DIARY

Book 136

HMJr's Talks in France
July - August, 1938

EMBASSY OF THE
UNITED STATES OF AMERICA

Paris, August 23, 1938.

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Hotel de la Poste,
Rouen.

My dear Mr. Secretary:

In order that you may have some record of the recent conversations in France, I have pleasure in attaching hereto various draft memoranda which I have drawn up. These cover the talk which you and I had with Governor Fournier, two visits which I had with the Governor after your departure from Paris, and various talks by telephone, as well as financial and market developments. Within the immediate future I shall address a letter to you in Washington completing this series which only goes through August 21.

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy.

HMC/ems

AMERICAN EMBASSY

PARIS

2

July 26, 1938.

M E M O R A N D U M

At the Embassy dinner last night Secretary Morgenthau told me that he would like to have a talk with Governor Fournier of the Bank of France, so the three of us withdrew to a quiet room and had the following discussion.

The Secretary asked Governor Fournier what important maturities the French Treasury had to face between now and the end of the calendar year. Fournier recalled that there was an amount of one year 1937 4% Treasury bonds to mature on August 5 to a total of 2 billion 278 million francs, but of this 1 billion 650 million have been converted into new 3% bonds, thus leaving around 625 million to pay off on August 5. He said there was a second maturity in December of five year 1943 bonds. I have checked up this item this morning and find that it will amount to approximately 1 billion 600 million francs. (Fournier did not mention that a heavy maturity comes on January 5, 1939, of five, ten and fifteen year bonds.)

The Secretary asked Fournier how the above maturities would be met. The Governor replied that a 3 1/2% National Defense Loan was now being subscribed to. He indicated,

however

however, that the funds for these maturities would likely come from the balance now being built up with the Bank of France by the Caisse des Depôts et Consignations as a result of the recent increases in deposits in savings banks which, in turn, are held with this Caisse.

The Governor reminded us that approximately 16 billion francs of capital had been repatriated into France in May following the latest currency devaluation. He said much of this money had gone into three months Treasury bills. These will mature importantly in August, which will consequently be a critical month. For this reason the authority was rushed through to give the Bank of France permission to operate on the open-market. The aim will be to have conditions such as to encourage the renewal of subscriptions to these three months bills as they mature.

While the Governor thought that the situation of the Treasury might be sufficiently easy to give no necessity for borrowing from the Bank of France before November, this obviously depends upon certain conditions. That is, there must be sufficient faith in the Government and in the currency for savings deposits to continue to increase. Heavy withdrawals of funds from the savings banks would immediately cut down the amounts available to the Caisse des Depôts et Consignations for investment in Government paper, and would involve cashing this as it fell due. Furthermore, the extent to which

Treasury . . .

4

Treasury bills and National Defense bonds are renewed likewise depends upon the general faith in the economic, monetary and political situation.

The question was not posed as to how much fresh money the Government would need between now and the end of the year. I should interpose, therefore, the following remarks. While increased taxes are now beginning to produce higher returns and estimates for recent months have actually been exceeded, the disbursements of the Government will from now until the end of the calendar year be around 20 billion francs in excess of normal receipts.

The Secretary told Governor Fournier in strictest confidence that he had an idea which he wanted the Governor to think over the next few days and then discuss it subsequently with me if he thought it might contain some useful elements as a basis for future consideration in monetary plans. He asked that Fournier discuss this with no one else, and not let it be known that the idea had come from the Secretary. It was recalled that the Secretary of the Treasury permits private banks to negotiate gold imports into the United States but that only the United States Stabilization Fund exports gold from the United States. The Secretary pointed out that he has the authority to limit imports also to those conducted by the Stabilization Fund, but had so far found no real excuse for establishing such restrictions on inward gold movements.

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5

He asked Fournier if the latter thought speculation on the French franc could be checked if the French authorities limited the selling of gold and foreign exchange, to holders of francs, to the Bank of France itself, acting for the French Control. Governor Fournier's reply was that this would mean setting up a complete exchange control in France. He said that if a rule was established which required every one in France desirous of foreign exchange coming to his Bank, certain private banks in France would undoubtedly establish transactions with private banks in other countries with a view to procuring the foreign currencies desired. He recalled that when the Chautemps Government fell in January 1938, he, as Governor of the Bank, established, in the absence of a Government, a control along the above-mentioned lines which required all purchasers of foreign exchange to have their requests submitted to his Bank. For seven days this system worked successfully, but on the eighth two franc markets had developed, one in Paris and one in London, with a disparity of about 1.5 points between the two markets. This had come from dealings between private arbitrageurs.

After discussing the settlement of net international balances by movements of gold between national monetary authorities, the Secretary asked Fournier if the latter thought that private bankers in France would have the courage to operate with private banks in England or America directly, and not through the Control, if they

had . . .

6

had no assurance that their ultimate balances would be settled in gold. Fournier admitted that French private bankers would probably not take this chance if they could not have the assurance of final settlement on a gold basis. Secretary Morgenthau was confident that American bankers would not take such a chance. Fournier said that he had always been a liberal, but that his experiences with speculators since he came to head the Bank of France have been such as to cause him to have no more feeling of tenderness or sympathy for currency speculators than has the Secretary. Consequently, if any means could be devised to obstruct currency speculation, this would please Fournier very much. His impression was that such a scheme as the Secretary had suggested would not have a chance of success unless the complete cooperation of other monetary authorities was sought and obtained, in order that French holders of francs desirous of dollars, for instance, could not evade the control method by operating through Belgium, the Netherlands, et cetera. The Secretary said this was just the point he was getting at, that is, of considering the efficacy of a general arrangement between monetary authorities to limit both in and out gold movements to the central authorities. Governor Fournier promised to give this question his careful individual consideration and to talk to me after the Secretary's departure if he has any observations to make in the premises.

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The Secretary inquired of Governor Fournier as to how private business was raising funds on the French market. The Governor replied that this was practically impossible since the Government was absorbing all of the money available. When the Secretary insisted that the private industries must do some sort of borrowing, Fournier stressed the small extent to which issues of private concerns had been floated on the Paris market and explained that even operating cash was difficult to obtain from the financial institutions because of the shrinkage of franc deposits and general tightness of the money market. The Crédit National was accommodating certain borrowers, but the interest rate of 7.15 was quite high and this institution is limited to making comparatively small loans.

The Governor stated that it was highly important that the French money market should be eased. This had been accomplished temporarily to a certain extent by the repatriation of 16 billion francs in May, 1938. Unfortunately, however, this repatriation has not continued. The other method of giving an easier money situation is that of the Central Bank making funds available to the market. The Governor remarked, however, that from 1935 through 1937 the amount of advances from the Bank of France to the French Treasury, which funds eventually came onto the Market, have approximately equalled the amount of gold lost by the Bank of France during the same period. This showed the futility

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of the Bank providing funds for the Government and the market so long as the currency is so unstable and the confidence in the finances of the Government so weak that those people who obtain the newly created francs convert them shortly into gold or foreign exchange.

The Secretary referred to the recent rumors in regard to negotiations between the British and ourselves with respect to fixing a rate between the dollar and sterling at 4.86. He said that this was purely a rumor, just as there was nothing to the gossip in March 1937 about lowering the price of gold, and in May, 1938, about raising the price of gold in the United States. Fournier reminded the Secretary that the question of lowering the price of gold in 1937 really went beyond the rumor stage. He recalled that the Bank of England had actually taken notice of this question and that he had been questioned on this point by Governor Norman of the Bank of England at Basel. I told the Secretary later that I would check up in my B.I.S. cablegrams about this interview. The Secretary stated that we had no intention of giving up our right to devalue the dollar further. He said there was no intention to use this further power of devaluation as a stimulant but that it afforded a good club. Fournier said yes, he understood it was a sort of sword of Damocles. The Secretary was of the opinion that if he had not retained this power further to devalue, the Japanese might long before now have entered upon a

competition

9

competition in depreciation of currencies.

When this point in our conversation had been reached, Minister of Finance Marchandeau and Rueff joined us. No reference whatever was made to the preceding conversation.

We talked about the American experience with silver, the Secretary pointing out that our silver purchases were at least providing China's principal source of gold and foreign exchange with which to defend herself. Not to be partial, the Treasury was also buying Japan's gold. There was also a little joke over Fournier's difficulties with Spanish gold, and America's troubles over purchases of Spanish silver. Minister Marchandeau was particularly curious as to American Treasury methods of floating loans, both through bonds and bills, as to the rates thereon, and as to whether there was any tendency to decrease the exemption of Government securities from taxation.

At the Secretary's request I verbally summarized to Mr. Butterworth this morning the conversation had between the Secretary, Governor Fournier and myself. It is understood by Mr. Butterworth that this information is solely for the two of us.

H. Merle Cochran.

HMC/WGS-ams

Paris, August 5, 1938.

M E M O R A N D U M

By appointment I called on Governor Fournier at the Bank of France yesterday evening at 7 o'clock. We discussed the situation on the international exchange market the last few days. The Governor was of the opinion that the primary causes for the uneasiness this week were the international political complications. He recalled that these few days had witnessed an acute crisis between the Russians and the Japanese; that this had apparently caused Hitler to become quite nervous; that Mussolini had announced the necessity of increasing Italian armed forces; that the Spanish civil war was by no means ended; that Runciman's undertaking in Czechoslovakia might turn out satisfactorily, but that the Germans were already indicating their scepticism; and that Palestine caused one more worry for Great Britain. He felt that the rush into gold resulted from a lack of faith in practically all currencies. The feeling was growing in Europe that if the tendency is more and more towards war with consequent spending for armaments, no currency of the countries involved can stand the strain. He spoke particularly of the weakness of sterling and said that most French observers were convinced that the cross-rate with the dollar would certainly reach 4.86, and many of them were speaking of a rate of 4.71, and even

4.50 . . .

11

4.50. ~~They calculate [illegible] as the logical level if the United States should devalue the dollar to~~ 50 ~~cents.~~

Doubts as to the ability of the British to hold sterling above 4.86 arise from several factors. The most serious of these is the strain on the British budget involved in the armament program. Then comes the growing trade deficit, augmented by the diversion of much of British industry to war purposes, from the usual export trade. Just now is the season in which Great Britain is paying for agricultural products ordered from abroad, which each year places a certain strain on sterling. Unfortunately, this seasonal strain coincides with the other factors above-mentioned to work a very heavy pressure on sterling.

The Governor said that the demand for gold had come from many countries of the Continent and admitted that there had been a considerable movement from France, as evidenced by the fact that the franc had weakened vis-a-vis most currencies. He remarked, in this connection, however, that the Dutch florin, really for the first time since the Tripartite Agreement, was beginning to show a certain weakenss, undoubtedly in sympathy with the British pound to which it is more or less attached. Fournier stated, with respect to the French situation, that a short time ago he had instituted the newly authorized open-market operations, choosing to start with one year bonds, and had been making some

progress

12

progress towards lowering interest rates and raising quotations. When the rush of this past week developed, however, he was faced with such quantities of French Treasury paper which holders thereof desired to sell in order that they might procure foreign exchange, or preferably gold, that he had to withdraw from the market. This upset of a few days has more than wiped out the improvement which he had effected painstakingly and gradually through open-market operations.

Governor Fournier is of the opinion that restrictions upon gold movements are not the remedy to the present situation. He feels that the world has been convinced of the ineffectiveness of barriers to the flight of nervous capital and he thinks it would be an ineffective and improper approach to this problem, in so far as France is concerned, if new restrictions were now imposed. He feels that the prime requisite is to achieve greater stability of the important currencies. He said that he was constantly being approached by foreign banking interests seeking to make investments in France, who would be quite willing to come into the country if they could be given some guarantee as to the stability of the French franc.

Fournier believes that inevitably it will be necessary for the three members to the Tripartite Agreement to agree upon a reestablishment of their currencies to rates which can be held within fairly narrow limits, and that this new Tripartite Agreement must involve

some

some sort of joint responsibility for the three currencies. While Fournier was brought up to respect all of the classic rules of the gold standard, he is convinced that the stability which we must now seek will not entail all of the rules formerly observed, but will presumably envisage the functioning of stabilization funds in cooperation one with the other and perhaps the limiting of gold movements among such funds. He is anxious to cooperate in any measure checking the flight of capital but he believes that prime effort must be made to solve the basic problem of floating currencies. He admitted that the Tripartite Agreement, as originally conceived, had come to be looked upon as a facade, rather than a solid structure, since the machinery thereof had not beensufficient to check the successive depreciations of the franc. Should sterling now go below 4.86 he believes the prestige of the Tripartite Agreement would be irreparably injured. He stressed the conviction of various continental markets that sterling is over-valued and that a readjustment in rates between the three major currencies is inevitable.

When I asked the Governor as to the extent to which Treasury bills were being renewed, he said that the flair-up of last week had naturally worked against renewals. On the other hand, the situation was not bad and subscriptions were coming in fairly

well . . .

14

well in response to the offer of 18 months National Defense Bonds.

At 11.20 this forenoon while dictating the above, I received a call from Governor Fournier's office to the effect that he desired to see me at the Bank of France at 3 o'clock this afternoon.

H. Merle Cochran

HMC/ams

Paris, August 6, 1938. 15

MEMORANDUM

As requested by Governor Fournier, I called at the Bank of France at 3 o'clock yesterday afternoon. The Governor told me that he had spoken to no one on the subject, but had been turning over in this mind constantly since our conversation of the preceding day the questions which we had brought up with respect to international monetary problems. He added that he had received word from Minister of Finance Marchandeau, who is at present absent on a brief holiday, that the latter would be back in Paris for a short time on Monday and desired to see the Governor at an early hour that day. Fournier said that he realizes that international cooperation could not be depended upon to achieve everything, and that it was the duty of each country to put its own house in order insofar as possible. He intended, therefore, to emphasize to the Minister of Finance the degree to which the current weakness of the franc results from the French budgetary situation, and to recommend drastic steps towards relieving this situation. The Governor was not at all sure what the Minister's reaction would be, but promised to get in touch with me again after Monday, if there were interesting results to report.

The Governor stated that the franc was again having

a bad

16

a bad day yexterday. Losses in exchange by the French Stabilization Fund would be about one-half the very heavy day of Wednesday. The losses on Thursday had been two-thirds those on Wednesday. (From Cariguel's substitute and from my market contacts I would fix Wednesday's figure at 2 million pounds.)

Fournier was very much discouraged over the developments of the past few days. He said that he would not be perturbed merely by occasional flurries of the franc. He had, however, looked forward to two calmmonths for the Stabilization Fund as well as for the Treasury namely, July and August. July had witnessed an almost steady outward flow of gold from the Stabilization Fund and the first few days of August have seen the pressure on the franc considerably augmented. The present tourist season is the best that has been experienced for years, even better than that of 1937, when the Paris Exposition was held. The tourists this year are principally British and there are fewer Americans than last season. The next two weeks will have witnessed the heighth of the tourist season. Notwithstanding the gain in foreign exchange from this business, the balance has been constantly against France, as evidenced by the extent to which the Control has been obliged to yield gold and foreign exchange throughout the summer.

Fournier admitted that if a further devaluation of the French franc would help to solve the situation

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11

he would not hesitate to recommend it. He felt very strongly, however, that a further depreciation in the currency would be of no more lasting benefit than the recent cuts in the franc and might only serve to prolong the life of a Government by a few months. Consequently, he sought other remedies for existing conditions. As suggested to me the previous day, he is of the opinion that fear of the French franc can only be overcome by giving the money a practically fixed value, and that this could be achieved only through the solid cooperation of the three original Tripartite countries.

Fournier had been struck by the latest reports from the United States indicating that our favorable balance of trade had exceeded $100,000,000 per month the past one-half year; that our monetary gold reserves have passed 13 billion dollars; and that we continue to frown upon foreign loans. He did not see how the United States could contribute much to world monetary stability while these policies were continuing. I defended our trade policy by pointing out Secretary Hull's efforts to increase imports through reciprocal trade agreements, and suggested that our gain on the credit side in international trade has resulted partly from the drying up of the purchasing power of the United States which necessitated the cutting down of imports. The Governor was not convinced, however, that we had gone a long way in reducing our tariff barrier, and he stated that if we as a creditor nation

did

18

did not accept payment for our goods through exports of commodities or services we would continue to accumulate the world's gold. With respect to foreign lending, he said we were unwilling to lend to those who had not paid their War Debts, but that these happened to be just the countries which required funds to improve their finances and to assist in achieving monetary stability. The Governor was more concerned over the recent flight into gold than he was over the pressure on the franc. He fears that the tendency will be, at least intermittently if not constantly, to flee from all currencies into gold so long as no more constructive steps are taken to acquire a convincing stability of the principal currencies. As currencies are sold for gold with an increasing premium thereon, there must result a decline in commodity prices, which may mean a world wide deflation.

Discussing the part which the United States might play in the direction of world monetary stability, the Governor did not recommend a definite stabilization of the dollar and a surrendering of the authority to devalue it as an isolated step. If the dollar should be given such stability by unilateral action, its strength on the world market would be immediately increased and the rush to dollar augmented at the expense of other currencies. He hopes, therefore, that any steps toward greater stability with respect to the United States currency will be taken in unison with

measures . . .

19

measures by Great Britain and France. He remarked in this connection that the market seemed more convinced that ever that a realignment of the currencies would come this autumn and that the rate of sterling against the dollar would be at least as low as 4.86 and that of the franc versus sterling at 200. He was not arguing in favor of such realignment but was simply stating the conviction of the market, which is undoubtedly contributing to the present pressure against the franc. Incidently, Fournier mentioned the unsatisfactory economic situation in the Netherlands and was emphatic in his insistence that currency depreciation is only a stimulant, the effect whereof quickly passes off leaving the patient in a worse state than before.

Fournier had received some rather caustic remarks from his friends in Paris, in regard to the communiqué given out by the Ministry of Finance at the time of Secretary Morgenthau's visit in regard to the happy functioning of the Tripartite Agreement. The point was that, however successfully this Agreement may be going, the franc is steadily going down. Fournier insisted that the Tripartite Agreement will be a complete farce from now on unless it may be given more strength and substance. I defended the original Agreement by stating that if the French Government which had been a party thereto had followed an economic policy which would have made possible the maintenance of the franc at the level undertaken in the Agreement, the latter would

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20

have been a lasting success.

Fournier doubted the willingness of the British monetary authorities to advance very positively towards the stabilization of sterling in present circumstances, but he thought that the British might be worried enough about certain developments to seek a new Tripartite arrangement. He had not seen Cobbold of London since our meeting at Basel on July 11. He would not exchange any views with the British on this subject at present. He would first speak with his Minister of Finance and then talk things over with us. In this connection he remarked upon the frankness with which European Central Bank Governors have come to exchange views at Basel, always protecting their colleagues from publicity and from diplomatic involvments.

H. Merle Cochran.

HMC/ams

Paris, August 9, 1938. 21

M E M O R A N D U M

At 10.45 this morning Mr. Gerry called me from the National City Bank. He told me that his bank was noticing the general uncertainty which was developing in France as a result of the international political situation and the French financial outlook. He said that demands from the provinces were now beginning to come in for gold, whereas purchasers heretofore have largely been the big fellows in Paris.

Mr. St. Germain called me at 11.50 a.m. and let me know that the rate had gone to 178.90; that the forward franc had reached a discount of 5 francs against 3 months sterling; and that the British Control had been obliged to offer 826 bars at fixing.

When I talked with Mr. St. Germain at 3.15 p.m., he emphasized the nervousness of the situation, with much talk of exchange control as various cabinet members are being called back to Paris. He said Lazards were continuing to spread propaganda to the effect that sterling would go down and that gold would go up.

At 3.30 p.m. Cariguel telephoned me that he had been called into town for consultation and asked me to come to the Bank. I immediately went out and found him quite nervous over the outlook. His frank belief was that the failure of the Daladier Government to

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22

take more effective measures when it enjoyed full powers inevitably headed the country for another monetary and financial crisis, and that this had been advanced from Autumn to August by rumors accentuated by Mr. Morgenthau's visit to France.

Cariguel gave me some pertinent data which I incorporated in cablegram 1240 of August 9, 5 p.m.

When I returned from the Bank at 4.30 I found that Wayne Taylor was calling me from Washington. When I got the communication with him I gave him the information contained in my No. 1240. He mentioned a telegram from London in which Butterworth had summarized the reasons for the weakness of sterling. I gave him my view as set forth in my letter of August 5 to the Secretary. Taylor said that the Treasury had been in constant touch with the British and that there was no complaint of the latter's tactics. He felt that the weakness of sterling was partly due to the French situation and furthermore to a real movement out of sterling into gold. In answer to my inquiry he said that considerable amounts of gold had been shipped from London to New York the preceding few days, but the connection was so bad I could not get the figure. He suggested that I telephone Secretary Morgenthau and give him the above information. At 5.30 p.m. I got Secretary Morgenthau on the phone and relayed Mr. Taylor's message as well as the substance of my cablegram 1240. He told me to call him again if the

franc . . .

23

franc sterling rate passed 179.

The Secretary said he might go to Annecy on next Monday or Wednesday and remain there until sailing time. If he did this, he said he might want me to come down there to see him. He added that Butterworth was due to come to Antibes tomorrow. In answer to his inquiry as to whether I knew anything of Butterworth's plans, I answered in the negative. I told the Secretary that I had seen Fournier twice lately and that we had talked over the general situation. I had not reported these conversationsto Washington but desired to familiarize the Secretary with them before his departure. He asked if I had seen Rueff, and reminded me that at the time of the last depreciation the French had told us that it had come about so quickly that they did not have ample time to notify us. I reminded the Secretary, in turn, that I had been constantly in touch with the French, by day and by night, the two weeks prior to the decision for devaluation. I explained again to the Secretary that France could not put on exchange control except through Parliamentary action. The Secretary asked if in our conversations Fournier had touched upon the subject which we had discussed at the Embassy residence. I said he had spoken of this only lightly but that I thought the Governor wanted to see me again after he had talked further with Marchandeau and prior to the Secretary's sailing.

H.M.C.

HMC/ams

Paris, August 10, 1938. 24

MEMORANDUM

At 10.30 this morning Monsieur Weil-Rabaud of the Cabinet of the Minister of Finance telephoned me that Monsieur Marchandeau would like to see me. I went over to the Ministry of Finance at once, and was received by the Minister alone at 10.45. An account of the interview was set forth in my 1246, August 10, 3 p.m. which also provided a translation of accounts of press summaries given by Daladier and Marchandeau the preceding evening. The Minister was entirely cordial and put up his request for a communiqué from Secretary Morgenthau in a manner to which I could not take exception. I gave the Minister no promise except to communicate his request promptly to the Secretary and to report an answer as soon as received. In my own mind I did make a reservation with respect to the Minister's statement that when he had pledged to hold the franc at 179 to the pound he had anticipated no such depreciation of the pound as has recently taken place. I did not, however, argue with the minister on the point. Without any commitments or expression of opinion on my side, I accepted his request to pass on his message to Secretary Morgenthau.

Upon my return to the Embassy I immediately put in a long distance call for the Secretary whom I reached between 11 and 12 l'clock.

When . . .

When I gave the Secretary the message from Marchandeau, he inquired as to whether I thought notice was being served on him by the French. I replied negatively, stating that while I had not yet had time to think the matter over thoroughly, I was disposed to favor the issuance of a statement. He told me that the communiqué given out at the French Ministry of Finance, which perhaps started some of the current gossip, had been entirely at French responsibility. I stated that I was not present when the communiqué was discussed and prepared but that the Secretary had told me thereof when he came into the luncheon at the Ministry of Finance. I told him that even though this communiqué had been unfortunate, I thought it difficult to refuse Marchandeau's request for a statement, considering the difficulties the French are facing. I added that they might put some blame on us if a crash came after our refusal to give a statement.

The Secretary asked if I had spoken to the Ambassador. I told him that I had not seen him since Friday. At the Secretary's request I enquired and found that the Ambassador had not been in the office this morning and that Offie had just left. The Secretary requested me to get in touch with the Ambassador; to discuss with him Marchandeau's request; to prepare a communiqué for issuance by the Secretary; and to call the latter between 4 and 4.30 if we agreed here that a communiqué should be gotten out.

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When the Secretary mentioned the possibility of giving out a communiqué from the Embassy in Paris, I expressed a preference for a personal statement from him at Antibes.

After this conversation I spoke with Mr. MacArthur who told me that the Ambassador was giving a luncheon at Chantilly but would be in during the afternoon especially since he hoped to see Minister Marchandeau. I called Chantilly at 12.15, but was told that the Ambassador was in his bath and could not come to the phone. I left word for him to let me know as soon as he arrived at the Chancery in the afternoon. I then spoke personally with Mr. MacArthur who promised to call Offie at Chantilly shortly after one o'clock so that the Ambassador would be definitely informed that I had talked with Marchandeau and Morgenthau during the morning. This precaution lest wires might be crossed.

When the Ambassador came to the Embassy he called me in at 4.15 p.m. I gave him a complete account of my talk with Marchandeau and of my conversation with Secretary Morgenthau. The Ambassador opposed the idea of the communiqué. He told me to get Secretary Morgenthau on the telephone and that he would speak to him from his office. At my request, he agreed that I should be present during the conversation. I returned to my own office since the Ambassador had

visitors . . .

27

visitors waiting to see him, and got Secretary Morgenthau on my line about 4.45. I told him of my conversation with the Ambassador and that the latter would speak to him directly setting forth his objections to a communiqué. The Secretary told me that since talking with me at noon he had discussed the question of a communiqué with Ambassador Kennedy who had recommended against it. I told him that I still thought a communiqué might be helpful if he issued it promptly at Antibes and I suggested something along the following lines:

> " I am having a fine time. I intend to remain in France until I sail from Havre. Before I left the United States, I denied rumors of devaluation of the dollar. Since coming to France I have had no negotiations in regard to modifying currencies under the Tripartite Agreement and anticipate none."

I told the Secretary this was purely my personal idea and that I would connect him with the Ambassador who would give him his own objections personally. Before closing the conversation the Secretary told me that he had not been able to get any accommodations at Annecy but that the American Express people had, however, told him they could reserve rooms for him in Geneva, and he thought he might go there next week.

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I mentioned the Hotel des Bergues as the most desirable one. He said this was the hotel the American Express had suggested. He asked me what places in Switzerland I could recommend to visit. I told him that I had written him in regard to Lake Thun. He asked about Basel and Zurich. I enquired, in turn, if he would not be uneasy as to new rumors if he were to visit the site of the B.I.S. He replied negatively. I told him that Berne was very beautiful at this time of the year and that there was a nice drive from Geneva to Berne and thence to Basel without going through mountains on dangerous roads. He thought this would fit nicely into his plans since he had been advised to go from Switzerland to Strasburg and then to Paris. He said that he would probably want me to come to Geneva if he went there. After these remarks I went into the Ambassador's room where Mr. Bullitt, in the presence of Mr. Pasvolsky and myself, gave to Secretary Morgenthau his very positive reasons for objecting to a communiqué. He volunteered to see the Minister of Finance on the subject.

I should add that at 11.40 this morning Cariguel telephoned to let me know he was back in Paris, having definitely terminated his holidays. He said that the market was a little more quiet but that the undertone was still nervous.

I should further add that when I talked with the Secretary at noon he instructed me to cable a full report

of my . . .

29

of my talk with Marchandeau to Washington so that Wayne Taylor would be informed. The statements of Daladier and Marchandeau reported in this cablegram were having a good effect today and I thought it entirely wise that any statement which the Secretary saw fit to issue should come at once, to prolong and sustain the recovery, and to help prevent a recurrence of the attack on the franc.

H.M.C.

HMC/ams

Paris, August 11, 1938.

30

M E M O R A N D U M

Secretary Morgenthau telephoned me from Antibes at 5.30 p.m. He asked how the market had been today. I gave him the substance of my 1255, August 11, 5 p.m. I told him that the market was full of gossip and that the situation was quite unsatisfactory. He asked the sterling rate, which I gave as 4.88 5/8. I added that 618 bars of gold had been offered in London at the fixing this morning, with a price equivalent to 34.77, but that the demand for gold had lessened somewhat and no important premium had developed after fixing. I corrected the Secretary's impression that no gold has been shipped from London to the United States. I told him that I did not have the figure, but that a considerable amount had been exported to New York from London the past 10 days.

The Secretary asked if I had heard the latest suggestions which had been made in conversations between himself and the Ambassador with respect to a communiqué. I told him that I had known nothing about the Ambassador's conversations with him and with Marchandeau until Offie brought in memoranda thereof at 4.30 o'clock this evening which I was, as requested by the Ambassador through Offie, cabling in full for the Treasury Department. I told the Secretary I understood from the final memorandum and from my conversation

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31

with Offie at 4.30 that the Minister of Finance had taken up the question of the simultaneous communiqués with London and had promised to inform the Ambassador of the result thereof, but had given no report by 5 o'clock. This was news to the Secretary.

I told the Secretary that I had forwarded his steamship tickets and tags today.. In answer to my inquiry, he stated that he had received the cablegram in regard to his insurance which I had forwarded to him by mail. He had not, however, received my cablegram of yesterday which I told him had been forwarded by registered mail last night. The Secretary said that his son, Henry, desired to spend two or three days in Paris before sailing in order to see certain pictures which he had missed last time. In answer to the Secretary's inquiry as to whether the museums would be open on Sunday, August 21, and Monday, August 22, I confirmed that they would be open on Sunday but that on Monday they were mostly closed, and the Louvre in particular, where lectures are given on Monday but pictures are not generally on view. In response to the Secretary's request for a hotel for Henry I suggested the La Perouse, rue la Perouse, but offered to put him up with us if he cared to stay.

The Secretary told me that he would be in his hotel all evening and that if I heard anything of the

result . . .

32

result of Marchandeau's inquiry at London, I should telephone him. I remarked that this was unlikely since Marchandeau presumably would communicate directly with the Ambassador at Chantilly.

H.M.C.

HMC/ams

Paris, August 11, 1938. 35

M E M O R A N D U M

At 5.50 p.m., just after I had finished talking with Secretary Morgenthau this evening, Assistant Secretary of the Treasury Wayne Taylor called me. I gave him the information cintained in my 1255 of August 11, 5 p.m., and the other news, together with a report of my conversation with Secretary Morgenthau.

Taylor referred to my cablegram of yesterday. I told him that the Secretary had asked me to consult with the Ambassador in regard to the wisdom of the Secretary issuing a communiqué at Antibes. I told him that the Ambassador and I both spoke with the Secretary after the Ambassador came into town at 4 o'clock yesterday afternoon. I recommended the issuance of the communiqué, thinking that something could be gotten out which would be harmless upon our side and which might conceivably help the French and might relieve us of any blame if things did go wrong. I mentioned this off the record. I explained that the Ambassador vigorously opposed any communiqué from the Secretary; that Ambassador Kennedy did likewise; and that the Secretary had agreed not to make any statement.

I told Taylor further of the memoranda which I had first seen this evening at 4.30 and which I was cabling on to the Treasury Department at once in accordance with instructions received from the

Ambassador

34

Ambassador through Mr. Offie, which reported a conversation which the Ambassador had had on a visit to Minister of Finance Marchandeau, a conversation by telephone between the Ambassador and Secretary Morgenthau this morning, and of a further telephone conversation between the Ambassador and Marchandeau. I told him that Marchandeau was sounding out London on the suggestion of a simultaneous issuance of communiqués from Paris, London and Washington, but that no response had been received from Marchandeau by 5 o'clock.

Mr. Taylor told me that the Treasury Department had sent a message to the Secretary to the effect that no objection was seen in Washington to the issuance of such a statement as Marchandeau had requested through me, provided no objection thereto was found by the Secretary on this side. I told Taylor that this had been my personal feeling but that my opinion had not prevailed and that I thought it was now too late for a statement to do much good. I told him that the principal gossip this evening was toward exchange control. Mr. Taylor thought that various rumors had injured the franc, but that the upset world political situation was at the basis of everything and that currency stability could not be achieved until this situation was righted. I agreed there was this unfavorable back ground but emphasized the extent to which the French franc was slumping as compared with

other . . .

35

other monetary units. He said that under the circumstances the French could not guarantee to hold any rate, any more than they could hold it at 179. It was understood that he would await the messages which were being cabled this evening giving the three memoranda above mentioned. He said he wanted me to know, however, about the message which he had sent directly to Antibes.

H.M.C.

HMC/ams

Paris, August 13, 1938.

MEMORANDUM

When I arrived at the Embassy this morning I went to the Code Room to enquire as to whether any cablegrams had gone out or been received on matters of interest to me. I was confidentially informed that a cablegram had been drafted but had not been sent; that the Ambassador had asked that it be held in a sealed enveloped for release only to Offie.

In the morning mail a letter had been received from Sec'y Morgenthau's sister-in-law in regard to shipping her automobile. I had this matter taken up at once, indicating the interest of Secretary Morgenthau and of the Embassy therein. I was promised that everything possible would be done and that a definite reply would be given on Tuesday morning.

Offie did not come in until after 11 o'clock. When I learned he was here I went to see him and he showed me a copy of the note which had been delivered by Bonnet to the Ambassador the preceding evening and then told me the circumstances of cancelling the cablegram. He asked me if Mr. Wilson, with whom the Ambassador had left the note yesterday evening after receiving it from Bonnet, had not told me about the affair yesterday evening or this morning. I told Offie that I had known nothing of the matter except through the information given me from Antibes when Secretary

Morgenthau . . .

had called me last night after he had heard from the Ambassador. I complained that I should have been informed in the premises by the Embassy officers. Offie told me that he had tried to get me up until 12 o'clock. I told him that I had been in the house all evening and that the phone had been in use only when I was speaking with the Secretary around 11 o'clock. I asked Offie whether the communication from Bonnet was going to be acted upon by the Ambassador. He referred me to a cablegram which the Ambassador had dictated and which was being typed by his stenographer. He said the Ambassador's idea was to do nothing further, waiting word from the French.

About noon Mr. Wilson came in and explained the developments of the preceding evening. He said that the Ambassador had dumped the note on him and that he had translated it and had a Code clerk come up to his house to receive it with an introduction prepared by him so that it could be despatched as a cablegram. Mr. Wilson had then gone to the theatre and did not know the cablegram had not been sent until the middle of this forenoon. I complained to him about not having been informed of the matter the preceding evening and he agreed to keep in touch with me in the future.

While I was at home for lunch today Mr. Wilson called me at 1.45 stating that Bonnet's office had just telephoned the Ambassador that the French Government had again changed its mind and wanted the document delivered the preceding evening to the Ambassador

by . . .

by Bonnet to be considered a formal note and to be transmitted to the United States Government. Wilson asked me to communicate this information at once by telephone to Secretary Morgenthau at Antibes and to meet him at the Embassy at 2.45 for the preparation of a message sending the translation of the text of the note, which translation he had given me in the forenoon and which I held in my pocket. I at once called Antibes from my home and spoke with the Secretary about 2.15. I told him of the developments of the day.

The Secretary asked what we were supposed to do about the Note. I told him that nothing had been done to find out what the French expected of us. I thought that I should at once get in touch with the French Ministry of Finance directly. If they wanted a communiqué issued by the three Governments, they should take the initiative in its preparation and should get a draft in ample time for careful consideration, and not expect us to agree to it on the same day they hand it to us.

He told he that he wanted me to go ahead and get in touch with Marchandeau or his assistants at once. I told him that since the Ambassador had taken over the handling of this matter with the French officials when he visited Marchandeau in regard to the latter's request for a communiqué on the part of the Secretary, I could not very well go to the Ministry without a clearance through the Ambassador. The Secretary said he would telephone Mr. Bullitt at once.

I came down to the Embassy where Mr. Wilson met me at 3 o'clock and cablegram 1271 was drawn up and despatched. I told Mr. Wilson that I had communicated with Secretary Morgenthau and that he thought I should get in touch with the Ministry of Finance. I explained that I had said this should come through the Ambassador. Wilson said that he was sure the Ambassador's position would be that we should sit tight and do nothing until we heard from the French. He said he was going to Chantilly to play tennis with the Ambassador about 5.30 and would telephone me at the Embassy if the Ambassador had any message for me.

A little past 4 o'clock the Ambassador telephoned me at the Embassy from Chantilly saying that while he thought this was all foolishness, I might get in touch with the Ministry of Finance and see what they had in mind. He said the Secretary of the Treasury was sitting down at Antibes worrying his head about what was going on here. I at once telephoned Marchandeau and found

that . . .

40

that he had left town for Le Touquet an hour earlier. I then tried both Rueff's home and office and found that he had left for the country a few minutes earlier. I succeeded in reaching Couve de Murville by telephone shortly before 5 o'clock. He was taking a 5.25 train to the country. He was familiar with the Bonnet note et cetera. I asked him what they expected of us. He said they wanted our agreement, in principle, to the issuance of a common statement and our approval of such a statement for giving out on Tuesday. I told him that the Secretary of the Treasury would be traveling on Monday and Tuesday and that if they wanted any agreement from us either to the principle or text of a communiqué for Tuesday they would have to get a draft thereof to us by Sunday noon. I told him that since the French had in their note revealed their uneasiness about holding the franc, any communiqué would have to be carefully considered. He promised to get in touch with Rueff and endeavor to have a draft telephoned to me on Sunday morning.

I put in a call for the Secretary at Antibes from the Embassy at 5.10; got him at 7.45 o'clock from my home, and reported the foregoing. He told me to get off a cablegram to Wayne Taylor yet this evening so that the latter could be kept directly informed. (This I did in my No. 1272, August 13, 8 p.m.). I read him the Embassy translation of the Note. This was taken down by Butterworth who was with the

Secretary . . .

41

Secretary at Antibes. The Secretary asked what I thought of the Note, he feeling that there was a contradiction therein. I told him that I felt we should be cautious about participating in a statement denying rumors of change unless we knew definitely that the French were going ahead to hold their currency while the communiqué was being issued and then after its issuance. The Secretary said I had put my finger on the spot.

The Secretary said Butterworth would telephone Philipps. It was understood that I would call the Secretary again at Antibes on Sunday as soon as I had any word from the French Ministry of Finance.

H.M.C.

HMC/ams

Paris, August 13, 1938.

42

M E M O R A N D U M

The weekly meeting of the staff was held at 12 noon yesterday. As we came out from the meeting the Ambassador asked me into his private office and referred to the conversations which had been made the subject of his memoranda of the previous day. I told him of my talks with Secretary Morgenthau and Assistant Secretary Taylor by phone on the evening of the 11th. The Ambassador told me that he had talked again with the Secretary in the forenoon and that he had dictated a memorandum of the conversation. He called Offie in who handed me the following memorandum of this conversation.

"Paris, August 12, 1938.

"The Secretary of the Treasury telephoned to me thismorning to say that Butterworth had telephoned last night to Phillips of the Treasury in London and that Phillips had said that he personally would support the idea of a simultaneous declaration in London, Paris and Washington. He added that he had heard nothing of the matter before Mr. Butterworth had spoken to him. Mr. Morgenthau asked me to inform Marchandeau with regard to this conversation between Butterworth and Phillips and I did so this morning at 11:45.

W. C. BULLITT"

The . . .

The Ambassador told me that in his talk with Marchandeau the latter had been quite nervous. He asked me what the program of the French Treasury on a long-term basis actually was. I replied that even Marchandeau's own officials did not pretend that there was any comprehensive long-term policy formulated as yet. When asked as to my opinion as to what the French should have for such a program, I said that the situation was changing so quickly just at present that it was difficult to answer.

I talked with St. Germain at 10.40 yesterday morning and again at 3.25 p.m. I then spoke by long distance with President Trip of the Netherlands Bank at Amsterdam. Shortly thereafter at 4 p.m. the Paris representative of the Bank of Italy called on me. At 4.30 Messrs. Gerry and Rudick of the National City Bank of Paris and London, respectively, came to see me. At 5.50 p.m. I telephoned with Cariguel at the Bank of France. The information gained through the above-mentioned conversations was set forth in my cablegram 1265, August 12, 6 p.m.

Wayne Taylor telephoned me at the Embassy at 6.10 p.m. I gave him the information contained in the above-mentioned cablegram and supplemented this with some personal observations. I told him that nothing new had been received from Secretary Morgenthau, beyond the telephone call to the Ambassador above-quoted, and

likewise . . .

likewise nothing from Marchandeau or the British up until one-half hour previously when I had last spoken with Offie. Mr. Taylor suggested that I inform the Secretary of the Treasury of the day's developments on the Paris market at the first available opportunity. He told me that he would be in Washington on Saturday and Sunday and that I should send a cablegram today if anything of interest developed. Before leaving the Embassy at 7 o'clock I looked into the offices of the Ambassador and Offie but neither was present.

At 8.40 yesterday evening, while I was out of the house for one-half hour on an errand, the telephone central said that Secretary Morgenthau desired to speak to me from Antibes and would call at 10.15 p.m. At 9.15 I called the long distance central and accepted the call.which finally came through at 11 p.m.

The Secretary said he had tried to get me earlier; then the Ambassador had been attempting to talk with him; and that they had been cut off three times. The Secretary told me that the Ambassador had received personally from Bonnet just before dinner last night a letter giving us notice on the Tripartite. When the Ambassador had returned to Chantilly they had telephoned him saying that Daladier wanted the letter withdrawn. The plan had been to deliver the letter to the British on Saturday morning. When I asked for more details as to the character of the notice, the Secretary replied that he had had no facilities for making notes during

the . . .

the conversation. He instructed me to get in touch with the Ambassador on Saturday monring and see this communication.

I told the Secretary of my talk with the Ambassador at noon and with Wayne Taylor yesterday evening and gave him the substance of my 1265. The Secretary said that the French Authorities had stressed to Ambassador Bullitt the extent of the losses by the French and British Stabilization Funds during Friday, those of the British having reached 8 million pounds. I told the Secretary that the idea of a Tripartite statement worried me since I was convinced from my talks with Fournier last week that the French would ask a stronger Tripartite Agreement if the crisis broke. This would involve certain new obligations and undertakings on our part if we agreed thereto. The Secretary said he thought only a denial of rumors would be involved. I replied that my belief was that the French had a more serious plan for a really effective Tripartite Agreement in mind. The Secretary could make no pledges while over here. He said he had his own ideas as to how the situation should be handled. I said, yes, I understood this, but that he should give absolutely no advice on this side. He agreed. He told me to call him on Saturday or Sunday at Antibes if anything of interest developed.

The Secretary asked that I have instructions issued at the Embassy to forward on Saturday and Monday all of his mail to "Hotel des Bergues, Geneva". He said

that . . .

that he wanted me to come to Geneva on/the Tuesday night train, arriving there Wednesday morning and stay one or two days with him at Geneva or possibly Montreux. I told him I would make tentative reservations this morning to be confirmed depending on later developments and instructions from him.

The Secretary said that his sister-in-law at Annecy was having some difficulty about shipping her automobile and that he had asked her to communicate directly with me. I told him that I would do whatever was possible upon receipt of her letter.

H.M.C.

HMC/ems

Paris, August 14, 1938.

M E M O R A N D U M

At 1.45 p.m. today Rueff telephoned me from the Hotel du Golf, St. Briac, Ile et Vilaine, near Dinard. He told me that Couve de Murville had passed on to him my telephone message of the preceding evening. He said that he had drawn up a provisional draft text of a common statement. He had, however, talked by telephone with Minister Marchandeau. Since they had received no reaction from the British, the Minister thought no tentative draft should be passed on to us. It was considered preferable that the draft be considered after the French Treasury Officials had all returned to Paris on Tuesday morning, and had perhaps consulted with the Prime Minister and other members of the Government. I told Rueff that in the circumstances they could not expect any approval from us in time for the issuance of the communiqué on Tuesday. He understood this, and let me understand that they had given up the idea of getting out the communiqué on Tuesday. He recalled that the original French idea had been for Secretary Morgenthau to give out a personal statement at Antibes but since this idea had not been accepted the plan for a common Tripartite declaration had been developed. I explained to Rueff as I had to Couve de Murvile the delicacy of adhering to a common

statement.

statement while there was doubt as to what the French Government might do toward holding the franc during the preparation of and immediately after the issuance of a statement.

Rueff promised to call me on Monday if he had any news to give me but was quite sure that there would be nothing available until Tuesday. I insisted that he get directly in touch with me when the Minister had anything further to discuss on this subject.

After talking with Rueff, I put in a call for Secretary Morgenthau at Antibes and talked with him at about 4 p.m.. . I reported to him my conversation with Rueff. He asked that I report this by cablegram to the Treasury which I did in my Number 1274, August 14, 5 p.m.

The Secretary remarked that the note from Bonnet had evidently put the matter in channels other than customary, that is "Treasury to Treasury". I talked with Butterworth letting him know that the British Control had sold 300,000 pounds sterling for the French Control on Saturday forenoon to hold the rate at 178.90 in London. I also gave him figures to show the weakness of the American stock market on Saturday. The Secretary told me that he would leave Antibes at 8 o'clock on the morning of Monday of August 15. I should telephone him at 8 o'clock that night at the Hotel Terminus at Briançon. He would be at the Hotel les Bergues,

Geneva. -

49

Geneva, around 8 o'clock on Tuesday evening. I should still be prepared to come to Geneva on the Tuesday night train if circumstances permit. He asked me to have his mail forwarded to Geneva on Sunday and Monday. I told him that I had taken up the matter of his sister-in-law's automobile; had obtained the promise that everything possible would be done; and that a definite answer was to be given me Tuesday forenoon.

H.M.C.

HMC/ams

Paris, August 15, 1938.

M E M O R A N D U M

Assistant Secretary of the Treasury Taylor called me at the Embassy at 4.15 this afternoon. He had me explain the negotiations, conversations and circumstances in which the cablegrams of Saturday and Sunday had been despatched. He said that message 1271 particularly had indicated that this currency matter had gotten out of the usual inter Treasury channels and had become a matter of negotiation between the French Foreign Office and the Department of State. He said that this was so being considered in Washington and the the British Chargé d'Affaires was thinking of a reply, in principle, to the note from the French which had been sent to the British as well as handed to Ambassador Bullitt.

I told Mr. Taylor that while the note had been actually handed by Bonnet to my Ambassador, I was convinced that it had been drafted in the Ministry of Finance. In answer to his question, I told Mr. Taylor that I did not think any formal acknowledgment should be made of this communication pending receipt from the French of a draft of a communiqué. I told him that I was to speak to Secretary Morgenthau at 8 o'clock this evening at Briançon . He said that he would try to get me back yet this evening before my call went through. I explained that I had made tentative arrangements, at the Secretary's request, to go to Geneva on the Tuesday night train and

visit . . .

51

visit with the Secretary on Wednesday. I thought it might be a good idea for me to get the draft communiqué from the French Ministry of Finance tomorrow; take it to Geneva with me; get the Secretary's reaction thereto; and then the two of us talk from there to Washington, Paris and London as might be necessary. Taylor thought this might be a good idea.

H.M.C.

HMC/aps

Paris, August 15, 1938. 52

M E M O R A N D U M

Wayne Taylor telephoned me again at the Embassy at 6 p.m. Referring to our earlier conversation of this afternoon, he said that this present matter should be kept entirely "Treasury to Treasury". He said he had discussed this again with the Department of State and that the latter was entirely agreeable to this idea. It was understood, therefore, that the Department of State had acted merely as a messenger, and that no acknowledgment of the French communication should be made prior to the receipt of a draft text of a common statement from the French. The matter would then be considered. I told Mr. Taylor that I would try to see that communications here come to me directly from the Ministry of Finance.

When I asked Mr. Taylor whether he thought I should take to Geneva Tuesday night any draft of a text which I might have from the French tomorrow and then handle the question with the Secretary from there, he said that the Secretary was the one primarily concerned in this matter and that I should be governed by his desires. As for the Treasury, Mr. Taylor thought the idea satisfactory. I told him I would carry out my plan to talk with the Secretary at 8 o'clock and would cable to Washington anything that I got from the French tomorrow.

H.M.C.

HMC/ams

Paris, August 16, 1938. 53

M E M O R A N D U M

At 8 p.m. August 15, I called Secretary Morgenthau at Briançon, Hotel Terminus, from my apartment. I told him that I had talked with the Bank of France official late in the evening and had learned that the dollar rate in London had been 4.87 1/2. The franc had been held between 178.89 and .90 with an expenditure of only 100,000 pounds by the French Control, as compared with 300,000 pounds on Saturday morning. The London market was quiet therefore both as regards the dollar and the franc.

I gave the Secretary a full account of my two conversations earlier in the evening with Wayne Taylor as set forth in my two memoranda of August 15th. The Secretary was satisfied with the manner in which our conversations had been conducted during the day and was in entire agreement with the idea that the present negotiations should be strictly "Treasury to Treasury". When I told the Secretary that Taylor had stated that the Department of State felt strongly in favor of this plan, he suggested that I ask Taylor to have an instruction sent to the Ambassador to this effect, or perhaps to him the Secretary of the Treasury, in care of the Embassy. It was decided, however, not to make this request but for me to endeavor to have the Ministry of Finance inform me directly when they had their communiqué ready.

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The Secretary told me that he had reported directly to Washington the conversation which Butterworth had had with Philipps from Antibes. The Secretary said it had been suggested that the British Financial Counselor acquaint me with the text of the communiqué which the British would draft. I thought this would probably not be carried out since Rowe-Dutton is now in Ireland on his holiday. The Secretary suggested, therefore, that I get in touch with Butterworth at the Embassy in London to which city he has now returned sometime before Butterworth leaves the office this evening and learn from him what information he has in regard to the draft. If I obtain the French draft today the Secretary desires that I proceed to Geneva on the Tuesday night train as originally planned. If I do not have the draft I am not to leave Paris. In any event I am to telephone the Secretary at the Hotel les Bergues at 8 p.m. on Tuesday night.

The Secretary desires that no acknowledgment of the French note be made from Washington at present and that no action whatever on this note or on the draft that may be received from the French be taken in Washington before he has had a chance to study it and communicate with Washington.

The Secretary asked whether I had kept the Ambassador informed during the holiday as to my action. I told him I had not communicated with the Ambassador directly.

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The code room had, however, given Mr. Offie who was with the Ambassador throughout the week-end, the substance of my telegrams to Washington, thus explaining what action I had taken.

At 8.45 this morning I telephoned to Mr. Rueff from my home and the latter agreed that they would try to get a communiqué directly to me today which I could cable to Washington and take to Geneva tonight.

H.M.C.

HMC/ams

Paris, August 16, 1938.

56

M E M O R A N D U M

At 12.15 I took Dr. Goldenweiser and Mr. Morris of the Federal Reserve Bank in to meet the Ambassador. After a short visit, the Ambassador called me back into his office. He mentioned the telegrams I had sent, and asked if there had been any message subsequent to that prepared on Sunday evening, August 14. I told him there had been no further message, but that I had talked by telephone with Wayne Taylor at Washington and with Secretary Morgenthau at Briançon, both Monday evening. I told him that it was understood that no acknowledgment of the note should be made; that a draft of the communiqué was to be awaited and then considered before any reply was given; that Secretary Morgenthau desired to be kept constantly informed; that he wanted me to bring a draft of the communiqué to him in Switzerland before any action was taken on it in Washington; and that he desired the matter to be kept between Treasuries.

The Ambassador asked me if Marchandeau was in town. I told him that I knew Rueff was here, since I had been in touch with him, and I said that Marchandeau was supposed to be back this morning. I said I was doing nothing until I heard from the French Ministry of Finance with respect to the communiqué. He stated that he likewise would do nothing; that it was up to the French. As I left his office, he also departed

taking . . .

57

taking Clarence Streit with him to lunch. At 4.15 the Ambassador called me in to show me a cablegram which he said would amuse me. He had just drafted it reporting his conversation with Marchandeau whom he had "met at lunch".. The Ambassador said that Marchandeau had stated that I had told Rueff that we wanted a text of a communiqué from them as soon as possible. I corrected this, to the effect that I had told Rueff simply if they wanted a communiqué at an early date it should be given to me so that I could get Secretary Mogenthau's opinion thereon. Couve de Murville had originally indicated that they wanted to issue the statement on Tuesday. Consequently I had explained the need for speed in getting a text to me. I emphasized that I had not discussed the advisability of a communiqué and had not in any sense urged the French along the idea of the issuance of a common statement. I told the Ambassador, however, that the market was a little better today and that if the French expected to issue a triangular statement at any time, this calmer period would be propitious. The Ambassador understood this.

I spoke again of Secretary Morgenthau's desire that I should come to Geneva if I had a text of the communiqué. I told the Ambassador that I would telephone Rueff before going home to dinner tonight to see if any text was to be prepared today or tomorrow.

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The Ambassador agreed to this. It was understood that I would telephone Secretary Morgenthau at 8 o'clock, giving what information I might have from Rueff and also transmitting to the Secretary the substance of the Ambassador's telegram of this afternoon in regard to his conversation with Marchandeau. I told the Ambassador that my departure would then depend on the Secretary's instructions. The Ambassador said he would have contacts with none of the French Government people the next day or so.

The Ambassador told me that he had let Mr. Marchandeau know that the Secretary was traveling through Rheims. Mr. Marchandeau said he would like to entertain Mr. Morgenthau in his home town. Consequently the Ambassador wanted to know whether the Secretary would be available for such entertainment in Rheims or whether he is coming through Paris and if so, when, so that the Ambassador may make arrangements to take care of him at the Embassy residence.

I telephoned the Embassy at London at 3.30 asking for Mr. Butterworth but was told that he was still on his holiday. I then asked for Mr. Johnson and was informed that he would not be in until 4.30 p.m. At 5 o'clock I telephoned Rueff at the Ministry of Finance. I mentioned the Ambassador's talk with Minister Marchandeau. Rueff was not aware of this, having not seen the Minister since noon. I told Rueff that I certainly was not

trying . . .

59

trying to recommend or encourage the issuance of a joint statement. I let him know, however, that my plans for going to Geneva depended somewhat on knwoing whether we were to expect a draft text today, tomorrow or in the near future. He said they had not determined in so far as he knew, whether a draft text would be drawn up but that he would get in touch with Minister Marchandeau.

I called the London Embassy at 5.45 p.m. Counselor Johnson told me Butterworth had not returned and was not expected back before the end of the month. He thought Butterworth would visit Central Europe after leaving Antibes. I told Johnson I though Butterworth was perhaps returning now to London and asked that he telephone me at my home tonight before 8 o'clock if he should show up.

At 6.10 I talked by telephone with Cariguel. He said he had experienced another bad day, like last week, although the losses were not quite so large. The Control had yielded 1,400,000 pounds, to keep the rate at 178.90. Three months sterling premiums had been reduced from 7 3/8 to 6 1/4, but this was due to intervention and consequently devoid of any significance.

At 6.35 Rueff, whom I had called earlier in the afternoon, telephoned me from the Ministry of Finance. He said it was not likely that they would continue to look for a joint declaration. The British had been

found . . .

10

found not very favorable thereto. The original French idea had been for a unilateral declaration by Secretary Morgenthau. Rueff did not think they would proceed with the idea of a triangular statement. Marchandeau will see the Prime Minister tonight and reach a final decision on their plans. Rueff said that if I delayed my trip to Geneva until Wednesday night I could obtain from him full information as to the French decision. If I find it preferable to go to Geneva tonight, I am to telephone Rueff at his home after speaking with Secretary Morgenthau at 8 p.m. and arrange for Rueff to inform me by telephone tomorrow as to developments.

H.M.C.

HMC/ams

Paris, August 17, 1938. 61

M E M O R A N D U M

From my apartment I put in a call for Secretary Morgenthau at the Hotel les Bergues, Geneva, last night at 8 o'clock. He had not yet arrived at the hotel. At 8.45 he telephoned me from Aix-les-Bains saying that the trip had taken longer than he had anticipated. He would go on to Geneva later in the evening. He asked that I telephone Lieutenant McKay at the Hotel les Bergues to let the latter know that he would arrive between 10 and 11 in the evening and that he desired that the manager or another representative of the American Express be at the hotel at that time to discuss plans.

I gave the Secretary the developments of the day and paraphrased to him the Ambassador's cablegram 1280 of August 16, 5 p.m. I told him that I had not been able to get in touch with Butterworth. The Secretary told me that Butterworth should be back in London very soon.

I told the Secretary also of my conversation between 6 and 7 o'clock yesterday evening with Rueff. The Secretary said that in the circumstances I remain in Paris today and see what the French had to say to us.

In reply to my questions, posed at the instance of the Ambassador, the Secretary told me to thank Mr. Bullitt for his offer of hospitality, but that he

did . . .

did not intend to pass through Paris on his way to Havre. With respect to the possibility of visiting Marchandeau while passing through Rheims, the Secretary said he would let me know his decision when he next spoke with me and was surprised that his itinerary had appeared in the French press. After the above conversation was ended I called Lieutenant McKay at the Hotel les Bergues (Geneva 26-645) and gave him the Secretary's message.

I then came to the Embassy and sent cablegram 1283, August 16, 9 p.m. reporting the days market. At 10.30 Butterworth calledme from London to let me know that he was back and to enquire as to my call for him earlier in the day. He had been delayed since he could get no direct plane from southern France and had to travel via Zurich. I let him know that there was considerable doubt as to whether the French would press for a triangular statement. He said he had, of course, had no time to get in touch with Philipps since he had arrived in London only at 8 o'clock but that he would see him today and would telephone me this afternoon.

The last instruction which the Secretary gave me in the call of last night with Aix-les-Bains was to be ready to receive a call from him between 9 and 10 o'clock this morning. The call came through at 9.45. I told the Secretary there had been no word from Washington or from the French Ministry of Finance

in . . .

in regard to our question. It was still to early for Rueff to call me. I told him the press had no news of particular interest this morning.

The Secretary asked me to tell the Ambsaador that he had no intention of seeing Marchandeau in Rheims. He will travel incognito rather than have any sort of official contact there. The Secretary was most appreciative of the hospitality offered by the Minister of Finance in Paris but insisted that he is now simply traveling. The Secretary told me that his son, Henry III, would arrive in Paris Thursday morning and asked me to reserve a single room for him at the Hotel La Perouse.

I was instructed to call the Secretary at the Hotel les Bergues at 12.50 today noon to let him know if I had received any word from the Ministry of Finance. The Secretary planned to go on to Montreux this afternoon and would have a busy day there tomorrow. He thought it would perhaps be preferable, therefore, for me to meet him at Basel where he would be stopping at the Hotel Three Kings on Thursday night and Friday. I told him that I had considerable material to go over with him. He said he understood and preferred to see me on a quiet day such as Friday promised to be rather than while running around Montreux. A final decision was to be made, however, when I talked with him at 12.50. He would then tell me whether to forward his mail on to Basel on the afternoon train.

The Secretary asked whether I thought he should

get . . .

64

get in touch with any Swiss officials. I asked if he meant Geneva. He said no, he was thinking of Bachmann. I then asked if he planned to go to Zurich. He replied, no, that he had changed to Basel. I recommended, therefore, that although Bachmann had written me indicating how much he would enjoy welcoming Mr. Morgenthau if he came to Zurich, it would not be advisable to ask the latter to come to Basel. This might give rise to more rumors which the Secretary said he desired to avoid. It was also understood that there would be no visits with B.I.S. officials.

I called the Ministry of Finance at 10.15. Rueff was with the Minister but his secretary promised to have him call me as soon as he returned to his office.

It is observed that the train on which I had a ticket for Geneva does not go through Montreux.

At 11 o'clock Rueff called me to let me know that there was absolutely nothing new decided at the Ministry of Finance. He saw no reason why I should not, therefore, proceed to Switzerland this evening to visit with Secretary Morgenthau. I told him that I might delay until Thursday, since the Secretary would be traveling this afternoon and tomorrow morning. It was understood, therefore, that I should get in touch with Rueff before I left. I offered to come over to see him but he said there was absolutely no further developments in the situation and nothing further in regard to a communiqué.

I did . . .

65

I did not, therefore, press for an interview.

At 11.15 the Ambassador called me to his room. He asked me what was new. I told him that after paraphrasing to the Secretary of the Treasury the Ambassador's message in regard to his talk with Marchandeau, it was decided that I would no go to Switzerland for the present. I had talked with the Secretary of the Treasury this morning and I communicated to the Ambassador the Secretary's plans, that is, not to return to Paris and preferably not to be received by Marchandeau at Rheims. The Ambassador said he could handle this latter point alright since the Minister had not yet actually brought it up. I told the Ambassador that I had checked with Rueff yesterday evening but had received no word of any new developments. He agreed with me that we should not take the initiative now but leave the Ministry of Finance alone. It was planned, therefore, that I should check again with Rueff before leaving Paris, if it should be decided that I am to join the Secretary later in the week in Switzerland.

Miss Soelberg reserved a single room with bath for Henry Morgenthau III at the Hotel la Perouse for Thursday morning. If the exact hour of his arrival is ascertained the Hotel le Perouse will be glad to be informed.

H.M.C.

HMC/ams

Paris, August 17, 1938. 66

M E M O R A N D U M

At 12.50 noon today I telephoned Secretary Morgenthau at the Hotel les Bergues, Geneva, as instructed when I talked with him earlier in the forenoon. I told him of my conversations this forenoon with the Ambassador and with Rueff.

The Secretary told me that he was going on to Montreux this afternoon and desired that I have Butterworth call him at 10 o'clock sharp at the Montreux Palace. I had told the Secretary of my conversation with Butterworth late last night and of the latter's promise to telephone me this afternoon after he had spoken with Philipps.

The Secretary instructed me to stay in Paris until Thursday evening, since he would be traveling around Montreux on Thursday and preferred to see me quietly at Basel on Friday. I am to buy a ticket to Basel for Thursday night and leave at 10.50 after checking up with the Secretary by telephone on Thursday at the Hotel Three Kings at 9 p.m. The Secretary asked if I did not think it really worthwhile for him to get in touch with Bachmann while at Basel. He wanted to know if it would be necessary for him to see the Swiss Minister of Finance at the same time. I told him that I could easily get Bachmann, as Head of the Central Bank, to Basel

for a . . .

67

for a conference; but that since he, the Secretary, had been insisting on me having contact both with the Swiss Minister of Finance and the Central Bank, it might not look right unless he also got in touch with the Swiss Minister of Finance in the circumstances. I told him that he would get very little out of either the Swiss officials; that they were more likely to endeavor to pump him for information. It was decided not to get in touch with either Bachmann or the Minister of Finance. The Secretary asked me to forward his mail this afternoon to the Hotel Three Kings, Basel. I told the Secretary of the item in this morning's London Times in regard to attacks on the pound and franc, and of Tripartite talks in Paris in which the American Ambassador, the British Chargé d'Affaires and Bonnet were involved.

Messrs. Goldenweiser and Morse of the Federal Reserve Board were in my office while the above conversation was going on since they were coming home with me for lunch. I told the Secretary they were here and he spoke for a moment with Dr. Goldenweiser.

At 3.20 p.m. Wayne Taylor told me that he had just talked with Butterworth and that the latter would send me the text of an important message setting forth his conversation with Philipps. Taylor gained the idea from the remarks of Butterworth who did not feel free to give details over the telephone that there was something serious going on and that the week-end would

see . . .

18

see a major development. I told Taylor that I was instructed to have Butterworth phone the Secretary at Montreux at 10 o'clock tonight. I stated further that I was to talk with the Secretary at 9 o'clock tomorrow night at Basel, and then to proceed by the 10.50 train to Basel, where I was to visit with the Secretary on Friday. I told Taylor that I thought I had in mind from talks of some days ago at the Bank of France what the French might have under consideration. He told he to check back with him after getting Butterworth's message and prior to leaving for Basel Thursday night. I told him that I would probably call him around 4 o'clock Thursday afternoon. In conclusion I reported that the Paris exchange market was more quiet today although the improvement in the forward franc had not been held.

At 3.55 Butterworth called me from London. He said that he had just talked with Taylor. I added I had likewise just finished a conversation with him. Butterworth stated that he had received material for an important message from Philipps, that this was being coded by three code clerks and that a copy was being sent by cablegram to Paris. He asked that I have arrangements made for the prompt decoding of this message this evening. He thought I should take it to the Secretary tonight. I told him of my instructions to remain in Paris until the Thursday night train when I was to proceed

to . . .

69

to Basel. Butterworth thought this message so important that I might see fit to go earlier. He did not think it should be transmitted by telephone to the Secretary. I told him that I would stand by and do whatever was possible and seemed advisable after the message was decoded. I told him that if I remained in Paris tomorrow I would check back with him by telephone. I added that I might even telephone the Secretary at Montreux tonight after he, Butterworth, had spoken to him.

H.M.C.

HMC/ams

Paris, August 18, 1938.

M E M O R A N D U M

At 5.15 yesterday afternoon I called upon Cariguel at the Bank of France by appointment. He told that he had experienced another bad day, having lost over one and one-half million pounds. The demand for sterling was still continuing while I was at the Bank. I remarked that traders were under the impression that the trend had not been so definitely against the franc yesterday. He stated that the market had been more quiet in the morning, both in Paris and in London, but that after the official trading began the pressure both on the franc and sterling had commenced. The British Control had given both gold and dollars.

I told my friend that I understood there was something in the air, but that I had received no intimation from the French Ministry of Finance as to what to expect. He said that he likewise was uninformed, but that the Governor himself was ignorant of what would happen. He mentioned the market gossip which I had not heard, to the effect that Marchandeau might resign. He even understood that the resignation had been written out yesterday morning. Most confidentially he told me that there was the usual undercutting in the Cabinet and that Daladier had told the Governor not to pay any attention to Marchandeau's talks with

London . . .

71

London. My friend said that Daladier had not attempted to conceal his poor opinion of his own Minister of Finance. Cariguel thought that the public opinion was definitely against further devaluation of the franc. While Daladier had in the past weakened occasionally toward exchange control, my friend did not think he was favoring it just now. A private banker who sold the currencies, told my friend that yesterday the countess who is a very good friend of the Minister of Justice, Paul Reynaud, had purchased 14 one hundred dollar bills. The foregoing information was incorporated in my cablegram 1287, August 17, 6 p.m.

At 5.45 I called on Rueff at the Ministry of Finance, without having fixed an appointment. Rueff opened the conversation by stating that he supposed I had heard the market gossip. I asked if he meant in regard to the Cabinet, He replied, yes, but insisted he knew nothing about it, and should not be quoted in a matter which concerned his Chief. I told him that I appreciated his position but was anxious to have any word or communication which the French desired to give us to come directly for prompt transmission to Secretary Morgenthau. I told him how much better feeling and impression this made than for us to learn things in a round about way. I told him that I was leaving for Basel on Thursday night to meet Secretary

Morgenthau

72

Morgenthau. He asked me to clear with him before I left, and promised again to give me anypertinent information that he might have on the situation.

Before leaving the Embassy I arranged with Mr. Murray, Chief Code Clerk, to be on the lookout for any messagesfrom London. I told him clerks should be kept constantly on duty until the messages were received and decoded and that I should be informed as soon as the messages arrived. At 8 o'clock Mr. Bastiennello, of the Code Room, telephoned me at my home that a message from London had just been received and that he and Falvey would decode it at once and would try to bring the message to my apartment within an hour. I told him not to delay on account of garbles and to bring the message written in pencil as decoded.

A few minutes later M. Bastiennello telephonedme that a second message had come for me from London. I told him to work it out and then handle the two together. At 9.05 p.m. Butterworth called me from London. Just as our conversation began, Mr. Bastiennello arrived with Butterworth's two messages. I had him hold on while I glanced through these. Butterworth was insistent that I take the 10.20 train for Montreux and deliver these messagesto the Secretary at Montreux this morning. Without giving precise information I said I had been in touch with the French last evening and had cabled that there were difficulties within the Cabinet which

might . . .

might lead to a disavowal and/or resignation of Marchandeau. I explained to Butterwoth that I thus had the basis from which his cablegrams arose and that since Paris was the center of interest I thought I should remain here today and see what I might receive from the French officials. I insisted that I should not leave Paris without clearing with the Secretary. Furthermore, any French proposition should come directly to us and the French knew I planned to be in town today and I felt it my duty to stay here and give them an opportunity of approaching us before I left for Basel as scheduled. I explained that the Secretary had a touring schedule arranged for today but had planned Friday for a quiet day of rest and study. I thought that the Secretary ought not to be rushed by a proposition coming indirectly, and I was not willing to take these messages down to Switzerland and try to talk with the Secretary while driving around the country. Butterworth thought the Secretary should cancel his tours and perhaps be ready to come to Paris. I disagreed with him. I told Butterworth that the French know that once we have been approached by them we must have time to make up our minds on whatever is submitted. Butterworth suggested as an alternative that he telegraph the messages which he had given to me to the Consul at Geneva and ask the latter to decode them yet last night and get them to the Secretary before the latter left Montreux this

morning . . .

 74

morning. I advised Butterworth to take no action along this line until he had talked with the Secretary at Montreux, as the Secretary had requested him through me to do. I doubted the willingness of the Secretary to have this undertaken.

At 10.15 p.m. I put in a call for the Secretary at Montreux and got communication at 10.40 p.m. I told him that I hoped he approved of my decision in not complying with Butterworth's suggestion that I leave Paris hurriedly last night, without having a clearance with the Secretary, to take Butterworth's messages to Montreux. The Secretary said that Butterworth in his conversation a few minutes earlier had not mentioned this suggestion but had the idea of telegraphing the messages to Geneva. The Secretary had disapproved this and thoroughly approved my decision to stay in Paris and to receive direclty from the French such propositions or information as they might care to submit to us prior to my scheduled departure, known to Rueff as for Friday evening. The Secretary told me that he had not known that I had Butterworth's messages and that he had approved the idea of the latter coming to Basel by airplane on Friday evening to discuss the British proposition, provided conditions permitted Butterworth to leave London. When I explained that I had the messages under reference, the Secretary said that the

instructions. . .

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75

instructions should stand since it would be better for the three of us to get together for a talk at Basel than to continue to try to handle the matter by telephone. He told me to follow my plans; to telephone him at the Hotel Three Kings at 9 o'clock tonight; and definitely to proceed to Basel on the Friday night train. I gave him the developments of the day and told him of my conversation with Wayne Taylor. I told him that the French situation was acute, but had been bad for several days, and that I thought the schedule which the Secretary had worked out was satisfactory. It was understood that I would promptly inform the Ambassador this morning of the messages from London, of our conversation of last night, and seek any message which the Ambassador might desire me to carry to the Secretary tonight.

The Secretary asked me to endeavor to find out at the Embassy today where Herbert Feis is, so that he could be found if necessary. The Secretary said that Henry III had left Switzerland for Paris on last night's train and was slightly indisposed. He had told Henry to get in touch with me and I assured the Secretary that I would be glad to do anything necessary and arrange for my doctor to see his son.

When I arrived at the Embassy this morning I turned over the draft copies of Butterworth's two cablegrams of last night to the Code Clerk and asked

that . . .

that they be put in form at once for showing to the Ambassador and to Mr. Wilson. A message was coming in for me from Wayne Taylor which I asked them to decode for me as quickly as possible and get to me. At 10 o'clock it was arranged that Mr. Wilson should see me to discuss the situation.

HMC
H.M.C.

HMC/ams

Paris, August 18, 1938.

M E M O R A N D U M

Mr. Wilson came in to see me at 10.15 a.m. I went over with him the developments of yesterday and told him fully of my conversations with Butterworth and Secretary Morgenthau. Mr. Wilson agreed that it would have been wrong for me to have proceeded to Montreux last night. He thought we should see whether the French had anything to offer us directly today. While I was talking with Mr. Wilson, Mr. Offie said said the Ambassador was coming in to keep an appointment which he had sought with Monsieur Bonnet. I told Offie later that I had given Mr. Wilson a full account of the situation to date but that I should like to see the Ambassador to learn whether he had any message for me to take to the Secretary.

This forenoon there was decoded the confidential message 571 from Mr. Taylor to me. I do not see that this changes anything done or said so far. I am at a loss, however, to know what the Monnick-Daladier statements are to which this cablegram refers.

At two o'clock I telephoned the Hotel La Perouse but was informed that Henry III had gone out. I asked that word should be left for him to call my

home . . .

home after 7 o'clock.

At 3 p.m. the Ambassador called me to his office. Mr. Wilson was there. The Ambassador said he had gone over the various telegrams. I asked him if Mr. Wilson had recounted to him my conversations with Butterworth and the Secretary. He replied affirmatively. He expressed the opinion that the present problem was a French one and that neither the British nor the Americans should take any initiative. We Americans should refrain from taking any lead. If we started something which may not work out entirely satisfactorily for the French we would be the ones blamed. Mr. Wilson referred in this connection to the article in the London Times of today which blames somewhat Secretary Morgenthau's visit to Europe for the weakness of the franc and the rush to gold.

The Ambassador seemed of the opinion that Parliament would either be called to consider exchange control or the present Government would let the franc slide which would cause a cabinet crisis and involve the calling of Parliament in special session. I asked the Ambassador if he knew anything about the Daladier-Monnick statements referred to in Wayne Taylor's telegram, since I knew nothing thereof. He replied negatively.

I told the Ambassador that I was carrying out my schedule to go to Basel this evening and that the

Secretary . . .

Secretary wanted me to bring any message that the Ambassador cared to send. The Ambassador had nothing further than the above to convey to the Secretary, except to tell him to keep cool. The Ambassador was seeing Bonnet at 4.30 and promised to let me know if he had any additional word to send the Secretary. The Ambassador did ask me to remind the Secretary that one road from Rheims to Havre goes by his country home at Chantilly and that the other passes only 10 miles distant. If the Secretary desires to talk with the Ambassador again before leaving France, the Ambassador hopes the Secretary will arrange to stop in quietly on him at Chantilly.

At 3.50 p.m. Mr. Millard of the London Embassy telephoned me that Butterworth had left at one o'clock by airplane for Basel and would be at the Hotel Three Kings.

Assistant Secretary Wayne Taylor called me from Washington at 4 p.m. He said the news ticker was carrying two stories today: The first to the effect that Secretary and Mrs. Morgenthau were back in Paris for a visit prior to departing to the United States, and second that Prime Minister Daladier had issued a communiqué denying any intention of devaluing the French franc or of putting on exchange control. I told Mr. Taylor that the first report was entirely incorrect. Henry III had come to Paris this morning, but Mr. and Mrs. Morgenthau were in Basel where I am proceeding

tonight . . .

80

tonight. As to the Daladier statement, I told him I had not yet seen it but would probably find it in this evening's press and would communicate the text thereof. Mr. Taylor thought this tended to confirm the correctness of the reasoning upon which his cablegram to me of last night was based. I told Mr. Taylor I had received no word from the French Ministry of Finance today but would check with Rueff before leaving town tonight. I told him that the Ambassador had requested an interview with Bonnet for 4.30 this afternoon and that a cablegram of some interest might be based thereon. I gave Mr. Taylor the day's market news and promised to call him back yet this afternoon if anything startling should develop. I telephoned Rueff's office at 4.15. I was informed that he was in a conference and probably could not call me back before another hour.

In the Paris Soir Daladier's statement appears. I am having it translated and incorporated in my cablegram of this evening.

At 5.30 I talked with Cariguel by telephone. He told me he had lost over 3 million pounds and that Daladier's statement had helped neither in Paris nor in London. He said that neither he nor the Governor knew what the Prime Minister had in mind for the broadcast on Sunday which the communiqué of today anticipated. He said that since the Prime Minister would approve neither devaluation nor control he

might . . . .

might have the idea of appreciating the franc. He let me know that efforts in this direction today had been both vain and costly. He stated that the Governor had been pressing the Prime Minister strongly for drastic action by the Government toward improving the economic and budgetary situation.

Since I was unable to get Rueff at 6 o'clock by telephone, I talked with Couve de Murville. He said Rueff was with the Minister where they were working on Daladier's broadcast statement, but had not yet come to agreement even on the general lines thereof. He interpreted today's communiqué as indicating that the Government was appealing to the French people and that no approach to the United States Government was likely in the immediate future.

H.M.C.

HMC/ams

82

Paris, August 20, 1938.

M E M O R A N D U M

In accordance with instructions given me last night while visiting Secretary Morgenthau at Strasbourg, I have this morning informed Messrs. MacArthur and Offie that the trunks and other baggage of the Secretary and his party now held at the Embassy should be forwarded at once to Havre by the most reasonable method which would ensure their being placed on the S. S. Normandie August 24th.

I am forwarding this morning, Saturday, all mail in the Embassy for Secretary Morgenthau to him in care of the Grand Hotel, Amiens. Monday's mail should be forwarded to the Hotel de la Poste, Rouen. Thereafter any mail should be held for tranmission by some one on the Normandie boat train for delivery to the Secretary on the ship.

The Secretary asked me to call him Sunday morning at 9 o'clock at the Grand Hotel, Nancy, to give him any current news. His hotel at Rheims is the Lion d'Or.

As requested by the Secretary, I have asked Mr. Offie to express Mr. Morgenthau's thanks to the Ambassador for his kind invitation, but to say that side trips to various points of interest out from Rheims and Rouen will make it impossible for the Secretary to visit Chantilly en route to Le Havre.

H.M.C.

HMC/ams

Paris, August 21, 1938. . 83

M E M O R A N D U M

After concluding my final memorandum of August 18, the Ambassador called me to his office between 6 and 7 p.m., and permitted me to read a draft of a telegram which he has based upon his interview shortly before with Mr. Bonnet. This was cablegram 1303, August 18, 7 p.m. M. Bonnet had insisted that the Prime Minister had no intention of letting the franc be devalued further or of imposing exchange control. His week-end speech would suggest modification in the 40 hour law. Furthermore, Daladier had no intention of resigning. The Ambassador had asked me to tell Secretary Morgenthau that he thought the Secretary should "sit tight" and let the French worry out their problem. He was of the opinion that the Government would have to resign when the franc started to slide, as he thinks it will, or will have to call a special session of Parliament to consider exchange control, which likewise would mean the end of the Daladier Government.

Before leaving the Embassy I arranged for the Code Room to make a copy of the Cablegram No. 1303, which was delivered to me at my apartment shortly before 9 o'clock by Mr. Falvey of the Code Room.

At 9 o'clock I telephoned Secretary Morgenthau at the Hotel Three Kings, Geneva, as had been arranged. I again referred to Daladier's communiqué and the

Secretary . . .

Secretary took down the important passages therein. I told him of the information contained in my cablegram of Thursday and of my talk with Assistant Secretary of the Treasury Taylor. I summarized ~~accordingly~~ the message on the Bonnet conversation. In view of the information ~~foregoing~~ which I had obtained directly from Cariguel at the Bank of France and from Couve de Murville at the Ministry of Finance, I felt that I could assure the Secretary that no action was required on his part over the week-end and certainly none was expected by the French. Everybody was awaiting the Daladier broadcast to see if any new policy was envisaged and how it might be received. As instructed by the Secretary, Ileft Paris at 10.50 p.m. Thursday night August 18, taking with me mail for the Secretary and all of my recent communications and memoranda pertinent to the French financial situation. I arrived at Basel at 6.22 Friday morning. Shortly after 9 o'clock the Secretary received me along with Mr. Butterworth, in his apartment. Butterworth reviewed his file of cables and gave a summary of the British Treasury opinion upon the present French situation. I read the Daladier communiqué ~~memorandum~~ and the Bonnet telegram which convinced the Secretary that there was nothing required of him over the week-end. He then ~~again~~ sent a cablegram to Washington to this effect. We toured Basel the remainder of the forenoon and then the Secretary and his family had Butterworth and me to

lunch . . .

85

lunch with them. Butterworth returned by airplane to London at 2.50 p.m. Shortly after 3 o'clock the Secretary and I talked alone for a short time, concerning my work in Paris and the French situation. Since it was necessary to terminate the conversation before it was concluded, in order not to miss certain sights in Colmar, the Secretary asked that I proceed to Strasbourg by train, along with his Aide, while he and his family traveled by motor car. Before leaving Basel I went to the B.I.S. and called on General Manager Auboin. He and Van Zeeland and Pilotti of the B.I.S. had left their cards on the Secretary shortly before his departure. I told M. Auboin how much the Secretary appreciated this courtesy, and explained that as a tourist he had made no calls in Switzerland, on either American or foreign officials, and had already departed for Strasbourg. M. Auboin understood the situation perfectly.

Lieutenant MacKay and I left Basel at 5.18 p.m. and arrived in Strasbourg at 6.54 p.m. The Secretary and his family arrived shortly afterwards and we all dined together. After dinner I had opportunity for a good talk alone with the Secretary and then took the 11.16 train for Paris, arriving here at 6.55 Saturday morning. I attended to various commissions for the Secretary during the forenoon. I also talked with Cariguel by telephone at the Bank of France who told me that intervention on Friday had cost 1 3/4 million pounds on Friday and 200,000 pounds in London

on . . .

on Saturday forenoon. He had been able to bring the spot rate down to 178.75 and had improved three months sterling premiums to 4.75. While part of the improvement had been natural following Daladier's speech, it had still cost the Control quite a bit to give the speech the proper setting through an improvement in the rate. In so far as Daladier's week-end speech is concerned, Cariguel thought it would mention a 45 hour week. I talked with Rueff after 12 o'clock. He said that the terms of the Daldier broadcast had not yet been completed and that the text would not be available before delivery of the speech at 8 o'clock on Sunday evening. Rueff understood that the Secretary was to arrive at Rheims on Sunday and asked if I knew how the Secretary desired his visit to be considered. I said that he hoped to visit Rheims purely as a tourist without any official welcome.or visits. Rueff understood this entirely but apparently had not been previously informed in the matter.

At 9 o'clock this morning I telephoned Secretary Morgenthau at the Grand Hotel, Nancy, as agreed. The communication was very bad, but I succeeded in giving the developments of Saturday above mentioned. I mentioned to the Secretary the item in the <u>London Times</u> of August 18, in ragard to his French visit, which article Butterworth had told him would be corrected in the issue of the 19th. The Secretary had already seen the issu of the 19th which contained no correction but another article on the protection of the

87

of the French franc which revealed that contrary to earlier expectations no joint Tripartite declaration of the maintenance of the present franc-sterling-dollar relationship was to be issued. This article also mentioned that the Ambassador had been received by M. Bonnet. I told the Secretary that the London Times of the 20th carried no correction and nothing of importance on the French situation. I mentioned, further, that the Financial News of August 19th stressed the need for a formal denial by Tripartite authorities. I told the Secretary that the Ambassador through Offie had requested details of his itinerary so that he might get in touch with him by telephone. I added that Jesse Jones lunched with the Ambassador at Chantilly. The Secretary requested me to telephone him again at 10 p.m. Monday night at the Grand Hotel, Amiens.

HMC

HMC/ams

EMBASSY OF THE
UNITED STATES OF AMERICA

28

Paris, August 23, 1938.

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Hotel de la Poste,
Rouen.

My dear Mr. Secretary:

Since dictating on August 20 the general line of the monetary plan which I suggested to you at Strasbourg the preceding night, you have told me that you have taken this matter up and have gained the approval of your Washington friends to the basic plan. In accordance with your further instructions, I have this morning discussed the matter secretly with Messrs. Marchandeau and Rueff and have found them keenly interested therein. I am leaving shortly for Rouen to meet you and your other visitors.

Due to the lack of time, I have not been able carefully to revise my draft dictation. From my discussion this morning with the French I have noted several points which I have not touched upon in my letter of the 20th or which require very definite clarification. Similar points will of course be discovered in our conversations with the British. The technical phases will, of course, have to be considered carefully between those responsible for the actual operations under the several Stabilization Funds. Nevertheless, I submit attached hereto my letter of August 20, giving my general thoughts in the premises.

Faithfully yours,

H. Merle Cochran

H. Merle Cochran
First Secretary of Embassy

PERSONAL AND STRICTLY CONFIDENTIAL

57

Paris, August 20, 1938.

My dear Mr. Secretary:

In our conversation at Strasbourg last night you asked me to put into a letter to reach you on board the *Normandie* the plan which I had suggested in outline for meeting the immediate monetary situation of France and for strengthening the Tripartite Agreement. I now have pleasure in presenting the following:

The Tripartite Agreement of September 25, 1936, which was subsequently adhered to by Belgium, the Netherlands and Switzerland, received a most favorable welcome throughout the world and was considered an important step in international cooperation and toward achieving monetary stability. The spirit of cooperation has continued, but France has failed to prevent its currency from depreciating far below the level envisaged at the time the Agreement was made. It will be recalled that on September 25, 1936, the franc was around 75 to the pound sterling. This past week it has been very close to 179 to the pound. In spite of this further depreciation

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
S. S. Normandie,
Le Havre.

90

depreciation, which has taken place by successive steps, pressure has been very heavy on the franc the past two weeks and the usual crisis is now being faced. Prime Minister Daladier issued a statement on August 18, to the effect that the franc will not be further devalued; that exchange control will not be imposed; that the Government is not divided; and that he will appeal to the people of France in a broadcast tomorrow night, setting forth recommendations for defending the country and its currency.

Speeches by Premiers and their Finance Ministers promising defense of the franc have been made repeatedly at various levels, and have come to be looked upon as preludes to further depreciation. It is entirely likely that Daladier's speech of tomorrow night will not succeed in definitely and permanently turning the tide which is now against the franc. The problem may have to be faced, therefore, as to whether the other partners in the Tripartite Arrangement will consent to France's continuing as a member of the group if the franc depreciates beyond 179, or if this or a successor Government institutes exchange control. If the French Government is not strong enough itself to avoid one or the other of these alternatives, are the partners to the Agreement willing to provide really concrete assistance to supplement the expressions of good will and friendliness which have heretofore been issued at

various . . .

91

various intervals?

When the Tripartite Agreement was conceived and announced to the world, full details of its technical arrangements were not revealed. The first impression was that the members of the group would jointly defend their currencies. The successive and successful attacks on the French franc have disclosed to market operators as well as to an important part of the public that each currency is defended only by the resources of its own country. The basic idea of the Tripartite Agreement, that is, that there should be no competitive depreciation of currencies, but cooperation and consultation between countries to maintain their monies stable, cannot be questioned as a sound and laudable principle. If France should in the next few months permit the franc to depreciate further it would be almost ridiculous for the other members of the group to state that the Tripartite Agreement is still working satisfactorily and that France continues to be a member in good standing. The Swiss and Dutch monetary authorities were definitely of the opinion that the French directly violated the terms of the Agreement when they devalued in May, 1938. They recognized that the British and Americans excused this deviation from the Agreement principally for international political reasons. If France should put on exchange control this would so grossly violate Paragraph 4 of the Tripartite Agreement, in regard to

relaxing . . .

relaxing "progressively the present system of quotas and exchange controls with a view to their abolition" that the Tripartite would by most people be considered dead.

Successive Governments in France have been refused authority by Parliament, and particularly by the Senate, which might permit them in an emergency to put on exchange control without specific legislation. The present Government is pledged against exchange control. Considering: that most liquid capital has already left France; that the French people are experts in evading taxes and various fiscal regulations; that there is lacking in this country any strong and unified system which could now, or within many months, effectively control exchange operations; that exchange control, even if attempted, would not prevent a further depreciation of the franc vis-à-vis foreign currencies in the long run; and that at least one party to the Agreement, namely, Great Britain, apparently favors dropping France from the group if exchange control should be imposed; --- it definitely appears that this alternative should be discarded. If circumstances should become so critical that such a step appeared inevitable, the initiative should come entirely from the French side. Certainly no other party to the Tripartite Agreement should recommend it.

The successive devaluations of the franc since

September . . .

September 25, 1936, have brought it to a level where it is no longer overvalued, but even undervalued, vis-à-vis the principal currencies, and it should be economically possible to maintain this level. It is not easy even to justify the extensive depreciation that has taken place. One of the principal causes therefor has been that the first Blum Government instituted a series of social reforms which, no matter how much some of them may have been needed and how laudable the aims and inspirations of those who conceived them may have been, raised costs of production to such a height, and lowered industrial activity to such a depth, that France reaped practically no advantage in foreign trade or domestic recovery from the various cuts in the franc. It is very well to plan social reforms, but in a country where everybody has ordinarily been obliged to work hard and long to make a modest living, it is being foolhardy to attempt to change labor's habits overnight, especially during a world-wide economic depression, and particularly in a land still liquidating one expensive war and now preparing for a possible new war.

It is only since the last depreciation in May that the French situation has begun to offer some real hope. Many vital problems remain to be solved. Conditions are not yet perfect; if they were, the franc would take care of itself without need for international

collaboration . . .

collaboration. As it is, the price situation seems to have become adjusted; foreign trade figures of France for June and July reveal some slight improvement; taxes are exceeding estimates and are surpassing last year's receipts; the Treasury has not been obliged to draw on its credit with the Bank of France since the new devaluation; the country is experiencing an exceptionally good tourist season; in spite of the dockers' strike at Marseille, relations between employers and labor are much better than they have been for years; the unemployment figure of 340,000 constitutes no real problem; production indices are tardily but actually progressing modestly in some lines; crops are good; the country is fundamentally sound.

In spite of the above mentioned factors, the pressure on the franc continues, and has been particularly acute the past three weeks. For several months the rumor had circulated in France that a further devaluation of the franc was inevitable in the autumn, most people mentioning October or November as the fatal month. The point was made that Daladier had not used his full powers to effect a real economic and financial recovery in France; that he would have to borrow from the Bank of France to meet his requirements in the fall; that this would increase flight from the franc; and that by the time Parliament reconvened in November a real

crisis . . .

 95

crisis would be faced. As has frequently been observed in the past, when a crisis is scheduled for a certain time in this country, speculators become active and advance the date by a few weeks through their operations. In the present instance they have taken advantage of the fact that Daladier has not achieved such recovery as had been hoped for, and that continuing civil war in Spain, acutely strained relations between Germany and Czechoslovakia, and a threatened conflict between Japan and Soviet Russia made a good setting for a formidable attack. In my opinion, the international political factors have been incidental and not basic reasons for the franc weakness. Just as French speculators expected the franc to go to 175 in May, they have now for some weeks been anticipating 200 francs to the pound in the autumn. Many of them, thinking back to the time of Poincaré, are convinced that the franc will slip to 250 to the pound before its descent is stopped.

The French authorities, considering the possibilities of war, are reluctant to see their gold resources much further depleted in an effort to hold the franc. Realizing this, and fully aware of the fact that France is not receiving material assistance from her Tripartite colleagues, the speculators continue their attacks on the currency in the belief that they will win again, as they have on every occasion since the Tripartite

Agreement . . .

 96

Agreement was instituted. Some of our friends and associates in Washington, as well as in London, are inclined to blame the weakness of the franc onto international political developments, to throw up their hands and hopelessly say that there is nothing we can do about it.

My contention is that speculation, fed by the many rumors of a possible revaluation of the Tripartite currencies in the autumn, and not international politics, is the basic cause for the present weakness of the franc. I insist that by defeating the speculators we can strengthen the currency. Once France has a strong franc, the country can face its foreign political opponents with a bolder front and sound finances will strengthen her national defense immeasurably. To say that France cannot hold a currency while arming is absurd when it is seen what other countries with lesser resources than France are doing along this line. Minister of Finance Marchandeau has positively informed me that the ordinary 1939 budget which he is now preparing will be absolutely and honestly in balance. This will leave only the extraordinary budget for armaments to be met by borrowing, and France is capable of raising such funds. This is a measure which Professor Rist has urged for some time.

The experience of the last few years has shown that foreign exchange controls can be evaded and that

you . . .

you cannot legislate or regulate speculators out of action. The way to stop currency speculators is to operate against them with such comparatively greater resources as the Stabilization Funds possess and make them lose their bets. If this is done, currency rates should become more stable, hot money should cool down, and a country such as France, really offering splendid investment opportunities, should have a repatriation of exported capital and consequently an easier money market and greater facilities for industrial activity and general recovery. All of this would be conducive to lowering the Government's heavy debt-carrying charges.

Should the franc be allowed to deteriorate further now, French credit would be seriously injured; the cost of arming would increase; a domestic crisis would likely come in the near future; and if there are any nations which are disposed to start a big war in Europe, they would be sorely tempted to take advantage of disrupted monetary conditions of this country.

If the franc should be depreciated now there is little question but that the belga would have to follow. The Belgian currency barely escaped such a fate in May, 1938. As you are aware, there is considerable official sentiment in Belgium toward detaching the currency from gold at some quiet opportunity and letting it float with sterling. This isolated step should be avoided. As you have noted this summer, France has

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98

the major share of the European tourist traffic, gaining at the expense of all her neighbors. This has hit Italy, Switzerland and Germany particularly hard. If the franc should be lowered and the belga followed, it would be almost a certainty that Switzerland and Italy would alter their currencies. This would leave the Netherlands, which could hold out alone no better than was possible in 1936.

While the franc has been having its weak period this summer, sterling has also depreciated almost to its old level of 4.86, and there has been a flight into both gold and dollars. I believe sterling at this level is not overvalued, considering the various factors in the United States which have increased costs of production, and taking into account the social reforms in France which have had a similar effect. It may be that Great Britain has thought the present a propitious time to get the sterling-dollar rate back around its old level. As arguments in favor of this, it can cite the British unfavorable trade balance, the tremendous burden of armament, the favorable trade balance of the United States amounting to over 100 million dollars each of the past 6 months, and the upset political conditions of the world which have frightened capital from this side of the Atlantic into gold and dollars. Naturally England must face a loss in her foreign trade while devoting such an important part of her industry

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99

to rearmement. The strain on the budget will continue to be severe while preparations for war are pursued as actively. So far as our own favorable trade balance of the first half year is concerned, it has come from our exceptionally low purchasing power due to our second depression and from special import requirements of Great Britain and other customers which have been filled by the United States replacing Argentina and other normal suppliers of raw materials which were not in position to meet demands. This situation, so far as we are concerned, is, therefore, abnormal and would not be expected to continue once recovery starts at home or even if the depression lasts and foreigners, no longer able to export their own goodsto the United States, decrease their purchases from that country. Should the continental currencies succumb to the chain of devaluations suggested above, it would be almost inevitable that the British would find reason therein for an important cut in sterling below 4.86. Then there would be a really serious problem for the dollar. My argument then in favor of intervening to stop the above series of devaluations at the source of the movement, namely, in France, is based upon the view that it is ultimately very much to America's own interest to avoid a return to choatic exchange conditions, which would necessarily affect us.

My immediate observations are the following:

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Daladier's speech of tomorrow night may succed in checking the attacks against the franc for a while or to a certain extent. The French Stabilization Fund has at least 10 billion francs of gold and between 3 and 4 billion French francs at the present date. It has facilities for converting its francs into gold at the Bank of France. This central institution still hold approximately 56 billion francs of gold. The Treasury has credit facilities already authorized which would permit it to draw over 12 billion francs from the Bank of France. There is, therefore, no immediate crisis so far as the Treasury is concerned: and the French Control has ample means to meet any possible attack which might be continued over some weeks. Naturally the nervousness would be greatly augmented if an acute attack on the franc should recur and the public realized that the Stabilization Fund was obliged to spend important amounts of its diminishing gold to hold the rate. My point is, however, that we have at least a few days in which to plan for meeting the important franc situation.

When you were on the Riviera, and Finance Minister Marchandeau suggested an informal statement by you, with the hope that it might help overcome gossip of Tripartite negotiations, I favored such a statement, although I am fully aware of the reasons which caused you to decline. I have not been in favor of a Tripartite

declaration . . .

declaration in the present situation unless the parties thereto had definitely agreed as to what concrete steps they might take afterwards if such a declaration by itself failed to sustain the franc. Incidentally, denials by the British and American officials have been required so often, that their effectiveness has not been much greater than that of the periodic statements of the French Government officials. In the present or in the near future I see no need or reason for a Tripartite statement. I believe that our plan should be guarded most secretly and should be put into operation so skillfully that speculators would be set back before they had time to realize what was actually taking place.

The advice for the French, if it should be requested from the British and ourselves, should be to hold the franc firmly at 179. You will have a chance to consider this plan as you travel toward home and, if you may see fit, to discuss it with your Washington advisors. The plan is entirely American, no foreigner having approached me in the premises. It should, in my mind, be developed as an American plan. If you are agreeable to it, with such amplifications and specifications as your technical advisors may require therein, the British and French should be consulted thereon as early as possible. Since the franc is the really weak currency, and since it appears that much of the weakness

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of sterling has come from French holders thereof now buying gold on the belief that both the pound and the franc will be devalued again in the autumn, first assistance should be extended the franc.

For the account of the United States Stabilization Fund, francs should be purchased against dollars in Paris, London and New York, in case of weakness. There would have to be fixed a range within which the franc would be held, perhaps between 175 and 179. Coordination of operations would have to be through the French Stabilization Fund, in order that there would be no conflicting deals and that rates would not be moved too quickly or too far. Messrs. Fournier and Cariguel might prefer to use their own traders to do this buying in Paris. If the speech of Daladier of tomorrow night makes a really good impression and improves the situation, our assistance, if and when needed, might best be used inconspicuously through Mr. Cariguel to supplement his own moves. The speech may conceivably lead to labor outbreaks or cabinet or political dissensions. If there should then be a threatened panic, or a sharp drive on the franc should recur, a good psychological shock might be given the market by the traders of Paris and London American banks boldly appearing as buyers of francs. The main thing is to let the French know that they can have the benefit of our cooperation through buying and holding francs at such times as the pressure is too heavy

for . . .

for them to meet, or when the Control officials feel that it is in the interest of stability that they should resort to our aid rather than have further immediate gold losses.

Prior to the above operations there would be consummated an agreement between the French and the American authorities whereby the former would promise to redeem, at their own option in gold or in the same number of dollars as paid therefor, the francs purchased by the United States Stabilization Fund. The contract should envisage redemption of such funds on demand, after not less than three months from date of purchase. I suggest this period of three months as a common limit for central banking operations, and for trial. If the system could be put into effect the last week in August, three months' operations would see France through the present period of uncertainty and the reconvening of Parliament in November. Germany's manoeuvers and the American elections would likewise be passed during these ninety days.

The British would have an arrangement with the French and ourselves similar to our arrangement with the French. It is my belief, however, that the market could be turned in favor of the franc, and the sentiment for sterling itself improved, if the United States definitely purchased francs and bettered the rate.

There . . .

There would be no formalities involved in this experiment as above outlined beyond the contracts and the consulting between the usual representatives of Treasuries, the Stabilization Funds, and their respective agents.

The gold resources of France, as set forth above, and its dollar holdings in the United States, are certainly ample to permit us to risk operations in francs of the proportion that might be required in the circumstances. We should demand the guaranty of the French Treasury, as the monetary authority controlling the Stabilization Fund, and of the Bank of France, as the holder of the gold reserves covering the franc, to redeem the francswhich we purchase.

If the scheme works successfully, the franc would be held at 179 or even improved. It would be essential that there be no leaks whereby speculators gained the idea that three months' operations were involved. This knowledge of maturity dates has in the past helped render British loans to the French Treasury of little avail in holding the currency, since pressure always increased as the due dates approached and capital movements out of France at least equalled the sums borrowed abroad.

If the situation may not have improved sufficiently at the end of the three months for the French authorities to repay without embarrassment the sums invested in francs by the foreign Controls, these operations could

be . . .

be extended by mutual agreement and a liquidation arranged which would not weaken the franc. The partners would have to be convinced, however, that France had made genuine efforts in self-help and was acting entirely in good faith. If pressure seemed hopelessly heavy at the end of the three months, the Tripartite countries could then consult as to whether they thought the franc really needed a further devaluation. If so, commitments would be repaid and the franc devalued. I am strongly of the opinion, however, that this last situation would not arise. If war involving the leading European countries, and France in particular, should break out, naturally war-time regulations would have to be imposed. Nevertheless, France would have the above mentioned contract with us which she should be anxious to fulfill in the circumstances.

The above plan might, of course, necessitate some support of sterling by us. I believe our authorities would have little worry as to the honoring of the obligations incurred by the British monetary authorities in the premises.

If the system works satisfactorily to hold the franc and sterling, there could be envisaged a permanent revision of the Tripartite Agreement, with this principle extended to the other three countries: Belgium, the Netherlands and Switzerland. They should be made partners and not adherents in this new arrangement. It is only

after . . .

after the system may have succeeded in France and it has been decided to give it a permanent character that any announcement should be considered. Even then it might not be advisable, unless the laws or regulations of one or more member countries might have to be amended, and a general statement by the group would be used to cover this. The operations which I have suggested would appear to come fully within the authority granted by the Gold Reserve Act of 1934, Section 10 (a) whereof reads:

> "For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section."

This would, I believe, permit the Stabilization Fund to deposit with the B.I.S. through the Federal Reserve Bank of New York, such foreign currency holdings as it might care to put out at interest.

In determining the willingness of countries to fit into this new system, which it would be hoped to carry forward as the basis for a permanent international monetary association, each country should be asked to fix the conditions under and prices at which it would sell and buy gold to and from the other members. The United States and Belgium already have defined their positions

clearly . . .

clearly, and Switzerland gave an undertaking along this line when that country adhered to the Tripartite Agreement. Special rules would have to be agreed upon as concerns Great Britain and the Netherlands and any other countries which might subsequently enter. It is my belief that it is better to discuss a range now with Great Britain than to risk seeing 4.86 passed. Should the rate decline below this level, I am convinced that there would be tremendous speculation to bear down toward 4.50.

The foregoing would effect a certain binding of the currencies to gold without going back to the rigid system of 1930. By having the operating contracts permit optional redemption in the currency of the purchaser, the monies would thereby be bound together, one to another. This should provide a very definite argument against any country starting currency depreciation. The arrangement would envisage consultation between countries if any rate proved unbearable. That is, no country should change the rate of its currency in relation to other currencies of the group or to gold, beyond the limits agreed upon, without the consultation and approval of the other members of the group. If approval was not given, the country should be dropped from the organization if it proceeded unilaterally to carry out its intention. In future announcements, reference to any 24 hour policy should be omitted.

The advantages of this association should be a real

incentive . . .

incentive to other countries to seek membership therein. In the past most countries have had to have foreign loans or credits to permit them to stabilize. Any outside country which thought that it had its currency established within economically proper limits, and capable of meeting the rules of the group, could apply for admission. If accepted, the facilities hereinabove described would serve to protect the currency from the usual attacks that meet a newly stabilized money. This should help importantly in freeing countries from exchange control.

If any country outside the group raised its gold buying price to an unfair limit and that act was of sufficient importance to affect seriously the club members, they have the weapon of all altering their gold prices simulteneously to meet the situation. This, it is hoped, would be a potential rather than a utilized weapon.

The immediate idea is that the time has come in France for stopping the depreciation of the currency. France is not able alone, by her own resources, in the face of heavy speculation and armament necessities, to take effective measures. If we can save the franc, we can save the other currencies that count. Rather than let the international political situation really upset our currencies as some are resigned to do, we shall so strengthen those currencies and their possessing countries that the latter will be stronger vis-à-vis their foreign

political . .

political opponents and danger from aggression from the latter will fade. The idea of the scheme is not political but monetary. However the scheme may be interpreted, there should be no reference in any announcement to a union of the democracies against the totalitarian states. It should be hoped eventually to make this the world's monetary association. The idea is not to perpetuate the present Government in France. The system should be useful to any Government in France. In our own country, I cannot but think that a move proving that Tripartite cooperation is working successfully in the direction of monetary stability abroad as well as at home would redound to the credit of the Administration.

Faithfully yours,

H. Merle Cochran

H. Merle Cochran
First Secretary of Embassy

HMC/ams

delightful

Embassy of the
United States of America.

FROM AMERICAN EMBASSY, PARIS

The Honorable Henry Morgenthau, Junior,

Secretary of the Treasury,

S. S. Normandie,

Le HAVRE.

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