic policy of this Democratic Administration has been to correct this injustice as rapidly as conditions permit by reducing the proportion of taxes on consumption, which bear most heavily on the poor, and stopping the channels of avoidance of surtaxes on large incomes. Honest and zealous administration of the Federal tax laws since 1933 has also promoted justice in taxation and increased the revenues. While lesser objectives, such as the simplification of our tax laws and their administration will not be neglected, the Democratic party pledges itself to the larger objectives of greater justice and equity in our tax structure. Problems under study to this end include the proper treatment of tax-exempt securities and the coordination of the Federal system of taxation with state and local ones.

6. Prohibition Repeal

The debauchery of our National life brought about by the Prohibition amendment and the hypocritical gestures at enforcing it made by previous administrations has been ended. The results justify the bold stand for repeal in which the Democratic party expressed the judgment of the American people. Regulation of the liquor traffic under repeal with honest and vigorous enforcement has reestablished respect for law, has improved social conditions and has brought more than a billion dollars into the Federal Treasury, besides providing a source of additional revenue to localities. The Democratic party pledges continued cooperation with and aid to the States, their subdivisions and their citizens in finding and enforcing methods of dealing with the liquor problem best suited to local conditions.

Draft II. Sunday night June 14, 1936

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FISCAL AND MONETARY POLICIES

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A ruinous deflation, disastrous alike to all classes of our citizens, had been in progress for almost four years when this Administration came into power and, instead of abating, was sweeping to a climax in complete paralysis of the monetary and credit system. There was a panic rush for liquidity of all property values which, in the very nature of things, could not be achieved; foreclosures were multiplying, values were being remorselessly wiped out with irreparable injury both to debtors and to creditors; businesses were going bankrupt; the wave of bank failures was mounting higher and higher; terror had replaced confidence in the strength and future of America; millions were out of employment and clamoring pitifully for aid that was not being granted except in the most grudging and ineffective way. This was the heritage handed over by an Administration that had boasted that it was the guardian of prosperity, an Administration that had sought to serve the powerful few and in the end was found to have served nobody.

Fear, vacillation in high quarters, mismanagement of the Nation's fiscal, monetary and credit problems were largely responsible for the magnitude of the disaster. Realizing that monetary measures undertaken by European Nations to protect their own people had stifled our trade and were an increasingly menacing threat against our currency reserves, a Republican Administration knew of nothing

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more effective to do than to tell our European debtors that they could stop making payments to us and to prate about the soundness of a currency system that had failed to fulfill its proper functions and to protect the national economy in a time of crisis.

This was the situation when an Administration with a clear mandate from the American people assumed responsibility on March 4, 1933, and executed a series of swift measures which arrested the disaster, restored confidence and enabled the Nation to go forward boldly on the march to a better day. Among the first and most important policies translated into execution were those dealing with monetary, credit and fiscal policies. The menacing drain upon the Nation's monetary reserves was stopped, the deflation of the prices paid for American goods and services was arrested, the dollar was placed in an impregnable position against all attacks, the banking system was rehabilitated and reborn, new credit machinery was provided to protect alike millions of debtors and creditors and to restore values, and the credit of the Nation was mobilized to provide food and work for the people. The benefits have accrued to those in every walk of life. The steady march of recovery is unbroken.

1. Monetary Action

The objective of a truly sound and stable currency, not subject to the wide fluctuations in value which, periodically throughout American history as the values of monetary metals rose and fell, have robbed in turn wage-earners and creditors on the one hand and debtors on the other, has been pursued steadfastly by this Democratic Administration, with the result that we now have the soundest currency in the world and the most ample monetary reserves any Nation has ever possessed. All components of our monetary circulation are now of equal value the world over. Our currency possesses greater stability in purchasing power than at any time in our history and we have been placed in a position of unique advantage to deal with any monetary stresses to which the world may expose us. Through the stabilizing of the American currency there has been achieved a new measure of de facto stability as between the principal world currencies which points the way toward international understandings to promote not only permanent exchange stabilization but permanent internal stability for all currencies. We believe that this result should be earnestly sought, but under no circumstances should the monetary system and the economic welfare of this country be endangered by the entanglements of any premature international agreement.

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4. Banking and Credit

The record of the Roosevelt Administration in strengthening and rebuilding the banking and credit structure of the country commands the admiration of all. In March, 1933, when the Democratic party came into power and responsibility, banking was in a state of complete collapse, the country over. An unprecedented wave of bank failures had brought the fear of panic to our people. Hoarding was widespread. The credit mechanism had broken down. The farmer, the home-owner and the small merchant could not secure loans. Private financial institutions restricted their operations. Foreclosures were bringing social chaos close.

Out of this wreckage a new structure has been built. Sound banks were promptly licensed for reopening. Reorganized and reopened banks were given capital strength through subscriptions to their stock on the part of the Reconstruction Finance Corporation. Bank depositors were given assurance of the safety of their money by the establishment of the Federal Deposit Insurance Corporation, which insures their deposits.

We heartily endorse the record of the Administration in effectively reestablishing the banking business of the country upon a sound basis, in assuring to depositors safety of their funds, and in the restoration of normal credit activities.

Confidence has been restored. Bank deposits have shown a strong and steady increase. Bank losses have been turned into bank earnings. Bank failures have been stopped. The thousands which closed their doors during

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the twelve years of Republican misrule are being liquidated. Deposits in closed banks have been made available to their owners speedily, through loans against assets, the assets themselves being disposed of gradually to the better advantage of depositors.

Not only were the private financial institutions of the country given strength and safety. The Federal Government stepped into the breach caused by their temporary inability to meet the credit needs of business and the people. It has supplemented their activities in ways essential to the continued life of the Nation. While the Reconstruction Finance Corporation provided needed funds to innumerable lines of business activity, the needs of the common man were also considered and met. Through the nation-wide operations of the home-saving and home-financing agencies of the Government, millions of homes have not only been saved for those who struggled to acquire them, but real estate values have been revived, and the construction of new homes stimulated. Enormous losses to millions whose savings were invested in mortgages have been averted through assistance extended to banks, insurance companies, savings and loan associations and other financial institutions.

The credit needs of the farmer have had attention. Private financial institutions had withdrawn almost completely from this field. A comprehensive and integrated system to care for the long and short term credit requirements of Agriculture has been established. Under the wise administration of the Farm Credit Administration thousands of foreclosures have been averted, hard pressed farm borrowers have been given extensions of time, interest rates have been reduced and emergency loans have been granted.

5. Taxation

The Democratic party proclaims its continued adherence to the justice of the principle of taxation according to ability to pay and benefits received. This Administration in 1933 inherited a tax structure that bore too heavily proportionately on those least able to pay and permitted avoidance of their just share of taxation by those who receive the greatest benefits from the American system. A basic policy of this Democratic Administration has been to correct this injustice as rapidly as conditions permit by reducing the proportion of taxes on consumption, which bear most heavily on the poor, and stopping the channels of avoidance of surtaxes on large incomes. Honest and zealous administration of the Federal tax laws since 1933 has also promoted justice in taxation and increased the revenues. While lesser objectives, such as the simplification of our tax laws and their administration will not be neglected, the Democratic party pledges itself to the larger objectives of greater justice and equity in our tax structure. Problems under study to this end include the proper treatment of tax-exempt securities and the coordination of the Federal system of taxation with state and local ones.

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8. Prohibition Repeal

The debauchery of our National life brought about by the Prohibition amendment and the hypocritical gestures at enforcing it made by previous administrations has been ended. The results justify the bold stand for repeal in which the Democratic party expressed the judgment of the American people. Regulation of the liquor traffic under repeal with honest and vigorous enforcement has reestablished respect for law, has improved social conditions and has brought more than a billion dollars into the Federal Treasury, besides providing a source of additional revenue to localities. The Democratic party pledges continued cooperation with and aid to the States, their subdivisions and their citizens in finding and enforcing methods of dealing with the liquor problem best suited to local conditions.

Draft III.

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FISCAL AND MONETARY POLICIES

When this Administration came into power, a ruinous deflation had been in progress for almost four years and, instead of abating, was sweeping to a climax in complete paralysis of the monetary and credit system. There was a panic rush for an unattainable measure of liquidity of all property values; foreclosures were multiplying; values were being remorselessly wiped out with irreparable injury both to debtors and to creditors; businesses were going bankrupt; the wave of bank failures was mounting higher and higher; terror had replaced confidence in the strength and future of America; millions were out of employment and clamoring pitifully for aid that was not being granted except in the most grudging and ineffective way. This was the heritage handed over by an Administration that had boasted that it was the guardian of prosperity. Fear, vacillation in high quarters, monetary and credit mismanagement, were largely responsible for the magnitude of the Nation's troubles. Realizing that monetary measures undertaken by European Nations to protect their own people had stifled our trade and were an increasingly menacing threat against our currency reserves, a Republican Administration knew nothing more effective to do than to prate about the soundness of a currency system that had failed to protect the national economy in a time of crisis.

The fiscal and monetary policies which the Roosevelt Administration adopted to deal with this emergency were both courageous and wise. We take pride in the great and essential part they have had in winning the battle against depression and in setting us on the pathway to sound

and stable prosperity.

The menacing drain upon the Nation's monetary reserves was stopped, the deflation of the prices paid for American goods and services was arrested, the dollar was placed in an impregnable position against all attacks, the banking system was rehabilitated and reborn, new credit machinery was provided to protect alike millions of debtors and creditors and to restore values, and the credit of the Nation was mobilized to provide food and work for the people. The benefits have accrued to those in every walk of life. The depression was broken and a steady march toward prosperity substituted in its stead.

1. Monetary Action

The objective of a truly sound and stable currency, not subject to the wide fluctuations in value which, periodically throughout American history, have robbed in turn wage-earners and creditors on the one hand and farmers, debtors and all property owners on the other, has been pursued steadfastly by this Democratic Administration. We now have the soundest currency in the world and the most ample monetary reserves any Nation has ever possessed. We are now in a position of unique advantage to deal with any monetary stresses to which the world may expose us. Through the stabilizing of the American currency there has been achieved a new measure of de facto stability as between the principal world currencies which points the way toward international understandings to promote not only permanent exchange stabilization but permanent internal stability for all currencies. We believe that this result should be earnestly sought, but under no circumstances should the economic welfare of this country be sacrificed to premature international commitments.

We approve without reservation the monetary policies and the monetary record of the Roosevelt Administration, which will be recorded in American history as among the greatest achievements of the American genius and capacity for public affairs. We specifically approve the objective of a permanently sound currency so stabilized as to promote full utilization of the country's resources and equitable relations between debtor and creditor.

2. Recovery Expenditures

Until the Roosevelt Administration came into office, with the courage to seek out the facts, and to face them boldly, the American people were not aware of the magnitude of the economic disaster which threatened them, and the far-reaching character of the governmental action necessary if the disaster was to be avoided. The new Administration was faced with the necessity of undertaking Government expenditures on a scale large enough to provide adequate relief for the destitute, to halt the avalanche of foreclosures and to create a flow of money sufficient to bring about restoration of the Nation's economic life. The responsibility was boldly accepted. The latent power of the Nation and the Nation's credit was mobilized to rescue its people from an economic disaster. To combat the depression and to strengthen the national defenses, net additions to the public debt were incurred which are but a small fraction of what the World War cost us and but a small fraction of the increase in the people's wealth which has resulted directly and indirectly from the policies of the Democratic Administration. It was a highly profitable investment which has returned ample dividends to the American people. Our national income has grown each year of recovery by far more than the amount of the gross national deficit for that year. The estimated national income for 1936 is twenty billions greater than the national income for 1932. An insupportable burden of private debt has been lifted from the backs of our citizens by the rise in values of all property.

Increase in Federal revenues as well as in private incomes has marked each year of recovery, bearing testimony to the wisdom of the decision that the only sound road to a balanced budget lay through the gateway of a balanced recovery promoted by national action designed to that end. The amount by which expenditures both for the regular activities of government and for relief have exceeded revenue receipts has decreased each year of the recovery program. We are moving steadily toward our goal of a true balance in both the budget of the Federal Government and the larger budget that represents the adequacy of the people's income to meet the people's needs.

3. Financing Recovery

It was necessary that recovery expenditures be financed largely by borrowing rather than by taxation until the National income had been raised to a level sufficient to yield without hardship and without retarding recovery enough tax revenue to support necessary Government expenditures. Investors in Government securities have not been misled by the partisan attacks that have been made on the Nation's credit but have assayed the policies of this Administration as constructive. Quoted prices of Government securities have been constantly rising and the average interest rate has declined sharply, so that a rise in the gross public debt has been accompanied in the recovery period by a decreasing interest burden. The interest burden of the National debt is today materially less than it was in any of the six years immediately following the World War. The latest big issue of Government obligations was sold at the lowest rates of interest and was eagerly oversubscribed many times in a single day. Our war debts have been refunded at lower rates in the midst of the recovery financing and the maturities of the public debt have been carefully spread over a range of years to facilitate repayment. Interest costs to private borrowers have declined and the prices of good commercial securities have risen along with the decline in Government interest rates and rise in the prices of Government securities. This has been an aid to business and has served as an added factor in promoting recovery. We acclaim the wisdom, initiative and prudent commonsense with which these vital operations have been directed under an Administration representing truly the interests of all the people. The Government's credit was never sounder at any time in the Nation's history than it is today.

4. Banking and Credit

The record of the Roosevelt Administration in strengthening and rebuilding the banking and credit structure of the country commands the admiration of all. In March, 1933, when the Democratic party came into power and responsibility, banking was in a state of complete collapse, the country over. An unprecedented wave of bank failures had brought the fear of panic to our people. Hoarding was widespread. The credit mechanism had broken down. The farmer, the home-owner and the small merchant could not secure loans. Private financial institutions restricted their operations. A wave of foreclosures was threatening social chaos and menacing the security of our Democratic institutions.

Out of this wreckage a new credit structure has been built. Sound banks were promptly licensed for reopening. Reorganized and reopened banks were given capital strength through federal loans and subscriptions to their stock. Bank depositors were given assurance of the safety of their money by the establishment of the Federal Deposit Insurance Corporation, which insures their deposits.

The Federal Reserve System, with its great power over the monetary system as well as the credit system of the Nation was brought under direct public control.

We heartily endorse the record of the Administration in effectively reestablishing the banking business of the country upon a sound basis, in assuring to depositors safety of their funds, and in the restoration of normal credit activities.

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Confidence has been restored. Bank deposits have shown a strong and steady increase. Bank losses have been turned into bank earnings. Bank failures have been stopped. The liquidation of the thousands of banks which had closed their doors during the twelve years of Republican administration has been carried out in an orderly and economical way and has been almost completed, with minimal loss to depositors.

The Federal Government not only restored strength and security to the private financial institutions of the country, but it stepped into the breach caused by their temporary inability to meet the credit needs of business and the people. Not only were needed funds provided to innumerable lines of business activity, but the shelter of the Nation's credit was thrown about millions of distressed farms and home owners.

Through the nation-wide operations of the Home Owners' Loan Corporation and the Federal Housing Administration millions of homes have not only been saved for those who struggled to acquire them, but real estate values have been revived, and the construction of new homes stimulated. Enormous losses to millions whose savings were invested in mortgages have been averted through assistance extended to banks, insurance companies, savings and loan associations and other financial institutions.

The credit needs of the farmer have been given sympathetic attention. Private financial institutions had withdrawn almost completely from this field. A comprehensive and integrated system to care for the

long and short term credit requirements of Agriculture has been established. Under the wise administration of the Farm Credit Administration thousands of foreclosures have been averted, hard pressed farm borrowers have been given extensions of time, interest rates have been reduced and emergency loans have been granted.

A new resource and a new protection has been given to small borrowers through the creation of a National system of credit unions.

The Democratic party takes unbounded pride in this great record of governmental service to all the people.

6. Prohibition Repeal

The debauchery of our National life brought about by the Prohibition Amendment and the hypocritical gestures at enforcing it made by previous administrations has been ended. The results justify the bold stand for repeal in which the Democratic party expressed the judgment of the American people. Regulation of the liquor traffic under repeal with honest and vigorous enforcement has reestablished respect for law, has improved social conditions, and has brought more than a billion dollars into the Federal Treasury, besides providing a needed source of additional revenue to States and localities. The Democratic party pledges continued cooperation with and aid to the States, their subdivisions, and their citizens, in finding and enforcing methods of dealing with the liquor problem best suited to local conditions.

June 15, 1938

I called Cochran this morning and he said that the strikes in Paris have quieted down, but in the seaport towns they were still pretty bad.

He told me that the French Minister of Finance was going to declare his policy before Parliament on Thursday and Cochran urged me very strongly that I permit him to go and see Auriol and tell him about my conversation with the British and that the British will not do anything unless the French approach them. I hesitated for quite a while, but he kept urging me and said that if the French had this information now it might make a decided difference in what Auriol said on Thursday, so I finally agreed and told Cochran that he could tell Auriol of my conversation with the British and that the British wanted the French to approach them direct; furthermore, that the British and ourselves were in agreement as to the percentage of devaluation that the two of us could stand. (I did not mention the percentage to Cochran.) Furthermore, if my advice was asked by the French, I would strongly urge them to devalue now because from the international standpoint of world currencies it seemed to me that this was the most opportune time for the French -- and how could they tell what the situation would be six months from now?

Then Cochran urged me to let him talk to the Dutch and Swiss, and after considerable urging I agreed. As Cochran said, if the Dutch and Swiss knew of my conversation with the British, they in turn might bring pressure on the French to devalue. I told Cochran that I felt we could lose nothing by his talking to the Swiss and Dutch and might gain something. I also told him not to write the Swiss and Dutch, but to telephone.

I asked him to 'phone me after he had seen Auriol.

June 15, 1936

HM, Jr. called the President at 2:40 p.m. He said, "I know you are talking to all the leaders."

"It came over the ticker that Thomas, of Oklahoma, has introduced a resolution extending the Stabilization Fund for two years."

(Dow-Jones 2:15 p.m.)

June 15, 1936

Thomas introduces resolution to continue Stabilization Fund.

Sen. Thomas introduced in the Senate a resolution to continue the \$2,000,000,000 Stabilization Fund for 2 years from January 30, 1937, when it now expires. The Fund would continue under the authority of the Secretary of the Treasury.

"Now that it has been introduced, we will have to see it through. I talked to McNary and he said he had no objections and asked me to talk to Vandenberg, which I did and he said to me at the time, 'I will have to talk about it, but will only object for about five minutes'. It just cannot be defeated. Anything you can do would be grand."

"Bob Doughton said that it is too late to do anything about FAA."

June 15th

A meeting was held in Secretary Morgenthau's office at 11:30 this morning on Income Taxes. The following were present:

Mr. McReynolds Mr. Helvering Mr. Russell Mr. Mires

Mr. Morgenthau: I like to start with the oldest cases.

Mr. Helvering: Could I give you an idea of how we stand? We keep a monthly record on this thing. It is brought up to date every week-end - all years - 1932 and prior to that. During that period there were 90 million returns filed.

Mr. Morgenthau: 90 million?

Mr. Helvering: 90 million returns filed.

Mr. Helvering: Of the original cases there are still open 3,185 of this 90 million. There have been some reopened cases but to go over and check all the refund claims and fraud cases - everything put together there are 12,140 out of the 90 million.

Mr. Morgenthau: 12,000 prior to '32?

Mr. McReynolds: Over three years old - 1932 and prior years.

Mr. Morgenthau: That is just income tax cases?

Mr. Helvering: Yes - all income taxes. When we come to '33 there has not been that many settled yet.

Mr. Morgenthau: Does this include '32 or '33 original?

Mr. Helvering: For 1933 there are 6,226 original cases - open total 13,270 including those original returns, reopened cases and fraud cases. Of course when you get down to '34 - those are the ones we are examining now - that jumps to 323,000. 5,535 open but not examined.

Mr. Russell: Just coming out of the field now.

Mr. Helvering: This don't include the 9,000 pending in the Board of Tax Appeals. I do not know what years are affected there. It is not carried in this tabulation.

Mr. McReynolds: We can't do anything about that now. You can't withdraw them.

Mr. Morgenthau: Oh no.

Mr. Helvering: The thing we are working for is to get these more up to date.

Mr. Morgenthau: Yes.

Mr. Helvering: And the only thing we have open in any amount is the '34 and '35.

Mr. Morgenthau: Well the fact remains that the most difficult ones are the ones back of '32.

Mr. Russell: Some of those old cases are held pending Board decisions.

Mr. Morgenthau: Yes but 3200 cases are not now in the Board of Tax Appeals.

Mr. Russell: That's right.

Mr. Morgenthau: What I'd like to do - I'd like to have these 3200 cases prior to '32 broken down - what kind of cases they are, where they are, what is holding them up and all that kind of stuff.

Mr. Helvering: In the field there are 2,735 examinations for claims for refund.

Mr. Morgenthau: Would that be included in the tax year '32?

Mr. Helvering: Yes.

Mr. Helvering: Total number of all those - '32 and prior, including original cases that have not been finally disposed of - claims for refund - fraud cases - total number - everything except Board of Tax Appeals is 12,140 out of the 90 million.

Mr. Morgenthau: I mean what is - there must be so many fraud - so forth and so on. I would like that thing broken down so I can sit down with you and see where it is. A lot of them will be thrown into the Board of Tax Appeals. It will take time to bring this down.

Mr. Russell: I would say three or four days Mr. Secretary. We have a breakdown now to some extent.

Mr. Helvering to Mr. Russell: You will have to get that in more detail for what he wants.

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Mr. Morgenthau: After all, you take a business man who had a case along in '31 or '32 and it involved a lot of money. The thing is hanging over his head. There is nothing more depressing than that.

Mr. Helvering: I am not making this as an alibi or in defense of the Bureau.

Mr. Morgenthau: The criticism is on me. I have given it so little attention. With the exception of the first few months when I was here and used to have those things brought up - Magill brought them in - I have been completely out of touch - it has not been humanly possible.

Mr. Helvering: These fellows that complain - I am safe in saying that 90% of them is the refusal on the part of the taxpayers' attorneys to submit evidence which they are contesting. I think 100% would be better.

Mr. Morgenthau: I think I am partly to blame. The attitude of the Bureau has been a little bit difficult. They have been tried in the Courts.

Mr. Russell: That is the reason why we have these cases because we are unwilling to throw them into the Courts.

Mr. Morgenthau: I want to start with '32 or prior and throw myself into this. I want to be helpful. I am not sitting here saying this, that or the other thing. I would like to get after anything of '32 or previous.

Mr. Helvering: May I detail one case for you?

Mr. Morgenthau: Sure.

Mr. Helvering: The International Paper Company. That is open for all these years. I am not positive for '17 but I know '18 and clean up to the present time the International Paper Company claim for refunds - '18, '19, '20 and '21 over a million dollars and they have refused to make any adjustment we plan. Well we can't give them a refund.

Mr. Morgenthau: Why not?

Mr. Helvering: They are not entitled to it. The Treasurer of that company explained to me that he has spent over \$450,000 fighting this case.

Mr. Russell: They are making a fight for us to give them a refund in those previous years to which they are not entitled.

Mr. Morgenthau: I see.

Mr. Helvering: Of course we had a hearing with them a couple of weeks ago and we told them it had to break.

Mr. Russell: It would be useless if we sent them to the Board. It would take a Member of the Board a year to work on the case.

Mr. Morgenthau: Let's leave it this way - if you have something this week I would like to have another meeting with you. Then Russell could do this thing. I want a simple chart showing the routine - what happens to these cases - how they gradually go through - just what happens to them. I mean the organization chart on cities on this thing - how many people they have to go through and all that - what is the machinery? Does it go to the General Counsel's office or is there a bottle-neck that is holding this thing up?

Mr. Helvering: I started in some time ago to prepare you a memorandum. This is not criticism of the General Counsel's office - it is just a statement of fact - the General Counsel's office together with the office here does help settle the case but in a great many cases it unduly delays them.

Mr. Morgenthau: Well it don't come to my immediate office does it ?

Mr. McReynolds: Of course your compromise and refund settlements - unless there is some point involved that is entirely new ----

Mr. Morgenthau: How many are there around here?

Mr. McReynolds: After they come from the lawyers' group they don't stay here 24 hours.

Mr. Helvering: No - they come right back to us.

Mr. Morgenthau: Well I would like to have a very simple working chart.

Mr. Helvering: It is not so very darn simple. We can outline the steps it takes.

Mr. McReynolds: In the breakdown you will get most of that. That will show what stage the cases are in.

Mr. Morgenthau: Now you get my attitude on that?

Mr. Helvering: Oh absolutely and I am in accord with you.

Mr. Morgenthau: This is not true in miscellaneous taxes? They are not slowing up in this way?

Mr. Russell: All those to the Board but not a lot of them.

Mr. Morgenthau: Anything in your Bureau '32 or older I would like to go into with you.

Mr. McReynolds: I had in mind to ask but I know that the bulk of the stuff is all here.

Mr. Russell: You want this chart - the movement of the work?

Mr. Morgenthau: Yes - and have Miscellaneous Tax too.

Mr. Helvering: I would like to have this so that right now - first of this month - we would have nothing to do except '35 and the thing that you started is looking to that end.

Mr. Russell: We did not get the money for that program but we are looking to advance the program. In 1934 I went over there and asked for an appropriation to hire agents. With the 750 million we we would obtain Collectors to collect immediately approximately 11 million for the 11 months. A month to go and it has run 60 million additional taxes and 11 million agreed taxes to collect and yet we have a month to go.

Mr. Morgenthau: That one group that you sent out on the job - was that Cleveland or Detroit?

Mr. Helvering: Cleveland.

Mr. Morgenthau: Did they take back taxes?

Mr. Helvering: Oh yes - everything in that division.

Mr. Morgenthau: I thought they finished it.

Mr. Helvering: Oh no, we just started April 15th. That will continue right along.

Mr. Morgenthau: How many men on that?

Mr. Russell: Not very many men on that.

Mr. Morgenthau: Has it gone far enough to prove it a success?

Mr. Russell: No - it will take a year. They started issuing the 90 day letter in the division after April 15th. The taxpayer gets 90 days to file an appeal and to file an answer so we can't tell about the success of it.

Mr. Morgenthau: Just as soon as you are ready give me a ring.

Mr. Helvering: Did you read over those two memorandums?

Mr. Morgenthau: Yes - I read everything you give me.

Monday
June 15, 1936 (9:30 a. m.)

HMjr: Let me ask you something which I think you can do -
Kenneth C. Hogate: Yes

HMjr: I know that newspaper publishers hate to do it though.
H: Well, if I can I will, you bet.

HMjr: Well, here's the point, Duffield wrote a very excellent story on Friday -
H: Yes

HMjr: - in regard to the United States and England getting together -
H: Yes

HMjr: I
H: That was a week or so ago, you mean?
HMjr: No, it was this - it was either Friday or Saturday.
H: Friday or Saturday? - Well now, I haven't seen that because I have been out of town.
HMjr: Well, it was either Friday or Saturday.
H: Yes

HMjr: And I'm always a little bit disturbed when people write those kind of stories which get into the International field as to whether it's something which he was just shrewd enough to dope out or whether somebody was talking, see?
H: Yes

HMjr: Now, it's pretty important for me and if you feel you could tell me I can give you my assurance that it goes no further than my own self.
H: All right, I'll be glad to do it - I don't know now Mr. Secretary, I haven't even seen the story but I'll look into it and call you back later in the day?
HMjr: Well, he may just be a smart boy at doping out -
H: Yes

HMjr: But on the other hand if something comes out in the "London Economist" of that kind why everybody gets excited and they think that it's the British Treasury talking and if they see it in a paper - the Wall Street Journal, they think most likely that it's semi-official.

H: Yes

HMjr: You see what I mean?

H: I see entirely.

HMjr: And I just - if - if somebody tipped him off he'll unquestionably tell you.

H: Yes

HMjr: It's just, I've got to be up on, so to speak, on top of the job.

H: Yes, I appreciate that.

HMjr: And that's my only reason. And I want to say as far as Duffield is concerned he is one of the ablest that come into the Treasury.

H: Well, fine, I'm glad to have you say that. Well now I'll get hold of him and call you back later in the day, Mr. Secretary.

HMjr: Thank you very much.

H: All right, sir.

HMjr: Thank you.

H: Goodbye.

Monday
June 15, 1936 (Morning)

HMjr: Hello

Operator: Mr. Hoguet
Kenneth C.

Hogate: Hello, Mr. Secretary

HMjr: Hello, Mr. Hogate

H: I talked with Duffield just now.

HMjr: Yes

H: He says he got the tip on that story from London.

HMjr: Oh -

H: And that with what he got from London all he needed was his background so he didn't talk to anybody in the Treasury Department about any specific part of the story.

HMjr: Well, that's all right. - That's all -

H: So, I am glad to tell you that because I know it will make you feel better.

HMjr: Yes, because -- I mean I'd have been disturbed if somebody had given him the tip here.

H: Yes - well there was a tip came from London.

HMjr: Well that's all right.

H: All right.

HMjr: And I'll - and I'll keep it as confidence.

H: Well, thank you so much, because (Laughs) it looked like a good story and we were darn glad to have it of course.

HMjr: It's all right.

H: Yes

HMjr: I mean - but I just wanted to - you understand, -

H: Oh, I understand perfectly and there was no - there was no violation of confidence in your department at all because - it all initiated in London.

HMjr: Swell - thank you.

H: All right. Are you going to be in the country before long?

HMjr: Well, I hope to get up next weekend but it depends upon this Congress down here.

H: Yes, I wish they'd get out of there.

HMjr: Me too -

H: (Laughs) Well I hope to see you during the summer.

HMjr: Thank you.

H: Thank you, Mr. Secretary.

HMjr: Goodbye.

H: Goodbye.

Monday
June 15, 1936 (Morning)

HMjr: Hello

Operator: Congressman Doughton -

HMjr: Hello -

D: Hello

HMjr: Morgenthau talking -

D: All right, Mr. Secretary.

HMjr: How are you?

D: All right, thank you, how are you getting along?

HMjr: Well, I'm getting on all right, how are you?

D: Oh - it has been going along pretty slowly, pretty slowly, but it's still going along this term.

HMjr: What do you think is going to happen on the tax bill?

D: Well, I'm hopeful that we will get together by tomorrow or something, I don't know though -

HMjr: Yes

D: The Boss will be back today, won't he?

HMjr: Yes, at twelve o'clock.

D: We'll have another meeting this morning at ten o'clock -

HMjr: Yes

D: And I am hoping that the ice will begin to give way a little.

HMjr: Yes

D: But I just don't know.

HMjr: Let me ask you something, I want a little advice.

D: Well -

HMjr: Over the week end I got a thought that I wanted to talk about to the President if you thought it was all right. And that is - I know it's a last minute thought - and that is this idea of keeping the Federal Alcohol Commission in the Treasury as part of the

Alcohol Tax Unit, part of Internal Revenue. This idea of this thirty-seventh agency, independent agency - it just goes against my grain.

D: Well, we - you knew we had agreed --

HMjr: I know.

D: - we knew what we had agreed on this, just to be independent and have a board -

HMjr: Yes

D: We finally yielded to the Senate on that.

HMjr: Well, how would you feel about it, supposing -- ?

D: How is that?

HMjr: How would you feel about it personally, supposing the President should change his mind, is it too late?

D: - Well, I don't know whether it would be or not. I wouldn't even say we were able to reconsider it. I'm fearful it's too late. The conferees all agreed to sign the report.

HMjr: Yes - have you - is it out of your hands?

D: I think it is, that's my opinion - it's out of my hands.

HMjr: Well you personally, as I remember it, last year always wanted to keep the thing in the Treasury, didn't you?

D: Oh yes, I wanted to keep it in the Treasury all the time and until the President sent for me at the beginning of this session of Congress and made an appeal to me and urged that it be made an independent issue, and I have agreed to it.

HMjr: Yes - you don't suppose you could let it go for one day, just today?

D: How is that?

HMjr: Is it, I mean, you don't suppose you could let it slide for one day?

D: Well, I'm afraid it's gone too far. I'll look into it a little further and call you back.

HMjr: I haven't spoke to another living soul about it on the Hill - nobody knows about it but you.

D: Well, I'll find out, but I'm under the impression that it's gone too far by now.

HMjr: Would you mind looking into it?

D: I'll be glad to. I'll look into it and call you back sometime about noon today.

HMjr: Thank you.

D: All right, thank you.

Monday
June 15, 1936
2:20 p. m.

HMjr: Operator:
Operator: Here you are.
Sam
Hill: Hello
HMjr: Hello
H: Mr. Secretary?
HMjr: Talking -
H: This is Hill.
HMjr: Yes
H: About that separate agency on the Federal Alcohol Control, Hester was telling me that you wanted to talk to me before we did anything about bringing up the conference report.
HMjr: That's right. Now, since then I've talked to the President, see? - Hello?
H: Yes, I'm listening.
HMjr: And he said as far as he is concerned if I feel strongly about it why he's perfectly agreeable to leave it in the Treasury. He said that I can say that - quote him as saying so.
H: Yes, well it's pretty late now to do that.
HMjr: I know. And I've gotten kind of worried because I've already seen the boys begin to buzz that the source of the thing is going to get out.
H: Yes
HMjr: I know it's late and I - of course you've got every right to say, 'Well, why didn't you think about it earlier?' Well, of course I have and I couldn't get anywhere -
H: Yes
HMjr: But this is going to be the thirty-seventh independent agency and I'm afraid we're going to be awfully criticized for it.
H: Yes, well you know we've fought - we've fought against that and we have fought against everybody else.

HMjr: I know, I know -

H: - in the Treasury.

HMjr: I know.

H: This time everybody apparently wanted it out so we took it out.

HMjr: Well, I'm not - I can't say much other than if it isn't too late I'd still like to have it left in the Treasury and it's all right with the President if you'll take my word for it.

H:

HMjr: Yes

H: And we didn't on it, but we've just got to go through with it. I don't see how we can get out of it now.

HMjr: I see, well, I know it's - I'm sorry but I couldn't - my hands were tied.

H: Yes, well if you next year if you're not satisfied with the change.

HMjr: You think it's too late?

H: It's gone so far we can't do anything about it. I've been conferring with other members of our committee and they - they all express that same sentiment.

HMjr: All right - well we can't blame anybody but ourselves.

H: Yes

HMjr: And I couldn't move, my hands were tied.

H: Yes, well we thought - we understood that you wanted division, you know.

HMjr: No, well I never said, I mean I - last year - I never said anything this year, but last year first they'd say one thing and then they'd say another so I just kept my mouth shut.

H: And McIntyre called me up and I think he called every member of the conference up and told us that the President was very anxious to have this a separate agency - That's when we were in conference, you know?

HMjr: Yes

H: And we agreed to make it one.

HMjr: Yes

H: bulk of the administration

HMjr: Well, there's no question that the President did want it a separate agency.

H: Yes

HMjr: But I talked to him about it and I said, 'I think it's too late', but I said, 'If it isn't too late would you object?' And he said, 'No, but' he said, 'I wouldn't make any fuss about it'.

H: Yes, well it's just too late. I don't see how we could possibly do it.

HMjr: I see. Well, I appreciate your calling me anyway. Is Mr. Doughton there with you?

H: No he isn't here with me but I've talked with him about it.

HMjr: Well, I said I'd call him back after I'd gotten through lunch so I'll give him a ring now.

H: All right.

HMjr: I appreciate very much your calling me.

H: Yes, all right.

HMjr: Thank you.

H: Thank you.

Monday
June 15, 1936
2:30 p. m.

Operator: Congressman Doughton -

HMjr: Hello

R. L.
Doughton: Henry -

HMjr: Doughton -

D: Yes

HMjr: Morgenthau -

D: All right.

HMjr: When I came back from lunch Sam Hill called me up -
he wanted to know about this Alcohol Control thing,
see?

D: Yes

HMjr: So he called me before I had a chance to call you.

D: Yes

HMjr: So I said I had talked to the President and the Presi-
dent said as far as he is concerned he didn't care
and if I felt strongly about it all right.

D: Yes

HMjr: So - but Sam Hill says it's too late now.

D: That's my opinion.

HMjr: Yes

D: I'm awfully sorry, because I was right with you on
that, all the time, and trying to hold the line as
long as I could.

HMjr: You really think it's too late?

D: I really do, we have - you see the conference report
has been accepted by the Senate you know?

HMjr: Yes

D: And we've got the report signed there by unanimous
agreement by all so I don't see how we can do anything.

HMjr: Well, it's our own fault.

D: I'm awfully sorry.

HMjr: All right.

D: All right.

HMjr: Thank you.

D: You're welcome.

Monday
June 15, 1936
3:10 p. m.

HMjr: Did you get my message?

Hester: No, I didn't.

HMjr: Well, I sent Cy Upham to find you because I thought it was so important. Now, Senator Thomas of Oklahoma has introduced a resolution to extend the stabilization fund for two years.

H: Yes

HMjr: I was going to let it go by the Board but now that he's introduced it there's just no if, and or but, it's got to pass.

H: Yes

HMjr: Now anything else that you are doing is secondary or third in importance to this.

H: All right.

HMjr: Now, I took it up two or three weeks ago with Senator Pittman - he's for it. I talked to McNary, he said he's for it - I should talk to - he wouldn't object. I'd talk - he said, '...better talk to Vandenberg'. I talked to Vandenberg and Vandenberg bellowed at me, then he said, 'I'll object for five minutes and then I'll let it go through'.

H: Yes

HMjr: Now Robinson wasn't so hot but Key Pittman is very strong. I was going to let it go because I didn't want to have a fight on my hands.

H: Yes

HMjr: But now that it's been introduced I don't give a damn what you're doing up there, this is the most important thing.

H: All right.

HMjr: Now I called up the President and he said everybody he talks to today he's going to put a word in for it.

H: Well, that's fine. Now, you want that introduced in the House too right away?

HMjr: Well, you'd better go and see Senator Thomas and find out what arrangements he's made.

H: Yes, all right, I'll do that.

HMjr: How's my Treasury Agency Bill?

H: Well, I'm - I've been watching Senator Gerry, he's waiting to bring it up. He's trying to get it up this afternoon.

HMjr: O. K.

H: And Senator Robinson is going to help, so I am encouraged.

HMjr: Well now, all right, and - but you'd better go and see Senator Thomas and now as long as it's introduced we just can't let this thing fail.

H: All right, I'll - I'll get right after it.

HMjr: O. K.

H: All right.