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THE COMPTROLLER OF THE CURRENCY
WASHINGTON

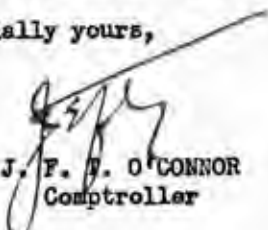
January 16, 1937.

Dear Henry:

Congressman Goldsborough, who is next to Henry Steagall on the Banking and Currency Committee of the House, was in my office yesterday on a patronage matter and I told him about the two bills which would be submitted by this Bureau for the consideration of Congress. Without any suggestion from me, he said he believed that both of these bills would go to the District Committee in the House of Representatives and not to the Banking and Currency Committee. I told him that was where the credit union bill went last session.

He also volunteered the information that he had a long discussion with Chairman Steagall and they were opposed to any legislation which would interfere with the present set-up of the Comptroller's Office. I did not discuss this matter and did not introduce the subject, but evidently it was a reply to the state supervisors who have sent literature to the Committee and have had numerous press releases with reference to combining the Comptroller's Office with the Federal Deposit Insurance Corporation.

Cordially yours,


J. F. J. O'CONNOR
Comptroller

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

*Morgenthau
1/27/37*

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan.

DATE: January 18, 1937, 7 p.m.

NO.: 9

Reference is made to telegram No. 7 of January 16, 1 p.m., from the Department.

During the past week there have been no important developments in the financial field. There has been resumption of interbank payments on the basis of instructions received from abroad but since the enforcement of the exchange regulations on January 8 there has been no import exchange. Before consideration is given to import bills the banks are requiring importers to produce figures of their imports of commodities in the years 1935 and 1936. It appears that this is an attempt to gain time, but when the importers having fulfilled the requirements present for settlement import bills in large quantities, the reaction may be unfavorable for the yen. The Yokohama Specie Bank has in the meantime been able to hold the yen to the announced rate of one shilling two pence. Events indicate that for some time it will be able to hold the rate at this point.

There has been no change in the fundamental factors weakening the financial structure. There is a continued and rapid rise in prices in anticipation of credit inflation and because of the inability of economic resources to meet budget demands. The uneasiness which economic

circles

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circles feel is enhanced by the inordinately rapid price rise. There is increasing evidence that in the Diet the tax increase plan will be opposed by the political parties - which the financial and industrial interests are backing - but it is not believed that the budgetary and other financial arrangements of the Government will be upset by such opposition.

There have been rumors that Fukai, conservative Governor of the Bank of Japan, will resign because of differences of opinion with the Finance Minister, Baba. In financial circles it is assumed that those differences of opinion have to do with the Bank of Japan being forced to take deficit bonds.

(NO SIGNATURE)

EA:LWW

COAST GUARD OPERATIONS IN FLOOD AREA

January 19, 1937.

The first call from the Red Cross was received by the Coast Guard on the evening of January 19, for six surfboats for use in the flood area, and the Commander of the Chicago Division, at Chicago, was immediately directed to arrange for shipment.

January 20.

Preparations were made by the Coast Guard Divisions on the Great Lakes to have additional boats ready to proceed upon receipt of orders. The six boats, crews, and portable radio apparatus were dispatched by a special train from Chicago to the critical area at Evansville, Ind., District Commander S. B. Johnson being placed in charge of relief forces.

January 21.

On the early morning of January 21, two boats from the Chicago Division arrived at Hazelton, Indiana, and four arrived at Evansville, Indiana, these being the first Coast Guard boats to arrive on the scene; there being urgent need for additional boats, six surfboats, with crews, were dispatched from Buffalo, N. Y., and six more were sent from the Chicago Division, destined for Evansville, Ind.

January 22.

In the early morning of January 22, another contingent of five boats and crews were dispatched from the Cleveland Division and rushed to Cincinnati, Ohio, for operations in the vicinity of Lawrenceburg, Ind. One amphibian plane departed from Cape May, N. J., for Evansville, Ind., and orders were given for the dispatch of one amphibian plane from Salem, Mass., and two amphibian planes from Biloxi, Miss. The New York Division assembled twenty boats from Coast Guard stations on the New York, New Jersey,

and Delaware coasts and proceeded to dispatch them to Cincinnati and Evansville where they are to be joined by six additional boats from the Chicago Division. Approximately 8 portable radio sets accompanied the boats. Up to noon on January 22, Coast Guard relief force in and dispatched to the flood area totaled approximately 235 officers and men, 49 surfboats from the Great Lakes and Atlantic Coast, 10 portable radio sets, and two radio trucks. In telephonic conversation with District Commander Johnson he reported conditions as most serious. The operations of the Coast Guard were centered largely at Cincinnati and Evansville. Subsequent to this telephone conversation with District Commander Johnson the Coast Guard ordered five motor surfboats dispatched from the New York Division and fifteen from the Norfolk Division, making a total of 69 surfboats which have been dispatched to the flood area.

File



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 870.5151/2

January 18, 1937

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses two copies of despatch No. 652 of December 22, 1936, from the American Legation, Belgrade, Yugoslavia, transmitting a translation of the official communiqué issued at the close of a recent meeting of the Governors of the National Banks of the Balkan Entente which was held at Athens.

*Yugoslavia
Rumania
Greece
Turkey*

Enclosure:
2 copies No. 652,
December 22, 1936,
from Belgrade.

 Department of State

BUREAU } **EA**
DIVISION }

ENCLOSURE
TO

Letter drafted _____

ADDRESSED TO

TREASURY

No. 652.

Belgrade, December 22, 1936.

Subject:

Communiqué of the Governors of the
National Banks of the Balkan Entente
States.

The Honorable

The Secretary of State,
Washington.

Sir:

As a matter of record and as of possible interest to the Department, I have the honor to transmit herewith a translation of the official communiqué issued at the close of a recent meeting of the Governors of the National Banks of the Balkan Entente. The meeting was held at Athens.

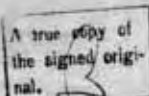
Respectfully yours,

Charles S. Wilson

Enclosure:

Communiqué. Translation of.

File No. 651
CWS:MM



Regraded Unclassified

Enclosure to Despatch No. 652 of December 23, 1936, from the American Legation in Belgrade - entitled:

Communiqué of the Governors of the National Banks of the Balkan Entente States.
(Translation)

Source: AVALA, December 21, 1936.

The Governors and their collaborators have examined all the questions included in the agenda in an atmosphere of complete mutual confidence. The four Governors are happy to state that they are in perfect accord in so far as concerns the questions affecting the scope of activity of the National Banks.

Considering that the monetary accord which binds France, Great Britain and the United States, and to which other countries have adhered, represents in all actuality a step toward the amelioration of the international monetary situation, and regretting that they cannot at this time adhere to this accord, the four Governors express their hope that the currencies of the principle powers may be definitely stabilized in the near future so that other countries, and especially the States of the Balkan Entente, may likewise associate themselves in this work of rehabilitating the currencies of the world. The four Governors have noted the difficulties which confront their national economic systems by reason of the low prices obtainable for the principal products of exportation and, in consequence, by reason of the valorization of gold.

They have noted that to the monetary alignment, to which many countries have already adhered, must follow measures for relaxation (of economic restrictions) and for a progressive return to free trade. They recognize the need, and notably for those countries which have

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already joined the monetary alignment, of progressively abandoning the system of clearings, or, at least, of modifying its structure.

They consider desirable that the question of foreign debts be regulated in accordance with the revision of the gold clause.

Special sections will be created in each of the four National Banks which will be charged with the examination of the economic and financial situation in the countries of the Balkan Entente and especially with the study of the possibilities of ameliorating and developing the economic relations already existing between the four countries.

The four Governors have examined the problems relating to their common activities within the framework of the Bank for International Payments. In this respect it would appear desirable that the Balkan Entente be represented in the Administration Council of this International Bank.

RB

GRAY

Paris

Dated January 18, 1937

Rec'd 3:28 p. m.

Secretary of State

Washington.

73, January 18, 4 p. m.

FOR THE TREASURY.

The exchange market today was without any special feature and little business was done.

The security market was irregular, and weak at the close. Rentes gained and lost a few centimes.

A certain optimism is apparent regarding signs of economic recovery here such as increased metallurgical production, consumption of electricity and of coal.

While railway receipts for the entire year 1936 are only 0.71% more than for 1935 statements relating to last weeks of 1936 show increases ranging between 12 and 20%. Advance information regarding revenue from indirect taxation for the month of December shows an increase of about 10%.

An official denial by the Minister of Finance was published in today's press of a statement made by M. Lemaigre -- Dubreuil (President of the Federation of

Tax

RB

-2-#73, January 18, 4 p. m. from
Paris

Tax Payers and a member of the General Council of the Bank of France) that the Treasury had practically exhausted its borrowing powers at the Bank of France. The Minister of Finance insisted that the statement was "totally devoid of foundation" but did not enter into details. Information relating to the apparent situation of the Treasury was given in the Embassy's despatch number 256 of January 7.

The financial press comments with satisfaction upon designation of Bonnet as French Ambassador to the United States and the view is stressed that principles recently upheld by him before the Chamber indicate that he will actively seek to promote financial and economic collaboration between France and the United States and to prepare a constructive international economic plan. L' INFORMATION considers that these ends will be sought rather than a settlement of the debts "which the American Government among others does not appear to consider opportune for the time being".

AGENCE ECONOMIQUE editorially reads into appointment of Bonnet and departure for the United States of Runciman and Niemeyer the first move towards an important conference between the signatories of the recent tripartite monetary arrangement

RB

-3-#73, January 18, 4 p. m. from
Paris

arrangement "which is developing more and more into a
basis of reconstruction of world prosperity".

Paris NEW YORK HERALD TRIBUNE enthusiastically lauds
appointment and suggests that Bonnet will go to Washington
"not so much as the traditional decorative diplomat but
(END SECTION ONE)

BULLITT

CSB

RB

GRAY

Paris

Dated January 18, 1937

Rec'd 5:05 p. m.

Secretary of State
Washington.

73, January 18, 4 p. m. (SECTION TWO)

as a precious collaborator with the Roosevelt administration for the solution of specifically Franco-American problems and world economic problems generally."

A decree providing for the application of an arrangement signed on January 15 between France and Spain relating to the orange quota and to commercial payments was published in the Journal Official of January 17. This arrangement provisionally replaces the transfer convention dated December 21, 1935. It will be remembered that the decision of the French Government dated August 3, 1936, provided for the blocking with the Paris clearing office of all payments made by French importers of Spanish merchandise. The new arrangement provides for the payment into the Paris clearing office of the process of certain imports from Spain, fruits, nuts, et cetera, and for the following disposition of such proceeds: 15 per cent to assure the liquidation of French commercial credits in

arneys

RB

-2-#73, January 18, 4 p. m. (Section
Two) from Paris

arrears; 25 per cent to be placed at the disposition of the Spanish Government; and 60 per cent to be applied to the payment of exports of French merchandise.

The LONDON FINANCIAL TIMES of today gives notice to recent fall in silver prices and states the London observers contend that President Roosevelt is so independent of the "silverites" that no fresh price-raising campaign may be expected. These observers recall that currency reform by China and that action by Mexico last August in reintroducing silver coins were of expectations of stable silver prices and that it may be assumed that both countries consulted the United States before taking action. With gold still going to the United States, this paper remarks that it is becoming difficult for the United States Treasury to achieve the object of the Silver Purchase Act, namely to establish a silver reserve equal to one third of the gold reserve. 'END MESSAGE

BULLITT

SMS

NPL

MED

GRAY

PARIS

Dated January 19, 1937

Received 6:03 p.m.

Secretary of State

Washington

76, January 19, 4 p.m.

FOR THE TREASURY.

Trading on the exchange market was more active today and there was a fair demand for dollars chiefly from London.

The tendency on the security market continued weak and irregular and rentes lost between seventy centimes and one franc eighty centimes.

Former Finance Minister, Germain Martin, writing in JOURNEE INDUSTRIELLE today refers rumors that the French Government is negotiating a loan of several billion francs in London and observes prior to 1932 France has never had to have recourse to foreign loans during peace time. He considers it a great misfortune that a nation like France should have to go abroad for long term funds and regards the necessity as proof that the French refuse to loan to their own Government. He stresses the unfortunate effect abroad of this lack of confidence. Referring to the possibility of early international

MED - 2 - #76, January 19, 4 p.m. from Paris

international economic negotiations, he recalls that up to now in such circumstance France has not had her hands tied but that a foreign loan would compromise this independence. Germain Martin, therefore, expresses the hope that France will find ways and means to finance itself and refuses to believe reports of an arrangement to borrow 10,000,000,000 francs on a long term basis on the London market.

As concern the visit of Runciman and Niemeyer, the LONDON FINANCIAL NEWS refers to New York reports that President Roosevelt has prepared a comprehensive scheme which would combine stabilization with the settlement of the war debts and the reciprocal reduction of tariffs. This paper expresses the view that there is no reason to suppose that such a scheme will be adopted or even discussed officially in the near future and adds that it is much more probable that Runciman's visit merely aims at the negotiation of a new trade agreement with the United States and that it is a mere coincidence that Niemeyer should go over there at the same time. If stabilization were the subject of the negotiation Leith-Ross or some other senior official of the Treasury would be sent to Washington, it concludes.

The

MED - 3 - #76, January 19, 4 p.m. from Paris

The conclusion by Greece of an arrangement with Germany for a loan of 4,000,000,000 drachmas is announced in today's FINANCIAL PRESS. The loan, it is said, is to bear interest at 3 per cent and is repayable in six years through the Greco-German clearing arrangement balances. Proceeds are to be devoted solely to the supply of war material it appears. According to LONDON FINANCIAL TIMES the credit balance for Greece under the clearing arrangement of 1,600,000 drachmas was covered already by orders for armament. It is stated that under the arrangement Greece has been assured of a satisfactory market for her tobacco for the next six years.

BULLITT

EMB:SMS

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 19, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION

L. W. Kneke

WITH BANK OF ENGLAND.

Mr. Bolton called me at 11 o'clock today. He referred to the recent gold shipments received here by parcel post and the reported loss of one bar and stated that this was actually gold purchased in London (like most of the recent "mysterious" shipments from Switzerland), shipped to Switzerland and then, from there by mail, to New York. He wanted to speak to me about this, he said, because he was trying to get his people to take this matter up with the International Postal Union. The whole thing, he thought, was scandalous and nothing more than cutting each other's throats to make a profit. He would very much like to put a stop to it but realized, of course, that it was everybody's privilege to ship this way if he wanted to. I told Bolton that as a matter of fact I had yesterday morning asked that a report be prepared for me showing how the different countries in the world stood on this matter of shipping gold through the mail. I felt very much the same way as he, I said, and did not off-hand see why our post office authorities should handle gold coming in through the mail when, at the same time, they would not accept gold for shipment abroad through the mail. I also told Bolton that some little while ago we had looked into the question of comparative cost and found shipment through the mail cost 1/4 per mill compared with 1/4% for shipment as freight. On the other hand, insurance, of course, was likely to be higher for mail shipments although, so far, we had not been able to find out just how much higher. Bolton replied that they had not succeeded either in getting a line on the rate of insurance but had found out that some of these shipments were not insured at all.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date January 19, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Kneke

WITH BANK OF ENGLAND.

- 2 -

Bolton then mentioned that he had an order from the Argentine to buy \$20,000,000 for delivery on January 26. In addition to that, they might possibly be called upon to provide further \$40,000,000 in connection with an outstanding amount of \$25,000,000 of United Kingdom 5 1/2% bonds with a gold clause. The matter was now before the House of Lords as the final authority and its decision was expected within the next ten days. So far three lower courts had occupied themselves with the question; two had decided in favor of the Treasury, one against the Treasury. If the House of Lords decided against the Treasury, they would need the additional \$40,000,000; if in favor of the Treasury, everything was fine because the bonds were payable at the holder's option in dollars or in sterling at 4.86. With sterling at above 4.90, everybody would of course want to be paid in sterling. He wanted to tell us about these transactions, he said, because, in order to avoid shipping any gold and understanding furthermore that we were not so keen on getting a lot more gold, they had decided to buy the dollars in the market. I replied that we also had, this very morning, received an order from Argentins to sell £2,000,000 for the same delivery and that I did not quite know what to do. We would, of course, like the Bank of England, try to do it through the market. However, it seemed to me we were very closely watched here and I questioned whether we could get very far without depressing the rate. I did not suppose, I said, that they, any more than we ourselves, were interested in having the rate knocked all over the lot. Bolton replied

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 19, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoks

WITH BANK OF ENGLAND.

- 3 -

that they would of course do their best to keep it steady but that there was no reason why it should not move a little, particularly since it was "bound to move sometime or other." In the face of their heavy dollar requirements it seemed kind of silly to try to get them all in and maintain the rate absolutely steady. "Honestly, we don't mind if the rate does move about as long as we know the reason. The time to get worried is when it moves tremendously and nobody knows why." I repeated that we would try the market here and see what we could do. If, however, we did not succeed in selling much, would it be all right for us to take the sterling over from the Banco Central and convert it into gold on January 20 at today's gold price? Bolton replied that he did not think there would be any real objection to that. However, I suggested that he think this matter over a little while and if he changed his mind that he give me a ring before his closing and tell me frankly. He promised he would do that but stated that "From bank to bank there is no doubt you can, no doubt at all."

I inquired how much he had done today and he said between six and seven million dollars, some with the B. I. S., some with the Bank of France, some with Holland and a few millions in the London market. In addition to that they had already acquired a fairly large balance with us (about \$21,000,000 as of last night). I ventured the opinion that, under the circumstances, the Argentine order was about half finished and Bolton agreed.

We briefly discussed the present exchange market. I mentioned that the Dutch had, under the recent agreement, accumulated fairly

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 12, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnekeWITH BANK OF ENGLAND.

- 4 -

substantial gold holdings here. Bolton replied that they had done very little over the past fortnight, that all the dollar offers were really against guilder and not against sterling. The situation in France, which did not seem to get any better, continued to give worry. There was this continuous drift of capital from Paris to London, averaging probably at present about £500,000. ^{daily} This was not much in itself but it was the consistency of the movement that aroused their fears. What they had in mind was the question how far from exhaustion was the French Stabilisation Fund and what were the French going to do.


LWX:KMC



TREASURY DEPARTMENT

WASHINGTON

January 19, 1937.

Turn this over to H. Graves

MEMORANDUM FOR SECRETARY MORGENTHAU.

The attached is a report upon the latter part of my Foreign Trip in connection with Narcotics. It covers the Middle East, Egypt, the Near East and Europe.

B. M. Thompson
B. M. Thompson.

Turn 765

FOREIGN NARCOTICS

Report of Commander B. M. Thompson upon the latter part of his survey in connection with narcotics.

In previous reports my observations were submitted in connection with Hawaiian Islands, Japan, Korea, Manchoukuo, Kwangtung (Dairen), China, Hong Kong, and the Philippine Islands.

The subject of this report is observations concerning countries visited on the return trip from the Far East to New York via Suez and Europe. It covers the following:

Straits Settlements.

Ceylon.

India.

Egypt (incidental information concerning Syria, Turkey and Greece).

Italy.

Austria (incidental information concerning Bulgaria and Yugoslavia).

Germany (incidental information concerning Trans-Siberian railway route and Poland).

Belgium.

France (information concerning illicit traffickers operating in the Far East through Paris to the United States).

Straits Settlements.

At Singapore conference was held with the Commissioner of Customs.

Points of interests brought out were:

Singapore has a State Monopoly similar in principal to those in the other Far Eastern territories. A particular difference noted was that the opium sold to users through retailers under monopoly is put up in small light metal containers of peculiar design. The purpose of this is to defeat attempts to counterfeit monopoly packages. There is considerable use of opium and other narcotics in the Straits Settlements, due, for one thing, to the large Chinese population. The Commissioner was considerably concerned about the amount of opium being smuggled from China. Illicit landings are frequent on the Coast from small craft. In addition to opium, heroin is now appearing principally in the Pink Pills now so popular in China and originating in Japanese controlled areas. A considerable smuggling traffic is carried on by means of personal carriers as well as in freight. The ingenuity of the numerous devices used was very interesting. With regard to smuggling to the United States, two sisters, of whose names I made note and who conduct a novelty shop in Singapore, are under suspicion and observation with regard to their possible carrying of narcotics to the United States on their frequent trips to San Francisco.

Ceylon.

Ceylon is a separate colony entirely distinct from India. At Colombo a conference was held with Mr. Wadia, Excise Commissioner, under whose Department the control of narcotics is directed, Mr. Ferguson, head of the Police Department, who is in charge of narcotic smuggling enforcement, and Mr. Leigh-Claire, Deputy Collector of Customs.

Singapore has its own colonial opium monopoly similar to others throughout the Orient, in which control of the use of narcotics is attempted. There is a considerable smuggling problem, however, particularly with regard to Ganja, Charas and Bhang, these being various forms of Indian hemp. This traffic is of considerable annoyance to the authorities as it results in appreciable loss of revenue. A very interesting thing was brought out at this conference in discussing the world aspect of opium smuggling traffic. The Ceylonese officials remarked that 20 tons of Turkish opium had passed through Colombo on May 9, 1936, aboard the Japanese steamer Yasikuni Maru, bound for Dairen via Kobe, Japan. This was of particular interest to me because I had been informed by Nicholson at Shanghai that other shipments of this character in ~~small~~^{various} amounts had passed through Shanghai. Upon receipt of this information at Colombo I cabled Nicholson to see if this particular opium had passed through Shanghai. He replied that the Yasikuni Maru had passed through Shanghai, but she had on board only 16 tons of Turkish consignment. It is thought that the missing 4 tons were transshipped somewhere between Colombo and Shanghai for transfer to Formosa. Nicholson reported that three previous shipments of this character had passed through Shanghai for the same destination as follows:

June 8, 1936.....	Hakone Maru.....	62 cases
Aug. 17, "	Hukusan Maru.....	90 "
Oct. 9, "		300 "

All cases were of 80 kilos net weight.

It is to be noted that shortly after these shipments passed through China en route to Dairen, Turkish opium appeared for the first time in many years in Tientsin illicit market. A check is now being made to find out if the shipments of Turkish opium were legal and covered under the League procedure by export and import permits.

If this amount of opium moved from Turkey illegally it would appear that other amounts are also moving, something which we must watch very closely.

India.

At Bombay a study was made of the situation in the short time available. As we know the exports from India are no longer legal. The manufacture and sale of opium is monopolized by the government. Sale is permitted by the provincial authorities through licensed vendors. The collection of ganja and bhang is done under government supervision. The collected products are stored in government warehouses and are released for retail sale to licensees on payment of excise duty. Opium smoking is prevalent among the Chinese and Mohammedans in Bombay and other large cities in India. A bill has just been passed by one of the local legislatures to prohibit opium smoking in an assembly of two or more persons. This is an example of a general governmental attempt to control the use of narcotics to insure proper receipt of taxes pertaining to same.

Ganja is used in much the same manner as opium, but ganja smoking is much more common than opium smoking. Its use is chiefly confined to the laboring classes. There is no restriction against smoking ganja.

Charas is chiefly used for smoking along with tobacco. Charas is a stronger intoxicant than ganja and its use is confined to the lower castes in Western India.

Bhang is also a popular narcotic. It is used mostly by the people in upper India in the preparation of intoxicating drinks, by grinding the leaves along with spices and dissolving in milk or water. It is also used for smoking.

Ganja, Charas and Bhang are all products of the Indian hemp plant. Ganja comes from the dry flowering tops of the cultivated female hemp plant. Charas from the resinous matter which forms an active drug when collected separately. Bhang comes from the dried leaves of the hemp plant, either male or female. The supply of narcotics within India seems sufficient for the use of her addicts. When the Japanese smuggling trade evidences itself in the middle East, I think it will be easily recognized ^{by} seizure of the well known pink pills. This thought was passed along.

Egypt.

At Cairo a very interesting conference was held with Russell Pasha, known as one of the outstanding narcotic authorities of the world with particular reference to hashish. Mr. Russell has for many years been Chief of the Police at Cairo and has devoted the greater part of his energies to combating the use of narcotics. At one time he had in jail 8,000 narcotic addicts. The chief drug, of course, used in Egypt is the hashish, mentioned above, a species of cannabis indica. Mr. Russell gave me a great deal of interesting information concerning its use and illicit introduction. One very interesting incident being the seizure in Antwerp, Belgium, of approximately 20 tons of hashish destined for Egypt. This is cited here to illustrate what goes on at foreign ports such as Antwerp, Rotterdam, Hamburg and Danzig. The hashish seized at Antwerp had come from the Near East and was assembled at Antwerp for further smuggling into Egypt. Considerable hashish smuggling in the past has taken place from Greece and neighboring countries. Also from Syria and Lebanon. Cairo authorities are always on the qui vive to prevent smuggling and are

reasonably successful as evidenced by recent seizure made on the steamer passing through Port Said. Mr. Russell is much interested in the Far Eastern situation, particularly due to the use of the Suez Canal by carriers.

Italy.

Italy has its own supposedly diligent narcotic service about which much has been reported, therefore there is no use of going into it here. However, it would appear that they were not aware of what has recently been directed through Italy en route to other countries. As I have set forth elsewhere, the routes over which the large scale narcotic ventures from the Far East are conducted at present are through the Suez Canal via steamer and over the Trans-Siberian railroad. The consignments we know of are destined for the United States over these routes, but so far as the Italian or other European authorities know, some of the narcotics are dropped in Europe. With regard to the first named route the ports of call principally concern Italian ports and Marseilles. The route from Shanghai through Suez to Venice was the one used by the principal New York mob, commented on elsewhere, in the expedition conducted by Julius Lisman. The last known consignment which Lisman was "chaperoning" was intercepted in Shanghai and consisted of two large trunks of 112.3 kilos high grade morphine, ^{which} as I have commented upon elsewhere. On the trip previously to this one Lisman came into Venice over the same steamer line with three similar trunks, which were undoubtedly destined for further transportation to New York. Investigation at Trieste brought out the fact that the steamers of the Italian line running into New York, particularly the Saturnia and the Vulcania will bear particular watching. Certain ship's

officers from these two vessels, although very moderately paid, are living upon a scale-in commensurate with their legitimate incomes. Also, upon the occasion of a fairly recent seizure in New York, on one of these ships, when the seaman implicated fled from the ship, he is said to have communicated with his captain after three days absence, requesting instructions as to what to do next. Upon inquiry I find that this captain is now retired.

Austria.

(The working of the national narcotic control in the countries mentioned hereafter will not be discussed as they have been previously and reported in considerable detail.)

In Vienna the subject of opium narcotics from the Near East was discussed at length and one point of interest brought out was that opium is supposed to be moving from Turkey to Greece and from Greece to the United States by Greek ships. Also, that the narcotic traffic in Bulgaria and Yugoslavia is active. It is my thought that we should keep our eyes on the Near Eastern countries very closely at this time.

Germany.

In Berlin a principal point discussed was the use of the northern smuggling route via the Trans-Siberian railroad from the Far East to the United States. This railroad goes through Stolpce, on the Polish-Russian Frontier. This ^{is} being the point at which we should meet narcotic smugglers in the future. Several loads that we know have passed through here recently. While in Berlin I met Mr. Cudaky, Ambassador to Poland. I talked narcotics to him for a short time.

It appears to me that all narcotics going through Stolpce are not arriving at Paris. There are some cases where they are very probably taken direct to Danzig, Hamburg, Bremen, etc., for further disposition.

Belgium.

At Antwerp a long conference was held with Consul General John C. Wiley. He is very much interested in the Treasury enforcement matters as evidenced by his past record. Mr. Wiley tells me that narcotic smuggling of all kinds has been and is now frequently conducted out of Antwerp. He informed me that Antwerp is fully as "hot" now as it was a year ago, when I was there in connection with alcohol smuggling. He was able to give me information along specific lines. Our European representatives are now devoting considerable attention to it. The Antwerp situation will not be gone into further here as it is covered elsewhere.

France.

In Paris several conferences were held with our supervising Treasury Attache, Mr. Wait, discussing among other things, ways and means of effective cooperation between Shanghai and our European agents. Upon learning that the attitude of the French police with regard to representatives of a foreign government operating in their territory was somewhat of a stumbling block, I went down to the Prefecture^{ure} and had a conference with M. Mondanel of the Department of the Interior in charge of narcotic smuggling. Mr. Mondanel, after discussing at considerable length the question of the operations of foreign agents in France, assured me of the intense interest and desire to cooperate, on the part of himself and subordinates, particularly when I gave him specific information of large shipments which had gone into Paris and which may have come to the United States and which may, on the other hand, have been for the local narcotic demand,

which is very large. One point I desired to put over with him was that we were not amateurs, knew what we were doing, and were in a position to be of considerable assistance to his department. In view of his final attitude, I feel that we will be able to secure a very satisfactory arrangement with him regarding effective cooperation.

While in Paris I apprised Mr. Wait of the four active mobs in Shanghai which are engaged in smuggling narcotics into the United States to a considerable extent through Europe and furnished him pertinent photographs. I also gave him the line-up, as seen from Shanghai, of the key interests in New York who manipulate the traffic.

B. M. Thompson

January 19, 1937
10:03 A.M.

Operator: Mr. Lochhead.

Lochhead: Hello.

H.M.Jr: Archie, I'm home.

L: Right.

H.M.Jr: Anything new?

L: No, the sterling is quiet - 491.

H.M.Jr: Yes

L: But we are going to have to put something through for Argentine. They've given an order for about two million pounds, and so we're going to clear that up probably through gold. The point was it's for about six days; it can't be done on the spot rate. And so the Bank of England had to call in for the Federal now, and we think that they probably have an order of the same kind. And so we're going to get the two banks and put them together and put it through the Fund.

H.M.Jr: Archie, I wish you'd work out a cable with Taylor to go to Tokyo asking all American consuls in Tokyo to make a short and quick survey of American business men to find out how many open-end contracts they got. See?

L: To have the American consul in Tokyo....

H.M.Jr: Well, all over Japan.

L: Oh, I see, of all American consuls....

H.M.Jr: Find out how many open-end contracts we got, where the American business man to import-export can't get an exchange.

L: He can't get exchange?

H.M.Jr: Yes

L: I see. Now, along that line, there - there's meant to be a meeting this morning in New York among the banks. Apparently it's called The Yokohama Specie Bank - ah -

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to try to get these contract items straightened out.

H.M.Jr: Well, have - have Haas and White sit in to help you draft the cable, but I want it to go before noon.

L: Before noon. And the cable to - to go for all the - to check with....

H.M.Jr: It goes to the Embassy in Tokyo.

L: Yes, the Embassy in Tokyo, but have all the American consuls in the important cities check with the business houses to find out how many open contracts they have.

H.M.Jr: And how much of it is for import and how much is export. Separate them.

L: I see. Separate them for import and export.

H.M.Jr: Yes.

L: All right, sir.

H.M.Jr: Get it off by noon.

L: I'll get started on that right away.

H.M.Jr: All right, Archie.

L: O.K., sir.

* * * * *

H.M.Jr: Hello. Hello?

Operator: All right. Mr. Taylor?

H.M.Jr: Please, and after that Mr. McReynolds.

Operator: All right, Mr. Taylor. Go ahead.

H.M.Jr: Hello?

Taylor: Good morning, Henry.

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H.M.Jr: Hello, Wayne.

T: Are you down?

H.M.Jr: No, I'm home, I'm not feeling well.

T: Oh, I'm sorry. I hope it isn't a bug.

H.M.Jr: No, no. No, no. Just a little too much excitement over the week-end, that's all.

T: I've - before I talk to Bewley, who's coming in at 10:30, I wanted to check with you a little bit. I've gone over those two cables again - well, Number Five again and then Number Nine a couple of times.

H.M.Jr: Yes

T: And I'm a little worried about going too far with anything we ask Bewley there.

H.M.Jr: Why?

T: Well, in the first place, where the - the Japs aren't members of our - of our group, and the action appears to be defensive, and not offensive.

H.M.Jr: I didn't ask anything except Bewley to find out what they know.

T: Well, that's what I wanted to be sure to check with you.

H.M.Jr: That's all. I'm not committing - I just told him he - we told him what we got, what could he get?

T: Yes

H.M.Jr: That's all.

T: You got - you see, you've got a similar situation existing in all kinds of other countries.

H.M.Jr: I know, but this is something new. All to ask Bewley is - you can show him what we've got and find out what he can get. We're not committing ourselves one red cent.

T: Well, that's - that - that's O.K.

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H.M.Jr: All right, Wayne.
T: I hope you feel better.
H.M.Jr: Thank you, Wayne.
T: Right.
H.M.Jr: Goodbye.

* * * * *

H.M.Jr: McReynolds, please.
Operator: Mr. McReynolds?
H.M.Jr: Yes
Operator: Go ahead.
H.M.Jr: Hello?
McReynolds: Good morning, Mr. Secretary.
H.M.Jr: Mac, I'm home.
M: I'm terribly sorry you're not feeling well.
H.M.Jr: I can't understand this man Charles Frazier of mine, because he's got the new Cadillac out this morning, although I gave explicit orders I didn't want him to. So when he gets through driving Mrs. Morgenthau at noon, I'll have him come down and see you.
M: Well, I've already called the General Motors people and told them not to transfer the tags and to leave the old car in service until they had further word.
H.M.Jr: Well, Mrs. Morgenthau is going to be in the Treasury from 11 to 11:30.
M: Yes
H.M.Jr: And if they had the old car there, maybe they could turn it back - turn back the new one.
M: All right, I'll have - I'll see that they're transferred

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back today. I put the General Motors on notice the first thing that we wanted the other one in service.

H.M.Jr: You wanted....

M: The old one.

H.M.Jr: Well, we're - we're more than pleased with the old one, and the new one - it's the funniest thing, every once in a while they get out one of these models that sway, you know.

M: Yes

H.M.Jr: Hello?

M: Yes

H.M.Jr: And this is one of these models that sway. Now, it makes you car-sick when you ride.

M: Well, of course, that probably is the - merely a bad adjustment of the stabilizer.

H.M.Jr: Well, I'd much rather keep the old one. Another thing, this new one - (clicking sound) - hello?

M: Yes

H.M.Jr: The rear seat is at least a couple inches higher.

M: Well, that could be lowered.

H.M.Jr: Well, Mac...

M: Why don't you - we'll put the old one back in service.

H.M.Jr: Put the old one back in.

M: Then - then I'll let them make the adjustments so far as -

H.M.Jr: Well, I....

M: - the stabilizer is concerned, and lower the seat.

H.M.Jr: Now look, I'm perfectly satisfied with the old one.

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It's only run about sixteen or seventeen thousand miles. Let me keep it another year and let it run it through. Let them turn this one over to the White House.

M: All right.

H.M.Jr: What?

M: O.K.

H.M.Jr: I mean the old one is an exceptionally good car and I'd much rather keep it.

M: All right.

H.M.Jr: I mean when they start cutting down seats and all that, it's never right.

M: Yes, all right. We'll

H.M.Jr: And the old one is one of the best cars I've ever had and I'd like to run it another year.

M: O.K. We'll see that it's done.

H.M.Jr: I'd tell them I appreciate their offering of a new car very, very much, but they made such a good car last year I'd like to run it another year.

M: O.K. We'll see that it's done.

H.M.Jr: And I'm sure they can sell this car, or turn it over or something of the sort.

M: Oh well, that - they're not worried; they can take care of it. No - no difficulty about that, certainly.

H.M.Jr: I mean they - they can dispose of it, can't they?

M: Oh yes. There's no - no difficulty there's no obligation whatever on it.

H.M.Jr: Well, I'd much rather keep last year's car.

M: O.K., we'll see that....

H.M.Jr: I mean that when they begin cutting down upholstery and all that - and I've - every once in a while the

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Cadillac gets out a car which is not a good model,
a riding, you know?

M: Yes

H.M.Jr: And I'm afraid the '37 isn't any good.

M: All right, we'll see that we keep the old one.

H.M.Jr: Thank you, Mac.

M: All right. I hope you feel better.

H.M.Jr: Thank you.

M: Goodbye.

H.M.Jr: Goodbye.

January 19, 1937.
10:53 A.M.

Operator: Mr. Oliphant.
Oliphant: Hello.
H.M.Jr: Hello, Herman.
O: Yes
H.M.Jr: Henry. Henry.
O: Sorry.
H.M.Jr: Pardon me?
O: I'm sorry.
H.M.Jr: About what?
O: Your being laid up.
H.M.Jr: Pardon me?
O: Your being laid up.
H.M.Jr: Yes. Herman, what I'd like you to do - I don't know what you're doing - could you come out to the house?
O: Right now?
H.M.Jr: Now.
O: Right now, you mean?
H.M.Jr: Yes.
O: Yes, indeed.
H.M.Jr: And Magill's here.
O: Yes
H.M.Jr: And I'd like to get you started and then I'll withdraw and go upstairs, see?
O: I'll come right out.
H.M.Jr: Thank you, Herman.

* * * * *

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H.M.Jr: Hello.

Operator: I'm getting Mr. McReynolds. Go ahead.

H.M.Jr: Hello?

McReynolds: Yes, Mr. Secretary.

H.M.Jr: Mac, make out Magill's thingumabob.

M: Yes

H.M.Jr: And I'm going to call up - and then you take it over yourself.

M: Well, of course, all you can do is send a nomination.

H.M.Jr: What?

M: All you can do is send up the nomination.

H.M.Jr: Well, what else do I want to do?

M: Well, of course you can't make - you can't commission him now.

H.M.Jr: No, but he'll....

M: We'll have - we'll have the nomination prepared.

H.M.Jr: But can't he start before he's confirmed?

M: No.

H.M.Jr: What?

M: No.

H.M.Jr: He cannot?

M: No.

H.M.Jr: Oh.

M: No, he - you see, it's - when Congress is in session...

H.M.Jr: Oh

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M: ...it can only be done - that is - you see, we had that same question raised with Bob Jackson. We had him working here, you know - we had to hire him for another job.

H.M.Jr: Somebody changed the dates on Bob Jackson too.

M: Huh?

H.M.Jr: Somebody changed the dates on Bob Jackson.

M: (Laughs)

H.M.Jr: Yes. All right. Well, you take it over yourself to Foster. Do I have to initial anything?

M: Yes, presumably. Of course, Wayne could initial it as Acting Secretary if you want to.

H.M.Jr: No, send it out to the house.

M: I'll send it out. I'll have it prepared and sent out to you right away.

H.M.Jr: And we'll let the man wait.

M: All right.

H.M.Jr: And I'll call up the White House and tell them.

M: All right, we'll have it fixed right away.

H.M.Jr: What's that?

M: We'll have it fixed right away.

H.M.Jr: You take it over to Foster yourself.

M: Yes, I will.

H.M.Jr: Maybe they could still send it up. You see, the Senate meets at one.

M: Sure.

H.M.Jr: I'll find out.

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M: Yes, we - if - I don't know any reason why they can't send it up today. I'll have it - I'll have it prepared immediately.

H.M.Jr: And I'll talk to McIntyre.

M: All right.

* * * * *

H.M.Jr: Hello.

Mrs Klotz: Hello.

H.M.Jr: I want McIntyre, White House, please.

K: Yes, just a second.

Operator: Hello.

K: Mr. McIntyre at the White House for the Secretary.

Operator: All right.

K: Hello.

H.M.Jr: Yes

K: Everything going all right?

H.M.Jr: Swell.

K: Swell, did you say?

H.M.Jr: Swell.

K: Well?

H.M.Jr: S - w - e - double l - double l.

K: Oh (Laughs) S - s - w - e - l - l.

H.M.Jr: Four l's.

K: - lelel. All right.

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H.M.Jr: Everything's swell but my head. I guess that's swelled; that's the trouble.

K: Yes, I'll bet it is.

H.M.Jr: It feels twice its normal size.

K: Aw.....wish I could do something for you.

Operator: Mr. McIntyre.

H.M.Jr: Hello.

McIntyre: Hello.

H.M.Jr: Hello, Marvin?

M: Yes, Henry.

H.M.Jr: I'm home a little under the weather.

M: Oh, I'm sorry.

H.M.Jr: What I want to do is this and I need your help. I saw the President just before supper Saturday night and suggested the name of Roswell Magill for Under Secretary.

M: Yes

H.M.Jr: And he approved it.

M: Yes

H.M.Jr: Magill is up here at the house for me and he's got the O.K. of President Butler of Columbia. Hello?

M: Yes

H.M.Jr: He's got his leave of absence arranged. Now, I told McReynolds to fix up the thing and send it over.

M: Fine.

H.M.Jr: I've done nothing about the Senators.

M: Oh, I'll check them for you.

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H.M.Jr: And what the President thought was he - he'd try to credit them both to New York and Illinois.

M: Ah-ha.

H.M.Jr: He's a registered Democrat in New York City.

M: Yes

H.M.Jr: But he originally - his family comes from Illinois. Hello?

M: Yes

H.M.Jr: And I've done nothing on that, see?

M: I get you.

H.M.Jr: Now - so I'll leave it in your hand, and if you'll do me a favor, if you want anybody to do any calling, ask Steve Gibbons to do it on our end.

M: Yes

H.M.Jr: But I'd much rather have it done from the White House.

M: Yes, I think we better, Henry.

H.M.Jr: Much ratner.

M: Yes

H.M.Jr: You remember him, don't you?

M: Yes

H.M.Jr: He was with me the first year.

M: Yes, I remember him.

H.M.Jr: And the President's very much pleased. And what he's going to do, he's going to take over Internal Revenue and taxation on the Hill.

M: Well now, will that come over to me?

H.M.Jr: Ah -

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M: I don't have to bother McReynolds about it?

H.M.Jr: McReynolds is having it fixed up and he's going to send it up to the house for me to initial and it ought to be over in your lap within an hour.

M: O.K., Henry, I'll look after it.

H.M.Jr: Thank you.

M: You going to be all right by tomorrow?

H.M.Jr: Well - what's that?

M: I say are you going to be all right by tomorrow?

H.M.Jr: Yes, I - I - you know, I get these headaches about every two weeks, and I got -

M: Mrs. McIntyre's tonsillitis. She's going to miss the whole show.

H.M.Jr: Pardon me?

M: I say Mrs. McIntyre has tonsillitis.

H.M.Jr: Oh

M: And she's going to miss the whole show.

H.M.Jr: Oh no. Oh, that's - isn't that too bad?

M: It certainly is.

H.M.Jr: No, I'll - I'll be all right by afternoon.

M: All right. Well, I'll - I'll check on the other.

H.M.Jr: And - but I'll tell McReynolds - should - to come and see you, or should he see Foster?

M: What?

H.M.Jr: When he comes over, should he come to your desk?

M: Yes, either one of us that are here.

H.M.Jr: All right.

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M: I'll speak to Rudolph right away about it.
H.M.Jr: But you'll take care of the political end?
M: Sure.
H.M.Jr: Thank you very much.
M: Righto, Henry.
H.M.Jr: Thank you.
M: Goodbye.

January 19, 1937
4:03 P.M.

Oliphant: Hello?

H.M.Jr: Hello.

O: The bill is through.

H.M.Jr: Swell.

O: All passed in - ah - do you want a little news about it?

H.M.Jr: Yes, I do.

O: Well, there were three motions, one to - three amendments - one to make it expire June 30, 1938.

H.M.Jr: Yes

O: That was defeated two to one. Then another, the motion for an amendment to require a final audit.

H.M.Jr: Yes

O: That was defeated two to one. Then a motion to strike out Section Two, devaluation, and that was defeated two to one. Then - oh, another motion to recommit to the Coinage - to the Committee to strike out, and that was defeated. And then they came to a vote and passed, about a quarter till four. Now, I told Hester he could conceivably press somewhat and get it right up to the President, but I told Hester - I said, "It's all over now but just letting it go through in the routine way, except....."

H.M.Jr: Oh yes.

O: What?

H.M.Jr: You mean to try to get it down to the President today?

O: Yes

H.M.Jr: No.

O: No.

H.M.Jr: No.

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O: And I asked him to make up a list for you in case you wanted to write to anybody.

H.M.Jr: Fine. I wonder if Hester's around, whether he's delivered those things to those clerks or not.

O: Ah - I don't know - I - he said if I didn't want him right away he's going out and getting some lunch.

H.M.Jr: O.K.

O: So he's eating lunch.

H.M.Jr: You might tell him if he comes in - ask him to give me a ring, will you?

O: I'll have Hester give you a ring.

H.M.Jr: I'm delighted.

O: All right.

H.M.Jr: Delighted, now.

O: And tomorrow's - tomorrow's Inauguration, you know.

H.M.Jr: Yes.

O: This is the day before Inauguration.

H.M.Jr: Right (Laughing)

O: Right.

H.M.Jr: And I talked to - to - what's his name - Gibbons. He said he - he sent you two tickets.

O: Said what?

H.M.Jr: Said he sent you two tickets.

O: That was very thoughtful.

H.M.Jr: Right?

O: Yes.

H.M.Jr: O.K.

- 3 -

O: I wrote you a note about it.

H.M.Jr: All right.

O: I'm going to have a beautiful girl accompanying me.

H.M.Jr: You have?

O: Tall and beautiful.

H.M.Jr: About three years old?

O: No, she's down at - she's down at Key West.

H.M.Jr: What?

O: She's down at Key West.

H.M.Jr: Oh

O: Mac's daughter.

H.M.Jr: Mac's daughter?

O: Yes

H.M.Jr: Fine.

O: There's four of us going up.

H.M.Jr: Fine.

O: Fine.

H.M.Jr: All right.

January 19, 1937
4:08 P.M.

H.M.Jr: Hello?

Operator: Hello.

H.M.Jr: Mr. Bell.

Operator: Mr. Bell? - - Mr. Bell.

Bell: Hello.

H.M.Jr: Hello, Dan.

B: How you feeling?

H.M.Jr: A little better, thank you.

B: Good. Say, these bill notices ought to go out tonight because of tomorrow being a holiday here.

H.M.Jr: That's right.

B: Have you got any thoughts on them?

H.M.Jr: I think fifty million.

B: Do you?

H.M.Jr: Why?

B: Well, as the next were to be the 27th, and if we go to - if we go all the way through to March 10, we'd have to call from banks about 389 million.

H.M.Jr: Yes

B: That would reduce the amount in the banks to about 468 million.

H.M.Jr: Yes

B: I mean in the special depositaries.

H.M.Jr: Yes

B: And the 10th would be the last Treasury bill issue of the extra amount.

- 2 -

H.M.Jr: Yes

B: In other words, you'd have 300 million mature in June. Now wait a minute here, I'm a little ahead of my story. If you'd start on the 27th of January with the next bill issue, you'd end on March 3.

H.M.Jr: Yes

B: If you'd start on February 3 -

H.M.Jr: Yes

B: - you'd end on March 10.

H.M.Jr: Yes

B: With your six issues.

H.M.Jr: Yes

B: And that might pile up the balances a little during the tax payment period.

H.M.Jr: During what?

B: During the tax payment period.

H.M.Jr: Yes

B: It looks now as though that during the month of March we will get in approximately 250 million dollars out of the market over and above our expenditures.

H.M.Jr: Yes.

B: So that I thought that you might want to consider starting at the 27th and ending the 3rd rather than starting the 3rd of February and ending the 10th, because between the 3rd and the 15th would give us time to allow our balances to run down.

H.M.Jr: Between the 3rd and the what?

B: 3rd of March and the 15th.

H.M.Jr: I see.

- 3 -

B: When you have your tax payments come in. Would give us the time - time here to let our balances run down with the Federal Reserve.

H.M.Jr: Yes

B: So that when we draw this 250 out of the market -

H.M.Jr: Yes

B: - why, it wouldn't have as much effect as if it had piled on top of a Treasury bill issue also.

H.M.Jr: Well, do I have to decide that - I mean for the 27th - today?

B: Ought to go out tonight.

H.M.Jr: Tell you what I wish you'd do. Will you talk it over with Taylor and then call me?

B: Yep

H.M.Jr: Will you do that?

B: Yes, sir.

H.M.Jr: All right.

B: You'd rather, I take it, get 50 million.

H.M.Jr: Little rather, but I don't care.

B: Ah-ha.

H.M.Jr: Talk it over with Taylor and call me back.

B: All right, fine.

H.M.Jr: Thanks, Dan.

Hello.....

January 19, 1937
4:25 P.M.

Operator: Mr. Bell.

Bell: Hello.

H.M.Jr: Hello, Bell.

B: I talked to Wayne. He didn't have any feelings much one way or the other. He said he had a hunch it'd be better probably to let it go over.

H.M.Jr: Yes

B: But he said he didn't know that he had any feelings.

H.M.Jr: Well....

B: - on it. But...

H.M.Jr: How strong do you feel about it?

B: Well, we talked a little about it, and I said, "Well, maybe we'd better both recommend that we let it go for another week."

H.M.Jr: I - I'd a little bit prefer it.

B: And then if necessary we'll start, let's say, on - in February, and run - instead of running six, run four.

H.M.Jr: Yes

B: That gets 200 million for June instead of 300.

H.M.Jr: Yes

B: How would that suit you?

H.M.Jr: I'd a little bit prefer it.

B: All right. We'll get 50 million this week.

H.M.Jr: Right.

B: Thanks a lot.

H.M.Jr: Good night.

McL

Gray.

London.

Dated January 20, 1937.

Received 8.30 a.m.

Secretary of State,
Washington.

24, January 20, noon.

FOR TREASURY.

In a speech in the House of Commons last night on European peace, in which Eden pointed out Germany has it in her power to indicate a choice which will decide not only her fate but that of Europe, he states:

"We are prepared to cooperate in the common work of political appeasement and economic cooperation, but if this work is to succeed it needs the collaboration of all and if that collaboration is forthcoming there cannot be any doubt in the mind of anyone in this House or elsewhere that we can create a better, saner, more prosperous Europe in a world at peace" (***) "We are anxious to help towards a further advance along the line of increased economic opportunity. But this should be, in our view, on one condition. Economic collaboration and political appeasement must go hand in hand. If economic and financial collaboration merely results in more armaments and more political disturbances, the cause of peace will be hindered rather than helped".

Reports reach London from Paris that the French
Government

-2- #24, Jan. 20, noon London.

Government has been given assurances of a credit from London when necessity arises (similar to that made last spring through Lezard- Embassy's 12, January 16, noon), secured on gold. DAILY TELEGRAPH reports the rumor today giving amount as pounds fifty million and repayment within the calendar year.

BINGHAM.

HPB

21 January, 1937.

The Honorable,

The Secretary of Interior.

Sir:

The Coast Guard operates a radio station for my personal use in conducting the official business of the Treasury Department which station occupies some buildings and surrounding property of the Fort Hunt, Virginia, Reservation on a revokable permit from the National Park Service (Public Buildings and Public Parks of the National Capital).

It has come to my attention that the National Park Service has advised the Coast Guard verbally that the 1931 plans for constructing a golf course covering this property may necessitate revocation of the permit some time during the next several years.

Because of this uncertainty, the Coast Guard has hesitated to expend money for necessary renovation and improvement. Investigation of territory within a twenty-mile radius of Washington discloses no acceptable site which could be used for this radio station in place of its present location.

If you can do so consistently, I would appreciate it if you would instruct the National Park Service to modify their plans for the Fort Hunt Reservation so as to leave undisturbed indefinitely the property and buildings now occupied by the Coast Guard.

Very truly yours,

(Signed) H. Starnes, Jr.
Secretary of the Treasury.

GROUP MEETING

January 21, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. McReynolds
Mr. Upham
Mr. Bell
Miss Roche
Mr. Taylor
Mr. Lochhead
Mr. Gaston
Mr. Oliphant

H.M.Jr: Following our usual custom when we have a new member joining the 9:30 group - Mr. Lochhead - it is the usual custom that he gets up and makes a speech.

Lochhead: I'll get up (rises) but I won't make a speech. I'll simply say that I'm glad to have the opportunity to be here.

H.M.Jr: That's no speech.

Gaston: That's lousy.

Oliphant: Throw him out.

Lochhead: That's the speech.

Bell: Glad of the opportunity.

H.M.Jr: Well, everybody's feet dry?

Gaston: Fine day.

Mrs Klotz: They didn't even go down, these fellows.

H.M.Jr: Down where?

Mrs Klotz: To the Hill.

Oliphant: Get wet?

H.M.Jr: I wasn't wet.

Mrs Klotz: They're sissies.

Oliphant: Wonder how much pneumonia there is in town.

- 2 -

H.M.Jr: Herman?

Oliphant: Not a thing.

Gaston: Did you notice the Times accepted your assignment, came through with it this morning?

H.M.Jr: I didn't.

Gaston: Interviewed the Finance Minister at Tokyo.

H.M.Jr: I noticed the Wall Street Journal. Is this the story (referring to article on front page of New York Times of Jan. 21 entitled "Open Door Urged in World Colonies by Tokyo Minister")?

Gaston: No, it's on the financial page, first story on the financial page, special wireless interview with the Minister of Finance.

H.M.Jr: + suppose he throws my story down.

Gaston: No, he doesn't.

H.M.Jr: He doesn't?

Gaston: No, he doesn't.

H.M.Jr: (Reading from Financial page of New York Times of Jan. 21) "Japan Clarifies Exchange Curbs. Says the Difficulties Here in Getting Yen Will be Ended by New Regulations. To Stabilize Currency. Tokyo Declares Value Will Not be Changed - Is Ready to Export Gold if Necessary."

Gaston: Says they are not going to devalue but he admits they are having very serious difficulties.

H.M.Jr: (On phone) Hello?

(Has conversation with Mr. Keyserling, secretary to Senator Wagner)

H.M.Jr: I'll read this before my press conference.

Gaston: Quite interesting.

H.M.Jr: He doesn't throw me down?

- 3 -

Gaston: No. He admits that....

H.M.Jr: Have you read it, Archie?

Lochhead: Yes

Gaston: He admits there is some confusion, but he hopes it will be cleared up in a short time. But they are anxious to stop some of the exports of capital. He says that the Japanese have been buying out American interests in Japanese concerns pretty rapidly, and they are calling a halt to that because it means too much transfer of funds.

H.M.Jr: (To Lochhead) I gave you that cable and you show it to....

Lochhead: Yes, I dictated it and I'll show it to Mr. Taylor.

Taylor: You got my report of late Tuesday night?

H.M.Jr: About the....

Taylor: About this Japanese business.

H.M.Jr: About the second or third Japanese secretary.

Taylor: Yes, and the man who's coming down this morning.

H.M.Jr: Who's that?

Taylor: Assistant Financial Attaché.

H.M.Jr: Well, the big boy also is on his way over, the man here who's accredited to London and the United States. What's his name?

Taylor: Tomita.

H.M.Jr: Hello? (On phone)

(Has following conversation with
Senator Wagner)

January 21, 1937.
9:35 a.m.

Operator: Operator

H.M.Jr: Senator Wagner is at the Shoreham they tell me.

O: All right.

H.M.Jr: Will you try and get him there?

O: Yes.

H.M.Jr: Hello

O: Senator Wagner.

H.M.Jr: Hello

Wagner: Hello

H.M.Jr: Hello - Bob?

W: Yes, Henry.

H.M.Jr: How are you?

W: Well I'm better. I've been laid up a little bit you know.

H.M.Jr: Golly I've - I've been worrying about you.

W: Yes, well I - I didn't have my punch at all after a nasty cold - I couldn't get my punch back.

H.M.Jr: Ah-ha.

W: But I'm coming round nicely now. I was up there yesterday.

H.M.Jr: Well that - that wasn't very - you have gotten as much...

W: No, that wasn't so hot was it?

H.M.Jr: You haven't got much more sense than the President.

W: Yes - yes.

H.M.Jr: What?

W: That's right - God he's a wonder, isn't he?

- 2 -

H.M.Jr: He certainly is.

W: Ah - but I'm coming on nicely now, Henry.

H.M.Jr: Well, two things: First I want to thank you for letting our Stabilization bill go through.

W: Oh well, yes, I - Carter was very nice about it. I talked to him on the phone.

H.M.Jr: I know, but you were - I mean willing to let it go while you were away, and I appreciate it very much.

W: Yes.

H.M.Jr: And the other thing is - I've got a New York man that I'd like to make Under Secretary.

W: Yes.

H.M.Jr: Roswell Magill of Columbia University.

W: I see.

H.M.Jr: He's a tax expert.

W: Yes.

H.M.Jr: And we're bringing him down here on our tax matters.

W: Yes.

H.M.Jr: And he's an enrolled Democrat.

W: Yes.

H.M.Jr: And he's been with us during the last four years.

W: Oh yes, he's a fine man that -

H.M.Jr: You know him?

W: As a matter of fact my son took one of those summer courses under him.

H.M.Jr: Oh really?

W: Yes, a couple of years ago.

H.M.Jr: Oh then you know about him?

- 3 -

W: Yes I know about him.

H.M.Jr: Well would it be all right?

W: Oh - ah - well anyway if you want him that would be enough for me but....

H.M.Jr: Well the President....

W:personally I think you're getting a good man.

H.M.Jr: I do too.

W: Yes.

H.M.Jr: And the President would like to have him.

W: Right you are.

H.M.Jr: Well now I haven't - it's so long since - do I talk to Copeland or do you talk to Copeland?

W: That fellow was dead again since the last term came you know from beginning to end and I - I kind of get sick of him.

H.M.Jr: Yes.

W: But you know that don't you?

H.M.Jr: (Laughs) yes.

W: Yes.

H.M.Jr: Well I.....

W: I'll mention it to him or if you want to talk to him I don't care - whatever you think.

H.M.Jr: Well I don't know - usually the White House

W: If you talk to the President he'd probably tell you to let him go to hell.

H.M.Jr: Well supposing I call up McIntyre and ask him.

W: Yes - what to do.

- 4 -

H.M.Jr: But as far - I can tell the President that it's O.K. with you.

W: Oh absolutely.

H.M.Jr: And you know - ah - he'll be all right with Pat Harrison because Pat likes him.

W: Yes.

H.M.Jr: I mean he goes before that Committee for confirmation.

W: Yes.

H.M.Jr: Well thanks Bob.

W: All right, Henry, and I hope to see you soon now.

H.M.Jr: Well - ah

W: We're going to start in this week.

H.M.Jr: Well we're glad to have you Chairman of that Committee. It will be a big help.

W: I think we'll be able to work nicely together.

H.M.Jr: Well I know we will - we always have.

W: All right, Henry, thank you.

H.M.Jr: Thank you. Goodbye.

W: Goodbye.

- 4 -

H.M.Jr: Good to have sons.

Gaston: Sometimes.

H.M.Jr: (On White House phone) Is Mac around?

(Has conversation with
Marvin McIntyre)

H.M.Jr: (To Taylor) You're willing to do that, aren't you?

Taylor: Sure, what do I do?

H.M.Jr: Just call up the two Senators from Illinois and tell them that we are sending up the name of Roswell Magill as Under Secretary. And the President just - the fact that he was born there - as a matter of courtesy, the President would like to have them know that it's coming up. But, being a registered Democrat in New York, we have Wagner's approval.

Oliphant: It might be complicating. His father was very active in the campaign.

H.M.Jr: I know. That's why they want it done. I mean that was what the President had in his mind. But (to Taylor) if you have any feelings...

Taylor: No, no, not a bit.

H.M.Jr: That's just exactly what the President - exactly what he has in mind. He doesn't want the two Senators from Illinois to get up and make a speech against him because of his papa.

Oliphant: Been a resident of New York 13 years.

Taylor: What does his father do?

H.M.Jr: His father was retained by these various public utilities or something - had some kind of a stockholders' protectorate. But he's been in New York for 13 years and I guess what - the reason I know that it's something is that I talked to Farley - somebody already got to Farley and told him about his father. I said, "What's that got to do with it? His responsibility ceased 42 years ago."

- 5 -

But if you have any feelings....

Taylor: No, I haven't.

H.M.Jr: Will you do it as soon as you go in there?

Taylor: (Nods affirmatively)

H.M.Jr: And I think, Mac, about 11 - or - well, about 11 o'clock I'll call up Forster. I'll have to - somebody's trying to block this thing over there.

McReynolds: I had that in McIntyre's hands at half past 11 on Tuesday.

H.M.Jr: In McIntyre's hands? He said, "Send it over to me."

McReynolds: I had it in his hands at 11:30 on Tuesday personally. I gave it to - I gave it to Forster, but McIntyre was right there and I called his attention to it and I said, "Now, here's that Magill appointment." He said, "All right" - he'd take care of it.

H.M.Jr: Miss Roche?

Roche: Nothing special, sir.

H.M.Jr: I got your note about seeing you and the Doctor.

Roche: At your convenience.

H.M.Jr: Give me a little patience. Get around to it.

Roche: All right, sir, thank you.

Bell: Nothing.

Upham: Nothing.

H.M.Jr: I called up - neither you nor Wayne being here at 9 o'clock, I called up Chairman Eccles and invited him and his Assistant to come for lunch, and they accepted the invitation. You going to argue about it?

Taylor: Today?

H.M.Jr: Yes. You going to argue about it?

- 6 -

Taylor: About lunch or whether I was here or not?

H.M.Jr: Because I did call Cy. He wasn't. But I didn't try you.

(Hearty laughter)

That was all right, Wayne. You'll be all right.
.... They're still suffering from last week's cold.

McReynolds: Nothing.

H.M.Jr: Well, I suppose it's up to me to make a little speech simply as a - I suppose this - it's the first day of the new Administration, and as far as I know I'm going to continue, and if I am I certainly want everybody in the room to continue with me. It's been a very difficult, but I think a very successful three years, and I think it's the team that's made it successful rather than any individual. And while I think we worked as hard or harder than any other group, it's mostly - 90 percent or 75 percent of the time it's fun. And it's got to be fun, otherwise we can't do it. And I want to say to each and all of you that I certainly appreciate the assistance I have gotten from you, and loyalty, and work; and I hope that we can all continue as we were.

Mrs Klotz: Thank you.

Oliphant: I wish Mac, as senior, would respond for us.

McReynolds: I'm a poor "responder." I think the lawyer ought to do the talking under those circumstances. Before I turn the floor over to you, however, I wish to say that, so far as my part of it is concerned, it's been fun more than 75 percent of the time. I have never had three years that were as pleasant or as satisfactory - particularly satisfactory because of the fact that we always know that our boss will support us whether we are right or wrong.

H.M.Jr: Well, I didn't - I don't want to have a flood of oratory; otherwise, I'll be crawling under the table. But if the spirit moves anybody, why, it's all right.

- 7 -

Oliphant: Well, Mac having said that against the background of such extended governmental experience, I don't think you could add much to it.

H.M.Jr: Wayne, if you wouldn't mind doing that, and as soon as you've heard from those two Senators let me know, will you? I mean you have no feeling about it?

Taylor: Not the slightest.

H.M.Jr: Because if you have.... Maybe I'd better do it. Maybe - I think I better do it.

Taylor: Well, more than glad to.

H.M.Jr: Who is it - the Senators?

Taylor: Lewis and Dieterich.

H.M.Jr: I'll do it.

Oliphant: I neglected to inform you that Mr. Wenchel is joining us and will begin work as First....

H.M.Jr: As which?

Oliphant: Taking Jack Harlan's place. Not Walter Winchell, but this is Wenchel.

H.M.Jr: May I ask who's acting General Counsel when you're not there?

Oliphant: Mr. Oppen. That is for the moment; I may change that.

H.M.Jr: But that's the...

Oliphant: Because Wenchel has had more administrative experience. And I intended to discuss that with Mr. McReynolds.

January 21, 1937.
9:33 a.m.

Sen.Wag- Yes sir.
ner's Secretary:
H.M.Jr: How is Senator Wagner?

W's Sec: He's very well.

H.M.Jr: Oh, is he in town?

W's Sec: Yes, he got in yesterday and in fact he was at
the inaugural.

H.M.Jr: Oh I didn't know that.

W's Sec: Yes.

H.M.Jr: Well now I have a New York State man and I want
to send his name up.....

Wag's Sec: Yes.

H.M.Jr: and - and have you heard about it?

W's Sec: No I haven't.

H.M.Jr: And I'd like - how can I reach the Senator.

W's Sec: He's at the Shoreham.

H.M.Jr: Could I talk to him there now?

W's Sec: I'm quite sure you could, unless he started on
his way down here. I haven't heard from him
this morning.

H.M.Jr: Well if I don't get him there would you mind
asking him to call me as soon as he gets there?

W's Sec: I'll do that as soon as he comes in.

H.M.Jr: Thank you very much.

W's Sec: You're welcome, sir.

January 21, 1937.
9:35 a.m.

Operator: Operator

H.M.Jr: Senator Wagner is at the Shoreham they tell me.

O: All right.

H.M.Jr: Will you try and get him there?

O: Yes.

H.M.Jr: Hello

O: Senator Wagner.

H.M.Jr: Hello

W: Hello

H.M.Jr: Hello - Bob?

W: Yes, Henry.

H.M.Jr: How are you?

W: Well I'm better. I've been laid up a little bit you know.

H.M.Jr: Golly I've - I've been worrying about you.

W: Yes, well I - I didn't have my punch at all after a nasty cold - I couldn't get my punch back.

H.M.Jr: Ah-ha.

W: But I'm coming round nicely now. I was up there yesterday.

H.M.Jr: Well that - that wasn't very - you have gotten as much.....

W: No, that wasn't so hot was it?

H.M.Jr: You haven't got much more sense than the President.

W: Yes - yes.

H.M.Jr: What?

W: That's right - God he's a wonder, isn't he?

- 2 -

H.M.Jr: He certainly is.

W: Ah - but I'm coming on nicely now, Henry.

H.M.Jr: Well, two things: First I want to thank you for letting our Stabilization bill go through.

W: Oh well, yes, I - Carter was very nice about it. I talked to him on the phone.

H.M.Jr: I know, but you were - I mean willing to let it go while you were away, and I appreciate it very much.

W: Yes.

H.M.Jr: And the other thing is - I've got a New York man that I'd like to make Under Secretary.

W: Yes.

H.M.Jr: Roswell Magill of Columbia University.

W: I see.

H.M.Jr: He's a tax expert.

W: Yes.

H.M.Jr: And we're bringing him down here on our tax matters.

W: Yes.

H.M.Jr: And he's an enrolled Democrat. .

W: Yes.

H.M.Jr: And he's been with us during the last four years.

W: Oh yes, he's a fine man that -

H.M.Jr: You know him?

W: As a matter of fact my son took one of those summer courses under him.

H.M.Jr: Oh really?

W: Yes, a couple of years ago.

H.M.Jr: Oh then you know about him?

W: Yes I know about him.

H.M.Jr: Well would it be all right?

W: Oh - ah - well anyway if you want him that would be enough for me but....

H.M.Jr: Well the President....

W:personally I think you're getting a good man.

H.M.Jr: I do too.

W: Yes.

H.M.Jr: And the President would like to have him.

W: Right you are.

H.M.Jr: Well now I haven't - its so long since - do I talk to Copeland or do you talk to Copeland?

W: That fellow was dead again since the last term came you know from beginning to end and I - I kind of get sick of him.

H.M.Jr: Yes.

W: But you know that don't you?

H.M.Jr: (Laughs) yes.

W: Yes.

H.M.Jr: Well I.....

W: I'll mention it to him or if you want to talk to him I don't care - whatever you think.

H.M.Jr: Well I don't know - usually the White House

W: If you talk to the President he'd probably tell you to let him go to hell.

H.M.Jr: Well supposing I call up McIntyre and ask him.

W: Yes - what to do.

H.M.Jr: But as far - I can tell the President that it's O.K. with you.

W: Oh absolutely.

H.M.Jr: And you know - ah - he'll be all right with Pat Harrison because Pat likes him.

W: Yes.

H.M.Jr: I mean he goes before that Committee for confirmation.

W: Yes.

H.M.Jr: Well thanks Bob.

W: All right, Henry, and I hope to see you soon now.

H.M.Jr: Well - ah

W: We're going to start in this week.

H.M.Jr: Well we're glad to have you Chairman of that Committee. It will be a big help.

W: I think we'll be able to work nicely together.

H.M.Jr: Well I know we will - we always have.

W: All right, Henry, thank you.

H.M.Jr: Thank you. Goodbye.

W: Goodbye.

January 21, 1937.
9:53 a.m.

O: Senator

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Hello

Wm. H. Dieterich: Hello

H.M.Jr: Henry Morgenthau, Jr.

D: Yes.

H.M.Jr: How are you Senator?

D: All right, how are you?

H.M.Jr: I think I'm all right. I don't know. I've got a - I think I'm going to have a cold. Senator, the President asked me to call you up because we're most likely going to appoint Roswell Magill of Columbia University as Under Secretary of the Treasury. Hello

D: Yes.

H.M.Jr: He's lived in New York for 13 years. He's a registered Democrat in New York but - and I've talked to Senator Wagner and he knows him and is quite enthusiastic about his appointment. The reason I'm calling you is so that you wouldn't mix Roswell Magill up with his father.

D: Well the Magill, his father - he's the one that organized some bloc in the utilities proposition.

H.M.Jr: Yes - yes. But the boy has had - his son is 42 - he's old enough to know and he's never had anything to do with that and he 's a tax expert and that's why I'm bringing him down here.

D: Well I'm glad you called my attention to that because the fact of it is - this is off the record between you and I. His father got so damned offensive and aggressive as all lobbyists do.....

H.M.Jr: Yes.

.....on a proposition that he and I didn't get along at all.

H.M.Jr: Well I have no use for his father either but there's no reason why a man with forty....

D: Oh no, that wouldn't - that's all right - I wouldn't.....

H.M.Jr: And, as I say, he's a registered Democrat and he was with us the first year I was down here and Pat Harrison says he's the best tax man that ever appeared on the Hill from the Treasury.

D: Yes.

H.M.Jr: And Bob Wagner knows him and likes him and says he's O.K.

D: Yes.

H.M.Jr: But I wanted to explain to you that - that - that the son has been with us before Mr. Roosevelt....

D: The only - why of course that would be all right with me if it's alright if that's who you want and who the President wants and who Wagner wants. Of course we'll probably have to explain back in Illinois a little bit.

H.M.Jr: Well I wanted to explain, as I say, that there's no connection. I happen to be proud of my father but I might not be.

D: I know - I know. You understand what I mean.

H.M.Jr: I understand and that's why - but I'd like - that's why I'm calling you personally.

D: Yes.

H.M.Jr: And, under those circumstances, is it all right with you?

D: Well I don't know why it shouldn't be all right with me.

H.M.Jr: Yes.

D: I wish the boy had another father.

H.M.Jr: Well I (laughs).....

D: Yes

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H.M.Jr:as I told somebody here this morning.....

D: Because that goes back you know in our Democratic circles of Illinois and we're pretty much sticklers down there and the organization is pretty much in control and they wonder - they wonder how it is that fellows like that you know get the high jobs.....

H.M.Jr: Well -

D: and they - they sometimes take a crack at Senators on that proposition.

H.M.Jr: Well if we explain that he's lived in New York for 13 years don't you think that that.....

D: Well I know that the - it's explainable.

H.M.Jr: Yes.

D: But it probably will have to be explained.

H.M.Jr: I understand.

D: Because the father has been everything but a Democrat, you understand.

H.M.Jr: Oh I know - I know that.

D: Yes.

H.M.Jr: And..

D: He's been everything but a Democrat and he's rather - he's rather aggressive and sometimes offensive the other way.

H.M.Jr: Well he's - I think he's very offensive.

D: Yes.

H.M.Jr: I agree with every.....

D: And - and - and - and it - it - it's sometimes pretty hard to explain that the boy is so far more perfect than his father and more qualified to hold high Democratic position that it's - it's - sometimes the explanation on the average fellow don't go far.

H.M.Jr: No. Well that.....

- 4 -

D: Although I wouldn't - I wouldn't be in the attitude of opposing him.

H.M.Jr: Well I appreciate that and.....

D: Yes.

H.M.Jr: and we'll - I haven't been able to get hold of Senator Lewis yet.

D: Yes, well I wish you'd talk to Senator Lewis about it.

H.M.Jr: I'm going to.

D: Yes.

H.M.Jr: Well thank you, Senator, very much.

D: All right.

H.M.Jr: I appreciate it.

D: Thank you for calling me up.

H.M.Jr: Thank you.

January 21, 1937.
9:57 a.m.

H.M.Jr: Hello

Operator: Senator can't be reached until about 10:30.

H.M.Jr: Well I have a Press Conference at 10:30 and let's try it again at a quarter to eleven.

O: All right.

H.M.Jr: Where would he be at a quarter.....

O: At the hotel.

H.M.Jr: Well ask - see if you can make - who - who do you talk to.

O: His Secretary.

H.M.Jr: Well ask his Secretary whether I could call him at sharp ten minutes to eleven as I'd appreciate it.

O: All right.

H.M.Jr: I'd like to talk to him at....

O: All right, I'll do that.

H.M.Jr: Will you do that please?

O: Yes sir.

January 21, 1937.
10:50 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

J. Hamilton

Lewis: Yes.

H.M.Jr: Henry Morgenthau, Jr.

L: Oh yes, Mr. Secretary, this is Lewis. I understand you wanted to speak to me.

H.M.Jr: Yes, I did, Senator.

Lewis: Go right ahead, dear friend. Anything you have to speak to me is welcome.

H.M.Jr: Thank you sir. An - Senator, on Saturday I asked the President whether I could make a suggestion to him for Under Secretary and he said, "Yes." And I suggested Roswell Magill of New York City. He's 42 years old and he's this tax expert. He teaches at Columbia University. He's lived in New York City for 13 years and he's a registered Democrat there and he spoke for Mr. Roosevelt during the campaign. I called up Senator Wagner and he knows him and is enthusiastic and will support him. Senator Pat Harrison has been kind enough to say that he is the best tax man that ever appeared before him from the Treasury. He was with us the first year I was here.

L: Yes.

H.M.Jr: The President - the reason he asked me to call you was to separate in your mind the difference between Roswell Magill, who is 42, and lived in New York for 13 years, and his father, who lives out in your State.

L: Yes, I know them.

H.M.Jr: And - I know about him too - and I wanted to make plain that the two have nothing to do with each other and have followed separate paths.

L: Well now, look here, old friend, if any spinach is for you.....

H.M.Jr: Pardon me?

- 2 -

- L: If you've settled this matter for the best purpose of yourself.....
- H.M.Jr: Yes.
- L:in view of the great responsibility you have to carry....
- H.M.Jr: Yes...
- L: ...you just settle on it and I'll be the one to see each Senator, as my duty, to see that you get enough men all at once to have it confirmed.
- H.M.Jr: Well, that's terribly nice of you.
- L: That's my part of it, and I delight to do it in this case if you want this done for your own personal purposes.
- H.M.Jr: Well sir, it's - right now I figure the next two years what I need more than anything else is help on this taxation situation.
- L: I know you do. And by the way, I was sorry that little complication of - that - from the Senator from Michigan's little statement made on the floor the other day; made it very embarrassing for all of us.
- H.M.Jr: Well, that...
- L: And we - we - we deliberately picketized because - I confide to you that I opened the war on it and started calling the man a beast - just because of that assumption of his, of assuming to voice a private conversation with the Secretary of the Treasury.
- H.M.Jr: Well, that was a very tricky thing that he did.
- L: I - we regarded it so, and we - one of them said - little Byrnes turned him in "Jim," he says, "the truth is what this fellow did - he probably said, 'If so and so and so and so and so and so, and there's nothing that's left, Morgenthau,' Morgenthau says, 'Well, I have no objection,' probably. What could he say? Suppose he said, 'I do object.' Then the fellow would rise on the floor and say, 'He

- 3 -

objects to us having a statement of what he's done with the country's money."

H.M.Jr: Well, that's exactly what happened. And, as a matter of fact, I reported my conversation with him, which took place about two weeks ago, to the President, the Vice-President, and to Joe Robinson.

L: Well, between ourselves, it was damned asinine and petty. It was another one of those "telephone conversations."

H.M.Jr: Well, he called me on the telephone and I said, "Senator, I'm - if you want to see anything, ask - Senator Robinson will appoint a committee. I'd be very glad to show you what we have."

L: Of course.

H.M.Jr: So - but - and then he said, "Well, that would be illegal." Then he said, "Would you object if so and so and so and so....."

L: Exactly - exactly - we assumed that.

H.M.Jr: There was a double negative.

L: Well you see, I've seen that fellow. You know, I summoned him when he got to talking and chattering - I summoned him to come out in the open and debate this man from the West and he wouldn't do it, he ran away.

H.M.Jr: Well, I felt like saying, "If you'd had a phonograph record of our conversation...."

L: Exactly - exactly.

H.M.Jr:maybe you'd play that."

L: Exactly. Well, dear friend, don't say any more. Don't make him feel that you noticed it at all. But hereafter, you may depend, he'll never rise on the floor without being beat.

H.M.Jr: But Vandenberg was very tricky and I did report. The same night that he called me I called Joe Robinson out of

- 4 -

bed at 9:15 and Joe was in bed.

L: Yes.

A.M.Jr: And he got out and I told him - I said, "I just want to tell you I've had this conversation with Vandenberg," and he said, "All right, forget about it."

L: Well, I confide to you good to me, as it was my particular he was in. "Ham," he says, "get around," he says, "and let's beat the blankety-blank blank-blank."

H.M.Jr: Well....

L: And I proceeded to get our fellows and you know the result.

H.M.Jr: Thank you, sir.

L: Oh no, it was due you because it was such a petty little business.

H.M.Jr: Well, it was a very small thing.

L: For him to say a private - a conversation of that nature; put you in such a position where you couldn't possibly escape the charge that you were trying to hide the money unless you did consent.

H.M.Jr: Well, the question he asked - the question was, "Would you object" -

L: Of course.

H.M.Jr: - he said, "when the fund is finished, that the thing should be audited?"

L: And yet on the floor he said you had suggested it, remember.

H.M.Jr: Oh

L: That he had talked to you and you suggested this should be done and that there was no objection to the amendment being added to your resolution.

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H.M.Jr: Well, the only way I could answer -

L: Oh, of course, of course.

H.M.Jr: - was to - I said, "I've got nothing to hide, Senator."

L: Of course. What else could you say? That's why it was so mean - so small.

H.M.Jr: Thank you.

L: That gentleman opened a gateway he'll never be able to close between ourselves.

H.M.Jr: Yes

L: Well, old friend, as to the other thing, whatever you think is best you do, and I'll take the - as is my duty, I'll take the matter when it comes around and see enough of the men to make impossible anybody's objections.

H.M.Jr: That's very kind of you.

L: Goodbye. My wife. to your brilliant little

H.M.Jr: Thank you.

L: Thank you, sir.

January 21, 1937
12:50 P.M.

Roswell
Magill: Good... How are you?

H.M.Jr: I'm a little under the weather.

M: Gosh, I should think you would be after that day yesterday.

H.M.Jr: Roswell, I - your name goes up at noon tomorrow.

M: At noon tomorrow.

H.M.Jr: Yes. I talked to Wagner, Lewis, Dieterich....

M: (Laughs)

H.M.Jr: ...and I haven't been able to get Copeland, but I'm going to. But it goes up at noon tomorrow.

M: I see.

H.M.Jr: From the White House, and the White House makes the announcement.

M: Is everything O.K.?

H.M.Jr: As far as I know, everything's fine.

M: That's good. How long does it - how long will it take?

H.M.Jr: Well, I should say that after it goes up, if I watch it - I mean I - first I got the President to clear it, and I've spoken to McIntyre and I've talked to Early, Wagner, Dieterich, and Lewis. Now I'm going to talk to Copeland. I should say by the middle of next week.

M: Well, that's good.

H.M.Jr: Yes.

M: Well now, you don't know just when you want me to come down, do you?

H.M.Jr: No, but...

- 2 -

M: I'll see you before you go.

H.M.Jr: Oh yes, very - I - I'd sort of have Thursday or Friday in mind, will you?

M: I think that's better probably.

H.M.Jr: Yes

M: I - I've got to be here Wednesday anyway, and the latter part of the week would suit me if it will you.

H.M.Jr: Fine.

M: Well, thanks very much for calling me.

H.M.Jr: Well, I just want to keep you posted and...

M: Well, that's good of you, and...

H.M.Jr: And if you...

M: ...and of course, I'm just sitting aside. I talked to Gaston while I was there -

H.M.Jr: Yes

M: - and he suggested that what I should say is simply that any information - I mean when I get called up tomorrow - that any statement would be given out down there.

H.M.Jr: Given out by the White House.

M: And that seemed to me to be the obvious thing to do.

H.M.Jr: Righto.

M: Well, thanks a lot, Henry.

H.M.Jr: I'll keep you posted.

M: Thank you very much.

H.M.Jr: Thank you.

M: Goodbye.

January 21, 1937
12:55 P.M.

Operator: Operator.

H.M.Jr: Senator Copeland.

Operator: Senator Copeland?

H.M.Jr: If he's not there, let me talk to his secretary, please.

Operator: All right. Go ahead.

H.M.Jr: Hello?

Royal S. Copeland: Good morning, my friend, how's your health today?

H.M.Jr: Well, my health is fair.

C: Just fair?

H.M.Jr: Ah -

C: Did you get your feet wet yesterday?

H.M.Jr: I'm afraid I did.

C: Well...

H.M.Jr: How is your - how are you?

C: I came through all right.

H.M.Jr: Good for you.

C: Kept my feet dry.

H.M.Jr: Well, you're younger than I am; you can take it.

C: How?

H.M.Jr: You can take it; you're younger than I am.

C: Younger?

H.M.Jr: Yes

C: What do you mean I'm younger?

- 2 -

H.M.Jr: Well, younger in - ah - vigor.

C: Well, all right, I - I - I might plead to that, but I don't want to do that either.

H.M.Jr: Ah - Senator -

C: Yes

H.M.Jr: Ah - the White House tomorrow is thinking of sending up the name of a New Yorker for Under Secretary, Roswell Magill.

C: What's his name?

H.M.Jr: Roswell Magill.

C: Roswell Magill?

H.M.Jr: Yes

C: Who's he?

H.M.Jr: Well, he was with me the first year he was - I was here in the Treasury. He's a tax expert, Professor of Law at Columbia University.

C: At Columbia?

H.M.Jr: Yes

C: Yes. How old is he?

H.M.Jr: 42

C: How?

H.M.Jr: 42

C: Well, does he displace....

H.M.Jr: Nobody. There's a vacancy.

C: He doesn't displace - ah....

H.M.Jr: He succeeds Coolidge. I've been doing this...

C: Oh yes, oh yes - yes, exactly.

- 3 -

H.M.Jr: For eleven months I've been alone.

C: Well, you want him?

H.M.Jr: Very anxious to.

C: All right, I'll go along with you.

H.M.Jr: Thank you, sir.

C: All right.

H.M.Jr: Thank you.

January 21, 1937
12:59 P.M.

Operator: Operator.

H.M.Jr: Gibbons, please.

Operator: Gibbons.

H.M.Jr: Hello, Steve?

Gibbons: Yes

H.M.Jr: I talked to your friend Royal S. Gibbons - Royal S. Copeland.

G: Yes

H.M.Jr: And he said, "Do you want him?"

G: Yes

H.M.Jr: I said, "Yes." He says, "Is he a good man?"
I says, "Yes." He says, "O.K., I go along."

G: Yes, he....

H.M.Jr: And I think you were right...

G: Yes

H.M.Jr: ...and I - and I think the White House was wrong.

G: Well, that's - that's all....

H.M.Jr: And that's strictly between us, see?

G: Yes. Well, Mac said - that's what I tried to put over to Mac, and Mac said, that if you agreed with me it was a hundred per cent with them, but he said...

H.M.Jr: Well, it's an easy thing to do it.

G: Sure.

H.M.Jr: And it's done.

G: Sure.

H.M.Jr: Everybody's done, and I appreciate your suggestion.

- 2 -

G: And Royal S. has on a number of occasions expressed to me what a great fellow you were and....

H.M.Jr: Well...

G: ...anything that we wanted.....

H.M.Jr: ...I - I think you were right.

G: Yes. O.K.

H.M.Jr: Thank you.

(This telegram is not chargeable to Treasury)

90

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: January 21, 1937, 7 p.m.
No.; 86

Vincent Auriol, Minister of Finance, spoke at the luncheon of the American Club today. His speech was along the lines of what he said yesterday before the Anglo-American Press Association (which we understand was cabled by the press) urging monetary stabilization, and that the monetary agreement of last September should be completed by further economic and political arrangements which would open up possibilities for disarmament.

Auriol sat next to a member of my staff at the ^{personal} luncheon. In conversation with this official, Auriol said the rumors of a further devaluation of the franc were absurd. The next few months, he said would of course be the Treasury's "lean months" for receipts and that he did not like the continued flow of funds out of France. However, he said he was not worried over the question of finding funds to meet liabilities of the Treasury during these next months, that the Treasury had far from exhausted its borrowing possibilities and there was a genuine pick-up in business with an increase of tax receipts. He added, furthermore, that there were indications of returning confidence, mentioning particularly the fact (to which he attached great importance) that deposits in the postal banks and private banks were now exceeding withdrawals for the first time in many months.

BULLITT.

EA:LWW

January 21, 1937.

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Mr. Eccles, Mr. Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary at 1 o'clock.

Mr. Morgenthau asked if the Reserve Board had made any progress in reaching a decision on action with respect to excess reserves.

Mr. Eccles asked what Mr. Morgenthau's reaction would be to a proposal to either (a) announce, not later than February 1st, action effective not later than February 15th, or (b) announce, not later than February 15th, action effective not later than April 1st.

Mr. Morgenthau said that he preferred to have an announcement not later than February 1st, either (a) of action effective not later than February 15th or (b) that no action would be taken at this time and no action would be taken until after the March 15th financing. In other words, he was of the opinion that an announcement of a decision one way or the other should be made not later than February 1st and if the decision is to raise excess reserves that it should be effective not later than February 15th. He said he did not like to have his financing in between the announcement and the effective date.

Mr. Eccles was of the opinion that it is the announcement date rather than the effective date which brings about banking readjustments. He feels that the banks are in a position to accept, without disturbance, an increased reserve requirement and that if it were announced early in February, as effective April 1st, the market would settle down just as well as if the effective date is February 15th.

Mr. Morgenthau was of the opinion that the market would be more unsettled than if the effective date is February 15th.

Later Mr. Eccles and Mr. Ransom told Mr. Morgenthau that they thought his attitude a reasonable one and that they had not definitely made up their minds but were just asking for his reaction for their own

information and guidance.

Mr. Upham said that he thought the delayed effective date undesirable from the standpoint of the Federal Reserve, whereupon Mr. Morgenthau remarked that since Mr. Upham had volunteered that remark he (the Secretary) would say that he concurred in that view.

Mr. Eccles said that when their announcement is made it might be just as well to state to the public that the Federal Reserve does not intend to ask Congress for further power to increase reserve requirements. He said that they would be prepared to buy 100 million or 200 million of bills, if necessary, when reserve requirements are raised. He thinks interest rates can be kept steady and perhaps even the Federal Reserve rediscount rate lowered from $1\frac{1}{2}$ to 1.

Mr. Eccles said that he had perhaps had a slight misunderstanding of the process with respect to sterilizing of gold. He was of the opinion that the decision to sterilize gold froze the excess reserve situation as of that date and that it was not to be in any degree retroactive. On the strength of that understanding he made an estimate of excess reserves at the present time which he now finds to be "out" by about \$120 million. He now discovers that gold in that amount held abroad by the Stabilization Fund is being sterilized with a resultant decrease in excess reserves. This he regards as retroactive.

Mr. Upham pointed out that retroactivity was to apply to gold already in this country, it being understood that imports after the date of the announcement were to be sterilized. Moreover, Mr. Upham pointed out to Mr. Eccles that the Secretary had stated that one of

the purposes of sterilization was to clear the Stabilization Fund which was choked with gold.

The Secretary had indicated that the fund held in excess of \$100 million of gold abroad and that it needed to sell that gold to achieve liquidity. The Secretary also stated that a very small amount of this gold had actually been received -- not more than \$30 million -- so that there had been little sterilization.

Mr. Ransom said that he thought it was only a statistical difficulty and it was agreed that the matter is not of great importance.

Mr. Morgenthau told Mr. Eccles that he thought the Reserve Board staff must not have fully understood the situation. He "ribbed" Mr. Eccles by expressing astonishment that Mr. Eccles seemed to want excess reserves maintained at a high level.

Mr. Morgenthau told Mr. Eccles that Mr. Cochran is coming over from Paris and will be here all next week to discuss the matter of permitting foreign banks on foreign governments to hold earmarked gold here and to transfer earmarked gold from one account to another.

The matter of holding gold for the BIS will also be considered.

Mr. Eccles said that he wants to discuss while Mr. Cochran is here the matter of Federal Reserve representation on the directorate of the BIS.

Upm.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE January 21, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION
WITH BANK OF ENGLAND.

L. W. Kneke

I called Mr. Bolton at 10:15 today to confirm our cable dispatched at 9:55, accepting his bid for £400,000, value January 26, at 4.90 9/16. I repeated what I told him two days ago, that it was very difficult for us to operate in this market on a large scale because the market watched us continuously, and added that we had another £500,000 to go to clean up the order. Bolton replied that £400,000 was all he could do at the moment but that he would gladly get in touch with me later in the day if more dollars were offered to him.

With reference to conditions in Europe, he thought things were beginning to stir up a bit and were looking a little more busy there. The air was full of rumors that heavy positions were being built up in French francs, although there seemed to be no evidence of real speculation at the moment. Nevertheless, he would not be surprised if he saw the market break out a little. Guilders continued very firm. There was a possibility that this had to do with sales of French francs for Dutch account. The general market conviction in London, he said, was that something was going to happen in Paris over the next ten days, that is, before January 31, which people began to look upon as a sort of "Waterloo day." He had not changed his opinion about France; he was as skeptical as ever because he saw no sign at all of the situation being taken in hand. I asked him whether he knew anything about the sales of Swiss francs for Swiss account and told him that several of our banks had received such orders from Zurich. Bolton said he did not know anything about it.

LWK:KMC

RB

GRAY

Paris

Dated January 21, 1937

Rec'd 3:03 p. m.

Secretary of State

Washington.

83, January 21, 4 p. m.

FOR THE TREASURY.

The exchange market was fairly active today with fair demand for dollars and pounds. The demand for dollars came from London it seems in preparation for repayment of dollar bonds maturing on February 1st,

The security market closed weak after a firm opening. Rentes lost a few centimes.

Bank of France statement dated January 14 published today shows a further advance to the Treasury of 550,000,000 francs. Gold holdings unchanged. Commercial credits decreased 420,000,000. Note circulation decreased 977,000,000. Deposits up 781,000,000. Ratio of gold cover 57.57% compared with 57.49.

Revenue for December slightly higher than for preceding months. Indirect taxes and monopolies show increase of 154,000,000 more than estimates compared with a deficit of 18,000,000 in November and 141,500,000 in October.

Actual

RB

-2-#83, January 21, 4 p. m. from
Paris

Actual revenue is 221,000,000 more than for December 1935. Business turnover tax up about 74,000,000 francs compared with December 1935 but about same amount below estimates.

Revenue for year 1936, 512,000,000 less than estimates and 326,000,000 more than actual revenue for 1935. Increase in revenue from all sources about 1% above 1935 figure.

Published trade statistics for entire year 1936 show rise in imports of 4,425,000,000 francs and decrease in exports of about 42,000,000. Visible deficit of commercial balance for 1936, 9,944,000,000 francs compared with 5,478,000,000 for 1935.

December imports up 1,045,000,000 francs. Exports down 347,000,000. Total trade for December 223,000,000 less than for preceding month and 1,392,000,000 more than December 1935. Unfavorable balance for December 1,376,000,000 francs compared with 987,500,000 for preceding month and 677,500,000 for December 1935.

Press reports that speaking before Anglo American Press Association yesterday Finance Minister stated that no new devaluation was envisaged emphasizing that such an action could provoke serious economic and social dangers. Pointing to indications of economic improvement here and large gold coverage he observed (END SECTION ONE)

BULLITT

CSB

Regraded Unclassified

RB

GRAY

Paris

Dated January 21, 1937

Rec'd 5:03 p. m.

Secretary of State
Washington.

83, January 21, 4 p. m. (SECTION TWO)

that stability of franc was guaranteed by the tripartite monetary accord. Latter, he stressed, should be completed as soon as possible by other economic and political agreements and thus pave the way to a definite stability of currencies. He appealed for the repatriation of capital and particularly referred to foreign funds in Wall Street. Economic order and peace, he added, would contribute to international order.

The Minister expressed similar sentiments before the American Club luncheon today.

Press indicates that Minister of Finance has accepted an invitation to appear before Finance Committee of Chamber on February 3 for the purpose of explaining present situation of Treasury and that in accepting the invitation he insisted that rumors were inexact that margin of issue of ordinary Treasury bonds was nearly exhausted. The committee it seems has urged the Minister, pending his appearance before them,

not to

RB

-2-/'83, January 21, 4 p. m. from
Paris (Section Two)

not to present them with a fait accompli as concerns new loans either domestic or foreign.

Financial press continues to carry rumors of a probable credit operation in London and reports that no difficulty will be encountered if loan is expressed in pounds or dollars and repayable before end of year.

Referring to statement attributed to Finance Minister that there would be no further devaluation, LONDON FINANCIAL NEWS suggests that the technical position of the franc is now almost as bad as it was on the eve of devaluation and that if Treasury continues to borrow from the Bank of France the position will soon be worse. However, this paper agrees that there exists a possibility of revival of trade and that a marked upward trend on the Bourse might lead to repatriations on a large scale and thus improve the technical position, lead to an increase in revenue and make a conversion operation possible.

Satisfaction expressed in financial press regarding extension of President Roosevelt's monetary powers by Congress. It is observed that stabilization funds have never been more necessary and special notice is given to beneficial effect of operation of fund on monetary situation of the Netherland where for the fourth time in five weeks the fund has surrendered gold to the Central Bank.

Taw

RB

-3-¹¹83, January 21, 4 p. m. from
Paris (Section Two)

Law promulgated in Journal Official of January 20 authorizes Minister of Finance to accord guaranty of French state to loan of 405,000,000 francs to Polish Government and 945,000,000 to Franco-Polish Railroad Company. In both instances the Minister of Finance is authorized to grant if necessary advances from the French Treasury within the same limits pending issue of the loans to the public.

(END OF MESSAGE)

BULLITT

CSB

January 22, 1937
10:47 A.M.

H.M.Jr: Hello.

Operator: They say we can't reach Ambassador Bullitt until 11 o'clock our time.

H.M.Jr: Well then, wait a minute. Ambassador Bullitt at 11.

* * * * *

H.M.Jr: How are you?

Carter

Glass: I'm fairly well.

H.M.Jr: I called up to thank you and tell you how much I appreciated your getting through our Stabilization bill.

G: Yes. Well, there wasn't much difficulty about it.

H.M.Jr: And I also - although you haven't asked me, I wanted to tell you about my conversation with Senator Vandenberg.

G: Yes.

H.M.Jr: He called me on January 11.

G: Yes

H.M.Jr: And talked to me about 10 or 15 minutes what he was going to do, this and that and the other thing.

G: Yes

H.M.Jr: So I said, "Well now, Senator, if you want to know anything about this Fund, I'll take it up with Senator Robinson and ask him to appoint a Committee to examine our books."

G: Yes

H.M.Jr: Whereupon Vandenberg said, "No, I don't think that'll be legal." So I said, "Well, I'd be very glad to ask Senator Robinson to appoint a Committee." So he

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said, "No, no, I don't want that." Well, he went on and finally he said, "Well, would you object if when the Fund was finished, that there should be a final audit?" And I said, "No, no sensible man could object to that." And then I - we had Cabinet that afternoon and I reported my conversation to the President and Vice President and also called up Joe Robinson, and he just kind of waved the thing aside and then I went ahead and forgot about it. But that was on the 11th, you see?

G: Yes

H.M.Jr: And - but I - he - he cross-examined me over the phone for about 15 minutes.

G: Yes

H.M.Jr: And I simply felt that if he had something like that, it was up to him to take it up with your Committee.

G: Yes

H.M.Jr: But I thought, if I may say so, that you handled it awfully well. And of course, what he did was to try to put me in the hole.

G: Well, I wasn't trying to put you in the hole, but it's a little annoying, you know, when - when one makes a report to have a Senator get up and say that - that the Secretary of the Treasury agrees to this or that and the other -

H.M.Jr: Well....

G: - without any notice to me.

H.M.Jr:he wasn't fair to me.

G: I didn't care anything about his resolution and -

H.M.Jr: No

G: - it was meaningless.

H.M.Jr: Yes

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G: But I didn't want him to amend the bill after we'd - the Committee had gone to work to report it.

H.M.Jr: Well, Senator Vandenberg wasn't fair to me. He tricked me.

G: Yes, I think he did.

H.M.Jr: And after all I reported it to Robinson and Robinson just brushed it aside.

G: Yes

H.M.Jr: And I reported it on the night of the 11th. I looked up my diary.

G: Yes

H.M.Jr: And if - I felt if Robinson had felt it was important he would have told me to do something.

G: Well, it wasn't at all important.

H.M.Jr: But I just wanted to tell you that I did report my conversation to the President, the Vice President, and to Senator Robinson and they all brushed it aside.

G: Yes.

H.M.Jr: And....

G: Well, all right, Mr. Secretary.

H.M.Jr: But I - I - because - and that Vandenberg made it appear as though I'd agreed to something. Well, - ah - I - I - you know what he did during the campaign, the way he tried to put on the President's voice and didn't amount....

G: Oh yes, I know.

H.M.Jr: He - he's a very tricky fellow.

G: Yes, I know.

H.M.Jr: But may I.....

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G: Well, he didn't get anywhere with it, and he....

H.M.Jr: No, thanks to you.

G: Well, I'm....

H.M.Jr: And I again want to say thank you.

G: Well, I thank you for your courtesies to me.
I'll be back - I'll be back tomorrow or Sunday,
and anything you want done that I can do I'll be
glad to do for you.

H.M.Jr: Well - well, that's awfully kind. Right now my desk
is clear and I have nothing.

G: Well, that's fine. How's your father?

H.M.Jr: Oh, he's fine, thank you.

G: Give him my love when you see him or write him.

H.M.Jr: I'll do that, sir.

G: Very well.

H.M.Jr: Thank you.

January 22, 1937
11:52 A.M.

Operator: Go ahead.

H.M.Jr: Hello?

William C.
Bullitt: Hello, Henry.

H.M.Jr: How are you?

B: Fine. How are you, old boy?

H.M.Jr: Pretty well. I'm calling you with the knowledge and the approval of Mr. Hull.

B: Yes.

H.M.Jr: With Cochran away, and with the news that we've got the last day or two from England, I'm quite worried about the - what - the financial situation in France. I don't know why England should be so worried.

B: Yes

H.M.Jr: But they seem very much worried. Hello?

O.O: Hello.

H.M.Jr: Hello?

B: Hello. I can tell you why, Henry.

H.M.Jr: Please.

B: What?

H.M.Jr: I wish you would.

B: There are several elements in it.

H.M.Jr: Yes

B: In the first place, they don't know whether they're going to need a loan or not.

H.M.Jr: Need a what?

- 2 -

B: They don't know whether they're going to need a loan or not.

H.M.Jr: I see.

B: But at any rate, I understand the people across the water were not pleased by a recent speech here.

H.M.Jr: Recent what?

B: Speech.

H.M.Jr: I see.

B: Now, I don't think myself that there's any cause for worry.

H.M.Jr: Good.

B: I had lunch with Blum day before yesterday and he's not disturbed.

H.M.Jr: Good.

B: It isn't pleasant, but he's not disturbed.

H.M.Jr: I see.

B: Now, I'll - I'll come into it personally, Henry, if you want some more advices on it.

H.M.Jr: I - I wish you would.

B: All right.

H.M.Jr: Because they - the way they put it, that they have to pass their Waterloo between now and the first of February.

B: Yes, I know, but I think that's very highly exaggerated.

H.M.Jr: Well, I didn't know, but it - coming from the source it came from, it - it was enough to worry me.

B: Yes. All right. Well, I'll get on it.....

H.M.Jr: And....

B:personally, Henry.

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H.M.Jr: I'd appreciate that.

B: All right, I'll do it. Now, Henry?

H.M.Jr: Yes

B: I'd like to make a suggestion to you.

H.M.Jr: Please.

B: When you telephone to me -

H.M.Jr: Yes

B: - and when you telephone to Cochran -

H.M.Jr: Yes

B: - use - tell your operators in the - in the Treasury building to put the call through the French wireless.

H.M.Jr: Well, I think we're on the French.

B: We much more satisfactorily and you hear much better.

H.M.Jr: Aren't we on the French now?

B: No, this is going through England.

H.M.Jr: I didn't know that.

B: And apparently the A.T. & T. puts all your calls through England; why I don't know, but you might look into it.

H.M.Jr: Well, it'll be changed at once.

B: Yep. Because I can get - I can get Washington in two minutes on the French wireless at any time, whereas - and it's a very good service - whereas the service by way of England always takes longer and is very bad.

H.M.Jr: I'll - the next - all calls from now on will go French.

B: That's right, because they've got a good new wireless. So - well, Henry, I'll look that up right away but I

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don't personally think there's anything to be disturbed about.

H.M.Jr: Well, I'm glad to get that.

B: All right.

H.M.Jr: Thank you.

B: Don't worry, boy. Good luck to you. How's - how's everything going?

H.M.Jr: Well, fine. We got our Stabilization Fund extension.

B: That's bully.

H.M.Jr: And everything - as far as the Treasury goes, we're very comfortable and - ah - I think everybody here is taking things a little bit slower, which I think is good.

B: That's fine.

H.M.Jr: And - ah....

B: God bless you, Henry, and you let me know at any minute any time you want anything.

H.M.Jr: Thank you very much.

B: Goodbye.

H.M.Jr: Goodbye.

January 22, 1937
10:53 A.M.

H.M.Jr: Hello.

Operator: Senator Robinson.

H.M.Jr: Thank you.

Operator: Go ahead.

Joe T.
Robinson: Hello, Mr. Secretary.

H.M.Jr: Henry to you, please.

R: Sir?

H.M.Jr: Henry to you.

R: All right, Henry (laughing)

H.M.Jr: I just called up to say thank you for getting my bill through.

R: Oh. All right, I was glad to do it and we didn't have very much trouble with it.

H.M.Jr: No, but....

R: But there was a complication that arose there no doubt you've been made familiar with.

H.M.Jr: About Vandenberg.

R: Yes, you were quoted on the floor as having agreed to an amendment that none of us knew anything about.

H.M.Jr: Well, if you'll remember, I got you out of bed on the night of January 11 to tell you about it.

R: Yes, I know, but it ought to have been presented to the Committee.

H.M.Jr: Well, if nothing ever.....

R: Well, I killed the amendment anyway.

H.M.Jr: Well, I want to explain to you. You remember I called

- 2 -

you up that night?

R: Yes

H.M.Jr: Well, outside of a telephone conversation, where he first wanted to see the books and in which I said, "Well, if Senator Robinson will appoint a Committee of the Senate to examine our books, I'll show it to them."

R: Yes..

H.M.Jr: Whereupon he said, "No." Then he said, "Well, I don't suppose you'd object that when the Fund is completed that you have a final audit." And I said, "No honest man could object to that." Now, that conversation took place on January 11.

R: Yes

H.M.Jr: And from that date to this I've never heard from Vandenberg again.

R: Yes, well he...

H.M.Jr: So what he did was he used that conversation just to put me in the hole.

R: Yes, and trying to put the Committee in the hole.

H.M.Jr: Yes, it was a - it was a dirty trick.

R: Well, we beat him so that's the end of that.

H.M.Jr: But - but if you - you do remember my calling you?

R: Oh certainly, certainly.

H.M.Jr: It was a dirty trick.

R: Yes, it was.

H.M.Jr: Because he could say that he had talked to me. But when I went before the Committee, no Republican ever brought that question up.

R: No, that's right, and nobody else brought it up.

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H.M.Jr: And nobody else brought it up. It was just one of - like Vandenberg's putting a record of the President's voice on the radio. Do you remember?

R: Yes, another trick like that.

H.M.Jr: He's a...

R: Well, it did - it didn't do any harm.

H.M.Jr: As a matter of fact, I - I think you spanked Vandenberg very nicely.

R: Yes, I think so.

H.M.Jr: But I appreciate your help and...

R: All right. All right, I was glad to do it.

H.M.Jr: Thank you, sir.

R: Thank you very much, Henry. Goodbye.

H.M.Jr: Goodbye.

January 22, 1937
12:26 P.M.

Operator: Go ahead.

George
Harrison: Hello.

H.M.Jr: Hello.

H: Oh, Henry?

H.M.Jr: Yes, George.

H: When I'm - I'll be in Washington Monday and Tuesday
for that Open Market meeting.

H.M.Jr: Yes.

H: And on Monday night I've asked - I'm asking the
members of the Board and the Presidents of the Banks -

H.M.Jr: Yes

H: - to have dinner with me, and I'd like awfully much
if you would be free to come if you would so.

H.M.Jr: I think we have a social date.

H: Ah-ah.

H.M.Jr: Oh. Of course. We have - we've got a formal dinner
of our own.

H: Oh my, I'm disappointed.

H.M.Jr: I am too. It's awfully nice, but I just - that's our
formal - Mrs. Morgenthau gives one a month.

H: Oh yes.

H.M.Jr: On Monday. And...

H: Well, I'm very sorry. I can't change the date, because
that's the only date they'd all be there.

H.M.Jr: Well... Your birthday's on Tuesday, I hear.

H: (Laughing) Yes

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H.M.Jr: Well, you come around and I'll give you I don't know how - how - how many - how many years?

H: Be just a half a century.

H.M.Jr: No!

H: Yes.

H.M.Jr: Well, no one would guess it.

H: Oh, yeah?

H.M.Jr: Well, I'm awfully sorry.

H: Well, I'm very disappointed. I'd hoped to...

H.M.Jr: I'd love to see the Federal Reserve get drunk once.

H: (Laughs) Well, I'd - I'd like to see what we could do to the Treasury.

H.M.Jr: Well, you could do plenty without getting drunk.

H: (Laughs) Well, Henry, I'm very sorry and...

H.M.Jr: Listen, I tell you what you do. I'm sorry too. After you've got them really full, see? -

H: Yes

H.M.Jr: Then by - then - then tell them, now by God they got to make up their mind whether they're going to or not on excess reserves.

H: Well, I think they've got to too. I think that that...

H.M.Jr: But I don't think - I don't think - I think they'll decide it at your dinner Monday night if you give them enough to drink.

H: All right. Well, we'll see what we can do, then.

H.M.Jr: All right.

H: All right.

H.M.Jr: Thank you for asking me.

H: Well, I'm sorry you can't come.

H.M.Jr: Righto. 'Bye.

H: Goodbye.

January 22, 1937
2:18 P.M.

Pat
Harrison: Did you get wet?
H.M.Jr: Oh yes, unfortunately, and I still feel it.
H: Yes? Well, that's fine.
H.M.Jr: But I like these million others.
H: Yes.
H.M.Jr: What do you think of my candidate for Under Secretary?
H: Who is he?
H.M.Jr: Didn't you see it go up at 12?
H: No, I didn't see the list.
H.M.Jr: An old friend of yours.
H: Who is he?
H.M.Jr: Roswell Magill.
H: All right, he's - you couldn't make any better. I had no idea you were thinking about him.
H.M.Jr: Neither did I.
H: Magill is one of the biggest fellows I know of.
H.M.Jr: Well, don't you like that?
H: Well, he's the best man we've had up here before these Committees, in my opinion.
H.M.Jr: Well, that's - I - I took the liberty of quoting you when I asked the President, and I said, "If you want to ask - know about Magill, call up Pat Harrison."
H: Well, I'll tell you, Henry, how I feel about Magill. Last time I saw him I told him that if they defeated me for the Senate -
H.M.Jr: Yes

- 2 -

H: - or if I was elected, I might quit and open up a law office here and get my partner Magill; that I had more faith in him than anybody.

H.M.Jr: Is that right?

H: Oh, Magill's all right. You won't have any trouble.

H.M.Jr: Well....

H: Now, I - I have a Committee Monday morning.

H.M.Jr: Yes

H: We don't meet till Tuesday.

H.M.Jr: Yes

H: I'll get the name out Monday morning.

H.M.Jr: Well now, do you want him down here or anything?

H: No.

H.M.Jr: You don't?

H: No.

H.M.Jr: You let me know.

H: Yes. But I want to come up and have a talk with you and Oliphant - you can draw him into it - on tax matters soon.

H.M.Jr: Well then, as soon as Magill is confirmed, supposing we have a talk.

H: Yes, because I'm not going to let these fellows make a report to my Joint Committee -

H.M.Jr: Yes

H: - until we have had our talks and understandings and so forth.

H.M.Jr: Well now, Magill is going to do just two things for me. You know, Internal Revenue is directly under me.

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H: Yes.

H.M.Jr: I'm transferring it to Magill.

H: Yes

H.M.Jr: And then he's going to represent the Treasury on the Hill.

H: Yes. Well, you couldn't have appointed a better man.

H.M.Jr: And those are the two things that he's going to do, and nothing else.

H: Yes

H.M.Jr: And that's the wishes of the President.

H: Yes. Well, he's all right.

H.M.Jr: Well then, I'll tell Roswell that - that you're going to take care of it and if - he don't have to come down until he's confirmed.

H: Yes. Of course, I've got to ask Copeland and Wagner.

H.M.Jr: Well, I spoke to both of them.

H: And they're all right?

H.M.Jr: They're fine. And I spoke also to Dieterich and Lewis on account of Magill's father, see?

H: All right, we'll get it out Monday.

H.M.Jr: You know, Magill - see, his father being such an active Republican - but....

H: Well, I didn't know that, but he's all right.

H.M.Jr: He's a registered Democrat in - in New York City and spoke - and worked for the President during the campaign.

H: Well, that's all right.

H.M.Jr: And....

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H: - responsibility and he'll make a good man.

H.M.Jr: No, he's a registered Democrat and he talked there in New York for the President before Democratic clubs.

H: All right. Henry?

H.M.Jr: Yes, sir.

H: I'll - I'll see you next week some time early in the week.

H.M.Jr: Why, any time...

H: I won't make an engagement with you because I just want to talk in a free-for-all way on this tax stuff.

H.M.Jr: Well, don't you think now that we've got Magill - will - do you want - you'll want him present?

H: I want him present and want Oliphant with you.

H.M.Jr: That's - attaboy.

H: And I'll bring Parker up, and we'll just talk.

H.M.Jr: Swell.

H: And we'll just - isn't-for anybody else to know anything about.

H.M.Jr: That's right.

H: Because I'm not going to let anything break up here until I can have understandings all round.

H.M.Jr: Thank you.

H: All right, Henry.

H.M.Jr: Goodbye.

H: Goodbye.

January 22, 1937
4:40 P.M.

William C.
Bullitt:

Can you hear me?

H.M.Jr:

Very well.

B:

Much better connection.

H.M.Jr:

The reason they've been putting me through London is....

B:

This is a much better connection.

H.M.Jr:

No, but I want to explain to you.

B:

Yes

H.M.Jr:

They haven't got what they call the diplomatic service on the French.

B:

Oh

H.M.Jr:

You know what that is?

B:

Yes, I know.

H.M.Jr:

But I told them never mind the diplomatic service. This way we only have one government listening; the other way we had two.

B:

That's right.

H.M.Jr:

So in the future we will use the French radio.

B:

It's much better because, as you see, we can hear much better.

H.M.Jr:

Yes

B:

Henry, there was a Council of Ministers this afternoon.

H.M.Jr:

Yes

B:

And possessed of powers to consider this matter.

H.M.Jr:

Yes

B:

The situation is this: There is no immediate crisis whatsoever.

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H.M.Jr: Good.

B: The - the - they are negotiating with London for a loan -

H.M.Jr: Yes

B: - to amount to between four and a half billion francs and five billion francs.

H.M.Jr: Yes

B: The proposition has been accepted by London in principle.

H.M.Jr: Yes

B: The terms have not yet been arranged.

H.M.Jr: Yes

B: There is a very small possibility that they may be arranged tomorrow morning.

H.M.Jr: Ah-ha.

B: Probability is that the terms will be arranged on Monday.

H.M.Jr: Yes

B: The general situation in France is one of a very great pick-up.

H.M.Jr: Good.

B: The general railroad receipts for this year are up 12 percent over the corresponding period last year.

H.M.Jr: Good.

B: Are up in the case of the
- that's the Northern Railway - 25 percent.

H.M.Jr: Yes.

B: Tax receipts for the - this month, up-to-date, show
a - that is, indirect taxes, taxes on business, have

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shown an increase of 10 percent over the corresponding period last year.

H.M.Jr: Good.

B: Now, the - there is a great increase of deposits in the National Savings Banks

H.M.Jr: An-ha.

B: There's no panic at all here. They - they still have three billion francs with the which they can - gold - which they can draw at any time - the Government. In the situation, in the actual situation, they have lost, as you know - they lost a couple of weeks ago, in one day, they lost almost - about ten million dollars worth in gold. And a couple of days ago again they lost about ten dollars - million dollars worth in gold.

H.M.Jr: Yes

B: The amount that they've lost is greatly reduced today. Nevertheless, gold is still flowing out.

H.M.Jr: Yes

B: Two things have been suggested to date that we could help in the situation -

H.M.Jr: Yes

B: - in a really pretty nice manner, if we could possibly do two things.

H.M.Jr: Yes

B: If you could buy tomorrow, tomorrow morning, five - can you hear me?

H.M.Jr: Oh, very well.

B: If you could buy tomorrow morning five to ten million dollars worth of French francs and not convert them into gold immediately, you'd - I think you'd be perfectly safe in such an operation, because they have, I am sure - have absolutely no intention -

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H.M.Jr: Yes

B: - of going off gold or limiting the export of gold at the present time. The - furthermore, it would be necessary to do that, or desirable to do that, only until they have concluded the loan with London. The second suggestion was that I might perhaps, in an interview tomorrow, make an optimistic statement with regard to the general economic situation in France and the general lessening of tension in the whole internal situation. I'd be perfectly glad to do that because I really believe it - the thing is definitely improving; all the fever is out of the boil, so to speak, and it's - all looks pretty much to the good.

H.M.Jr: Yes

B: And incidentally I am perfectly convinced that this summer we're going to have the biggest tourist trade here possible and we'll have a very big demand for francs, and I don't see at all why you shouldn't buy a lot of them.

H.M.Jr: Now, just a moment, will you? Will you stay on a minute a minute?

B: Yes

H.M.Jr: Now just a minute. I got Taylor and Lochhead here in the room with me. Will you wait a minute, please?

B: Certainly, I'll hold on.

H.M.Jr: Hello?

B: Yes

H.M.Jr: Just - will you stand by a minute?

B: Yes, all right.

H.M.Jr: Because you can charge this telephone call to the Treasury. Just a moment. (Holds aside conversation).

* * * * *

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B: Yes.

H.M.Jr: What - I don't - I don't take it that they're asking, because I don't want to be in the position. But I - we've never done that sort of thing, see?

B: Yes, I know you haven't.

H.M.Jr: And our operations are always on a 24-hour basis.

B: I know they are.

H.M.Jr: And....

B: Henry, may I suggest this to you?

H.M.Jr: Yes

B: That if you buy those things tomorrow morning -

H.M.Jr: Yes

B: - you won't be able to convert them till Monday anyhow.

H.M.Jr: No. No, that -

B: And it wouldn't be an enormous stretch of the imagination not to convert till Tuesday.

H.M.Jr: No, that - that would be a greater risk than I have any right to take.

B: Oh, really?

H.M.Jr: Oh yes. I mean I don't - I mean if the British want to do that, that's all right. They know whether they're going to make the loan or not; I don't.

B: Yes

H.M.Jr: The British make a loan to them, it's going to be against gold.

B: Yes

H.M.Jr: And we're - we're absolutely forbidden to make any loans. And it - it's a long story, but I - I wouldn't

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want to use the Fund for that purpose.

B: Well listen, there isn't any - there isn't any agreement or anything else; I mean you do it or you don't do it.

H.M.Jr: Yes

B: But what I meant was this: That I think it would produce an extremely good effect even if you bought them tomorrow morning and couldn't convert them until Monday. It would be perfectly well to convert them on Monday anyhow because there's plenty of gold here.

H.M.Jr: No, I - I - ah - the two men here with me, they're all shaking their heads negatively.

B: Yes

H.M.Jr: No, I - I - I'm - that - that's - I don't think it would do them any good. It would be just a flash in the pan anyway.

B: Well, all I mean is this: It would be - all it would do - it would be a - it would be a thing which you - this thing here at the present time, you have a - you have an optimism which is growing very rapidly.

H.M.Jr: Yes

B: And my only thought on this particular matter was that the idea that America bought some francs would be almost enough to turn the balance, you see? It's a very close thing. The fact is they have a real recovery on here.

H.M.Jr: Well, I'm - I appreciate - I'm the - I'm the best advocate they've got in America.

B: Yes, I know.

H.M.Jr: And when Frenchmen come over and hang their heads, I bump them all up.

B: Yes

H.M.Jr: But my - my - if I - as long as you put this up to me,

- 7 -

I think it would be a great mistake to even tell them that we turned it down.

B: To do what?

H.M.Jr: I wouldn't tell them that we turned it down.

B: No.

H.M.Jr: I mean I'd leave it as though - if you can - I don't know who put it up to you.

B: Yes

H.M.Jr: Where did that come from?

B: Ah - Rueff.

H.M.Jr: Who?

B: Rueff.

H.M.Jr: Oh, well, I - I just - ah - ah.

B: Well, he's the boss on that now, you know.

H.M.Jr: I know. Well - ah -

B: Very good man.

H.M.Jr: Oh, I - I know that, but - I'm sorry they put me in that position, because.....

B:they've put you in any position whatsoever, Henry.

H.M.Jr: Well....

B: This is no proposition at all.

H.M.Jr: Well, that's - I hope it isn't, because I - I - I've done so much for the French Government, I hate to be put - I don't want to be put in the position of turning them down.

B: Well listen, you're not in any position of turning anybody down.

H.M.Jr: But Rueff ought to know better.

- 8 -

- B: Well now, wait a minute, boy, that isn't the - that isn't the point at all.
- H.M.Jr: Yes
- B: I'm send- - I'm sending you a telegram.
- H.M.Jr: Yes. I mean Rueff ought to know better than put something like that up to me.
- B: What?
- H.M.Jr: Rueff ought to know better.
- B: Now listen, old boy, that's not the point at all. That's not the point at all. This was not in any way a suggestion that we should do such a thing.
- H.M.Jr: Yes
- B: This was a - this was a suggestion of a method by which if we wished to make a gesture at the present time, we could do it. Personally I don't think it would cost us anything and I think it would produce a - a very, very lovely effect in producing good will here.
- H.M.Jr: Well, the - the good will ought to be there, because Heavens knows we've done enough.
- B: Yes
- H.M.Jr: And - but this - this is - this is poor finance.
- B: Listen, I don't want to - Henry, I don't want to argue on it at all, because I haven't any feeling about it at all, you understand? It's simply that I think that might be a very possible way to - to help in the - in the general situation. I don't feel myself that they're in any danger whatsoever at the present time. I think they'll get their British loan, and that's that. And the - the pick-up here is very unmistakable.
- H.M.Jr: An-ha. Well, we get - we get - I guess we've got as good statistics on the French as anybody in the world. We get them by telegraph.
- B: I can't understand you.

- 9 -

H.M.Jr: I say we've got the - I suppose as good statistics out on the French situation as anybody who - outside of France.

B: Oh, you bet.

H.M.Jr: I think we've got the best.

B: Yes

H.M.Jr: And - ah - it's simply that the British were worried and what I started was to find out what are the British worrying about.

B: Yes

H.M.Jr: Now, I'm not worrying, but the British are.

B: Yes, that's right, that's right.

H.M.Jr: And - ah - this suggestion - well, it just doesn't get to first base with me.

B: All right, O.K.

H.M.Jr: So.....

B: Well, I don't think that makes a particle of difference.

H.M.Jr: But I - but on your hand you - you will handle it in a way that we won't offend them.

B: Oh, no, no, no, no - none whatever.

H.M.Jr: Because our relations have been so fine - I mean that...

B: Oh listen, boy....

H.M.Jr: Yes

B:there's not the faintest chance of that. I mean this was a - this was a case of simply sitting down on an intimate matter and ^{out his situation} as to anything that one could possibly invent. Well, one doesn't know whether it's anything...

H.M.Jr: Ah-ha.

- 10 -

B:at all. Oh no, my dear boy....

H.M.Jr: Yes

B: that at all.

H.M.Jr: Well, then I - I mean I'll leave it to your - ah - now shall I say - good hand to see that by saying no we don't in any way offend them.

B: No, no, no, no, there isn't any saying no because there's no question.

H.M.Jr: Good.

B: Huh?

H.M.Jr: Good.

B: The question will we or won't we. There's no question.

H.M.Jr: Fine.

B: Understand? There's not - that doesn't exist.

H.M.Jr: O.K. All right, Bill, thank you very much.

B: O.K. Henry, I want to ask you another thing on that.

H.M.Jr: Please.

B: Do you think - what - what do you think personally about my making a - having an interview tomorrow in which I make some rather optimistic statements about the general situation?

H.M.Jr: Well, I don't - ah -

B: I mean from your point of view. I'm not talking about the Secretary of State, because that's a different matter.

H.M.Jr: Oh, from our standpoint?

B: Yes

H.M.Jr: Fine.

B: Fine?

- 11 -

H.M.Jr: Fine.

B: Yes

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

B: Yes

H.M.Jr: Because - I don't - I did something like that about a year ago for the Chinese...

B: Yes

H.M.Jr: ...when they needed it most, and they've always appreciated it.

B: Yes

H.M.Jr: But from our standpoint - I mean - I mean from - we think here that France is coming along fine.

B: It is.

H.M.Jr: And every time I get a chance to talk to anybody who tries to run them down, I say so.

B: That's right.

H.M.Jr: And I - I mean I even talk to Frenchmen and tell them that they're too depressed.

B: Yes

H.M.Jr: And I think if you have an opportunity to make a statement tomorrow which will - which is optimistic, I think it would be most helpful and - and talking for the Treasury, I'd be delighted to see you do it.

B: Now, that's fine. Well, I don't need anybody but the - I just wondered - wondering how you'd feel about it.

H.M.Jr: No, I'd be delighted to see you do it.

B: Well now, Henry, do you want me to send you a telegram or not?

H.M.Jr: I think it would be just as well not.

- 12 -

B: All right.

H.M.Jr: Don't you think so?

B: O.K.

H.M.Jr: I think I'd just as leave not have it come through.

B: All right, O.K.

H.M.Jr: I - I told Mr. Hull that I talked - I mean in the first place I asked him if it was all right to call you; he said yes. Then he was out - I told - I talked to Jimmy Dunn and told him that I spoke to you and that you were going to call me again. So I keep them advised, see?

B: That's right.

H.M.Jr: So there's no - there's no crossing of wires between Hull and myself.

B: about the whole situation.

H.M.Jr: And - but I think under the circumstances I'd just as leave not see a wire come through.

B: Excellent. And - and - as I was going to say, but I do think that if you could buy a few tomorrow morning it wouldn't hurt the general situation.

H.M.Jr: What did you use to sell before you went to work for the United States Government?

B: What?

H.M.Jr: What did you use to sell before you went to work for the United States Government?

B: (Laughs)

H.M.Jr: (Laughs) All right.

B: Henry?

H.M.Jr: Yes

B: How did the President survive the Inauguration?

- 13 -

H.M.Jr: Magnificently.

B: He did?

H.M.Jr: Yes. I just came back from Cabinet and you wouldn't know that he's even had a shower.

B: Well, that's perfectly lovely.

H.M.Jr: No, he looks and feels fine and he's - the only - we've got two bad things over here. One is our strike; another is the - the Ohio flood.

B: Yes

H.M.Jr: And...

B: Rather unfortunate.

H.M.Jr: The Ohio flood is very bad.

B: Well, it'll get through all right.

H.M.Jr: Oh yes. But otherwise everything is fine.

B: Finally.

H.M.Jr: Yes.

B: Well, God bless you, Henry.

H.M.Jr: Thank you.

B: to the President when you see him.

H.M.Jr: Goodbye.

B: Goodbye.

January 22, 1937
4:56 P.M.

H.M.Jr: Hello?

Operator: Dr. Feis.

H.M.Jr: Yes

Operator: Go ahead.

H.M.Jr: (Aside) Not necessarily, not necessarily.
Hello.

Herbert
Feis: Henry, Herbert Feis.

H.M.Jr: Yes

F: About the Tokyo matter.

H.M.Jr: Yes

F: Two things.

H.M.Jr: Yes

F: First, their Counselor, Mr. Yoshizawa -

H.M.Jr: Yes

F: - is leaving on Saturday for Tokyo.

H.M.Jr: Yes

F: And he came in to say goodbye.

H.M.Jr: Yes

F: And that - I took occasion to try to break the ground
by telling him that the only way in which misunderstanding
could be averted, and so on, would be if they will
give us the fullest possible information....

H.M.Jr: Yes

F:on the development of their policy, which I was
sure the Treasury would under all reasonable circum-
stances reciprocate.

- 2 -

H.M.Jr: Yes

F: And he promised to take that message back.

H.M.Jr: Yes

F: Ah - second, about the appointment which we discussed.

H.M.Jr: Yes

F: I've talked that a lot and we've gone over lists. The opinion here is that we can put at your disposal someone that may do the job better than the man I had in mind.

H.M.Jr: Yes

F: He's a man named Mackay - M - a - c - k - a - y. He is an older man, late thirties, who lived out in the Far East some fourteen years. He ran quite an extensive business out there and at the time of the Manchurian trouble the Department asked him to come on special service and he's been doing that work since, particularly on the economic and financial end. He's done all the analytical work of the budget work and reporting in the Far Eastern Department.

H.M.Jr: Yes

F: And - ah - they're willing to send him out there on special assignment for any period that suits you to see how it works out.

H.M.Jr: Where is he located?

F: He's located here now.

H.M.Jr: Do you suppose he could come over and have a talk with Wayne Taylor?

F: Oh yes.

H.M.Jr: Let - let Wayne look him over?

F: Yes

H.M.Jr: All right.

- 3 -

F: Ah - do you want me to arrange that directly with Wayne?

H.M.Jr: Would you mind?

F: Not a bit.

H.M.Jr: Now, while I - is that all, because I want to tell you something.

F: That's all.

H.M.Jr: All right. This morning I called up Mr. Hull.

F: Yes

H.M.Jr: If you'll make some notes on this as I tell you - and asked him if it was all right....

F: You want me to make notes?

H.M.Jr: Yes, if you don't mind.

F: All right.

H.M.Jr: What?

F: Yep.

H.M.Jr: And I asked him if it was all right for me to call Bill Bullitt.

F: Right.

H.M.Jr: He said yes. I called Bill and told him that we had this word from the English that the English were worried about the French situation, what the hell was the matter with the French situation? He said he didn't know but he would find out. I reported that conversation to Dunn because Mr. Hull was out.

F: Right.

H.M.Jr: I just got through this second having a 15-minute call with Bill Bullitt and he's left me in a cold sweat.

F: Yes.

- 4 -

H.M.Jr: He went over to see Rueff and he came back that we should buy ten or fifteen million dollars - Oh wait a minute: they hope by Monday to have a - negotiate a loan with Great Britain.

F: Yes

H.M.Jr: The French do. Then, pending this, in order to sort of build up the - the French situation, make it look pretty, Rueff suggested to Bullitt who suggested to me that we buy five or ten million francs tomorrow morning - five or - million - ten million dollars - five or ten million dollars worth of francs -

F: Yes

H.M.Jr: - and to not convert them into gold. That's when I broke into the cold sweat.

F: Exactly.

H.M.Jr: And I said, "We can't do this." He said, "Oh come on." He says, "You don't have to pay for them until Monday." Well, after all....

F: Well, I should think you can take a chance until Monday -

H.M.Jr: No

F: - but will they let you convert on Monday?

H.M.Jr: No. Well, we don't do business that way any way. It's like drawing a check on Saturday, knowing the bank....

F: Yes, you're right, Henry. I mean that won't save the French situation anyway.

H.M.Jr: That's what I tried to tell Bill.

F: Not two hundred and ten maneuvers of that kind.

H.M.Jr: No. Well - I mean I - and Bill said, "Oh come on," and he put terrific pressure on me and I said, "Now listen, Bill, we don't do business that way."

F: You're right, Henry.

- 5 -

H.M.Jr: And we can't do business that way. And I was very quiet, very temperate.

F: Yes

H.M.Jr: And I said - I joked with him - I said, "What did you use to sell before you went to work for the United States Government?" And - well, he said, "Oh come on, do it on Saturday and it'll look beautiful." So I said, "I'm very sorry," and I said, "Please, for heaven's sakes, in telling them that we can't, do it diplomatically, because our relations are so fine I don't want to turn the French down."

F: Yes

H.M.Jr: And I said, "You got to be awful" - he said, "Don't worry about that, let me take care of it." Well, he came back at me three or four times, and Taylor and Lochhead were here and they both agreed with me that it's just the kind of finance that we can't stand for. So he said, "Well, should I put this in a cable?" and I said, "For heaven's sakes, don't."

F: Yes

H.M.Jr: I said, "Don't put it in a cable. Just let's all forget about it that I ever even - that you ever even asked me."

F: Yes

H.M.Jr: But I feel that it's so important that I must repeat it to you and I thought you could repeat it to the Secretary.

F: I'll do it.

H.M.Jr: But it's just - strictly between us, I say thank God for Cochran.

F: (Laughs) Well...

H.M.Jr: I mean that he's back.

- 6 -

F: Well, I imagine....

H.M.Jr: But this is my one and only and I'm not going to do it again.

F: I've given you a thought that strikes me, as I said.

H.M.Jr: What's that?

F: I've given you the one thought that strikes me. But hell - I mean it's rather childish.

H.M.Jr: Well, I

F: Not all the manipulation in the world of that sort is going to make any difference in the French situation.

H.M.Jr: Not one.

F: All it can do is to embarrass you.

H.M.Jr: Well, I mean it's - it's a silly thing to put up to me, and it's - it's - it's just - but I can't - it's almost unbelievable that Rueff would put up a thing like that.

F: Oh....

H.M.Jr: It's - it's....

F: No, no, it's typical French. They - the small maneuver.

H.M.Jr: Well, it's like - it's almost like "kiting" a check, you know - put a check in Saturday and makes the deposit on Monday.

F: Well, I wonder what is the significance of that two-day operation.

H.M.Jr: I don't know. That - well, Bullitt....

F: What?

H.M.Jr: Well, they hope to get the loan on Monday.

F: The loan.

- 7 -

H.M.Jr: We'll help them to dress the window tomorrow.

F: For the - for the....

H.M.Jr: For one day.

F: For the loan in Great Britain Monday?

H.M.Jr: That's it.

F: Oh, well....

H.M.Jr: That's it.

F: Oh, I didn't fully understand.

H.M.Jr: No, we dress the picture up for them Monday - Saturday, and the franc looks strong tomorrow....

F: Well, then, you're mor- - not only that, that's bad - I mean it's definite bad faith towards Great Britain.

H.M.Jr: Oh. I consider it - well, decidedly shady.

F: Ah - I won't even make a written record of it.

H.M.Jr: All right. You mean on the - you mean the whole thing?

F: Of the whole thing. I'll tell the Secretary verbally.

H.M.Jr: That's better.

F: Right?

H.M.Jr: Yes, but I do think he ought to know it.

F: I'll tell - I'm going down there within a few minutes.

H.M.Jr: Yes. I - I - but I - you agree with me. When Bullitt said he....

F: I wholly agree with you.

H.M.Jr: He said, "Should I send a cable?" I said, "For God's sake don't."

F: Well, that's - ah - just as well too.

- 8 -

H.M.Jr: Yes.

F: I mean from our point of view we really wouldn't give a damn, but from the French point of view it's better that it shouldn't be in the record.

H.M.Jr: I didn't even think - well, - ah - well, we understand each other. Hello?

F: All right.

H.M.Jr: And - but you will tell the Secretary that...

F: I'll tell the Secretary this evening.

H.M.Jr: Verbally.

F: Verbally.

H.M.Jr: All right.

F: And Mackay can leave by the end of the month.

H.M.Jr: Swell. Well, let him come around and see Wayne Monday.

F: Right.

H.M.Jr: Thank you.

F: Good.

H.M.Jr: Good night.

F: Thank you, Henry.

January 22d

At 5:05 p.m. Secretary Morgenthau telephoned the President and informed him of the telephone conversation he just had with Ambassador Bullitt in Paris regarding the French financial situation. He told the President that the conversation was so important that he thought the President should have knowledge of it. Mr. Morgenthau stated that he had not agreed to Bullitt's suggestion because he did not feel that it would be of permanent help to the French and he was surprised that the French had suggested it or that Bullitt would have conveyed the request. Mr. Morgenthau explained that this transaction would be the same as drawing a check on a bank without funds hoping that funds would be available to meet the check by the time it was presented. He also thought that it would be bad faith on our part with the British if we entered into this transaction while the French were negotiating a loan from Great Britain.

The President agreed entirely with Mr. Morgenthau that he was acting correctly in turning down Bullitt's insistent suggestion.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 23, 1937, 6 p.m.

NO.: 91

For the Treasury.

The exchange market today was active with a large turnover in pounds and in dollars. Dollars opened at 21.45 3/4 but now quoted at 21.45. We understand from our market contact that the British control made efforts today to halt the rising quotations for dollars. The latter were reported heavily bought for French and Swiss account.

Rentes strengthened and showed gains of about 90 centimes but otherwise the security market was irregular. STRICTLY CONFIDENTIAL.

An official of the Bank of France has informed us confidentially with regard to the weakening of the franc vis-à-vis the dollar and the pound that Auriol's reference to early stabilization in his speech before the Anglo-American Press Association/^{on January 20} and before the American Club yesterday has been interpreted in many quarters officially as an indication that there may soon be a reduction of the value of the franc to the limit which existing law allows.

The Bank of France official said that as a result of the foregoing the French control had to respond yesterday to the greatest demand for pounds and dollars that it had experienced since the stabilization fund was established,

and

- 2 -

and today substantial calls were made upon it too. He also said, in strict confidence, that while he had no detailed information relating to negotiations going on between the ^{French} Treasury and British banks for a loan, he had the impression that obstacles had been encountered with regard thereto. He however did not seem to think that these obstacles could not be overcome. He added that a credit might be concluded in the name of the railways if the loan could finally be arranged. He also mentioned that on the British side the suggestion of early definitive stabilization was probably not welcomed in London, and that in fact the loan negotiations might be unfavorably affected thereby.

END SECTION ONE.

BULLITT.

EA:LWW

MED

GRAY

PARIS

Dated January 22, 1937

Received 5:09 p.m.

Secretary of State

Washington

91, January 22, 6 p.m. (SECTION TWO).

A decision has been taken to close the Paris Bourse on Saturdays until the end of next month. It is understood that the forty hour law will come into effect for banks and financial houses on March one and though no decision has yet been taken it is thought that Paris banks will be closed on Saturdays after that date. Under these circumstances there would seem to be little reason for the Bourse to be kept open and it is expected that the authorities will order the suspension of Saturday sessions to be permanent.

Notice is being given in the press of today to a communique by the Spanish Government that it has not deposited gold abroad and that the two billion francs (for?) gold exported to France were to expenditures made here.

The following communique issued at Athens is published by the London FINANCIAL NEWS today: "there is no question of an offer of a loan by the German Government but the pourparlers between the issue houses of

IED - 2 - #91, January 22, 6 p.m. Section two from Paris
of Greece and Germany have in mind the assurance of
payment to German concerns for the execution of orders
placed by the Greek Government."

It is added that facilities suggested include the
issue of Greek three per cent Treasury bonds and that
it is understood that the credit facilities will total
25 million reichsmarks. (END OF TWO AND MESSAGE).

BULLITT

CSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 22, 1937.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 10:10 today to let me know, as he said, how things were. They were having a very bad day in Paris where there was quite a big cloud looming up on the horizon; pressure against the franc was great; the demand for dollars continued from London, Paris and Zurich and he had sold close to \$5,000,000. I pointed out that he could certainly operate on a larger scale in the London market than we here. Bolton replied that he was going to suggest that we might do something in New York now, if necessary, because he did not think the sterling rate ought to go below 4.90 1/8 to 4.90 1/4 at the moment. It was not so much a question of the rate as that wide fluctuations in sterling should be avoided for the time being. I replied that, particularly in view of his suggestion, we would be very glad to step in and support sterling at 4.90 1/8 and that he could count on our doing so if, as and when, necessary.

I referred again to weakness of the Swiss franc which we had discussed yesterday. Bolton replied that, as he saw it, people in London and on the Continent seemed to figure that the Swiss would continue to follow the French in their monetary policy. In September both countries had devalued about 30%. If the French franc were forced down another 5% to the maximum authorized by law, the Swiss would do the same thing. There was some suspicion that the French, by force of circumstances, would be compelled to depreciate to the full extent. Consequently, many felt that the same fate was in store for the Swiss franc. In addition to that, the technical position of the Swiss franc was vulnerable because there was no natural support.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 22, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM: L. W. KnokeWITH BANK OF ENGLAND.

- 2 -

for it at the moment, tourist season being very nearly over and repatriation having been finished. As a result, it really took relatively little to push the rate down. Belgas were in a somewhat different position because they were getting support from the flight of French capital into Belgium.

I inquired as to the status of the gold clause case now under discussion in the House of Lords. Bolton replied that they were still arguing it and so far, it seemed to be a toss-up. The question was "Should English or American law prevail?" If the English law did, they would have to pay in gold. There was a strong case that a sovereign of a country was bound by his own law. On the other hand, it was argued that this being an American contract, American law should apply, in which case payment in dollars at the present value would be satisfactory. I repeated my previous request that he let me know as soon as the decision was out.


LWK:KMC

January 22, 1937

Mr. Bewley came in at 12 o'clock today. Mr. Taylor and Mr. Lochhead were also present.

The Secretary said to Mr. Bewley, "The Bank of England, in talking to the Federal Reserve Bank of New York, during the last couple of days, seemed disturbed about the French situation. Can you find out what it is all about?" Mr. Bewley inquired, "Did they give any reasons?" The Secretary's reply was, "No. They said they were quite worried, but did not give any reasons. On matters of that sort, I felt I ought to take it up with the British Treasury and not with the Bank of England. The Bank of England had two conversations with the Federal Reserve Bank and both times they expressed worry about the French situation." Mr. Bewley said to the Secretary, "I will try to find out. I did telegraph about the other matter you asked me about the other day, but I have not yet had an answer."

The Secretary also said to Mr. Bewley, "We have just finished a transfer of funds for Argentine on both sides and it was quite difficult to handle."

COAST GUARD OPERATIONS IN FLOOD AREA:

January 22 (from 4 p. m. to midnight)

Every resource of the Service was directed to getting boats and their crews to the flood area, the force of boats already on the scene being augmented by the dispatch of 12 boats from the New York Division to be unloaded at Cincinnati and Evansville. The Norfolk Division assembled 14 surfboats from stations along the Virginia and North Carolina coast, and these, with their crews, are scheduled to leave on January 23rd for South Portsmouth, Kentucky. Such of these boats as are required will be dispatched to Huntington and Wheeling, West Virginia, in response to the appeal from the Governor of West Virginia for boats in that particular region. District Commander W. W. Bennett (from Grand Haven, Michigan) was ordered to take charge of Coast Guard operations in the vicinity of South Portsmouth, Kentucky.

To facilitate action between Headquarters and the field forces in the flood area, radio communication was established between the Coast Guard Radio Station at Fort Hunt, Virginia, and the Coast Guard portable radio unit at Evansville, Indiana, and another portable Coast Guard radio unit was established at Woodbury, Kentucky.

January 23rd.

On the morning of January 23rd the Chicago Division was preparing six additional boats for shipment to Evansville, Indiana.

Reports received indicated that it was snowing early this morning in the West Virginia flood area, there being 3 inches of snow on the ground.

At 9 a. m. the water stage at Evansville was 48.1 feet, and rising at .05 foot per hour. The weather was reported clear in that vicinity. Report was received that the Coast Guard had removed 87 refugees to places of safety on January 22nd.

A Coast Guard communications truck from the Coast Guard Depot, Curtis Bay, Maryland, was ordered to pick up a shipment of vaccine at Washington, D. C., at noon today and rush it to Louisville, Kentucky, in cooperation with the Public Health Service. Orders were issued to the Commander of the New Orleans Division to dispatch immediately to Memphis, Tenn., all available 165-foot and 75-foot patrol boats, and also to send by special train all available motorboats and surfboats from Coast Guard ships and stations in the Gulf region. Planes were ordered to proceed from the Miami and St. Petersburg Air Stations.

A total of eight additional surfboats from Coast Guard stations north of Milwaukee, Wis., were placed aboard flat cars, and Headquarters requested instructions from the Red Cross as to the most advantageous point to dispatch them. Ten other boats were assembled by the New York Division from ships and stations, and to await instructions as to the places to which they should be sent.

SUMMARY

Boats on the scene or enroute:

To vicinity of Evansville, Indiana	35
" " " Hazelton, Indiana	2
" " " Cincinnati, Ohio	15
" " " Huntington - Wheeling	4
" " " Lawrenceburg, Indiana	5
" " " South Portsmouth, Ky.	7
" " " Vincennes, Indiana	1
	<u>68</u>
Planes	4
Radio trucks	2
Portable radio sets	20
Personnel	Approximately 300

January 22, 1937

The Chinese Ambassador came in to see the Secretary today. Also present were Mr. Taylor and Mr. Lochhead.

The following is a stenographic report of their conversation:

Ambassador Sze: I have received a cable requesting you for an extension of the credit arrangements. I think according to the last extension you gave, it expires at the end of this month.

HM, Jr.: On the 50,000,000 ounces of silver?

Ambassador Sze: Yes.

HM, Jr.: (To Mr. Lochhead) Have they made use of this credit?

Mr. Lochhead: No, it is still there; in fact, very much there. We have quite a number of complaints from the San Francisco Mint regarding physical handling of this silver which is stored there.

Ambassador Sze: How long you will extend it, I will leave it to you.

HM, Jr.: For the rest of this year, to December 31. I have to talk to the President. I have not had a chance to talk to him yet.

Ambassador Sze: That is all I have to ask you.

HM, Jr.: (To Mr. Lochhead) We loan 45 cents?

Mr. Lochhead: No; 40 cents on a yuan basis. The technical form of this credit would be a purchase of yuan by us with the silver as a guarantee against any loss in exchange.

HM, Jr.: The substance of it is to let them borrow \$20,000,000 against 50,000,000 ounces of silver.

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Ambassador Sze: I was simply told to get extension as long a period as possible.

HM, Jr: For the rest of this year. I think that is pretty good. I have some questions to ask you. I would like to know if Kung knows what is going on in Japan financially. What is the trouble there?

Ambassador Sze: We have been wondering how they could go on.

HM, Jr: If the Chinese merchants have sold goods in Japan, can they get paid for it?

Ambassador Sze: If I put this question to Soong, you would get an answer, but Kung would not know.

HM, Jr: Can you ask Mr. Soong?

Ambassador Sze: I am just making a suggestion.

HM, Jr: I get what you mean. I ask you then to ask Mr. Soong are your merchants getting paid for Chinese goods. I can tell you ours are not. One man, since the 8th of January, received \$8,000. That is all I have been able to find out.

Ambassador Sze: Out of a large sum?

HM, Jr: I do not know. Isn't \$8,000 approximately 30,000 yuan?

Mr. Lochhead: Yes; that's about right.

HM, Jr: What other questions have you listed on your paper?

Ambassador Sze: I just brought information. I thought you might ask me about the silver reserve.

HM, Jr: I think we have all that. Before you came I asked our people whether there was anything they wanted to know and they said they didn't because you were furnishing

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everything. All I want to add is I wish you continued success.

Ambassador Sze: Through your help we have been able to continue to have success.

HM, Jr: The President and I were the only two people in Washington who had any faith in China and were the best friends you had in all the world. When everybody told us not to do anything, that you would never come through, we still had faith in China.

I would like to know what really happened about the General Chiang Kai-shek and the young Marshal situation.

Ambassador Sze: No one will really know what happened with the exception of Mrs. Chiang Kai-shek and Chang. Before I went to the White House reception, feeling that the President might ask me for some information, I sent a telegram to Soong and all I got back was a couple of sentences.

HM, Jr: Well, may I know what that was?

Ambassador Sze: First of all, the anti-Japanese feeling among the Chinese is much stronger than people imagine and we have to work very hard to work for peace with Japan. The task is much more difficult. If the President asks you, mention these two things.

HM, Jr: What has that got to do with General Chiang Kai-shek?

Ambassador Sze: Since September, 1931, the Chinese appealed to the League and by 1932 the Chinese said, You have misplaced your confidence. The League will not help you. That is what happened in Shanghai. The feeling was so great among the people in 1936 that the Government would not dare to yield to Japan any further. So during 1936 the Government of Nanking was much stronger. The trouble started with the troops in Sian. At first I think General Chiang Kai-shek under-estimated the strength of the Manchurian troops.

HM, Jr: What about this anti-Communist and anti-Russian business?

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Ambassador Sze: That is simply an afterthought.

HM, Jr.: Am I correct that Kung has come out of this thing weaker?

Ambassador Sze: Before this thing came up, Kung threatened to submit his resignation.

HM, Jr.: Soong must be much stronger.

Ambassador Sze: Of course, he has a better grip of the situation. He is strong-willed and will not do everything General Chiang Kai-shek wants him to.

HM, Jr.: Your people must know what is going on in Japan.

Ambassador Sze: I will send a cable to Soong.

HM, Jr.: You saw all this in our papers about the Japanese. Do you suspect where these stories come from?

Ambassador Sze: I have some suspicion. I like the Manchester Guardian because that paper has the best Chinese news. The London Times Weekly is anti-Chinese.

HM, Jr.: How does Buck stand with T. V. Soong? Has he got his confidence?

Ambassador Sze: Most people say Buck is a scholar. He is not a financier. They like him very much.

HM, Jr.: General Chiang Kai-shek and Madame Chiang Kai-shek have confidence in what Buck is doing and Buck sees Kung.

Ambassador Sze: Soong likes financiers. That is all I have, and I will send a cable to Soong.

* * * *

After the departure of the Ambassador, the Secretary asked Mr. Taylor and Mr. Lochhead to send a cable to Buck and say to him that before he extended the renewal of the loan privilege to China, he wanted to know the future policy of General Chiang Kai-shek, both internally and externally. (Copy of their cable is attached.)

Jan. 22, 1937

Mrs. Friedman

Mr. Lockhead *LL*

Please transmit the following by cable to Professor Buck, Shanghai, China:

"Have been approached by Chinese Ambassador today for renewal of loan privilege against fifty million ounces of silver which expires end of this month. Before making decision on this question I wish you to see General Chiang Kai Shek and obtain a message for my personal and confidential use as to what policy he has in mind for China during the coming year both internal and external. Morgenthau."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1937

TO The Secretary
FROM Miss Lonigan

Attached is a report on the work of the Resettlement Administration.
More detailed studies of costs are now being gathered.

I have made this report somewhat detailed because it illustrates the fundamental choice in all work for low income families - the distinction between self-help, which uses Government funds as capital; enables needy families to become independent of Government aid; and strengthens the entire economic system and total real income; or Government payments, which uses Government funds for consumption; increases dependence on Government aid; and increases inflated income.

RESETTLEMENT ADMINISTRATION

Summary

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RESETTLEMENT ADMINISTRATION

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Summary

The Resettlement Administration has a program which is extraordinarily effective in raising the economic position of low income farmers and removing them from the necessity for future Government aid. Its method of operation in the beginning was confused and highly extravagant but the correction of the most of these difficulties is now well under way. The Resettlement Administration offers for the coming year one of the soundest programs in the social-economic field for the investment of public funds.

The Resettlement Administration has incurred obligations amounting to approximately \$300,000,000 in the period ending November 30, 1936. Of this, about \$175,000,000* is still capital assets held by the Government, even after liberal write-offs for excess costs in the early months. In addition, about \$15,000,000 has already been collected on loans. These capital holdings include \$61,000,000* in land, \$47,000,000* in physical improvements on land and buildings, and \$66,000,000* in recoverable loans. This is the net value remaining after an allowance of about \$56,000,000* for non-recoverable expenditures on land, buildings, and doubtful loans.

An essential characteristic of Resettlement Administration financing is that it is capital investment of Government funds. This means high initial expenditure, but very high returns after a limited time, either in improvement of physical property or increased earning capacity of families. This is in marked contrast with high expenditures for direct consumption.

*Preliminary. Includes property transferred from FERA and Subsistence-homesteads and corresponding write-offs.

The test of the Resettlement Administration program is its "graduates," families who through their aid have reestablished themselves in the community without any further need for Government help. The significant fact about these "graduates" is that they have reestablished themselves not because the outside system of private employment has improved and called for their services, but because their earning capacity has improved so that they are independent of outside employment either through industry or the Government. The number of "graduates" is small, as would be expected for one year, but the evidence of the improved conditions of families under care is very striking.

Money spent by the Resettlement Administration is money spent not for the same families year after year, but for a changing group of families who are adding to the self-sustaining group in the population.

Three divisions, Land-Use, Resettlement, and Rehabilitation have programs which are definitely adding to the national wealth, either in physical property, or in better work habits and capacity for self-employment. Extravagances in these programs are being rapidly reduced. They should be completely divorced from all connection with relief.

The Construction Division is apparently still dominated by extravagant ideas of family needs in housing and equipment, and by great indifference to costs. Their work might better be done by contract under the divisions concerned. The Management Division is carrying subsistence homesteads which were inherited from other agencies. Its work might be transferred to the Resettlement Division. The Office of Coordinator is probably an unnecessary expense. The work of Suburban Housing is outside the true scope of the program, which is aid for farm families in the open country.

DIVISIONS

All the divisions of Resettlement Administration are carrying on work comparable with that of FERA. The Rehabilitation Division is most nearly comparable with a relief or work-relief program. Its work involves certain fundamental principles in the type of aid to be given to needy families.

The purpose of the Rehabilitation Program is to aid farmers now on suitable land by reestablishing their credit standing so that they can take care of themselves. The division makes small loans, \$50 to \$600, for the purchase of work stock, equipment, or other forms of working capital, through which the farmer can obtain an income by his own efforts. The loan is based on a carefully worked out "farm and home plan" by means of which the farmer knows how he can use his labor and equipment to the best advantage. Together with the loan the Rehabilitation Division also provides continuous supervision in the carrying out of the farm and home plan, to get maximum benefits for the family from the use of this working capital.

This is an essential step in the development of a complete credit system for agriculture. It is a type of intermediate credit, or working capital loan, primarily on a character basis, and accompanied by management supervision. The banking principle involved is so sound that it will in time be expanded as a type of character-and-management-loan for small industries and for consumers. It assumes three classes in the community, those able to profit by existing credit at market rates, those unable to maintain themselves because of personal deficiencies, and an intermediate group who are not at present able to maintain themselves with credit at market rates, but who can be

made self-sustaining in a limited time with what is essentially high-cost loans coupled with high-grade management training. If the system is successfully operated, the beneficiaries of these management loans "graduate" into the highest class of families able to maintain themselves without special assistance. Farmers, for example, would graduate to become eligible for FCA credit at market rates. This use of funds is capital investment in human capacity, in contrast with consumption expenditures for maintenance or relief.

The management policy of the rehabilitation loans is directed especially to the raising of food and feed on the farm and the canning of home supplies, with less and less dependence on one cash crop, and on the highly unstable cash income from one-crop farming.

The division also makes group loans for cooperative purchase and use of equipment which would be too expensive for the individual farmer. This program for providing cooperative physical facilities parallels the FCA program for cooperative marketing and financial facilities. Its effect is to reduce overhead and cash outlay, give the small farmer the benefits of large scale operation, and encourage healthy community growth.

The Rehabilitation Division also makes direct grants to these families. Grants are made to rehabilitation cases only, and for the emergency interval only. This is in contrast with direct relief or work relief which is a continuous grant, without plans for family rehabilitation or increasing capacity for self-help.

This program had by June 30th given aid to 635,000 families and made loans of \$75,000,000 and grants of \$15,000,000.

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The Land-Use Division is not only purchasing land that should not be used for farming but it is increasing the capital value of this land for recreation and other purposes.

It is also making significant contributions to the social and legal problems of land ownership and farm tenantry. It is selling its land only on forty year leases with the provision that the man may pay for his land as rapidly as he wishes, but cannot make his last payment and acquire full ownership until the fortieth year. This puts an end to selling for speculative purposes. The farmer retains full possession of his land so long as he uses it wisely and its capital value is maintained, but loses his contract if the land is abused. Owners may not subdivide below the efficient size of holdings. The practice of putting mortgages on farms to provide an inheritance for children who do not intend to operate the farm is stopped. This puts a stop to one of the main causes of debt accumulation.

It is doubtful if any country in the world is better equipped to enter on a sound land-use and land-ownership program than is the United States through the Resettlement Administration.

The problem of the tenant farmer is being met not only by making it possible for tenants to become landlords but also by changing the status of tenantry so that it is a much more desirable relationship. Tenant contracts are being rewritten to provide that tenants shall have the right of renewal of their leases except with ample notice. They shall be compensated for improvements and, therefore, encouraged to increase the capital value of the land.

The Resettlement Division has charge of organizing new farm holdings for farm families displaced by land purchase, or for those families whom the Rehabilitation Division considers to be ready for farm ownership.

They are providing a variety of types of farm holdings suited to the extreme variety of types with whom they have to deal.

The ablest farmers are grouped into communities with adequate holdings and careful development of all types of community and cooperative activity, which will increase the farmer's ability to provide services for himself and decrease the cash drain on his income.

Tenant farmers have been organized into communities with a resident manager, providing a type of employment similar to that with which they were familiar. From that starting point they are given every help in increasing their own ability to produce what they need, and to graduate to ownership if possible.

One Resettlement community, made up of former cotton sharecroppers, reestablished itself in a new community in Georgia; built its own houses; learned to work stone in the vicinity, and began selling fireplaces in the neighboring cities; opened up a vein of coal for its own needs, and three veins containing all the fertilizer needed for intensive cultivation of vegetables.

In one community, children from two Resettlement projects outrank all the other school children, from neighboring farms, probably because for the first time they have had enough to eat. Part of the program for resettled communities includes the project for cooperative medical services worked out with the Public Health Service.

The most remarkable accomplishment of the Resettlement Administration perhaps has been its labor camps for transient and agricultural workers. They have set up these camps in California where transient labor comes in to pick the fruit crops. The camps provide board floors for tents, shower baths, washtubs, and playgrounds where the women take turns watching all the children.

One woman took six baths the first day. The landowners wanted to burn the camps because they feared labor would organize. They now pay them 5¢ an hour more than the going rate because they are better workers. The workers are organizing management and protective committees within the camps. This is in a region which has been close to civil war for years and where virtually no one had a constructive idea for reducing the tension between farm owners and laborers.

Sharecroppers are establishing protective committees which help in accounting, and in asking landlords for redress of grievances.

These programs are at the same time trying to use relief labor as a basis for using works program funds. There is real danger in combining the idea of work relief on a wage-basis with rehabilitation. Resettlement is a self-help program. The whole idea of high Government payments is directly opposite to the idea of self-employment and self-direction. Resettlement should not anywhere introduce the idea of wage payments for directed work higher than men can earn as self-employers. It should be divorced as completely and quickly as possible from either use of relief labor or dependence on relief funds.

The Management Division takes care of communities inherited from subsistence homesteads or FERA. There is a question whether work of this division might not be transferred to the Resettlement Division which is also handling community projects.

These subsistence homesteads were laid out on the theory that industry was going to leave the cities and bring work out to the communities. They learned (what had been known before) that the only industries that came out were those which wanted to cut labor cost. Many of these communities are now new "stranded communities."

The Construction Division erects the buildings required for all the other divisions. This is apparently the place where the greatest waste has occurred and is still occurring.

Building work was done by direct construction because Mr. Tugwell disapproved of contracts. It could be done by contract for a little more than half the cost.

The Construction Division operates on the principle of building very good houses, and providing first-rate plumbing and other equipment, although the project may be located in a community where the self-supporting farmers have no such luxuries. Both their concepts of what farm families need to better their living conditions and their ideas of costs and price of materials, labor, and equipment are extravagant. The standard might be "better" conditions, rather than ideal conditions.

When expenditures were running very high, the Office of Coordinator was introduced to increase efficiency. It is probable that this office has intensified the absence of clear lines of control, and introduced one more point of confusion. Its abolition would simplify organization and reduce costs.

THE WHITE HOUSE
WASHINGTON

January 23, 1937.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Why were you so loquacious in talking with Rentschler? You said "Yes" 365 times and "Ah-ha" 220 times. You really ought to talk less!

By the way, the name of the man which you gave to him was Coxsackie (on Hudson, Greene County -- not far from Hudson, Columbia County, New York).

F. D. R.

THE SECRETARY OF THE TREASURY
WASHINGTON

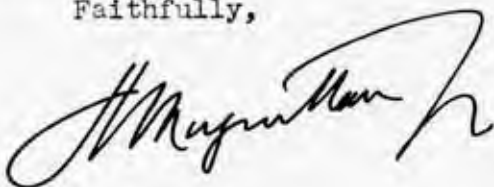
January 23, 1937.

My dear Mr. President:

I am enclosing herewith copy of a record made of a telephone conversation which I had this morning with Gordon Rentschler of the National City Bank. Please consider this information extra confidential.

I have also sent a copy of this conversation to Captain W. D. Puleston of the United States Navy.

Faithfully,

A handwritten signature in dark ink, appearing to read "H. Morgan". The signature is fluid and cursive, with a large, sweeping "H" and a long, trailing flourish at the end.

The President,
The White House.

PLEASE DESTROY

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January 23, 1937.
11:40

H.M.Jr:only what's in the paper.

Gordon

Rentschler: Yes, I - I think the situation there now - the reason we're getting nothing now I think has really been told in the political campaign.

H.M.Jr: Yes.

R:and in this scrap between the Army and the Navy.

H.M.Jr: Yes.

R: We've been trying to make up some figures.

H.M.Jr: Yes.

R: The - first place, a recent rise in international prices -

H.M.Jr: Yes.

R: - has driven up wholesale prices, you see, from January, thirty six - eighty-seven -

H.M.Jr: Yes

R: Ninety-eight -

H.M.Jr: Yes

R:

H.M.Jr: Yes

R: Then the next thing is the trend of unfavorable trade balances, -

H.M.Jr: Yes

R: - has been going steadily against them.

H.M.Jr: Yes

R: And then of course the next situation is their own budget. And you, of course your boys have the figures which show that in 1931-32 before they went on their

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expedition -

H.M.Jr: Yes

R: - into Manchuria, -

H.M.Jr: Yes

R: - they got down to a deficit of 22 million.

H.M.Jr: Yes

R: This year their deficit looks like it's one billion and twenty-nine.

H.M.Jr: Yes

R: And they've raised their government bonds outstanding from six million one to eleven million three.

H.M.Jr: Yes, we have all that.

R: So that's a very big jump for people that have as little to go on as they have.

H.M.Jr: True.

R: Now, the next is the - their trend of inflationary budgets and higher taxation.

H.M.Jr: Yes

R: And that may have some tie-in on what we're concerned about in tying up their valuta.

H.M.Jr: Yes

R: Because there have been some very heavy imports that may be anticipation of the tariff increase that goes into effect in April, 1937.

H.M.Jr: I see.

R: Or it may be that they were buying ahead of the rise in world commodities on the basis of circulating to the extent of covering their requirements now for

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the things they were going to market out during the year.

H.M.Jr: Yes

R: Which of course would give them a bad peak which they'd have a difficult time to get over.

H.M.Jr: True.

R: We found that on December 28, when sterling took its first little drop, that they settled for four hundred thousand bales of cotton.

H.M.Jr: Ah-ha.

R: Now, whether that was anticipation of one of these other things that I just described or not, we haven't put our fingers on.

H.M.Jr: I see.

R: About that time they settled with the - their dispute with the Australians in regard to wool.

H.M.Jr: Yes

R: And then additional wool exports began to come in, which of course they had to settle for.

H.M.Jr: Yes

R: Now, in our own situation, where we - we have import acceptances -

H.M.Jr: Yes

R: - or advances with relative merchandise up to four million one, -

H.M.Jr: Yes

R: - of which a million seven seventy, or a little less than half -

H.M.Jr: Yes

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R: - is on trust receipt, and on the balance we have the goods. Now, trust receipt means of course if they go crooked on us, why, we don't get it.

H.M.Jr: I see.

R: But these are all the kind of people that have always played pretty fair. Now, on the other hand, on the imports we've got export bills from them, which would be import bills into the United States -

H.M.Jr: Yes

R: - of six million nine -

H.M.Jr: Yes

R: - representing goods either on ship, Japanese or other, coming into the United States, or else on goods that have been unloaded, like silk -

H.M.Jr: I see.

R: - that's been unloaded and being carried here on trust receipt.

H.M.Jr: That's just your own bank?

R: Yes, this is just our own bank.

H.M.Jr: Yes

R: And of course, we're - the big end of this business, I think, really does flow through us.

H.M.Jr: Yes, so I understand.

R: I think the big end of it does.

H.M.Jr: Right.

R: Now, these bills - I - I went over the bills just to see what the stuff was for.

H.M.Jr: Yes.

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R: There was about - of the stuff going in, that represents this four million one hundred and ten total -

H.M.Jr: Yes

R: - there was about seven hundred thousand dollars worth of machine tools.

H.M.Jr: Machine tools.

R: And those machine tools were from places like the Cincinnati Bickford Tool Company.

H.M.Jr: Yes

R: I won't ask you to remember these names, but I just wanted to give you the impression.

H.M.Jr: Yes

R: The Cincinnati Milling Machine.

H.M.Jr: Yes

R: Brown and Sharp.

H.M.Jr: Yes

R: Pratt and Whitney Machine Tool Company.

H.M.Jr: Yes

R: Lander - ah - Jones and Lamp.

H.M.Jr: Yes

R: Now, those tools that those particular people make are small tools.

H.M.Jr: Yes

R: It might be for the purpose of making automobiles. It might be for trucks. It might be for tractors.

H.M.Jr: Yes

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R: Very little of it would go into arms, unless they might be for airplane motors.

H.M.Jr: I see.

R: For instance, Cincinnati Bickford makes a line of screw on their drills that wouldn't be used for making revolvers or rifles or things like that. In other words, apparently from us they're buying a minimum amount of munitions-making machinery.

H.M.Jr: I see.

R: Now, the balance of our stuff is almost equally divided between cotton and wood pulp.

H.M.Jr: Ah-ha.

R: The wood pulp is coming from Maine - ah - Brown Company up there; quite a lot of it coming from Rainier in Washington. These names are all off the record for you.

H.M.Jr: Yes

R: And the balance of it is the cotton - is mostly coming from the Texas shippers.

H.M.Jr: I see.

R: That is, the Clayton and the Goshell people.

H.M.Jr: Yes.

R: Now, wood pulp, of course, is being used for their rayon production.

H.M.Jr: Ah-ha.

R: And the cotton, of course, is going into their regular things, although they might be putting some - some of it aside for guncotton or something of that sort.

H.M.Jr: Yes

R: But it doesn't seem like it's in greater quantity than

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normally for the big export trade they develop.

H.M.Jr: I see.

R: Now, there's nothing - we've heard about a lot of copper imports which show up in other fellows' figures, but if that is going on that's being done probably through England and not through the United States.

H.M.Jr: I see.

R: So that they may - they have enough copper of their own, they wouldn't need to turn to us for copper for normal purposes unless they were making it into war stores.

H.M.Jr: Ah-ha.

R: So that I've been trying to look at this to see whether they were packing stuff up as against the time they might get into war.

H.M.Jr: And what conclusion do you come to?

R: Well, we don't - it doesn't look, on the stuff that's coming from here, that they are doing that, excepting we don't know how much stuff that they bought ahead and got on these munition dumps in the last four or five years, because you've got to remember that going from a deficit of 22 million in one year - gradually building it up so as to - instead of owing six million one they owe 11 million -

H.M.Jr: Yes

R: - they could have built up a devil of a lot of stuff in that time.

H.M.Jr: They certainly could.

R: And - and maybe all that they're doing now is just getting that which they need normally.

H.M.Jr: I see.

R: Now, I've told the boys that I consider until they

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come out clearly and frankly with what they're trying to do -

H.M.Jr: Yes

R: - that this is something we ought to consider whether it is or - it is or not -

H.M.Jr: Whether it is what?

R: Whether it is or not, I think we ought to consider it as a pretty dangerous situation.

H.M.Jr: Yes

R: And especially when we find the Army on one side and the Navy on the other.

H.M.Jr: Well....

R: And the politicians trying to balance themselves in between. It's a pretty unsound situation.

H.M.Jr: Well, of course, that's the way I feel and that's why I tipped the newspapermen off on Monday to this thing. And then as a result of that, why, the papers have been - they've really been getting some pretty good stories out of Japan.

R: Yes. Now, the only thing that has happened in the banking end of it is that they are freely permitting inter-bank settlements in Japan.

H.M.Jr: Inter-bank?

R: Inter-bank settlements in Japan. We've had no difficulty whatsoever in getting what's due to us from other banks or in having - by them coming in and paying and taking care of their exchange commitments and so forth.

H.M.Jr: Yes

R: We....

H.M.Jr: How about an importer?

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R: On our import stuff - of course, the test on that will come when they begin to settle for these goods that pass the due date of January 15. Now, we've told them we won't ship anything more after January 15 -

H.M.Jr: Yes

R: - unless they give us a - a clear-cut, definite commitment and show they can carry it out.

H.M.Jr: I see.

R: So I rather imagine that they'll just dry up and not ask us.

H.M.Jr: Well, this Cabinet resigning would be a strengthening on the hand of the Army, wouldn't it?

R: Yes

H.M.Jr: I mean that's the way I interpreted it.

R: I think that's right.

H.M.Jr: What?

R: It looks that way.

H.M.Jr: Yes. Now, Mr. Rentschler, it's very helpful, what you've got, and this - I want to ask you something: whether the following name means anything to you or to your people, see? It's - I - I won't attempt to pronounce it - K - a - w -

R: K - a - w -

H.M.Jr: - a - s -

R: - a - s -

H.M.Jr: - a - k - i.

R: - a - k - i.

H.M.Jr: Yes. Now... Hello?

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R: Yes

H.M.Jr: It's supposed to be a banking and insurance firm. And these - father and son by that name - were supposed to have left Japan two months ago.

R: Yes. I'll check him up. Now, that name, offhand, doesn't mean anything to me.

H.M.Jr: Well...

R: It's K - a - w -

H.M.Jr: Yes

R: - a - s - a - k - i.

H.M.Jr: Yes

R: I'll check right away on that, because it - it may be that that name means something in the bank, but it doesn't to me personally.

H.M.Jr: Have you - have you a bank in Honolulu?

R: In Honolulu?

H.M.Jr: Yes

R: No, we work entirely there - we work with about four or five of the big banks there though.

H.M.Jr: I see.

R: We could get any information in Honolulu we wanted.

H.M.Jr: Well, just make some inquiries about these people.

R: Yes.

H.M.Jr: And whether anybody would know what they did with their money.

R: Yes, and that - your thought is that they moved toward Honolulu?

H.M.Jr: Well, the last we heard of them was that they did, and - they were on the way to Honolulu.

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R: Yes.

H.M.Jr: And they own a bank called the Kawasaki Bank.

R: Kawasaki Bank.

H.M.Jr: Yes, and they also have a big insurance company.

R: Yes.

H. M. Jr: And they were - two months ago they were on their way to Honolulu -

R: Yes.

H. M. Jr: - and they've lost track of them.

R: Yes.

H.M.Jr: And they were supposed to have sold out and taken their money with them.

R: Yes. They - they might have been beating the hounds, you see.

H.M.Jr: Pardon me?

R: They might have been getting out ahead of the hounds.

H.M.Jr: Well, that's just the thing, you see.

R: Yes

H.M.Jr: And if - if we could find out where they are and where they bank, it might be rather significant.

R: Yes, Yes. Well, I think we can find that out in Honolulu.

H.M.Jr: See?

R: Yes. We know practically all of those boys in the Honolulu situation and I think they'd very definitely tell us.

PLEASE DESTROY

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H.M.Jr: But my asking you and giving you this is extra confidential.

R: Oh yes, I won't use that at all.

H.M.Jr: See?

R: As far as I'm concerned, I just picked this name up and I'm asking what became of them.

H.M.Jr: That's right.

R: I'll handle that all right.

H.M.Jr: That's right. Well, thanks very much.

R: All right fine, and if we get anything more - we may be able to get some more stuff through.

H.M.Jr: Yes.

R: And if we do I'll give you a ring again on Monday.

H.M.Jr: Thank you very much.

R: All right, fine. Bye bye.

H.M.Jr: Bye.

January 23, 1937.
11:40 a.m.

John

Boettiger: How are you?

H.M.Jr: Pretty well - I've got a little cold.

B: Oh have you?

H.M.Jr: John, I thought that you and Anna would like to know that all the arrangements have been made to take care of the two children.

B: Well that's fine.

H.M.Jr: Now beginning with this afternoon, when they leave the White House, there'll be two men with them until they arrive at Seattle - hello.

B: Yes.

H.M.Jr: There's to be two men on the train with them the whole time.

B: That's fine. Of course I don't think they need two men.

H.M.Jr: Well - ah....

B: That's up to - well you and...

H.M.Jr: Well we didn't feel - after one of them has to sleep and we don't want them to sleep when they're supposed to be looking after the children and these men are responsible rather than the nurse - they wanted it that way - see?

B: Yes.

H.M.Jr: I mean the responsibility is with the men rather than with their Governess.

B: All right.

H.M.Jr: And when they get out there, there will be three men and two cars.

B: Well that's fine.

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H.M.Jr: And everything's been taken care of and you tell Anna not to worry and - I'm - I'm - because I'm sure she'll have nothing to worry about.

B: Well we - we're very much impressed with Carroll here - he's an awfully good man.

H.M.Jr: Yes, he's all right.

B: Ah - the only thing is while you've been good enough to call Henry....

H.M.Jr: Yes.

B: Ah - the instructions that Carroll received which he showed to me - at least he showed me a telegram ...

H.M.Jr: Yes.

B: Provide for his using two of his own men here and he only has five altogether to cover half of the United States.

H.M.Jr: No, we're sending up men from - let's see - it's either Portland or some other place.

B: One of them is coming from Spokane.

H.M.Jr: But one from Spokane.

B: Yes.

H.M.Jr: And Wilson and Murphy feel.....

B: It can be arranged permanently that way, Henry. He wanted to hire - I thought he had a pretty good idea - he wanted to hire a junior agent in Seattle who has a family there and who would be satisfied. You know what a devil of a job it is for a grown-up man to be a nursemaid to children.

H.M.Jr: Well the boys showed me his thing and I - I don't like to over-rule that, see?

B: Yes.

H.M.Jr: And they went over this very carefully and I don't think there's any question about there having adequate protection.

B: Oh no, they'll have that and how.

H.M.Jr: And they just felt that what's his name - I don't know - they worked it out - I never like to interfere.

B: I guess that's a very sound policy.

H.M.Jr: And because if I interfere and they send this one or send that one and then something goes wrong - well the Secretary interfered. Now Joe Murphy is responsible and - I mean looking after...

B: I know it's going to be all right. If things don't seem to be working right why...

H.M.Jr: You call me up collect anytime on the telephone.

B: Well I know that Carroll will be able to see that it does work out.

H.M.Jr: Yes, but there's two men on the train from the time the children leave the White House - there'll be two men with them until they get there and then when they get there, there'll be three men.

B: Well that's fine.

H.M.Jr: And if it isn't all satisfactory you let me know.

B: O.K.

H.M.Jr: How are you and Anna?

B: Oh we're fine. She wants to say "Hello" to you and give my love to Elinor.

H.M.Jr: I'll do that.

B: And lots of luck to you, Henry.

H.M.Jr: How is your circulation?

B: Grand job.

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H.M.Jr: How is your circulation?

B: Why it's picking up - we're - we're 2500 more than the paper had when it suspended last August.

H.M.Jr: Well that - really?

B: Yes.

H.M.Jr: Well that's swell, isn't it?

B: I'm building up every day.

H.M.Jr: That's - that's - I knew you would.

B: The only difficulty we have is man power.

H.M.Jr: I see.

B: Awfully hard to get good men. I tried to hire one of your men away and I think Herbert gave him a raise to keep him.

H.M.Jr: Well if you want a good Advertising Manager offer me a job. I'll come out there.

B: Yes (Hearty laughter).

H.M.Jr: I'm swell at selling space.

B: Are you? Well all right I'll take you up on that. I'll also use you for an editorial writer.

H.M.Jr: O.K. Well I'm not so good at that but I'm good as a salesman.

B: (Hearty laughter) Ann's here and wants to say "Hello". Thanks for calling Henry.

H.M.Jr: All right.

Anna: Hello.

H.M.Jr: Hello Anna.

Anna: You didn't think I'd lose this chance of saying "Hello".

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H.M.Jr: No, why should you as long as your father is paying for the message.

A: What did you say?

H.M.Jr: As long as the taxpayers' are paying for the message.

A: (Laughter) Well listen I won't bother the taxpayers' long...

H.M.Jr: No.

A: ...but I mean will you tell pa and ma when you see them that I had this little chat with you.

H.M.Jr: I'll call your mother up right away because I've talked to her twice this morning and Anna, as I told John, from the minute the children leave the White House this afternoon they have two men with them.

A: Oh my Lord.

H.M.Jr: Until they arrive at Seattle and then there'll be three men.

A: Well thanks ever so much, Henry.

H.M.Jr: And don't worry but I mean the minute they step out of the White House to-day there'll be two men with them all the way to Seattle.

A: Oh well that's simply grand.

H.M.Jr: And they've made Secret Service responsible instead of your Mademoiselle.

A: They did what?

H.M.Jr: The Secret Service men are responsible for the children until they get there.

A: Oh well that's fine.

H.M.Jr: I mean the responsibility is with them.

A: Well that's grand and I won't ever worry then until I see them Wednesday morning.

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H.M.Jr: No, I'm - I'm sure everything is going to be all right and I just wanted to let you know. Now don't worry. They'll be all right.

A: Well thanks loads and give my love to mother when you talk to her.

H.M.Jr: I'll talk to her right away.

A: Tell her to give mine to pa too.

H.M.Jr: I'll do that. I just - I saw your father for just - well just a half an hour ago and he's feeling.....

A: Really? Has he recovered?

H.M. Jr: Oh he's fine.

A: That's good. It was a pretty bad day the other day.

H.M.Jr: He said, "Do you know what I did last night" and I said, "no". He said I did 21 inches of mail.

A: Oh my Lord.

H.M.Jr: I said, "Well that's a new way of counting it". But he's fine and - and he's joking and having a good time. He sent for me when he was over to Dr. McIntyre's and I saw him there.

A: Well that's fine and give my love to Elinor please.

H.M.Jr: I'll do that. Now don't worry, Anna, everything will be all right.

A: Thanks loads and goodbye.

H.M.Jr: Goodbye.

January 23, 1937.
11:40 a.m..

H.M.Jr:only what's in the paper.

Gordon
Rentschler: Yes, I - I think the situation there now - the reason we're getting nothing now I think has really been told in the political campaign.

H.M.Jr: Yes.

R:and in this scrap between the Army and the Navy.

H.M.Jr: Yes.

R: We've been trying to make up some figures.

H.M.Jr: Yes.

R: The - first place, a recent rise in international prices -

H.M.Jr: Yes.

R: - has driven up wholesale prices, you see, from January, thirty six - eighty-seven -

H.M.Jr: Yes.

R: Ninety-eight -

H.M.Jr: Yes.

R:

H.M.Jr: Yes

R: Then the next thing is the trend of unfavorable trade balances, -

H.M.Jr: Yes

R: - has been going steadily against them.

H.M.Jr: Yes

R: And then of course the next situation is their own budget. And you, of course your boys have the figures which show that in 1931-32 before they went on their

expedition.

H.M.Jr: Yes.

R: - into Manchuria, -

H.M.Jr: Yes

R: - they got down to a deficit of 22 million.

H.M.Jr: Yes.

R: This year their deficit looks like it's one billion and twenty-nine.

H.M.Jr: Yes.

R: And they've raised their government bonds outstanding from six million one to eleven million three.

H.M.Jr: Yes, we have all that.

R: So that's a very big jump for people that have as little to go on as they have.

H.M.Jr: True.

R: Now, the next is the - their trend of inflationary budgets and higher taxation.

H.M.Jr: Yes.

R: And that may have some tie-in on what we're concerned about in tying up their valuta.

H.M.Jr: Yes.

R: Because there have been some very heavy imports that may be anticipation of the tariff increase that goes into effect in April, 1937.

H.M.Jr: I see.

R: Or it may be that they were buying ahead of the rise in world commodities on the basis of circulating to the extent of covering their requirements now for the things they were going to market out during the year.

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H.M.Jr: Yes

R: Which of course would give them a bad peak which they'd have a difficult time to get over.

H.M.Jr: True.

R: We found that on December 28, when sterling took its first little drop, that they settled for four hundred thousand bales of cotton.

H.M.Jr: Ah-ha.

R: Now, whether that was anticipation of one of these other things that I just described or not, we haven't put our fingers on.

H.M.Jr: I see.

R: About that time they settled with the - their dispute with the Australians in regard to wool.

H.M.Jr: Yes.

R: And then additional wool exports began to come in, which of course they had to settle for.

H.M.Jr: Yes.

R: Now, in our own situation, where we - we have import acceptances -

H.M.Jr: Yes.

R: - or advances with relative merchandise up to four million one, -

H.M.Jr: Yes.

R: - of which a million seven seventy, or a little less than half -

H.M.Jr: Yes.

- 4 -

R: - is on trust receipt, and on the balance we have the goods. Now, trust receipt means of course if they go crooked on us, why, we don't get it.

H.M.Jr: I see.

R: But these are all the kind of people that have always played pretty fair. Now, on the other hand, on the imports we've got export bills from them, which would be import bills into the United States -

H.M.Jr: Yes

R: - of six million nine -

H.M.Jr: Yes

R: - representing goods either on ship, Japanese or other, coming into the United States, or else on goods that have been unloaded, like silk -

H.M.Jr: I see.

R: - that's been unloaded and being carried here on trust receipt.

H.M.Jr: That's just your own bank?

R: Yes, this is just our own bank.

H.M.Jr: Yes.

R: And of course, we're - the big end of this business, I think, really does flow through us.

H. M. Jr : Yes, so I understand.

R: I think the big end of it does.

H.M.Jr: Right.

R: Now, these bills - I - I went over the bills just to see what the stuff was for.

H.M.Jr: Yes.

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R: There was about - of the stuff going in, that represents this four million one hundred and ten total-

H.M.Jr: Yes.

R: - there was about seven hundred thousand dollars worth of machine tools.

H.M.Jr: Machine tools.

R: And those machine tools were from places like the Cincinnati Bickford Tool Company.

H.M.Jr: Yes.

R: I won't ask you to remember these names, but I just wanted to give you the impression.

H.M.Jr: Yes.

R: The Cincinnati Milling Machine.

H.M.Jr: Yes.

R: Brown and Sharp.

H.M.Jr: Yes.

R: Pratt and Whitney Machine Tool Company.

H.M.Jr: Yes.

R: Lander - ah - Jones and Lamp.

H.M.Jr: Yes.

R: Now, those tools that those particular people make are small tools.

H.M.Jr: Yes.

R: It might be for the purpose of making automobiles. It might be for trucks. It might be for tractors.

H.M.Jr: Yes.

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R: Very little of it would go into arms, unless they might be for airplane motors.

H.M.Jr: I see.

R: For instance, Cincinnati Bickford makes a line of screw on their drills that wouldn't be used for making revolvers or rifles or things like that. In other words, apparently from us they're buying a minimum amount of munitions-making machinery.

H.M.Jr: I see.

R: Now, the balance of our stuff is almost equally divided between cotton and wood pulp.

H.M.Jr: Ah-ha.

R: The wood pulp is coming from Maine - ah - Brown Company up there; quite a lot of it coming from Rainier in Washington. These names are all off the record for you.

H.M.Jr: Yes.

R: And the balance of it is the cotton - is mostly coming from the Texas shippers.

H.M.Jr: I see.

R: That is, the Clayton and the Goshell people.

H.M.Jr: Yes.

R: Now, wood pulp, of course, is being used for their rayon production.

H.M.Jr: Ah-ha.

R: And the cotton, of course, is going into their regular things, although they might be putting some - some of it aside for guncotton or something of that sort.

H.M.Jr: Yes.

R: But it doesn't seem like it's in greater quantity than

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normally for the big export trade they develop.

H.M.Jr: I see.

R: Now, there's nothing - we've heard about a lot of copper imports which show up in other fellows' figures, but if that is going on that's being done probably through England and not through the United States.

H.M.Jr: I see.

R: So that they may - they have enough copper of their own, they wouldn't need to turn to us for copper for normal purposes unless they were making it into war stores.

H.M.Jr: Ah-ha.

R: So that I've been trying to look at this to see whether they were packing stuff up as against the time they might get into war.

H.M.Jr: And what conclusion do you come to?

R: Well, we don't - it doesn't look, on the stuff that's coming from here, that they are doing that, excepting we don't know how much stuff that they bought ahead and got on these munition dumps in the last four or five years, because you've got to remember that going from a deficit of 22 million in one year - gradually building it up so as to - instead of owing six million one they owe 11 million -

H.M.Jr: Yes.

R: - they could have built up a devil of a lot of stuff in that time.

H.M.Jr: They certainly could.

R: And - and maybe all that they're doing now is just getting that which they need normally.

H.M.Jr: I see.

R: Now, I've told the boys that I consider until they

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come out clearly and frankly with what they're trying to do -

H.M.Jr: Yes.

R: - that this is something we ought to consider whether it is or - it is or not -

H.M.Jr: Whether it is what?

R: Whether it is or not, I think we ought to consider it as a pretty dangerous situation.

H.M.Jr: Yes.

R: And especially when we find the Army on one side and the Navy on the other.

H.M.Jr: Well.....

R: And the politicians trying to balance themselves in between. It's a pretty unsound situation.

H.M.Jr: Well, of course, that's the way I feel and that's why I tipped the newspapermen off on Monday to this thing. And then as a result of that, why, the papers have been - they've really been getting some pretty good stories out of Japan.

R: Yes. Now, the only thing that has happened in the banking end of it is that they are freely permitting inter-bank settlements in Japan.

H.M.Jr: Inter-bank?

R: Inter-Bank settlements in Japan. We've had no difficulty whatsoever in getting that's due to us from other banks or in having - by them coming in and paying and taking care of their exchange commitments and so forth.

H.M.Jr: Yes.

R: We....

H.M.Jr: How about an importer?

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R: On our import stuff - of course, the test on that will come when they begin to settle for these goods that pass the due date of January 15. Now, we've told them we won't ship anything more after January 15 -

H.M.Jr: Yes

R: - unless they give us a - a clear-cut, definite commitment and show they can carry it out.

H.M.Jr: I see.

R: So I rather imagine that they'll just dry up and not ask us.

H.M.Jr: Well, this Cabinet resigning would be a strengthening on the hand of the Army, wouldn't it?

R: Yes.

H.M.Jr: I mean that's the way I interpreted it.

R: I think that's right.

H.M.Jr: What?

R: It looks that way.

H.M.Jr: Yes. Now, Mr. Rentschler, it's very helpful, what you've got, and this - I want to ask you something: whether the following name means anything to you or to your people, see? It's - I - I won't attempt to pronounce it - K - a - w -

R: K - a - w -

H.M.Jr: - a - s -

R: - a - s -

H.M.Jr: - a - k - i.

R: - a - k - i.

H.M.Jr: Yes. Now ... Hello?

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R: Yes

H.M.Jr: It's supposed to be a banking and insurance firm.
And these - father and son by that name - were
supposed to have left Japan two months ago.

R: Yes. I'll check him up. Now, that name, offhand,
doesn't mean anything to me.

H.M.Jr: Well...

R: It's K - a - w -

H.M.Jr: Yes.

R: - a - s - a - k - i.

H.M.Jr: Yes

R: I'll check right away on that, because it - it may be
that that name means something in the bank, but it
doesn't to me personally.

H.M.Jr: Have you - have you a bank in Honolulu?

R: In Honolulu?

H.M.Jr: Yes

R: No, we work entirely there - we work with about four
or five of the big banks there though.

H.M.Jr: I see.

R: We could get any information in Honolulu we wanted.

H.M.Jr: Well, just make some inquiries about these people.

R: Yes.

H.M.Jr: And whether anybody would know what they did with their
money.

R: Yes, and that - your thought is that they moved toward
Honolulu?

H.M.Jr: Well, the last we heard of them was that they did,
and - they were on the way to Honolulu.

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R: Yes.

H.M.Jr: And they own a bank called the Kawasaki Bank.

R: Kawasaki Bank.

H.M.Jr: Yes, and they also have a big insurance company.

R: Yes.

H.M.Jr: And they were - two months ago they were on their way to Honolulu -

R: Yes.

H.M.Jr: - and they've lost track of them.

R: Yes.

H.M.Jr: And they were supposed to have sold out and taken their money with them.

R: Yes. They - they might have been beating the hounds, you see.

H.M.Jr: Pardon me?

R: They might have been getting out ahead of the hounds.

H.M.Jr: Well, that's just the thing, you see.

R: Yes.

H.M.Jr: And if - if we could find out where they are and where they bank, it might be rather significant.

R: Yes, Yes. Well, I think we can find that out in Honolulu.

H.M.Jr: See?

R: Yes. We know practically all of those boys in the Honolulu situation and I think they'd very definitely tell us.

- 12 -

H.M.Jr: But my asking you and giving you this is extra confidential.

R: Oh yes, I won't use that at all.

H.M.Jr: See?

R: As far as I'm concerned, I just picked this name up and I'm asking what became of them.

H.M.Jr: That's right.

R: I'll handle that all right.

H.M.Jr: That's right. Well, thanks very much.

R: All right fine, and if we get anything more - we may be able to get some more stuff through.

H.M.Jr: Yes.

R: And if we do I'll give you a ring again on Monday.

H.M.Jr: Thank you very much.

R: All right, fine. Bye bye.

H.M.Jr: Bye.

January 23, 1937.
11:40 a.m.

Gordon

Rentschler: Ah - nothing else new in Washington?

H.M.Jr: No - well you - no

R: I saw that you picked a Secre - an Under-Secretary.

H.M.Jr: Well what did you think of that?

R: I don't know this fellow. I've never met him.

H.M.Jr: Ah-ha.

R: Ah - you must have a lot of confidence in him or you wouldn't put him in there.

H.M.Jr: Exactly.

R: I think he's all right - of course.

H.M.Jr: Oh he's better than all right.

R: Ah-ha. Look - will he be on the financing or ..

H.M.Jr: No.

R:on the tax end.

H.M.Jr: Just on Internal Revenue and taxation.

R: Yes, by George he sold a book because I've sent for his book to see what he's been talking about.
(laughter)

H.M.Jr: No, just Internal Revenue and taxation.

R: I see - well that's something that needs a lot of attention fellow.

H.M.Jr: It does.

R: That's a big job to do right.

H.M.Jr: That's - well it's a big job we've got and.....

R: With all apologies to everybody I don't think it's ever been done right since it started in 1913.

H.M.Jr: Well I'm not going to argue...

R: You don't need to comment on that at all.

H.M.Jr: No, that's all right.

R: But I really do think that's one of the places that a good deal of work has to be done.

H.M.Jr: No - he - I'm going to carry all the other things and he - he - but I'm going to give him Internal Revenue and taxation.

R: Well as nearly as I can figure it why you fellows will pick up good steady money so much that you have much to do on the other things.

H.M.Jr: Well - ah - time will tell.

R: Yes. Well I - if you just don't do some funny things now we're well on our way.

H.M.Jr: I think so.

R: These fellows need a lot of calm, quiet days now.

H.M.Jr: (Laughter)

R: And I hope you get them. (Laughter)

H.M.Jr: I've paid for them.

R: Well I think you're right and I hope your prayers are answered.

H.M.Jr: All right.

R: Because that's what we need now.

H.M.Jr: Well thanks very much.

R: All right fine,* and if we get anything more - we may be able to get some more stuff through.

H.M.Jr: Yes.

R: And if we do I'll give you a ring again on Monday.

H.M.Jr: Thank you very much.

R: All right, fine. Bye bye.

H.M.Jr: Bye.

U

GRAY

Paris

Dated January 23, 1937

Rec'd 12:15 p.m.

Secretary of State

Washington

93, January 23, 2 p.m.

FOR TREASURY.

Fairly substantial purchases of sterling are reported in unofficial trading this morning and the dollar was also in demand. The French fund continued to supply sterling at 105.15. Transactions in dollars were made at around 21.45 $\frac{1}{2}$. Trading was active for Saturday and the atmosphere was somewhat nervous.

Forward rates are gradually strengthening. Yesterday three months rates were 44 centimes for the dollar and 2.10 francs for the pounds.

As a possible explanation for the recent tendency of the franc to cede ground the financial sheet "INFORMATION" of today invites attention to apparent belief in certain quarters that the franc which is now about midway between the two legal limits is more likely to move towards the lower than to the higher limit. It attempts to estimate cost to French stabilization fund of supporting franc rate against recent substantial demands for pounds sterling and substantiating British customs statistics showing that

U -2- #93, Jan. 23, 2 p.m. from Paris

that France has shipped 2,065,000 pounds gold to London between December 28 and January 18 provides a good indication.

In emphasizing advantages of subscribing to new "national defense" loan of December 17 an official advertisement published today indicates that "definitely favorable" information is being received with respect to the success of the issue. While the French press has so far refrained from commenting upon progress of issue, the statement has appeared in London financial papers that the result has not been satisfactory.

The press of today reports that Premier Blum yesterday officially received a committee of the Paris Exposition to discuss the creation of an "exposition franc" to encourage foreigners to visit the Paris 1937 exposition and that the Premier informed the Committee that negotiations with foreign governments are "making good progress".

BULLITT

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France ~~exp~~

DATE: January 23, 1937, 3 p.m.

NO.: 94

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE
TREASURY.

This morning I had a call from Auriol. He made the following statements to me in the course of our conversation.

As to the franc there is no immediate crisis. They have not even considered the possibility of a further devaluation in the course of the next week or two. Auriol said he expected to make a strong statement to the press this afternoon dealing with the rumors that devaluation is to be expected, which rumors have become current in London.

Auriol said that while there is no immediate prospect of further franc devaluation he did not want to conceal from me the fact that he was worried about the continual flow of gold out of France. This he said was due to several reasons - recently there had been verly large purchases of raw materials for speculative purposes in addition to the normal purchases by French consumers and converters. He told me strictly confidentially that he would ask the Bank of France this afternoon not to give credit to any one who seemed to have speculation in mind in purchasing raw materials.

Another

- 2 -

Another thing he mentioned was that there were still many hoarders of gold who were attempting to smuggle their gold out of the country. He gave as an example the case of the arrest yesterday at the Swiss frontier of two Swiss citizens who had concealed in the gasoline tank of their automobile one million francs worth of gold.

Auriol said that with regard to immediate difficulties he expected confidently that London bankers would on Monday agree to give a loan to the French railroads as a body (not to the French Government) in the amount of 4 1/2 to 5 billion francs. At the time we were talking he said that at the Bank of England there was a ^{meeting in} progress to discuss the loan details, and that the loan had been agreed to in principle but they had not yet fixed the terms. This loan he said would enable the French railroads to pay the Government the amounts due to the Government, so that the latter would at once benefit from the loan.

Auriol said he had in addition the three billion francs gold which were being held for the account of the Government at the Bank of France. Algiers and Tunis owe the Government large amounts, and Auriol expected to be able to get the French banks to lend the money to Algiers and Tunis so the French Government could be paid the amounts due. From all these sources he anticipated he could get together ten billion francs with which to face the situation immediately

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ately ahead.

Auriol hoped that inasmuch as the financial difficulties of the French Government were in large part due to the "enormous ruinous and absurd expenditures" for national defense, the next two or three months would make it possible for him to appeal to the patriotism of the French people for a great loan for national defense. He believed that by the middle of June the revival of French economy would be so great that the financial difficulties would be over, that tiding over the period until June was their real task.

In addition Auriol wanted to express to me his gratitude for the spirit of cooperation which was displayed by the American Government and which it was continuing to display on monetary affairs. It might be important he felt if we should be ready to enter into an agreement with France similar to the agreement which Sweden had made with France for administrative cooperation in the detection of French citizens and American citizens who might be evading the fiscal regulations of their respective countries. Just before Mr. Cochran's departure for the United States Auriol gave him a copy of the Franco-Swedish agreement.

He said that in this connection anything the United States might do to discourage French and other foreigners from keeping in the United States large amounts of money would unquestionably help the French situation. I made

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the suggestion that it might mean merely that the French balances in the United States would be transferred to the Netherlands, Switzerland, or Great Britain, but he replied that he did not despair of getting cooperation from those countries too.

From the conversation I got the impression that Auriol was not in any state of excitement or panic, but that he was worried. He said he would keep me informed at all times regarding changes in the situation.

BULLITT.

END MESSAGE.

EA:LWW

January 24, 1937

At 10 o'clock on Sunday morning, January 24, we telephoned Mr. Cariguel of the Bank of France at Paris from the residence of the Secretary of the Treasury.

I told Mr. Cariguel that since arriving in the United States on Friday I had read several reports of efforts of the French Government to obtain a credit, either at London, Amsterdam or Zurich. I asked him to be good enough to bring me up to date on the French financial and monetary situation. I reminded him of our conversation held on Friday, January 15th, the day before I sailed from Paris.

Mr. Cariguel told me that a credit for the French Railways maturing in March for 1-1/2 billion Belgian francs had been renewed. This is, I believe, the credit which I reported in one of my cablegrams a few days before leaving Paris. He said that attempts were now being made to obtain fresh funds abroad and that the borrowing would most likely be in the name of the French Railways. He added, however, that neither the Bank of England nor the British Treasury was in favor of this.

He said that the matter had been taken up first with the British on the assumption that the transaction should be between the Central Banks. In response to the French approach, the Bank of England had sent to Paris Mr. Cobbalt, the officer in charge of foreign business of the Bank of England. Confidential conversations had taken place in Paris. Cobbalt asked the Bank of France not to press the matter or have any representative of the Bank of France to go to London. He let it be definitely known, as above indicated, that the Bank of England did not look with favor upon a second French credit, and certainly not an intra-Central Bank operation. He added that if the French Government insisted upon a loan, the matter should be taken up through diplomatic channels.

Cariguel said that steps were then taken through the Treasury. That is, M. Monick, French Treasury At-tache in London, who had spent the last two or three months in Paris, was sent to London on the particular mission. He first saw one of the assistants in the

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British Treasury who told him that France should put its own house in order and raise the money domestically. Monick was informed, however, that if he desired to go further in the matter he could see the Chancellor of the Exchequer. On the following day, therefore, he interviewed Mr. Chamberlain who confirmed entirely the answer which had been given by one of the lower officials.

Upon Monick's return to Paris the French Government still desired to press the matter. The Bank of France was given the suggestion through Governor Norman, however, that if the Government did desire to press the matter further the logical channel was to appeal directly to the City bankers. It is M. Cariguel's personal belief, therefore, that after much talking the London market will grant a loan to the French Railways, with very stiff terms. The British are entirely opposed to any sort of a credit, but feel it will be absolutely necessary that they give it.

The day before I left Paris Minister of Finance Auriol told me confidentially that he was seeking a Railway loan in London, but not a straight Treasury loan. He explained that, of course, the Treasury would have the facility for dipping into the funds that may thus be obtained while the situation of the Treasury is so difficult. Cariguel confirmed this point, that is, that the Treasury would have the benefit of any funds that may now be obtained in London or elsewhere in the name of the French Railways.

The Bank of France is no longer in the negotiations. It is Cariguel's belief that the French Treasury is taking the matter up through Lazard Brothers, who headed the English group which granted the banking credit to the French Treasury last spring.

Cariguel stressed the urgent need of the French Treasury for funds. They not only require fresh money for immediate needs, but also have certain securities maturing which are being cashed. They have not yet completely exhausted their borrowing facilities at the Bank of France, but they do not want to get a further advance

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from the Bank before a foreign loan may be consummated. That is, they do not want the Treasury situation to appear worse than necessary just while the loan is under negotiation. Cariguel stated that no change in the gold stock of the Bank of France would appear in the statement which was to be issued on next Thursday. He intimated very directly, however, that the limit had been reached on last Friday, that is, the gold of the Stabilization Fund had been completely exhausted to cover sales of currencies and sales of gold to England. Consequently the Stabilization Fund would have to take back from the Bank of France some of the 7,000,000,000 francs which had been released from the Fund to the Bank in the form of gold.

Cariguel doubted whether the loan could be completed in time to permit an operation which would replenish the funds without the necessity of ceding gold from the Bank to the Fund appearing in at least one statement. Cariguel said that the matter of the loan was entirely out of the hands of the Bank of France.

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At 12 noon on Monday, January 25, I telephoned M. Cariguel at the Bank of France from the Secretary's office. It was then 5 p.m. in Paris.

Cariguel said that the day had been comparatively quiet and that the Bank had been obliged to sell only around 900,000 Pounds Sterling. This was at a much slower pace than had obtained during most of the preceding week. Cariguel understood that conversations were still going on with respect to the London credit and that Lazard would likely head the British syndicate.

He told me that the reaction to Blum's political speech on Sunday had been very good. There was nothing particularly new, it being a period of waiting.

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At 11.50 a.m., January 29, I talked with M. Cariguel from the Secretary's office.

He said that the demand for sterling had continued heavy throughout that day. On the preceding evening the French Fund had taken advantage of the closing rate in New York to bring the pound-franc crossrate down to 105.08 and it had ranged from there to 105.13. The pressure had become a little heavier in the afternoon, but he thought the rate might move back a little.

He said the increase in the Bank of France rate from 2% to 4% had caught many operators short and had not been well received by the Paris financial circles or financial press. He reminded me that there had been a heavy speculative position against the franc for the past two weeks. He said that rentes showed a little pick-up, but that there was certainly no enthusiasm following the consummation of the British credit. He had read the terms in the press which I mentioned with respect to the loan, but had not yet seen an official statement thereof, so could not confirm the correctness of the press account.

In conclusion, Cariguel told me that the Bank of France statement which would be issued on Thursday, February 4th, would show a loss in the gold stock, since it would be necessary for the Fund to obtain gold resources from the Bank before relief could be procured through the medium of the British credit. Cariguel seemed pessimistic and apparently considered the British credit only a stop-gap, which had given little ground for enthusiasm on the Paris market.

Conference on Question of Transfer of
Earmarked Gold Between Accounts of
Foreign Central Banks Having Gold
Earmarked with Federal Reserve Bank of New York

January 25, 1937
10:00 A.M.

Present: Mr. Taylor
Mr. Oliphant
Mr. Oppen
Dr. Williams
Mr. Knoke
Mr. Cochran
Dr. Walter Stewart
Mr. White
Mr. Nease
Mr. Bell
Mr. Lochhead
Mr. Upham
Dr. O. M. W. Sprague
Mr. George Harrison
Dr. Fels
Dr. Goldenweiser

H.M.Jr: My friends, needless to say, this is about Treasury business, and all of you who are here wouldn't come unless you felt I could consult you on Treasury business and keep it Treasury business. I mean if that statement embarrasses anybody, I wish they'd tell me.

The Federal Reserve of New York is here as our fiscal agent, in that capacity. (To Harrison) I mean I didn't single you out, but just used that as an example.

We have had a number of requests during the last two or three months on earmarking of gold, and it's been very difficult for us to know just what to do, and I don't like to move unless I can thoroughly understand it, see where we are going to land if we do take a jump, and the full significance of these various requests.

As you know, these requests come from central banks to the Federal Reserve of New York, and then they ask us how they should answer them, and we have been telling them for months to tell them politely that the Treasury just doesn't know. But they've been coming in more frequently, and I thought it was

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important enough to ask Mr. Cochran to come back from Europe and give us first-hand some of the requests that he's had. And we've prepared a list of these. Wayne, have you got the list?

Taylor: Well, this has been prepared in chronological order and starts with the December 10, then goes through this.....

H.M.Jr: Read louder, unless you've got a bad cold.

Taylor: Not too bad. I'll just read each cable. Do you think I'd better stop after each and....

H.M.Jr: I think I'd go through them all once.

Taylor: "Exchange of Cables Between Federal Reserve Bank of New York and Various Foreign Central Banks Regarding the Transfer of Earmarked Gold to other Central Banks.

"December 10, 1936. Cable No. 9. From Banque Nationale Suisse, Berne, Switzerland.Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the country complying with the agreement * * If ready to agree with last suggestion please indicate which bank of issue you would foresee.

"December 11, 1936. Cable No. 22. To Banque Nationale Suisse, Berne, Switzerland. Our No. 21 your No. 9. Regret your last suggestion not suitable. However, if you have urgent need for dollars we as fiscal agent of the United States would be glad to purchase from you refined gold bars actually placed on board steamship sailing for New York, payment to be made upon receipt of cable from you to that effect.

"December 23, 1936. Cable No. 30. From Banque Nationale de Belgique, Brussels, Belgium. Value today Bank for International Settlements will hold earmarked for our account with you 48 gold bars containing fine ounces 17,939.2672. Please acknowledge receipt by cable of the gold. We shall wire further instructions regarding deposit.

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"December 24, 1936. Cable No. 117. From Bank for International Settlements, Basle, Switzerland. Hold today at the disposal of the Banque Nationale de Belgique Brussels 7 bars marked OX 721-727 containing 2,502.2210 fine ounces from our Account No. 2 and 41 bars containing 15,137.0462 fine ounces from our Account No. 4. Please advise by cable Banque Nationale de Belgique.

"December 24, 1936. Cable No. 250. To Bank for International Settlements, Basle, Switzerland. Your No. 117. Before transferring gold to account National Bank of Belgium we shall have to obtain a ruling from the United States Treasury Department as this is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another. Please refer our letter of November 6, 1935. We have also advised National Bank of Belgium.

"December 24, 1936. Cable No. 30. To Banque Nationale de Belgique, Brussels, Belgium. Your No. 30. Bank for International Settlements has requested us to hold gold at your disposal. This is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another and before complying we shall have to obtain a ruling from United States Treasury Department. To facilitate would it be possible to give us your further instructions now regarding deposit so that we may present complete details to Treasury.

"December 28, 1936. Cable No. 12. From Banque Nationale Suisse, Berne, Switzerland. We inform you that Banque Nationale de Belgique, Brussels, holds at our disposal with you 48 gold bars containing 17,937.267 fine ounces which kindly place in safe custody for our account. Please cable confirmation and full details.

"December 28, 1936. Cable No. 32. From Banque Nationale de Belgique, Brussels, Belgium. Answering your cable of December 24 please hold at the disposal of Banque Nationale Suisse, Berne the 48 gold bars

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containing fine ounces 17,939.2672 transferred in our favor by the Bank for International Settlements.

"Letter from Federal Reserve Bank of New York to Treasury Department. Advised that Bank for International Settlements has requested them to hold at the disposal of the Banque Nationale de Belgique, Brussels, following gold:

<u>No. of Fine Ounces</u>	<u>Date</u>	<u>Remarks</u>
13,362.3970	Feb. 15, 1932)	Sold to Bank for International Settlements by Federal Reserve Bank of N.Y.
1,274.6493	Feb. 5, 1932)	
<u>2,302.2210</u>	Oct. 5, 1936	Shipped from London
17,939.2672		

"The Banque Nationale de Belgique instructed the Federal Reserve Bank to hold the above gold at the disposal of the Banque Nationale Suisse. Federal Reserve Bank requests ruling from Treasury whether the above transfers may be effected by them.

"(See Cables No. 30 and 32 from Banque Nationale de Belgique; No. 12 from Banque Nationale Suisse; No. 117 from BIS; and Cables No. 250 to BIS and No. 30 to Banque Nationale de Belgique, mentioned above)

"December 31, 1936. Cable No. 256. To Bank for International Settlements, Basle, Switzerland. Your No. 117. Our no. 250. Having been authorized by the Secretary of the Treasury in this case to comply with your request we have today held at the disposal of Banque Nationale de Belgique, Brussels, 2,302.2210 fine ounces of gold released from your Account No. 2 and 15,137.0462 fine ounces of gold released from your Account No. 4. Have advised Banque Nationale de Belgique by cable.

"December 31, 1936. Cable No. 32. To Banque Nationale de Belgique, Brussels, Belgium. Your No. 30 and 32. Our No. 30. Having been authorized by the Secretary of the Treasury in this case to comply with Bank for International Settlements' and

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your requests we are today holding at the disposal of and under advice to Banque Nationale Suisse, Berne, by your order 17,939.2672 fine ounces of gold placed at your disposal by Bank for International Settlements.

"January 5, 1937. Cable No. 1. From Sveriges Riksbank, Stockholm, Sweden. Please confirm by cable (1) That we can still without license have gold earmarked in New York irrespective of whether gold is imported by us to the United States or bought by us from other central banks already having gold earmarked with you; (2) That under present regulations exporting from the United States of such gold is permitted without license by first available steamer; (3) That you are still willing to hold gold earmarked for us without charge. Would same conditions be applicable if gold belonging to Swedish Government is deposited in our name or in name of Government. Will you according to present regulations be obliged to debit handling charges for deposits of gold not assayed by the United States Mint.

"January 5, 1937. Cable to Sveriges Riksbank, Stockholm, Sweden. We are discussing your No. 1 with the United States Treasury Department and shall revert to it shortly.

"January 11, 1937. Cable No. 18. From De Nederlandsche Bank, Amsterdam, Holland. Please cable whether if we sold to Banque Nationale Suisse, Berne part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Banque Nationale Suisse, Berne.

"January 11, 1937. Cable No. 11. To De Nederlandsche Bank, Amsterdam, Holland. Referring your cable No. 18. Having been authorized by the Secretary of the Treasury to do so we answer your inquiry in the affirmative.

"January 12, 1937. Cable No. 21. From De Nederlandsche Bank, Amsterdam, Holland. Please cable whether if we sold to Bank for International Settlements, Basle, part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Bank of International Settlements, Basle.

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"January 12, 1937. Cable No. 13. To De Nederlandsche Bank, Amsterdam, Holland. Your No. 21 has been submitted to Treasury and shall revert as soon as possible.

"January 13, 1937. Exchange of letters between Banque Nationale Suisse and Federal Reserve Bank of New York dated Sept. 15, 1936, and Jan. 13, 1937:

"4. Could we send you gold at any time for deposit either from Switzerland, from Paris, or from London, and would the Swiss National Bank be entitled to hand over gold from their deposit in New York to other banks of issue, eventually to the Bank for International Settlements?

"The first part of this question has already been answered in the affirmative. With respect to the second part, as you no doubt know, the Treasury has permitted the transfer of gold held by this bank for the account of the Bank for International Settlements to the account of the Banque Nationale de Belgique, and thereafter to the account of the Swiss National Bank with the Federal Reserve Bank of New York. The Treasury has advised this bank that such decision should not be interpreted as a general ruling of the Department, nor as an answer to any general inquiry on the subject. The foregoing, meanwhile, would not debar the Swiss National Bank from consigning gold to the Federal Reserve Bank of New York to be placed directly under earmark for another central bank or the Bank for International Settlements."

H.M.Jr: Look, to make this a little easier for everybody, including myself, those of you who have worked on it - could somebody - Taylor, either you or Archie - there must be three or four principles at stake in washing out the cables. Can you or Archie give us the principles?

Taylor: (To White) You've got the list that we tentatively arrived at - questions - last Saturday night.

H.M.Jr: There must be certain definite principles which are raised, you know. Who's got that?

White: I've got something like that.

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H.M.Jr: Let me have it, White. I mean this is getting the principles which are at stake.

White: (Handing sheet to Secretary) It might not be legible.

H.M.Jr: If it isn't, we can ask you. Any reason why I shouldn't read it?

White: No, not if you can. It isn't all clear. It's elliptical in some places.

H.M.Jr: Well, you can interpolate - I mean you can interpolate. I will now read Dr. White's - could you say....

White: Call it stenographic notes.

H.M.Jr: What do you call it - cryptograph? "A. Permission to earmark gold granted to all club governments" - I suppose you mean tripartite members - "and their designated fiscal agencies." Well now, let's do one at a time. "Permission to earmark gold granted to all members of the tripartite and their designated fiscal agencies." Well now, what's.....

Lochhead: I think we ought to have just a little background. What we actually have run up against so far - that is, first of all, I wonder if everybody understands that the Federal Reserve Bank has a general license now issued by the Treasury by which they may earmark gold for account of central banks, foreign governments, and the B.I.S. A license does exist by which they may earmark gold. Now, certain gold has been sent over here by certain banks. Certain gold has been acquired by foreign banks, and that is being held under earmark. Now the question comes up - the second question comes up, in certain operations they have requested that the gold be transferred from one earmark account to another on the books of the Federal Reserve Bank, and that is really the question we have come up to just now to decide. We have been getting - these are the specific requests, but it seems that each one of these coming up brings up certain points which we want to settle in principle so we will be able to handle them automatically as they come in.

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H.M.Jr: Well now, let me see if I understand it. The last month or so - I mean I haven't been as close to this as I was, so I've got to educate myself, and maybe as I educate myself I'll bring the thing out.

But one of the things is whether members of the tripartite agreement - use Holland; Holland has gold here now - whether Holland could take part of its gold and transfer that, let's say, to Belgium or Switzerland. That question is up.

Lochhead: That's right, that question is up.

H.M.Jr: That's one.

Lochhead: That's one of the simplest questions; that is, transfers between members of the group.

H.M.Jr: Well, let's just discuss that. They've asked us that several times.

Lochhead: Yes, we have had several requests.

H.M.Jr: I mean where Holland could take five million dollars and transfer it on the books of the Federal Reserve to, say, Belgium, Switzerland, or England. And up to now we haven't given an answer to that.

Lochhead: Well, we have given permission in specific cases.

H.M.Jr: Oh, we have.

Lochhead: Where they have asked us and - but we haven't said that "you can take this as a precedent; you are entirely free to do that."

H.M.Jr: In other words, the Federal Reserve of New York has to ask each time.

Lochhead: Right.

H.M.Jr: And the question is whether they can do that freely as between the club members without referring.....

Lochhead: That's right.

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H.M.Jr: Well, there's one point that you've got. Open meeting. Go on.

Harrison: It seems to me, Mr. Secretary, that the whole question can be reduced to a very simple one, really. If gold is to be utilized by various countries, whether by the governments or treasuries or central banks, as a monetary base, and if the Treasury of the United States has authorized us, as the Federal Reserve Bank of New York, to accept earmarks of gold for any central bank or government or B.I.S., as I think they have done and should do, then it seems to me pretty clear, first, that there should be no limitation whatever on the transfer of the earmarks from one member of the club to another member of the club. Because, if we can make it direct, we are giving them gold here in New York which can be only for the purposes for which they need it; now, if they determine that one of the purposes for which they need it is to transfer it to another central bank, B or C, we shouldn't require them necessarily to withdraw the gold from New York, take it back to Europe, and make a reshipment. It is uneconomical, it is slow, and I think wholly unnecessary.

For instance, under our present regulations, the Netherlands Bank can earmark gold without us. They can take it home again and they can give it to the Bank of Belgium, and the National Bank of Belgium under present regulations can ship it over here to us for earmark direct. Now, I think the short cut is a perfectly logical sequence to the authority that you have already given us.

H.M.Jr: May I interrupt you?

Harrison: Yes.

H.M.Jr: You brought in the five tripartite countries and in the same breath you've talked about the B.I.S.

Harrison: Well, I didn't mean to mention the B.I.S. then. I mentioned first the B.I.S. only because under present regulations the Federal Reserve Bank of New York can take earmarks of gold for any central bank, whether

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it is in the club or it isn't, or for the B.I.S., which is not in the club, or for any government which is not in the club. Now, I was reducing the question as to the shift of earmarks to the club first. I think that is the simplest.

H.M.Jr: That's what I want.

Harrison: Now, certainly I think there should be no restriction on that, from my standpoint, certainly not from a central bank standpoint, and I don't see now there could be from your standpoint. Personally, from the point of view of central banks and the whole theory of the use of gold as a monetary base, once you allow any central bank, whether in the club or not, to earmark gold in New York, it seems to me that you ought to go the next step and allow them to use that gold for any purpose which they legitimately need it for.

Now, if ever at any time their use of gold should in your judgment become a use that is hurtful to the United States, for any reason which we don't anticipate now, then you could stop it at the source; that is, you could stop the Federal Reserve Bank of New York from accepting the earmark in the first place. But once you allow the earmark, then I think you should allow all the collateral uses for which they may want gold, whether it is to transfer it to another central bank with us or whether it is to take it home and reship to some central bank.

Oliphant: Are you now speaking of the gold already under earmark?

Harrison: Now under earmark or which may be under earmark next week as a result of a license which you have already given us.

H.M.Jr: Well, let's go along with - I mean I want to absorb this thing. I mean just may I.....

Harrison: Yes

H.M.Jr: I want to explain to you why I've been hesitant. I want to explain. You said if the occasion arises that the handling of gold in this way should be

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against the interest of the United States Government, then we can stop it. The thing that I always feel - I always feel that that is bad procedure. I mean if the situation gets so that then you have got to begin to change yourself or put on - slap on regulations, I think it is always a sign of weakness. The thing that I am trying to think through is, before we make this move, that this is a move which cannot, as far as any person can humanly see - won't be such a move that occasion will arise that we will have to change it in times of emergency. I think when a person is in a hot, tight situation and you've got to change your regulations, it's always a sign of weakness.

Now, that's what I want you - why I asked you people to come down; try to see if we give this privilege to these countries to do these things, what may come up in times of stress that we might have to change these things because they are using it against us. Because if you have to make a move - America might be in a tight corner and then we have to change regulations - everybody interprets it as a sign of weakness.

Now, on the surface, as far as I can see right now, to permit the different countries that are in the tripartite agreement to ship gold freely in New York from one to another - I can't at this moment see any objection, but that's what I want this conference for. What might happen in the United States or in the world that America might be in a corner and we might have to change the regulations? Because I hate to have to change regulations in times of stress. Now, that's the whole thing.

Harrison: I agree completely.

H.M.Jr: Now, we went through this exchange control in America - you remember - and now we've got this volunteer information and it works beautifully. And - but I just wonder - I mean with all this world in such a precarious condition, what use might Japan, Italy, Germany, one of the Scandinavian countries, make of the privilege of interchange, of earmarking gold between these five countries to our disadvantage. How could they use that device? That's what I'd like to know.

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Sprague: Well, sir, there is only one thing that I can think of, by straining my imagination quite a bit, and that might be in time of war, with reference to the neutrality policies of the country. If you are going to - if, in time of war, belligerents are to be permitted or not to be permitted to use cash to buy products, why, that is a conceivable situation, though I judge that the neutrality program involves rather a more direct approach as to the goods that may or may not be shipped.

H.M.Jr: Well now, your just saying that, Dr. Sprague, is very interesting, because - I wouldn't repeat it if it hadn't been given out to the press, but I saw Mr. Runcimen Friday night and it was in the press Sunday, that he practically - he did say to me - and then it was in the press, given out from the White House - that if we didn't give the assurance that he could continue to get raw materials here and to put it in our neutrality thing, well then, they'd have to buy elsewhere and that they would discontinue buying here. See? Now, that's right along the line of what you're talking about.

And let's say that - I mean I'm trying to think, supposing England had gold earmarked here, could she circumvent if we didn't want - if she went to war, could she circumvent our wishes not to let her buy certain raw materials here?

Harrison: I think that's a different question. Assuming that she's got ten millions of gold under earmark with us today, assuming she goes to war tomorrow, assuming you have neutrality which says that she cannot buy war materials in the United States, that would mean not that she couldn't use her gold, but that, having reduced her gold to dollars or some other currency, she still could not buy steel or munitions here and export it. That's the second step. But I don't think that should be a restriction on the gold itself. Even if she liquidated the gold, you still have the law, which means that she couldn't use her - our dollars to buy our materials for export.

H.M.Jr: How does the present Spanish government clear their payments? Do you know?

Harrison: You mean here in this country?

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- H.M.Jr: Knoke, do you know?
- Knoke: I think it's all done by Paris. Evidently they have shipped their gold through Paris and then in Paris it has been reported from time to time that it has been converted into exchanges.
- H.M.Jr: I mean but they clear that.....
- Cochran: That's what they're doing. They're shipping their gold out through Valencia to Marseilles. They shipped by airplane first from Madrid directly to Paris.
- H.M.Jr: Well, supposing they have five million dollars worth of gold in the Bank of France. Could the Bank of France say, "We've got gold in America and we want to earmark five million dollars worth of gold for Spain"? If we gave this interchange, this right that they could just swap earmarked gold, why couldn't the Bank of France, which has gold here, just earmark five million dollars for Spain?
- Harrison: Supposing they did that, Mr. Secretary, and then supposing, having earmarked it for a week or two weeks, they reduced the gold to dollars, sold it - somebody's got dollars - they still would not be free to buy munitions here because of the provisions of the neutrality bill which limit the export of munitions to Spain.
- Oliphant: May I try to....
- H.M.Jr: I'll give you a minute.
- Oliphant: Yes.
- H.M.Jr: I'll give you in just a second. I want to - I understand that General Franco has served notice that this gold belongs to him and he's going to do something about it.
- Cochran: Yes, and some of the people in the Bank of France have tried to restrict the purpose for which that gold was used. They'll say, "We'll give you francs for it if you want to buy in our market, but we shouldn't act as the clearance house to buy sterling or buy dollars." But the Governor is overruled and they've gone head.

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H.M.Jr: But they could, France knowing that - they might ask the French to transfer five million dollars worth of gold here, earmark it.

Courran: If we had this free exchange between Banks.

Herrig: Well, wouldn't it, from their point of view, be more direct and quite as satisfactory if the Bank of France provided them with the exchange, the dollar exchange, which is really what they would want, and not to go roundabout getting the gold and then converting that into dollars?

The only specific difference that I can see would be this: In time of war, they might, let us say, buy raw materials in Argentina and transfer the gold to an Argentinian-earmarked account, thus getting the funds in Argentina with which to buy the raw materials. Now, aside from that, I can't see that there is any purpose served to the foreign belligerent to acquire gold. In the first instance, if he's got gold in Paris or some other place, and the Parisians give him a dollar exchange, that's what the belligerent would want.

H.M.Jr: Now Mr. Oliphant.

Oliphant: In trying to see the question, I'd like to put it this way: Let's take a dozen commodities covered by neutrality policy - steel, copper, and what have you - and assume that war has broken out and it is the policy of the Government not to allow those commodities to reach a certain country. Would we directly permit an export of our gold to those countries? That is, from the standpoint of war strategy, isn't gold the prime war commodity?

Harrison: I think that depends upon whether Congress wants to prohibit the export of gold to belligerents. They could not reduce the gold to dollars and buy goods that are prohibited from export by Congress to a belligerent. And if you refuse to or make an exception to your general policy in the case of belligerents about the export of gold which they already own, aren't you then supplementing the Act of Congress and prohibiting the export of some

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material other than what Congress has prohibited.

Wright: Well, it may be or may not be gold they already own. That involves earmarking, doesn't it? If the earmarking were freely permitted, they would be able to acquire gold in the United States for export to....

Harrison: Well, if they did that, if they had the dollars with which to buy the gold, they would have the dollars with which to buy the exchange, and they wouldn't have to go through that process.

Wright: Suppose Japan wants a million dollars in gold and a million in balances with various banks in New York. The gold and the balances are equally serviceable as a means of acquiring, say, Argentine currency with which to buy raw materials. So that you, in giving this gold earmarking arrangement - you aren't providing possible belligerents with anything that is more serviceable from this point of view than just ordinary bank balances.

Knoke: Well, it seems to me if they want gold here they can get it by shipping it, by buying it in London or shipping it out of their holdings in Paris, and they have it here all the same.

H.A.Jr: Well, Knoke, let me put it a different way. I mean for a moment let's turn the thing around. What advantage is it from the United States Government point of view to give this particular privilege to these countries? I'm just going to keep on this one thing, to give the right to these five countries to ship their gold between each other, earmarking it here in America. I mean what advantage is it to us to give them that privilege to do that freely?

Harrison: Isn't the answer to that, Mr. Secretary, that you have a tripartite arrangement which presupposes currency stabilization between various countries by the use of gold? Therefore you say to Country Number One in the club, "We'll be glad to sell you gold and earmark it in New York if you want to."

Now, having gone that first step, your bargain isn't

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any good unless they can use that gold either for buying dollars if they need it or buying some other currency if they need it. In other words, you go only part way if you limit the use of gold to dollars and that they can't buy any other currency, and I would think if you do make such a limitation you immediately begin to discredit gold as the base for currency stabilization, which is what I am assuming you want. And if you do want that, then you've got to let it be free for use for that purpose with any currency and not limit it merely to dollars; because if you do that, they'd accomplish the same thing by selling the gold here for dollars and then buying the other exchange, if they had to do it, unless you went still further and made an exchange restriction which said they couldn't buy currency in a point where you wouldn't allow them to sell gold.

Oliphant: Do we now earmark for the governments belonging to the club?

Harrison: Do we? Not if we can help it. We will only for central banks.

Oliphant: Not for governments?

Harrison: That's right. And the reason for that is this, Mr. Oliphant. First, since its organization, the Federal Reserve Bank, which for the purposes of this discussion we can call a central bank because we are operating for the others, the other Federal Reserve banks, we have tried consistently to deal only with other central banks and not directly with governments, believing that it is not a function of the bank of issue in this country to deal with the British Government or the French Government or any other government. That is a function of the Treasury Department or the State Department. That being so, we have limited our transactions to central banks. There have been three exceptions, and those exceptions were in cases where the governments didn't have central banks through which we could operate and where in each case the Government of the United States expressed some interest in having us earmark the gold for the foreign government. We did it reluctantly, because we haven't got code systems with treasuries, we haven't got direct

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means of contact with treasuries, and we believe it is a risky, cumbersome, and perhaps possibly an embarrassing procedure for a central bank to establish.

Now, we do do this: In any country where there is a central bank and where we do not work with the government, we will let - we will operate with the central bank as fiscal agent for the government, just precisely as the Bank of England today will hold earmarks of gold in our name, knowing, however, that that gold is held by us as fiscal agent for the Treasury of the United States. Now, that is an orderly procedure. It is following the regular transactions, fiscal agents operating with one another, but the principal in each case being the Treasuries.

H.M.Jr: Well, I didn't - as far as I'm concerned in my own mind, I haven't raised that point. I mean in all these negotiations we have had toward exchange stabilization - because that is what we are working for - we have let it - we understood that these governments could designate any agency that they wished. But I mean in my own mind I haven't raised the point, at this stage, and I don't see why I should - that we should earmark gold for governments direct, because we haven't got the machinery and I don't want to set up the machinery.

Harrison: If you ask me, as your fiscal agent, I'd advise you not to do it. I think it would be a great mistake. Just as you would not, I should assume, want to earmark gold in the Bank of England in your name, because you haven't got the contacts, the code system, direct contacts with the Bank of England.

H.M.Jr: Well, it's worse than that. I mean there's no good reason that I know for changing it now. Unless there is an awful good reason, I - I mean I don't want to any more than - Federal Reserve of New York has given us entirely satisfactory service for the three years I've been here, and there is no reason at this time why I should consider setting up my own machinery to buy and sell governments and buy and sell foreign exchange in New York.

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Harrison: I think, Mr. Secretary, there is a cable that we've got and have had for some while that raises three important questions and may involve all the principles, which we have failed to answer because we haven't reached a decision yet about it; and that is a cable from the Sveriges Riksbank, where they ask three hypothetical questions: (1) Will you still earmark gold for the Sveriges Riksbank? (2) Will you earmark gold for the Sveriges Riksbank as sent for the Swedish Government? (3) Will you earmark gold direct for the Swedish Government?

We wanted to reply to the cable and answer the first two questions in the affirmative and the second in the negative.

Seagoe: You mean the third.

Harrison: I mean the third in the negative.

H.W.Jr: I think you got it wrong now (looking at copy of cables) "That we can still without license have gold earmarked in New York irrespective of whether gold is imported by us to the United States or bought by us from other central banks already having gold earmarked with you." That's question one, isn't it?

Harrison: Yes

H.W.Jr: Two - "That under present regulations...."

Harrison: Now, may I interrupt there?

H.W.Jr: Well, I still think, if you don't mind, before we get to the Swedish question - I think the easiest one to settle is if we stick to the question we started with. I'd like to settle that first, because I think the Swedish thing brings in so many.... Do we wish to let the five countries of the tripartite agreement - I don't know what the technical word is - transfer earmarked gold between each other here in America? I think that states it. I mean do we want to give them that privilege, and why is it to the interest of the United States Government to give them that privilege?

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Now, as I understand it, what we do now, every time they ask may they transfer the answer has been yes, but we.....

Harrison: But we've got to get specific approval in each case.

H.A.Jr: That's right. Now, what advantage does the United States Government get in giving you a blanket authority to do this without asking that - before we get into this Swedish thing, see? What is it to our interests, all of us, the United States Government's interest, to give you a blanket authority to transfer gold between these foreign countries without asking us each time?

Raynor: You (Harrison) have already answered that question.

H.A.Jr: Well, he hasn't answered it, if you don't mind, to my entire satisfaction. I mean I don't - somebody else has given me a better answer than that, but.... I'll give you the answer somebody else has given me. They feel that if they feel they can do that, it makes New York, or Washington - America - more the financial center. They feel that they can do this thing; they have this privilege, and this gold can flow freely between these countries, and it makes them feel that this is the place where they can send their money and, having the facilities to flow freely between five countries here, it is an advantage to have the money here, rather than if they don't know whether they can do that and - well, they have to send it back and return it before they can transfer it, one country to another. Now, somebody has given me that argument. I don't remember who it was, but somebody advanced that thought.

Harrison: I think that is a perfectly good argument. I think there is even a more fundamental argument in principle. That is, that you are trying to use gold and to encourage other countries to come into the club, as you call it, to use gold as a means of stabilizing currency; I contend that unless you help them use gold the way they want to, transferring it from one country to another, you don't completely facilitate the purpose of your tripartite arrangement. You put strings on it that make it difficult for them to come along and

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play in the club.

Lochnhead: Speaking from a very narrow angle, just the operating viewpoint: Of course, we have the tripartite arrangement and we have supplemented that tripartite arrangement with an arrangement by which we can mutually obtain gold for the foreign exchanges, which we have to buy under the tripartite in keeping the rate stable. Of course, naturally it is very important that we are able to get gold freely for any balances we buy on the other side. I am speaking from my viewpoint. I presume the people on the other side feel the same way from their viewpoint: that whenever they operate they want to feel sure they can get gold and not incur any unnecessary risk in exchange. So therefore, in the working out of the tripartite arrangement, it would seem very necessary to have as few obstacles as possible in the way of free transfer of gold, and I would say from the selfish viewpoint that this question that is coming up on this side just now might come up very decidedly on the other side in a few weeks or a month from now, where I might find it necessary or convenient to transfer gold; Bank of France might have gold in England and I might rather have gold in England than France and might work something out. And if we don't give them the privilege, I'm just wondering whether or not it might react at some time to our disadvantage in actual operations over there.

H.M.Jr: Well, Archie, let me ask you.. How we have gold in London. Does the English Government give us the privilege of transferring that gold freely - earmark it?

Lochnhead: We have no - we have not asked the question specifically.

Knote: The answer is definitely yes.

Lochnhead: The point is so definite - that there has already been absolutely free earmarking - we take it as a matter of grant.

Harrison: You would feel that they had - I won't use the word "double-crossed" you at all in this agreement - but you would feel that they had unduly restricted your

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ownership of gold that you hold and earmark in the Bank of England - if the Bank of England refused to allow you to sell that gold to the Bank of France to be held and earmarked in the Bank of England. Now, that is the question the other way around.

H.C.Jr: Now wait a minute. You used the word "double-crossed" - you withdrew it. But up to now, I mean, and all during the tripartite discussions, that question was never raised by - of course, it wouldn't be raised by England; that's been traditional for generations, for centuries, this free flow and all. But the other members never raised the question.

Knoke: The question hasn't been raised.

Cochran: They do it over there by telephone - no agreements whatever.

H.C.Jr: I mean during any discussion that you had with them on the other side did they ever raise it?

Cochran: The question did not arise.

H.C.Jr: I mean I want to say myself as to this question, there is no question of good faith. Do you see what I mean?

Harrison: I withdraw that word. I was using that just....

H.C.Jr: But I just wanted to make sure that the question has not been raised during the discussions with Knoke on the phone. It's never been raised during the discussion, was it, Knoke?

Knoke: No.

H.C.Jr: And on the other side?

Cochran: It didn't come up, no, sir.

Oliphant: Then, on the question of good faith, the British wouldn't, because they have no system of gold control such as we have. We have a system of gold

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control by license, but the British don't have, and they would naturally not raise the question.

Sprague: Still, in making this decision and communicating to them, one could put in a safeguarding paragraph to the effect that you assume that, reciprocally, earmarked gold that we have is readily transferable from the Netherlands to Belgium and Switzerland, etc.

A.M.Jr: Well, anything that we offer, we want "quid pro quo" for it.

Sprague: I mean it would be no harm.

A.M.Jr: I don't assume anything, dealing with England or anybody else.

Harrison: I am assuming that you would get the "quid pro quo."

Williams: It would seem to me, Mr. Secretary, that what you have here is the development of a pattern which is very familiar. I mean always in the past there have been centers of international settlement, and it may be that in the future we will become more of a center of settlement than before. And I should think that would be regarded as very desirable. It increases our influence; we will have more to say about maintaining conditions of stability, etc., and we are in a much better position, I should think, to safeguard ourselves against possible manipulations. They find our market very valuable; therefore, our influence is increased.

A.M.Jr: Well, that's the whole thing. Professor Williams, you have sat in on most of these things. We have two things; we have the old pattern and then we are making a new one here. And, as you know, I've been just as careful as any human being can be before I take another step, and I'm sure I'm not going to have to take two steps backward by going one step forward.

Now, we have been making a new pattern here, and it's a new method of exchanging money between countries. And what I am trying to do here the next two days or three days, or two weeks, whatever it is, is to satisfy

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myself and then in turn be able to satisfy the President that this is the pattern we want to live under. Now, we think fortunately we are in a position that we can draw a pattern, but I want to make awfully sure it is the kind of pattern we want today and as far in advance as we can see.

Now we've got you people here in the room, we've got this wealth of experience. Some of you have the old method; we are trying our best to draw on that, and then decide what is the best pattern for us to live under, under these most trying conditions. Now, as I say, it may take two days, it may take two weeks or two months. We fooled around with that Belgian thing - what was it, two months? I mean we to simulate the Belgian situation. What was it, Cochran?

Cochran: It was from September 24 to November 24.

H.M.Jr: Yes, until we satisfied ourselves. And the thing that we were most fearful about, that letter, has never come out. So far it's worked all right.

But we are moving a new pattern here and I need all the help I can get; first, to satisfy myself, and then to satisfy the President. That's what I'm trying to do here, and I won't permit myself to be rushed on it. But I want to satisfy ourselves that this is good for the United States.

Williams: It seems to me the more they use us in this way, the more their transactions are susceptible to our control. I should think that would be highly desirable from your point of view.

H.M.Jr: Well, Professor Williams, I'm going to argue on both sides for the minute. I'm going to... Do you consider it deterrent that they have to ask each time that they want to transfer earmarked gold?

Williams: Well, I don't see the necessity for it. It would be a question of the amount of inconvenience.

H.M.Jr: I don't hear very well today.

Williams: It would be a question of the amount of inconvenience

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involved. I don't see any occasion - I should think it might run along more or less as routine, until you think you see some reason for not wanting it that way.

H.M.Jr: May I argue that - supposing every time they ask we say yes, and of course after we have done it a dozen times or so it gives them that much assurance we will continue to say yes; but what harm - I'm just taking this side - what harm is it that every time they want to do it, we simply say, "Why? Please give us a reason." And if the reason is satisfactory the answer would be yes.

Harrison: I think the answer to that, Mr. Secretary.....

H.M.Jr: I mean that's what we're doing.

Harrison: I think the answer to that would be merely this: If we have to ask, they know we have to ask, and if they know we have to ask they know it is subject to two answers, either yes or no. And they would much rather put their gold in a place where there isn't any question but what the answer would be yes, that they can use it by shifting it to some other central bank or some other government. And I think the mere fear that we may say no - and the fact that we have to ask shows that we reserve the right to say no - would deter them from using us rather than London as the place for the storage of gold.

Cochran: You have that exemplified in the Swedish case exactly, because they have asked time and again and they actually want to begin to build up a stock of gold here, but they go to London still.

Harrison: We - why, we haven't even told the Swedes now that the central bank can earmark gold here, although we have an outstanding license to earmark gold for them.

Knoke: And they've been asking that we please answer the first three. They are not interested in the fourth; they say there is nothing pressing on that.

H.M.Jr: What was the fourth, Knoke?

Knoke: The fourth is whether we are willing to earmark gold

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for the Swedish Government. They say that can wait, that question, but the first three questions we've got to get answered.

H.M.Jr: Well, didn't you, Cochran, imply to the Governor of the Bank of Sweden that I'd be very glad to have him come over and see us and talk about it?

Cochran: I did some time ago. It was several months ago.

H.M.Jr: Yes, but the....

Cochran: Then the tripartite agreement came after that.

H.M.Jr: I mean before you....

Cochran: Yes, before that.

H.M.Jr: That we'd be very glad to have him.

Cochran: But he didn't see fit to make the trip for that one purpose.

Knoke: But Mr. Secretary, the question he asked had nothing to do with the tripartite agreement.

H.M.Jr: But the fact that they are irritated - I mean, you see, I'm not going to be rushed. I mean I want to be awful sure. I think we've been very fortunate; looking back over what we've done, I can't see that we've made a single blunder. And I think we've just gone very slowly and, as I say, we took almost two months on this Belgian thing, and it worked out all right. I know this Swedish thing is here. It will come next. It is much more difficult to answer than what I am arguing about now. That's why I want to let it go for the time being.

Stewart: Mr. Secretary, your first and simplest question is whether these central banks that now have earmarked gold are free to transfer from one to the other. That's your first question, isn't it?

H.M.Jr: No, I am confining it to the five countries....

Stewart: To the five banks that have, yes.

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H.M.Jr: Yes. In the tripartite - I am confining it to them first.

Stewart: I don't see myself any - having once taken the first step of giving them the right to earmark, I don't myself see the risk in having them transfer among themselves. My reason for it is the point that's been made, that cash is just as good as gold. I think one's hesitancy perhaps arises from the fact that, being gold, it appears to touch the government in a way that cash doesn't. If it's cash in a member bank, they'd be free to use it. If on an occasion where neutrality was involved and gold was being moved from one country to another, it would appear to touch the government machinery in some way. Otherwise, I see no reason against it and I see some reasons in favor of it.

One is the point about the reciprocal position. Our own country might not like being in a position of having the question answered yes or no on each transaction that you might make. It might be an advantage to you to have it understood on both sides.

The other is that at the present time, anyway, I take it you would be glad to see central banks in other countries holding some of this gold.

H.M.Jr: Here?

Stewart: Well, in general as owners of gold - rather than under the present arrangements, where the Treasury - you feel it is desirable, for general credit reasons, to acquire the imported gold rather than to have it go into the general credit base.

H.M.Jr: I don't get that. You'll have to....

Stewart: If new gold is produced and held by them, it relieves...

H.M.Jr: By whom?

Stewart: By one of the foreign central banks. Whether it is earmarked here or not, it relieves you of the responsibility of sterilizing that gold during the time they hold it.

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H.M.Jr: I still don't get it.

Stewart: If the gold that now comes in currently and is transferred to you - you, as Treasury, are borrowing in order not to let it become part of the credit base.

H.M.Jr: That's right.

Stewart: The gold that they hold, even though it is earmarked here, is of no burden to you and is no part of our credit base. It is part of their possession.

H.M.Jr: As I understand... You mean that I'd be glad to see other governments own as much of the world gold as...

Stewart: Have other banks own as much of this gold as possible. To the extent that you give them the facility for transfer, they'd perhaps be more willing to be owners of this gold than if they did not have free facility of transfer.

H.M.Jr: You mean, in other words, it would make it as useful as possible to own it?

Stewart: That's right. That's the point.

H.M.Jr: Make it as useful a medium as possible, huh?

Stewart: That's right.

H.M.Jr: Of course, in thinking out loud, we might say, as an additional incentive to be a member of this tripartite agreement, that we will only permit transfers of gold between members of the tripartite agreement.

Stewart: If you took the second step - say the first step is one of earmarking, the second is freedom of transfer between members of club - you could consider a third step as to what the conditions of membership in that club gave them, what advantages they derived. One of the advantages might be that one of transfer of earmarks.

H.M.Jr: I mean give this privilege but give it only to the members of the club. In other words, we are going to

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give them additional locker room, huh? Give them additional locker room, but only give that privilege to members of this club.

Sprague: Then in the case of a country like Guatemala, which probably won't ever be in the club, it could earmark, but its only way of acquiring foreign currencies would be to sell its gold to you. That would be the distinction between Guatemala and Holland, let us say.

H.M.Jr: Now, wait a minute. You get on these South American countries that have had - we have treated them specially. We have issued special licenses for them. Don't we? I mean if Guatemala wants to sell us gold, or take it, we handle those countries - Ecuador and some of those countries - we handle them specially, don't we?

Just wait a minute, please. (Mrs Klotz hands Secretary a note)

Now, let me just - would you mind stating... The Central American or one of these countries that produce gold; that's what you have in mind?

Sprague: Yes. I was just trying to make the distinction. You confined the free transfer of earmarks to countries that are or may be in the club. Then there will be another group of countries that would be permitted to earmark - like, we'll say, Guatemala - but not to transfer, because of not being in the club. And they would liquidate their earmarks, if they so needed to do, by selling them to you, acquiring dollars, and then spending the dollars here or buying foreign currencies.

H.M.Jr: Well, I'll bring up another one which will give you another example. Let's take China for instance. Now, China has gold earmarked here and she also has dollar balances which she keeps with the Federal Reserve under this special arrangement of silver purchase which we have had with her. Now, she had these dollar balances and she's asked twice whether she can convert part of those dollar balances into gold, and we have told her yes. Now she's got gold

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earmarked and dollars on deposit with the Federal Reserve of New York. Now the question is would we permit China, who has earmarked gold, to transfer between, and in the case of China - I use that because she is sort of my pet child and I'd be more inclined to do it for China than I would for anybody else - I mean outside of the tripartite agreement. And the same thing holds true for Mexico. We have done certain things with Mexico on that agreement with Mexico. It is a little bit different. But she liquidated that agreement. Has our Mexican agreement expired?

Lochhead: Not so far as the purchases; as far as the credit, the emergency.

H.M.Jr: But she had some silver here and we loaned her some money. And the question came up could Mexico transfer dollars into gold; having transferred it into gold, could she freely transfer it between countries.

So there would be the five countries and there would be certain countries like Mexico and China that we would want to do it for. So we've got to also - but again I just wonder if the - I just wonder, we have some favorite children we'd like to do these things for and....

Harrison: Couldn't you cover that this way? If you want to make a differentiation, you could give to the Federal Reserve Bank, as your fiscal agent, the right freely to make transfers of earmarks for those within the club without getting your permission on each transaction; but in the case of China or other pets, require us to get your permission on each transaction, and then you are free to give it or not, as you please. I mean if you want to make that differentiation.

H.M.Jr: Well, personally I think the more attractive that we can make this club, the more useful it is to us. I'd like to have - Sweden to have her tongue hanging out, with the saliva running down her mouth - make it so attractive to Sweden that she'll come in. Because Sweden's hands are tied. She has that agreement with the four Scandinavian countries, and Denmark has got

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exchange control. Otherwise, these Scandinavian countries would be coming in at once; but they are blocked through Denmark. But I'd like to make it so attractive that Sweden would say, "Well, the hell with Denmark. We'll come in anyway."

But I think I can see real advantages to the United States of making this tripartite club so attractive that people will want to join and make it as useful toward stabilization of currencies as possible. I can see that.

May I just say this. I've got to go across the street to have my throat treated - takes about 10 or 15 minutes - then I'll come back. I know you people have to go to that other meeting. But I'd like to run this thing as long as you could all stand it. (To Harrison) I know you've got that bank meeting.

Harrison: They're waiting for me now - all Presidents.

H.M.Jr: How much longer can you sit with us?

Harrison: Well, I'll do whatever you want or whatever is necessary. I'd like to go over to the meeting and see how it's getting on anyway.

H.M.Jr: Well, you've got pretty good representation here.

Harrison: If you would understand and excuse me... Mr. Williams and Mr. Knoke know my views.

H.M.Jr: We won't get through on this today, but I thought I'd run as long as I could this morning. And then those people - our own people - they can fight this afternoon; then we can go at it again tomorrow morning. What?

Harrison: All right.

H.M.Jr: That will give you a chance to be in both places. What?

Harrison: Yes.

H.M.Jr: And I don't know about Dr. Sprague or Mr. Stewart. I don't know whether you can do another day.

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Stewart: It would be difficult for me to stay.

H.M.Jr: How about you, Dr. Sprague?

Sprague: Well, I had expected to go back. If I think I can stay - if this develops into some more intricate problems as we go on....

H.M.Jr: Well, I am quite sure we won't clear it up today, and if you could stay over tomorrow it would be very useful for me. Think about it, see? I mean it would be very helpful if you could give us two days.

(To Harrison) But you want to go to your meeting.

Harrison: I would like to, and then I'll come tomorrow. But I think, Mr. Secretary, that we have pending something that ought to receive attention; that is the Swedish cable. But we have been holding them up for two or three weeks on it; that is, the question as between central banks. Now we are operating under an existing license from you that authorizes us to hold earmarked gold for the Swedish Bank, and I think we should tell them yes, leaving open for further consideration the question whether you are going to allow them to ship earmarks or what you are going to do about earmarks from the government.

H.M.Jr: Well, the Swedish Government won't fall or rise if we hold that up until tomorrow. They can wait another 24 hours. Nothing's going to happen. They can scold you (Knoke) tomorrow just as well as today. I mean with this meeting I wouldn't want to settle that until - I want to run this thing through normally and I'll try to do it in two days, but if I can't, give me a little time, George; nothing's going to happen.

Knoke: Mr. Secretary, do you authorize me to say today that we shall give them an answer tomorrow?

H.M.Jr: Well, you say.....

Knoke: The cable we have here - we've got to do something.

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H.M.Jr: All right, then, you simply say it's referred to the Secretary of the Treasury and he's taking the matter under consideration. I'm not going to be rushed, Knoke. You know me by this time.

Knoke: I'm not trying to rush you.

H.M.Jr: You just say you referred it to me and the blame's entirely mine and that I have taken it under consideration.

I'll be back in 15 minutes. I want to go across to get my throat treated. You (Harrison) will be back at ten tomorrow.

(Secretary and Harrison leave,
Secretary returning at 11:40 A.M.)

H.M.Jr: While I was having my throat treated, I thought we could go along a little faster if, let's say tentatively - we'll come back to it again - that we say that the members of the tripartite agreement - that we give them the privilege of transferring earmarked gold in America between themselves. Now, just let's say that tentatively, see, so that if we do that we can do this next; then we go back to that. Let's say tentatively we do that.

Feis: May I raise a question of form? If that is the decision.....

H.M.Jr: It isn't the decision.

Feis: Well, if it should be the decision, could it be put in the form of "until further notice"?

H.M.Jr: Well, everything is. The whole tripartite agreement is.

Feis: What I've got in mind is two sets of considerations.

H.M.Jr: You're not telling me the State Department isn't joining the Treasury on a 24-hour basis. This is too much, Herbert.

Feis: I didn't quite hear you.

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H.M.Jr: This is too much.

Feis: What?

H.M.Jr: I said the State Department isn't joining the Treasury on a 24-hour basis.

Feis: Oh, no, sir. But on this thing, this isn't 24 hours. I'm thinking of the situation that might be presented in the event of war. I have nothing definite in mind, but it's possible that neutrality - either legislation or action....

H.M.Jr: Well, that's what Professor Sprague brought up. Now, I'm not - all I'm saying is just to see, if we agree to that, where would that lead us to, to keep - I thought I want to go as far as I can this morning, then throw it into the laps of these gentlemen for this afternoon and come back again tomorrow; but my time - I've got to stop at 12:30 and get ready for a meeting with the President at one. I want to cover as much ground as we can, knowing that this is tentative. If we say we'll cross that, what's the next step? I'd like to get as far as possible.

Feis: Can I express just one further thought?

H.M.Jr: Two. Two.

Feis: I don't know - I may not be here - I won't be here tomorrow, may not be this afternoon. The other reason is that the study of short term capital movements and the possible wisdom of some action in that field might turn out to have a connection with this study of international earmarking, and I think that is another reason for keeping any action on that basis.

H.M.Jr: Well, as long as you feel that way, let me ask you this, because you won't be here tomorrow. Can you see any good reasons why we shouldn't give them this privilege?

Feis: I think that the reasons cited this morning are valid and justify taking the step, and there is a presumption that if there are any unexpected consequences

there might be unexpected good consequences rather than unexpected bad consequences.

H.M.Jr: Now, you are confining yourself just to this one thing?

Feis: Oh, yes, sir, the thing we are talking about.

H.M.Jr: The right to permit these five countries to exchange gold that is earmarked here in this country. Just that one thing.

Feis: (Nods affirmatively)

H.M.Jr: You think it is all right, as far as you can see?

Feis: If it is kept in the form which you say - "until further notice."

H.M.Jr: Well, the whole agreement is on a 24-hour basis. Incidentally, it is that very fact which made it comparatively simple to get the extension from Congress. They are so thoroughly sold on the 24-hour idea; I mean they kept referring to that themselves. They liked that; Congress likes that. They think it is a sign of strength.

Oppen: Mr. Secretary, if Dr. Feis may not be here this afternoon, I wonder if I could ask him a question so we could have the benefit of his views in case it comes up later.

H.M.Jr: Sure.

Oppen: And that is this: On the assumption that when we say revocable without notice, or on 24 hours' notice, we are referring only to treatment of new situations, would there be any objection if the effect of this was bound to be that any country which had taken action in reliance on our statement of what we would do in the future would be in a position to hold us morally to that action, even though I think there is no question that legally we could prevent it. To take a concrete case, suppose that England asks, "Now, with respect to any gold we have under earmark with you, can we transfer to another member of the club?" and we say yes. And in reliance on that statement,

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England sends over 500 million of gold and earmarks it with us. Would we later on be in a position, let us say, from the diplomatic standpoint, of saying, "Well, we won't allow the transfer of earmarks with respect to that gold that you sent over here"?

Feis: This is impromptu, but I imagine equity and customary usage would decide that any gold which England had earmarked up to the time the situation was changed she could transfer back to England, and any gold that she had already shifted in process of earmark to the possession of any other central bank - that that also was a completed transaction; but that her right to make further shifts of earmark to another central bank lapsed at the moment that we declared that privilege ended. I don't think there would be a dispute over that.

Knoke: It seems to me if it were advisable we could very readily advise the foreign bank that all regulations are issued under the Gold Reserve Act or the regulations thereunder, which means that they are subject to change at any time. That would meet your point. I don't know that that would be advisable, but of course I think it would take care of it.

Taylor: Not retroactive.

Knoke: No.

H.M.Jr: Gentlemen, if you don't mind, what I'm trying to do now, I'm trying to push a little bit; I'm trying to get over as much ground. You people will have something to work on this afternoon. See what I mean? Don't want to get down - like to sort of skim over this thing. All I'm trying to do now is say tentatively - let's say that we give the members of the tripartite agreement this privilege. Tentatively if we do that, then what is Step Number Two? I mean how we word that and all that - that's something we can take plenty of time on. But I mean you people here from out of town - the next.. White, you swiped my notes.

White: Well, I just made them legible.

H.M.Jr: Well, may I have them back? (White hands notes to Secretary) Thanks.

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The next thing would be, as I understand it - which is bothering you - is: Can any central bank earmark gold here. Is that right?

White: No, there is one in between.

H.M.Jr: What's that?

White: It's Number Two.

Oliphant: Number what?

White: Two. That's whether any non-club member can transfer earmarked gold to any club member.

H.M.Jr: Before we come to that - first they've got to - I thought they already had the privilege of earmark. Have they got that?

Knoke: Any foreign central bank can.

Oliphant: Under revocable license.

H.M.Jr: Let me just get this thing step by step. Any central bank can earmark gold here?

Knoke: That's correct.

H.M.Jr: Is that right?

Knoke: That's correct.

White: Unless you want to reconsider it.

H.M.Jr: No, I don't see why we should.

"Shall the privilege be granted non-club central banks to transfer gold held earmarked in the United States to the earmarked account of club members? In other words, will the other central banks have the privilege of transferring gold amongst themselves or amongst members of the tripartite agreement?"

White: The first is: Shall Sweden be able to transfer gold held on earmark? From a non-club to a club bank.

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- H.M.Jr: Well, that's the next step.
- White: As distinct from a club to a non-club.
- H.M.Jr: First thing: Can Sweden transfer to club members? That's it. And the other is: Can club members transfer to Sweden? Would that clear up some of your Swedish troubles?
- Knoke: I would consider that is one trouble - those two things.
- H.M.Jr: First, can non-members transfer to members. Now, anybody can talk to that point.
- Stewart: Are there genuine reasons why countries that have not come into the tripartite agreement find it difficult? You say you'd like to encourage membership. Are they really serious for them?
- H.M.Jr: Put it this way: We have done nothing to discourage them and we have done everything we can to encourage them. In fact - I mean we have had to stretch a lot of points to make it possible for these countries to come in.
- Stewart: I meant rather in their own settings, are they embarrassed by it?
- H.M.Jr: Well, use this Swedish thing, Knoke's pet child. I keep China, he keeps Sweden. Their troubles are - we only found it out recently - they have been - Sweden, Norway and Denmark have been very anxious to come in, but they realize they can't because Denmark has exchange control. Now, that answers that question, see?
- Stewart: Are there laggards who would come in who are not similarly embarrassed, if no inducement were offered?
- H.M.Jr: The four countries down in the Balkans met and gave a very noble statement out that they wished us well but they didn't need us, they could get along very nicely without us - very amusing - and as far as they were concerned it was all right, they wished us well, but they didn't need us. The other country, Japan,

some months ago made a press statement that they were ready for a world conference, and I think that covers the whole thing.

Cochran: Yes.

Knoke: Of course, you remember Uruguay approached us and we suggested to them that they might want to - might become interested in the tripartite agreement, and they came back and said, well, because of the reciprocity feature they were out of it. I think a somewhat different interpretation was put on it. They wanted to say that they are simply not in a position to give us gold; they haven't any.

Sprague: Well, you spoke, Mr. Secretary, of the possibility of this being slightly something of an inducement to come in. I wonder if it is a major inducement to bring them in. I should imagine it might be a slight inducement for them. On the other hand, you have to pay a considerable price for it in lessening the utility of gold as a means - earmarked gold here as a means of making settlements, which is important. So that it seems to me that the question should turn rather upon whether there are any positive disadvantages to this country arising out of the grant of this liberty. The other two things at least seem to me to offset each other - the inducement to come in and the lessening the utility of earmarked gold here. Now, I can't think of any particular disadvantage to this country, although there may be some, from allowing Sweden to earmark gold and transfer it to club members or to allow club members to transfer earmarked gold to non-club members. I should like to hear what disadvantages there might be to this country.

H.M.Jr: To this country?

Sprague: To this country.

Feis: The only disadvantage I can see is in connection with the thought - very hasty thought - whether the constant facilitation of the handling of the gold in this market may not also facilitate all sorts of

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short term and speculative activities in our security markets.

White: It would to the extent that it reduces the cost of exchange, as it does in some cases.

H.M.Jr: Of course, the first reason that comes to my mind why we shouldn't give Sweden the privilege to do business with club members or club members to do business with Sweden, is if Sweden can have all the facilities then there is no reason for her to become a club member. I mean it's just like saying, "You can have a season's card and you become an honorary member and you don't have to live up to rules." I mean Sweden wants this very much. Now, I don't know why, but she's been at this thing now for almost a year. She's been trying different doors - front door, back door, cellar, attic. She tried every possible way to get gold over here and have it. She wants dollar balances here very bad. Now, if she can get that without joining the club, she'll never join the club.

Now, either the club is worth - it is worth having it and making it worthwhile being a member or - but if we are going to give ground privileges to people and don't make them live up to the rules, Sweden is never going to join. The next question is why you want Sweden.

Knoke: May I try and answer that question?

H.M.Jr: Please.

Knoke: You spoke of dollar balances the Swedes want to have here. Well, they have had six or seven million dollars worth over here for some time. You meant really gold balances.

H.M.Jr: I meant gold.

Knoke: Now, I....

H.M.Jr: I meant gold.

Knoke: Now, they want gold here - and this is entirely an

assumption on my part. They can get it cheaper in London; that is borne out by the fact that day after day gold is purchased in London just because there is more profit. Yet you say they want it here, and I think they do. Why? I should imagine because, for one reason, they want to distribute the burden of these gold purchases upon more than one market. At the present time they do it in London; in other words, London is the one that loses gold to the Swedish. I imagine they should prefer, out of a sense of fairness, to distribute that, even though it costs them a little more - take some of the gold here rather than take it all from London. In other words, I should imagine they want to be fair and play "cricket." That's the way it looks to me.

Lochhead: But Knoke, I might point out that the question of acquiring gold from the United States by Sweden is not open here.

Knoke: But that's what the Secretary brought up.

Lochhead: The Secretary was speaking about the transfer. The transfer of earmarked gold does not allow Sweden access to our gold. I didn't understand we were going to bring that question in at all.

H.M.Jr: I'm sorry, I didn't get that point.

Lochhead: Knoke was mentioning that he thought the reason Sweden wanted to get gold here would be so they would distribute the burden; they would buy gold not only in the London market, but this market. Now, my point is that we are not discussing in here the question of allowing Sweden to acquire gold here.

H.M.Jr: I didn't understand what Knoke meant.

Lochhead: The question is simply of transfer.

H.M.Jr: I think I've got an entirely different reason. I think the Swedes feel that they have to keep so much gold out of the country and the more they keep here - they divide the risk in case Europe goes to war, and it is a distinct advantage for every country

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to have gold here because we are the safest place to have it. Even though it costs more, they are going to keep it here. I think that's the reason why they want it here.

Knoke: Well, isn't that a good reason?

H.M.Jr: It's an excellent reason, and also from the standpoint of the United States, - now, we're talking here to the four walls - it's a good thing to break up this sterling area. There's no reason why England should have thirty, forty countries tied to her. Good business for her. Excellent business for her. Now, before I - I mean you people might as well know what I've got in my mind. I mean I wouldn't ask you here if I didn't trust you, and you wouldn't come. Now, before I give Sweden all those privileges, I've got to know an awful good reason why she's going to continue to be tied to the apron strings of Great Britain. She wants everything that we've got and to still be tied to sterling. Now, we were all through that with Canada. We went all through that particularly with China; we broke it with China. We went partly with Mexico, but particularly with China. And I'm - if Sweden wants that privilege, then she's got to play fair with us, and I haven't seen any signs that she wants to play fair with us. She wants all the privileges, ground and annual privileges, won't pay any dues, won't live up to our rules, and still wants to be tied to sterling. I can't see it. I just can't see it.

Oliphant: You might have the same situation in Southern Europe. That is, you might decide on a course of action that would facilitate the formation of a franc bloc, which goes to the ultimate structure of your club, you see.

H.M.Jr: I see Walter Stewart nodding his head. Do you agree with me?

Stewart: I do, yes. I don't think this is probably a sufficient inducement. But I don't think that is necessarily to the point. I mean what you do is - each point, if you raise the question as to whether the facilities would be just as free here, no matter what their currency arrangements are, I think it is a good sound reasoning.

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Sprague: The biggest Swedish factor in London is the acceptance credits there, which serve to handle a large part of their foreign business; and we haven't developed our foreign acceptance business in any such intimate way as the British have through their banks, which do an enormous amount of financing for all those Scandinavian countries.

H.M.Jr: I think that we found out merely by accident - and this is really very confidential - that, without telling us or anybody.... The thing - to go back a minute - the thing that we had the greatest trouble in getting out of England was the fact that the British Government would say, "We guarantee any time you want to buy gold, we, the British Government, say you can get that gold." They kept saying, "Well, we have an open market. You can go to that." I kept saying, "No, I want the British Government to say if we want to buy gold the British Government guarantees it." Now, that was our big stumbling block. They gave us that without our knowing it - that is, it is unnecessary, open market and so forth - that same privilege is extended to Sweden. In other words, Sweden has that guarantee. They guarantee to those four countries that they can get gold whenever they want it. And the thing that we - well, that privilege goes to those four Scandinavian countries now; the British Government guarantees those four Scandinavian countries that they can get gold whenever they want it.

Now, the British look after the - they are our friends, we are working with them, yes. But I think that somebody's going to have to do some awful good selling to me why we should give Sweden the right to transfer to club members and the club members to Sweden. I can't see it.

Stewart: It seems to me, Mr. Secretary, your question runs deeper. The question, it seems to me, is a question of earmarking and not of transfer alone, because the division of the risk comes to them when they can make their earmarkings here. They get the best of both worlds at that stage, because they have their arrangements in London on sterling and they can facilitate building up gold balances here. And I think you may have to raise the previous question that you passed a

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moment ago: In what magnitude and for what countries are you prepared to earmark?

H.M.Jr: It's just this. I realize that, but I thought we were a little bit more subtle; that when we said to any central bank, "You can earmark," - but no central bank wants to earmark any large sum, like Sweden, if she doesn't think at a crucial moment she can transfer that gold.

Stewart: Not sure about that.

H.M.Jr: Well, I thought to say to any central bank, "You can't earmark unless you are in the tripartite agreement" - that that was going too far, and I thought I was a little bit more subtle about it.

Stewart: Well, it may be subtle, but....

H.M.Jr: Well, the fact remains that, with the exception - I think I am right - of the tripartite countries and China, there's no country that has sent gold to be earmarked.

Lochhead: Mexico, Colombia.

H.M.Jr: Well, I know - no other countries, European countries, under earmark.

Lochhead: No.

H.M.Jr: Am I right?

Lochhead: Yes .

H.M.Jr: Stewart, you and I are thinking the same.

Stewart: I think that is subtle, but I don't think it is effective for your purpose.

H.M.Jr: You mean it takes you so far and...

Stewart: Well, there may be some other objections. Here is a case where they are asking for earmarks and at the same time asking for the right of transfer.

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- H.M.Jr: And I refuse to give them the right of transfer; therefore I don't earmark.
- Stewart: It is conceivable in the case of Sweden, but there are other countries.....
- H.M.Jr: I'm awfully glad you're taking this angle. No European country outside of the five countries have earmarked gold.
- Knoke: Germany has a small amount under earmark, four or five million.
- H.M.Jr: But that must be here some long time.
- Knoke: Oh yes, that's been here since prior to March, 1933.
- H.M.Jr: There you are. Now, Mr. Stewart, would you raise the point - would you go back and say that no country can earmark here, then, unless she's in the tripartite agreement?
- Stewart: Yes, I would. I said if you are prepared to take the first step, then I think, the first step being the right one to make - and I would discuss it; if I were going into it, I certainly would discuss the previous question of the right of earmarking gold and the conditions upon which I would grant it. Then you are dealing with a thing that has the possibility of being effective for your tripartite affair.
- Oliphant: In other words, that's the trump card that we own.
- H.M.Jr: Well - and you'd go back.
- Stewart: Well, I'd consider it, I certainly think.
- H.M.Jr: Let's go into this matter, and as I say, if two days - it may run - on the Belgian thing I took two months and I'm so glad I did take two months - and I don't care whether it's two days, two weeks, two months, or three - until I see clearly, until you people who are with me see clearly, I'm not going to say yes or no. I think it is a very - I think all these moves are important.
- Stewart: The only point that I am making now is that if it

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is part of your purpose to induce people into the club by means of only granting the privilege of transfer to those that are in the club, I don't think that is a sufficiently effective instrument to accomplish the purpose. The other way may not be a wise instrument, but I don't believe the second one is sufficiently effective.

H.M.Jr:

Let me put it this way. As far as we are concerned, the only instrument that we see that we have in the world that will lead toward stabilization of money, is this club. I mean certainly what's happened in the last ten days in Japan is discouraging, and the interesting thing is, either by accident or by - so happens that the members of the club all have democratic forms of government, and the countries that have the greatest trouble with their money are the countries that have dictators. Now, it may just so happen. And if Japan slips - it looks as though Japan is slipping into a fascist type of government - she's having her monetary troubles.

And I think that is - that's one of the reasons I want Dr. Feis here - I think what we are doing here can be a tremendous force for peace in this world, and I think we ought to make the greatest possible use of it. How far we can go, saying to countries we won't earmark - how far we can go before the State Department might rightfully say, "Now wait a minute, this is really an unfriendly act," I don't know. But we've got an instrument here which has proved in the last three months a tremendous force for peace, and I think we ought to make the greatest possible use of it. And that is, again, why I keep saying I don't.....

Stewart:

My view would be that over the approximate future of a few years, you will have an increasing number of countries glad to use the facilities here for earmarking. At the same time they'd be glad to continue their sterling relationships. And I think if you grant the right of earmark they get the best of both worlds as it now stands, and that you will have to consider at some stage to what magnitude and to what individuals you are willing to grant the right of earmark, if it is your purpose to make the dollar

a more widely used instrument as a medium of exchange or stability, or anything you like.

Williams: Mr. Secretary, I think I agree with all that's been said, but what is the reverse of the picture? Suppose we make it difficult for Sweden to earmark gold here. I agree that that is the more fundamental question. What will happen? Is it desirable from our point of view to develop a more or less formal conflict as between sterling facilities and our facilities? What will be the outcome? I should suppose that the British are relying primarily not upon any formal pact, but upon trade organization and facilities which they have and are willing to give.

Now, if we refuse our facilities, it may well be that we will only be forcing countries which might otherwise have come to us in part to turn wholly to London, and I think we must recognize that we have a tremendous stake in the continuing use of gold as a counterweight in the stabilization of currencies, much more than any other country, and that we must also recognize that the more countries we can induce to use our market for earmarking and transfer of earmarking, the more influence we shall have in the future in guiding and directing monetary stability. There is always the danger that we might find ourselves cut off.

And then, I have wondered how far it is desirable to push the idea of a formal adherence to the tripartite agreement. It seems to me that it consists primarily of the main countries now - the United States, England and France. If Germany were to consider coming in, that would raise a very large question as to whether she shouldn't be a member of the central group. Then you can extend that to some other countries, countries that have been on gold and desire to remain on gold and are very likely to be sympathetic to the idea of the tripartite agreement.

Then you come to countries whose case is more doubtful, who might be more inclined for trade reasons to go along with England, but who perhaps

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have some reasons, particularly now that there is fear of war and unsettlement in Europe, for coming our way.

Now, if at this point we close the door and insist upon a formal adherence by them, I would raise two questions: Whether it is from our point of view so desirable that we expand the number and insist upon formal adherence, we having already got the major countries tied up; and second, whether we are not likely to run the risk of driving these countries away and forcing them to make their arrangements elsewhere.

We have such a large stake in the whole matter of continuing to use gold as a counterweight that we ought to consider very carefully the possible risks involved in an adverse decision.

H.M.Jr: Well, that is just why I refused to give an answer. This thing has been up here for six weeks and I have refused to give an answer. I haven't been able to see what the answer is. But I do think this very question that Mr. Stewart puts better than I can do it - do we want to let - using Sweden - let Sweden enjoy the advantages of both sides of the Atlantic and give nothing; or by saying to her, "You can come over here," is it going to encourage her to come here. Or say, "You can earmark gold," or say, "No, you can't have the right to earmark gold unless you agree to the terms laid down in the tripartite agreement." Now, that's the thing that we are discussing. I've been conscious of this for six weeks and I haven't got the answer now. I haven't got it yet.

Williams: Well, if I could pursue one aspect of my point further....

H.M.Jr: Surely.

Williams: I don't know that Sweden is the best kind of example. But I think we have had ample proof already in the world that when countries have to make a formal choice between gold and sterling, there are a certain number of them who are compelled to choose

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sterling because of their trade relations; and thus that the sterling area has emerged not by formal agreement, but simply out of the facts of trade organization.

Now it seems as though, by reason of this tripartite agreement, coupled with fears of war and unsettlement, that there may be reasons why some of those countries would like to use us as well; and if we insist that they make a choice between the two, I think that most of them will have to choose sterling.

H.M.Jr:

I disagree with you, and I'll tell you one of the reasons why. Have you seen what's happened to Swedish prices the last three months? Have you seen the Swedish price level? This idea about Sweden having control of money has just proven to be a myth. If you take a look at the Swedish price levels and see what happens in them, and then you take a look at the Japanese price levels and see what's happened to them... The reason that they have tied - I'm being quite bold here in front of all these experts - but the reason I think that they have tied to sterling for so long is that the British price level has been so stable; but now that it is beginning to move upward, and so sharply, during the past three months, I just wonder whether countries like Sweden and Japan aren't going to scratch the back of their heads and say, "Is it worthwhile?" and maybe look around and take a look at our price level. I mean the advantages which they have had in being tied to sterling for the last three or four years - I wonder if they are not disappearing and whether we are not merely going into a new era again. If you haven't seen what's happened to Swedish price levels and Japanese price levels the last three months, it's very interesting. And I just wonder whether these countries and this whole question of Sweden coming on us - is it an aftermath of or accentuated by what's happened to her price level. Is it three months?

White:

Little less - about two months.

H.M.Jr:

Two months. And the possibility that she has suddenly

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awakened to the fact that the advantages of tying to sterling are over.

Williams: What the Swedish economists have said about it is that they are prepared to appreciate, as well as to depreciate, the currency, and that that to them is an advantage - tying to sterling at different points - because sterling is more or less free.

H.M.Jr: And that all brings up this question that they may be a little smarter than I am, and they say that they are more conscious of their own price levels than we are, but at least we watch them; and with this change there, that may partly account for the fact that they may want to swing more towards the dollar.

It all gets down to what is to the best interest of the United States? I don't know. But I think it is a very, very important thing. And White, you might get out your Swedish price level charts for these gentlemen and show it to them this afternoon. See? And this thing of tying to sterling - it may not be - of course, it is hard for us to realize how good the dollar is and how steady it is. I mean maybe some of the other people appreciate it more than we do.

Williams: Well, I hadn't meant to disagree with the point of view previously developed, but I am just raising the question how far we want to go in developing a formal conflict where they have to choose one or the other.

H.M.Jr: Well, Williams, that's what we're here for. I don't know. The beauty of having me Secretary of the Treasury is my mind is always open and I don't permit myself the luxury of having hobbies and preconceived notions. And I sit here and I listen - you know that - and I will listen; I'm not riding any hobbies, monetary hobbies.

Sprague: If they were to join the club, would that inhibit them practically from appreciating their currency if they should desire to do so in order to check the rise of their price level?

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Taylor: No.

Oliphant: There is a reservation in the tripartite agreement to that effect.

Cochran: But they feel now that they should not join the tripartite while they have that probability. Both Finland and Sweden have that - they feel they have to appreciate their currency, and even though the tripartite is against the devaluation moving downward, they don't feel they ought to do it while there is a chance of moving upward.

H.M.Jr: Well, there you are. I mean that gives you the most recent information.

Sprague: Well, we would have no objection to the Swedes appreciating their currency if they thought it was to their advantage, would we?

H.M.Jr: No, Dr. Sprague, the position I am taking here is that what any country does internally is her business; what she does externally, where it comes in conflict with the dollar, is my business. Isn't that a safe position to be in?

Sprague: Yes, but I raise the question whether - now, I can quite see that a move to depreciate would be quite - might be quite disturbing.

H.M.Jr: Yes

Sprague: Will a move to appreciate, which is the only likelihood in the case of Sweden, be anything that we would dislike at all?

H.M.Jr: I wouldn't want...

Taylor: It only covers depreciation in the tripartite agreement.

Knoke: It covers any change.

H.M.Jr: We haven't put anything in about appreciation. We didn't think about that.

Sprague: It is really a new problem that may present itself all around the world.

- 51 -

H.M.Jr: Quite. We didn't - weren't smart enough to include that in the tripartite agreement. We didn't think of that.

White: Mr. Sprague, it is quite possible that her desire to appreciate is and has been with reference almost entirely to sterling by virtue of the rise of the price level in England and the repercussion on her, which is increasing her price level. Now, it may well be that she may decide, as the Secretary pointed out, that Great Britain is no longer maintaining the same type of stability that she would prefer. She may say, "American prices are rising less and therefore we may appreciate in terms of sterling possibly because sterling may be dropping in terms of dollars," or she may in any case look a little more toward the United States. And if we make it a little more convenient for her, a little less costly for certain types of transactions for her to operate here, there might be a tendency - I wouldn't wish to exaggerate the importance of this - but there might be a tendency for her to say, "Possibly it will be better for us to peg ourselves to the dollar rather than to sterling if they are both moving in different directions and if the price level in England is not moving to our liking." That is a possibility.

H.M.Jr: Well, gentlemen, I'm terribly sorry, but I'm going to have to stop now. I've got to get ready for a meeting I'm having with the President. What I suggest is that those of you who can give it the time adjourn to Mr. Taylor's room this afternoon, and I'll be available again at 10 o'clock tomorrow morning.

Let me go around. You are going to be able to stay, Dr. Sprague?

Sprague: Yes.

H.M.Jr: Fine. Now, Herbert, you've got to...

Reis: I've got to go along - may get back this afternoon. But I think in view of the turn that this has taken I'll try to get somebody here tomorrow.

H.M.Jr: Professor Williams, what about you?

- 52 -

Williams: I'll be here. The only question is when we will be called over to the other meeting. We might have to go over and come back.

Golden.: Dr. Williams and I are likely not to be able to be here this afternoon.

H.M.Jr: But tomorrow? Well, give us all the time you can.

Golden.: Because we have to address that meeting this afternoon.

H.M.Jr: Well, give us all the time you can, will you?

Golden.: Yes, sir.

H.M.Jr: And when you are not meeting here you will be meeting in Taylor's room. Now about you, Knoke?

Knoke: I'll be here.

H.M.Jr: You better stay with us, huh? You got too much at stake.

Stewart: I'll stay if I can, Mr. Secretary.

H.M.Jr: Listen, you can make more money down here for the government than...

Stewart: Well, that doesn't make any....

H.M.Jr: I said for the government.

Stewart: Would you like Mr. Warren to come down if I'm not here?

H.M.Jr: I'd like both of you.

Stewart: Would you like him without me?

H.M.Jr: Yes, but I'd like both of you. No, I meant - I like to have my little joke, but I really can see this - should think it would be fun for you to get away from all those sharpshooters down there. Isn't it fun?

Stewart: It's fine.

H.M.Jr: Well, if you fellows will adjourn to Mr. Taylor's room and get better air and more ideas.....

**RICHMOND OF CABLES BETWEEN FEDERAL RESERVE BANK OF NEW YORK AND
VARIOUS FOREIGN CENTRAL BANKS REGARDING THE TRANSFER OF BARBARED
GOLD TO OTHER CENTRAL BANKS**

Dec. 10, 1936

Cable No. 2. From Banque Nationale Suisse, Bern, Switzerland.

" . . . Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the country complying with the agreement . . . If ready to agree with last suggestion please indicate which bank of issue you would foresee."

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Dec. 11, 1936

Cable No. 22. To Banque Nationale Suisse, Bern, Switzerland.

"Our No. 21 your No. 9. Regret your last suggestion not suitable. However, if you have urgent need for dollars we as fiscal agent of the United States would be glad to purchase from you refined gold bars actually placed on board steamship sailing for New York, payment to be made upon receipt of cable from you to that effect. . . ."

- - - - -

Dec. 23, 1936

Cable No. 32. From Banque Nationale de Belgique, Brussels, Belgium.

"Value today Bank for International Settlements will hold earmarked for our account with you 48 gold bars containing fine ounces 17,939.2672. Please acknowledge receipt by cable of the gold. We shall wire further instructions regarding deposit."

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Dec. 24, 1936

Cable No. 117. From Bank for International Settlements, Basle, Switzerland.

"Held today at the disposal of the Banque Nationale de Belgique Brussels 7 bars marked OX 721-727 containing 3,803.3210 fine ounces from our Account No. 2 and 41 bars containing 15,137,0432 fine ounces from our Account No. 4. Please advise by cable Banque Nationale de Belgique."

-2-

Dec. 24, 1936

Cable No. 28). To Bank for International Settlements, Basle, Switzerland.

"Your No. 117. Before transferring gold to account National Bank of Belgium we shall have to obtain a ruling from the United States Treasury Department as this is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another. Please refer our letter of November 6, 1936. We have also advised National Bank of Belgium."

Dec. 24, 1936Cable No. 30. To Banque Nationale de Belgique, Brussels, Belgium.

"Your No. 30. Bank for International Settlements has requested us to hold gold at your disposal. This is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another and before complying we shall have to obtain a ruling from United States Treasury Department. To facilitate would it be possible to give us your further instructions now regarding deposit so that we may present complete details to Treasury."

Dec. 28, 1936Cable No. 12. From Banque Nationale Suisse, Bern, Switzerland.

"We inform you that Banque Nationale de Belgique, Brussels, holds at our disposal with you 48 gold bars containing 17,939.367 fine ounces which kindly place in safe custody for our account. Please cable confirmation and full details."

Dec. 28, 1936Cable No. 21. From Banque Nationale de Belgique, Brussels, Belgium.

"Answering your cable of December 24 please hold at the disposal of Banque Nationale Suisse, Bern the 48 gold bars containing fine ounces 17,939.3672 transferred in our favor by the Bank for International Settlements."

Dec. 26, 1935.

Letter from Federal Reserve Bank of New York to Treasury Department.

Advised that Bank for International Settlements has requested them to hold at the disposal of the Banque Nationale de Belgique, Brussels, following gold:

<u>No. of Fine Currencies</u>	<u>Date Returned</u>	
15,863.3070	Feb. 15, 1932)	Sold to Bank for
1,374.6493	Feb. 5, 1932)	International settle-
		ments by Federal
<u>3,803.3310</u>	Oct. 5, 1930	Reserve Bank of N. Y.
17,939.2873		shipped from London

The Banque Nationale de Belgique instructed the Federal Reserve Bank to hold the above gold at the disposal of the Banque Nationale Belge. Federal Reserve Bank requests ruling from Treasury whether the above transfers may be effected by them.

(See Cables No. 20 and 22 from Banque Nationale de Belgique; No. 12 from Banque Nationale Belge; No. 117 from BIS and Cables No. 260 to BIS and No. 30 to Banque Nationale de Belgique, mentioned above)

Dec. 31, 1935

Cable No. 24. To Banque Nationale Belge, Paris, Belgium.

"Your No. 12. Having been authorized by the Secretary of the Treasury in this case" to make the transfer requested we have today authorized for your account 40 gold bars weighing 17,939.2873 fine ounces placed at your disposal by the Banque Nationale de Belgique."

- - - - -

Dec. 31, 1935

Cable No. 25. To Bank for International Settlements, Basle, Switzerland.

"Your No. 117. Our No. 260. Having been authorized by the Secretary of the Treasury in this case to comply with your request we have today held at the disposal of Banque Nationale de Belgique, Brussels, 3,803.3310 fine ounces of gold released from your account No. 3 and 15,157.0483 fine ounces of gold released from your account No. 4. Have advised Banque Nationale de Belgique by cable."

-4-

Dec. 31, 1936

Cable No. 22. To Banque Nationale de Belgique, Brussels, Belgium.

"Your No. 30 and 32. Our No. 30. Having been authorized by the Secretary of the Treasury in this case to comply with Bank for International Settlements' and your requests we are today holding at the disposal of and under advice to Banque Nationale Suisse, Bern, by your order 17,939.2872 fine ounces of gold placed at your disposal by Bank for International Settlements."

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Jan. 5, 1937.

Cable No. 1. From Sveriges Riksbank, Stockholm, Sweden.

"Please confirm by cable (1) That we can still without license have gold earmarked in New York irrespective of whether gold is imported by us to the United States or bought by us from other central banks already having gold earmarked with you; (2) That under present regulations exporting from the United States of such gold is permitted without license by first available steamer; (3) That you are still willing to hold gold earmarked for us without charge. Would same conditions be applicable if gold belonging to Swedish Government is deposited in our name or in name of Government. Will you according to present regulations be obliged to debit handling charges for deposits of gold not assayed by the United States Mint."

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Jan. 5, 1937.

Cable to Sveriges Riksbank, Stockholm, Sweden.

"We are discussing your No. 1 with the United States Treasury Department and shall revert to it shortly."

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Jan. 11, 1937

Cable No. 18. From De Nederlandsche Bank, Amsterdam, Holland.

"Please cable whether if we sold to Banque Nationale Suisse, Bern part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Banque Nationale Suisse, Bern."

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Jan. 11, 1937

Cable No. 11. To De Nederlandsche Bank, Amsterdam, Holland.

"Referring your cable No. 18. Having been authorized by the Secretary of the Treasury to do so we answer your inquiry in the affirmative."

Jan. 12, 1937

Cable No. 21. From De Nederlandsche Bank, Amsterdam, Holland.

"Please cable whether if we sold to Bank for International Settlements, Basle, part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Bank of International Settlements, Basle."

Jan. 13, 1937

Cable No. 13. To De Nederlandsche Bank, Amsterdam, Holland.

"Your No. 21 has been submitted to Treasury and shall revert as soon as possible."

Jan. 15, 1937

Exchange of letters between Banque Nationale Suisse and Federal Reserve Bank of New York dated Sept. 16, 1936 and Jan. 15, 1937.

"4. "Could we send you gold at any time for deposit either from Switzerland, from Paris, or from London, and would the Swiss National Bank be entitled to hand over gold from their deposit in New York to other banks of issue, eventually to the Bank for International Settlements?"

The first part of this question has already been answered in the affirmative. With respect to the second part, as you no doubt know, the Treasury has permitted the transfer of gold held by this bank for the account of the Bank for International Settlements to the account of the Banque Nationale de Belgique, and thereafter to the account of the Swiss National Bank with the Federal Reserve Bank of New York. The Treasury has advised this bank that such decision should not be interpreted as a general ruling of the Department, nor as an answer to any general inquiry on the subject. The foregoing, meanwhile, would not deter the Swiss National Bank from considering gold to the Federal Reserve Bank of New York to be placed directly under earmark for another central bank or the Bank for International Settlements."

January 25th

I talked to the President yesterday at 12:30. He asked me if I had seen the Bullitt cable. He said, "There is nothing in it, is there?" and I said, "No, but I am calling you because, very confidentially, Cochran talked to Cariguel, of the Bank of France at 10 o'clock and the situation is quite the opposite from what Bullitt says, namely that the French are in a desperate situation and the Bank of England and the British Treasury turned the French down on a loan and told them that if they wanted to borrow they would have to borrow from the British bankers. Lazard Freres in Paris is heading a syndicate and they will try to negotiate a loan in London through private banking sources on Monday".

I asked the President if he got a copy of my telephone conversation with Gordon Rentschler and he said, "I certainly did and, he said, you were entirely too communicative". I rose to the bait and I said, "Was I" and he said, "Yes, you said ah - ah - uh - ah and, he said, I have sent you a facetious note on it". He said, "I suggest that you read over your own telephone conversation and if you gave that man any information I didn't see it".

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 101

DATE: January 25, 1937, 6 p.m.

FROM: American Embassy, Paris

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE
TREASURY.

Rueff said over the telephone this morning that he had been asked to call on me today by Auriol.

On his arrival, Rueff stated that favorable progress was being made in the negotiations for the loan in London of four and a half to five billion francs to the French railroads. He said that there now remained only a few details to be worked out. He felt certain that before the end of this week the loan would be announced.

Rueff told me that pressure on the franc had ceased today and that a considerable offering of pounds from London had been made. He said that this was another extremely satisfactory symptom.

Rueff quite understood, he went on to say, that the informal suggestion which he made last Thursday was unacceptable. This suggestion, which I telephoned to you, was that francs be purchased by our stabilization fund and held without conversion into gold for a few days. In

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a discussion of the situation this morning, Rueff and Auriol reached the conclusion that France's financial difficulties would be completely ended if it were announced shortly after announcement of the British loan that dollars to the amount of four to five billion francs had been made available to the French stabilization fund by the American stabilization fund for a period of six months or a year.

I at once told him any such transaction would, in my opinion, be impossible. I told him that it would be against the spirit if not the letter of the Johnson Act. This Act was based on the wish of Congress to make it impossible for the financial resources of the United States to be available to foreign governments who had not paid their debts to the United States Government, I said. I also told him that in my opinion there would be violent attacks on the Government in Congress if his proposal should be accepted.

It would be a perfectly adjustable transaction as between stabilization funds, he argued; its purpose would be simply to maintain the established rate of exchange; it would be a normal supplement to the tripartite monetary accord; the most explicit and public guarantee could be given by the French Government that no profit whatsoever from the transaction would accrue to the French Government.

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I informed Mr. Rueff that it was my opinion that such arguments would not carry much weight in the United States.

Mr. Rueff then told me he desired to have such a transaction made public for the reason that the mere fact of the support of the United States would have great effect in the money markets of the world and that if it were known that the the United States was prepared to support the frank, it would not be necessary to use any of the money available. The political affect, he also added (q its correctly) would be very great.

He then said that the transaction might be carried out secretly by the stabilization funds since the support would be very valuable^{even} if it were secret.

I again told him that it was my belief that the acceptance of such a proposal would be most difficult for our Government. Nevertheless, he requested that I submit the proposal to my Government and I said that I would do so.

It will be noted that in his conversation with me on January 23 Auriol made no mention of a proposal of this kind. It seems that Rueff is the prime mover in the matter. I feel that there will not be the least ill feeling or indeed more than slight disappointment if the proposal is refused.

If

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If our Government should consider it wise to accept the proposal for reasons of major international policy, a considerable (though temporary) outburst of enthusiasm for the United States would of course be produced. I venture to suggest that the easiest method of handling the matter, if our Government desires to reject the proposal, would be to permit me to convey to Mr. Rueff informally the information that the United States Government considers that such a transaction is forbidden by the Johnson Act.

BULLITT

RECEIVED

JAN 26 1937

EA: EB

TREASURY DEPARTMENT
Office of the Director
Federal Reserve Bank of New York

DRAFT

I am frankly disappointed to receive the suggestions contained in your 101 as they raise many doubts in my mind. Not only did Rueff's suggestion which you telephoned to me on Thursday appear unsound and in fact unreasonable, but I find no satisfactory explanation for today's suggestions. While this Government has made the efforts with which you are familiar to cooperate with the French Government in its desire to achieve exchange stability, and will continue to cooperate in this field, I do not feel that any of the recent suggestions fall within the spirit of the Tripartite agreement or the proper field of operations of the Stabilization Fund. Whereas some mention might be made of the discussions in Congress at the time of the passage of the Johnson Act it is clearly not the policy of this Government to extend unsecured credits for currency stabilization or other purposes to governments of countries in default on their obligations held by this Government.

Department of State

BUREAU
DIVISION

WE

ENCLOSURE

TO

Letter drafted 1/25/37

ADDRESSED TO

Hon. Wayne C. Taylor,

Treasury Department

SPECIAL ASSISTANT TO THE SECRETARY OF STATE
WASHINGTON

January 25, 1937

My dear Wayne:

With reference to your request by telephone for copies of the official communiqués issued to the press by the Governments of Belgium, the Netherlands and Switzerland, on the occasion of their adhesion to the monetary accord, I find that copies of the notes to this Government from the three missions concerned quoting the texts of those communiqués have all been transmitted to the Treasury.

There is enclosed herewith, however, three copies of the Belgian communique, certified by the Ambassador here, and two clippings from Netherland newspapers quoting the communiqué issued

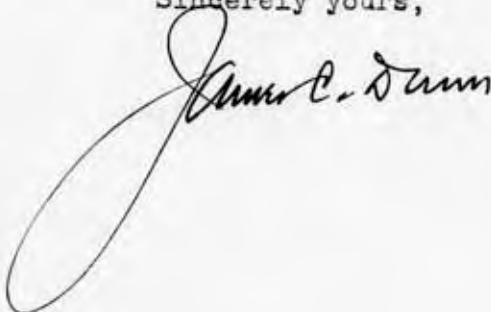
The Honorable

Wayne C. Taylor,
Treasury Department,
Washington.

issued by the Netherland Government. Similar material has been requested from the Swiss Legation but has not yet been received.

If you would like anything else on this subject please let me know.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James C. Dunn". The signature is written in a cursive style with a large, looping initial "J".

Enclosures:
Three copies of
Belgian communiqué
as stated above.

(Translation)

1) "The Belgian Government has learned of the declaration whereby the Governments of France, Great Britain and the United States have, after reaching an agreement, considered it advisable to express their intentions with respect to monetary and economic problems that arise at this time; it joins them in affirming a common determination to safeguard peace, to favor the establishment of conditions which may best contribute to the restoration of order by international economic relations and to pursue a policy tending to develop prosperity in the world and improve the standard of living of the peoples.

2) For this purpose the Belgian Government has decided to make no change in the monetary policy which it has followed for a year and a half and the effect of which was to assure the complete stability of the Belgian franc on the exchange market by avoiding all disturbance in that market.

3) The French Government, considering that the desirable stability of the principal currencies cannot be established on solid bases without the previous re-establishment of a durable equilibrium between the various economies, has decided to propose to its

Parliament

-2-

Parliament for this purpose, the adjustment of its currency.

The Belgian Government, like that of the United States and Great Britain, believes that this decision is calculated to establish the stability of international relations on more solid foundations. It is ready to take part, as often as may appear necessary or useful, in the consultations contemplated either between the governments concerned or the qualified institutions.

4) The Belgian Government, like the governments of France, of Great Britain and the United States, is moreover convinced that the success of the policy outlined above is linked with the development of international commerce.

It attaches, in particular, the greatest importance to beginning without delay an action for progressively decreasing, with a view to their abolition, the present systems of quotas and exchange control.

5) The Belgian Government, like the governments of France, Great Britain and the United States, considers highly desirable the collaboration of the other nations for the accomplishment of the program so formulated; for such accomplishment, the Belgian Government will always be disposed to lend its full cooperation."

Certified

-3-

Certified to be a true copy of the declaration transmitted by the King's Embassy to the Government of the United States on September 26, 1936.

Washington, November 25, 1936,

Ambassador of Belgium,

(Signed) R. v. Straten.

TR: :IML

(Translation)

1) "The Belgian Government has learned of the declaration whereby the Governments of France, Great Britain and the United States have, after reaching an agreement, considered it advisable to express their intentions with respect to monetary and economic problems that arise at this time; it joins them in affirming a common determination to safeguard peace, to favor the establishment of conditions which may best contribute to the restoration of order by international economic relations and to pursue a policy tending to develop prosperity in the world and improve the standard of living of the peoples.

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TR: :IML

(Translation)

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Washington, November 25, 1936,
Ambassador of Belgium,

(Signed) R. v. Straten.

TR: : INL

MED

GRAY

PARIS

Dated January 25, 1937

Received 7:20 p.m.

Secretary of State

Washington

103, January 25, 3 p.m.

FOR TREASURY.

Transactions on the exchange market today were restricted and the session was calm without any special feature. Dollar closed at 21.44. Forward rates three months for dollar 47 centimes, for pound 2.30 francs.

Rentes improved at opening but closed about 90 centimes down in an irregular market.

An emphatic denial obviously officially inspired is published in the financial press of this morning of rumors that stabilization of the franc is envisaged at lowest point authorized by the monetary law of October 1.

AGENCE carries a message from its London office to the effect that negotiations for a French loan in London are progressing favorably and that an early decision is imminent. The LONDON FINANCIAL NEWS understands that an amount of 50,000,000 pounds is under consideration at an interest rate of three per cent and guaranteed by the French Government and the Bank of France.

So

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 MED -2 - 107, January 23, 8 p.m. from Paris

So far no press comment of importance has appeared on the financial section of Blum's address delivered at Lyon yesterday. AGENCE ECONOMIQUE observes that the Premier evidently understands the financial problem facing the Government and expresses the view that success may be achieved if the administration will correct technical errors made by it in connection with devaluation operation, and if it will decide to set aside artificial doctrines and policies.

The essential points of Blum's reference at Lyon yesterday to the French financial situation may be stated as follows: "recent legislation has placed burden on French economy difficult to digest under present abnormal situation. The Treasury has not been able to recover its normal characteristics. Repatriation of French capital had not taken place, and hoarded gold and notes had not been returned to circulation to the extent desired and the present economic re-awakening had increased capital requirements and had added to the financial problem; furthermore, to all these private requirements must be added the enormous financial requirements of the state such as budgetary deficits, armament program, railway deficits, etc.

Improvement in the economic field would lead to the
 repatriation

3

MED - 3 - 10¹⁰, January 25, 8 p.m. fro Paris

repatriation of capital, to a return to a balanced budget and would permit the Treasury to finance itself from reconstituted savings in a rejuvenated money market.

Turning to disarmament and its effect on the economic situation, Blum thought it was no longer possible to envisage an international political convention which did not have as a complement or corollary an international economic convention giving substitute outlets for enterprise and labor. Thus he said were posed "the questions of European colonial and international equipment and public works; that is the material and technical cooperation and questions of credit; that is to say financial cooperation".

BULLITT

SMS:NPL

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January 25, 1937

Ambassador Sze came in to see the Secretary today. Mr. Taylor and Mr. Lockheed were present.

The following is a stenographic report of their conversation:

Ambassador Sze: I got two separate messages and I cabled three questions for you. He answered them all. First, about situation in Japan and, second, about Japanese exchange.

HM, Jr: This is T. V. Soong?

Ambassador Sze: Yes. 'Japanese Premier designates opportunist's record of no settled conviction probably unacceptable to Army whose influence now paramount. Military dictatorship inevitable near future.

Chinese merchant could apply Credit Department Treasury remittance funds only if they can prove represents proceeds from specific importation and not flight of capital.

Good prospect settlement of Sian situation peacefully.'

This part, he says 'Secret and Confidential. Please inform Secretary of the Treasury a despatch appeared in the New York Times from Hong Kong, dated January 11th, regarding the Sian affair. Is quite reliable.'

The Communist Army said that they would give up class fighting and abolish the Communist Government and also allow their Army to be incorporated in the Government Army on this condition: first, to expel the pro-Japanese people from the Government and, second, that the whole country unite together against Japan. This is a little more elaborate than I told you last time.

I have brought New York Times despatch. When you finish, you mind returning it to me.

HM, Jr: Of course.

Ambassador Sze: It is for my file.

-2-

HM, Jr: All right. I read this clipping with interest.

Ambassador Sze: It was denied on same day by Nanking.

HM, Jr: I read this. This is very interesting. And he says, T.V. Soong says this is correct?

Ambassador Sze: Yes; correct. He says ask you to look at this despatch. Then he said about Communists, they are willing to give up their Government and willing to give up this class fighting and also to incorporate the Army into the Government Army, provided the Government agree to expel pro-Japanese element and unite together against Japan. That is not in there.

HM, Jr: No. That's very interesting. Let me digest this, will you?

Ambassador Sze: Yes, sir.

HM, Jr: I wrote out a picture for you, Mr. Ambassador, and I would like very much to have one of yours.

Ambassador Sze: Thank you. Glad to. Thank you very much. I shall appreciate.

HM, Jr: Let me just digest this a little bit. I will get in touch with you within a day or two.

Ambassador Sze: Yes, sir. Now you have an idea of what they really settled.

HM, Jr: What I gather from this is that the Chinese Government is leaning much more towards anti-Japanese.

Ambassador Sze: For the first thing it shows is Nanking against Chiang Kai-shek and that element, you see, used this opportunity to try to get rid of him.

HM, Jr: My own idea, and no one will agree with me, I have felt that Kung was anti-Chiang Kai-shek.

-3-

Ambassador Sze: Not exactly. But Kung, just previously to Chiang Kai-shek went up to Sian Foo, thought he was left out. There was one incident where his name was left out on the list and he did not like it so he offered to resign. Then they said that this omission was entirely by accident. So for the moment was not very happy. But Kung, he's let into it more or less I think without knowing what the consequences would be. I don't think he is against Chiang Kai-shek, but fell into the flock. You remember his broadcast to this country, he also said you must send punitive expeditions, and so on and so on.

HM, Jr: Let me kind of think a little bit. Thank you very much.

Ambassador Sze: If you want any more messages, let me know.

HM, Jr: Well, let me just kind of think about this a little bit. And I think, Mr. Ambassador, you had better go out this way.

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The Sian coup, it is declared, also established the fact that the old-style treacherous political militarism has become strongly entrenched in certain inner circles of the government.

These revolutions, if true, doubtless promise drastic changes in high government circles if Chiang Kai-shek is to retain his paramount position and starting alterations in foreign policy would also follow.

Chiang Kai-shek, according to the latest version, was not detained at Sian because a plot existed for his overthrow, nor was he held as a means of forcing millions of dollars from the government or his family. Chang Hsueh-liang, for weeks before the coup, endeavored time and again to induce the generalissimo to agree to his ideas for various reforms and changes of policy and finally acted the part of

his superior officer solely. It is asserted, as a means of gaining a hearing.

Fled for Consideration

Remarkable access ensued after Chiang Kai-shek was taken to Sian under heavy guard. The young "marshals" repeatedly stood before him hours on end, refusing to be seated in the presence of his chief, while he pleaded for dispassionate consideration of his proposals.

From Dec. 14 onward Chang Hsueh-liang sent the government repeated telegrams reiterating his pacific intentions and expressing his readiness to release the generalissimo if the government sent a suitable emissary. Chiang Kai-shek's release, according to this version, could easily have been effected within four days after the coup, but instead the crisis was prolonged until the close of the fourteenth day.

It is now said that many of the telegrams from the "young marshals" were entirely suppressed; the Sian situation was misrepresented; and T. V. Soong, former Finance Minister, and Mrs. Chiang Kai-shek were actually forcibly prevented from leaving Nanking for Sian.

During this period intensive propaganda was carried on representing Chang Hsueh-liang as "the supreme traitor of 10,000 years" and Chinese public opinion was wrought to the highest pitch of excitement, while Nanking rang with declarations that "the prestige of the government exceeds in importance the welfare of any individual."

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Regarded as illustrative of the basic issues underlying the Sian coup is an explanatory statement addressed to the general public in China, the United States and Europe which Chang Hsueh-liang telegraphed from Sian Dec. 19. This remarkable statement was suppressed in its entirety, allegedly by the Nanking rebel, which is said to have insisted upon a punitive expedition, announcing its readiness to use aerial bombers to "wipe Sian from the face of the earth."

Chang Hsueh-liang began his statement by declaring that he realized, confirmation of his action was worthless, because of lack of knowledge of the circumstances leading to the generalissimo's detention. Admitting that the forcible detention of any one was virtually indefensible, the young marshal denied cherishing personal ambitions, also denied attempting to extract personally advantageous terms and then said:

"The detention came from a simple effort to have assurance that China's policy would be revised definitely to take up arms in defense of our country and to have a positive and put to the tremendous annual wastage of millions in Chinese money, Chinese lives and Chinese property involved in incessant civil wars and the perpetual pursuit of so-called bandits."

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Chinese despite their views, at the worst are not a menace to their country, as are the Japanese, and have in them, if the authorities would take the trouble to ascertain, patriotic passion and reform of the spirit which might be utilized in the country's service."

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Chang Hsueh-liang then declares that while vast sums have been spent in chasing the so-called bandits, approximately one-eighth of China's area has been allowed to fall into the grip of the Japanese and the central government has thus far failed to do one thing openly and courageously to uphold national interests or even plainly to intimate to Japan that her predatory policies must cease.

"The world has often enough stood amazed at the apparent cowardice of China and has been horror-struck that she lifts not one hand to defend herself, her sovereign rights or her people," the statement continues.

"I have been blamed and I have not shirked responsibility, but I am not the central government and therefore I am unable to commit this country to war. But I want to be ordered by the generalissimo to fight the Japanese and to see this country nationally engaged in an open effort to protect itself, and what I see instead is the suppression of public opinion and public thoughts regarding this vitally important national question."

"When such a condition exists it is obvious that changes must be made, and all that I and my associates want is the development of a resolute national policy to defend our country, to initiate and carry out reforms devised to have China properly developed and to give protection to the lives and the properties of the people."

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Above all, Chang Hsueh-liang's statement proceeds, he and his associates "want China's armed forces used against the invading foreign fox and not against the Chinese people."

"The national army has not moved one step against Japan, but swift as thought we see it being mobilized against me now while our enemy is within our country, faltering at will upon its riches." It goes on.

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the end of all this effort, to get the generalissimo to abandon the ideas of officials who militate against the very life of China.

The statement adds that the young "marshal's" group desires the continuance of Chiang Kai-shek's leadership and does not wish to curtail his powers but wants them marshaled on behalf of the broad interests of China, not in the narrow interests of selfish and unpatriotic cliques. The statement continues:

"The generalissimo's prolonged stay here is not of our doing. As soon as Mr. Donald had arrived here on Dec. 14 and the generalissimo had recovered somewhat from his natural indignation and reluctance hitherto to talk, he calmly enough discussed the problems confronting us all and by the 15th had agreed in principle with the points we had in view for the adoption of a defined national policy and the effecting of changes permitting the nation to develop logically and freely politically and materially.

Welcomed Any Emissary

"I therefore telegraphed on the night of the 14th, welcoming any one to come from Nanking to hear the generalissimo's views and arrange with him for the necessary safeguards to prevent the development of civil war.

"The generalissimo naturally vigorously demanded that he be released and proceed to Nanking, but while I personally had full confidence that he would carry out his promises, it was impossible to risk his being persuaded after his arrival in Nanking to continue the warfare his colleagues there had launched and which they undoubtedly would desire to keep going in preference to materializing active defense against Japan."

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That a virtual impasse has developed in Nanking is evidenced by the fact that although Chang Haueh-liang has been pardoned he is kept under surveillance by the Military Affairs Commission and also that while Chiang Kai-shek is in retirement at Fenghua, armies have been ordered to march through Shensi and occupy Sian and Lanchow, Kansu's capital.

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Any such development would give Japan the desired pretext for drastic action, it is asserted, and this is believed by certain circles to be precisely what the Nanking "co-

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These revelations, if true, doubtless presage drastic changes in high government circles. If Chiang Kai-shek is to retain his paramount position and startling alterations in foreign policy would also follow.

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the end of all this effort, to get the generalissimo to abandon the ideas of officials who militate against the very life of China."

The statement adds that the young "marshal's" group desires the continuance of Chiang Kai-shek's leadership and does not wish to curtail his powers but wants them marshaled on behalf of the broad interests of China, not in the narrow interests of selfish and unpatriotic cliques. The statement continues:

"The generalissimo's prolonged stay here is not of our doing. As soon as Mr. Donald had arrived here on Dec. 14 and the generalissimo had recovered somewhat from his natural indignation and reluctance hitherto to talk, he calmly enough discussed the problems confronting us all and by the 15th had agreed in principle with the points we had in view for the adoption of a defined national policy and the effecting of changes permitting the nation to develop logically and freely politically and materially.

Welcomed Any Emissary

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This military movement is deplored by those who feel that military pressure now will probably result in having Chang Haueh-liang's and the other armies involved in the Sian coup join with the Communist forces.

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Any such development would give Japan the desired pretext for drastic action. It is asserted, and this is believed by certain circles to be precisely what the Nanking "com-

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In his retirement at his ancestral home at Fenghuai the generalissimo today must be fighting probably the gravest battle of his whole career. He must decide whether to compromise with the reactionary clique in his own capital or whether to oust them, by force if necessary. Then he might proceed rapidly toward founding a popular constitutional government and rallying all the country's patriotic forces to his support for resistance against Japan and war if necessary as the only way of saving China's self-respect.

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"After careful consideration it concluded that the twofold duty could not be carried out in a better way than by taking swift measures to deal with the situation and by ordering a punitive expedition against the rebels.

"It was felt that only by means of stern measures could it hope to prevent further aggravation of the situation and that only military pressure could hope to bring about the speedy rescue of the generalissimo.

"Furthermore, to parley with the rebels would not only have meant putting a premium on military rebellion but also would have caused the rebels to intensify their demands and would have led to protracted negotiations and unexpected developments."

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By The Associated Press

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ANTI-CHIANG PLOT IS LAID TO NANKING

Cligue That Insisted on Punitive Expedition to Sian Held to Have Sought His Death.

VERSION ABSOLVES CHANG

Coup Called Sincere Attempt at Unity, Not a Mutiny—Suppressed Message Bared.

Wireless to THE New York Times.
HONGKONG, Jan. 11.—Another version of the Sian coup of Dec. 12 has been received by this correspondent. According to it, the detention of Generalissimo Chiang Kai-shek was not actually mutiny and the generalissimo's life was far more endangered by the government's punitive expedition and the government's aerial bombers than by his captors.

Moreover, this version has it, a small but powerful Nanking cabal actually posed behind the legalistic statement that the mutiny must be suppressed and was seeking to put an end to Chiang Kai-shek's life. Events proved, it is declared, that these men had long been entreaching themselves against his possible death and had even apportioned offices and territories among themselves.

Documents Support Version.

A series of documents supporting this version has come under the writer's observation. Entirely contradicting previous widely publicized versions of the Sian affair, they indicate that General Chang Hsueh-liang, instead of typifying the worst characteristics of Chinese politics, which for years have blocked the country's unification, in reality acted desperately, hoping to force reforms at home and sturdier policies abroad.

The Sian coup, it is declared, also established the fact that the old-style treacherous political militarism has become strongly entrenched in certain inner circles of the government.

These revelations, if true, doubtless presage drastic changes in high government circles if Chiang Kai-shek is to retain his paramount position and starting alterations in foreign policy would also follow.

Chiang Kai-shek, according to the latest version, was not detained at Sian because a plot existed for his overthrow, nor was he held as a means of forcing millions of dollars from the government or his family. Chang Hsueh-liang for weeks before the crisis endeavored time and again to induce the generalissimo to listen to his pleas for various reforms and changes of policy and finally seized the person of

his superior officer solely, it is asserted, as a means of gaining a hearing.

Pled for Consideration

Remarkable scenes ensued after Chiang Kai-shek was taken to Sian under heavy guard. The young "marshal" repeatedly stood before him hours on end, refusing to be seated in the presence of his chief, while he pleaded for dispassionate consideration of his proposals.

From Dec. 14 onward Chang Hsueh-liang sent the government repeated telegrams reiterating his pacific intentions and expressing his readiness to release the generalissimo if the government sent a suitable emissary. Chiang Kai-shek's release, according to this version, could easily have been effected within four days after the coup, but instead the crisis was prolonged until the close of the fourteenth day.

It is now said that many of the telegrams from the "young marshal" were entirely suppressed, the Sian situation was misrepresented and T. V. Soong, former Finance Minister, and Mrs. Chiang Kai-shek, were actually forcibly prevented from leaving Nanking for Sian.

During this period intensive propaganda was carried on representing Chang Hsueh-liang as "the supreme traitor of 10,000 years" and Chinese public opinion was wrought to the highest pitch of excitement, while Nanking rang with declarations that "the prestige of the government exceeds in importance the welfare of any individual."

Although urgent representations were made to the effect that the advancing punitive expedition and aerial bombing of Sian endangered Chiang Kai-shek's life, military preparations were rushed ahead and aerial bombings were ordered despite protests because the planes designated for use for this purpose were a portion of those that the Chinese public had presented to Chiang Kai-shek on the occasion of his fiftieth birthday last October.

Pilots Avoided Bombing

In some cases pilots loyal to the generalissimo merely flew from Lanyang beyond Tungkwan Pass, dropped their bombs upon open fields and returned, reporting they had bombed Sian. This occurred while Mr. Soong, Mrs. Chiang Kai-shek and W. M. Donald, Chiang Kai-shek's Australian adviser, were in Sian arranging for the generalissimo's release.

Regarded as illustrative of the basic issues underlying the Sian coup is an explanatory statement addressed to the general public in China, the United States and Europe which Chang Hsueh-liang telegraphed from Sian Dec. 19. This remarkable statement was suppressed in its entirety, allegedly by the Nanking cabal, which is said to have insisted upon a punitive expedition, announcing its readiness to use aerial bombers to "wipe Sian from the face of the earth."

Chang Hsueh-liang began his statement by declaring that he realized confirmation of his action was worldwide, because of lack of knowledge of the circumstances leading to the generalissimo's detention. Admitting that the forceful detention of any one was virtually indefensible, the young marshal denied cherishing personal ambitions, also denied attempting to extract personally advantageous terms, and then said:

"The detention came from a simple effort to have assurance that China's policy would be revised definitely to take up arms in defense of our country and to have a positive end put to the tremendous annual wastage of millions in Chinese money. Chinese lives and Chinese property involved in incessant civil wars and the perpetual pursuit of so-called bandits."

"These so-called bandits are still

Chinese despite their views, at the worst are not a menace to their country, as are the Japanese, and have in them, if the authorities would take the trouble to ascertain, patriotism, reason and reform of the spirit which might be utilized in the country's service."

Stresses Japanese Inroads

Chang Hsueh-liang then declared that while vast sums have been spent in chasing the so-called bandits, approximately one-eighth of China's area has been allowed to fall into the grip of the Japanese and the central government has thus far failed to do one thing openly and courageously to uphold national interests or even plainly to intimate to Japan that her predatory policies must cease.

"The world has often enough stood amazed at the apparent cowardice of China and has been horror-struck that she lifts not one hand to defend herself, her sovereign rights or her people," the statement continues.

"I have been blamed and I have not shirked responsibility, but I am not the central government and therefore I am unable to commit this country to war. But I want to be ordered by the generalissimo to fight the Japanese and to see this country nationally engaged in an open effort to protect itself, and what I see instead is the suppression of public opinion and public thoughts regarding this vitally important national question."

"When such a condition exists it is obvious that changes must be made, and all that I and my associates want is the development of a resolute national policy to defend our country, to initiate and carry out reforms devised to have China properly developed and to give protection to the lives and the properties of the people."

"We want by any means possible to end the passive resistance on the part of certain officials who contrive to frustrate efforts at reforms of a progressive nature and who indeed are responsible for the non-fulfillment or practical failure of plans initiated by the generalissimo himself."

Would Fight Foreign Foe

Above all, Chang Hsueh-liang's statement proceeds, he and his associates want China's armed forces used against the invading foreign foe and not against the Chinese people.

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"The world has been presented with a spectacle the like of which has not hitherto disgraced history, and we are trying to prevent the recurrence of such a spectacle forevermore. That, in fact, it is to be

the end of all this effort, to get the generalissimo to abandon the ideas of officials who militate against the very life of China."

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GROUP MEETING

January 25, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. McReynolds
Mr. Upham
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. Gaston
Miss Roche
Mr. Oliphant
Mr. Bell
Mr. Gibbons

H.M.Jr: Well, go ahead, Mac.

McR: The arrangement out here in the new room is all completed.

H.M.Jr: Good.

McR: And the boys fixed it over the week-end, even to the installation of all the equipment. Birgfeld asked me to let you know they got it done over the week-end.

H.M.Jr: Well, tell the group what it is. I mean it's not secret.

McR: They've got the same equipment as....

H.M.Jr: Well, tell them about the - what the purpose is.

McR: There is a - out in the room formerly occupied by Mr. Robert, a conference room has been fixed up. The room has been cleaned up and....

H.M.Jr: That's 296, isn't it?

McR: Yes - no, 298. It's just beyond Miss Roche's suite. And in the anteroom there is a set-up of equipment for providing official luncheons so we can get together and have lunch in the building instead of having to go across the street for it. The ice box and hot plate and things of that kind are there, so the boys can fix the stuff up there.

H.M.Jr: Well - I mean, to make it plain, it's for the 9:30 group. I understand - Mr. Oliphant came to me and

- 2 -

said that meeting across in the Washington they can't always get a table and it's expensive and it's very useful to have a place where they can go quietly and eat. So - I think I took his breath away....

Oliphant: Yes

H.M.Jr:what I said was about this room. He said, "Well, I'm sure we get bum service there."

Oliphant: Well, here it is.

H.M.Jr: So the room itself - the room itself - we have kept this - I mean have to have a spare room for a conference, visiting economists, and so forth, and the room itself is - it is my room - I mean to use for people that come down here to help. I don't want it filled up unless it is assigned. I mean I don't want people using it except for lunch purposes. But for conference purposes it is my room. So, if you don't mind, any time you do want it, if you just would check with Mrs. Klotz, and if I haven't got anything scheduled for it for the next two days, you can use it. Any time anybody else wants to hold a conference, just check with Mrs. Klotz to see whether I'm going to want it; then it is at your disposal. I want it understood - like today, some overflow meeting, got a place to put these people. But it's for luncheons. And I take it that Mr. McReynolds will make it a hotel and he will supply you with anything from pig knuckles and sauerkraut up and down. Is that right, Mac?

McR: Outward and downward.

H.M.Jr: And tomato juice. And tomato juice, nothing else.

Oliphant: And a further difficulty about eating across the street was you never could be sure when people were over here.

H.M.Jr: Well, I just wanted to explain. I think it's a grand idea. In the Farm Credit days we used to do it and it was very, very useful, and now - I mean you people have a place to eat.

- 3 -

McR: It utilizes your lunch hour for necessary business that you might not be able to get together on otherwise.

A certain young lady up on the top floor you mentioned to me the other day as not satisfied with the arrangements on Inauguration Day - she tells me that she was entirely happy; that she was inquired of among the first ones and get everything she asked for.

H.M.Jr: Well, I'm very happy.

McR: She asked if it was necessary that she let you know and I told her I didn't think it was necessary. But she was one of the first inquired of and she got all the things she asked for.

H.M.Jr: Incidentally, how much money do I owe Mac?

Mrs Klotz: Haven't paid him a cent.

McR: We didn't rent our chairs, we borrowed them.

H.M.Jr: Oh, Mac, if you are willing - are you willing to take responsibility for that lunch room? Don't you think that would be a good idea?

McR: Well, we can have - I think I can put Jones in charge of it.

H.M.Jr: Well, I mean but I'm going to forget about it. But just see that somebody, if you don't mind - is that all right with everybody?

Oliphant: Fine.

McR: See that it is made available and orders can come in.

H.M.Jr: (To Upham) Now, which one of our men are going to be here today?

Upham: Both of them.

H.M.Jr: Sprague and...

Upham: ..Stewart.

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H.M.Jr: All right.

Upham: Then, of course, the other three - Harrison, Knoke, and Williams.

H.M.Jr: Dan, when we get into this other meeting at 10 o'clock, which I'd like to have you in on, will you bring up that Wall Street Journal? Is that right or wrong?

Bell: Well, some of it right, and - 150 million too high on the balances - I mean 100 million too high on the balances. We are now trying to keep a minimum of about 150 million dollars in the Federal Reserve Banks.

H.M.Jr: Well, I think a little later - I think if we just talk about that - because knowing how Eccles feels, he explained that information to the Wall Street Journal and I thought it was wrong; he tried to blame the Treasury for the fact that excess reserves are high.

Bell: I don't know where they got the information.

H.M.Jr: I know where they got the information from, and I'm very much annoyed. I mean after we went through that explanation, he feeds it to the Wall Street Journal and he feeds it wrong. You know, he's going to do that thing once too often one of these days and I'm going to have to give him a blast through the newspapers - he and his friend Elliot Thurston. I mean I'm not going to take it much longer.

Taylor: Is that in today's Wall Street Journal?

H.M.Jr: Yes. I mean instead of doing it in an underhanded way, I'll do it publicly. I'll just come out publicly and say it - that Mr. Eccles wants to let excess reserves increase so he can have an excuse to do something.

Bell: The real reason for the larger balance in San Francisco is for the purpose of taking care of the western banks late in the evening in case they have an overdraft.

- 5 -

H.M.Jr: Well, will you post yourself? I'll most likely want you to come to the press conference at four and explain. See?

Bell: All right.

H.M.Jr: See, just explain it and show where this article is in error. See? Without mentioning anybody, where we think they got it, because I don't want to....

Bell: All right.

H.M.Jr: Just let me..... (Bell hands Secretary article in question)

Well Herbert, I don't - I'll just lose my temper if I call up Eccles. You can just call up Elliot Thurston and tell him that that information is wrong and I'm going to explain it in my four o'clock press conference. See?

Gaston: Un-huh.

H.M.Jr: And there's only one place it could come from - is our own shop, and I tried to explain it to Mr. Eccles and what's-his-name. If I called him up, I'd just lose my temper, and I'm not well enough to lose my temper. See? Just tell him that Bell will explain it at four o'clock at my press conference. But they'd better - you use your judgment.

Gaston: Yes, all right.

H.M.Jr: But just - I mean we went all through that.

Taylor: On Tuesday.

H.M.Jr: Yes - Thursday, it was.

Taylor: Yes, whenever it was - yes, Thursday.

H.M.Jr: I'm just sick and tired of it.

(To Haas) Everything with you all right?

Haas: I feel all right this morning.

- 6 -

H.M.Jr: (To Miss Roche) You act as though you weren't all right.

Roche: Oh, I am, sir; yes, indeed. I just wanted to report that Saturday Dr. Parran sent long telegrams and talked by telephone to all the state health officers in the states that are affected by the flood, and to date there have been requests only from Kentucky and Indiana for any assistance. That comprises typhoid vaccine and twenty engineers that have been sent to the key states. But they are ready to move in whenever requested.

And he also asked me if I would bring up the point of the Public Health Service not having been asked to come into these joint conferences in the last two days.

H.M.Jr: There was a very good reason.

Roche: I thought there must have been.

H.M.Jr: But it's entirely his fault. Now, Admiral Waesche has kept me posted and sent me a memorandum every day at five o'clock and I send a copy to the President. The President was ready to let the Navy supersede the Coast Guard and sent the boats out there, but due to the fact that I was able to have the information and knew what Waesche was doing, I was able to explain that - the President at Cabinet ordered the Navy boats from Norfolk and Philadelphia sent, but I said, "Mr. President, that's not necessary. The Coast Guard has its boats out there." I had all the stuff at my fingertips. And, instead of the Navy superseding - I knew what was going on and I was able to tell the President yesterday at last night's conference - the thing - the unheard-of thing happened that the Navy was told to get what boats they could together, send them out there, and put them under the Coast Guard.

Roche: Interesting.

H.M.Jr: But if the President had asked me in Cabinet, "What's Dr. Parran doing?" I'd have to say, "I don't suppose he's doing anything."

- 7 -

- Roche: Well, all that had happened Friday had been the requests that I sent in.
- H.M.Jr: I mean when people in the Treasury keep me informed, then I can sell them and look after their interests. But if Dr. Parran doesn't keep me informed, I can't tell him. But Friday at Cabinet the President issued the order the Navy should take charge; Sunday night, because I am able to send him the memorandum and knew myself, he did the unheard-of thing that fifty boats, or something like that, from the Navy go out and they are put under the Coast Guard. I know my facts. I know my facts. My little radio station down here at Fort Hunt, which the Navy tried to wipe out, is now doing communication for the President instead of the Navy.
- Gibbons: Only means of communication you have.
- H.M.Jr: But I know what's going on. I can't fight Dr. Parran's battle if he doesn't let me know.
- Roche: If there's any fault, it's mine, because he has phoned to me.
- H.M.Jr: I haven't the slightest - as far as I know, United States Health Service isn't in the picture. I mean I can't -
- Roche: Yes
- H.M.Jr: I mean I can't fight the battles if I don't know they exist. So you can tell that to Dr. Parran.
- Roche: Well, I'll take it to myself, because I should have done it.
- H.M.Jr: I don't know whether any - yes, I did get something from Waesche about the serum.
- Roche: You see, we don't send it in until the health officers request action from the Health Service, and they are just beginning to do it. I'll see that you are posted constantly now.
- H.M.Jr: But I get a special bulletin every night which goes to Miss Reynolds from Waesche, and a copy goes to me

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and one to the President, letting him know. And, as I say, I know that, and I could stand up for the Coast Guard and keep them on their own feet as an independent agency just because I had the stuff like that.

Roche: Well, I think what he had in mind was when the flood happened last year they were just one of the groups that were automatically invited to sit in. That was all he asked about.

H.M.Jr: Well, I know about that conference just - I just read about it; I picked up the morning paper and read about it. But I couldn't say any other thing. The President at Cabinet got a memorandum from Admiral Grayson and in this thing he said what he's doing, and the only agency of ours he mentioned was Coast Guard and he said, "They're magnificent." So - I mean Grayson knew the Coast Guard existed; I knew the Coast Guard existed. Evidently Parran - Grayson doesn't know that Parran existed.

Gibbons: I talked to Waesche. He called me about 11 o'clock. I told him not to bother you then.

H.M.Jr: It's entirely - the fault is somewhere else.

Gibbons: I told him not to bother you at 11 o'clock. I thought you'd be tired.

H.M.Jr: I had a long conversation with Waesche.

Gibbons: I told him to get hold of you the first thing this morning.

The only thing I know about the Health Department is a vaccine truck was not able to get any further than Huntington on account of the roads. It started - they tried to send it by airplane and it was over the mountains and such a snowstorm fell that they had to start it by truck, and now they can't get the truck through. The truck has radio communication. And just as soon as they fly they are going to try to get it through by plane. But up until this morning I haven't been able to get any further word.

You've seen this brief explanation? He's....

- 9 -

H.M.Jr: He's getting it right along.

Gibbons: Well, I just got this before I came in.

H.M.Jr: He gave it to me over the telephone.

McR: I was very proud of the Coast Guard when we heard about them on the radio. They've done a swell job.

H.M.Jr: They have.

McR: My children listened and applauded to beat the band when they heard "Coast Guard" - Treasury units.

Gaston: They're getting some more General Command in their high officers.

H.M.Jr: Yes, who went down there? Reinburg?

Gibbons: Reinburg.

Gaston: He ought to have a good staff officer, somebody like Davis from New York.

H.M.Jr: Well, I don't like - I don't like to recommend individual officers. But I mean I have the distinct feeling that they are just about two steps ahead on the parade. Waesche's got everything in hand and we can sit here and...

Gibbons: He's a grand officer.

H.M.Jr: He is a grand officer.

Gaston: By the way, "Chick" Swartz is in Evansville. After you spoke about him, I sent a message to him Friday night and he got there Saturday afternoon. He's at Evansville.

Gibbons: I wonder if they dynamited that dam.

H.M.Jr: They've called up the Governor of Missouri. The local people there got rifles and they're keeping the Army from going in there - army of civilians - from dynamiting a dam, and had to call out the militia in order to protect these men dynamiting. I mean I've got the whole thing. I'm a good salesman if I've got the information.

- 10 -

Roche: Couldn't ask a better one.

H.M.Jr: But I've got to know what's going on.
Wayne?

Taylor: No, I haven't got anything.

H.M.Jr: You're all set for 10 o'clock?

Taylor: (Nods affirmatively)

H.M.Jr: Archie?

Lochnead: Nothing, sir. Right, ten o'clock.

Gaston: Birgfeld wants to know if he should go ahead - a number of people have volunteered to make contributions to this Red Cross volunteer donation. He wants to know if he should go ahead and get up a Treasury Department contribution.

H.M.Jr: Well, supposing you talk it over with Mac and whatever you two decide is O.K. with me.

McR: I should like to permit him to send around a subscription list.

Gaston: I think so, yes.

McR: I thought I was going to clear that before we came in and I've already told them to get them ready. I think it would be a nice thing.

H.M.Jr: Whatever you two do is all right. What else?

Gaston: Nothing else.

H.M.Jr: But you sent Swartz down there?

Gaston: I sent him down.

H.M.Jr: That smells good publicity for the Coast Guard.

Oliphant: Nothing - I'd like to see you just a minute on
(inaudible to reporter)

- 11 -

Gibbons: That man Bowman who was in here with the Senator about his tax the other day, came back to see me and left me a long statement made up by this fellow Burns which I haven't had time to read yet.

H.M.Jr: Better not bother with it. Better give it to me.

Gibbons: All right. He wanted you to see it. I thought I was going to read it and tell you what was in it.

H.M.Jr: No, you better just give it to me.

Gibbons: He also said that Internal Revenue would never tell him what his assessment was. Never got a bit of information. Said it was on a net worth basis.

H.M.Jr: Is that all?

Gibbons: Yes, that's all.

H.M.Jr: Better turn it over, if you would, please.

Gibbons: Yes.

H.M.Jr: Now, this interests those of us who are going up to Harvard on the 26th and 27th. Says he: "Mr. Blair Lee of Princeton tells me that you have been good enough to discuss with him the plans for the coming Harvard, Yale and Princeton Conference on Public Affairs. It was most kind of you to make suggestions and we have gladly adopted them."

And then he says some nice things which aren't necessary.

"As I understand it Dr. White, Mr. Oliphant and Mr. Haas are also coming for the three sessions of Table 5 on 'Federal Revenue and Expenditure.' We are looking forward very much to having them.

"If there are any questions which I can answer, I shall be glad to do so."

Well, I think the thing to do, Mrs. Klotz, is to ask him whether, since talking to Blair Lee, they have revised their program, and if they have would they please send me three copies of it, and so -

- 12 -

possibly if they have revised it, it might mean sending different people - but that he can count on the Treasury being there.

Gibbons: Who's it from? Who's the letter from?

H.M.Jr: Storey, Junior.

Mrs Klotz: Chairman.

H.M.Jr: It's a conference that is run by the three daily newspapers of Harvard, Princeton, and Yale, and last year - it was at Princeton the first year, and this year it's Yale, and it's entirely on financial matters - six of them. It's the first thing I've gone to like that.

HARVARD - YALE - PRINCETON CONFERENCE

C
O
P
Y

at Harvard University, Friday
and Saturday, February 26 and
26, 1937.

Chairman: Charles M. Storey, Jr.
William H. Orrick, Jr.
John Pritchard

January 15, 1937

Secretary Henry Morgenthau, Jr.
Treasury Department
Washington, D. C.

Dear Mr. Morgenthau:

C

Mr. Blair Lee of Princeton tells me that you have been good enough to discuss with him the plans for the coming Harvard, Yale and Princeton Conference on Public Affairs. It was most kind of you to make suggestions and we have gladly adopted them.

Lee also tells me that you may be able to attend the session of Table 3 on stabilization Saturday morning, February 27th. This would, of course, practically insure the success of the Conference, and we are deeply grateful for your consideration of our invitation.

As I understand it Dr. White, Mr. Oliphant and Mr. Haas are also coming for the three sessions of Table 5 on "Federal Revenue and Expenditure." We are looking forward very much to having them.

If there are any questions which I can answer, I shall be glad to do so.

Very sincerely yours,

/s/ Chas. M. Storey, Jr.

Chairman

CMSJr/vrp

U.S. COAST GUARD HEADQUARTERS
25 January, 1937.

FLOOD REPORTS
(From 12: Noon to 2:30 P.M.)

Contingent from Wakefield, R. I., District, consisting of five surf boats, five portable radio sets and 20 men, attached to special train at Worcester, Mass., at 8:00 A.M. enroute to Cairo, Ill.

A detachment of two surf boats, one picket boat and 12 men in charge of Chief Boatswain Allison left Charleston, S. C., at 11:40 A.M. by special train for Memphis, Tenn.

The Coast Guard amphibian plane V146, with pilot Lt. Lyons at the controls, enroute from Salem, Mass., left Dayton, Ohio, flying field for Indianapolis enroute to the flood area at 12:45 P.M.

The air landing field at Evansville, Ind., has been reported unsafe.

Dr. Thomas Parran of the U.S. Public Health Service detailed 23 physicians and Sanitary Engineers to work with the Red Cross, W.P.A., and State Health authorities, in flooded areas.

Coast Guard Headquarters ordered two motor boats from each of the new Coast Guard ships ALEXANDER HAMILTON and the JOHN C. SPENCER, at the New York Navy Yard, to Marietta.

CCC Director Fecher has ordered 250 CCC camps in the flooded area turned over to refugees. Each camp has about 10 buildings. The 25,000 CCC workers stationed in these camps have been ordered to relief duty.

Martial law is now in force from Cincinnati to Cairo, Ill. National Guardsmen are patrolling Louisville, Ky., and Portsmouth, Ohio, to prevent looting.

Transportation in the flooded areas has been paralyzed, with the Southern Railroad being the only one operating into Cincinnati, it was reported by the Association of American Railroads.

Governor Stark of Missouri announced dynamiting of the floodway in the levee at New Madrid, Mo.

A crest of 80 feet is predicted for Cincinnati in the next 36 hours.

Lt. deJoy, in Amphibian plane left Pensacola, Fla., for Evansville, Ind. via Montgomery and Memphis at 12:45 P.M.

Communication truck 1435, with two outboards, left Pensacola this date for Memphis, Tenn.



G. B. GELLY
Public Relations Officer

Copy to:

Assistant Secretary Gibbons
Mr. H. E. Gaston
Admiral E.R. Waesche, Commandant
Chief Operations Officer, C.G.
Mr. Myers, C.G.

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U. S. COAST GUARD
COMMANDANTS OFFICE

25 January 1937.

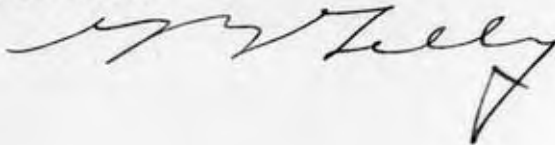
Memorandum for --

The Secretary of the Treasury

This memorandum was hastily prepared for your information. A further bulletin will be submitted to you this afternoon.

R. R. WAESCHE
Rear Admiral, U.S. Coast Guard,
Commandant.

By direction:



Washington, D. C.

25 January, 1937.

Captain LeRoy Reinburg of the Great Lakes division, arrived at Evansville, Ind., at 6:00 A.M. Monday to take charge of Coast Guard operations in the flooded area.

He will be assisted by Lt. S. B. Johnson, commander of the Green Bay, Wisconsin, District, now stationed at Evansville, Ind.; Lt. M.P. Jensen, commander of the Bayshore, N. Y., District, now stationed at Cincinnati, and Lt. W. W. Bennett, commander of the Grand Haven, Mich., District, now enroute to South Portsmouth, Ky.

Captain J. F. Hottel, commander of the New York Division, dispatched Lt. H. T. Jewell to Marietta, Ohio, with 60 men, eight motor surf boats, four motor sailers, three sea skiffs, one speed boat and three 25 foot motor dinghies.

From Atlantic City, Captain Hottel ordered Chief Boatswains Mate Fletcher to leave for New York City with eight picket boats and 36 men. Upon arrival at New York City this contingent will be placed in charge of Lt. A. L. Ford of the New York area, who will add eight picket boats and 36 men.

Acting at the request of the Department of Agriculture, the Coast Guard service today took charge of communicating all weather reports for the Chicago bureau in the flooded areas of Ohio, Indiana, Illinois, Kentucky and West Virginia.

The Lighthouse service at Detroit volunteered the use of four 26 foot motor boats and two men. The Coast Guard will add enough men to man them and they will be dispatched immediately to Portsmouth, Ohio.

At noon on Monday, the Coast Guard service had approximately 1,200 men on duty or enroute to the flooded areas.

The patrol boat NEMESIS this morning left St. Petersburg, Florida, for duty at Memphis. She carries a crew of four officers and 41 men.

At noon on Monday the Coast Guard had 83 boats of all types on duty in the flooded area with 196 more enroute. They also had seven radio communication trucks on duty or enroute. Two amphibian planes were enroute to Memphis, with three more scheduled to arrive at Evansville, one at Cairo, Illinois and one at Huntington, West Virginia.

The 83 motor surf boats on duty were stationed as follows:

Cincinnati.....	8
Evansville.....	48
Hazleton, Ind.	2
Vincennes, Ind.	1
Carrollton, Ky.	7
Kenova, W. Va.	14
Memphis.....	3

The 196 surf boats enroute to the scene were to be stationed as follows:

Cairo, Ill.....	34
Evansville, Ind.	56
Marietta, Ohio.	15
Louisville, Ky.	47
Memphis.....	44

The trucks were stationed at or enroute to the following points:

Memphis.....	4
Louisville.....	1
Elwood City, Ind.	1
Lawrenceburg	1

Fifteen boats of miscellaneous types are enroute to Marietta, Ohio, and 38 to Memphis. These include speed boats, shallow luggers and boats of the semi-tunnel type.

The New York Navy Yard has 13 boats available at present and six more can be ready within two days. The Coast and Geodetic Survey has advised 3 boats are available at Norfolk, Va.

The Ohio River was reported rising between Pittsburg and Wheeling, W. Va., after falling at midnight to 43.8 feet at Wheeling. At 8:00 a.m. it had risen to 44.7 feet at Wheeling.

Indiana State authorities ordered evacuation of Jeffersonville, Aurora and Lawrenceburg, Indiana. Evacuation of Evansville is under consideration.

FROM: MR. GASTON'S OFFICE

TO: The Secretaries

Two More
Conversations
with Schurz -
Copies sent to
Coast Guard. I
also talked to
Reinberg.

YB

January 25, 1937.

MEMORANDUM

Clear and warmer weather in the Ohio River Valley today will facilitate rescue and relief operations, but will probably increase flood levels, a special representative of the Treasury Department at Coast Guard headquarters in Evansville reported at 10:20 this morning.

Captain Leroy Reinburg, Commander of the Chicago Division of the Coast Guard, was expected to arrive in Evansville about noon to take charge of Coast Guard operations in the entire flood area. Captain Reinburg is bringing with him two staff assistants. Commander W. W. Bennett, of Grand Haven, Michigan, has been directing operations out of Evansville since early last week. Commander M. P. Jensen, of the Fourth District, has arrived from Long Island to direct operations in the Cincinnati area.

The situation is becoming more menacing on the lower Ohio and the Mississippi, the Treasury representative reported. It is already acute at Cairo where Coast Guard boats and crews from Boston are operating. Men and boats are being sent from New Orleans to Memphis in anticipation of a serious situation in that vicinity. In Evansville there are about sixty thousand persons who have been driven from their homes and are being housed in part in the Armory and other public buildings and in part in the homes of citizens living on safe ground. The city is under State martial law as a result of looting, which started in the lowlands.

- 2 -

Fifty Coast Guard surf boats and 170 men are operating out of Evansville. They are transporting food and medical and other supplies to beleaguered points and are transporting refugees to higher ground. The refugees include a large number of sick persons who are being given first attention. About half the population of Louisville has been evacuated, nearly all moving southward into the hills about Fort Knox. The town of Carrollton was completely cut off from ordinary transportation last night and four boats are operating there. The population of Calhoun, Kentucky, has approximately trebled through the influx of refugees.

Favorable flying conditions today are expected to permit Coast Guard amphibian planes to operate effectively.

January 25, 1937.

MEMORANDUM

The following report was received from the Treasury representative at Evansville at 12:30 P.M.

Captain Leroy Reinburg, with two staff assistants, arrived this morning and has taken charge of the flood situation on the Ohio River for the Coast Guard. He has divided the area into three sectors. Commander Bennett has been assigned to the first sector from Huntington to Maysville, Kentucky, with headquarters at Portsmouth. The crest has passed this sector but there is a big clean-up problem and also a serious public health problem in this area.

The second sector, from Maysville to Louisville, Kentucky, is in charge of Commander Martin Jensen, with headquarters in Cincinnati. Commander Jensen left Evansville last night for Cincinnati and was expected to arrive there today. There is a very active flood situation in this area.

The third sector, from Louisville to Cairo, is under the immediate charge of Commander Johnson, with headquarters at Evansville. Gravity of the flood situation is increasing in this area which includes the Green and Barron Rivers in Kentucky and the White River in Indiana, as well as the Ohio from Louisville to Cairo.

The situation is growing increasingly serious at Cairo. The Mayor has issued a proclamation requesting that all women and children be evacuated from the city. The situation at Paducah, Kentucky, is also very serious.

- 2 -

Weather conditions - fair over the whole area and the forecast is fair and colder tonight. If freezing temperatures arrive they will tend to retard the discharge of flood waters. The forecast for tomorrow, however, is increasing cloudiness probably followed by snow.

The river stage at Evansville at 10:30 A.M. today was 51 feet as compared to a normal of 35 feet. The precipitation in the 24 hours from 7:00 A.M. Sunday to 7:00 A.M. Monday was 1.36 inches. The river at Evansville in the same 24 hours rose 1.4 feet. Near Cincinnati the river rose 5.2 feet in the same time. A stage of 54 to 55 feet is predicted for Evansville by Thursday.

Coast Guard boat crews have been increasingly occupied in removing sick persons. There is a high percentage of flu cases, but also some cases of typhoid. The Coast Guard has 150 boats and crews working on the Ohio and tributaries and 22 additional boats are on the way, together with 5 air craft.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 25, 1937

TO Secretary Morgenthau
FROM Miss Roche

1. Bureau of Engraving and Printing Labor Conference
on Liquor Stamps

We were in conference continuously from ten until two thirty with representatives of the Pressmen's union, the Photo-Engravers' Union and the Plate Printers' Union on the question of change in policy in the Bureau of Engraving and Printing of the bottled-in-bond liquor stamps from the offset printing method to the engraving method. There were twenty-five participants in the conference, including not only representatives of the unions who do not work in the Bureau of Engraving and Printing, but also representatives from the Bureau itself who testified on the expert processes of each line of work. Mr. Graves, Mr. Wilson and Mr. Hall were there throughout the whole session and we feel that everyone had an opportunity to express his point of view fully and completely both on the question of the ease with which the stamps in question could be counterfeited and also on general questions of cost accounting and labor policy in the Bureau of Engraving and Printing.

I think that the spirit of the conference was especially fine. One of the Pressmen in expressing appreciation of the group for having been accorded a hearing wanted to have me express to you particularly their very deep thanks for the opportunity to be so heard.

2. Flood Flashes.

1. In response to an urgent call from Mr. McIntyre from the White House this afternoon, arrangements were made with the Governor of Kentucky and Dr. Draper to take as many prisoners as could be accommodated at the Narcotic Farm at Lexington. I think that about 100 refugees had already been quartered at Lexington so that probably only 125 additional can be taken care of. However, through the Bureau of Prisons, ten guards have been started from Atlanta with tents and bedding so that every bit of space within the confines of the Narcotic Farm can be utilized.

2. Vaccines are being sent as near to the flooded area as possible by train where it will be picked up by Coast Guard planes and taken to the area around Paducah, Kentucky, which can only be reached by the Coast Guard amphibians.

J. R.

U.S. COAST GUARD HEADQUARTERS
25 January, 1937.

FLOOD REPORT
(2:00 P.M. to 4:00 P.M.)

Chief of Naval Operations directed that 13 Diesel driven motor boats at the Norfolk, Va. Navy Yard proceed to Portsmouth, Ohio with crews for service with the Coast Guard.

Coast Guard amphibian plane V136, piloted by Lt. Fahey, left Anacostia, D. C. at 2:20 for Columbus, Ohio.

Special train of Ninth District Coast Guard picket boats left Buffalo for Louisville territory. Detachment includes seven picket boats, one motor surf boat and 32 men under Boatswain Maurice McCune.

Coast Guard amphibian V146, piloted by Lt. Lyons, was unable to land at Evansville and was forced to base at Indianapolis. Lyons surveyed flooded territory about Cincinnati, Louisville and Evansville, and reported conditions very serious. After reporting at Indianapolis he returned to Evansville in attempt to contact senior Coast Guard officer.

Amphibian V145, piloted by Lt. Schissler, enroute from Pensacola, Fla., left Murfreesboro, Tenn., for Evansville at 1:30 P.M.

American shipmasters, through Captain James Stewart, 25 Montclair Avenue, Patterson, N. J., volunteered to form within 24 hours, company of American shipmasters to assist Coast Guard in flooded areas with private boats.

Utility amphibian, piloted by Lt. Chester Harding, arrived at Maxwell Field, Montgomery, Alabama, at 12:40 P.M. enroute Memphis, Tenn.

Amphibian V140, piloted by Lt. DeJoy, arrived at Montgomery, Ala., at 12:25 P.M.

Amphibian V138, piloted by Lt. Morrison, departed Baton Rouge for Memphis at 1:50 P.M.

U. S. Army Engineers dynamiting Missouri side of levee just below Cairo, Illinois to aid saving city of Cairo.

Surgeon General Parran reports danger to health in this flood greater than in last, and breakdown in water supply system most serious problem. Food supply in Louisville running short, as two-thirds of city under water.

Red Cross estimates 500,000 persons homeless.

I.C.C. authorizes railroads operating flood area to change routing at will to prevent congestion.

The evacuation of Evansville City, having a population of 100,000, ordered today by National Guard.

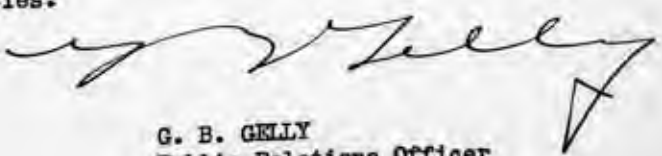
Ohio River at Louisville at 55.5 feet and still rising.

Special train and truck convoys rushing shivering refugees out of danger zone and carrying as far north as Indianapolis.

Red Cross starting evacuation of Tiptonville and Ridgely, Tenn., cities of about 7,000 inhabitants.

Red Cross reports alarming rise of water at Moundsville and Benwood, West Virginia, with water up to second stories.

Commandant of Coast Guard directs Commander of Flood Relief force to give special attention to small communities.



G. B. GELLY
Public Relations Officer

Copy to:

Assistant Secretary Gibbons
Mr. H. E. Geston
Commandant, U.S.C.G.
Chief Operations Officer, U.S.C.G.
Mr. Myers, U.S.C.G.

25 January, 1937
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA.

The Coast Guard is rushing every available boat from stations and ships on the Atlantic and Gulf coasts and Great Lakes to the stricken area, and an organization has been set up on the scene so as to effectively and speedily carry forward a coordinated plan of action by the Service in cooperation with the Red Cross and Federal forces. Captain LeRoy Reinburg, USCG, Commander, Chicago Division, has assumed charge of all Coast Guard operations, having arrived at Evansville, Indiana, today. He has placed District Commander W. W. Bennett at South Portsmouth, Ohio, in charge of Coast Guard operations in the area from Huntington, W. Va., to Mayaville, Ohio; District Commander S. E. Johnson at Evansville, Indiana, in charge of the section from Mayaville to Louisville, Ky., and District Commander M. P. Jensen at Cincinnati, Ohio to direct operations in the region from Louisville to Cairo, Illinois. Lieutenant H. T. Jewell from the New York Division is proceeding to Marietta, Ohio, and Lieutenant A. L. Ford is being dispatched from the New York Division to direct relief force from that Division.

At noon today 83 Coast Guard boats had arrived in the flood area, and 221 more were on their way by train. The boats, as they arrive, are being dispatched to the most critical areas. At present the largest numbers are operating in the vicinity of Evansville and Louisville, with other groups operating along the Ohio and Mississippi Rivers from Marietta, Ohio, to Memphis, Tennessee. One boat is rendering service in the Wabash

-2-

River in the vicinity of Vincennes, Indiana, and two on the White River near Hazelton, Indiana. Arrangements are being made for the dispatch of additional boats from the Navy Yards at New York, Philadelphia, and Norfolk and the Lighthouse Service at Milwaukee to be manned by the Coast Guard.

The Coast Guard had in the flood area or enroute seven communications trucks, and the Service today took charge of communicating all weather reports from the Chicago office of the U. S. Weather Bureau to points in the flood areas of Ohio, Indiana, Illinois, Kentucky, and West Virginia. Through the system of communications set up by the Coast Guard, Headquarters at Washington is keeping in constant touch through the Coast Guard Radio Station at Fort Hunt, Va., with the Coast Guard relief forces, an emergency radio station at Evansville, Indiana, and the communication trucks acting as relaying points to all sections of the flood area.

Two Coast Guard amphibian planes are enroute to Memphis, Tennessee; three are destined for Evansville, one for Cairo, and one for Huntington, W. Va. Absence of suitable landing fields and weather conditions have hindered their arrival on the scene before this time.

The 165-foot patrol boat NEMESIS is now enroute from St. Petersburg, Florida, for duty in the Mississippi (Memphis, Tenn.), this being the largest floating unit to be dispatched to the scene.

Summary of Resources on Scene or
enroute

Boats on scene	83
" enroute	195
" being assembled	26 (x)
(x Includes 13 Navy and 9 Light-	
house Service boats)	
Total	<u>304</u>
Personnel on scene	350
" enroute	900
" being assembled	20
Total	<u>1270</u>
Radio trucks	7
Aircraft	7
Portable radio sets	32

RRW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 25, 1937

TO Secretary Morgenthau

FROM Miss Roche

Re: Flood Relief

The Surgeon General requested the release of the \$40,000 reserve in the appropriation "Preventing the Spread of Epidemic Diseases", and this was informally arranged on Saturday.

The Surgeon General also has been in conference with Mr. Hopkins, both on Saturday and Sunday, and although he was not present at the conference called by the President, has been keeping closely in touch with the situation here and putting the resources of the Public Health Service at the disposal of the WPA, the Red Cross, and the local health departments.

Assistant Surgeon General W. F. Draper has been assigned as liaison officer between the WPA and the Public Health Service and the Red Cross and the Public Health Service, and he and the Surgeon General are meeting with Central Committee this noon.

In accordance with arrangements with the WPA, eight sanitary engineers have been assigned to WPA field headquarters as follows:

Charleston	Jefferson City
Columbus	Nashville
Indianapolis	Little Rock
Chicago	Louisville

Under similar arrangements with the Red Cross, seven medical officers have been assigned to Red Cross field headquarters as follows:

Louisville	St. Louis
Cincinnati	Memphis
Evansville	Charleston
	Little Rock

In addition four medical officers and three sanitary engineers have been assigned to cooperate with local health departments in Kentucky, in Louisville, Covington, Ashland, Maysville, Frankfort, and Paducah.

At the request of Dr. McCormack, State Health Officer of Kentucky, the Surgeon General contacted the Commanding General's office of the Fifth Corps Area at Columbus, Ohio, requesting that fifteen hundred army tents be furnished if possible for use in the city of Paducah which is understood to be almost entirely under water. The Chief of Staff of the Fifth Corps Area stated over the telephone that tents had been shipped this morning from the Quartermaster Depot at Jeffersonville, Indiana.

Seventy five thousand units of typhoid vaccine have already been shipped and supplies have been made available at the Marine Hospitals at Knoxville, Louisville and Evansville. All three institutions are crowded with sick refugees.





OFFICE OF COMMANDANT

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

25 January 1937.

My dear Mr. Secretary:

Attached hereto is the memorandum regarding the training of Merchant Marine personnel which you desired this morning, in order that you might take the matter up with the President at luncheon today.

Sincerely yours,

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

23 January 1937.

MEMORANDUM FOR - The Secretary of the Treasury

Subject: Training of Merchant Marine Personnel.

A permanent planned system of training of Merchant Marine personnel is more important for the upbuilding of our Merchant Marine than improvement in material factors of ship design and construction - both for peace and war. The system should include relief and social security features.

There should be one Federal Agency alone charged with this duty, in order that authority and responsibility can be definitely fixed.

The Coast Guard is the agency best suited for this duty, as:-

- (a) It has a well established organization suited for the undertaking.
- (b) It has a personnel theoretically and practically trained for the duty.
- (c) It has the volume of personnel to insure the necessary rotation of instructors to prevent staleness, and to select, if necessary, by trial and error, instructors temperamentally and otherwise qualified.
- (d) It has many facilities already available.
- (e) The training for the Merchant Marine, in many respects, would be similar to the training given its own officers and men for Coast Guard peace-time duty of saving and protecting life and property, and enforcement of navigation and other laws on the sea, and training for duty with the Navy in time of war.
- (f) The Coast Guard and the Merchant Marine are closely associated in time of peace, and are again closely associated, under the Navy Department, in time of war.
- (g) The Coast Guard occupies a place in our Governmental structure, somewhere between the Navy and the Merchant Marine, and therefore, is in a position to be the medium of better understanding between those two services.
- (h) The Coast Guard can give necessary military training without the various groups in the Country opposed to military training raising valid objections.

- #E -

(i) Coast Guard officers have economic security and are indoctrinated with a high sense of honor so that there would be no fear of unwise influence by any group.

(j) It has a well established Coast Guard Institute which provides to officers and enlisted men correspondence courses in Navy rating courses, International Correspondence Schools' courses, and other courses which can be made available to Merchant Marine personnel.

(k) Several officers of the International Seamen's Union, and other labor leaders, and also several ship operators, including the United Fruit Company, strongly favor the Coast Guard being charged with this responsibility. Admiral Standley and Captain Spears, USN, (in charge of Naval Reserve activities), favor the Coast Guard assuming a major share of this responsibility. Admiral Leahy is favorably disposed, but has given the matter no study. Other people interested in the Merchant Marine favor this plan.

(l) There are a number of other minor advantages to this plan.

The major items of the plan are:-

(a) For licensed personnel - establishing a National Merchant Marine Academy at New London, Connecticut, (at Port Trumbull - site of the old Coast Guard Academy), or on land donated for that purpose; the institution to be under the same superintendent, and to use the same corps of instructors - laboratories, boat, and other equipment, as the Coast Guard Academy, - practical instruction to be given on board Coast Guard vessels, including a few cargo ships carrying Government cargoes.

(b) Unlicensed personnel - to be trained for a few weeks on shore at Government establishments on the Atlantic, Pacific, and Great Lakes, followed by training on Coast Guard vessels.

(c) All personnel who satisfactorily complete the prescribed training to be enrolled in a "Reserve", with provision for periodic training in the Coast Guard (or Navy); membership in the "reserve" carrying with it a retainer pay, and availability for active duty in time of peace in the Coast Guard, when needed, or when, in time of depression, economic, or other emergency, the President may direct. Also provision for a subsidy in the way of minor increases in pay for prescribed qualifications.

(d) Provision for retirement after a stipulated number of years of satisfactory service in the Merchant Marine.

(e) Provide for the assignment of Coast Guard officers as "Inspector-Instructors", or "Coordinators" on merchant ships, in the discretion of the Secretary of the Treasury, for the further instruction of Merchant Marine personnel, and to observe drills, condition of readiness of lifeboats, and other emergency apparatus, but in no wise to relieve the master of any responsibility of the vessel.

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(f) Provide for close cooperation with the Maritime Authority, and with the Navy, to insure a training satisfactory to those organizations.

The relief and social security features of the foregoing plan, with other minor parts thereof would, in effect, be a subsidy to the Merchant Marine personnel which, however, would be a small percentage of the subsidy which will be paid to ship builders and ship operators. This cost would otherwise be borne by the Government in some other form during strikes, economic depressions, and for old age benefits.

R. R. WARSCHE
Rear Admiral, U.S. Coast Guard,
Commandant.

January 25, 1937.
2:31 p.m.

Guy T.
Helvering: Perhaps you saw a piece in a New York paper - I don't know whether you did or not.

H.M.Jr: You didn't - who did you leave word with - that you called.

H: Well I don't know - whoever answered the phone.

H.M.Jr: Oh because they didn't tell me.

H: Ah-ha. Well I just wanted to assure you that there's nothing to that piece, if you knew about it.

H.M.Jr: Well if I saw that there was you'd be telling me....

H: Yes.

H.M.Jr:because I only saw you the other day.

H: Yes.

H.M.Jr: And I got a cold shiver for the minute of thinking of losing you but then I thought well Guy Helvering wouldn't sit here one day and not say something to me.

H: No, there's not a - there's is something to the fact that I'd like to get George McGill appointed Judge.

H.M.Jr: Yes.

H: But the other part I mean -

H.M.Jr: Well..

H: Because I - I've had those opportunities before (laughs)..

H.M.Jr: You know just what it is to be a United States Senator.

H: Yes.

H.M.Jr: You see them every day - in the raw.

H: Yes (laughs) but I just wanted to....

H.M.Jr: All right.

- 2 -

H:tell you that.

H.M.Jr: Thanks, I appreciate it.

H: That's all.

H.M.Jr: Now Guy, I had two Senators from Louisiana call on me and recommend Victor Z. Lankin. L-a-n-k-i-n.

H: Yes.

H.M.Jr: As Mayor of the City of Alexandria.

H: Yes.

H.M.Jr: And they're recommending him for Commissioner of Internal Revenue.

H: Yes.

H.M.Jr: Would you look up his record and, when you're ready, would you talk to me.

H: Well that record was made up some - you remember just before the close of Congress.....

H.M.Jr: Yes.

H:there was some questions in it about some financial operations he had with the Building and Loan or a Savings Bank he was interested in.

H.M.Jr: Yes.

H: Now I think that record is all here.

H.M.Jr: Well will you bring it up to-date and when you're ready will you give me a ring?

H: Yes, all right.

H.M.Jr: You'd better have a very very careful investigation made.

H: Yes.

H.M.Jr: I think I'd - I'd have a fresh one made and bring it up todate.

- 3 -

H: Yes, all right.

H.M.Jr: And Carl Hayden came in to see me about Wirt Bowman.

H: Yes.

H.M.Jr: And I'm going to send his - he left me a written memoranda. I'm going to send it over to you and ask you to prepare an answer for my signature.

H: Yes, well I'm preparing a memorandum for you to-day on that.

H.M.Jr: Well I'm - I'm going - well hold it till you get....

H: Yes.

H.M.Jr:what's his name's memo, will you?

H: Yes, all right.

H.M.Jr: Now I'm going to forget about this fellow in Louisiana until I hear from you.

H: All right.

H.M.Jr: And I'm glad that that was only a rumor.

H: I don't know where they got all that story. There's a good deal of truth in it about the situation out there but there's nothing to the one point.

H.M.Jr: Well I thought it was a compliment that they wanted you to run against Landon anyway.

H: Yes, well I might say to you this matter - the Governor was here the other day. I told you I had lunch with him.

H.M.Jr: Yes.

H: And he told me if this thing was effective he'd be glad to do that.

H.M.Jr: Yes.

H: I told him I wasn't interested in it and I recommended another man to him.

- 4 -

H.M.Jr: Ah-ha.

H: And...

H.M.Jr: Well thanks for telling me.

H: Yes, all right.

H.M.Jr: Goodbye.

H: Goodbye.

January 25, 1937.
3:15 p.m.

Jesse
Jones: I couldn't get you this morning and I told Warrengist
to talk to....

H.M.Jr: Taylor?

J:Wayne - Wayne Taylor.

H. M.Jr: Right.

J: Ah - we've somebody's been trying to trade us some
Russian notes - U. S. S. R. notes.

H.M.Jr: Yes.

J: For some dark tobacco that we've had for 3-4-5-6 years.

H.M.Jr: Yes.

J: And Warren said it was all right with the State De-
partment and I thought, if there was no objection on
your part, we'd do a little horse trading to see
whether we could do anything or not.

H.M.Jr: It's all right with me.

J: What?

H.M.Jr: It's all right with me.

J: Well I - I'd about as soon have the Russian paper
as to have the dark tobacco.

H.M.Jr: (Laughter)

J: I'm afraid most of it's been - gone down the Ohio
River.

H.M.Jr: I see.

J: And that may solve the problem, Henry.

H.M.Jr: Good.

J: And if it does, I won't be very unhappy.

H.M.Jr: All right, Jesse.

- 2 -

J: Well thank you very much.

H.M.Jr: Thank you.

January 26, 1937

The Secretary today asked Mr. Ireby to have ready for him on February 8th, the day on which he plans to return from a week's vacation at Sea Island, a report on Mr. Hogan, who is now being investigated by Ireby's shop.

January 26, 1937

The Secretary today asked McReynolds to have a report ready for him when he returns from Sea Island on the various Government employees who received money from Famous Brands, Inc., which money, under the terms of their agreement with the Secretary, they were supposed to have turned over to charity.

U.S. COAST GUARD HEADQUARTERS
Washington, D. C.
26 January, 1937.

FLOOD REPORT
(12:00 noon)

Lieutenant George Bowerman, piloting the V150 land plane, is at Newark, N. J. airport taking on a consignment of serum and biological supplies from the Squibb Company to transport to Louisville. Lieutenant Richard Burke left Cape May, N. J., for Boston, to take on serum and fly to Louisville.

The 125 foot cutters YEATON and WOODBURY, with 25 men each, and a 165 foot patrol boat with 48 men, from the New Orleans area, are enroute up the Mississippi River. The YEATON and WOODBURY will stop at Vicksburg and Greenville.

A Coast Guard patrol boat (a former seized boat) was burned on the train while enroute from Galveston to Louisville. The fire was discovered at Little Rock.

Lieutenants William Schissler and Perry Lyons, flying Amphibians V145 and V146, have been able to land their planes at Evansville, Ind., and are now using the field there as a base of operations.

Three Amphibians under Lt. Commander R. L. Raney, Lt. Howard Morrison and Lt. Chester Harding are on duty in the Memphis area.

The truck load of serum which left Curtis Bay, Md., Depot, is still reported in the vicinity of Huntington, West Virginia. Lt. E. E. Fahay in an Amphibian is searching for the truck and supplies.

Eight motor surf boats from Curtis Bay, enroute to Kenova, W. Va., via Baltimore and Ohio Railroad, in charge of Chief Boatswain Firth, unable to launch, continued to Cairo where they now are in service.

Boats reported in service are as follows:

Evansville.....	74 boats; about 300 men
Cairo, Ill.....	8 boats; 32 men

(Boats reported in service - Cont.)

Kenova, W. Va.....18 boats; 72 men
Lawrenceburg, Ind..... 5 boats; 20 men
Hazleton, Ind..... 2 boats; 8 men
Cincinnati.....20 boats; 2 men
Louisville..... 1 boat; 4 men

Radio Communication trucks in service as follows:

Memphis, Paducah, Evansville, Lawrenceburg and Huntington,
W. Va., one each.

Planes reported as follows:

Columbus, Ohio, Boston, Mass., one each.
Evansville, 2.
Memphis, 3.

Buffalo City authorities plan to attach several carloads of
clothing and supplies to Coast Guard boat train which left Boston Monday.

Three carloads of clothing and supplies gathered by city and
Coast Guard at Buffalo attached to boat train left Buffalo 25 January.

Memphis Coast Guard contingent ordered to Cairo, Ill., by flood
relief Commander.

Alcohol tax agents serving as aides to Flood relief Commander in
Evansville area.

5,000 refugees removed by Coast Guard forces vicinity of Evans-
ville, 25 January.

S. Davis Wilson and Richard Bircher, airport owners, left Phila-
delphia today for Louisville, Ky., with a cargo of serum.

Coast Guard mechanics assisted in restoring city lighting system
at Evansville, Ind.

District Commander M. P. Jensen reports current in river between
10 and 15 miles per hour.

Shipment of boats left Chicago for Evansville this date.

Shipment consisted of 6 Coast Guard boats, and 5 Lighthouse Service boats.

7 picket boats, 26 men departed Atlantic City at 1:19 A.M. this date for Evansville.

6 boats left Wilmington, N. C. for Louisville this date.

Coast Guard flood relief Commander now has assigned to his command approximately 324 boats, 3-165 foot patrol boats, 6-75 foot patrol boats, 3-125 foot patrol boats, 320 small boats, of which 15 are Navy boats, 9 Lighthouse Service and 2 Coast Survey. Latest information or advise indicates 108 are actually operating in flood area.

8 Communication trucks, together with 25 to 30 portable radio sets and 40 radio men constitute the Communication organization.

To date 2 boats have been lost; one burned while enroute from Galveston, via rail, and one which was thrown against a telegraph pole. All men were saved. It is expected that the majority of small boats enroute will arrive in the flood area not later than tomorrow, 27 January.

The water stage at Cincinnati was 80 feet this date, 8.9 feet above the 1884 record. The water stage at Evansville, Indiana, was 52 feet, 1.6 feet above the 1913 record.

still rising at all points.

Weather Bureau reports Ohio River/south of Pittsburgh, but outlook of recession of flood water in the upper Ohio Valley is best in two weeks, account of rains ceasing.

G. H. GELLY

Public Relations Officer

Copy to:

Assistant Secretary Gibbons
Mr. H. E. Gaston
Commandant, U.S.C.G.
Chief Operations Officer, C.G.
Mr. Myers, C.G.

U.S. COAST GUARD HEADQUARTERS
Washington, D. C.
26 January, 1937.

FLOOD REPORT
(From 12:00 to 4:00 P.M.)

Lt. George Bowerman, piloting land plane V150, with 700 pounds of biological supplies, left Newark, N. J. airport, via Columbus, Ohio, for Louisville, at 3:00 p.m. this date.

The 165 foot patrol boat NEMESIS departed Carrollton, Ky. with 65 foot patrol boat CG-240 in tow, for Memphis.

Four boats provided by the Bureau of Lighthouses proceeded to Portsmouth, Ohio for duty; will be manned by Coast Guard crew.

Lt. H. T. Jewell, with 14 boats, arrived Walker, W. Virginia, at 10:30 a.m. this date and launched all boats at that point. Six boats proceeding Portsmouth, Ohio, and Lt. Jewell, with 8 boats, proceeding to Parkersburg, W. Virginia and Marietta, Ohio.

Land plane V151, piloted by Lt. Burke, arrived in Boston at 2:20 p.m. to take aboard biological supplies for Louisville.

Amphibian V140, piloted by Lt. DeJoy, left Birmingham, Alabama, for Evansville, Indiana, at 12:30 p.m. this date. No report of his arrival at time of this report.

Navy Department advised the Commander of the Fifth Naval District, Norfolk, Va., had been directed to transfer one officer and 100 enlisted men to Louisville, Ky. to cooperate with the Red Cross; men to be qualified motorboat men if practicable.

The following is the disposal of the Coast Guard flood relief force reported at 4:00 p.m. this date:

APPROXIMATE NUMBER OF MEN IN AREA OR ENROUTE:

Staff duty.....	12
Planes.....	30
Trucks.....	30
Small boats.....	1029
Large boats.....	200
	<u>1,301</u>

NUMBER OF UNITS IN FLOOD AREA OR ENROUTE THERETO:

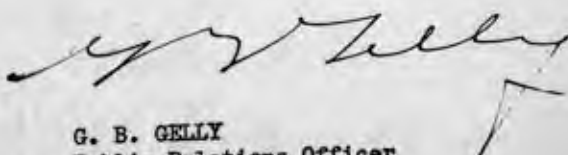
Small boats.....	258
Large boats.....	5
Radio trucks.....	8
Planes.....	9
Radio stations.....	2
Portable radio units....	27

TOTAL UNITS	<u>309</u>
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The F.C.C. today ordered cessation of all amateur radio transmission in the flood regions, except that having to do with emergency relief work.

The Governor of Arkansas declared state martial law six northeast Arkansas counties to facilitate removal of flood refugees.

Camps for 50,000 refugees are being erected at Memphis, Tennessee in anticipation of a flood crest several days hence.


G. B. GELLY
Public Relations Officer

Copy to:

Assistant Secretary Gibbons
Mr. H. E. Gaston
Commandant, U.S.C.G.
Chief Operations Officer, U.S.C.G.
Mr. Myers, U.S.C.G.

26 January, 1937
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

The Coast Guard relief forces are being augmented by the arrival of boats, personnel, and radio trucks. No additional boats are being dispatched in accordance with Red Cross instructions, though preparations are made for further dispatch on short notice.

One Coast Guard boat enroute to the flood area was destroyed by fire while on a flat car, and one surfboat sank near Evansville, Indiana, in a collision with a pole. Up to midnight January 25th it was estimated that the Coast Guard boats operating in the immediate vicinity of Evansville had transported 5000 refugees to places of safety. One of the Coast Guard machinists on duty at Evansville, was successful in restoring to service many of the municipal electric circuits which had baffled all previous efforts to place them in working condition.

Owing to the isolated condition of small communities associated with operations, reports of the activities of individual units are meager. One Coast Guard Officer had gone 96 hours without sleep or letup, and this is indicative of the spirit which is prevalent throughout the whole corps of Coast Guard officers and men on the scene.

25 January, 1937
4 p. m.

Two Coast Guard planes, one from Newark and one from Boston, delivered biologic supplies to Louisville for the Public Health Service. Coast Guard truck delivered similar supplies to Huntington.

The 165-foot patrol boats NEMESIS, NIKE, TRITON, and the 125-foot patrol boats YEATON and WOODBURY are enroute up the Mississippi from the Gulf.

The National Society for the Advancement of Colored People, New York, asked that no discrimination be made in rescue work. An assuring message was sent them, and Coast Guard Flood Relief Commander was notified to issue instructions accordingly to Coast Guard units.

Governor Holt of West Virginia telephoned to Headquarters protesting against any removal of Coast Guard boats from vicinity of Huntington. He was assured that boats would remain there until released by proper authority. He was advised that because of conflicting requests from various agencies for boat services, the officer in charge was being governed by Red Cross instructions and in the absence thereof was using his best judgment. A reply received from him indicated his approval of this plan.

Senator Reynolds of North Carolina requested a plane to take American Automobile Association representative on reconnaissance flight in connection with observation of traffic and road conditions. After consultation with Red Cross, he was advised that transportation would be afforded, when practicable, on regular flights throughout area.

The Coast Guard is concentrating on the organization of communication facilities throughout the flood area, with Fort Hunt Station, Virginia, as the main center. This station handled approximately 350 messages during the past 24 hours.

Summary of Resources

Coast Guard boats on scene or nearby	258
Personnel engaged	1300
Radio Trucks	8
Planes	8
Three 165-foot patrol boats and two 125-foot patrol boats enroute.	

General River Condition

At Pittsburgh, all danger of flood past. At Wheeling, the water is below the level of last year's flood. From Huntington, W. Va. to Cairo, Ill. the water will continue to rise from one to two feet, reaching its peak around Cincinnati and Louisville about Friday; throughout this section, water will be from 6 to 10 feet higher than ever reported before.

RRW

JAN 26 1937

Dear Commissioner:

I should like, for our mutual convenience, to make this informal memorandum of our conversation today in which you were seeking my counsel and suggestions with reference to any advice you might want to give to Collector Hoey concerning his possible action on the application of the New York State Gas and Electric Corporation for the release of certain properties from the lien of the jeopardy assessment in connection with certain refunding operations which the company says it has in hand. Recalling the circumstances you recited indicating the amount of time required in order intelligently to formulate possible advice to Collector Hoey, I concur in your thought that he should probably advise the company that it would be quite impossible for him to act upon this application in any definitive way before the latter part of February.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Hon. Guy T. Helvering

Commissioner of Internal Revenue

January 26, 1937

Dr. Burgess, from the Federal Reserve Bank of New York, was in Washington today and stopped in to greet the Secretary.

The Secretary discussed with him the suggestion which Mr. Bell had made that we ought to increase the amount of bills offered from \$50,000,000 to \$100,000,000.

Burgess said there were some comments about our rate on Savings Bonds, which was way above the market now. He said that with the change in prospect and if the Board should act, he did not think the Secretary would want to make a change now.

The Secretary told Burgess that he was going away for a week and when he got back, about the 7th of February, he would talk to him about the rate on Savings Bonds at that time.

Mr. Bell came in at this point and said that the new series starts in April and that probably the Secretary would want to wait until then before making a change in the rate.

Speaking to Mr. Bell, the Secretary said, "Have you any ideas on what we are going to do tomorrow?" Bell's answer was, "I would like to start another series of bills. Then I would like to put the March financing off until April."

The Secretary jokingly remarked to Dr. Burgess, "You and Bell must have had a talk together before you came in here!" Continuing, the Secretary said, "I think it is of great value to keep this thing on a quarterly basis -- on tax payment dates."

HM, Jr. then asked Mr. Bell to prepare a statement for him showing our cash position as of March.

"The present market is very quiet," Dr. Burgess remarked. "The healthy thing is for it to slide off a little."