

STATEMENT OF SECRETARY MORGENTHAU  
BEFORE THE JOINT COMMITTEE ON TAX EVASION AND AVOIDANCE  
THURSDAY, JUNE 17, 1937.

The problem of closing loopholes in tax laws is continuing and ever-present. It is never settled by any particular legislation. Tax administration today requires a succession of laws to prevent the use of ingenious devices which distort the original purpose of the act and which create what to the average man seems unethical and unwarranted avoidance of taxes.

This is not the result of activities on the part of any particular group of persons. Nor is it the result of concerted action on the part of taxpayers as a whole. It is caused by pressures which come from deep-seated attitudes in certain quarters toward taxation. These attitudes and these pressures must be realistically considered as part of the problem of

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tax administration. I will describe them briefly because they furnish the background against which tax administration must operate.

In the first place, we have developed in this country a group of ingenious lawyers and accountants who make their living by showing to people who can afford to employ them ways by which they may pay the least possible taxes. This may be a legitimate business. Nevertheless, by virtue of its highly competitive character, it brings about the following situation. The ordinary accepted standard by which many wealthy taxpayers judge the efficiency of the tax attorney is the amount that he can save in taxes. The most ingenious attorney, therefore, becomes the most successful and the most sought after. He feels that his sole duty is toward his client. If he is honest, he will not condone perjury but he feels little moral or social responsibility

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to the Government. Therefore, if he can invent a new scheme for circumventing the intent of tax laws, which will be upheld by the courts, he is well within the ethics of his profession, regardless of the unfortunate effect that such a scheme will have upon the general application of such laws. We have now a bar of registered attorneys and tax accountants numbering approximately 45,000. Against them are pitted some 2800 field agents actively engaged in tax investigations for the Government. The contest is, of course, unequal. The fees of the tax lawyer exceed by thousands of per cent the pay of his opponent employed by the Government. In this manner the most resourceful brains of the legal world are engaged actively in trying to avoid taxes for their clients. Among these are men who received their early training from the Government, and who use the

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skill they acquired in that service against the younger men who take their places. The Government then becomes a training school for many of its opponents.

I am not attaching any blame to anyone in particular for this situation. I am only pointing out that it exists and that it is one of the reasons requiring continual revision of the tax laws.

A second factor which creates the problem which now confronts us is the fact that tax avoidance, as opposed to tax evasion, is considered by many a legitimate and honorable aim. Where private obligations are concerned, the same people who now hire ingenious attorneys to cut down their taxes would scorn to use the same subtle devices in avoiding payments to their creditors. Here again I am simply calling attention to an existing attitude. The

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ethics of tax avoidance have grown up out of a variety of circumstances and the problem is not solved by blaming anyone. It is only important to recognize those ethics as an existing fact because they are a very important element in the problem which faces the Treasury.

I hope that in the future an atmosphere may be created in which men will hesitate to use ingenious devices to avoid the payment of taxes. Nevertheless, that happens to be the present attitude of some persons toward payment to the Government.

A third factor in the situation is the difficulty of distinguishing, at least before a case is tried, between tax avoidance which is supposed to be proper, and tax evasion which is supposed to be immoral. I will not attempt to define these terms. So hazy is the line between tax evasion and tax avoidance that it is always possible to

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classify any complicated scheme as tax avoidance, so long as there is no absolute certainty that it will be adjudged invalid at the end of long litigation.

These attitudes have created what might be called the sporting theory of tax administration. . So long as these attitudes exist, the process of tax legislation will be somewhat as follows: A law will be passed; ingenious devices for circumventing its application to individuals will be tried out. This will take time. Finally, when sufficient of those devices have become current so that a great loss in governmental revenue begins to appear, legislation will have to be drafted specifically directed at the new tax-avoidance inventions which have appeared since the last law.

Today because of the variety of devices to avoid taxes, the situation calls for remedial legislation. That

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this is a recurring situation is illustrated by the tax history of the last few years. Prior to 1934, the provisions permitting deductions for losses resulting from stock sales had become one of the largest loopholes in our tax administration. Ingenious use of these deduction provisions permitted individuals to establish losses by exchanging stocks with each other and calling the transaction a sale. However, it was the kind of a sale which would never have taken place had it not been for the desire to avoid taxes. That loophole was plugged in 1934. Since that date new devices of even greater complexity and ingenuity have been developed, imitated and copied until they are now in very general use. As is usual in such cases it takes time before sufficient interest is created to demand reform. For example, in 1935 - two years ago -

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under my instructions, Mr. Robert H. Jackson called to the attention of the Committee on Finance many of the methods of tax evasion which are now the subject of this inquiry. The use of those devices was then a less serious obstruction to the collection of revenue and nothing was done about them. Resort to them has now increased to such an extent that some reform is imperative.

Of course the attitudes which create this continuous task of circumventing new tax avoidance devices cannot be legislated away. The immediate objective in the present emergency is practical tax legislation. Nevertheless, I am hopeful that the continued publicity which hearings of this sort give with respect to the game of tax avoidance may help to create an atmosphere in which men will hesitate to use these artificial devices to avoid the payment of



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taxes just as today they hesitate to use such devices to escape the payment of private debts. The great body of citizens already display the same attitude toward their obligations to the Government that they display toward their private obligations. An examination of their returns year after year discloses no attempts to push the letter of the law to its limit, and no use of corporate forms or other elaborate subterfuges for the sole purpose of avoiding their normal tax burden. Perhaps continued publicity given to the more fantastic methods of tax avoidance now considered legitimate may make such an attitude more nearly universal. This may be an important by-product of public hearings on current tax devices.

I will therefore attempt briefly to describe the general character of some of the methods now in use in

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terms which the average taxpayer may understand. One characteristic runs through all of them. It is the creation of a multiple personality in the taxpayer. By this device he ceases to be a single individual and becomes a whole group of people, some of whom are earning money while others are losing it. He divides himself into several people, sometimes incorporated and sometimes not. He purports to carry on business transactions with his family at arms-length. Often he convinces himself that these separate people actually exist. Each one of these imaginary individuals into which the taxpayer divides himself deals and trades with all the other imaginary individuals.

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The total result is a series of losses which would not have been deductible for tax purposes had the taxpayer remained a single personality. The different methods by which the parts of this multiple personality deal with each other are varied and intricate. We will attempt to classify them later. They are, however, of this general character. A taxpayer creates a separate personality to engage in an activity which is a hobby or a luxury or an ordinary living expense or even a method of investing funds. He then charges the expenses and the losses of such activity against himself. Thus, he is able to pay interest to himself, to charge himself for vacations and pleasures, to give himself pensions, to be his own insurance company and so on. These transactions partake of the same unreal character as if a small taxpayer incorporated his household kitchen as a restaurant and deducted the expenses and losses from his taxable income because he had so few customers.

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Practically all of the devices which we will cite later would look absurd if applied to persons of small incomes whose activities were necessarily more restricted. They are important as tax-dodging devices only for the very rich. Not only do they look absurd when applied to the small taxpayer but they are also too expensive to be useful unless large sums are involved.

The analogies which are used to support these devices are found in the corporate structure by which business in this country is conducted. The distinguishing feature, however, between the corporation used for a business purpose and the corporation used for a tax avoidance purpose is the fact that in the latter case were it not for the tax laws no such corporations would have been formed.

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The use of the corporate device in order to split a single man into a number of personalities is often extraordinarily intricate. However, of late some tax attorneys have felt that it was not necessary to go to so much trouble. They have in effect split individuals up into different persons without bothering to incorporate. A rich man runs a racing stable as a hobby. He calls himself a horse-breeder and in this character loses money very heavily indeed. He never makes a financial success as a horse-breeder because racing demands too much luxury on his farm. This raises his expenses. He then charges off the loss on his racing stable against his income.

No small taxpayer would think of calling himself a golf instructor and then charge the expense of his golf game against his income because he got no pupils. However,

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we find an individual who in one capacity charters a pleasure yacht to himself at a loss and deducts it from his income because though as a business man he is successful, as a professional yachtsman he is a heavy loser. These instances are not yet as frequent as the use of the complicated corporate personality which is harder to see through. Nevertheless, unless legislative action is soon taken such pleasant methods of taking vacations and getting rid of taxes at the same time will be imitated and constitute a serious threat to the revenue.

Most of these people have talked themselves into believing that the methods which they use are socially legitimate. They profess complete personal irresponsibility, contending that if their methods are wrong it is the duty of the tax administration to ferret them out and to conduct long and expensive litigation in order to determine their

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validity. The individual believes that he is morally entitled to take the sporting chance and that he has nothing to lose and everything to gain by taking it.

The device of the multiple personality of the single taxpayer is of course not the only loophole which requires immediate attention. The Under Secretary of the Treasury, Mr. Roswell Magill, who will follow me, will undertake to classify the principal ones for you in detail.

I will only summarize the principal schemes which are being devised, copied and imitated today. They may be divided roughly into three classes.

First, there is the device which I have just described of making the taxpayer a multiple personality whose characters deal with each other.

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Second, there is a variation on that device by which the taxpayer deals with his family at arms-length and creates taxable losses out of the performance of personal obligations which he owes to them. He take his wife into partnership with him. He splits his income between himself and his children instead of maintaining them.

The third device is one where the individual doing business in this country makes it appear by a series of corporate personalities which he controls that he is actually doing business abroad in some country where he cannot be taxed. In other words, transfers of title which might result in taxable income are made to appear to have occurred outside of the United States.



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We do not know how extensively this latter device is being used. We do know that within the last two years, 585 foreign corporations have been formed which probably represent business interests in America. We do not know how many have been used for tax avoidance purposes, but we do know that some have been so used. We believe, however, that the use of this device is spreading. It is most important that its growth be stopped before vested interests arise which make it a still more difficult problem to deal with in the future.

For these reasons I believe that the use of the multiple personality by the taxpayer has now reached the stage where Congress should consider corrective legislation. The process of fighting in the courts all the different schemes which may be woven around this concept is too slow for efficient tax administration. We intend to give examples

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of a large number of cases, not all of which would be upheld by the courts but many of which are sufficiently plausible so that they can delay and hinder tax collection. It is the history of tax litigation that it takes years to finally outlaw a tax avoidance device, once it gets a foothold among tax attorneys. In the meanwhile, the Government revenue is impaired in two ways; first, by the actual loss of revenue in specific cases; and second, by the expenditure of the time and energy of the tax-enforcing agencies in litigation.

It is true that many of the devices which we have referred to are being limited and restricted by the courts. Nevertheless, the situation is sufficiently confused so that a great deal of litigation is required because each case deals with only the particular facts involved and distinctions in intricate situations can always be made.

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And what effect has the increasing use of these devices on revenues? That, of course, cannot be exactly determined. Nevertheless, it is a substantial factor which is cumulative in effect, just as the influence of a continued course of sharp practices in bankruptcy cases tends to reduce the total dividends to creditors. The nearest estimate which we can make of the loss in revenues caused by such practices in the tax field has been arrived at in the following way:

As you know, each November the Treasury Department is required to make an estimate of the revenue of the Federal Government for the balance of the current fiscal year ending on the following June 30th. I need hardly say that the problem of estimating the revenue is an exceedingly complicated one; and that some margin of error in the annual estimates, resting as they do upon forecasts

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of business conditions, prices, and a host of other factors, is inevitable. I take great satisfaction in the accuracy of the revenue forecasts made since I assumed the responsibilities of the office of Secretary of the Treasury. The first estimate of income tax receipts made under my supervision was for the fiscal year 1935. Actual receipts for that year proved to be 4.6 per cent greater than my estimate. In the following fiscal year, 1936, actual receipts were only 1.5 per cent under my estimate for that year. For the fiscal year 1937, the Treasury Department employed the same methods and the same personnel in making the revenue estimates as had been employed in the two preceding years. When, therefore, the March 15 income tax collections indicated that total income tax receipts for the fiscal year 1937 might be as much as 10.4 per cent below the estimate made last November, I became concerned. I

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realized fully, as I am sure you do, that all the care in the world could not always prevent a substantial error from entering into our revenue estimates, for, as I have already said, these estimates depend upon forecasts of the future; and the capacity is not given to mere human beings to foretell the future with accuracy. I was aware also that my predecessors in the Treasury Department had over-estimated the Government's income tax receipts in the three years 1931, 1932, and 1933, by 15.1 per cent, 7.3 per cent, and 13.3 per cent, respectively.

Nevertheless, I decided to investigate the details, so far as possible, of our March, 1937, income tax collections. This investigation disclosed the following very significant fact: Collections in certain areas where there is a considerable concentration of wealth and income

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had not increased by as large a percentage as had the total income tax receipts for the country as a whole.

In connection with this fact it is particularly important to note that dividends represent a larger percentage of the net income of people with large incomes than they do for people with small incomes. We knew that dividend disbursements by corporations during the calendar year 1936 had increased materially over those of the preceding calendar year.

It seemed reasonable to suppose, therefore, that part at least of the discrepancy between our original estimate of income tax receipts and the receipts that might be estimated on the basis of our actual collections in March, 1937, might be due to a wider use of various methods of tax evasion and tax avoidance. And when Mr. Magill

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undertook a field investigation of this possibility at my request, he found much to support this conclusion.

Mr. McGill will describe to you in some detail the character of his investigation. Necessarily, it was a quick survey, and the further audit of the 1936 returns will undoubtedly disclose additional data to enable us to determine with greater accuracy the methods of avoidance employed by some taxpayers. In this connection, it must be borne in mind that the Bureau of Internal Revenue faces tremendous physical problems in the audit of the returns and in its effort to prevent tax evasion and avoidance. There were about 6 million returns filed for the taxable year 1936, and it has been our experience in the past that only about 500,000 can be audited with the force of about 3,000 men that we have available.

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I believe that it may be appropriate to say a few words regarding the Bureau's progress in the last few years in connection with the making of these detailed audits. Prior to 1935, the field investigations of returns were not commenced until approximately one year after filing and were not completed until about two years after filing. At present, field investigations are begun  $3\frac{1}{2}$  months after filing and are completed  $15\frac{1}{2}$  months after filing - an advance in the conduct of the work of field investigations of approximately 9 months.

The collection of additional taxes, a substantial portion of which represents recoveries in instances when tax avoidance or evasion has been attempted, has constantly been increasing. Our revenue agents' recommendations for the assessment of additional taxes increased from \$203 million in 1934 to \$355 million in 1936. Experience has shown that, through litigation or agreement with the



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taxpayer, about 70 per cent of these recommended additional taxes are ultimately collected by the Treasury. For the first ten months of the present fiscal year, agreements with taxpayers for the collection of additional taxes, amounting to about \$130 millions, have been secured, and Commissioner Helvering has informed me that he is confident that the Bureau will collect by agreements more taxes during this fiscal year than it has ever collected in that manner at any time in its history.

Undoubtedly, prevention of tax avoidance and evasion would be aided by an examination of a greater volume of returns. I think that fully 750,000 returns, rather than the present 500,000, deserve yearly audit. However, in consideration of the small personnel of the Department compared with the very large number of accountants and

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attorneys who are constantly engaged in the preparation of returns and in the defense of the taxpayers' contentions, the record of the Bureau is good. With our limited force, we must collect the maximum of revenue, and we must do so in such a way that we are not years behind in our work.

These tax avoidance devices to which I have alluded have affected revenues of the Government in the following ways:

(1) They create the belief that rich men with expensive attorneys do not have to pay taxes. There is just enough truth in this to have far reaching consequences on the morale of hundreds of thousands of taxpayers. No one can possibly calculate how many petty evasions which can never be detected among 6 million returns are due to the belief that cleverness rather than fairness is a proper criterion of the taxpayer. Thus, tax ethics generally today

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are where business ethics and trade practices were in the nineties.

(2) In the highly competitive situation which exists among expert tax attorneys, plausible devices spread rapidly and tax evasion and avoidance increase without anyone realizing the extent of the impairment of tax administration until the end of the taxable year. Even then an exact estimate of the effect of tax avoidance is impossible.

(3) Veiled interests grow up in tax avoidance devices in the course of time so that it becomes very difficult to change them after they receive a semi-respectable standing. This factor makes quick action advisable to decapitate new schemes before they achieve the force and respectability of law.

(4) After tax avoidance devices have become an accepted part of tax law, any attempt to change them is

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heralded as a persecution of the rich. Today, for example, we are met by the charge made in some quarters that this attempt on the part of the Treasury, forced on us by a gradual accumulation of tax avoidance devices since the passage of the Revenue Act of 1934, is an attack on wealth. Actually, anyone who gives the matter unbiased consideration will realize that it is for the benefit of the rich to plug loopholes in tax laws, since this raises more revenues without raising rates. The prevalence of the devices we are going to describe has cast a suspicion on many rich men who do not deserve such suspicion. There is certainly no possible advantage to the conscientious man of large income to allow fantastic schemes of tax avoidance to continue.

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(5) And finally there is the very important question of the revenue. Those tax devices which defeat the intent of Congress cost the Government huge sums, which Congress never actually intended to give away. Moreover, they create continual and expensive litigation. No collecting agency can operate effectively if it is hampered at every turn by law-suits.

For these reasons, I considered it imperative to call these matters to the attention of Congress at this time.

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MEETING RE FRENCH CRISIS

June 18, 1937  
9:00 A.M.

Present: Mr. Taylor  
Mr. Opper  
Dr. Viner  
Mr. Riefler  
Mr. White  
Mr. Lochhead  
Mr. Haas  
Mr. Oliphant

Mr. Jr: Wayne, the floor is yours.

Mr. Opper: We have two representatives, Messrs. Opper and White. I guess, Clarence, you'd better start with that thing that you have there.

Opper: Well, these are just the papers that follow along after the statement of alternatives. Is there a possibility that Harry's comes first?

White: Well, they both come together. Yours fits in at each point.

Taylor: Well, I guess maybe that goes first (to White).

(White hands attached memo to Secretary)

Mr. Jr: (after reading) Well, let's take Case One. "France ceases to sell any gold under any circumstances and wherever held." Well, that's a - would she call it a gold embargo?

White: It would be called a gold embargo on exports.

Mr. Jr: Well, anyway - but you talk about a gold embargo, don't you?

White: Yes

Mr. Jr: I mean why don't you say that instead of "France ceases"?

White: Because it is capable of being misunderstood. An embargo on gold might be an embargo on all gold

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exports, might be that no individual could take gold out of France, and so forth.

W.S.Jr: You said "ceases to sell any gold under any circumstances and wherever held."

W.S.Jr: I meant the Government of France.

Taylor: The October 13 statement, which ties back into it, specifically says that governments' stabilization funds which offer to sell gold to us under conditions which you deem to be in the public interest - and that's the reason for that.

W.S.Jr: I see.

"(a) Statement issued dropping France from October 13th list, i.e., the new list would not contain France." You mean you'd issue a new statement.

W.S.Jr: That statement is prepared and ready. If you'd like to have it read, Clarence has it.

W.S.Jr: how long is it?

W.S.Jr: About eight lines.

W.S.Jr: Read it.

W.S.Jr: "In lieu of the statements of the Secretary of the Treasury of October 13, press release #867, and November 24, 1936, press release #895, naming the countries complying with the conditions specified for the purchase of gold from the United States for immediate export or earmark, the Secretary of the Treasury today named the following countries as complying with such conditions, as set forth in his press release #866 of October 13, 1936, as supplemented by his press release #894 of November 24, 1936." And then the four countries are listed without including France.

W.S.Jr: "(b) Federal Reserve Bank of New York to be notified of such action and instructed to notify the Bank of France." Well, I don't want to see those.

"(c) Such action is not a repudiation of the tripartite undertaking."

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You mean as a whole? It just drops....

Taylor: What adds to that public declaration, which is the general policy.

W.C.Jr: But it would drop France as a member.

Taylor: Not necessarily.

Goodhead: As a member entitled to receive gold.

W.C.Jr: Receive gold from whom?

Goodhead: From us.

W.C.Jr: You mean she could take gold out of here?

Goodhead: I say that stops her from taking gold away from us, having access to gold, but it does not drop her from the original tripartite; the original tripartite agreement made no mention of gold.

W.C.Jr: I see.

Viner: I don't agree with that myself. I say that we don't - we still don't have to declare that she is not a member of the agreement.

W.C.Jr: Well, that's what I'm - then you're arguing on the same side.

Viner: We don't have to make a declaration that she is not a member of the agreement, but in fact she has not lived up to what has become of the agreement. That is, she wouldn't be in good standing, but we needn't say she is no longer a member.

W.C.Jr: Well, you're on the opposite and we're on the same side.

Viner: I think so, yes.

W.C.Jr: The question I raise is this. The question I raise - if we publish this new list, I take it that that does not - I mean we're declaring France out of the tripartite agreement, is that right?



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(Viner, Taylor, and Oliphant nod yes)

- H.H.Jr: When the next question I raise - what facilities of the tripartite agreement are left to her?
- Copier: Consultation and exchange of information.
- Oliphant: And her duty to do what she can to maintain exchange rates and all the rest of the undertaking.
- White: And our recognition that she has not violated it; that is, our lack of public statement that she has.
- Viner: What obligations do we have to her?
- Oliphant: Our reciprocal obligation to do what we can to maintain exchange rates.
- H.H.Jr: Well, that brings up the point, would we have that day-to-day operation as between the two banks?
- Taylor: No.
- H.H.Jr: Well then, what is there left to stabilizing exchange?
- White: Well, you can...
- H.H.Jr: Just a minute, please.. What is there left? Put it this way - I mean what does France do to hold up her end?
- Viner: That's the question I asked. I think all that came afterwards became part of this tripartite agreement. I like to take them all together and also to assume that France undertook at the time to make arrangements with us that would be satisfactory, and that when she even by force of circumstances was forced out of them, we may still grant her all the privileges of the agreement if we want to, but we are under no obligations to do so.
- H.H.Jr: I'm still going to drive on this point. France takes action on her part, independent action, I take it, without consultation with us - and there is nothing said in here as to whether this is done with or without consultation. That's left out.

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- Walter: If she does anything without consultation, she is violating it.
- W.C.Jr: Then put that in under (a). Under (a) there should be "with consultation" and "without consultation." That should be included.
- Wife: That should be in there. We took it for granted.
- W.C.Jr: You can't take it for granted.
- Wife: You're right.
- W.C.Jr: I think that's the essence of the whole thing. If she does it with consultation, then she is living up to the thing. "With consultation" means she would ask our permission. Well, supposing we said, "Under the circumstances there is nothing else you can do." Then this is all right. But supposing she does it without consultation; then what is there - why should she remain in the club? Let's argue that way. Aiefler?
- Aiefler: (Nods nothing)
- W.C.Jr: What? I mean I think I would put it here "Possible action." I don't like that sentence, but anyway....
- Wife: Well, that's mine.
- W.C.Jr: Well, I don't like it. I mean it's too many words and I don't think it says anything. It either should be more or less.
- Walter: It could be less.
- W.C.Jr: Well, it either should be more or less. Under that would be (a) 1 - "with consultation," and then we do certain things; (a) 2 - "without consultation." Now, if she does this thing without consultation, then I - Clarence, I think that our declaration should be something else; then I think we should just announce she is out.
- Walter: The thing I was thinking was that this cuts through all these different alternatives. You might put a

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statement at the end.

W.C.Jr: Let's just insert that. Let's discuss....

W.C.Jr: All of these are with consultation.

W.C.Jr: Well, let's put it in, but have an alternative in each case, "without consultation."

W.C.Jr: Does "with consultation" have a definite enough meaning in this instance?

W.C.Jr: I'll explain what I mean: that they will either send for Cochrane or have the Ambassador come in and say, "We are proposing to do the following thing within 24 hours."

W.C.Jr: And give us a chance to suggest to them that there might be something else they might do?

W.C.Jr: Yes. But they've got to give us 24-hour notice under the agreement.

W.C.Jr: That would be notification. I take it consultation would give us an opportunity....

W.C.Jr: ....to argue with them.

W.C.Jr: Right. But if they give us the right to consult - but I think if they should move without that, then I'd say they were definitely out. Let's say they do give us the right, and then we don't agree; then they go ahead. Should we still - then they are still a member of the tripartite agreement. Then what are our obligations to them?

W.C.Jr: Before we leave that other point, may I ask, does the tripartite agreement as such contain provision for 24-hour notice? I don't remember that.

W.C.Jr: No.

W.C.Jr: No.

W.C.Jr: Well, I mean I've said it - I've said that as far as we're concerned, publicly, that the tripartite agreement is only on 24-hour notice.

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- Wright: Well, that's a little different. But at no place in the tripartite or any of the parts.....
- W. J. Jr: well, there was something put in on that thing which they didn't like, if you remember; the French wanted it put - that thing; there is some definite verbiage in there which leaves that impression.
- Wright: That was the purchase and sale of gold - October 13.
- Wright: Just trace a little history. It's a little confused. I'd like us to go back to the morning after the tripartite agreement was consummated and refresh our recollections as to what the picture was then. The tripartite agreement was worked out, released, and so forth. Then, much later, we took up the question "Now, on what conditions and to whom will we release gold?" And it was in connection with that later arrangement to release gold to particular countries that we worked out this plan whereby we'd operate with them, commit ourselves to them on a 24-hour basis, and stipulating for 24-hour notice. Now, certainly if they didn't give us 24-hour notice, that would be a repudiation of that subsequent arrangement, but it wouldn't be - I mean there's a difference there, you see.
- W. J. Jr: Well, what does the subsequent arrangement on the exchange of gold - what does that say? Anybody got that?
- W. J. Jr: General statement?
- W. J. Jr: Read it. Which is the one where we engage to exchange gold?
- W. J. Jr: That's the October 13. You recall there were two of them; the first one applied to England and France; that was October 13.
- W. J. Jr: Let's have that.
- W. J. Jr: "Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that hereafter,

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and until on 24-hour notice this statement of intention may be revoked or altered, the United States will also sell gold for immediate export to or.... "

Mr. J.: That's all I want. That's where it is.

Witness: If I may add just one other piece of history to get it clear, that thing was followed by an exchange of correspondence between the banks whereby we worked out another 24-hour thing, and Lockhead can tell you what that is.

Witness: As I interpret the situation, the subsequent arrangements were necessary in order to implement the original statement, and the whole business is the tripartite agreement, rather than the original document.

Mr. J.: Just a moment....

Witness: And including all the customs and understandings that have developed under it.

Mr. J.: Would you mind repeating?

Witness: As I understand it, these later agreements were fore-shadowed by the original statement, which was intended - was a statement intended to be followed by arrangements, and that the later arrangements, plus the original agreement, plus the understandings and conversations, together form the tripartite arrangements, and not any particular document and the particular words in that particular document. That's my understanding. And therefore, if the later arrangements were foreshadowed by the original agreement, and if the spirit of the original agreement would not have been carried out if these arrangements had not been reached, then a violation of those arrangements, unless we grant that the circumstances were such as to force it or make it acceptable to us, is a violation of the tripartite agreement. I admit that is an interpretation. I don't mean I can show it to you or demonstrate it. Perhaps that's a wrong way of looking at it, but it's the way I look at the whole business, and I think it's the way the public looks at it.

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- Speaker: You remember, don't you, Jake, that there is no reference in here, in the October 13 statement, either expressly or by implication, tying this thing up with the signatory countries to the tripartite declaration. The Secretary could add ten countries to that list and had nothing to do....
- Witness: But actually we asked for statements from other countries, we tried to get statements from other countries that they would subscribe to that original statement.
- ... Jr: Well, they joined it, they did subscribe. The three countries that came in subsequently - they did subscribe to the other.
- Speaker: That is perfectly true, and it was your policy at that time not to extend this privilege of October 13 to anybody who didn't subscribe.
- ... Jr: That's right.
- Speaker: But nevertheless, the document is such and the program stated in it is such that if you decided that you wanted now to extend it to ten other countries who were not signatories, or subscribers, to the tripartite declaration, it seems to me it would be inconsistent with the framework of this to do anything else; if you felt you ought to do it, you could do it.
- ... Jr: Let's say Japan was knocking at our door. The first thing we would say to them - "Would you subscribe to the September 26 document?"
- ... Jr: Principles.
- ... Jr: Principles. That would be the first thing. "Now, you do or you don't. If you do, all right, then we'll give you the same privileges we have given Holland and Belgium, provided that it is agreeable to England and France." Now, we agree that any more members - we only consult England and France as to whether they come in, and we couldn't go through all this rigmarole; but in each case we would consult the original two members, which were England and France. But we wouldn't let anybody come in unless they subscribed to the principles of September 26.

(Olliphant goes out)

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- Viner: That's the way I like to interpret that whole series of arrangements.
- W.S.Jr: That's the way I understand it.
- Taylor: The principles are the important thing, and then the technical arrangements, which very likely will vary with each country.
- Viner: And, as time goes on, with circumstances.
- Taylor: Or mechanics which implement it, but are not necessarily a fundamental part of the tripartite agreement.
- W.S.Jr: Well now, is the atmosphere clearer? Do we understand each other? Then it gets down to this thing again, this important question of "with consultation." If France should consult with us about a gold embargo or limiting - say, the discontinuance of.....
- Taylor: Buying between points - that's the thing which she is doing, see?
- W.S.Jr: Supposing she can't continue to do that. I mean that's just what you're talking about here. Do we simply announce that we have revoked the October 13 arrangement, or do we go back and say she is not even a member of the September 26 arrangement?
- Taylor: You have your option.
- Viner: You have your option, I'd say, and you ought not to decide that, I'd say, before.....
- Taylor: If you want to kick them out, you can; if you don't, you don't have to.
- W.S.Jr: Well, I would say that we'd kick them out of the September 26 thing only as an extreme measure, leave that as absolutely - with the hopes that if we cancel the October 13 privilege, circumstances may come so she might be able to come back again. Huh?
- Taylor: (Nods yes)
- W.S.Jr: Now, who disagrees with that thought?

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- Walter: I don't disagree with your conclusion. I think if you wished to kick them out - I think the case might - a stronger case might be made than what Viner did, that you wouldn't have as adequate grounds as you made out. But since that isn't the point at issue, there is no need of discussing it.
- Walter: I don't disagree with the conclusion either, but I want to suggest that there are still alternatives there. I guess there are at least two. One is that nothing is said about the September 26 statement; that is, simply an announcement that they are no longer on the October 13 list. The other is that you make an affirmative statement, so to speak, to set at rest the international question, and say that you don't regard them as out of the September 26 agreement.
- Walter: Of course, the circumstances surrounding whatever France does will help to make up one's mind. But by leaving her in, one assumes a definite obligation, and it also can be condoned by the public - I mean it can be interpreted by the public that we condone a movement in the direction - in a direction which is adverse to what we have been working for. I mean I think that has to be considered very thoroughly. After all, if France did this, they'd say, "Well, Mr. Morgenthau, do you approve of what France has done?" "Well, the chances are I don't." "Well then, why do you leave her in the tripartite agreement?" "Well, we are in hopes that she will see the light and come back."
- Walter: That she'll get well.
- Walter: Now, who would have to sign this document here, Case One?
- Walter: You mean the press release. Well, theoretically, it could be issued by you and it wouldn't have to be signed by anybody.
- Walter: Did it read "with the approval of the President"? How was it done before?
- Walter: This is identical with the form of the previous statement. But you did get the approval of the President to all those papers before you issued them.



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But he doesn't have to have it.

I beg pardon?

You don't have to have it.

Did the October 13 have the President's approval?

Our office copy has his approval.

I see. Well, I think I understand and I'm ready to go on Case Two. Does anybody want to talk to Case One? All right.

I wish Herman would sit in. I'm not going to go over this thing more than once. I mean I don't know what he's doing, but I only..... (On phone) Where's Mr. Oliphant? He went out quite a while ago.

Will you (Opper) go out and tell Mr. Oliphant I don't care what it is, I'm not going to have this thing interrupted by anybody; I'm the only one that's going to take any interruptions.

(Opper goes out)

What does "ad hoc" mean?

It's explained in the next sentence - special arrangements in each case.

"If France imposes an embargo with ad hoc arrangements" - what does that term mean?

No regular arrangements, each shipment and sale involving a special trade.

(Oliphant and Opper return)

Herman, we may pass over something, and.....

I'm sorry, but that was the final statement.

Well, I mean a week from now I'd say.....

Excuse me. Ten o'clock is approaching very rapidly.

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H.S.Jr: but I mean I'm the only one that can interrupt.  
Now, where were we?

Wylor: Case Two.

H.S.Jr: "If France imposes an embargo with ad hoc arrangements, arrangements which involve the purchase and sale of gold only on terms arranged for each transaction." I still don't - I mean this language is the most involved language I've ever read.

Wite: well, we can simplify it.

H.S.Jr: (on phone) Hello. (Conversation with Cochran follows.)

June 16, 1937.  
9:38 a.m.

Cochran,  
Merle H.: Hello.

H.M.Jr: Good morning.

C.: Good morning, Sir.

H.M.Jr: Now Cochran -

C: HUH!

H.M.Jr: - I handled the question that you put to me in the following manner.

C: Huh!

H.M.Jr: Hello.

C: Yes.

H.M.Jr: In the first place I discussed it with your Superior and with mine, and then I sent for the British Ambassador and told him the whole story.

C: Yes.

H.M.Jr: And asked him to advise me what were the wishes of the British Treasury.

C: Yes.

H.M.Jr: Now, I'll read you over the phone what - the word I have from the British Treasury, see!

C: Yes.

H.M.Jr: "Please inform Mr. Morgenthau that Mr. Norman's suggestion arose from the fact that it will be necessary to give very close attention in the immediate future to the French position on which we are very much in the dark."

C: Yes.

H.M.Jr: "From the amounts of gold which have passed to us in the last six days it is obvious that they are losing gold at extremely heavy rate even for them."

C: Yes.

H.M.Jr: "Governor of the Bank of England, who had seen Mr. Cochran at Basel, suggested if he could find it convenient to visit London, his opinion on the situation in Paris would be most valuable. The Treasury concurred and said that they would be most glad of opportunity of discussion of position informally with Mr. Cochran, if it suited his convenience. Chancellor hopes that Mr. Morgenthau sees no objection."

Hello. I can't understand that.

Hello.

C: Hello:

H.M.Jr: Did you get that?

C: Yes, I - I didn't take it down - I have the sense of it.

H.M.Jr: Yes. Now, under those circumstances I am perfectly willing that you do go to London on Monday.

C: That, that I do . . . . .

H.M.Jr: . . . . That you do go.

C: Yes.

H.M.Jr: I want you to file me your cable from London, whatever information you get there.

C: I see.

H.M.Jr: And I also - when you get through - I want you to tell Butterworth entirely what happened.

C: All right.

H.M.Jr: And I am telling Butterworth that you're coming.

C: Fine.

H.M.Jr: I'm asking him to cooperate with you when you arrive there.

C: Fine.

H.M.Jr: Futhermore, on the return of Mr. Bullitt, I wish him also informed.

C: I see.

H.M.Jr. See?

C: That's all right.

H.M.Jr. Now - look - have you got your instructions - -  
I, I want them carried out just as I'm giving them  
to you.

C: I, I didn't get that ---

H.M.Jr: Hello.

C: Hello.

H.M.Jr: And I'd like you to carry out these instructions  
just the way I'm giving them to you.

C: All right. Let me get that straight once more. You  
want me to file the cable at London.

H.M.Jr: Yes.

C: To let Butterworth know just what I've done.

H.M.Jr: Yes.

C: And to let Bullitt know when he comes back.

H.M.Jr: That's right.

C: All right.

H.M.Jr: Hello.

C: Huh!

H.M.Jr: Just a minute. And - yes, I'm asking Mr. Butter-  
worth to offer you every cooperation on your  
arrival there.

C: Surely.

H.M.Jr: And . . . so there won't be any possible mis-  
understanding.

C: . . . You want anything that I get; whether it's  
on banks or anything else - you want it filed there.

H.M.Jr: That's right.

C: Because, just between us, I still have the feeling  
that it's something beyond that . . .

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H.H.Jr: What's that?

C: I still have the feeling that they may bring up something besides the French situation.

H.H.Jr: That's all right. I trust our Embassies.

C: Fine. Fine.

H.H.Jr: I mean I'm not going to have Mr. Norman casting any doubt on any American Embassy.

C: Well, I--I think that's the right thing.

H.H.Jr: And I have complete confidence in our Embassies and their staffs.

C: . . . . put up to me.

H.H.Jr: Pardon me?

C: I say I put it up to you just as it was put up to me.

H.H.Jr: Yes, and I've, and I've spent a lot of time on this.

C: Yes, I know you have.

H.H.Jr: Now, when you go over - a

C: . . . . I can leave here . . . . noon.

H.H.Jr: Pardon me?

C: I shall leave here Sunday noon.

H.H.Jr: All right. Now you use your judgment when you go over there.

C: . . . . and get the night train back.

H.H.Jr: Yes.

C: That may - might make it pretty difficult for me file my message from London .

H.H.Jr: Now listen Cochran, please don't argue on that.

C: I'm sorry.

H.H.Jr: Please don't argue on that. And - a - a - as I say, when you get over there, I'm not going to -

you just gotta use your head, that's all.

C: Fine.

H.M.Jr: I'm leaving that part to you.

C: Yes.

H.M.Jr: But as to this other, I have definite reasons why I want it done just the way I've asked you to.

C: All right. I'll take it up exactly that way.

H.M.Jr: But as to what you do and what you say and what you hear, I've got - -

C: . . . I didn't hear that last.

H.M.Jr: I say, as to what you do and what you say I have complete confidence in you.

C: All right, Sir.

H.M.Jr: But as to this mechanics, I have definite reasons why I want it this way.

C: . . . . I'm sorry . . . .

H.M.Jr: I say, as to the mechanics, I have definite reasons why I'd like you to handle it the way I suggested it.

C: I understand absolutely.

H.M.Jr: See. And if it's sufficiently important, why don't hesitate to use the telephone from London.

C: All right. But, but the chances are that they'll keep me busy there that day, and I'll file the cablegram the last thing, and then come back so as to be here Tuesday morning.

H.M.Jr: Right. Wish you the best of luck.

C: . . . . here is pretty bad.

H.M.Jr: What's that?

C: I say, the situation here may get worse over the week-end.

H.M.Jr: Yes. I mean, I wouldn't let you go if I didn't have complete confidence in you.

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- C: (Laughter) I know it.
- H.M.Jr: And I'm, I'm not trying to tell you what to say or what you shouldn't say.
- C: I know, and I shall listen - that'll be a main thing.
- H.M.Jr: That's, that's right. Well, good luck.
- C: All right, Sir. I'll be back here Tuesday morning then.
- H.M.Jr: Anything you want to tell me about the French situation?
- C: The, the only thing is that the Senate Finance Committee received this measure yesterday evening.
- H.M.Jr: Yes.
- C: Yesterday afternoon.
- H.M.Jr: Yes.
- C: But . . . . . to give the full power. They want the Government to state definitely what they intend to do. . . .
- H.M.Jr: Yes.
- C: . . . . to stop speculations and fraud.
- H.M.Jr: Yes.
- C: Blum and Auricl are supposed to have sent word this afternoon that they would not be satisfied with any measure which would limit them. See.
- H.M.Jr: I see.
- C: They want the full authority as in the Treasury.
- H.M.Jr: Yes.
- C: So now they try for a compromise.
- H.M.Jr: Yes.
- C: And the bill probably will be debated tomorrow.
- H.M.Jr: Yes.



~~SECRET~~

C: It is possible that the debate might be postponed until Monday.

H.M.Jr: Yes. Now, Hello.

C: Yes.

H.M.Jr: The important thing that we want is--if it, if you have, can give us hints as to possible course, if any, that the French may take.

C: Just now I can't - they . . . . .

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

C: . . . . . stabilizing . . . . .  
and getting the ten billion . . . .

H.M.Jr: Would you mind repeating that please?

C: I say, it seems that they have dropped to their authority

H.M.Jr: Yes.

C: Their motive is to devalue to the full limit.

H.M.Jr: Yes.

C: To forty-three milligram.

H.M.Jr: Yes.

C: That's twenty-two point ninety-six to the dollar.

H.M.Jr: Yes.

C: And take the profit which they could . . .

H.M.Jr: Yes.

C: and also  
And the Senate doesn't want them to have such full authority,

H.M.Jr: I see.

C: And the Senate is also against . . . . . you know they pledged themselves not to put on exchange control.

H.M.Jr: Yes.

C: But they will close supervision.

H.M.Jr: Yes.

C: Perhaps put a heavy tax on holdings in France.

H.M.Jr: I see.

C: Upon accounts and deposits, and so on, that will tax the amount of foreign exchange sold.

H.M.Jr: Yes.

C: And the Senate is afraid to let them have so much power.

H.M.Jr: Well. Now Cochran . . . .

C: . . . There's been trouble over the Ministry of Finance, because I just had word five minutes ago that Rueff was out.

H.M.Jr: Oh, really.

C: Yes. His Assistant was fired last week.

H.M.Jr: Really.

C: had had difficulties with Auriol.

H.M.Jr: Yes.

C: And the story today is that he's out, but I haven't confirmed it, I just got it five minutes ago.

H.M.Jr: Well, is Rist no longer a member?

C: No, Rist and both quit last Saturday.

H.M.Jr: Oh, my!

C: So they, they both got off.

H.M.Jr: Ah, that's too bad.

C: And it had a bad effect.

H.M.Jr: Yes.

C: Then the other thing I had - just a moment.

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- C: Oh, they, they told me very confidentially this morning, that the Bank Statement which comes out a week from yesterday . . .
- H.M.Jr: Yes.
- C: . . . that is, it gives the condition of, as of yesterday - will show no gold loss. . . They say, they told me that it's no trick, but that they are over a certain profit; that they are paid some profit on the fund, but I don't know whether they've converted that into gold some place or what. But any way, they're going to present the Bank Statement showing any gold loss to be
- H.M.Jr: Well, who do, who are they trying to fool?
- C: (Laughter) I don't know.
- H.M.Jr: Yes. All right - Cochran, I got your letter, and I extended that arrangement July 1st, for twelve months.
- C: Oh, fine. Thanks a lot.
- P.M.Jr: Right.
- C: And I'll carry this through just as you have said.
- H.M.Jr: If you please.
- C: Even if they put in something that's entirely foreign I'll put it all in the cable and not hold out anything.
- H.M.Jr: If you please.
- C: All right, Sir.
- H.M.Jr: Thank you.
- C: All right.
- H.M.Jr: Thank you.
- C: Good-bye.
- H.M.Jr: Good-bye.

~~SECRET~~

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Wilmington: Sueff out?

W.C. Jr: Yes. We'll have what's-his-name in a minute -  
Butterworth will be on in a second.

I don't know, Cochran - he's a little "old-maidish" about some of this stuff. I don't want him to go to Great Britain and have the American Embassy in London feel that he hasn't got enough confidence - he's got to go over to Paris and file his cables. I mean after all that's - I don't want anybody to say I haven't got enough confidence in our staffs. I mean that's up to Mr. Hull. and I think the American Ambassador to Great Britain would say, "That's a wonderful slight, Morgenthau." I knew he'd say - I knew he wouldn't want to do that. I get the damndest - he thinks of the most wonderful reasons why he shouldn't file them in Belgium and Holland; he had to work on the train, and his notes weren't in shape. I know why he's doing it; he doesn't want this stuff to leak. But on the other hand, it's kind of tough on these Ambassadors.

(On phone) Why am I kept waiting so long for London?

W.C. Jr: She has to get Mr. Butterworth.

W.C. Jr: I'm just teasing.

W.C. Jr: I thought you were.

(Hearty laughter)

Wilmington: Good girl.

Wilmington: The fact that they have their statement fixed so as not to show any loss next week.....

Wilmington: That's why Sueff went out, probably.

Wilmington: Remember the statement I got from New York; that's why Hiss went out; his last reason, specific reason, was they faked the statement.

Wilmington: On the other hand, it means they don't have to do anything over this weekend. A lot of them were afraid

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the statement would cause so much trouble, and now they'll draw a deep breath and fight it out in Parliament on another day.

Wright: That's the same kind of thing as not letting people know until after they had gotten there that DeBayle wasn't coming up there. I mean it's the same thing.

W.Jr: Well, I'll get down to this thing in a minute. You boys got it in nice shape. It all gets down to this thing. Let's say that - just while we're waiting - I don't know whether this is covered - let's say the Bank of France doesn't make an honest statement. Is that any of our.....

Taylor: Well, we don't know whether it is or not.

Lockness: You can't contest their statement.

Taylor: Gentlemen are still gentlemen.

Viner: And their bookkeeping is their own business.

Taylor: How do you know?

Wright: Isn't it marvelous, when you start to think of it, that the corruption of public officials continues abroad just like the tariff does in this country.

W.Jr: Well, talking on that, reading my statement this morning, I loved the thing that they gave me, the sporting attitude toward taxes; I think that that's grand. You know, the Tribune couldn't find a single thing wrong with it from the news standpoint.

Wright: I didn't read the Tribune. I saw the Times.

W.Jr: Did you see the Times? The Tribune had not a single sarcastic thing in it. And all Book Carter could say last night was, "The Treasury appeared on the Hill, they said they're going to give the names, we'll see what we will see." That's all he said.

well, anyway, we'll go on while we're waiting for Butterworth. "If France imposes an embargo" - we've got that ad hoc stuff; I think that was a kind of a whine.

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- Oliphant: It's a bear.
- H. A. Jr: Have you passed that?
- White: No.
- H. A. Jr: "Arrangements which involve the purchase and sale of gold only on terms arranged for each transaction."  
(To Kieley) If anybody should call Mr. Oliphant, let him know, will you, because they may need him on this thing.
- "Arrangements which involve the purchase and sale of gold only on terms arranged for each transaction." You mean they only do it on each single transaction?
- Taylor: No regular pattern. In other words....
- Oliphant: Like Costs vice.
- H. A. Jr: Well, there's no argument there.
- Case Three. "If France declares an embargo on exports of gold to all countries but undertakes to treat club members as they are treated now with respect to gold purchases and sales." .... "to all countries, but undertakes.. ." - I mean they exclude club members, is that it?
- White: Yes.
- H. A. Jr: "There are two possible courses of action that might be taken by the Secretary. (a) Do nothing and make no statements. (b) Do nothing but issue a statement to the effect that France's course of action is in accord with the tripartite undertaking."
- Viner: They then put themselves in the same position we are in now.
- H. A. Jr: That we are in?
- Viner: We now - that's the way we operate.
- Taylor: With the exception that we do make special arrangements.

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Viner: Do we?

Taylor: (Nods yes)

Viner: Do we? Have we, do we?

Taylor: I'm talking about non-club countries. We do make special arrangements.

Viner: So could they if the government wished to.

Taylor: Yes, but that would be the one difference in the pattern.

Viner: Even that mightn't be there.

H.S.Jr: Case four. "If France...." Anybody got anything on this?

Viner: I just wanted to say that in the event you did want a written statement to the effect that there had been no change, we have one here.

H.S.Jr: A written one. I see. I question that.

Viner: Just to be ready in case you did.

Taylor: Depends on the consultation. If you and the British and the French agree that a written statement which would be uniform was desirable, you could do it that way.

Viner: The French might press you for such a statement. They might want it very badly.

H.S.Jr: Most likely would.

Viner: Beg pardon?

H.S.Jr: Most likely would.

Viner: They would, yes.

H.S.Jr: Four. "If France imposes an embargo on the export of gold....."

(On phone) Hello. (Conversation with Butterworth follows:)

June 18, 1937.  
10:45 a.m.

H.M.Jr: Hello.

Operator: Mr. Butterworth.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Butterworth: How-do-you-do, Sir.

H.M.Jr: Hello, Butterworth?

B: Butterworth speaking.

H.M.Jr: Can you hear me?

B: Yes, Sir.

H.M.Jr: Butterworth, a - When Governor Norman was, met Cochran in Basel he sounded him out about coming over to have lunch at the Bank of England.

B: I see.

H.M.Jr: He subsequently telephoned him and asked him to come next Monday . . .

B: Yes.

H.M.Jr: . . . implying that he had consulted with the Treasury.

B: I beg pardon, I can't hear you.

H.M.Jr: That he had consulted with the British Treasury.

B: Yes.

H.M.Jr: But he wanted it surrounded with all kinds of secrecy.

B: Yes.

H.M.Jr: So, I told the whole story to Sir Ronald Lindsay and asked him to give me his advice.

B: Yes.



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W.M.Jr: That I wanted it - as Sir Ronald put it - from the horse's mouth direct.

E: Yes.

H.M.Jr: So, he cabled for instructions, and they, they, and sent me the following message.

E: Yes.

W.M.Jr: "Please inform Mr. Morgenthau that Mr. Norman's suggestion arose from the fact that it will be necessary to give very close attention in the immediate future to the French position on which we are very much in the dark. From the amounts of gold which have passed to us in the last six days, it is obvious that they are losing gold . . .

E: . . . I can't hear you.

H.M.Jr: "From the amounts of gold which have passed to us in the last six days, it is obvious that they are losing gold at extremely heavy rate even for them."

E: Yes.

W.M.Jr: "Governor of Bank of England, who had seen Mr. Cochran at Basel, suggested if he could find it convenient to visit London, his opinion on the situation in Paris would be most valuable."

E: Yes.

W.M.Jr: "The Treasury concurred and said that they would be most glad of opportunity of discussion of position informally with Mr. Cochran, if it suited his convenience."

E: Right.

H.M.Jr: "Chancellor hopes that Mr. Morgenthau sees no objection."

E: Yes . . .

H.M.Jr: Well, under those - under the - in view of that statement I have asked Cochran to be there Monday.

E: Right.

H.M.Jr: To keep you informed . . .

E: Right.

W.M.Jr: To file his cable in London . .

B: Yes.

W.M.Jr: To let you see it, and I'm asked to, to, and I'm asking you to offer him full cooperation while he's there.

B: Right. That's fine. I shall be delighted to do anything I can.

W.M.Jr: Now, do you - anything you want to ask me about that?

B: No, nothing - I, I presume that, that I will go to the Treasury with him, but not to the Bank of England.

W.M.Jr: A - yes, I mean, if they invite you to the Bank of England, of course go; and if they go to the Treasury, I should think you would go.

B: Right.

W.M.Jr: A - a - I was very careful to tell them, Sir Ronald, that I was, I had a representative there who he knew, who was carrying on our, who was representing us entirely satisfactorily.

B: Good. Well, that was very kind of you.

W.M.Jr: And that - I told him that.

B: Yes. Well, that's very kind of you.

W.M.Jr: So, if he goes to the Treasury, of course you go along. And - -

B: Yes, well . . .

W.M.Jr: And any information which you have please, which would be helpful, please give it to them.

B: Oh, I will then - I mean, I'd be delighted to do anything I possibly can.

W.M.Jr: Now, - -

B: . . . by the word this morning . . .

W.M.Jr: I don't hear you.

B: . . . . Phillips has gone there for the week-end.

- Edw. Jr: Pardon me?
- B: I say, I had a word with Waley this morning.
- H. A. Jr: Yes.
- B: Phillips has gone away for the week-end.
- S. A. Jr: Yes.
- B: To the country. . . .
- H. A. Jr: Well, that, Well that isn't news, is it?
- B: I beg pardon?
- H. A. Jr: That isn't news, is it?
- B: (Laughter) No, that's not news. But Phillips has talked to Mr. and in turn, we're going to speak to him again this afternoon, and I probably shall have another word with Waley this afternoon about the Swiss position.
- S. A. Jr: Yes.
- B: Ah, there's one thing more I'd like to suggest.
- H. A. Jr: Please.
- B: In that connection - is - I haven't found it out from the British Treasury, but from informal inquiries that I've been making with some of my market contacts, it seems quite possible that there may be other Central Banks, among the smaller countries, who are likewise doing a little selling. Now, I don't know that that's happening . . .
- H. A. Jr: But they're not members of the tri-partite agreement.
- B: No, they're not.
- H. A. Jr: Right.
- B: Still it seems to me that it's an important thing that both countries have to bear in mind.
- S. A. Jr: Well, that's all right.
- B: . . . . . if, if it is the question of the dry rot spreading, and the other smaller Central Banks

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unloading some of their, at least some of their excess gold on us.

W.S.Jr: Yes. Well, I have no doubt that, that they'll try it.

B: There's a classic story that floats around the City of London - I remember hearing it when I first came here - and it has to do with Tripp's predecessor.

W.S.Jr: With Tripp?

B: Tripp's predecessor.

W.S.Jr: At Basel.

B: No, no, as Head of the Dutch Central Bank.

W.S.Jr: Yes.

B: I think his name was

W.S.Jr: Yes.

B: And he's alleged to have rung up at the Bank of England, in the bad days of 1931, and asked him about the pound.

W.S.Jr: Yes.

B: And he received the answer that the pound was as strong as Gibraltar. And as a result of that he didn't but as a result of that the Dutch Central Bank and as a result of that , took the title from Tripp.

W.S.Jr: I, I get it.

B: Do you understand it?

W.S.Jr: I understand the is-- perfectly.

B: It's a matter of record about the French losses.

W.S.Jr: Yes.

B: About the French losses in 1931, too.

W.S.Jr: Yes.

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- B: With that general feeling in mind, if there should be a sort of confederate movement, among the smaller Central Banks, to sell some of their gold, and I'm not sure that some of them haven't been although I can't obtain proof about them.
- H.M.Jr: I see.
- B: It might be a movement that it would be sound for us to have, to keep our high on . . .
- H.M.Jr: That's right.
- B: . . . and to discuss with the British. . . .
- H.M.Jr: Not yet.
- B: . . . the Bank of England would know definitely what the Austrian, Hungarian and the country people have been doing in the way of their gold.
- H.M.Jr: Well now just hold the wire a minute. Just hold the wire a minute.
- Hello.
- B: Yes, Sir.
- H.M.Jr: There's no ques- . . . .
- B: I don't hear you.
- H.M.Jr: There's no question but what they've been doing it, see . . .
- B: Yes.
- H.M.Jr: But it isn't a particular sort of worry to us at this time.
- B: Good.
- H.M.Jr: And I would rather that you did not bring it up because I don't want them to think that we're worrying about that particular phase at this time.
- B: I didn't say a word to them and I didn't intend to until I had a word with you first, Sir.
- H.M.Jr: No, I wouldn't do it.

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B: Thanks.

H.M.Jr: But, do I gather from the fact that Mr. Phillips has left for the week-end that he is not worrying, or does it just mean that he has left for the week-end?

B: (Laughter) I think he's just left for the week-end.

H.M.Jr: Yes.

B: They said at the British Treasury this morning - they showed me . . . .

H.M.Jr: Pardon me?

B: They showed me latest report. He's their man in Paris.

H.M.Jr: Yes.

B: The British Treasury's in Paris, and

H.M.Jr: I see.

B: and quite frankly he didn't know what was going to happen in the Senate, but that he thought that

H.M.Jr: Well, the latest gossip from Paris is that Rueff is out.

B: Yes.

H.M.Jr: And you know that Rist is out.

B: Yee, I'd heard that.

H.M.Jr: Yes. Now just a minute. The men in the room here say that I can point out to you the reason that we are concerned about what the Swiss have been doing is because they are a Club member.

B: Quite.

H.M.Jr: And that is quite different than some, what some other Central Bank is doing to another Club member.

B: I quite understand you.

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H.M.Jr: You see?

B: Yes, I understand.

H.M.Jr: And the thing that we will fear is - I mean that Holland who, and Belgium who have been behaving extremely well . . .

B: Quite.

H.M.Jr: . . . might say, "Well, why should we continue this way if Switzerland can get away with it"?

B: (Laughter). Yes, I, I . . .

H.M.Jr: You see? And - - - anything else you want to ask?

B: No, that's all, Sir.

H.M.Jr: Well, well that's that.

B: Thank you very much.

H.M.Jr: Good luck.

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Wagner: Here's a short cable from Cochran; it's not necessary to read, except that he emphasizes that they will hold to the tripartite agreement, says they have no intention of getting away from that.

W.J.Jr: I'm glad to see my balance back to over a billion dollars. Didn't look so good down there.

All right, gentlemen, we'll now go ahead.

Four. "If France imposes an embargo on the export of gold with a new pattern of the sale of gold, that new pattern may take one of many forms. Irrespective of the form it can take, there are two main alternative courses which the Secretary can pursue:

"(a) He can decide that new terms of sale of gold are such as are in the interests of the public. Such decision would be followed by the necessity for no action unless the Secretary wished to make a public statement as in Three above.

"(b) If the Secretary were to decide that the new terms were not in the public interest, he could pursue one of two courses:

"(1) He could adopt the procedure identical with that outlined under One.

"(2) He could introduce an intermediary step - namely, to suggest to France what might be done to modify the terms of sale so as to make them satisfactory to the United States."

What could be a new pattern?

Esler: Settlement once a week, or once every month, or once every two years.

Wagner: Or once over the weekend.

W.J.Jr: Five. "If France abolishes her stabilization fund, but permits the Bank of France to sell gold, (a) The Secretary of the Treasury would have to request that the French Government guarantee the gold operations of the Bank of France with us; (b) A new list of countries complying with conditions of the November 24th order would be issued to include France." I don't get that.



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Winer: That's of the Belgian type. That would put France in the Belgian type; we would put her on that list.

Winer: The form that this takes.... You remember we discussed this, that that would leave Great Britain sticking out like a sore thumb. So the form we discussed is a restatement of the five countries coming in under the two statements together, one or the other, without separating them.

Wright: One or the other. Otherwise you'd have Britain alone under the first and the other four countries under the second.

Wright: Window dressing.

W. J. Jr: I see.

"Actions taken by the French Government involving exchange control - some restriction on the purchase and sale of foreign exchange.

"Case Six. The imposition of a limitation on the right of United States to acquire francs.

"Inasmuch as the Secretary stated that all efforts should be made to keep France in the club, and since it is agreed that the wording of the tripartite statement permits him to do so, no consideration is being given herein to the question of whether he might also be justified in taking the position that France had departed from the tripartite declaration by adopting exchange control.

"Any other form of exchange control. Action as in Case Six.

"Increase in import quotas. Action same as in Case Six.

"Exchange Depreciation. Should France revalue at a rate lower than that agreed upon last fall or if it permits franc exchange to depreciate below that limit" - well then, she is out.

W. J. Jr: Well, it was at that point that the discussion did not terminate, and I wasn't sure there was agreement.

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- H.S.Jr: Well, that's the whole purpose - I mean that's absolutely the fundamental thing. What?
- White: I would agree; but there is some disagreement.
- Taylor: They're out so far as October 13.
- Alignment: Unless they bring themselves back in again.
- Taylor: However, if you and the British and the French decided that at this new level they would continue to live up to the purposes, etc., of the tripartite agreement, why, you could say that that was satisfactory to you, if you wanted to.
- H.S.Jr: Now listen, Wayne, either they live up to this thing or they don't. Now, if you begin to let people become "semi-monaine"-is that the word?
- Viner: Fine word.
- H.S.Jr: (+o reporter) Ask Dr. Viner for the spelling; he knows it.
- Now, what I started to say, the question was, when would France lose her amateur standing and become a professional?
- Alignment: well, that's a difficult....
- H.S.Jr: What?
- Alignment: That's a difficult question of judgment, based on how hopeful you wanted to be, and how cooperative you wanted to be, in letting her salvage anything she possibly could of her present situation, because in view of the weakness.....
- Viner: Well, it would seem that under the original tripartite agreement, if you think you can still keep it alive in any real sense, you might say "Anything goes," and I say you're helping France now and you're just giving up anything that you gained in signing the original tripartite agreement. There are those two points of view, you see.

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Quilley: The whole tripartite agreement, if I may observe, was motivated by the circumstances of France at that time, which was tottering, and to save that political situation in Western Europe.

Quinn: I remember at that time, Mr. Secretary - you recall.....

Quilley: And the situation now needs tolerance and patience even more than at that time.

Quinn: You recall.....

Taylor: What you really have is recurrence of the conditions which were present at the time that you engaged in the original one, and France did drop a amount and you took her back in.

Quinn, Jr.: But with the big difference that she's had the benefit of a devaluation and spent it.

Taylor: Yes.

Quinn, Jr.: All right.

Taylor: Now she's right back where she was at that time.

Quinn, Jr.: No, she's worse off.

Taylor: Well, here's the situation. You want to keep this from being as disastrous as possible, and you're right back where you were. You can take her back in, let her do what she thinks necessary to save herself, just as you did before, if you want to.

Vincent: I think there is something very important involved here and that the question is not one of cooperation with France. You can cooperate with her very generously without admitting that she had stayed within the original tripartite agreement, by making a new one but saying the old one was a real thing while it lasted; or you may say you'll cooperate with her by saying, "Oh yes, under the circumstances France is living up to it; and even if they aren't within the agreement - that doesn't mean that it wasn't a step forward.

But remember now that that tripartite agreement wasn't merely aid to France. We didn't merely say to the

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world, "We have helped France." What we said to the world was, "We have made a new monetary set-up." And I think to me that was a historical moment, and it would be without point to gut it now; and I think we can remain just as generous to France without gutting that tripartite agreement, no matter what state France falls in.

A. J. Jr: Just a minute - I'll give you a chance in a minute, George.

Now, do I understand from that statement that you can go so far as to drop France out but still keep the spirit of it?

Viner: I would say that in the light of the new French circumstances we have to make a new agreement, and that is the new agreement.

A. J. Jr: With France.

Viner: With France. But not to say that the new arrangement is quite under the terms of the old, and that no adjustments are necessary.

Wilmington: If you are willing to negotiate a new one when the other partner of the club says you can - the difference between that and saying you have breached the original one is a difference of words. The difference between those two things, as I see it, is - considered briefly, is a difference of form and not substance.

A. J. Jr: Now, George?

WHA: I would say - you recall when we discussed it, and also the press conference following, the Secretary took pains, great pains, to emphasize that the essence of the agreement was - the first thing that they kept in mind always was the internal economy of the different countries; you find that emphasized in the agreement; secondly was the rigidity of exchange. So I'd say if France got into difficult that they'd still be within the scope of the original agreement, and making adjustments which were contemplated in the original tripartite agreement, and that were kept open not only for their benefit but for our benefit. I remember at that time we didn't want to emphasize too strongly that we were going to a rigid exchange basis; and the British

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some back and didn't use "stability" of exchange; they used "equilibrium" and they take that broader term to include internal as well as external relations.

...Jr:

Yes, but George, here's the thing. When these things happen, you can apply them to your own personal experiences. I've been doing business with the commission man - awfully nice fellow personally, very honest. He's lost a lot of money and one of the banks is closed. I've been hoping that he'd be able to get back. He hasn't got enough working capital. He owes the city back taxes. He owes his new bank. When I did business with him, he'd be months behind in his payments. Well, I had to make the decision, would I do business with him today or would I not. I did business with him for ten years - perfectly nice fellow and always kept his word. But he'd be so exhausted his capital and gotten in such bad shape that I couldn't do business?

Now, when the French - when we talked with them last September, they still had that cushion, that extra cushion of devaluation. They also had the question of foreign markets, and the question of their status with their own people; the French people hadn't lost any money; would they regain sufficient confidence in the Government to invest in Government securities? "could they get.... Look what happened in Belgium after devaluation, and the way they got new foreign markets, new trade. They went ahead, they kept their price levels in relation to the new monetary picture, and they got the advantage and they went ahead. Well now, France had Belgium's example. And Holland made its adjustment; they've gone ahead. And the French haven't.

Now, I think we're in a sort of position here of international finance that we've got to just make up our minds that if we continue to carry France - let's say she devalues lower than the present announced limit; is she an asset that is worth preserving to the spirit of the tripartite agreement, as against this - let's call it the Schacht system? I mean can we - are we strong enough, England and ourselves, to carry it?

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Wilmington: A bulwark against Fascism is worth preserving, and that's the thing lying back of the tripartite agreement.

W.C. Jr: No, I don't agree with you on that, Herman. No, this is a matter now - I mean I think it's the other way. The tripartite agreement saved France for the time being and did save her from Fascism, but in weighing this thing - I mean I think we've got to think in terms of finance; can we carry it? I mean she might not necessarily - she might go Communist; she might go Communist - but I mean I think we've all got to make up our minds. I don't think it makes much difference what France would be doing, and we would go on doing business; we'd still be doing business. I mean I'm not going to give the answer today. I don't know what's going to happen. But if she begins to make false statements, and so forth and so on - I mean always depending on what she does. I think this is a very important question and it gets down to a question of intuition and hunch and that sort of thing. But don't misunderstand me; as I said earlier, we will do everything to bend ourselves to do it, and I have very much in my mind the fact that this is a liberal form of government and democracy, and one of the few that is left. But there's a lot of awful nice people in business, and you may be very fond of them, but you just can't save them because they're such poor business people. You know that.

Wilmington: That's right.

W.C. Jr: See what I mean? There isn't any - I mean I might have them as friends and say, "Get out of business and I'll put you on allowance," but I refuse to finance their business.

Taylor: Of course, we haven't been financing their business; we've been on a cash basis.

W.C. Jr: I know, my simile might not be any good.

Wilmington: Well, it makes the point. I have the feeling - I can't get it out of my mind - that as we sit here there are two Frances, and....

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W.C.Jr: Just wait one second.

(To Kieley) Mr. Taylor will come to the phone in five minutes. Do you (Taylor) mind?

Taylor: Not a bit.

W.C.Jr: I'll tell you what I want to ask you. I was considering calling - do you people think that we ought to tell the British Treasury that we're going over various methods and plans, etc., in case the French - about the French?

Opponent: Well, that's what the British Treasury, in effect, told you there, didn't they, in that document?

W.C.Jr: Yes

Opponent: That they were going over the situation and wanted to talk to Cochran.

Winer: Isn't it obvious that what you're doing - telling them is you're doing your job; they didn't merely tell us they were working on this, they told us they wanted to talk to one of our representatives.

W.C.Jr: Take the call and tell them (British Embassy) we are sending Cochran, if that's what he's asking. And would you mind calling up Herbert Reis and telling him that we've sent formal instructions to Cochran to go to London. And tell Sir Ronald I don't - I won't acknowledge receipt of his letter unless he wants me to; does he want a formal acknowledgment - I don't take it that he requires it - but does he want a formal acknowledgment? What?

Taylor: Un-nun. (goes out)

W.C.Jr: Please.

Opponent: As I started to say, as I sit here and talk about this thing, I keep reminding - we all do - that there are two Frances. First, there are these very mortal men that at the moment have power there, and we have watched them do all sorts of foolish things and all sorts of silly things and stupid things, and

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we see how much better other households are managed, like Belgium and Switzerland, etc., etc. But there is that other France, and that is the France of those millions of people constituting the French nation, which do constitute a tremendous bulwark against the spread either of Communism or Fascism. And, regardless of the limitations, the defects, and so forth, of the particular men that happen to be in the saddle over there at the time, it seems to me that back of that is that other thing. And of course, if France blows up, Britain and ourselves will be doing business at the same old stand, but it will be a different world if there are only two, as opposed to three.

Vince:

Mr. Secretary, I wouldn't want to be understood that I would wish us to take an ungenerous attitude toward France. I'd be willing to go much farther than this country is at all willing to dream of going in helping her, like a big loan, etc. But whether they violate the tripartite agreement or not - I'd separate those two things: a generous attitude toward France, and the tripartite agreement. There are other countries in the agreement too, and it looks toward a purpose which doesn't peculiarly get France in mind. So that I'd say the two are separate questions, to me. We can be generous to them and at the same time not get ourselves in the position of saying that something quite out of the spirit of the original tripartite agreement was in that spirit. I'd like to see both, & keeping within the spirit and the occasion of the - the historical occasion of the original tripartite agreement, and a generous attitude toward a democratic France; the only qualification I'd put is that it should still stay democratic.

WFF:

I think there is a difference, just as Jake says, between the two questions, but isn't possibly the difference the other way around? That is, you've been discussing, Mr. Secretary, the question of what is the more natural thing to do with respect to any specific action by France; and obviously, that is a decision which you will have to make when you know what that action is. But there is a more fundamental question which I take it was the original question that was discussed here, and that is, does it necessarily follow that because France, after consultation with Great Britain and the United States, and as a result



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of the internal situation and in order to maintain France as one of the subscribing countries, and with these same policies and documents, drops below the present range and into a new range which is agreed on among the countries - does it necessarily follow from that that France has violated the September 25 declaration? And of course, I say the September 25 in distinction from the October 13, because of course the October 13 would be out.

...Jr: Just a minute. (On phone) Mr. Knoke, please, New York.

Walt: Bear in mind that, although it is true we knew the range at the time the September 25 declaration was made - we knew the range - we would have been prepared to accept a worse range from the standpoint of the relationship of the currencies; and the fact that we asked to find out the range before we would sign the agreement merely meant that the only way we could find out whether the range was satisfactory to us was to know what it was. In other words, you'd want to know it was a right range.

...Jr: Well now, I feel - I think I'd like to come to some other stuff. I think we've gone as far as we can, and you men have done what I have asked you to do, and I'd like to stop here, because I want to stop at 11 o'clock and there's a couple other things to do.

Walt: I think we can be pretty sure they won't ask to cut below the range at this time.

...Jr: If you've done what I have asked.....

Walt: Just this one word, that there is a more important point that we have - we should take up with respect to France, and that is what we ought to do in case France does - in case it appears that France may have to slip below that line. That's a very different problem from what.....

...Jr: That's among those things.

Walt: Yes, but we've been considering the question of technical arrangements and legalities, and I want to introduce the broader question of policy.

...Jr: That's what we've been talking about....

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White: What is the policy but....

H.W.Jr: .....for the last hour and three quarters.

White: I don't think we've been talking about the question as to what we should do actually in the case we are confronted with a situation in which France finds it difficult and likely to be impossible to hold the exchange rate at that level and it begins to slip. Now, there are certain things we can....

H.W.Jr: What have we been talking about here for the last hour and three quarters?

White: We have been merely stating what action we would take with respect to the tripartite undertaking and with respect to orders and regulations and statements. I think there is a broader field of action that is incumbent upon us to consider.

H.W.Jr: What is it?

White: Well, I think it would.....

H.W.Jr: (On phone) Hello. (Conversation with Knoke follows.)

June 18, 1937.  
11:03 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke.

H.M.Jr: Hello.

Knoke: Good morning, Mr. Secretary.

H.M.Jr: How are you, Knoke?

K: Fine, thank you.

H.M.Jr: Knoke.

K: Yes.

H.M.Jr: Are you talking to Cariguel to-day?

K: No, I haven't tried to, Mr. Secretary, because everything is so nice and quiet.

H.M.Jr: Where?

K: Here and in London.

H.M.Jr: Yes. Well, I wondered if you could get from him some kind of an assurance or hint whether anything'll happen before Monday.

K: Well, all, all right, I'll call him.

H.M.Jr: Do you mind?

K: No, not a bit.

H.M.Jr: I talked to Cochran earlier and Rueff is out.

K: He's out now.

H.M.Jr: Yes. And see if you can get something out of Cariguel, he always talks very frankly.

K: Whether anything is likely to happen before Monday?

H.M.Jr: If you please.

K: Yes. All right, Sir.

H.M.Jr: Thank you.

(Break - - - - - Conversation with Secretary Hull)

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(Taylor returns)

W. J. Jr: Well, Wayne?

W. J. Jr: He wanted to know if the message that you had received was satisfactory. I said that it was completely and that Cochran would be instructed to go. I told Peis the same thing. He said that the secretary had already asked him the question and that he had called in for me.

W. J. Jr: Well, I sent a copy of Lindsay's letter to him. Why don't - should I call Hull? I think I'd better.

W. J. Jr: Yes. And instructions will be prepared, that is to say, if agreeable to the Ambassador - I mean our Ambassador; that there won't be any question about that.

W. J. Jr: How do you mean?

W. J. Jr: Well, that's the form that they use in their instructions - "if agreeable to the Ambassador."

W. J. Jr: The American Ambassador?

W. J. Jr: The Ambassador to Great Britain, it would be.

W. J. Jr: Singhan.

W. J. Jr: If he's not there, the Counselor acts.

W. J. Jr: I told him about the instructions that you had given to Putterworth and also to Cochran - and to inform Bullitt.

W. J. Jr: All right? Peis all right on that?

W. J. Jr: Yes. I just gave a complete record as you gave it.

W. J. Jr: Right.

W. J. Jr: Sir Ronald was very pleased that you were sending Cochran.

W. J. Jr: Well, Harry, have you got the answer to what you think we should do if they devalue?

(On phone) Hello. (Conversation with Hull follows.)

June 18, 1937.  
11:03 a.m.

Operator:

H.M.Jr: Hello.

Operator: Secretary Hull coming on.  
(Waiting)

H.M.Jr: Hello

Hello

Operator: Sorry, she said she had him right there.

H.M.Jr: Well, you can call me.

Operator: All right.

Hull: Hello

Operator: Just a moment please.

H.M.Jr: Hello.

Hull: Hello Henry.

H.M.Jr: Good morning.

H: What's going on?

H.M.Jr: Well, I sent you a copy of my letter from Sir Ronald.

H: Yes.

H.M.Jr: And - which I thought was very nice.

H: Yes.

H.M.Jr: And - I think it works out beautifully, don't you?

H: Yes, I just - I was afraid that fellow would get peeved if we went the other way, but if we get by it'll be good and just the same.

H.M.Jr: Well, it looks as though we got by.

W: Yes.

H.M.Jr: And I had Taylor call Feis to confirm that Cochran should go to London.

H: Now if - yes - now if our man -

H.M.Jr: Yes . .

W: He's got a marvelous chance there to do some real cross examining . . .

H.M.Jr: Yes . .

H: . . . of the Bank of England., and pick up incidentally, some things that we might not get out of the Government.

H.M.Jr: Yes.

H: So I hope that, I hope that he will prove to be a real cross examiner, without intent to do so, but in the interest of the general solution of things.

H.M.Jr: Yes. Well . . . .

H: He might get you some real information in there about the attitude, you understand, of the Bank of England which is, which is a factor in the situation.

H.M.Jr: Oh, yes. Well, I just wanted to let you know direct.

H: Yes.

H.M.Jr: And see whether you were satisfied.

H: Oh, yes, I - that was the only thing. I just didn't want to throw away his influence.

H.M.Jr: Fine.

H: All right . .

H.M.Jr: . . . Thank you.

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Waller: That he has just asked you to do is to instruct Cochran to find out from Norman why he is opposing or is cool about the possibility of a trade agreement.

W.C.Jr: And I should do that? I knew what he was doing, and I wouldn't ask that any more than I would let them use Butterworth to sit in on a debt negotiation with - what was it, Czechoslovakia?

Waller: Hungary.

W.C.Jr: Hungary. I mean we've got something here which is good for the government, and....

Waller: I wasn't arguing; I was just.....

W.C.Jr: I know, I know, I know. Do you (Riesler) think I'm wrong?

Waller: No.

W.C.Jr: I mean would you weight Cochran down with....

Waller: No, on no.

Waller: I certainly wouldn't have done it on your own initiative; if he had asked it, you couldn't have said "No" or it would have been difficult to have said "No."

W.C.Jr: (Smiling) Jake, I didn't know what he meant; I didn't know what he was getting at.

Waller: I didn't either.

Waller: I merely wanted to call your attention to the fact that we have not yet directed our attention to positive action to meet a situation which might have very serious repercussions all the way around; and clearly I wouldn't want to raise the issues now, because I would want an opportunity to defend them, because I know they would be received with skepticism and coolness. But I think our attention ought to be directed in those channels.

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Mr. Jr: But you haven't said anything yet.

Wite: All I said was that.....

Mr. Jr: I don't want you to argue. I want you to tell me what you think, and nobody else will argue with you. What do you think? I mean give me a clean-cut statement; you've raised it. What would you advise me to do this morning if in ten minutes the thing came over that France was gone - devalued below the agreement?

Wite: Well, by that time it would be impossible to follow out what I am going to say.

Mr. Jr: Well, are you going to make a long statement?

Wite: Huh?

Mr. Jr: Are you going to make a long statement?

Wite: Of my position at present?

Mr. Jr: Yes.

Wite: It will take several minutes.

Mr. Jr: Well, I'd rather not.

Wite: Well, that's why I.....

Mr. Jr: I mean if it's going to take ten minutes, and then....

Wite: That's right, and therefore I am merely indicating that there is more that is yet to be....

Mr. Jr: Have you stated it to these people?

Wite: No.

Mr. Jr: Will you state it afterwards to them?

Wite: I intended to.

Mr. Jr: Please, will you? The thing that I want to get on is this. I feel - you know, after all, the Brazilian Finance Minister arrives tonight - Costa?



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...Mr: Costa Souza.

...Mr: Costa Souza.

Now, I don't suppose any of you have thought - have you got anything for me - how are we going to sell Brazil's million dollars worth of gold on the installment plan, and how are they going to make use of it, etc.? Anybody got anything for me?

...Mr: We worked on it.

...Mr: Have you submitted it to these people?

...Mr: Well, Taylor's had a memorandum on it; have to go over it again.

...Mr: Well....

...Mr: It's up to Payne.

...Mr: We're not ready.

...Mr: All right. Well, Viner and Diefler are going home tonight, be back Tuesday morning. If you could give them each a statement on this, they might be willing to take it along with them. I think before they leave tonight they ought to have something so they can be thinking about it.

...Mr: If possible.

...Mr: What?

...Mr: If it is feasible, humanly possible.

...Mr: We can tell them about it.

...Mr: Well, anyway, I want to talk about the Brazilian thing. And I want to plan on the Chinese; why shouldn't we buy their 50 million ounces of silver that they've got here? Can I just say "No"? Have we any suggestions to make to them about gold?

...Mr: 15 million ounces first, before the...

...Mr: Pardon me?

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- Lockhead: They'll probably bring up the question of the 13 ounces which they're holding in commercial banks. That's the excess they rushed out of Shanghai at the time the Japanese were stepping pretty strong.
- A.S.Jr: And what about the 50 million?
- Lockhead: I say they might approach you first on the 13 million.
- Alignment: Where's the 50 million?
- Lockhead: It's up at Selby, where they're smelting silver - San Francisco.
- A.S.Jr: We've got Dr. Kung coming, we have Sousa Costa. Well, we don't do anything until he shows up. After all, we're entitled to our weekend.
- Taylor: And we still don't know what he's going to talk about. We think we do.
- A.S.Jr: I'm all mixed up.
- Taylor: You also have Mr. Casey.
- A.S.Jr: What's he?
- Taylor: He's the Finance Minister of Australia?
- A.S.Jr: Where does he come in?
- Taylor: Be in tomorrow.
- A.S.Jr: That's news to me. I think you know - tell you something terribly funny that happened. I suppose some of you got invited to the Chinese - the 30th, is it?
- Lockhead: The 28th.
- A.S.Jr: (To Kieley) When are the Chinese giving their meeting - luncheon?
- Kieley: The 28th.

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W.S.Jr: And I'm giving mine the 29th?

Wiley: A dinner, yes.

W.S.Jr: And when is the Roosevelt wedding, the 30th?

Looney: The 30th.

W.S.Jr: Just make sure that I don't make any engagement on the 30th.

Now, anybody take a shot at me - anything they got. Kiefler, you're so quiet, I'm worried.

Kiefler: Don't be worried.

W.S.Jr: Now, I had lunch last evening - supper - with our two consultants. And incidentally, do you (Viner) want me to put in the paper that your position - that you're consultant? They keep calling you something different.

Viner: I don't care. I'd just as soon you didn't say anything if you could avoid it. Let me down easy if you can't avoid it.

W.S.Jr: They looked into my mouth, felt my pulse, felt my blood pressure, and it seems from what I talked that the next move their way is - and I'll leave it to you - is to try to get our staff and the Federal Reserve staff together with Mr. Eccles somewhere else.

Wiley: Well, that's -- I check on that.

W.S.Jr: Then there's a question of method, as to how to do that. I haven't changed much from the sort of a general plan that we discussed last evening when we broke up, that if we can have a statement of what the Treasury position is, why, I can talk to him and say, "Now, here is the Treasury position, which differs quite materially on certain points from yours. For the sake of convenience, I have written that down," and not have the two staffs present when that goes on; and then try to arrange that the two staffs will meet on the basis of what the Treasury position is, with him out.

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- Viner: I think that's doing what he's done, you see. It's facing the other side with an ultimatum or declaration, whereas we want to sort of render obsolete that speech of Eccles the other morning, sort of get it out of the picture. If we introduce another one which isn't like his, then the staffs are obliged to consider - they consider ours as something we can't change. We want to get under Eccles.
- H.A.Jr: Supposing I call up Harriner, or you (Taylor) call him up, and say, "You know, Harriner, we've got some things over here we're working on, and we'd like to invite certain members of your staff over. Is it agreeable?" That's all. Because he said when he left here, could he call on any people from us. Well, we've got certain things, and we send for some of his people. He'll say "Yes." Then tell him who we want.
- Knocke: In view of that show yesterday.....
- H.A.Jr: Well, listen, "ayne, take these boys back and - but I think it's very important that these people get together with Goldenweiser and Geraner and what's-his-name.
- Wheeler: Currie.
- H.A.Jr: Currie.
- Viner: I think the less important we can make that session of yesterday morning, the better it is for the Treasury and the Government.
- H.A.Jr: I can call up in my innocence; I can do this thing in a very casual way. Let me handle it, will you? Do you mind?
- Taylor: Not a bit.
- Viner: I wouldn't lose the advantage that we haven't had any position so far.
- H.A.Jr: (On phone) Hello (Conversation with Knoke follows:)

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Operator: Mr. Knoke.

Knoke: I just had Cariguel. He sounded kinda worn out and gloomy.

H.M.Jr: Yes.

K: I asked whether I could sleep - to, to safely sleep over the week-end; he said he thought so. He had no news of anything that could happen, that might happen politically, and as far as the foreign exchange market was concerned, and the franc rate, he had no hint or no suggestion that anything was planned.

H.M.Jr: Well, that's that.  
All right. Well, I'll hope tonight to be at Beacon 211.

K: Beacon 211.

H.M.Jr: Yes.

K: . . . . All . . . .

H.M.Jr: What, what is - what is your home telephone number?

K: New Rochelle 1895.

H.M.Jr: New Rochelle . . .

K: 1895.

H.M.Jr: 18 . . .

K: 95

H.M.Jr: Eighteen - ninety-five.

K: That's right.

H.M.Jr: All right - that was before the Cuban War, wasn't it?

K: (Laughter) That was what?

H.M.Jr: Before the Spanish - the year before Bryan.

K: That's right. (Laughter)

H.M.Jr: All right.

K: Oh, no - yes, yes the year before Bryan - that's right.

H.M.Jr: All right. 195\_

K: I asked about Rueff. He said he understood so but nothing, there was no confirmation.

H.M.Jr: All right.

K: Nor was there an official communique on Rist and

H.M.Jr: Yes. All right.

K: That's it.

H.M.Jr: Thank you very much.

K: Good-bye.

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- Warler: I don't think so, because I tried every way possible yesterday in that two-hour session to get the two staffs together, and he took the position that that would serve no useful purpose.
- W.C. Jr: Do you mind letting me try it?
- Taylor: I'd like to talk to our crowd before you do that, because it's - I mean after trying to do that for two hours, with all the cards on the table, I don't think that it is particularly a wise thing for you to go back of the returns there, even if you weren't there.
- Warler: Would a gossip session between me and Goldenweiser be out of order?
- Byler: Not in any way. We've got to act pretty soon on this foreign balances business; I don't think you've got an unlimited amount of time.
- Vicer: Bryan says he wants to see me this afternoon and I'm going to see him for two minutes at 2:45.
- W.C. Jr: If Wayne feels strongly, I don't want to butt in.
- Taylor: I think that any one of the fellows can do any of the talking that you want to, but it can't be.....
- Warler: I mean if I said I thought that session went very badly....
- W.C. Jr: You mean just as you have lunch with him?
- Warler: Yes. That I thought it went very badly, and what was wrong with it.
- W.C. Jr: That's all right. I think I could call him up and I'd say, "You know, we're working on some of this stuff; we'd like to have some of you people sit in."
- Walter: Providing he is....
- Wigniant: Wayne, may I talk to you just a minute about it? Would you mind if I talked to you just a minute about it? And forgive me if I'm a little petty. It strikes me as an elementary rule in diplomatic negotiations, and that's what this is, not to allow the thing to come

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to blows. Now, as Jake points out, they have stated their position; we have so far not stated our position. If you once get Eccles in the room and state your position, why, then you're going to have to use a club, because then you have blocked all....

W.S.Jr: Which means what? - that if I call....

Opponent: I mean get the technical staff together and not strike - take your position at.....

Taylor: We tried to do that for two hours yesterday.

Viner: But Eccles was there; that's the trouble.

Taylor: I think when Jake - anybody else can talk without having it clear through, let's say, me to Eccles, or the Secretary to Eccles.

W.S.Jr: I think you're wrong. I think I could call him up - I mean good humor, etc., and I'd say, "Now, I've got my people over....."

Viner: Say we want to go over the technical problems.

W.S.Jr: No, I'd say just - I've done this before - I'd say, "Merriner, before calling up Goldenweiser and some of his people, I'd like to know whether it's agreeable to you to have some of them come over. We're in the midst of a discussion and I'd like to have Goldenweiser and some of his crowd sit in." And he wouldn't say anything. Listen, let me try it.

Taylor: Honestly, I think it's much better to have Win or Jake Viner go through this business than they suggest and not have you introduced into it at all at that particular time.

Viner: I tend also to agree that if we are trying to keep him out, we ought at the same time....

Taylor: Keep out the men whose positions are important. If we differ, who cares.

W.S.Jr: O.K., you (Merriner) have lunch with Goldenweiser.



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Myler: All right.

...Jr: But then, that doesn't get you anywhere. You're not going to have any meeting this afternoon, and these fellows - I think you're wrong, but if you feel strongly, I don't.....

Myler: well, would I.....

...Jr: Listen, would you fellows go back in Wayne's room and talk it over, and whatever the crowd agrees is agreeable with me.

The possible actions which the French Government may take are listed below. The measures which the Secretary can take in response to such action are indicated in each instance.

Drafts of the various orders and announcements, that might have to be used in each instance have been prepared by the legal staff. The content of these preliminary drafts have been agreed upon in conference, but there has not yet been time to agree on the exact wording.

It was generally agreed that in each case of action or inaction (including uncompleted statements) we would consult with the British Treasury and if possible with the French Treasury before taking action pertaining to the tripartite undertaking, and the sale and purchase of gold. It was also agreed that other "club" members would be advised of such action as we might wish to take.

A

Possible actions involving purchase and sale of gold for export.

17. FRANCE CEASES TO SELL ANY GOLD UNDER ANY CIRCUMSTANCES AND REVERSES HOLD.

Action to be taken by Secretary.

- (a) Statement issued dropping France from the October 15th list, i.e., the new list would not contain France.
- (b) Federal Reserve Bank of New York to be notified of such action and instructed to notify the Bank of France.
- (c) Such action is not a repudiation of the tripartite undertaking.

18. IF FRANCE IMPOSES AN EMBARGO WITH AD HOC ARRANGEMENTS--I.E., ARRANGEMENTS WHICH INVOLVE THE PURCHASE AND SALE OF GOLD ONLY ON TERMS AGREED FOR EACH TRANSACTION.

Action to be taken by the Secretary same as in Case 1 above.

19. IF FRANCE DECLARES AN EMBARGO ON EXPORTS OF GOLD TO ALL COUNTRIES BUT UNDERTAKES TO TREAT "CLUB MEMBERS" AS THEY ARE TREATED NOW WITH RESPECT TO GOLD PURCHASES AND SALES.

There are two possible courses of action that might be taken by the Secretary.

- (a) Do nothing and make no statements.

or

- (b) Do nothing but issue a statement to the effect that France's course of action is in accord with the tripartite undertaking.

The statement could be either

- (1') An oral one to the press, or
- (2') A written one.

IF FRANCE IMPOSES AN EMBARGO ON THE EXPORT OF GOLD WITH A NEW PATTERN OF SALE OF GOLD; THAT NEW PATTERN MAY TAKE ONE OF MANY FORMS:

Respective of the form it can take, there are two main alternative courses which the Secretary can pursue:

- (a) He can decide that new terms of sale of gold are such as are in the interests of the public. Such decision would be followed by the necessity for no action unless the Secretary wished to make a public statement as in III above.
- (b) If the Secretary were to decide that the new terms were not in the public interest, he could pursue one of two courses:
  - (1) He could adopt the procedure identical with that outlined under I.
  - (2) He could introduce an intermediary step - namely, to suggest to France what might be done to modify the terms of sale so as to make them satisfactory to the United States.

IF FRANCE ABOLISHES HER STABILIZATION FUND - BUT PERMITS THE BANK OF FRANCE TO SELL GOLD.

- (a) The Secretary of Treasury would have to request that the French Government guarantee the gold operations of the Bank of France with us.
- (b) A new list of countries complying with conditions of the November 24th order would be issued to include France.

B.

Actions taken by the French Government involving exchange control - i.e., some restriction on the purchase and sale of foreign exchange.

CASE VI. THE IMPOSITION OF A LIMITATION ON THE RIGHT OF UNITED STATES TO ACQUIRE FRANCS.

Inasmuch as the Secretary stated that all efforts should be made to keep France in the "club", and since it is agreed that the wording of the tripartite statement permits him to do so, no consideration is being given herein to the question of whether he might also be justified in taking the position that France had ~~departed~~ departed from the tripartite declaration by adopting exchange control.

CASE VII. ANY OTHER FORM OF EXCHANGE CONTROL.

Action as in Case VI.

CASE VIII. INCREASE IN IMPORT QUOTAS.

Action same as in Case VI.

C

Exchange Depreciation

CASE IX. SHOULD FRANCE REVALUE AT A RATE LOWER THAN THAT AGREED UPON LAST FALL OR IF IT PERMITS FRANC EXCHANGE TO DEPRECIATE BELOW THAT  
LIMIT

June 18, 1937.  
10:45 a. m.

H.M.Jr: Hello.

Operator: Mr. Butterworth.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

W. W.

Butterworth: How do you do, sir?

H.M.Jr: Hello, Butterworth?

B: Butterworth speaking.

H.M.Jr: Can you hear me?

B: Yes sir.

H.M.Jr: Butterworth, a - When Governor Norman was, met Cochran in Basel he sounded him out about coming over to have lunch at the Bank of England.

B: I see.

H.M.Jr: He subsequently telephoned him and asked him to come next Monday ....

B: Yes.

H.M.Jr: ..... implying that he had consulted with the Treasury.

B: I beg pardon, I can't hear you.

H.M.Jr: That he had consulted with the British Treasury.

B: Yes.

H.M.Jr: But he wanted it surrounded with all kinds of secrecy.

B: Yes.

H.M.Jr: So, I told the whole story to Sir Ronald Lindsay and asked him to give me his advice.

B: Yes.

- H.M.Jr: That I wanted it - as Sir Ronald put it - from the horse's mouth direct.
- B: Yes.
- H.M.Jr: So, he cabled for instructions, and they, they, and sent me the following message.
- B: Yes.
- H.M.Jr: "Please inform Mr. Morgenthau that Mr. Norman's suggestion arose from the fact that it will be necessary to give very close attention in the immediate future to the French position on which we are very much in the dark. From the amounts of gold which have passed to us in the last six days, it is obvious that they are losing gold ....
- B: ..... I can't hear you.
- H.M.Jr: "From the amounts of gold which have passed to us in the last six days, it is obvious that they are losing gold at extremely heavy rate even for them."
- C: Yes.
- H.M.Jr: "Governor of Bank of England, who had seen Mr. Cochran at Basel, suggested if he could find it convenient to visit London, his opinion on the situation in Paris would be most valuable."
- B: Yes.
- H.M.Jr: "The Treasury concurred and said that they would be most glad of opportunity of discussion of position informally with Mr. Cochran, if it suited his convenience."
- B: Right.
- H.M.Jr: "Chancellor hopes that Mr. Morgenthau sees no objection."
- B: Yes . . .
- H.M.Jr: Well, under those - under the - in view of that statement I have asked Cochran to be there Monday.
- B: Right.
- H.M.Jr: To keep you informed. . . . +
- B: Right.

H.M.Jr: To file his cable in London ....

B: Yes.

H.M.Jr: To let you see it, and I'm asked to - to - and I'm asking you to offer him full cooperation while he's there.

B: Right. That's fine. I shall be delighted to do anything I can.

H.M.Jr: Now, do you - anything you want to ask me about that?

B: No, nothing - I, I presume that, that I will go to the Treasury with him, but not to the Bank of England.

H.M.Jr: A - yes, I mean, if they invite you to the Bank of England, of course go; and if they go to the Treasury, I should think you would go.

B: Right.

H.M.Jr: A - a - I was very careful to tell them - Sir Ronald - that I was, I had a representative there who he knew, who was carrying on our, who was representing us entirely satisfactorily.

B: Good. Well, that was very kind of you.

H.M.Jr: So, if he goes to the Treasury, of course you go along. And - -

B: Yes, well . . .

H.M.Jr: And any information which you have please, which would be helpful, please give it to them.

B: Oh, I will then - I mean, I'd be delighted to do anything I possibly can.

H.M.Jr: Now, - -

B: . . . . by the word this morning . . .

H.M.Jr: I don't hear you.

B: . . . . Phillips has gone there for the week-end.

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H.M.Jr: Pardon me?

B: I say, I had a word with Waley this morning.

H.M.Jr: Yes.

B: Phillips has gone away for the week-end.

H.M.Jr: Yes.

B: To the country . . . . .

H.M.Jr: Well, that - well that isn't news, is it?

B: I beg pardon?

H.M.Jr: That isn't news, is it?

B: (Laughter) No, that's not news. But Phillips has talked to Mr. and in turn, we're going to speak to him again this afternoon, and I probably shall have another word with Waley this afternoon about the Swiss position.

H.M.Jr: Yes.

B: Ah - there's one thing more I'd like to suggest.

H.M.Jr: Please.

B: In that connection - is - I haven't found it out from the British Treasury, but from informal inquiries that I've been making with some of my market contacts, it seems quite possible that there may be other Central Banks, among the smaller countries, who are likewise doing a little selling. Now, I don't know that that's happening.....

H.M.Jr: But they're not members of the tripartite agreement.

B: No, they're not.

H.M.Jr: Right.

B: Still it seems to me that it's an important thing that both countries have to bear in mind.

H.M.Jr: Well, that's all right.



- B: ..... if - if it is the question of the dry rot spreading, and the other smaller Central Banks unloading some of their, at least some of their excess gold on us...
- H.M.Jr: Yes. Well, I have no doubt that - that they'll try it.
- B: There's a classic story that floats around the City of London - I remember hearing it when I first came here - and it has to do with Tripp's predecessor.
- H.M.Jr: With Tripp?
- B: Tripp's predecessor.
- H.M.Jr: At Basel.
- B: No, no, as Head of the Dutch Central Bank.
- H.M.Jr: Yes.
- B: I think his name was .
- H.M.Jr: Yes.
- B: And he's alleged to have rung up at the Bank of England, in the bad days of 1931, and asked him about the pound.
- H.M.Jr: Yes.
- B: And he received the answer that the pound was as strong as Gibraltar. And as a result of that he didn't but as a result of that the Dutch Central Bank and as a result of that took the title from Tripp.
- H.M.Jr: I - I get it.
- B: Do you understand it?
- H.M.Jr: I understand the is- - perfectly.
- B: It's a matter of record about the French losses.
- H.M.Jr: Yes.
- B: About the French losses in 1931, too.
- H.M.Jr: Yes.

B: With that general feeling in mind, if there should be a sort of confederate movement, among the smaller Central Banks, to sell some of their gold, and I'm not sure that some of them haven't been although I can't obtain proof about them.

H.M.Jr: I see.

B: It might be a movement that it would be sound for us to have, to keep our high on .....

H.M.Jr: That's right.

B: ..... and to discuss with the British .....

H.M.Jr: Not yet.

B: .... the Bank of England would know definitely what the Austrian, Hungarian and the country people have been doing in the way of their gold.

H.M.Jr: Well now, just hold the wire a minute. Just hold the wire a minute.

Hello.

B: Yes, Sir.

H.M.Jr: There's no ques- ....

B: I don't hear you.

H.M.Jr: There's no question but what they've been doing it, see.....

B: Yes.

H.M.Jr: But it isn't a particular sort of worry to us at this time.

B: Good.

H.M.Jr: And I would rather that you did not bring it up because I don't want them to think that we're worrying about that particular phase at this time.

B: I didn't say a word to them and I didn't intend to until I had a word with you first, sir.

H.M.Jr: No, I wouldn't do it.

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B: Thanks.

H.M.Jr: But, do I gather from the fact that Mr. Phillips has left for the week-end that he is not worrying, or does it just mean that he has left for the week-end?

B: (Laughter) I think he's just left for the week-end.

H.M.Jr: Yes.

B: They said at the British Treasury this morning - they showed me .....

H.M.Jr: Pardon me?

B: They showed me latest report. He's their man in Paris.

H.M.Jr: Yes.

B: The British Treasury's in Paris, and ....

H.M.Jr: I see.

B: .... and quite frankly he didn't know what was going to happen in the Senate, but that he thought that

H.M.Jr: Well the latest gossip from Paris is that Rueff is out.

B: Yes.

H.M.Jr: And you know that Rist is out.

B: Yes, I'd heard that.

H.M.Jr: Yes. Now just a minute. The men in the room here say that I can point out to you the reason that we are concerned about what the Swiss have been doing is because they are a Club member.

B: Quite.

H.M.Jr: And that is quite different than some, what some other Central Bank is doing to another Club member.

B: I quite understand you.

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H.M.Jr: You see?

B: Yes, I understand.

H.M.Jr: And the thing that we will fear is - I mean that Holland who, and Belgium who have been behaving extremely well.....

B: Quite.

H.M.Jr: ..... might say, "Well, why should we continue this way if Switzerland can get away with it"?

B: (Laughter). Yes I, I ....

H.M.Jr: You see? And --- anything else you want to ask?

B: No, that's all, Sir.

H.M.Jr: Well, well that's that.

B: Thank you very much.

H.M.Jr: Good luck.

June 18, 1937,  
11:03 a. m.

H.M.Jr: Hello.

Operator: Mr. Knoke.

H.M.Jr: Hello.

L. W.

Knoke: Good morning, Mr. Secretary.

H.M.Jr: How are you, Knoke?

K: Fine, thank you.

H.M.Jr: Knoke.

K: Yes.

H.M.Jr: Are you talking to Cariguel today?

K: No, I haven't tried to, Mr. Secretary, because everything is so nice and quiet.

H.M.Jr: Where?

K: Here and in London.

H.M.Jr: Yes. Well, I wondered if you could get from him some kind of an assurance or hint whether anything'll happen before Monday.

K: Well, all - all right, I'll call him.

H.M.Jr: Do you mind?

K: No, not a bit.

H.M.Jr: I talked to Cochran earlier and Rueff is out.

K: He's out now.

H.M.Jr: Yes. And see if you can get something out of Cariguel; he always talks very frankly.

K: Whether anything is likely to happen before Monday?

H.M.Jr: If you please.

K: Yes. All right, Sir.

H.M.Jr: Thank you.

(Break --- Conversation with Secretary Hull.)

- 2 -

Operator: Mr. Knoke.

Knoke: I just had Cariguel. He sounded kind of worn out and gloomy.

H.M.Jr: Yes.

K: I asked whether I could sleep - to - to safely sleep over the week-end; he said he thought so. He had no news of anything that could happen, that might happen politically, and as far as the foreign exchange market was concerned, and the franc rate, he had no hint or no suggestion that anything was planned.

H.M.Jr: Well, that's that. All right. Well, I'll hope tonight to be at Beacon 211.

K: Beacon 211.

H.M.Jr: Yes.

K: . . . All . . .

H.M.Jr: What - what is - what is your home telephone number?

K: New Rochelle 1895.

H.M.Jr: New Rochelle . . .

K: 1895.

H.M.Jr: 18 . . .

K: 95.

H.M.Jr: Eighteen - ninety-five.

K: That's right.

H.M.Jr: All right. That was before the Cuban War, wasn't it?

K: (Laughter) That was what?

H.M.Jr: Before the Spanish - the year before Bryan.

K: That's right. (Laughter)

H.M.Jr: All right.

- 3 -

K: Oh, no - yes - yes the year before Bryan - that's right.

H.M.Jr: All right. 195\_.

K: I asked about Rueff. He said he understood so but nothing - there was no confirmation.

H.M.Jr: All right.

K: Nor was there an official communique on Rist and .

H.M.Jr: Yes. All right.

K: That's it.

H.M.Jr: Thank you very much.

K: Goodbye.

June 18, 1937.  
11:03 a. m.

Operator:

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

(Waiting)

H.M.Jr: Hello - Hello.

Operator: Sorry - she said she had him right there.

H.M.Jr: Well, you can call me.

Operator: All right.

Cordell

Hull: Hello.

Operator: Just a moment please.

H.M.Jr: Hello.

Hull: Hello Henry.

H.M.Jr: Good morning.

H: What's going on?

H.M.Jr: Well, I sent you a copy of my letter from Sir Ronald.

H: Yes.

H.M.Jr: And - which I thought was very nice.

H: Yes.

H.M.Jr: And - I think it works out beautifully, don't you?

H: Yes, I just - I was afraid that fellow would get peeved if we went the other way, but if we get by it'll be good and just the same.

H.M.Jr: Well, it looks as though we got by.

H: Yes.



- 2 -

H.M.Jr: And I had Taylor call Feis to confirm that Cochran should go to London.

H: Now if - yes - now if our man -

H.M.Jr: Yes....

H: He's got a marvelous chance there to do some real cross examining.....

H.M.Jr: Yes...

H: ..... of the Bank of England, and pick up incidentally, some things that we might not get out of the Government.

H.M.Jr: Yes.

H: So I hope that, I hope that he will prove to be a real cross examiner, without intent to do so, but in the interest of the general solution of things.

H.M.Jr: Yes. Well.....

H: He might get you some real information in there about the attitude, you understand, of the Bank of England, which is, which is a factor in the situation.

H.M.Jr: Oh, yes. Well, I just wanted to let you know direct.

H: Yes.

H.M.Jr: And see whether you were satisfied.

H: Oh, yes, I - that was the only thing. I just didn't want to throw away his influence.

H.M.Jr: Fine.

H: All right.....

H.M.Jr: ... Thank you.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: June 18, 1937, 1 p.m.

NO.: 283

FOR THE AMBASSADOR.

Cochran is requested by the Secretary of the Treasury to go to London for discussions with officials of the Bank of England and Treasury.

This visit is believed advisable by the Department, and provided it is agreeable to you, authorizes Cochran to go to London.

The Department has been informed that Secretary Morgenthau suggested to Cochran that he cooperate fully with Butterworth in these conversations, that the conversations be reported by cable from London, and that upon his return to Paris he inform you fully of what transpired. The Department believes these suggestions advisable.

HULL.

EA:LWW

LMS

GRAY

London

Dated June 18, 1937

Rec'd 4:15 p.m.

Secretary of State,  
Washington.

RUSH.

392, June 18, 9 p. m.

FOR SECRETARY MORGENTHAU FROM BUTTERWORTH.

I was handed at the British Treasury late this evening the following message which Sir John Simon desired to be transmitted to you. At the same time it was casually (repeat casually) mentioned that the first draft of this message had contained a suggestion that if you so wished it the British Treasury would consider anew their attitude but that Sir John eventually decided to eliminate this passage because he considered that it was always to be understood in communications with the American Treasury that he was willing to discuss and reexamine any decision affecting mutual concerns which he might have taken.

"The Chancellor of the Exchequer is grateful to Mr. Morgenthau for letting him know the position which he took up with the Swiss. Sir John Simon much regrets he could not send an earlier reply.

The

LMS 2-No. 392, June 18, 9 p. m., from London.

The Chancellor emphasizes that he fully recognizes the advantage of insisting from time to time that membership of the club carries responsibilities as well as privileges, and that on this point there is absolutely no difference of opinion between himself and Mr. Morgenthau.

The Treasury have thought a great deal over the question whether it would serve the purpose which they and Mr. Morgenthau have in common for them to follow up his message by a similar message from them to the Swiss. On the whole, they have come to the conclusion that it would not be either easy or wise for them to do so.

The Treasury agree that it might prove very embarrassing that the Swiss should have chosen just at this time to dispose of a part of their gold. But they think that in fairness to the Swiss it must be borne in mind that the gold was acquired under different and perhaps unexpected conditions as recently as last Autumn. So far as this market is concerned, the Treasury have no complaint to make as regards the procedure adopted by the Swiss, and they have no direct knowledge of the motives which prompted the recent sales. Thus they feel that it would not be very easy  
for

LMS 3-No. 392, June 18, 9 p. m., from London.

for them to take up the question with the Swiss.

Moreover, they doubt if it would be, on the whole, helpful for them to do so. They feel that it may be useful to show, both inside and outside the club, that gold still finds a ready market. If they were to add their own representations to those which Mr. Morgenthau has already made, they fear that the Swiss would be likely to conclude that this is not so".

BINGHAM

HFD

LMS

GRAY

Paris

Dated June 18, 1937

Rec'd 5 p. m.

Secretary of State,  
Washington.

815, June 18, 5 p. m.

While it seemed yesterday that the chances were in favor of a compromise being reached between the Senate and the Government on the full powers bill, subsequent developments have created a situation fully as serious for the Government as that which faced it in the Chamber.

The full powers bill was tabled in the Senate by Minister of Finance Auriol yesterday afternoon and was immediately sent for examination to its Finance Committee. This body summoned Auriol for a hearing and it was subsequently reported that his explanations were found to be evasive and far from convincing. The Finance Committee is believed to have taken the position that unless it could obtain satisfactory answers to its questions it would not be willing to grant the Government special powers except to check speculation and prevent tax evasion. The Committee demanded in fact a new text in this sense. The opinion is general that

LMS 2--No. 815, June 18, 5 p. m., from Paris.

that the Prime Minister, who is now before the Finance Committee to state his case, will not consent to any such request.

It was expected that the Senate would meet tomorrow afternoon at 3:00 o'clock to start the debate but the press is now of the belief that in view of the failure of the Finance Committee and the Government to come to an agreement on the text of the bill it will take a longer time than was originally thought to reach a compromise, if indeed any compromise can be reached. It is now possible that the measure may not be debated in the Senate until early next week.

BULLITT

SMS:JGC

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 18, 1937, 6 p.m.

NO.: 816

FROM COCHRAN.

Paris exchange market was fairly steady this forenoon, at noon French control lowered from 110.90 to 110.88, the price at which it would give sterling and the demand therefor immediately increased. Rentes did not continue yesterday's spectacular rise.

This afternoon there was a rumor that Rueff was to be displaced as Director of the Movement of Funds Section of the Ministry of Finance. It was said that no announcement was to be made until a successor might be found who would carry out instructions without trying to put across too many of his own ideas. Last week Maxime Robert, principal assistant director to Rueff, was replaced by a young man who is said to have the qualifications just mentioned. Rist and Baudoin, as I previously reported, resigned from the Stabilization Fund Committee last Saturday. Should Rueff now leave the Government, of the original four appointed to the Committee Labeyrie would be the only one left.

The Bank of France told me this afternoon in the strictest confidence that no gold loss will be shown on the June 17 statement, which is to be made public on June 24.

I joked



- 2 -

I joked about such a statement, but they quickly assured me that there was no "trick". They said that to date there had been a profit from the operations of the fund, which together with "revaluation" of certain holdings obviated the necessity of revealing any loss by the fund.

In my daily reports I have given you an account of the extent to which gold has been drawn from the Bank the first three days of this week. Thursday's loss I am told was about half that of the day before. It is probable that the losses today are heavier than they were yesterday. A close and well-informed contact - who is not a French official - assured me two days ago that no gold loss would be shown on the Bank's statement, and I said I could not believe such a thing. However he was convinced the information was correct which he had to the effect that the Soviet Government had made available approximately one-half billion francs of gold to France in this time of emergency. The Russian story is lent some credence by the vague statement about "profits" and "revaluation".

END SECTION ONE.

BULLITT.

LMS

GRAY

Paris

Dated June 18, 1937

Rec'd 5:22 p. m.

Secretary of State,  
Washington.

816, June 18, 6 p. m. (SECTION TWO)

Senate Finance Committee after yesterday's session published a communique indicating that after having heard the Minister of Finance on the measure for full financial powers it had decided to request the Government before going further, to present a bill limited to action against speculative abuse and against fraud.

The press this evening reports that Auriol has in reply written a letter to President Caillaux of the Senate Committee insisting upon the text of the bill as voted by the Chamber (quoted in my 809, June 17, 4 p. m). The session of the Senate this afternoon was adjourned early because of death of former President Doumergue. It is possible that the committee may get a report out to the Senate in time for the latter to begin debate thereon sometime Saturday. Efforts toward compromise are being made this evening.

This forenoon the Chamber adopted the full customs powers

LMS 2-No. 016, June 18, 6 p. m., Sec. 2, from Paris.

powers bill with the amendment against exchange control.

Press reports Minister of Finance of the Netherlands has permitted Netherlands Bank upon application thereto to give unrestricted exemption from the exportation prohibition on gold coins and gold bullion imposed September 26. (END MESSAGE)

BULLITT

CSB

June 18, 1937

After Cabinet today, the Attorney General and the Postmaster General and HM, Jr conferred on the attached and the Postmaster General wants a week on it.

Memorandum in the President's handwriting:

"H. C.  
J. A. F.  
H. M. Jr.

31

"Will you talk this over  
together and then speak to me?"

F.D.R."

THE SECRETARY OF THE TREASURY  
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

You recently suggested consideration be given the reappointment of Joseph Wolf as Collector of Internal Revenue at St. Paul, Minnesota, and accordingly I have had the usual investigation made.

Wolf was appointed originally as Collector on August 1, 1933, and served both in that capacity and as Democratic National Committeeman until September 30, 1934, when he resigned as Collector to devote his entire time to the duties of Committeeman. He continued in this position until June, 1936. James R. Landy was appointed Collector on June 13, 1935, to succeed Wolf, who endorsed him for the position.

The investigation has disclosed there was an understanding between Wolf and Landy that at some certain time in the future when Wolf desired reappointment as Collector, Landy would resign and make way for such reappointment. A meeting was held at the home of Mr. Adolph Bremer of St. Paul in March, 1935, at which Wolf and Landy, with others, were present. It was at this meeting that the arrangement between Wolf and Landy was discussed and the agreement entered into. According to the statement of Landy, after Wolf and the others had left the room, Mr. Adolph Bremer indicated to Landy that, in view of Wolf's lack of funds and his considerable office expenses, something should be done for him. He states it was agreed between Mr. Bremer and himself that Landy would pay Wolf \$75.00 a month. Following his appointment he did make such payments for a period of one year beginning July 1, 1935. Photostatic copies of the checks in question are in the files and Wolf admits that he received them. He maintains, however, that these sums represented payments to the Democratic campaign fund. However, nine of the checks were deposited in his personal bank account, and, so far as could be ascertained, all of the expenses of the State Democratic office were paid from the special account of Matha, the treasurer.

In June, 1936, Landy and Wolf, with others, again met at the home of Mr. Adolph Bremer and there discussed the question of Landy resigning in favor of Wolf. Landy insisted his understanding had been that he would be permitted to remain as Collector for two years. As he had been in office only about one year, he refused to resign. Landy and Wolf both state that the latter offered to return the \$900.00 received from Landy, but this offer was declined. Landy testifies further that at a later date certain influential and wealthy citizens of Minnesota offered to pay him the sum of \$8,500, which represented the amount of money he would have

- 1 -

earned as Collector from that time to the end of the two-year period, and to return to him the \$900.00 which he had paid Wolf. Landy states that he also refused this offer.

The investigation also developed evidence that Wolf had received various sums of money from applicants whom he endorsed for postmaster-ships during the year 1933. Wolf asserts that all of these contributions were made voluntarily and maintains that the payments were used for political purposes and were not income to him personally. He states that records and receipts were not always kept and admits that some of the funds were deposited in his personal bank account, but maintains that most of them were deposited in the bank account of Mr. Reith as treasurer and were used to pay expenses of Wolf's political office. With one exception, these alleged offenses occurred more than three years ago, and are, therefore, barred by the Statute of Limitations in so far as the application of law is concerned.

However, it is definitely determined that Wolf did recommend Landy for appointment as Collector; that at that time there was an understanding between them that Landy would relinquish the office to Wolf at some time in the future; and further that Landy did pay to Wolf the sum of \$75.00 per month for a period of one year. These offenses are in direct violation of Sections 149 and 150 of the United States Criminal Code, which sections prohibit the payment or receipt of any moneys in connection with the recommendation for or appointment to a Federal office. The sections noted are set out in full on the attached sheet.

Obviously Wolf cannot be considered for appointment as Collector; furthermore, Landy should be immediately removed from the position which he holds. It is my recommendation that this be done and that all of the facts in this case be submitted to the Attorney General.

/s/ H. MORGENTHAU, JR.  
Secretary of the Treasury

April 30, 1937

C  
O  
P  
YSection 149:

"Payments made for influence exerted in procuring appointive public office prohibited. It shall be unlawful to pay or offer or promise to pay any sum of money, or any other thing of value, to any person, firm, or corporation in consideration of the use or promise to use any influence, whatsoever, to procure any appointive office under the Government of the United States for any reason whatsoever. (Dec. 11, 1926, c. 3, Section 1, 44 Stat. 918.)"

Section 150:

"Payments received for influence exerted in obtaining appointive public office prohibited. It shall be unlawful to solicit or receive from anyone whatsoever, either as a political contribution, or for personal emolument, any sum of money or thing of value, whatsoever, in consideration of the promise of support, or use of influence, or for the support or influence of the payee, in behalf of the person paying the money, or any other person, in obtaining any appointive office under the Government of the United States. (Dec. 11, 1926, c. 3, Section 2, 44 Stat. 918.)"

THE WHITE HOUSE  
OFFICIAL BUSINESS

P  
PENALTY FOR PRIVATE USE TO AVOID  
PAYMENT OF POSTAGE \$300

314

472

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



JR

GRAY

London

Dated June 19, 1937

Rec'd 9:15 a.m.

Secretary of State,

Washington.

# 393.

June 19, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

City continues to await news of political developments from Paris but is inclined to believe that the franc will open on Monday morning at the forty-three millogram level. Incidentally this morning London press carries the following report "the Dow-Jones Service learns from Washington that the United States is apparently willing to give Monsieur Blum two types of aid in the latter's effort to repatriate French capital. In the first instance the Treasury is prepared to recommend to Congress much heavier taxation on foreign capital; and, secondly to help France in locating and identifying French funds in the United States so that such funds can be taxed by France. The latter proposal may be a forerunner of a general inter governmental exchange of information on alien investments".

I am confidentially informed that two bullion firms namely Mocatta and Goldschmidt, and Johnson and Massey have again decided to cease shipping gold to the United States on their own accounts since their representatives have just returned

-2-

JR June 19, 1 p.m., from London for Treasury from  
Butterworth.

returned from a recent visit to the United States where they gained the definite impression that the reaching of the billion dollar level in the sterilization account would occasion a reconsideration of America's attitude regarding gold. Others who have heard of the decision of these firms have been somewhat affected by their point of view. Therefore, if the billion mark is passed without consideration, change or indication of contemplated change it may tend to augment confidence.

In this general connection I am sending by post three articles which appeared in the TIMES of June 16, 17 and 18 on the gold problem by Robert Brand, a Director of the Bank of England. Whereas it cannot be said that these articles reflect the British Government's attitude, I happen to know that they were discussed by Brand with both the Treasury and the Bank of England before publication.

BINGHAM

WWC

TO

SPECIAL GRAY

Paris

Dated June 19, 1937

Rec'd 9:25 a.m.

Secretary of State,  
Washington.

B19, June 19, 10 a.m. (SECTION ONE).  
FROM COCHRAN.

There is reproduced herewith the text of a letter in English received today signed Bachmann and Schnyder of the Swiss National Bank and by Meyer, Chief of the Swiss Department of Finance and Customs.

"Zurich 17th June 1937. Mr. Horace Merle Cochran, First Secretary of the American Embassy, Paris, for transmission to Mr. Morgenthau, Secretary of the United States Treasury, Washington. Dear Sir: We beg to refer to the personal conversation which the first undersigned has been privileged to have on the 12th and 13th instant in Basel with Mr. Horace Merle Cochran, First Secretary of the American Embassy, Paris.

In connection therewith we have the honor to give you in agreement with the Swiss Department of Finances and with regard to the declaration made on October 19, 1936, to the Secretary of the United States Treasury the following information.

One

-2-

JR #819, June 19, 10 a.m. (SECTION ONE) from Paris.

One. The Swiss National Bank adheres to its Policy of foreign exchange by buying and selling gold and foreign exchanges according to its declarations in the agreement of October 19, 1936.

(END SECTION ONE).

BULLITT

KLP

JR

SPECIAL GRAY

Paris

Dated June 19, 1937

Rec'd 9:35 a.m.

Secretary of State,  
Washington.

819, June 19, 10 a.m. (SECTION TWO).

Two. Owing to the dependency of Switzerland upon the foreign markets of raw materials and foodstuff and to the great amount of short term foreign debts of the country the Swiss National Bank deems it necessary at the present time to dispose of a fund of foreign exchanges of the equivalent of about 500,000,000 francs in order to meet at any time all the engagements resulting therefrom.

Three. According to its statement of June 15, 1937, the Swiss National Bank possesses gold for 2,524,000,000 francs, i.e., about 650 francs per head of the population and foreign exchanges for 20,000,000 francs.

The equalization fund consisted on that day of 117,000,000 francs in gold, 412,000,000 francs in foreign exchanges 17,000,000 francs in other balances.

Therefore, it would be necessary to convert in the coming weeks some further 120,000,000 francs of gold in foreign exchanges.

Four. The gold which has flown to the bank from the disbanding in our own country has successively been sold by us on the free gold market in London and the foreign  
balances

-2-

JR #819, June 19, 10 a.m. (SECTION TWO) from Paris.

balances thus obtained have been utilized to meet the current demands of foreign exchanges.

We intend to proceed likewise in the future.

Believe us to be dear sir, yours very truly, Banque Nationale Suisse. (signed) G. Bachmann, (signed) Schnyder. Eidg (?). Finanz-~~u~~. Zoll Departement. (signed Meyer)".  
(END MESSAGE)..

BULLITT

KLP:HPD

FS

GRAY

Paris

Dated June 19, 1937

Rec'd 9:45 a.m.

Secretary of State,  
Washington.

820, June 19, noon. (SECTION ONE).  
FROM COCHRAN.

Finance Committee yesterday by 18 votes to 6 with 10 absences agreed to substitute the following text for the project adopted by the Chamber on June 15.

"Project of law designed to provide the government with necessary powers to check speculative maneuvers likely to endanger savings, the currency and public credit.

Sole Article. During the ordinary session of 1937 and at the latest until July 31, 1937, the Government is authorized to take by decrees, decided upon in Council of Ministers, measures intended directly and exclusively to forestall and to repress speculative maneuvers likely to endanger savings, the currency and public credit.

This authorization expressly excludes:

(One) Any measures intended to establish exchange control and notably to establish tariff rates or

WFC

BULLITT

KLP

GRAY

Paris

Dated June 19, 1937.

Rec'd. 11:30 a.m.

Secretary of State,  
Washington.

830, June 19, noon (SECTION TWO)

customs prohibitions applicable to currencies, bank notes and securities; to prohibit, to limit, to control or to suspend settlements in France in foreign currencies or in gold and generally speaking all transfers of capital in French or foreign movable securities, made for any purpose whatever between France and foreign countries except as concerns the functioning of existing clearing arrangements; to prohibit, to limit, to control or to suspend dealings in and free quotations of foreign currencies on French territory, as well as the free disposal by moral or physical persons of foreign or French securities, whether or not these securities carry exchange guarantee or exchange option;

Two. Any measures modifying the parity of the franc as determined by the monetary law of October 1, 1936.

Three.



- 2 -

820 from Paris - Section two.

Three. Any measures intended to impose new expenditures on the state on collectivities or on public bodies, to create new posts or new public services or establishments; to bind the state or a public establishment through nationalization, participation or guarantee in cases not provided for by existing

(END SECTION TWO)

BULLET

WVC:EPD

Paris

Dated June 19, 1937

Rec'd 9:50 a.m.

Secretary of State,  
Washington.

820, June 19, noon. (SECTION THREE).

legislation.

Four. Any measures constituted a forced loan, forced consolidation or forced conversion of the public debt or of private debts.

Five. Any measures intended to modify laws and conventions which govern the relations between the State and the Bank of France.

The decrees issued in application of the present law will be published in the Journal Official and submitted for the ratification of the Chambers within three days. These decrees will cease to have executive force after the expiration of one dating from their publication if the decision of ratification has not been taken before this date".

Paragraph numbered one above reproduces the essential provisions of Article one-c of the full powers of the bill approved by the Chamber yesterday. The text was embodied in the Embassy's despatch No. 710 of June 8, 1937.

It will be recalled in connection with paragraph five above quoted that article three of the agreement of September 25, 1936 between the Minister of Finance and the Bank of France provides as follows:

BULLITT

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

Paris

Dated June 19, 1937

Rec'd 1:27 p. m.

Secretary of State  
Washington.

BBC, June 19, noon (SECTION FOUR).

(GRAY) "the proceeds of the complementary revaluation, which may take place later in consequence of the fixing of the new gold content of the franc shall be allotted to the Government in conditions to be specified in a later agreement.

The said proceeds together with the proceeds of the liquidation of the exchange stabilization fund may not be appropriated otherwise than for the redemption of the national debt".

There has thus developed a clear-cut difference between the government which insists upon at least as full financial powers as the Chamber voted it and the Senate Finance Committee which desires to restrict such powers. Debate in Senate will come this afternoon. Government apparently intends to force decision on special powers question before Monday.

Press

- 2 -

Press reports that Senate Finance Committee yesterday studied letter of resignation of Rist and Baudoin. I have been informed by friends that it was reported the members of the Committee agreed to destroy the letter and not divulge its contents. Rumor is already leading to surmises as to allegedly improper operations in Treasury securities which the Government sought to impose upon the Stabilization Fund. However at present I cannot confirm any of this.

Today the press has a report from New York that the American Treasury will aid France through taxing foreign holdings in the United States, and through giving information regarding French funds on the American market to the French Government.

Today there is a rumor current that Rueff is not only being dismissed from the Movement of Funds Section, but he will either be given a minor position in the Moroccan Bank or completely "revoked" as a public official.

At 12:30 today I had a talk with the Bank of France. Yesterday the French control had a fairly heavy day. Today the control is supporting the franc through British control at London with markets closed.

Reference is made to telegram No. 283 of June 18, 1 p.m., from the Department. On Sunday morning at 10:30 I leave Paris for London. I will stay at Claridges Hotel. On Sunday night I will see Butterworth. It is my hope that I can

- 3 -

arrange for interviews and file cablegram at London in time to catch the ten o'clock train on Monday night. I expect to reach Paris Tuesday morning at nine o'clock.

END SECTIONS FOUR AND FIVE.

END MESSAGE.

BULLITT.

EA:LWW



DEPARTMENT OF STATE  
WASHINGTON

June 21, 1937.

My dear Mr. Secretary:

I enclose for your information a copy of telegram No. 824 of June 21, 1937, 11 a.m., from the American Embassy, Paris, transmitting a political report.

Sincerely yours,

Enclosure:  
From Paris,  
No. 824.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

Department of State

EA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

TREASURY

JR

Paris

Dated June 21, 1937

Rec'd 9:25 a.m.

Secretary of State,  
Washington.

RUSH.

824, June 21, 11 a.m.

The Blum Government fell at 2:30 this morning, following a lengthy conference at the Hotel Matignon between the political leaders and the Prime Minister. The Cabinet then went directly to the Elysee Palace and tendered its resignation to President Lebrun.

The Senate met at 10 o'clock last night and following a heated debate rejected the compromise text of the representatives of the Left parties by a vote of 168 to 96. It then adopted by 198 votes to 82 the text which had been revised by its Finance Committee during the day. The Prime Minister intervened in the debate in a passionate appeal for the passage of the compromise text. His intervention however only appeared to stiffen the resistance of the Senate. Caillaux, President of the Finance Commission, in a caustic reply recalled the Senate's constant desire to collaborate with the Popular Front Government. He felt that the Government had deceived the Senate when it had devalued the franc after a promise that there would be no devaluation. He criticised the

application



-2-

JR #824, June 21, 11 a.m., from Paris.

application of the forty hour week a social reform which the Government had also promised to apply gradually and not rigidly as had been done.

The Senate then adjourned and the Cabinet members proceeded to the Hotel Matignon from where the Government's resignation was announced at 3 o'clock this morning by Campinchi, head of the Radical Socialist Parliamentary group.

Chautemps has now accepted the mandate of attempting to form a Government and consultations are in progress. It is doubtful whether anything very definite will be known before the afternoon. It is probable that the new government will still be based on a popular Front majority and that several members of the last Cabinet including Blum will be included therein.

BULLITT

HFD

RB

GRAY

Paris

Dated June 21, 1937

Rec'd 3 p. m.

Secretary of State

Washington.

828, June 21, 6 p. m. (SECTION ONE).

FOR THE TREASURY.

Comparative calm prevailed on the exchange market today and transactions were not on a large scale. The exchange fund held sterling at 110.89 and we are told by our market contact that the fund probably yielded about half a million pounds. The dollar is quoted at around 12.44.

The security market was irregular. After showing some strength at the opening rentes lost from 25 centimes to 1 franc.

The forward rate for one month sterling strengthened to  $3\frac{1}{2}$  and the three month rate to  $5\frac{1}{4}$

BULLITT

CSB

JR

ORAY

Paris

Dated June 21, 1937

Rec'd 3:05 p.m.

Secretary of State,  
Washington.

828, June 21, 6 p.m. (SECTION TWO).

The text of the Bill of the Senate Finance Committee transmitted in telegram No. 820, June 19, noon, was adopted by the Senate on Saturday afternoon by 238 votes to 52.

However later in the same day the Chamber rejected the Senate decision and by 346 votes to 248 confirmed its approval of the text voted by it on June 15.

A compromise text worked out by the delegation of the Left parties and accepted by the Government was presented to the Senate Finance Committee yesterday morning. This compromise text contained certain restrictions of the full powers demanded by the Government. It excludes devaluation, compulsory conversion and exchange control (as did the text voted by the Chamber on June 15). However it also excluded any increase in numbers of government employees, compulsory consolidations and customs charges on foreign securities and requisition of securities. Nevertheless this did not satisfy

BULLITT

HPD

JR

GRAY

Paris

Dated June 21, 1937

Rec'd 3:20 p.m.

Secretary of State,  
Washington.

828. June 21, 6 p.m. (SECTION THREE).

the Senate Finance Committee which held that under the text as it stood the Government could consider itself authorized to modify the relations between the Senate and the Bank of France to proceed to compulsory loan issues and to make profound transformations in the economic regime of the country.

The Senate Finance Committee therefore amended the compromise text in such a way as to exclude the Government from applying customs duties or prohibitions to gold and from restricting free dealings in gold and in French or foreign securities either between France and foreign countries or within France itself. Furthermore a provision was included to prevent the Government from modifying the laws and conventions which regulate its relations with the Bank of France. Thus amended the bill came before the Senate in the evening when the reporter of the Senate Finance Committee contended that the project left the Government with large possibilities of action and at the same time accorded with the imperious rights of Parliament.

CSB

BULLITT

RB

GRAY

Paris

Dated June 21, 1937

Rec'd 3:30 p. m.

Secretary of State

Washington.

828, June 21, 6 p. m. (SECTION FOUR)

Apriel refused to accept the amendments. He contended that if the "sixty billion francs" of French capital sent abroad was invested in French securities and returned to the French market the financial problems of the Government would be solved. He begged the Senate to believe that he had done his duty under very difficult circumstances. He recalled that from the beginning he had sought international collaboration and he was proud that he had negotiated and signed the tripartite agreement "which was well thought of by all and regarded as "the possible germ of useful collaboration in the international domain". After briefly surveying the difficulties encountered by him the Minister bitterly complained "that he had recently been abandoned under painful circumstances by men whose duty was to resist and to defend themselves as well as the Government". As far as he himself was concerned "he could not resign himself to being reduced to impotence when it was necessary to fight" or to be obliged to betray ideas which it was

BULLITT

HFD

RB

GRAY

Paris

Dated June 21, 1937

Rec'd 4:17 p. m.

Secretary of State  
Washington.

828, June 21, 8 p. m. (SECTION FIVE)

his duty to defer. The Senate could ask anything of him, he concluded, except that.

After Blum had pleaded for the adoption of the compromise text and after the intervention of Baillaux the compromise text was rejected by the Senate by 168 votes to 96. The Upper House then adopted the text as amended by its Finance Committee, by 198 votes to 82. At midnight the sitting was suspended to 1:30 this morning. When the House reassembled the Chairman announced that he had received a message from the Government that it had decided "not to pursue the discussion of the financial project" and thereupon the Senate decided to adjourn sine die. (END MESSAGE)

BULLITT

CSB

DEPARTMENT OF STATE  
WASHINGTON

June 21, 1937.

My dear Mr. Secretary:

I enclose for your information one copy of each of the following telegrams from the American Embassy, Paris, reporting on the bill for full powers in financial matters which is now before the French Government:

No. 821 of June 19, 1937, 3 p.m.

No. 822 of June 20, 1937, noon.

Partial paraphrase of No. 823 of June 20,  
1937, 7 p.m.

Sincerely yours,

Enclosures:  
As listed.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Department of State

BUREAU  
DIVISION

EA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

TREASURY



SMS

Paris

Dated June 20, 1937

Rec'd 5:18 p.m.

Secretary of State,  
Washington.

320, June 20, 7 p.m.

Reference only 822, June 20, noon.

This has been a day of feverish negotiations among the political groups and parliamentary committees.

The representatives of the Left groups in the Chamber this morning drafted a compromise text for the full powers bill. The Senate which was to meet at 3:00 o'clock postponed its meeting until 6:00 o'clock to give time for further consideration by its Finance Committee and by the Government. We were told early in the afternoon by a member of the Cabinet that agreement was in sight.

However, new difficulties arose and the Senate's session has again been postponed, this time until 9:30 tonight.

END OF SECTION ONE

BULLITT

SMS

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 823  
of June 20, 1937, from the American Embassy, Paris.

A person close to the Prime Minister has just told us that Blum will not agree to any text which will restrict the use of full powers beyond the limitations which the Chamber inserted in the bill it voted. A change in phraseology would be acceptable, but not a change in substance. The Senate, it was added, (and particularly the Radical Socialist members thereof) is showing signs of apprehension over the situation the fall of the present Government might involve, such as a general strike. We have been informed that the question of confidence will not be put before the Senate by Blum because he contends that the Chamber of Deputies has given the Government its vote of approval, and that since the people directly elect the members to the Chamber, they are the only body before whom the question of confidence can be raised. It is still doubtful as to what the outcome of the issue will be.

END OF MESSAGE.

BULLITT.

EA:LWW

RE

Paris

Dated June 19, 1937

Rec'd 1:32 p. m.

Secretary of State  
Washington.

E21, June 19, 3 p. m.

Embassy's 315, June 18, 5 p. m.

Developments in the situation are as follows:

Yesterday the Senate Finance Committee after receiving a letter from the Minister of Finance declining to set forth the exact purposes for which the full powers would be used, prepared and adopted by a vote of 18 to 6 a bill limiting the exercise of full powers exclusively to measures against speculation, and expressly excluding by detailed provisions the setting up of exchange control devaluation, forced conversion, or any modification in existing arrangements between the State and the Bank of France. This text reveals, as it was doubtless intended to do, entire lack of confidence in the Government. In view of the adoption of the foregoing text Blum who had been expected to appear before the Finance Committee yesterday afternoon did not appear.

A further development of interest was the adoption by  
the Chamber

RB

-2-#821, June 19, 3 p. m. from Paris

the Chamber of an amendment to the bill requesting full powers in customs duties which repeats verbatim many of the restrictive clauses of the above mentioned bill of the Senate Finance Committee. The Radical Socialist deputies voted for this amendment, while the Socialist and Communist Deputies voted against it.

The discussion in the Senate is scheduled to begin at 4 o'clock this afternoon. It seems to be generally believed that Blum will not raise the question of confidence and that the Senate will adopt the bill proposed by its Finance Committee. The discussions would then revert to the Chamber at their session to be held to-night.

The Government appears to be pressing for an early decision and it is said that Blum has let it be known that if full powers are not voted by Monday morning in a form acceptable to the Government, the Government would no longer take the responsibility of remaining in office.

BULLITT

DDM

WVC

EDA

PARIS

Dated June 20, 1937

Received 9:10 a.m.

Secretary of State  
Washington

822, June 20, noon.

The Senate met yesterday afternoon and after a heated debate in which the Prime Minister intervened adopted by 238 votes to 53 a modified bill which rejects the Government's demand for plenary powers to deal with the financial crisis. The Senate bill limits the powers of the Government to measures exclusively and directly designed to suppress speculation and fiscal fraud. It also bans all forms of exchange control and inflation and embodies a series of other specific prohibitions.

The Chamber then met last night at 10 o'clock and completely disregarding the Senate's modified bill proceeded to pass by 346 votes to 248 the original version of its plenary powers bill which it had adopted last Wednesday and which the Senate had in turn ignored.

The Senate met this morning and its Finance Commission is now occupied in a pro forma examination of the unacceptable Chamber bill and also of a "compromise" bill submitted

by

EDA - 2 - # 522, June 20, noon from Paris

by Chautemps. Blum and Auriol are to appear before the Senate Finance Commission this morning. The Senate will then reconvene at three o'clock this afternoon and if a compromise is reached which now appears doubtful the Chamber will again meet at six o'clock this afternoon.

BULLITT

EMB:NFL

JR

GRAY

London

Dated June 21, 1937

Rec'd 3:35 p.m.

Secretary of State,  
Washington.

396. June 21, 7 p.m.

FROM COCHRAN.

Referring to Department's 283, June 18, 1 p.m.

Arrived London Sunday evening and discussed visit with Atherton and Butterworth showing them above mentioned instruction.

I went to the Bank of England at 11 Monday morning the hour Governor Norman had fixed. He told me that he had asked Sir Frederick Philipps to come to the bank to lunch with us. He said he would not participate in my talks with Philipps. I raised the question as to Butterworth joining us. Until Philipps arrived the Governor chatted with me over questions which we had discussed at Basel a week ago but he added nothing to supplement his statements which I have already reported.

Philipps came to the bank an hour before lunch time. I explained that I was here officially and cooperating with our Embassy. He said he first desired to ask me some questions about France on which subject he presumed the

Embassy

-2-

JR #396, June 21, 7 p.m., from London.

Embassy here could not contribute. We had received word of the fall of the Blum Government and exchanged ideas as to what might follow. I told Philipps in reply to his question that the French had not approached us for financial or monetary advice. He asked if they were seeking an arrangement with us to give reciprocal information in regard to investments on our respective markets. I told him the French had mentioned this to me after the signing of their agreement with Sweden but that nothing had so far come of it. He said that it would be contrary to established British policy for them to give France this type of agreement. I said that I thought an agreement on our part with France would not assure the return of French funds from the United States to France so long as France can consummate no arrangements with such countries as Great Britain, Switzerland, the Netherlands and Belgium.

Philipps is particularly interested to see how much gold the French will be willing to lose in support of the franc.

At luncheon I met a number of Bank of England officials and guests but there was no significant conversation. After lunch I telephoned Butterworth and he joined Philipps and me. Philipps brought up the gold question. He said there  
seemed



-3-

JR #396, June 21, 7 p.m., from London.

seemed to be developing two different views: (1) some people think no action with respect to gold should be considered before prices have risen further and times are more prosperous; (2) others think that the gold problem must be faced eventually so it is preferable to hasten a settlement thereof lest the uncertainty of the situation retard economic recovery. Philipps favored the first view.

Philipps thought that British realization of improved economic conditions should tend to dissipate gold worries. He asked whether American officials favored either of the above views. I could give only personal opinions since I had no official information beyond the public statements of the President and the Secretary of the Treasury. I did not see our present price situation calling for any immediate action. I thought there might be an increase in public comment on our gold sterilization policy now that the fund has passed the billion mark. Philipps' questions were so posed as to reveal his hope I believe that we might not precipitate action. I found him less concerned over the matter than I had found Norman at Basel.

I mentioned to Philipps the view of Trip as set forth in his annual report to the Netherlands Bank and as shared somewhat by Franck and Bachmann on control of gold production.

Philipps

-4-

RB #396, June 21, 7 p. m., from London.

Phillips does not believe control would be effective. He minimizes the early effect on production of a lowering of the gold price on the ground that the Soviets will continue to produce irrespective of the price and that South African and some other producers would merely work higher grade ores.

Phillips opposed any unilateral decision on gold. He thought the financially important countries should act in concert, in case action is ever necessary, lest their exchanges be upset. He saw no reason for drawing Russia into any discussions. He said he was glad to have had the talk with Butterworth and he since the Chancellor of the Exchequer would be getting around to answering Secretary Morgenthau's message.

After we had said goodby to the Governor and then dropped Phillips at the Treasury, Butterworth and I compared notes and found that neither of us knew what message was involved.

Returning to Paris tonight.

BINGHAM

CSB



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FE

June 21, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to this Department's letter of June 10, 1937, in regard to Chinese loan negotiations with Great Britain, encloses, for the information of the Secretary of the Treasury, a copy of that portion of telegram No. 394 of June 21, 2 p.m., from the American Ambassador at London, which relates to the subject under reference.

Enclosure:  
From Embassy London  
No. 394, June 21, 2 p.m.,  
in part.

*Satt*

Department of State

BUREAU  
OF  
AFFAIRS

FE

ENCLOSURE

TO

Letter drafted \_\_\_\_\_

ADDRESSED TO

Treasury.

JR

London

Dated June 21, 1937

Rec'd 12:34 p.m.

Secretary of State,  
Washington.

394. June 21, 2 p.m.

Cadogan sent for me this morning and handed me a "very confidential" memorandum regarding Kung's currency loan negotiations here. Inasmuch as he is, according to the radio bulletin, due to arrive in Washington in a few days I am cabling text in full.

"The Chinese Minister of Finance Dr. Kung, during his recent visit to England raised the question of the issue in London of a currency loan for China. Discussions in regard to this proposal are still in an early stage but His Majesty's Government in the United Kingdom desire to inform (\*) confidentially of their course as they are anxious that in matters of this kind there should be close consultation between the governments principally concerned.

Two. His Majesty's Government are disposed to view Dr. Kung's proposal with favor provided that it forms part of a well considered program for maintaining the stability of the Chinese currency and for the execution of a sound financial policy on the part of the Chinese Government. They feel that the carrying out of such a programme is essential

-2-

JR #394, June 21, 2 p.m., from London.

essential in the interests of China and is to the advantage of all countries which trade with China and intend to cooperate in her economic developments.

Three. In particular His Majesty's Government attach importance to the establishment in China of an independent and non-political central reserve bank. The principles for the setting up of a central reserve bank have already been adopted by the Chinese Government and it is satisfactory to note that Dr. Kung has stated his intention of putting these principles into practical effect without delay. In discussing the question of a currency loan it was made clear to Dr. Kung that His Majesty's Government regard it as very important that satisfactory legislation for a central reserve bank should be put into force as soon as possible and that it would be essential that this step should have been taken before the issue of any currency loan.

Four. The programme envisaged would of course include provisions as to the disposal of the proceeds of a currency loan. The sterling would be sold by the Chinese Government to the central reserve bank and would be used by the bank solely for foreign exchange transactions in order to maintain the stability of the Chinese currency. It would clearly not be desirable that the Chinese dollars thus received by the Chinese Government from the central reserve bank should be available

-3-

JR #394, June 21, 2 p.m., from London.

available for current budget expenditure and the programme would provide that these dollars should be used by the Chinese Government gradually over a period for the redemption of existing domestic bonds which would have the effect of improving the credit of the Chinese Government in their own internal market. It would also be part of the program that the Chinese Government should pursue a policy of balanced budget.

Five. Provided that a currency loan formed part of a well considered program on these lines His Majesty's Government felt that they could themselves view it with favor and could hope that the proposal would be viewed sympathetically by the United States Government and the other governments concerned. But it was made clear to Dr. Kung that His Majesty's Government could not express any opinion as to whether and on what terms a loan could be successfully issued in the London market and that this must depend on negotiations with the financial institutions concerned.

Six. Dr. Kung proposed that the loan should be secured on the maritime customs revenue in which connection His Majesty's Government stated that they would expect an assurance that the existing system of the maritime customs would be continued. They here emphasized the importance of the resumption of the recruitment of foreign personnel.

Seven

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JR #394, June 21, 2 p.m., from London.

Seven. The discussions with the financial institutions concerned are still at an early stage and it is not yet clear whether the Chinese Government will be in a position to offer security which the market would regard as adequate even for a comparatively small currency loan of say not more than pound 10,000,000 to pounds 20,000,000. (If the total were more than pounds 10,000,000 only pounds 10,000,000 would be issued in the first instance). Discussions on this point are understood to be continuing.

Eight. Should these discussions be successfully concluded it is understood to be the desire of Dr. Kung to issue a currency loan in the autumn. In this connection the question of the consortium has of course to be recalled into account. His Majesty's Government trust that they will shortly receive from the French and Japanese Governments, as they have already received from the United States Government, an intimation that they agree to negotiations between the groups for the dissolution of the existing consortium by mutual consent. In that event it may be expected that the consortium will have been dissolved before the Autumn and no question of a formal decision by the group will be involved; but it would of course continue to be the policy of His Majesty's Government to keep in close touch on the matter with the other three interested governments



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JR #394, June 21, 2 p.m., from London.

governments. In the alternative event of the consortium not having been dissolved by the Autumn His Majesty's Government trust that the United States Government would find no difficulty in using their influence with the United States group to secure the consent to the issue in London of a currency loan as part of a well considered program on the lines described above".

BINGHAM

# TREASURY DEPARTMENT

353

## INTER OFFICE COMMUNICATION

DATE June 21, 1937

TO Secretary Morgenthau  
FROM Mr. Hass  
Subject: The Business and Price Situation,  
Week Ended June 18, 1937.

### Summary

Business sentiment has been adversely affected this week by discouraging news on the strike situation, accompanied by renewed declines in the stock and commodity markets.

The New York Times business index has declined further to 107.1 for the week ended June 12, as compared with 107.8 for the previous week. (See Chart 1.) It reflects a greater than seasonal decline in automobile production, cotton mill activity, carloadings, and power output, which are partly offset by an improvement in the rate of steel operations.

Our expectation of a recession in business beginning this month is strengthened by the continuation of the steel strike, by a greater than seasonal decline in automobile production for the third successive week, and by a further decline in building construction. The favorable agricultural outlook, on the other hand, and a well-maintained level of retail buying, particularly in rural areas, provide encouragement for the longer-term outlook.

### Review of the Week's Developments

The continuation of the steel strike appears the most unfavorable development of the week. The strike situation is an unfavorable factor chiefly because the inability of business men to see clearly how the present labor difficulties will be settled is tending to upset business confidence and is causing a postponement of industrial buying. Fresh strikes and threats of strikes in industries where the labor problem was thought to have been settled appear especially disconcerting.

The steel and textile industries illustrate the effect of present uncertainties on new buying. Sales of steel out of warehouses are declining faster than seasonally, according

to reports from iron and steel jobbers, because too much uncertainty over the industrial and labor outlook has made consumers unwilling to buy. Machine tool makers also report a lack of new orders recently due to unsettled conditions in manufacturing centers. Textile merchants are showing concern over the strike situation, since it is affecting the movement of their goods. Increasing requests for deferring of deliveries of goods, it is reported, have been found due in nearly all cases to a slump in business in strike communities, and to a feeling of uncertainty over the labor outlook among merchants in industrial centers.

Automobile production during the current week has shown a weaker than seasonal decline for the third week in succession. This week's index of 115.0 compares with a figure of 121.8 for last week. A strike in a plant making cylinder blocks for the Chevrolet car was an important factor.

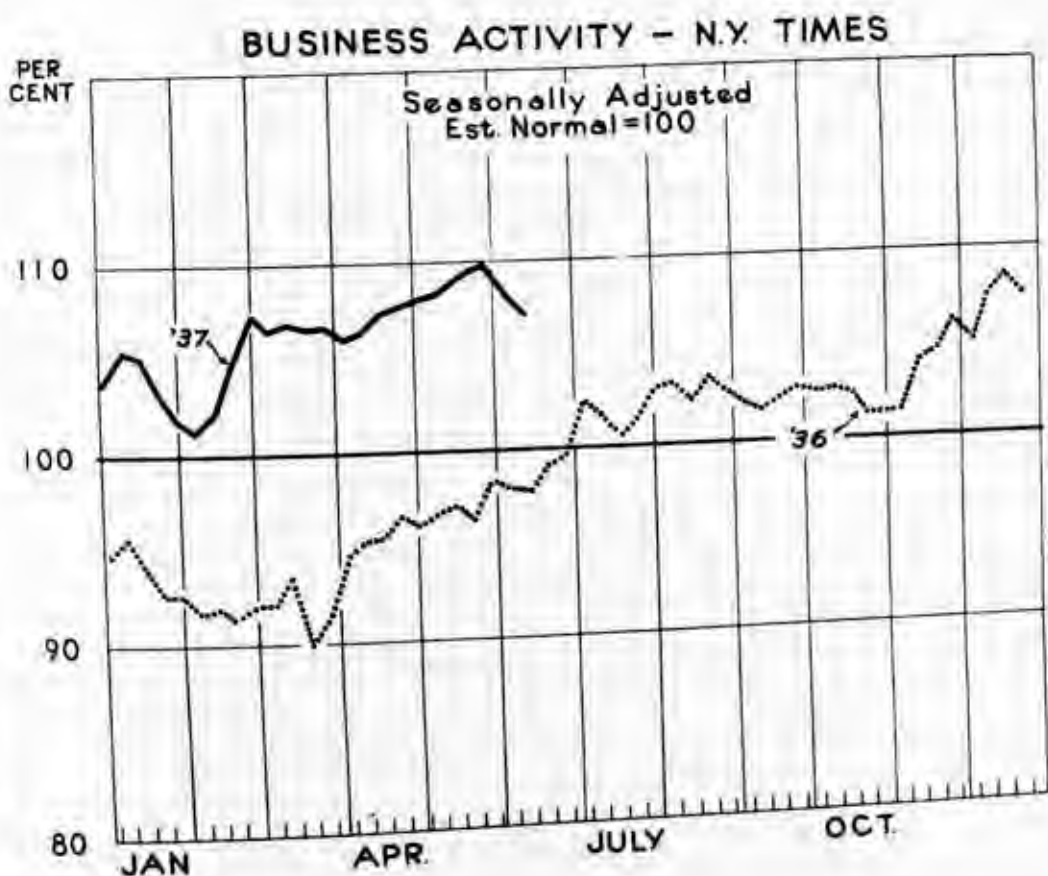
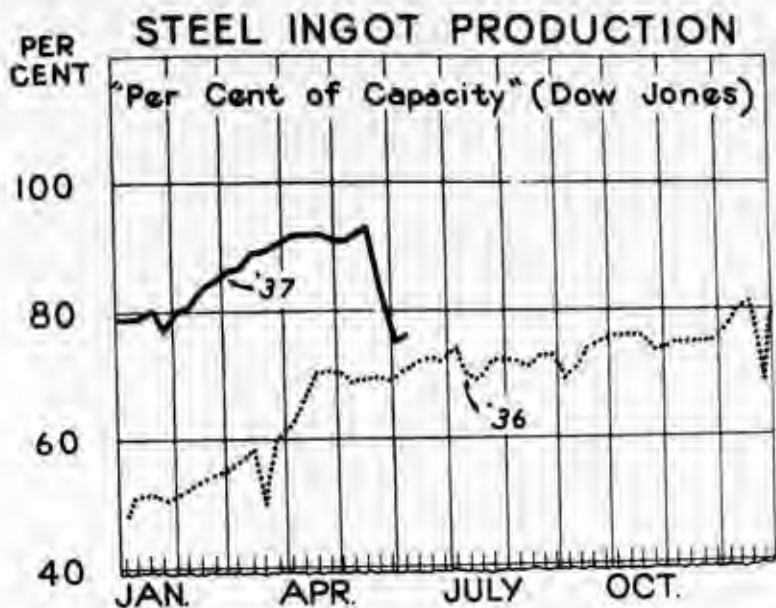
Building construction activities initiated so far in June, as indicated by current reports, show the smallest gain over 1936 of any month this year. The total for June, on present prospects, seems likely to show less than the 13 percent increase over last year recorded in May. The decline in rate of gain was first apparent in March, when it dropped to 18 percent as compared with 33 percent in February. Sharply rising construction costs, and loss of confidence due to general labor uncertainties and the drop in security prices are blamed for the decline.

Steel operations, according to the Dow-Jones index, rose 1 point to 76 percent of capacity for the week ended June 14, as the result of an increased rate of operations in independent plants. (See Chart 1.) New orders of the U. S. Steel Corporation for the week ended June 10 made a more favorable showing, recovering to the level prevailing before the sharp slump in orders of the previous two weeks.

Stock prices declined to new lows this week, as the effect of an increased volume of selling on the strike news and the French monetary crisis was exaggerated by the thinness of the market. An upturn of 6 points in the Dow-Jones industrial average following the news of Government intervention in the steel strike testified both to the market thinness on the upside and to the importance of the labor situation as a market factor. An increased volume of foreign selling on the decline added to the pressure on the market. (See Chart 2.)

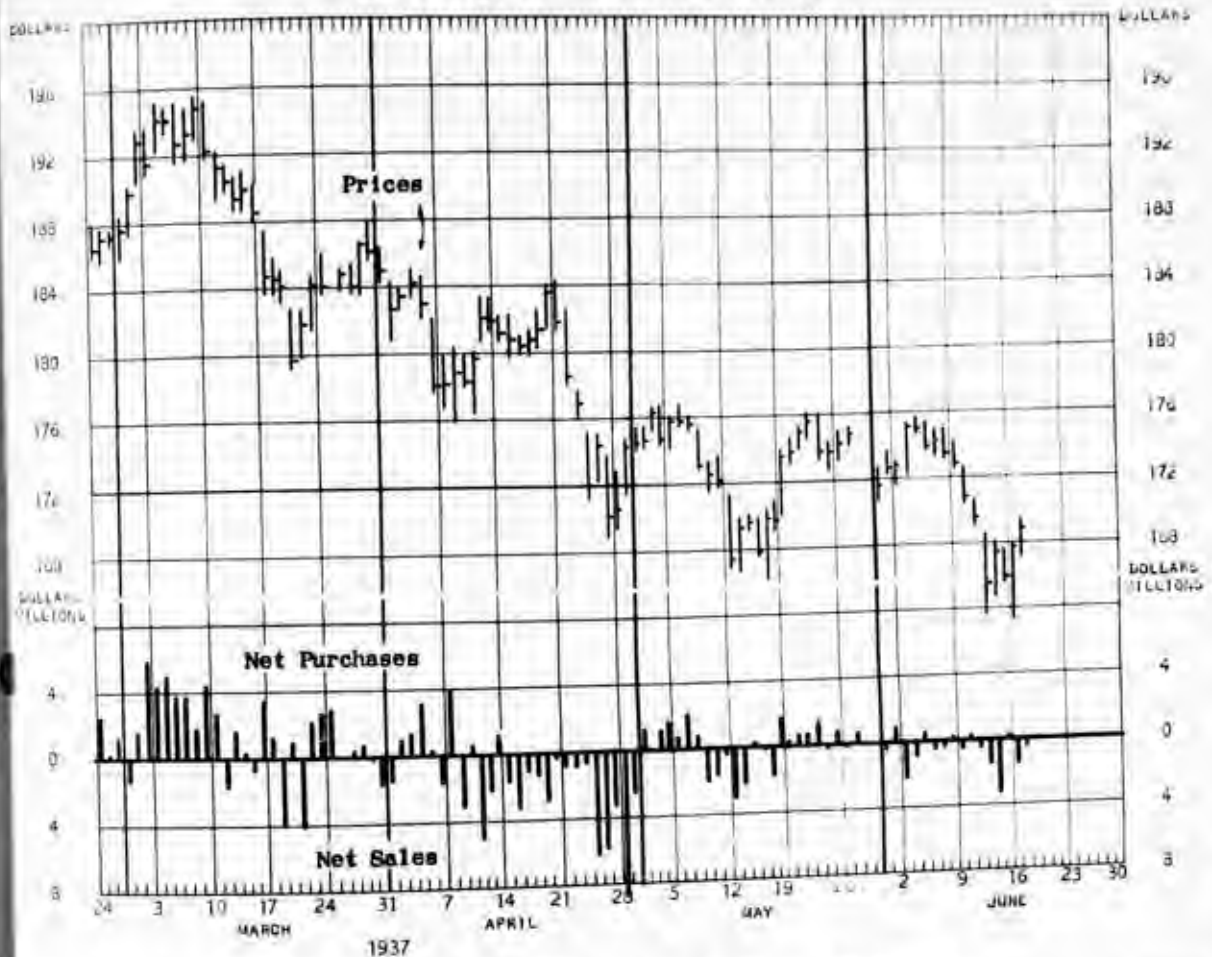
- 3 -

Commodity prices also reached slightly below their low levels of the previous week. Divergent trends in different commodities have begun to appear, however, which may indicate a slowing up of the decline. Wheat, rubber and sugar showed independent strength. Unfavorable crop news from Canada and other wheat countries, together with the recent price action, suggest that wheat may be one commodity that has established its low for the year.



# STOCK PRICES AND FOREIGN TRADING IN DOMESTIC STOCKS

## Daily Movement, Dow-Jones Industrials and Foreign Net Purchases and Sales



## Total Weekly Foreign Trading, Weeks Ending Wednesday



June 22, 1937.  
9:10 a.m.

358

Lochhead: Magill and McReynolds are here.

H.M.Jr: I see. All right. Put Magill on, please. Is Miss Chauncey there?

L: No, Miss Chauncey isn't here. I turned this on for the recorder though.

H.M.Jr: Well, that's all right. Put . . . .

L: . . . . Mr. Magill . . .

H.M.Jr: . . . Buzz for Miss Chauncey.

L: All right, I'll buzz for Chauncey.

Magill: Good morning.

H.M.Jr: Hello Ros.

M: How are you Henry?

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

M: That's too bad.

H.M.Jr: And I'll stay indoors for another day anyway.

M: Oh, yes. Well do it by all means.

H.M.Jr: The Doctor's coming again at ten - and look me over again at ten.

M: Yes.

H.M.Jr: A - I wanted to talk to you before you went up on the Hill and see if there is anything I can help.

M: Yes. I don't think so today - we, the program is to go ahead with this foreign insurance company device . . .

H.M.Jr: Right.

M: . . . and Leming of office is going to put it on.

H.M.Jr: Yes.

M: I think it'll be all right.

H.M.Jr: Yes.

M: I hope I can get the Committee to adjourn for -  
until Thursday.

H.M.Jr: Well, I'd make a definite effort.

M: Yes, because . . . .

H.M.Jr: I'd just tell them you're not ready.

M: I think we can do that.

H.M.Jr: Yes.

M: Yes.

H.M.Jr: Which is the truth.

M: Yes - certainly is.

H.M.Jr: And that would - that gives us a chance.

M: Yes.

H.M.Jr: And the next day - next week, if we're still  
at it, we can give them a three day show . . .

M: Yes.

H.M.Jr: We can do it Monday, Tuesday and Wednesday - .

M: Yes.

H.M.Jr: . . . and then stop. Something like that.

M: Yes.

H.M.Jr: You know?

M: Yes.

H.M.Jr: I'd just tell them - and you can quote me -  
saying that we're not going to do what we did  
last year, work the people so that everybody  
cracks up.

M: All right. I'll tell them that.

H.M.Jr: Yes. You can tell them that last year they did  
it and, and that, and that we just can't do it  
and do all the other work that we've got.

M: Yes.

H.M.Jr: And - if you want to you can bring in the foreign  
situation, and if they say, "Well, what have you got?"



- - well, you're in on it and I've consulted you, etc., and so on.

W: Yes.

W.H.Jr: I don't expect to go to Heaven anyway.

W: (Laughter) I think you - - I - I surely hope you don't right away, but I should think your long-time chances would be good.

W.H.Jr: Yes. Well - so - and then what I thought I'd do is this - that - - you'd be back from the Hill most likely about a quarter of one?

W: I should think so - or before.

W.H.Jr: Well. I'm not going to call again until about a quarter of one, and the people can meet in my office at that time and I'll talk to them.

W: All right, Sir, I'll plan to be here at a quarter of one.

W.H.Jr: The people who are in the office now can be in there again at a quarter of one.

W: Yes. I don't think there's anything else to . . .

W.H.Jr: What I want to do is - McReynolds can - if anybody has anything he can bring it over. I want to see him anyway, and he can come over now - and there is only thing; I understand Von Zeeland wants to see me Thursday. Well, I'd give him - tell Kieley to give him a tentative appointment -- is Miss Chauncey listening?

W: Yes, she's here.

W.H.Jr: Well, he can give him a tentative appointment for 11 o'clock, Thursday.

W: All right. She's got it down.

W.H.Jr: But they'll have to tell him it's tentative, and if they say why, you can say, "The Secretary is not feeling well".

W: Yes.

W.H.Jr: See?

W: All right. We've got it.

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H.M.Jr: And - - - - now, let's talk to Professor Taylor.

H: All right, I'll put him on.

Taylor: Hello.

H.M.Jr: Wayne?

T: Yes, Henry.

H.M.Jr: Now, you get your boys together and clear that 100% tax business, see, so that if by strange circumstances the Federal Reserve Board should agree to it, you could meet with them this afternoon and go ahead. Now, I- I'm just going to rely on you, and Viner, and Riefler, and Lochhead, and White - see?

T: Yes.

H.M.Jr: And if you -- if, if four out of the five of you can agree, I'll be satisfied - see?

T: All right.

H.M.Jr: And I'd like four out of five to agree, and whether the - - the thing that I is the principal and - oh, I remember there was something, I forget now, that White mentioned to me - there, there unimportant.

T: That's right.

H.M.Jr: And I remember there's one thing he questioned and I said, "Well, leave something in so that Senator Glass has got something to object to that we can give in to". See?

T: Yes.

H.M.Jr: So, I'd try to get them in this afternoon, and you fellows will just have to carry on, and I've got confidence in you - and go to it - that's all. And I hope that I won't be laid up more than a day or two.

T: Well, we certainly hope so. All right - we'll take care of that. I don't know whether the Board will be ready by this afternoon . . .

H.M.Jr: Well if they are, if they are - I - the people I mentioned is yourself, and Lochhead, and White, and Riefler, and Viner.

T: Right.

-5-

H.M.Jr: Now if you can - you ought to be able to get four out of five to agree - don't you think so?

T: I would think so.

H.M.Jr: And on that basis . . .

T: . . . . Might even get all five.

H.M.Jr: What?

T: (Laughter) Might even get all five.

H.M.Jr: Well, that would be too much, knowing the five.

T: Yes (Laughter)

H.M.Jr: (Laughter) I haven't lost my sense of humor. After all, if four were together Jake would want to be the one agin it.

T: (Laughter) Well, maybe we'd better start with him and find out what he thinks.

H.M.Jr: All right. But I'll talk again at a quarter of one.

T: All right. Now, I've got - you've heard about this message from the French Ambassador?

H.M.Jr: I have not.

T: "The French Ambassador would like to see Mr. Morgenthau today before 12 o'clock, and would like to be advised at residence before 10 o'clock."

H.M.Jr: Well, you tell the French Ambassador, "I'm very sorry, but Mr. Morgenthau is home - he is not well, and that Mr. Taylor will be very glad to see him".

T: Yes, Sir. The British have received your message through Mr. Mallett.

H.M.Jr: . . . . Yes.

T: And . . .

H.M.Jr: How do you know that?

T: Because they told me. (Laughter)

-8-

H.M.Jr: When did they tell you?  
T: Last night.  
H.M.Jr: Oh!  
T: But I . . .  
H.M.Jr: Did they call you, or call on you, or telephone you?  
T: No, I - I went over there late in the afternoon and played tennis.  
H.M.Jr: I see.  
T: And I received that message then.  
H.M.Jr: From whom?  
T: From the Ambassador.  
H.M.Jr: I see.  
T: And he said that there was no answer yet, but that very thankful and just - and there was one on the way.  
H.M.Jr: Oh, I - I loved Cochran and Butterworth each asking them if they knew what the message was. You saw that in Butterworth's cable?  
T: No, I - I let - I haven't seen that cable yet.  
H.M.Jr: Well, I was doing that while lying here - I read that.  
T: Yes.  
H.M.Jr: I'm, I'm still one ahead of you, but by noon you'll be two ahead of me.  
T: Well, we'll see.  
H.M.Jr: And that's all right, but you see the bunch . . .  
T: . . . One thing, you know, that - of interest there is that he keeps being mentioned as the possible Minister of Finance.  
H.M.Jr: God help France!

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T: (Laughter) Well, he's been it before. (Laughter)

H.M.Jr: Well, if you don't mind, when you have him there, would you mind having Miss Chauncey there to take notes?

T: I'd be delighted to have Miss Chauncey there to take notes.

H.M.Jr: Thank you.

T: Now just a minute. Miss, Miss Chauncey wants to talk to you.

H.M.Jr: Yes.

Miss Chauncey: Mr. Oliphant is here now and he'll tell you what I had to tell you Mr. Morgenthau.

H.M.Jr: All right.

Oliphant: Hello.

H.M.Jr: Yes, Herman.

O: At three o'clock yesterday afternoon the Judge sentenced ~~S.~~ M. Smith to eighteen months in the penitentiary on the first count . . . .

H.M.Jr: Yes.

O: . . . .and eighteen months on the second count to run concurrently . . . .

H.M.Jr: Yes.

O: . . . . so he goes to the penitentiary for eighteen months. Fined him \$10,000 on the third count . . . .

H.M.Jr: Yes

O: . . . . \$10,000 on the fourth count, and \$5,000 on the fifth count.

H.M.Jr: Yes.

O: So he got eighteen months in the penitentiary and a \$25,000 fine.

H.M.Jr: And how much does Bruce Kramer get?

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O: (Laughter) Well, I haven't seen his contingent contract yet. I suppose he's working on a percentage basis. He may - I don't think he'll get much of that eighteen months.

H.M.Jr: (Laughter)

O: (Laughter)

H.M.Jr: (Laughter) O - o - boy!

O: Oh, well that's something . . .

H.M.Jr: . . . That's something . . .

O: . . . to feel good about, isn't it?

H.M.Jr: Yes.

O: Yes, that's a piece of the bacon.

H.M.Jr: Well, via Mrs. Shafroth, Mrs. Morgenthau to me,

O: Yes .

H.M.Jr: Mr. Shafroth is ready to resign, but he'll do it how, when - it's agreeable to me.

O: Yes, I'd like to talk to you about that.

H.M.Jr: Well, I - I'm not going to see anybody until the Doctor says I can.

O: Oh, until he says you can, huh?

H.M.Jr: And Mac is coming over in a few minutes, and ..

O: Yes

H.M.Jr: . . . I, I want - for today - until the Doctor says o.k. I want to see just . . .

O: Well, I'd like just to say this to you now . .

H.M.Jr: Yes . .

O: I have some suggestions for somebody else whenever we want to talk about it . . .but in the meantime.

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

O: Hello.

-9-

- H.M.Jr: It's one of your Assistants and I don't do anything until I talk to you.
- O: I know, but I thought - I was going to say that in the meantime I'd like to talk to Morrie on the basis of his carrying on for the present.
- H.M.Jr: Well, I - we can't - I'd put it this way to him - between my own crowd we don't want him to resign now because it would look terrible.
- O: Well, may I handle it with him?
- H.M.Jr: But for Morrie's sake, of course we don't want an abruption, an abrupt . . .
- O: Well, my thought is - now Morrie is pretty badly broken up. I'd like to send Morrie away for a couple of weeks' rest . . .
- H.M.Jr: Yes . . .
- O: . . . And then I'd like for him to carry on for a little bit.
- H.M.Jr: That's all right.
- O: May I handle it with him?
- H.M.Jr: It would be a favor to me if you did.
- O: Thank you.
- H.M.Jr: Because whenever he comes, his wife is coming with him to see me . . .
- O: Yes.
- H.M.Jr: . . . I don't - - and if he could get away and go up to Cape Cod for a couple of weeks it'd be fine.
- O: Well, I'd like to suggest that to him.
- H.M.Jr: All right.
- O: I'll see him this morning.
- H.M.Jr: Now what I told the boys is that I'd call again at a quarter of one

O: Yes.

H.M.Jr: And I just ask you fellows to do the best you can, and - that's that.

O: Well, you're on the bridge, we're up in the ropes; everything is going to go fine.

H.M.Jr: Well, don't get seasick.

O: (Laughter)

H.M.Jr: Or dizzy.

O: Oh - we might get dizzy.

H.M.Jr: You tell that fellow McReynolds I want to see that baby.

O: By the way, will you - the next time I see you, will you tell me about being dizzy - I've got a story I want to tell you.

H.M.Jr: Do what?

O: Tell me about being dizzy - I've got a story I want to tell you.

H.M.Jr: All right. Tell Miss Chauncey to go out of the room.

O: (Laughter) I can't do it.

H.M.Jr: All right.

O: Good-bye.

H.M.Jr: Tell Mc - Tell McReynolds . . .

O: . . . He's listening

H.M.Jr: that he should come on over - I want to see him.

O: All right - I'll send him over.

H.M.Jr: Thank you.

O: Good-bye.

H.M.Jr: Hello.

O: Hello

H.M.Jr: It's room 516.

O: 516



H.M.Jr:        Yes.  
O:              Right.  
H.M.Jr:        All right. Good-bye.

June 22, 1937

11:30 a.m.

Meeting in Mr. Taylor's office with Ambassador Bonnet and Mr. Jules Henry.

Mr. Taylor: The Secretary is very sorry. He has not been feeling well for two or three days and the Doctor made him go home and stay there. I think he will be all right by tomorrow.

Ambassador: I wished to see Mr. Morgenthau because I think that I shall leave Washington tomorrow morning to go to France.

(The Ambassador continued his conversation in French.)

Mr. Henry: Do you wish me to translate?

Mr. Taylor: I got it.

Ambassador: (Again speaking in French.)

Mr. Taylor: Well, I will express for him all the good wishes. If you find that that is the thing to do, why we wish you every success and if you don't, we will welcome you back here.

Ambassador: I think so, I hope so, because my wife will stay. She does not go to Paris. (Next remarks in French.)

Mr. Taylor: You think that that situation will remain more or less as it is. You will be there in about a week.

Ambassador: (In French.)

Mr. Taylor: All through this period, that's been working very satisfactorily. We have been keeping in touch with the situation with him through our Embassy on the other side because they are so much on the ground there.

Mr. Henry: (Translated Mr. Taylor's remarks for the Ambassador.)

Ambassador: (In French.)

Mr. Taylor: In other words, you have accepted provisionally?

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Mr. Henry: Tentatively.

Ambassador: Tentative. Yes. (Rest of remarks in French.)

Mr. Henry: He would have full powers in the direction of the French finances and economy. That's the condition.

Ambassador: (Speaking in French.)

Mr. Taylor: Well, you know that you will get all the cooperation that we can offer.

Ambassador: (In French.)

Mr. Taylor: Perhaps. We haven't talked to him yet about that, but there are so many other factors that enter into it and when people talk about the over-valuation or under-valuation of currency today, that means so many different things and its -- people talk about under-valuation of the dollar. None of the standards which formerly applied to what people would call under-valuation or over-valuation are present in the situation which causes gold to flow here at the present time. If those old rules, if you can call them rules, were active, way gold would be flowing out.

Mr. Henry: (Translated Mr. Taylor's remarks for the Ambassador.)

Mr. Taylor: So it's a question of definition and you have to go into the underlying situation before you can determine whether certain currencies are or are not, whatever way you want it to work out.

Ambassador: My family will telephone to Mae Taylor.

-oOo-oOo-

After the Ambassador's departure, Mr. Taylor explained that the Ambassador had said he has accepted the post of Minister of Finance provided that the post of Minister of Public Economy is also placed under him and also providing that as Minister of Finance he is given extremely broad powers. He is sailing tomorrow and he hopes that the situation can be

-3-

worked out, but that he is leaving Mme. Bonnet here, so that it might indicate that there was some doubt in his mind.

The Ambassador said that the problem was repatriation of sufficient French capital to permit them to carry on in orderly fashion; that the French policy was definitely to continue the Tripartite Agreement. The Ambassador also said that Van Zeeland had indicated to him that certain currencies were still overvalued. (Mr. Taylor replied to this statement as recorded on page 2 of this report.)

The Ambassador did not have anything in mind except to inform the Secretary of his departure and explain the circumstances to him and pay his respects, etc.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 22, 1937, noon

NO.: 830

FROM COCHRAN.

This morning at 9 o'clock I got back to Paris.

At 11 o'clock I visited at the Bank of France. Yesterday 189 million francs were lost by the French stabilization fund. This morning the market was uneasy, but operators were still so uncertain of the outlook that they hesitated to open transactions. The French fund had yielded 159,000 pounds by 11 o'clock.

At the Bank I was told that the reason for the heavy offerings of dollars against sterling since last Friday was the press report from the United States that the Government would help the French through taxing foreign funds on the American market, and through giving France information regarding holdings in the United States by French people. The fact that dollars have been sold against sterling (repeat sterling) seems significant. On several occasions I have reported to you various opinions to the effect that should such an arrangement be made by the United States with the French, it would not result in driving back funds to France so long as confidence is not inspired by the French situation itself, and so long as other capital countries, particularly those near France, had no similar agreements

agreements.

It is the opinion of my contact at the Bank of France that the French public does not realize the truly chaotic condition of the finances of the country. Little hope for resolving this chaos is offered by Chautemps and such collaborators as are so far suggested. The Governor of the Bank of France is still Labeyrie, and he has given no indication that he will resign from that position. Director of the movement of funds section of the Treasury is still Rueff. It is rumored in the press that Rueff may be appointed French financial attaché at Washington.

BULLITT.

EA:LWW

June 22, 1937.  
12:46 p.m.

Chomley: I understood he was going to call again at a quarter of one.

Q: I see. I was just wondering because.....

Q: Wait a moment please.

Q: .....Mr. McReynolds might know.

(Pause)

Q: No, we'll wait a few minutes.

Q: All right.

Q: All right.

Magill: Well we heard on this fellow Lemming - ah - he's a very - slow - very careful performer.

M: Yes.

Magill: I - if they had let him take his own way why he would have done very well. They let him take his own way for about an hour.....

M: Yes.

Magill: .....and then they began popping questions at him and hurrying him and so forth and - ah - I think they got a little bored with him at the end. He didn't quite finish up.

M: Well that's all right.

Magill: But I think on the whole that it went satisfactorily.

M: Ah-ha.

Magill: Ah - I had a little brush with Treadway at the beginning which was almost over before I knew what it was all about.....

M: I see.

- 8 -

- Magill: .....and it wound up in a fight between Dickson — and Cooper - each of them spitting at each other.
- W: Yes.
- Magill: So I guess that was that.
- W: Well from what you - you would never say it was perfect. From what you say I'd say it was very good.
- Magill: (Laughs) I don't know whether it's very good. If - ah - but if - I don't know what the papers will say because I don't know how well they got it.
- W: Well -
- Magill: We couldn't give them any press releases to-day because it - ah - Lemming was doing it orally and.....
- W: That's all right.
- Magill: .....and they may pan us a bit - ah - Upham was running around like a chicken with his head off but - ah.....
- W: Why?
- Magill: Well he was all hot and bothered because he couldn't give them the releases and couldn't do this and couldn't do that and I told him, to calm him down and.....
- W: Well you were present when I talked to - to Upham.
- Magill: Yes.
- W: And I told him we gave him this job and this is his cross; let him bear it.
- Magill: Yes, well that's the thing.
- W: And he also said something about working through the night and I said, "Fine, that's the first time you've done it in a year....."
- Magill: (Laughs)
- W: .....and you may have to do it some more nights". He looked at me and he said, "That's right".
- Magill: (Laughs) How you feeling this noon?



W: Well I'm a little better. The doctor told me that I should go home tomorrow morning.....

McGill: Yes.

W: .....and stay there the rest of the week.

McGill: Yes.

W: He called up Dr. McIntyre, the President's physician, and told him he was ordering me home.

McGill: Yes.

W: And he said that I should try and just handle emergencies for the rest of the week.

McGill: Yes. I - I'd like to see you before you go but then that's one of those things I suppose.

W: Well you're all going out to that golf thing, aren't you?

McGill: Well I'm - I'm - I'm not. I don't know - ah.....

W: You're not?

McGill: Well how can I? I mean.....

W: Well then if you're not maybe I can see you after my supper, if I feel all right.

McGill: I wish you could.

W: Provided you promise to be cheerful.

McGill: Ah - I'll spend the afternoon going around the building getting some dirty stories.

W: (Laughs) No, that isn't my idea of being cheerful.

McGill: (Laughs)

W: Well - ah - all right. Now what I'd suggest is to balance the week that - that the people meet in your office every morning around 9:15 or so, see?

McGill: Yes.

W: I mean people who are in the room now.

McMill: Yep.

W: Plus Herbert Gaston, if he's well and I call that my Kitchen Cabinet. There's no use having Miss Roche or Mr. Gibbons - I mean they don't contribute anything and there's no use of having them, see?

McMill: Yes.

W: and I think they ought to meet again around 4 o'clock in the afternoon at your office.....

McMill: Yep.

W: .....and then check twice a day.

McMill: 9:15 and 4.

W: Well I - I use that time as being possibly convenient to everybody, see?

McMill: Yes.

W: Because you've got to get up on the Hill and 9:30 is too late.....

McMill: Yes.

W: .....and 9 o'clock is too early for some of them.

McMill: By the way we have - we have to go on tomorrow and I didn't see any way out of it.....

W: All right.

McMill: .....because Lemming didn't finish up.....

W: I see.

McMill: .....and I didn't think we could very well continue over another day.

W: Fine.

McMill: I think he's got to finish up.

W: Well if I'm feeling up to it I'll try and see you after supper for a little bit.

W: Good I wish you could.

W: Now is - I heard on the radio that - that - ah - Wayne's friend, Bonnet, is Minister of Finance?

W: Do you want to talk to Wayne?

W: Yes.

W: All right.

Taylor: Hello

W: Hello Wayne.

T: Ah - he is tentatively Minister of Finance.

W: (Laughs) What do you mean tentatively?

T: (Laughs)

W: Like they asked me yesterday, "Was I going to relax my gold release" and I said, "I wish we could all relax" . What do you mean tentatively? If he could get there in time and there's still a Cabinet?

T: Well he retains his post as Ambassador.....

W.Jr: Yes.

T: .....also tentatively.....

W.Jr: Yes.

T: .....and he's leaving Madam Bonnet here.

W: Leaving her here as a hostage, eh?

T: Yes, however, he's taking the first boat, which is tomorrow and he has accepted on two conditions.

W: Yes.

T: One, that he given very broad powers.....

W: Yes.

.....and, two, that he is also given either charge of or the actual post of Minister of National Economy in addition to the Minister of Finance.

I see, like Director of the Budget, eh?

Well it's - it's a different set up.

Oh.

Ah - that means, as I get it, the - ah - equivalent of National Planning Board, etc., which is a Cabinet post.

Yes, well now - ah - is there anything on that that I should do or see or know or.....

No, I don't think so.

Well isn't it just as well that I hadn't - couldn't see him?

Ah - yes it was - what he wanted to do was to say goodbye and explain what he was doing and I - ah - tried to do the necessary and Miss Chauncey can - ah - tell you whether I was courteous enough.

Well did you kiss him on both cheeks?

No, I didn't.

Can Miss Chauncey testify to that?

Yes. (Laughs) But I wished him every success if that was what he wanted to do. (Laughs) That we would be delighted to see him back if he wanted to come back so who could do more than that.

Yes.

And he mentioned particularly - ah - tripartite agreement.

Good.

Ah - that was sentimental in the first policy in general.

Now - well I think that's - does anybody - you're going out tonight, aren't you to that golf?

- 7 -

T: I don't think so.

M: You don't? (Laughs) Why?

T: Well - ah - I just don't think I'm going to be able to.

M: Oh, do you want to come around when Ros does, if he does?

T: Yep.

M: What?

T: I - I think so.

M: All right.

T: Now - ah - Von Zeeland - why we can send that tentative engagement tomorrow - we want to cancel that, eh?

M: Tomorrow? It was Thursday.

T: I mean Thursday, yes.

M: Yes, unless he - unless he - tell him that you'd be there.

T: Yes.

M: What I'd do is to call up the State Department and simply say that I'm not feeling well and that the doctor has ordered me to take a rest for the rest of the week.

T: Yes - ah - are you going out of town?

M: I'm right at the farm. I'm going to leave at 10 o'clock tomorrow morning.

T: Yes, well I'll tell him that.

M: I'd just tell him the truth that I'm - the doctor said I must rest for the balance of the week.....

T: Yes.

M: .....and that I hope that I'll be well enough to come back Monday.

- 8 -

Yes, well I'll - I'll tell him that. I explained the other circumstances to them.....

Yes.

.....and they understood that.

Well, incidentally, if McReynolds' listening, he should please notify - have Kieley notify the White House I'll not be there for dinner tomorrow night and that I'll not - ah - at Mrs. Hull's dinner - whatever my social engagements are.

ah-ha.

I know I accepted one - luncheon from Hull and the White House tomorrow night - all off.

And the boys have been working on.....

Well it makes me awful tired, Wayne, unless it's important.

No, it isn't.

Well let's can it.

O.K.

Now the only thing - I do want to insist that McReynolds goes out this afternoon because he's planned it and there's no reason why he shouldn't go.

Hats - he's going out.

Good and - I mean I'd feel disappointed if he didn't go.

He says he would too. (Laughs)

All right, and tell Magill the only other person that I'd add to the Kitchen Cabinet is Gaston, if he comes back.

Right.

Who is present so I'll just know.

T: Dan, Archie, Herman, Mac - Miss Chauncey.  
W: Well the people that - isn't Oliphant there?  
T: Yes.  
M: Right. Now does Bell want to say anything? I want to  
kid Bell. Put him on a minute.  
T: All right.  
Bell: Hello  
M: Hello Dan.  
B: Yes.  
M: Don't tell me my President isn't smart when he invited  
you to go down on the boat with him.  
B: Why?  
M: He knew how to get you down there.  
B: Well I declined it.  
M: No!  
B: Yes.  
M: On the boat?  
B: Yep.  
M: You're not going on the boat?  
B: No, I'm not going. I asked to be excused and he said  
O.K.  
M: Oh really?  
B: Yes.  
M: Because Mac said you first asked to be excused but when  
he asked you to go down on the boat - ah .....

- 10 -

Q: Oh no, that was in the original invitation.  
A: Oh, I didn't know that.  
Q: Yes, I thought it was a little too political.  
A: Well you know what I told McReynolds.  
Q: Yes.  
A: I thought it unfair to a Civil Service employee to ask you to go.  
Q: Well I put it up to the President that way that I thought it was a little embarrassing to me and unless it was an official request.....  
Q: Yes.  
A: .....that I didn't care to go and I'd like to be relieved and he said, "Fine, I think you're absolutely right".  
Q: Dan is there anything that I can help on or do you want anything?  
A: Ah - no, I just wanted to tell you that unless you've seen the income tax slip this morning that it hits it right on the line.  
Q: I've seen nothing.  
A: Ah - up to the 21st our estimate was 480 million.....  
Q: Yes.  
A: .....and the actual collections 480,378.  
Q: Grand.  
A: So I guess we're going to get the 515 all right.  
Q: Well may I just say this to the group that's in the room. I'm going away for these few days having complete confidence in the people who are in the room.  
Q: Thank you.



M: And I'm sure that you all can carry on and I will call up once a day, see?

M: That will be at 9:15.

M: That will be at 9:15 and only once a day and if there's anything important you people can put it up to me but I will call once a day.

M: O.K. Anybody else you want to talk to now - Mac - Archie?

M: Only if - ah - if they want me.

M: Just a moment - Mac wants to say something.

M: Please.

McReynolds: May I sign your name to that Wannop letter?

M: Yes, please.

McR: All right, I've got it rewritten.

M: All right. Now listen Mac.

McR: Yes.

M: When you go out there I hope you win a golf bag or a silver cup or something.

McR: (Laughs) Well I wasn't really planning to go and play golf.

M: I'd feel badly if you didn't go.

McR: O.K. I'll go.

M: Anybody else?

McR: No, I think everybody's set.

M: Well - well I'll call up in the morning.

McR: O.K.

M: Everybody's left?

McR: No, they're all right here.  
M: All right, well wish me good luck.  
McR: We certainly do.  
M: All right.  
McR: Goodbye.  
M: Goodbye.

JR

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

Paris

Dated June 22, 1937

Rec'd 3:30 p.m.

Secretary of State,  
Washington.

854, June 22, 6 p.m. (GRAY)

FROM DOGHRAN.

Foreign exchange market has not been favorably impressed by simultaneous publication of formation of Cabinet and by outlook for the continuance of the popular front government with leadership therein merely moved from the Left to the Right section. Bonnet as prospective Minister of Finance with possibly Poinly (the banker who lately quit the Banque de Paris et Pays Bas) as his adviser receives a better welcome in the press than on the market. Sterling became strongly sought around noon and the Bank of France yielded at 110.39 throughout the afternoon. Discount on forward franc widened. Rentes improved when fear that Communists might participate in the Cabinet was dispelled.

Dollars continued to come from New York for conversion into sterling. One Paris American bank today took 42 bars of gold from London market for sale to National Bank of Belgium and the latter institution is said to have also bought gold directly at London. (END GRAY)

- 3 -

I have been given to understand, in strict confidence, that recently the Austrian National Bank has sold gold to the BIS and is holding the proceeds in dollars. It is also reported that the Bank of Nicaragua sold gold to the BIS, requiring the proceeds for commitments in dollars and sterling.

During the past few days the Governor of the Bank of France, Labeyrie, has been questioning officials of the Bank of Italy in Nancy on the working of the exchange control system in Italy.

BULLITT.

EA:LWW

Paris, June 22, 1937.

Dear Mr. Secretary:

I have pleasure in transmitting herewith, for possible addition to your own files on the Tripartite Agreement, an abridged translation of the Report of the Governor of the Bank of Italy at the Annual General Meeting of the Shareholders, held in Rome on the 31st March, 1937, which, on page 6, refers to the Agreement of September 25, 1936, and consequent steps as "the first honest attempt towards wide international cooperation which has been made since September, 1931."

Faithfully yours,

  
H. Keble Cochran,  
First Secretary of Embassy.

Enclosure.

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

July 8, 1937.

Dear Mr. Cochran:

The Secretary has asked me to thank you for your letter of June 22nd, which encloses an abridged translation of the Report of the Governor of the Bank of Italy at the Annual General Meeting of the Shareholders, held in Rome on March 31st. He also has received a copy of the pamphlet entitled, "Monetary and Economic Situation of U. S. A. 1925-1937", which you sent him with your personal card. He is glad to have both of these publications for his own records.

Sincerely yours,

H. S. Kats,  
Private Secretary.

Hon. H. Merle Cochran,  
First Secretary of the  
United States Embassy,  
Paris, France.

GKF/abe

*1936 Follow-up*

# BANCA D'ITALIA

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ABRIDGED TRANSLATION OF THE  
REPORT OF THE GOVERNOR  
AT THE  
ANNUAL GENERAL MEETING OF THE  
SHAREHOLDERS

HELD IN ROME ON THE 31<sup>st</sup> MARCH, 1937.

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YEAR 1936.

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Gentlemen,

World economy, particularly during the last months of the year 1936, has shown a further improvement as compared with the previous year, contributory causes being the Tripartite Monetary Agreement and the alignment of the currencies which formed the gold bloc. General Remarks.

It appears that the recovery is only partly due to a return to more healthy economic conditions: it is rather the result of temporary State intervention, of artificial credit expansion, and of huge expenditure on armaments.

It must be noted, moreover, that the rise in world prices, which is due to the gradual re-establishment of equilibrium between demand and supply is of greater benefit to countries producing raw materials, whereby importing countries are more and more compelled to forgo, as far as possible, the importation of raw materials and food-stuffs, and to make use of the stocks accumulated in previous years. This is noticeable in the comparatively small expansion in international trade.

On the other hand, it is only through the clearing of the international political horizon that the improvement noticeable in the past year can be consolidated by genuine factors of lasting economic progress.

Agricultural production, which closely affects economic conditions, has been unsatisfactory in certain countries, owing to unfavourable climatic conditions. Unemployment, although reduced, is still at a fairly high level; international trade has not increased *pari passu* with production, and has continued to be hampered by the instability of exchanges, especially up to last September, by the lack of medium and long-term capital movements, by the dictates of nationalistic policies, and, for a good part of the year, by the exceptional obstacle of "sanctions."

The bitter struggle for predominance in the exchange market, with its far-reaching consequences and fluctuations from one to the other of the three most important world monetary centres, has certainly influenced the psychology of the "saving" masses and of



those engaged in the various branches of economic activity. For those in possession of assets, unrest, lack of confidence and often panic have for too long alternated violently with short periods of calm to allow of the re-establishment of a period of tranquillity in the immediate future.

The uncertainty and instability of the principal financial markets were accompanied by a similar situation in international political relations, thus retarding still further the return of confidence which is essential to the re-establishment of normal economic relations.

The monetary events of the past year can be compared, for importance and its far-reaching consequences, with those of 1931, but, whereas the departure from the gold standard of sterling opened up a period of diverse systems of money control and of acute international economic contrasts, which resulted in a shrinkage of trade, the alignments which have taken place after five years seem to be the first step towards a less unstable relation between the internal and the external purchasing power of the various currencies.

The features of the foreign exchange market were in the early part of 1936 the attacks on the currencies of the gold bloc, the defence of which required large exports of gold, and later a process of adjustment, following on the currency alignments. In the first period the weakness of the currencies of the gold bloc contributed to the strength of sterling and dollars, which, as the result of their respective monetary policies, maintained with considerable stability the positions attained in 1934.

The Belgas has also been mainly stable in the period under review, during which the gold standard was resumed by re-establishing, as from the 31st March, the convertibility into gold of the notes of the National Bank at a parity depreciated by 28 per cent. as compared with that fixed in 1926. Shortly afterwards, however, Poland, owing to commercial difficulties, was compelled to break away from the gold bloc, by introducing strict exchange control.

The attention of the international market remained, however, mainly concentrated on the French franc, which was subjected to heavy pressure, particularly between May and June. In spite of the intervention of the British and American Exchange Equalisation Funds, for the purpose of minimising the spot rate fluctuations, the

pressure was noticeable in the high margin on forward rates and in the gold losses, which greatly reduced the reserve of the Banque de France. (1) These circumstances, largely due to the action of the French people themselves, and causing in their turn increased internal financial and economic difficulties, helped to cause the French Government to propose to Parliament, on the 25th September, the reduction of the gold content of the franc, after having obtained from the United States and Great Britain the assurance that they would co-operate for the success of the operation.

As a result of the law of 1st October, 1936, the French franc has lost its character of a currency having a fixed gold content and has assumed temporarily the nature of a managed currency, between two limits corresponding to a gold content of 49 and of 43 milligrammes of gold of a fineness of 900/1000, involving a depreciation at the rate of 25.19 and 34.35 per cent. respectively, as compared with the franc of 1928. At the same time an Exchange Equalisation Fund was set up, with 10,000 million gold francs at the new parity, obtained through the re-valuation of the gold reserve of the Banque de France.

The features of the Swiss franc and of the Dutch guilder in the first period of 1936 were similar to those of the French franc, since the international exchange market felt that the above currencies would be unable to maintain their gold parity if it should be abandoned by the French franc. In fact, as from the 27th September, the Swiss franc was moved from a fixed gold parity of 290.32 milligrammes of fine gold to a variable parity between 215 and 190 milligrammes of fine gold, involving a depreciation of 25.94 per cent. and 34.56 per cent. respectively. As a result of the re-valuation of the gold reserve of the National Bank an Exchange Equalisation Fund was set up, amounting to 538.6 million Swiss francs. Holland, following the English example, confined its action to placing an embargo on the export of gold and created a similar fund, amounting to 300 million guilders in Treasury Bills.

In face of the action taken by the countries which formed the gold bloc, the Italian Government, as will be seen later, after

(1) A premium on forward sterling in Paris on the one month quotation rose first to a maximum of 36.76 per cent. in June and was 23.47 per cent. in September; whereas the premium on forward dollars reached the highest level of 25.28 per cent. in May and June, and was restored to 25.27 per cent. in September.

mature consideration, re-established on the 5th October the gold value of the lira on the same level, as compared with the principal foreign currencies, as had been fixed in the stabilisation law of the 21st December, 1927, and which had been affected, with damaging results for our country, by the subsequent devaluation of all the above-mentioned currencies. After the re-establishment, on the new basis which reduced by about 41 per cent. the gold content of the lira, of the parity of 19 lire to the dollar, the Government have reserved the option (as in the United States of America) to carry out, if necessary, a further devaluation of 10 per cent.

As regards the minor currencies, the following features may be mentioned: a further devaluation by 15.99 per cent. of the Czechoslovakian crown and of 27.536 per cent. of the Roumanian lei; the adoption of the pound by Greece and Turkey as the basis of their respective currencies; and also the adoption by the Latvian lak of the sterling basis.

The agreement concluded on the 25th September, between the United States, Great Britain and France, to which other countries which aligned their currencies have adhered in principle, including Belgium, has substituted for the old conflict between the currencies of the sterling bloc and of the gold bloc (while the dollar maintained an apparently independent position, though in reality connected with sterling—a connection which was in fact established in 1934 and maintained in the two years 1935 and 1936) a new grouping, which is the first honest attempt towards wide international co-operation which has been made since September, 1931. This agreement is better defined as a monetary truce, since, while the desire is expressed "to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations," it is said immediately after that "the Government of the United States and the Government of Great Britain, in their policy towards international monetary relations, must take into full account the requirements of the internal prosperity of the United States Republic and of the British Empire, while the French Government will naturally take into account similar considerations regarding the economic needs of France and of its over-seas possessions." It is always subject to these considerations that the contracting parties express their intention to act in such a way that

"the greatest possible equilibrium in the system of international exchange should be maintained," and they insist on the necessity of a common action to relax progressively the present system of quotas and exchange controls, with a view to their abolition.

Conversations which have since taken place, with the object of defining technical conditions for co-operation between the signatory countries, especially in connection with gold movements, led to fresh agreements, founded on the principle of reciprocity, by which the United States have declared that they are willing to sell gold to the exchange equalisation funds and foreign Treasuries, and/or fiscal agents operating on behalf of such Treasuries and guaranteed by them, provided that they, in turn, are prepared to sell gold to the United States at the price, and on the conditions, which are regarded by the United States Treasury as best suited to the public interest.

With the recent changes which have taken place in the currency systems, the exchange equalisation funds have acquired a paramount influence over international financial relations. The available means and the operations of the funds are kept in the greatest secrecy. Every precaution is taken to prevent speculative activity in the exchanges, and the path is left open for fresh adjustments of the value of currencies to national economic requirements and to isolating the home money market from the influences of the international market. It remains doubtful, however, whether the exchange equalisation funds can always easily check exchange speculation, if, for more or less well founded reasons, there is a general gain or loss of confidence in any particular currency; nor, on the other hand would it be possible to alter frequently and unilaterally the value of any currency without causing retaliations on the part of others in order to neutralise, at least partly, its effect.

Considering more recent events, especially in connection with international capital movements, and money rates, the process for the settlement of the various currencies on a sound basis, both internal and external, seems still far from finality, while the final stabilisation rates of certain European currencies are still uncertain, and the relation between the value of dollars and sterling still remains to be definitely fixed. It may be noted, however, that the extreme contrasting tendencies have been considerably narrowed down. (1)

(1) The sterling rate in New York, which had risen to over 3 dollars, fell suddenly, after the continental alignments, to close upon the old parity of 4.80.

Whereas the production of gold is increasing, (1) contrary to the most reliable anticipations of a few years ago, a steady migration of the metal towards the countries having a favourable balance of payments, or whose currencies, owing to the particular circumstances of the time, enjoy special confidence, is going on. This causes a disturbance in the export, as well as in the import, markets. In 1936, while the outflow of gold from the countries of the gold bloc contributed towards causing the fall in the respective currencies the influx into the United States has become a cause of great concern and has accelerated the process of credit expansion. (2)

The silver market, although having been less disturbed than in the years 1934 and 1935, still remains unstable. While production has further increased, (3) the United States Treasury have reduced their purchases at home and in the countries with which special agreements have been concluded.

The markets which were not subject to monetary disturbance maintained great liquidity, since, in order to meet contingencies and for financial reasons, a policy of easy money has been pursued. The low rates of interest have caused a further development in the activities of private enterprise and enabled the Governments to obtain on easy terms the necessary loans.

In New York the official discount rate of the Federal Reserve Bank has remained unchanged at  $1\frac{1}{2}$  per cent. The steady inflow of gold and the increase in the Federal Public Debt, which in 1936 rose from 30.6 to 34.4 thousand million dollars, have brought about, in spite of efforts to check it, a credit expansion in which the elements of inflation are not lacking. It should be noticed, however, that in the

(1) The world output of gold in the past year amounted to 1,681,000 fine kilograms, as against 904,000 fine kilograms in 1935.

(2) In the first nine months of 1936 in France a net outflow of gold of 1,061,000 fine kilograms was recorded, while the United States and Great Britain during the whole year recorded a net inflow of 992,000 and 1,040,000 fine kilograms respectively.

The present gold movements, as is known, are not so dependent on trade as on capital movements. According to the calculations of the United States Treasury it is reckoned that between January, 1935, and September, 1936, there has been a net inflow of foreign capital into the United States of 2,292 million dollars.

(3) The world production of silver in 1936 amounted to 7.8 million fine kilograms, against 6.2 million fine kilograms in 1935.

money market a slight rise in the short-term rates has taken place as opposed to a fall in the medium and long-term rates, (1) owing to the investment of available funds in the money market and to the action of the Treasury in promoting the funding of the floating debt.

Also in London the discount rate has remained unchanged, at 2%. The monthly averages of money rates have been fairly steady, with a hardening in June and December of a seasonal nature. (2) Credit has further expanded and month by month in the year 1936 the banks' statements have shown new high records in the volume of deposits.

On the other hand, in the countries which formerly belonged to the gold bloc, the financial market, though directed towards a policy of easy money, was affected by the trend of the exchanges and by the outflow of capital.

The discount rate of the Banque de France was subject to wide fluctuations, reaching a maximum of 6% in May and June, with a minimum of 2 per cent. in the last months, the market rates fluctuating accordingly.

It was almost the same in the Dutch market, although money rates remained at a considerably lower level than in France; whereas the Swiss market was very slightly affected by the monetary events and the rates became easier. (3)

The New York Stock Exchange has been definitely on the rise: the improvement in economic conditions, the high dividends, and the large money resources have contributed towards a progressive rise especially in shares.

In London the collapse of the gold bloc, by enhancing the hope of a new era of development in world trade, accelerated the Stock Exchange boom which had been in progress in the preceding months, thanks to the favourable trend of domestic economic development.

The French Stock Exchange was affected by the uncertainty of the economic and financial position. The prices of home securities were weak, until the de-valuation took place, but, after the alignment, a definite rising tendency set in, especially in the case of equities and foreign securities.

(1), (2) and (3) (See Table on page 10).

MONEY AND INTEREST RATES IN THE LEADING FOREIGN MARKETS.  
(PER CENT. PER ANNUM.)

Year 1936	UNITED STATES				GREAT BRITAIN				FRANCE				SWITZERLAND				HOLLAND			
	Official discount rate of the Fed. Res. Bank	Prime business rate for 90 days	Rate for 180 to 360 days	Average yield on Treasury bonds	Bank rate	Average rate for 90 days	Rate for 180 to 360 days	Average yield of 100% War Bonds	Official Treasury rate	Average yield on Treasury bonds	Prime business rate	Average yield on 100 to 180 day Treasury bills	Official Treasury rate	Average yield on 100 to 180 day Treasury bills	Prime business rate	Average yield on 100 to 180 day Treasury bills	Official Treasury rate	Average yield on 100 to 180 day Treasury bills		
January	1.00	0.125	0.75	4.94	2.00	0.50	0.10	3.00-3.00	4.24	3.64	4.00	2.50	2.48	2.50	0.92	3.00	2.30	2.331		
February	1.00	0.125	0.75	3.95	2.00	0.50	0.10	3.00-3.50	3.73	3.40	3.00	2.50	2.47	2.50	0.92	3.00	1.27	1.621		
March	1.00	0.125	0.75	3.95	2.00	0.50	0.10	3.00-3.00	3.61	3.41	3.24	2.50	2.50	2.50	0.92	3.00	1.21	1.652		
April	1.00	0.125	0.75	3.97	2.00	0.50	0.10	3.00	3.61	3.50	3.23	2.50	2.55	2.50	0.92	3.00	1.16	1.592		
May	1.00	0.125	0.75	3.90	2.00	0.50	0.10	3.00-3.00	3.50	3.40	3.22	2.50	2.75	2.50	0.92	3.00	2.17	1.635		
June	1.00	0.125	1.00	3.94	2.00	0.75	0.10	3.00-3.00	3.63	3.50	3.38	2.50	2.70	2.50	0.92	3.00-4.50 4.00-3.50	4.02	3.004		
July	1.00	0.125 0.1875	1.00	3.90	2.00	0.50	0.10	3.00-3.00	3.49	3.13	3.36	2.50	2.25	2.50	0.92	3.00	2.04	1.740		
August	1.00	0.1875	1.00	3.85	2.00	0.50	0.10	3.00	3.13	2.80	2.63	2.50	2.25	2.50	0.94	3.00	1.36	1.105		
September	1.00	0.1875	1.00	3.79	2.00	0.50	0.10	3.00-3.00	3.44	2.98	2.62	2.50-2.00	1.98	1.50-2.00	0.94	3.00	1.82	1.333		
October	1.00	0.1875	1.00	3.75	2.00	0.50	0.10	3.00-2.50 2.00	2.45	1.89	1.55	2.00	1.05	1.50	0.95	2.50	1.05	2.500		
November	1.50	0.1875	1.00	3.71	2.00	0.50	0.10	2.00	2.13	1.73	1.68	2.00-1.50	1.40	1.00	0.90	2.00	0.90	1.582		
December	1.50	0.1875	1.00	3.67	2.00	0.50	0.10	2.00	2.13	1.91	1.97	1.50	1.25	1.00	0.90	2.00	0.82	1.328		

Italian economy in 1936 assumed a particularly national character. Well fitted for the effort to overcome obstacles and difficulties in the way of attaining its great goal, in the first part of the year, it had, in the realisation of the Imperial idea of Mussolini, the best inducement to prove itself worthy of the new and wider field of endeavour.

The economic siege and the hard fought and gloriously won war have created powerful forces, indicating the soundness and the possibilities of the economic structure, which was not weakened but well tempered by the struggle in which every Italian felt himself engaged.

The Italian market in every branch has followed the line of action which was clearly set, finding in itself such financial and economic resources as made possible the triumph due to the bravery of the fighting forces and to the faith and discipline of a strong and laborious people.

The Fascist Government regulated in every field, by timely decrees, the life of the country, and the party leaders, assisted by corporative and syndical bodies, were active in the performance of tasks of the highest value, which are still being carried out, and are specialising in the delicate task of price control.

Economic developments thus show evidence of a firm and constant will, aiming, in accordance with the "plan" drawn up by the Duce, at establishing gradually and methodically the country's economic structure on a basis which will finally ensure the greatest possible national economic independence.

Sanctions have given the most decided impetus towards the achievement of this plan and the economic life of the nation now proceeds within the framework of an organisation which is no longer imposed by special contingencies but has become normal in its development.

In the period of sanctions the scarcity of means of international payments imposed a reduction in the supplies of raw materials and goods from abroad. However, by utilising stocks, by technical alterations, by exploiting every national resource, and making use of agricultural and industrial by-products, the home manufactures

The Italian Market

engaged in meeting the exceptional military requirements, in addition to the normal needs of the population, were able to maintain a satisfactory level, although various branches have been seriously hit by the shrinkage in exports.

By the timely provisions for reducing the foreign indebtedness of Italian banks and for attaining the largest measure of liquidity at home, it has been possible to face the financial sanctions and to meet all the credit needs of the home industries.

Subsequently, when international trade was resumed, and through the currency alignment, Italy was able to take part in the progress which has been made in world economy.

Signs of improvement in internal conditions are in fact visible, apart from the monetary factor, in the tendency towards the re-establishment of equilibrium between prices and costs, the greater confidence in investments, the considerable rise in deposits, due chiefly to the creation of fresh savings, the improvement in the stock markets, the satisfactory industrial output, the development in domestic trade, and the revival of tourist traffic.

An interesting aspect of economic events in Italy in 1936 is shown, as already mentioned, by the trend of foreign trade, excluding trade with Italian colonies. The above trend is shown by the total value of imports, which, between 1935 and 1936, fell from 7.7 to 5.8 thousand million lire, and the value of exports, which showed a smaller fall from 4.5 to 3.8 thousand million lire. At first sight these may appear favourable figures, since they show that the adverse balance of visible trade has been reduced from 3.2 to 2.3 thousand million lire, namely, by about one-third.

Analysing them, however, the effects of sanctions, which were enforced wholly or partially by the countries which took about one-half of the total exports, are apparent. After the contracts concluded prior to the 18th November, 1935, had been carried out, Italian exports to sanctionist countries, subsequent to January, 1936, were reduced to negligible figures.

At the same time, the war requirements called for large supplies from abroad, and for limitation, in other than war industries, of the

supply of foreign currencies required for the import of the necessary raw materials. In view, moreover, of the difficulties and the expense of market dislocations imposed on the export industries by the sanctionist bloc, it is apparent that a large adverse balance of visible trade was inevitable.

The effects of this hard fought war on two fronts were met, and minimised first by the imposition of counter-sanctions, consisting of the repeal of existing trade agreements with sanctionist countries and the strict check on imports from them, through the adoption of the licence system, by which imports were reduced to less than half their normal level. Moreover, trade was increased with non-sanctionist countries, in particular Germany and the United States. The maintenance of a large interchange of goods with these two countries was an element of the greatest importance for the resistance of Italy at the time of the sanctions.

The action of the State and the initiative shown by exporters were effective in securing, with the victory in the field, the victory of the Italian people on the sanctionist front, which was sealed by the repeal of sanctions in the month of July.

From the moment trade negotiations were resumed with former sanctionist countries, with the exception of the U.S.S.R., which resulted in agreements regulating Italy's trade by clearing arrangements on a parity basis, with a margin in Italy's favour whenever old indebtedness remained to be settled. As a result, trade was immediately resumed, with considerable benefit to Italian exports, which received further valuable assistance from the alignment of the lira. Imports have also shown a decided tendency to rise, owing to the larger quotas which were granted, in view of the generally improved exchange position and also of the desirability for not curtailing further the supply of raw materials for industries other than war industries, and, moreover, owing to the necessity of filling gaps in home agricultural output.

Thus, at the end of the year Italy's foreign trade has decidedly revived. The expansion of exports will now depend to a large extent on the improvements in the technique of production and trade organisation, and on the direction of foreign trade policy.

An unfavourable feature affecting the economic position of the country was the poor harvest, due to adverse climatic conditions, of most of the crops. In particular, the production of cereals was affected, and the wheat, rye, oats, barley and rice crops sank to the lowest levels of the last decade. Maize, however, gave a better yield, since conditions in the later part of the season were more favourable for that crop. The food requirements of the country which could only to a limited extent be satisfied by a larger use of home grown beans and potatoes, had to be met by additional imports, especially of wheat, from foreign countries. The Government have taken steps to relieve the distress of the farmers in the most seriously affected districts, by granting credit facilities and organising pools for the sale of agricultural produce at standard prices, in order to ensure a reasonable remuneration to the farmers for their goods. The pooling of wheat was made compulsory by legislation, and for other cereals voluntary pools were arranged. The marketing of rice was regulated by the Ente Nazionale Risi. The industrial crops, particularly hemp, flax and cotton, gave more satisfactory yields, thus contributing to the national economic independence. For these too legislation was enacted for regulating the areas under cultivation and for pooling the crops under the control of the appropriate corporative bodies. The crop of sugar beet, in spite of the larger acreage sowed was unsatisfactory.

Legislation was also enacted as a result of the very poor crop of olive oil, requiring the grading of home produced oils and reducing the excise and import duties on oil-seeds. As regards wine, measures were taken for utilizing, if necessary, a portion of the surplus 1935 stocks for distillation purposes. At the time of the new vintage, the grapes used for the manufacture of household wine were exempted from excise duty, and under a new Decree, which has recently been approved by the Cabinet, measures have been adopted for the regulation throughout of wine production.

A new department has been set up at the Ministry of Agriculture and Forestry for agricultural planning, the marketing of produce and financing it; this affords further evidence of the particular importance which the Government attaches to agricultural problems.

During 1936 industrial activity, stimulated by the needs of the moment and by the pressure of sanctions, was marked, as already

mentioned, by a definite tendency towards the attainment of the greatest possible economic independence.

This line of action required the modification of the industrial plant and of technical processes, in order to secure the fullest exploitation of national resources, which enabled certain industries mainly devoted to the export trade, to meet the difficulties imposed by sanctions. Thus, certain branches of the mining industry and those making use of products of the soil for manufacturing purposes, were busily engaged also during the period of the sanctions, in manufacturing goods to replace those formerly imported from abroad.

The Government, assisted by the syndical organisations, adopted timely measures for helping the technical transformation of industries which were not sufficiently developed to meet national requirements. Action was especially directed towards the development of coal-mining and towards promoting the production of synthetic liquid fuel, the use of various agricultural products or by-products for the production of alcoholic fuel, the development of crops for the supply of raw materials for making cellulose, and the use of other raw materials, in order to extend the production and use in the textile industries of natural and artificial Italian fibres. (1)

The need for making the fullest possible use of the industries which are most essential for national defence induced the Fascist Government to extend State control to them. With the same object in view, steps were taken to exploit and co-ordinate more effectively the national sources of electric power. (2)

The well-planned re-organisation of national economy has found a powerful instrument in the control of the creation of new industrial plant and the expansion of existing plant. This task, which had been

(1) Among the bodies which have been created for the exploitation of national resources, the following may be mentioned: the Azienda Carboni Itali (coal), the Azienda Idriche, Petroli, Alumi (oil), the Azienda Nazionale Idrogenazione Carboni (petrol), the Azienda Minerale Metalli Italiani (metals), the Ente Nazionale per la Cellulosa e per la Carta (cellulose and paper).

(2) Particular importance attaches to the provisions of the Royal Decree Law No. 268 of the 16th April, 1936, by which a Central Electricity Board was set up, with the task of controlling all activities concerning the production, distribution and use of electricity, and the carrying out of all provisions for ensuring an increase of the available electric power which may be necessary in case of war, and of promoting and regulating the civil mobilisation of all electricity enterprises.

The Board has been given full powers of control over these enterprises, which may also be exercised by the appointment of officers for disciplinary purposes. For the execution of its technical tasks, an office for the mobilisation of electric power has been set up, including a special body of observers for surveying the output, distribution and use of electricity.

entrusted by the law of 1933 to a special Board, has now been transferred to the Corporations which are more competent to appreciate the problems concerning each economic branch of economic activity, not only as regards immediate requirements, but also with a view to the possibilities and necessities of the future.

Similarly, under the Royal Decree Law No. 1296 of the 16th April, 1936, and the Royal Decree Law No. 1689 of the 11th May, 1936, the existing voluntary consortiums, as well as special bodies and institutions which had been set up to regulate certain branches of production, (1) were placed under the control of the respective Corporations, so as to ensure that their action should conform to the general policy.

Limited Companies

In the year 1936 there was a net increase of 125 limited Companies with a paid-up capital of 710 million lire; on the 31st December, 1936, 19,353 Companies were in existence with a capital totalling 448 thousand million lire. The average capital of each Company is thus 2.3 million lire, which is slightly higher than it was at the end of 1935. (2)

Important provisions affecting Companies were enacted in 1936, especially as regards the income tax assessment, the dividends and audit.

As regards the fiscal provisions, the Royal Decree Law No. 1231 of the 8th June, 1936, introduced a new basis for tax assessment subject to adjustment according to the actual results. The same law provides for the taxation of untaxed reserves of previous years, if and when distributed to shareholders, allowance being made for certain expenditure.

Regarding dividends, the Royal Decree Law No. 1744 of the 5th October, 1936, by which a progressive tax on dividends was imposed,

(1) The Istituto Cotoniero Italiano (cotton), the Ente Nazionale della Moia (hosiery), the Azienda Minerale Metallurgica Italiana (metals), the Cassaia Agricola (straw fruit), the Ente Nazionale Riso (rice), the Ente Nazionale Carta (paper), the Azienda Carboni Italiani (coal), the Ente Nazionale per la Cellulosa e per la Carta (cellulose and paper), the Ente Nazionale per l'Artigianato e le Piccole Industrie (handicraft and small industries), and others.

(2) The amount of new capital issued by limited companies was 2,902 million lire of which only 254 million were in respect of 1,078 new companies, and the balance of 2,648 million lire was in respect of increased capital of existing companies. On the other hand, capital reductions amounted to 2,252 million lire, of which 925 million lire were due to the winding-up of 1,601 companies, whilst 1,327 million lire were written off the capital of existing companies. In the various categories the most important increases affected chemical companies (443 million), metal companies (290 million), metallurgical companies (143 million lire); whereas the most important reductions were for banks (140 million lire) and financial companies (194 million lire).

has re-established freedom in the distribution of profits by Companies. The progressive taxation is intended to avoid speculative fluctuations in share values and to oblige the directors of limited Companies to refrain from the policy of making too lavish distributions of profits to shareholders.

The audit changes which were enacted by the Royal Decree Law No. 1548 of the 25th July, 1936, aimed at making more effective the control exercised by Auditors.

Another measure enacted by the Royal Decree Law No. 163 of the 4th February, 1937, regulates the re-valuation of plant on the basis of the currency alignment, forbids the total or partial distribution of the proceeds of such re-valuation, or their use for increasing the capital of the Companies. The proceeds of such re-valuation may be placed to reserve and are not subject to the progressive tax on dividends enforced by Royal Decree Law No. 1744, of the 5th October, 1936. The above measures are intended to ensure that the balance sheet of Companies shall not be inflated by premature re-valuation of their assets.

The trend of bank deposits in the year 1936 has been favourable. Deposits The total amount thereof rose in the year from 61.5 to 68.9 thousand million lire. Of the latter amount 8.2 thousand million lire were held by public law credit institutions, 9.7 thousand million lire by public law banks, 10.5 thousand million lire by other joint stock banks, 19.3 thousand million lire by the larger savings banks, and 21.2 thousand million lire by the Post Office Savings Bank.

The importance of the rise in deposits as an index of the economic recovery is shown by the fact that the increase has not only taken place in the case of ordinary savings banks and the Post Office Savings Bank, but also in the case of the joint stock banks.

After a lengthy period of steady shrinkage in business, Stock Exchange Exchange activity revived considerably during the last months of the year 1936; the volume of transactions rose to the same level as that reached in the middle of 1935 and the prices of shares rose to nearly double the lowest quotations touched in June, 1932. (1)

(1) The more active shares were those of the electrical, motor car and rayon companies. Between December, 1935, and September, 1936, the rise in prices was slow and well distributed among all groups, whilst from September to December, 1936, it became steeper and moved from one group to the other. The general index of share values, calculated by Professor Bachi, was 15.65 per cent. in September, and 28.77 per cent. in December, 1936, figure year in December, 1935. Among the most affected were four of the five textile groups, whilst the industrial groups serving exclusively the home market, which had not fallen substantially in previous periods, were less affected.

The above trend was brought about by higher internal prices and in the case of certain industries, particularly the textile industry, by the better openings for export trade as a result of the repeal of sanctions, and by the conclusion of new commercial agreements. Moreover, the re-valuation of industrial plant cannot be disregarded as a psychological factor. The influence of the progressive tax on dividends has been scarcely noticeable, since it was partly set off by the repeal of the limitation of dividend distributions above 6%.

Dividends distributed in 1936 gave an average yield slightly below 5% and, in the case of bearer shares (owing to the 10% tax) rather less than 4½%, based on the value of shares in December of that year. (1) On the other hand, the yield on Government securities is slightly above 5%. This is due to the requirement of last October of a cash margin of 25% for contango operations, in order to curtail speculation.

Owing to such provisions, the amount of cash transactions has increased, being mainly in respect of Government securities, whereas transactions in shares are almost entirely for contango settlement. (2)

In Italy, as well as in many other countries, the trend of wholesale prices and of the cost of living has shown during 1936 a constant tendency to rise, which has been maintained during the first months of 1937. On the Italian market this tendency, which was the outcome of the rise in world prices and in the exchange rates, began to be noticeable during the second half of the year 1934.

(1) Professor Bachì calculates the following yields on Government securities and on shares which have paid a dividend in the last twelve months:—

1936	On Government Securities	Yield (per cent.) On Quoted Shares	Difference
July ...	4.65	5.20	- 0.55
August ...	4.69	5.15	- 0.46
September ...	4.63	5.45	- 0.82
October ...	5.21	4.89	+ 0.32
November ...	5.12	4.88	+ 0.24
December ...	5.16	4.78	+ 0.38

(2) In 1936 cash transactions in bonds amounted to 510.5 million lire and contango transactions to 2,074.4 million lire, so that cash transactions were in the proportion of 19.7 per cent. of the total.

In the same period cash transactions in shares amounted to 47.2 million lire and contango transactions reached 5,081.3 million lire, so that the cash transactions were only 0.9 per cent. of the total.

Between September, 1935, prior to the beginning of the Abyssinian War, and September, 1936, when prices of certain commodities were fixed subsequent to the alignment of the lira, there was an increase, according to the indices of the Central Statistical Institute, of 7.7 per cent. in wholesale prices, 9.3 per cent. in retail prices and 7.8 per cent. in the cost of living. Further rises, of 5.6, 5.5 and 4.1 per cent. respectively, have taken place between September, 1936, and February, 1937.

The rising tendency has been checked by the severe price control exercised by a special Board, which was created in October, 1935, as part of the Executive of the National Fascist Party. This Board, which was formed with the object of preventing violent movements in the domestic market and unjustifiable rises in the cost of living during the exceptional period of the Abyssinian War and of the economic siege, has extended its control subsequently to all commodities, by virtue of Royal Decree Law No. 1746, of the 5th October, 1936.

This decree, which formed part of the legislation respecting the alignment of the lira, contains drastic regulations for avoiding unjustifiable and excessive rises in prices, especially in those commodities and services which primarily affect the cost of living, and for safeguarding thus the purchasing power of the lira and the welfare of the less well-to-do classes.

The regulations apply to prices of commodities, to rents of all kinds, and to services, each group being separately considered. As regards commodities, it is forbidden to sell these at prices higher than those fixed by the Central Price Control Board and by its subordinate Provincial Inter-syndical Boards, and, in cases where prices are not so fixed, at a price higher than that ruling in the month of September, 1936. In the case of rents of town houses and country estates, no increase was permitted for a period of two years, and a similar limitation applied also to the prices of certain essential services such as water, electricity, gas, transport and freights.

Prices, however, have not been definitely fixed in every case, allowance having been made for readjustments due to actual and unavoidable increases in costs.



The Central Price Control Board may, therefore, authorise and regulate such adjustments as may become necessary, with the co-operation of the Syndical organisations, who examine the demands for price revisions, which have to be submitted to the Central Board.

A greater elasticity is permissible for those commodities which are not in general use or which may be regarded as luxuries. There has been, therefore, a tendency to equalise the returns in industry and commerce, since the drastic regulations concerning the prices of commodities in more general use are offset by lesser restrictions on the prices of more expensive commodities, and in particular of those commodities the importation of which from abroad is permitted.

In order to make the above regulations effective, heavy penalties have been prescribed, and in certain cases applied to those guilty of illegal hoarding, and all attempts to cause an artificial shortage of commodities in more general use, by camouflaging their nature, have been severely punished.

The ordinary Budget for the financial year 1935-36 closed with an actual deficit of 1,550 million lire, or 1,657 million lire less than had been estimated. The ordinary Budget does not include the appropriations for extraordinary requirements in East Africa, which, in the course of the financial year, amounted to 11,135.5 million lire. (1)

For the present financial year, the estimated surplus of 20 million lire in the ordinary Budget, is the result of financial proposals, indicated in the last Report, for the purpose of increasing receipts by 2,323 million lire, mainly in respect of the larger yield from excise duties and business taxes which were subject to various

(1) The extraordinary appropriations for East Africa were made and distributed as follows:—

APPROPRIATIONS		ALLOCATIONS TO MINISTRIES	
Decree	Total Amount (millions of lire)	Ministries	Appropriation (millions of lire)
June 27th, 1935, No. 1044	1,000	Colonies	5,650
September 5th, 1935, No. 1670	2,500	War	4,967.5
October 23rd, 1935, No. 1855	30	Navy	1,125
December 9th, 1935, No. 2112	1,000	Air	1,500
January 6th, 1936, No. 1	840	Foreign Affairs	0.5
February 6th, 1936, No. 181	1,550	Home Affairs	329.7
March 6th, 1936, No. 409	950	Finances	12.7
April 16th, 1936, No. 562	1,440.5		
May 11th, 1936, No. 839	2,045		
Total	11,135.5	Total	11,135.5

adjustments. It should be noted, however, that subsequent provisions, which were necessary in the light of changed economic conditions, such as the reduction in the sale price of petrol and other mineral oils after the repeal of "sanctions" and the reduction of customs duties and the abolition of the *ad valorem* duties after the alignment of the lira, will result in reducing the estimated additional yield from these taxes. (1)

Special mention should be made of the readjustment which is taking place in the accounts of the State Railways, for which in the past year a deficit of 900 million lire had been estimated. By an increase of about 600 million lire in receipts, due to improved traffic returns, and the reduction of about 300 million lire in expenditure, the position should be balanced in the present year.

The net increase of 646 million lire in expenditure for the financial year 1936-37, as compared with the previous financial year, is due almost entirely to the interest on the 5 per cent. Consolidated Loan, which was issued to meet the special requirements in East Africa.

From the above estimates it is reasonable to hope that the adverse Exchequer cash position will not be too unfavourable, since, if certain items of expenditure expand and certain revenues are curtailed, there should be larger yields from direct taxation, business taxes and excise duties, as the result of increased manufacturing activity through the revival of domestic trade, rising prices, and the fuller assessment of incomes. Moreover, fresh receipts will accrue from the progressive tax on dividends of limited Companies, which

(1) The following are the details of the foregoing taxation changes:—

- (a) The yield of the increased duties on petroleum, petrol, crude oils, lubricating oils and by-products, which was estimated at 645 million lire, will show a fall as a result of the subsequent reductions in the duties, which had also been heavily raised with the object of limiting the consumption of these products during the economic slump.
- (b) The increased Customs duties on cotton, wool, coal and coke; the new excise duty on artificial textile fibres; the increased excise duty on the consumption of electric power, the additional yield from which was estimated at 613 million lire. However, the above items will also be affected by subsequent provisions such as the repeal of *ad valorem* Customs duties, and the reduction of Customs duties on commodities in more general use.
- (c) A license tax on imports, the yield from which was estimated at 180 million lire.
- (d) Various provisions relating to business taxes, including a transport tax to balance the railway budgets, the net additional yield from which is estimated at 832 million lire.

will be operative for the financial year of the Companies in being on the date of publication of the Decree instituting the tax (5th October, 1936).<sup>(1)</sup>

Special importance attaches to the fiscal reform effected by the Royal Decree Law No. 1639 of the 7th August, 1936, by which, in addition to a requirement for the closer assessment of incomes and of transfers of capital, in order to ensure a more equitable distribution of the fiscal charges, the whole system is adjusted on Corporative lines and the Syndicates have to co-operate with the Revenue Authorities. Accordingly, incomes are assessed in the light of the individual's occupation, based on the average yearly income earned by persons engaged in each Corporative activity. The law empowers local assessors to establish, in collaboration with the Syndical bodies, uniform standards of assessment subject to individual fluctuations. Under the new order it will be possible, therefore, on the one hand to check evasion and to assess incomes and transfers of capital with greater exactitude, and, on the other, the taxpayer will not be liable to unjustifiable assessments by the Revenue Authorities.

Moreover, by requiring all taxpayers to establish a domicile for taxation as well as for civil purposes and by setting up a fiscal register, on which the names not only of the actual but also potential taxpayers are inscribed, a better basis for fiscal inquiry and for the ascertainment of actual tax-paying capacity has been ensured.<sup>(2)</sup>

The estimates for the financial year 1937-38 include an increase of about 3,500 million lire in expenditure as compared with the previous year. Of this amount, over 1,200 million lire, are accounted for by the new permanent charges for organising and developing the territories in Italian East Africa, charges which increase fourfold the expenditure of the Colonial Office. Further, an increase in expenditure of 941 million lire falls upon the Finance Ministry, chiefly in respect of additional interest on Public Debt. The armaments programme,

<sup>(1)</sup> So far no very substantial increases are included in the supplementary estimates. The most important are those due to the acquisition of wool (124 million lire), the supplies of material for the War Ministry (48 million lire), the purchase of material and maintenance of vessels (36 million lire), the purchase of liquid and solid fuel for the Navy (29.8 million lire), defence works in the horse territory (22 million lire), public works in the Caserta district (24.7 million lire), the contribution to the National Insurance Institute for Ex-Servicemen policies (20 million lire), and the contribution to the National Fascist Social Insurance Office for family subsidies (22.2 million lire).

<sup>(2)</sup> Among fiscal resources mention should be made of the new national body which has been created for collecting uncollected excise duties.

especially for the Navy and the Air Force, which was necessitated by the international situation, has brought the total of ordinary expenditure on the armed forces, from 4,800 to 5,500 million lire.

A net increase of receipts of 285 million lire is estimated, as compared with the financial year 1936-37, chiefly on account of the extraordinary real estate duty and of the increase, on a conservative calculation, of certain items of revenue based on their present yield and on the visible signs of gradual recovery.

In order to meet the expenditure required for Empire develop- Real Estate Loan  
ment and for further defence requirements, real estate has been called on to make its contribution, since, although to some extent affected by the crisis, it now enjoys better conditions and benefits from the consequences of the currency alignment. The Royal Decree Law No. 1743, of the 5th October, 1936, authorised the issue of a 5 per cent. redeemable loan, to be paid off in 25 years by drawings, beginning from the 1st January, 1938. Owners of real estate, with few exceptions, are required to subscribe to the loan for an amount equal to 5 per cent. of the value of the property owned, which is calculated, after deducting existing mortgages, on the basis of the rateable value assessed in 1936. They are also liable to a special duty for a period of 25 years, which is fixed at the rate of 3.50 per mille of the value assessed as above.

The loan has been so arranged as to ensure a perfect relation between the annual yield of the special duty and the sum required by the Exchequer for meeting the interest and sinking fund on that part of the loan to which subscription is compulsory. Immediate remission of the duty may be secured by a cash payment of 90 per cent. of the amount to be subscribed, while, subsequently, remission can be obtained at any moment by surrendering the bonds. Immediate redemption has undoubted advantages for the taxpayer, both because it reduces considerably the total burden of the duty and because the value of the property is automatically higher.

This operation has been facilitated by the authority given to all banks to allow advances against the new bonds up to 90 per cent. of their face value, within the limits of 10 per cent. of their available funds; and by the authority given to the Banca d'Italia to grant on

similar terms advances to other banks. It is reasonable to expect that such advances will not lead to a heavy increase in the circulation of notes, both owing to the liquidity of the banks and to the facilities available for these requirements.

On the other hand, the banks which have received such advances must remember that their repayment must be made partly out of existing savings and partly out of fresh savings, and that, therefore, in addition to the sums which their customers will be gradually repaying, they will also have to set aside a certain portion of the funds available from other sources.

The numerous owners of property valued at less than 10,000 lire are exempted from compulsory subscription. Thus, the small land-owner has not been made liable for a charge which he would have found very burdensome.

Owing to the exemptions which have been allowed and to the basis of the valuation, the average yield of the loan should be substantially less than 5 per cent. of the total value of the private real estate in the country.

The Banca d'Italia is contributing towards the success of the operation not only by making advances to banks without the necessary means, but also by enabling its local branches to make direct advances in cases where the local banks are unable to meet the demands of their customers.

In order to assist in the financing of the general land reclamation scheme, the Treasury has been empowered by the Royal Decree Law No. 2370 of the 19th December, 1936, to issue special registered bonds called "Credit Certificates for Financing Land Reclamation." By means of these bonds those entrusted with reclamation work will be able to market without difficulty the annuities owing to them as a State contribution.<sup>(1)</sup>

(1) The bank will be issued within limits which shall be fixed every six months by Decree of the Prime Minister on the basis of the annuities due from the State which the concessionaires operating the lands, returns to the Treasury. For the first six months of the year 1937 the fund has been fixed by the Decree of the 16th February, 1937, at 400 million lire.

The bonds, which are redeemable in 30 years, bear interest at the rate of 3 per cent. per annum and are exempt from all present and future taxation, being to all effects and purposes equivalent to other Government securities, of which they enjoy all the guarantees and privileges.

The banks and insurance companies are authorized to take over such bonds and to use them as security, or to include them in their legal reserves and to transact therewith all financial operations which may be necessary.

The past year was of exceptional importance with regard to the defence of the lira, in view of the complex economic and financial problems which arose. These were solved, thanks to the special organisations already in existence, for a considerable time.

The Under Secretary of State for Trade and Exchanges, as a result of the extension of his functions, was in a position to regulate Italy's trade relations with other countries, and under the Royal Decree Law No. 1131 of the 8th June, 1936, his jurisdiction was extended to Italian East Africa.

The National Institute of Exchange, having been in its turn converted into an executive organ of the Under Secretary, was finally reorganised under Decrees of the Finance Minister, dated the 4th March, and the 23rd June, 1936, by which its functions were confirmed as the sole controller of foreign exchanges and gold, as well as administrator, on behalf of the Treasury, of foreign credits and securities subject to requisition. In the course of this reorganisation the Committee of the Institute was dissolved and its functions were transferred to a new Board, while a new Technical Committee was set up, presided over by the Governor of the Banca d'Italia, for examining the demands for exemption and all controversial matters concerning the compulsory handing over of foreign credits and securities.

The task of enforcing the foreign exchange regulations continued to be entrusted, on the technical side, to the Inspectorate for Exchange Operations of the Banca d'Italia. The latter has also been concerned with the carrying out of the Royal Decree Law No. 1614 of the 28th August, 1935, by which the handing over to the Institute of foreign credits and foreign or Italian securities issued abroad was made compulsory. The Inspectorate has received altogether about 70,000 declarations and has sent out over 74,000 demands.

The regulations for the handing over of foreign assets were completed by the Royal Decree Law No. 1631 of the 7th August, 1936, which required Corporations or persons of Italian nationality owning foreign credits or securities, of which they had come into possession after the 28th August, 1935, to surrender them at current rates and prices. Subsequently, by the Royal Decree Law No. 2197

of the 28th December, 1936, it was deemed desirable to exempt from the obligation of surrendering such assets Italian citizens who were re-establishing their residence in Italy or foreigners having acquired Italian citizenship after the 8th January, 1937, and also Italians residing in Italy possessing foreign securities received as dowry or inherited from foreigners.

Moreover, since the alignment of the lira required an adjustment of the exchange rate in the case of foreign credits and securities still due for surrender under the Royal Decree Law No. 1614 of the 28th August, 1935, the above Decree provided that, as from the 6th October, 1936, the current rate of exchange should apply.

Finally, in order to assist in the recovery of foreign trade relations, the same Decree allowed commercial companies, corporations and firms, the scope of whose activities was mainly in foreign countries, to maintain accounts in foreign currencies and use for their own trade requirements foreign balances or proceeds of foreign securities, from the surrender of which to the Institute they had been exempted.

With the same object, the Royal Decree Law No. 1 of the 11th January, 1937, has established a system for enabling exporters to receive advances from the banks on sums due to them from foreign countries, to be settled under clearing arrangements.

In the past year, progress has been made—either in normal course of events or through special agreements concluded with the various countries—in thawing the frozen lire balances owned by foreign holders, which had been blocked under the Decree of the 16th November, 1935, in the so-called "old lire accounts." Moreover, as from the 1st December, 1936, foreigners and residents abroad have been entitled to open with the banks who are agents for the Institute or which work under the auspices of the Banca d'Italia, "free accounts" in lire or foreign currencies, which are not subject to any restrictions whatsoever, either for payments in Italy or for the conversion of the lire into other currencies. (1)

(1) "Free accounts" may be composed of the following:—

- (a) Remittances in freely transferable foreign currencies and bank notes;
- (b) Remittances in Italian token coins;
- (c) Remittances of drafts in lire or foreign currencies issued by members of the Italian diplomatic and consular services abroad;
- (d) Amounts collected in lire for consular rights or dues by representatives of foreign countries in Italy;
- (e) Remittances of drafts in lire or foreign currencies issued in respect of tourist services;
- (f) Foreign currencies payable by banks in urgent cases without special authority;
- (g) Amounts in foreign currencies transferable abroad, duly authorised by the National Institute of Exchange;
- (h) Cheques, orders of payment or giro conto drawn upon another free account;
- (i) Amounts in respect of imports from countries with which clearing arrangements are not in force, subject to special authorisation of the National Institute of Exchange.

The National Institute of Exchange, in agreement with the Inspectorate for the Defence of Savings and the Granting of Credit Facilities, has given instructions concerning the rates of interest to be allowed on such accounts, and the use to which the funds therein deposited may be put.

At the same time, foreigners and residents abroad have also been entitled to open "free deposits" in which foreign as well as Italian securities may be held, provided that these are purchased by means of a remittance in a freely transferable foreign currency, or by using balances held in a "free account."

In accordance with precedent, the Finance Minister has been authorised to issue 1 to 3-year Treasury Bills in foreign currencies, to be placed abroad. The above Bills, according to the Ministerial Decree of the 6th March, 1937, may be issued in United States dollars, sterling, Swiss francs, French francs, guilders, and Swedish kronor.

Moreover, in order to increase the receipts from the invisible item represented by visitors to the country, the Royal Decree Law No. 410, of the 20th March, 1936, authorised the National Institute of Exchange to issue special Tourist Letters of Credit, Orders for payment for Reimbursement of Tourist Services and Tourist Cheques, non-transferable, drawn in lire upon the Institute itself, for delivery against payment in freely transferable foreign currencies.

The service of the issue of Tourist letters of credit and cheques abroad was entrusted to banks and touring agencies, while the regulation of the operations was entrusted to specially authorised banks and agents in Italy.

The National Institute of Exchange fixes, with the approval of the Finance Minister, the rates for Tourist Lire. These were originally fixed at a discount of about 25 per cent., as compared with the official rate, while, after the alignment of the lire, there has been a margin in favour of the Tourist Lire, of about 4½ per cent., which has recently been raised to about 10 per cent.

Appropriate regulations have fixed the daily maximum amounts of Tourist Lire which each person may use (1) and the procedure for the re-exportation of the unused Tourist cheques and letters of credit, as well as of unspent lire. (2)

(1) The limits were fixed for each person over four years of age at 200 lire per day, which were reduced to 200 lire for holders of hotel coupons of the Federazione Nazionale Fascista Alberghi e Turismo, or to 150 lire for holders of other tourist coupons. In February, 1937, the above limits were raised to 250, 300 and 250 lire respectively.

(2) Holders of tourist letters of credit and tourist cheques can obtain the refund in foreign currencies of unused sums within the limit of 1,200 lire per person, which in February, 1937, was raised to 1,500 lire, at the selling rate for tourist lire, with a deduction of 2 per cent. to cover commission and expenses.

On the other hand, it has proved necessary to restrict the return to Italy of Italian currency and bank notes and lira securities of all kinds, and of coupons thereof. Thus, under a Decree of the 25th May, 1936, it was forbidden to introduce from abroad into Italy, Italian currency or bank notes by mail, or to introduce lira securities or coupons in any other form than by a mail remittance to the Banca d'Italia or to one of the banks who are agents for the Institute. Moreover, travellers were forbidden to export or import more than a certain amount of Italian currency either in the form of notes or coins.(1)

At the same time, the Institute granted greater facilities for the supply of foreign currencies to those who have to travel abroad. (2)

The Alignment of  
the Lira.

An event of paramount importance in 1936 was the provision of the Royal Decree Law No. 1745 of the 5th October, 1936, by which the gold content of the lira was reduced from 0.07919 to 0.04677 grammes fine.

As already mentioned, the above provision was due to monetary events and to the trend of the markets in recent years.

(1) Persons entering or leaving Italy may not bring into or take out of the country more than 500 lire in bank notes of denominations not exceeding 100 lire and currency notes, not more than 50 lire in Italian coin. Further limitations apply to the inhabitants of the frontier zone who, on account of their work or other reasons, must frequently cross the border.

(2) The supplies of foreign currencies for persons travelling abroad must be entered in the passport and a special form must be filled in for the necessary control.

Banks who are agents for the National Institute of Exchange may supply travellers direct up to the equivalent of 2,150 lire. Other authorised agents may supply up to the equivalent of not more than 500 lire per person. Larger supplies must in any case be authorised in advance by the National Institute of Exchange.

The quotas which have been fixed with countries with which tourist agreements have been concluded are the following:—

- (a) AUSTRIA.—Austrian schillings to the equivalent of 2,650 lire.
- (b) GERMANY.—Registered marks or other means (tourist or hotel coupons) up to the equivalent of 2,650 lire, which can be increased to 3,000 lire by releasing accordingly the amount in lire which the traveller is entitled to have.
- (c) SWITZERLAND.—Foreign currencies up to 2,150 lire, tourist and hotel coupons, to be entered in the passport for a further 1,000 lire, plus the Italian currency to which the traveller is entitled, so that altogether a sum of 3,000 lire is not exceeded. The same person may not obtain the above supplies more than three times in one year.
- (d) HUNGARY.—Registered pounds up to 2,650 lire, which may be raised to 3,000 lire by releasing accordingly the amount in lire which the traveller is entitled to have.
- (e) POLAND.—Foreign currencies and coupons up to 2,050 lire which may be raised to 3,000 lire by releasing accordingly the amount in lire which the traveller is entitled to have.

In the years 1927-28, by the stabilisation of the two leading Latin currencies, the period of monetary uncertainty following the War seemed at an end; but world economy had not shaken off the effects of the previous general inflation of currencies and credit.

The expansion of paper money had its effect on investments and purchasing power, causing a rise in world gold prices to about 50 per cent. above the pre-war level. The crisis which came in the autumn of 1929, and subsequent developments showed the artificial nature of what had appeared to be a position of natural equilibrium.

The fall in prices, the slowing down of economic activity and the difficulties in the way of international trade, gave rise to problems of the maintenance of outlets for export trade, of preserving the earning capacity of business enterprises, and of reducing the growing burden of indebtedness. Owing to these difficulties the two great English-speaking countries were forced, in 1931 and 1933, respectively, to abandon the gold parities of their currencies, many other countries following suit.

Further similar problems had to be solved in those countries which had remained faithful to gold and which found themselves placed in a particularly disadvantageous position owing to the trend of prices and the dislocation of international trade, largely dominated by the countries with a depreciated currency.

Due consideration should be given to the fact that trade relations are more dependent upon the stability in prices and exchange rates than upon the stability of the currency's gold content, and it may be said, in fact, that the stability of the gold content of a currency is only important because it expresses simply and approximately the basis of the stability of that currency, measured in commodities and in other currencies. This was the experience of long periods of economic normality, during which the value of currencies moved very slightly.

But if, in those days of limited fluctuations in prices and of normal trade relations, confidence in the gold standard was consistent with the stability of internal and international trade relations, after the fall of the pound, and still more after the fall of the dollar,

there is no doubt that the traditional conditions attached to fixed gold content currencies was broken.

For about five years the value of gold has swiftly appreciated in terms of commodities and it has become most unstable as a measure of values. The purchasing power of currencies with a fixed gold content has increased and this appreciation of purchasing power in terms of commodities has, as the result of devaluation of other currencies, led to a rise in their exchange rates.

The provision of the 5th October, by which the gold content of the lira was reduced by 40.94 per cent., re-establishes the equilibrium which existed at the time of the previous stabilisation, both in the relation between the lira and other currencies and between internal and world price levels.

In fact, on the new gold basis, the change in home prices as compared with the year 1928, expressed in gold, is in close conformity with the average changes which have taken place in the leading foreign markets. Thus, the handicap on Italian exporters who were affected by the fact that the fall in internal gold prices during recent years had been much smaller than in the countries where currency depreciation had taken place has been eliminated.<sup>(1)</sup> Moreover, the alignment of the lira should considerably improve the yield from Italian shipping freights and from remittances of Italians abroad, both in lire and in foreign currencies, items which are of great importance for Italy's balance of payments.

The special conditions under which the adjustment of the gold content of the lira has taken place should not, however, lower the internal and external purchasing power in terms of commodities and exchange rates of the currency below the levels corresponding to the period which immediately followed the previous stabilisation. At the present gold prices the purchasing power of the new lira exceeds by over 30 per cent. the purchasing power of the lira of 1927 in respect of commodities of international use.

(1) In the trade agreements concluded with former "neutralised" countries up to last September (France, Germany, Czechoslovakia and Sweden) compensating premiums at the rate of 7½ per cent. have been fixed in favour of Italian exporters, while, on the other hand, a compensating duty of 20 per cent. was charged to Italian importers. The above premiums and duties were cancelled at the time of the alignment of the lira.

In the domestic market the rise over the 1927 level is more than 25 per cent. in the case of wholesale prices and about 20 per cent. for retail prices. There is thus a considerable margin for the inevitable adjustment of prices within the limits of the purchasing power of the 1927 lira. However, the position needs to be carefully watched, so that rising world prices or the course of local events may not reduce too much or too quickly the above margin. The currency, which, by virtue of the strict control over international movements of merchandise, gold and capital, has been partly released from the traditional rules governing the gold reserves, is now dependent on the wise management of the monetary and financial policy rather than on automatic control.

Article 4 of the Decree altering the gold content of the lira<sup>The Revaluation of the Bank's Reserves</sup> provided that the proceeds of the re-valuation of the gold reserve of the Banca d'Italia should go to the State. The above provision was carried out under the Royal Decree Law No. 43 of the 4th January, 1937, and the proceeds have been credited, as from the 5th October, 1936, to the Treasury account with the Banca d'Italia, as in the case of the 1927 stabilisation.

In conformity with Sub-section III of the Royal Decree Law No. 375 of the 12th March, 1936, the new statutes of the Banca d'Italia<sup>Return of the Bank's Statutes</sup> were drawn up and approved under Royal Decree Law No. 1067 of the 11th June, 1936, which was substituted for the previous one of the 21st June, 1928, No. 1404.

In last year's report an outline was given of the reform by which the Bank, either directly or through associated institutions (the Istituto Mobiliare Italiano, the Syndicate for advances against industrial securities, the National Institute of Exchange, the Inspectorate for the defence of savings and the granting of credit facilities) was entrusted with the control of the money market, of the exchange, of capital and credit, and of banks and banking operations.

The Banca d'Italia, from a limited company of private shareholders, has been transformed into a public body and its capital of 300 million lire has been subscribed, under Article 20 of Royal Decree Law No. 375 of the 12th March, 1936, by savings banks, public law credit institutions, public law banks and insurance companies. The

300,000 shares of 1,000 lire, which constitute the new capital, have been entirely taken over by the consortium referred to in the above Decree, which was formed on the 9th April, 1936, under the chairmanship of the Governor of the Banca d'Italia. The savings banks which were already shareholders were allotted new shares to the full amount of their existing holding.

Under the new statutes the shares are transferable between authorised shareholders, subject to the permission of the Board.

The powers of the Bank are vested in the General Meeting of Shareholders, the Board of Directors, the Committee, the Governor, the Director-General, and the Deputy Director-General. The General Meeting may be attended by shareholders holding not less than 100 shares, with the right of one vote for every 100 shares up to 500 and an extra vote for every further 500 shares, the position of the smaller shareholders thus being more favourable, as compared with the larger ones, than was the case under the old Statute.

The Board of Directors, which, prior to the reform consisted of 31 members, of whom 26 were appointed annually by the local boards of the chief branches of the Bank, and 5 by the General Meeting, now consists of 15 members, who remain in office for three years, and of whom 12 are appointed by the branch meetings of shareholders, and 3 by the Insurance and Credit Corporation. Thus, the opportunity for regional representation has been maintained, together with the new principle of corporative representation.

The Committee consists now of 5 members, compared with 11 under the old order, and it includes 4 Directors selected at the first meeting of the Board in each year and the Governor. The office of Chairman of the Board has been suppressed.

The Governor, the Director-General and the Deputy-Director-General are appointed or dismissed by the Board, and both appointment and dismissal must be approved by a Royal Decree, proposed by the Prime Minister, in conjunction with the Finance Minister, subject to the approval of the Cabinet.

There are considerable changes which affect the administration of branch offices; the Board of Directors is now responsible for

the nomination and appointment of the officers who serve in the local branches.

These innovations, and others of a minor character, which are contained in the new statutes, are aimed at combining simply and effectively the independence of the Bank with the security of public interests, and mark fresh progress in the direction of greater departmental elasticity and managerial centralisation.

The alterations which, in the last few years, have taken place in the ratio of reserve to the circulation of notes, and in the credit and debit position between the Bank and the Treasury, have required that new arrangements should be made regulating the financial relation between the Bank and the State. These were approved by the decree of the Finance Minister dated the 31st December, 1936.

As from the 1st January, 1936, the circulation tax on notes will be at the rate of one-tenth of the official discount rate, with a minimum of  $\frac{1}{2}$  per cent., the circulation being calculated after the deduction of the whole amount of the reserve in gold, or its equivalent held by the Bank and the notes issued for advances to the Treasury.

The limit for temporary advances to be granted to the Treasury has been increased from 450 to 1,000 million lire, allowance being made for larger advances against Treasury Bills whenever exceptional State requirements arise.

At the same time the Treasury has been relieved from keeping at the Bank a fixed amount of 50 million lire in respect of Treasury services. The concession to the Banca d'Italia of collections and payments and other services on behalf of the Treasury, which was renewable every two years and expired on the 31st December, 1936, has now been extended until the 31st December, 1950, and the Bank's yearly remuneration from such services has been raised from 21.9 million to 30 million lire.

It has also been arranged that the State shall receive all net profits after the allocation of 20 per cent. to ordinary reserve, the payment of a 4 per cent. annuity to the Real Estate Mortgage Institute (formerly belonging to the late National Bank) a 6 per cent. dividend to the shareholders, and, finally, a further 20 per cent. for a special reserve fund with the approval of the Finance Minister.

Financial Union.  
with the State

The Royal Decree Law No. 376 of the 12th March, 1936, relating to medium and long-term credits, provided for the making of additional regulations for the necessary alteration of the statutes of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities, which was set up as an independent section of the former, and of the Institute for Industrial Reconstruction.

Consequently, by the Royal Decree Law No. 1042 of the 25th May, 1936, the whole assets of the financial section of the Institute for Industrial Reconstruction, now dissolved, have been transferred to the liquidation section, the latter having undertaken all outstanding financial operations and the repayment of the capital of the former section within a period of twenty years. Under the Royal Decree Law No. 957 of the 28th May, 1936, the new statutes of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities have been promulgated. They came into force as from the 9th June, 1936.

The scope of the above institution has been extended by increasing to twenty years the maturity of the loans which the Istituto Mobiliare Italiano may grant, and by increasing the amount which the Syndicate may re-discount at the Banca d'Italia within limits which shall be determined by Orders of the Finance Minister.

Bank for International  
Settlements

The position of the Bank for International Settlements did not show any substantial change in the year 1936 and very slight alterations are apparent in the various items of its balance-sheet. (1)

The almost universal tendency towards the abandonment of the automatic system of currency control made more desirable frequent intercourse between the monetary authorities of the leading countries and the use of a common centre where important gold transactions could be effected without the interference of private interests.

The Bank for International Settlements has met the above requirements. If the various monetary events which have occurred since its creation have necessarily curtailed its activities, still the Bank, keeping faith with the letter and the spirit of its statutes, has been able to maintain throughout the political complications

(1) The total assets and liabilities of the Bank have changed from Swiss Frs. 426,463,147.89 on the 31st December, 1935, to Swiss Frs. 616,283,626.38 on the 31st December, 1936.

of latter years its character as a purely international institution, free from all political influences in the conduct of its banking and monetary policies.

In this the central banks of the leading world markets with the same aims and with the same obligations and rights. These are essential conditions for enabling the Bank, in a future which to-day appears not far distant, to attain in the fullest degree the objects for which it was founded.

As already stated, the shares in the capital of the Banca d'Italia can only be held in registered form by savings banks, "public law" credit institutions, and banks and by insurance companies.

On the 31st December, 1936, the institutions holding the 300,000 shares were constituted as follows:—

88 Savings Banks	...	...	185,056 shares
11 Public Law Credit Institutions and Banks	...	...	68,444 ..
10 Insurance Companies	...	...	46,500 ..
Total: 109 Shareholders	...	...	<u>300,000 shares</u>

At the end of 1936, of the 300,000 shares forming the old capital of the Bank, 487,821 had been repaid.

The cash turnover of the Bank for the year 1936 amounted to 594,129 million lire, an increase of 28,903 million lire on the previous year. Receipts aggregated 297,356 million lire and outgoings 296,773 million lire, as against 281,530 and 283,696 million lire respectively in 1935.

The circulation of banknotes on the 31st December, 1936, totalled 16,525.1 million lire, of which 1,480 million lire represented the total amount sent to the branches of the Bank in East Africa. Moreover the Bank held 756.5 million lire in coin and currency notes issued by the State.

Bank money orders and demand drafts outstanding at the same date amounted to 725.7 million lire; whereas the deposits in current



account totalled 705.8 million lire. Thus, the total liabilities requiring reserve cover amounted to 17,956.6 million lire.

On the 20th March the figures were as follows:—

Notes in circulation, including remittances to East Africa	15,871.3 million lire
State coin and currency notes held by the Bank	... 687.3 ..

These figures are given officially in order to complete the figures disclosed at the meeting of the Insurance and Credit Corporation and subsequently at the meeting of the Fascist Grand Council. They assume greater significance when the exceptional circumstances of the past year are considered.

The Empire has been gained through the gigantic effort of the whole nation under the guidance and by the will of the Duce: productive activities in every section have made the largest contribution towards the achievement of this goal, while the economic siege was an attempt to deprive the country of every weapon, and, in fact, to starve it.

At the end of the year the circulation of notes had not substantially increased: actually, as compared with the pre-war period, taking into account the changes in the value of the currency, the increased population, and the higher standard of living, it may be regarded as having been reduced.

Also, apart from the realisation of Imperial aims during the past year, it should be noted that in most countries during 1936 the circulation of bank notes has considerably expanded.<sup>(1)</sup>

Although in all cases this development was caused by higher price levels, the increased volume of trade, wages and salaries, it may be said that the larger note issues were only partially due to an

(1) The following table shows the percentage rate of increase in the note circulation of certain leading countries at the end of 1936, as compared with previous year:—

	31st December, 1935	31st December, 1936	Change per cent.
	in millions		
Banca d'Italia (Lire)	16,296.5	16,523.1	+ 1.40
Bank of England (£ sterling)	411.7	467.4	+ 13.52
Reichsbank (Reichsmark)	4,250.2	4,950.1	+ 16.42
Bank of France (Francs)	81,150.2	89,341.9	+ 10.09
Federal Reserve Bank (Dollars)	3,709.1	4,278.8	+ 15.30

improvement in the economic position, since in other countries it was caused to a large extent by purely negative factors, such as disguised inflation for unproductive objects and the return of capital not seeking investment but looking for safety after the monetary adjustments of the autarky.

The comparison shows, moreover, that the issue of notes in Italy has been maintained in close relation to productive activities and to the actual needs of the country, thus safeguarding the confidence which, thanks to the constant vigilance of the issuing bank, is inspired by the notes.

In conformity with the provisions of Article 4 of the Royal Decree Law No. 1745 of the 5th October, 1936, the reserve of gold or its equivalent held on the 30th September, 1936, has been re-valued on the new gold basis fixed by Article 1 of the same Decree.

On the 31st December, 1936, the reserve held by the Bank <sup>Reserve</sup> against notes in circulation and other sight liabilities amounted to 4,021.6 million lire, as follows:—

Gold in hand(1)	—	—	3,958.8 million lire
Balances abroad	—	—	62.8 .. ..
			<u>4,021.6 million lire</u>

On the 20th March, 1937, the above figures were unchanged.

In 1936, there was a further development of the use of gold as a means of settling international differences. Its holding and use have been confined still further to central banks, to the Exchange Equalisation Funds, and to Governments for the purpose of meeting trade and financial deficits; whereas the importance of gold as a basis for the internal credit of the nation is becoming more and more merely symbolic.

The classic rules of the gold standard, which functioned in normal times before the War in certain countries, have proved to be inoperative and inapplicable in the attempts to apply them extensively in most countries in the period 1925-31.

(1) Since 1929 the gold deposited in London during the War has not been included.

The system has proved to be too rigid; it lacks the necessary elasticity to cope with the economic changes and to overcome crises or check booms. That the gold points should be fixed solely on the cost of insurance, freights and money rates may be reasonable in conditions of balanced trade if prices are stable, and in exchange markets in which only legitimate business and not speculative business is carried out. Otherwise, the restricted margin for fluctuation leads to frequent alternating movements of gold, which cause, in addition to lack of confidence and alarm, sudden credit restrictions which bear unfairly on economic life without discouraging speculation.

So much respect was paid to the sacred rules of the gold standard that, though feeling its drawbacks, no one in the past had dared openly to remedy them. Indirect measures, with a limited scope and with no practical effect, were adopted. The different usages of the various gold markets permitted at times a widening of the gold points by the delivery of gold bars not acceptable on markets to which they were being sent, the melting and refining costs thus having to be added to the costs, or through using gold coin instead of bars. By these means it was possible to gain time and to allow for exchange fluctuations within wider limits, without touching the reserves. Many central banks, in fact, covered with the formula (which has no longer any significance) "minting rights," the margins between the buying and the selling price of gold, in order to gain greater freedom of action in managing the exchange rates.

Experience has shown that such palliatives are of no use when there are other deep-rooted causes of monetary disturbance; they are equally inadequate for absorbing the shocks of widespread economic changes, the course of which it is impossible to check.

Although the relation of a currency to a fixed gold content is necessary as a yardstick to ensure confidence for savings and for national economic developments, there must, however, be sufficient margin for smoothing out the constant changes and alterations which are taking place in the varying factors which affect the international value of that currency.

The price levels in various countries are not, nor can they be, constant and fixed; seasonal factors and temporary influences must

find vent in slight exchange fluctuations rather than in an increase or reduction of the national gold reserve. In this way these factors, instead of reacting on the credit basis, will affect directly the external purchasing power of the currency, which is called the exchange, and thus re-establish the balance quickly and effectively.

If, however, the exchange should become abnormally strong or weak, then, and only then, should the authorities who are responsible for the management of that currency intervene with all the means at their disposal, in order to effect the necessary adjustment, either by Customs policy or by any other means at the disposal of the State for regulating economic conditions.

The Bank's credit with the State for 146,321 Kilogrammes of <sup>Treasury Exchanges in the Bank.</sup> fine gold deposited at the Bank of England during the War has not been altered and remains at the figure of 1,772.8 million lire. This gold is not included in the reserve.

Temporary advances to the Treasury, made in accordance with Article 21 of the Decree of the 31st December, 1936, amounted at the end of the year to 1,000 million lire, and the extraordinary advances against Treasury Bills to 2,000 million lire.

On the 31st December the amount of Bills discounted was <sup>Investments</sup> 1,266.7 million lire; advances against securities granted by the Bank were 1,590.3 million lire, and deferred payments at the clearing-houses 21.2 million lire; whereas the Government or Government guaranteed securities owned by the Bank amounted to 1,523.3 million lire. Thus the interest-earning investments of the Bank totalled 4,420.5 million lire.

The official discount rate, which had remained at 5 per cent. since the 9th September, 1935, was reduced to 4½ per cent. on the 18th May, 1936. The average rate for discount operations carried out in 1936 was 4.60 per cent.

Following a special agreement entered into under the aegis of <sup>Institute for Industrial Reconstruction.</sup> the Treasury, in accordance with the terms of Article 6 of Royal Decree Law No. 376 of the 12th March, 1936, and of Royal Decree Law No. 1042 of the 25th May, 1936, for the final settlement of the

relation between the Bank and the Institute for Industrial Reconstruction, the amount owed by the latter to the Bank on the 31st December, 1936, was 4,708.1 million lire.

It should be mentioned that, in order to carry out the necessary banking reconstruction between the years 1931 and 1934, recourse had also to be made to the issue of notes corresponding to the figure above recorded. This figure would have been greatly exceeded if, as was mentioned by the Finance Minister at the meeting of the Insurance and Credit Corporation on the 23rd February last, the management of the Institute for Industrial Reconstruction had not, from the start, called upon public savings through various issues of bonds, and carried out important contango operations. In this way it was possible to defer and restrict recourse to the note circulation of the central bank.

On the other hand, it was not possible, in a period of economic difficulties arising out of the world crisis, to attain the object for which the Institute for Industrial Reconstruction had been created, namely, the speedy liquidation of a large number of institutions and firms, among which it should be noted that many were called upon to make important efforts to meet the war requirements in East Africa and to carry out the programme of national defence.

The Institute for Industrial Reconstruction was thus obliged, as was largely the case with the late Liquidation Institute, to nurse a large number of enterprises under its control through credits guaranteed by the State.

It is to be hoped that the programme which has been constantly aimed at by the management of the Institute for Industrial Reconstruction will be realised.

Mention should be made of the fact that, by the creation of the Inspectorate for the Defence of Savings and the Granting of Credit Facilities, the danger of a repetition of past mistakes, which had required the intervention of the State and brought such heavy burdens upon it, would be eliminated.

The Inspectorate is to-day alert and sees to it that, in the section relating to medium and long term credit, only such institutions

operate as have been created and are organised for that purpose, and it will prevent any over-lapping, which may cause a resumption of the banks' participation in industries and the consequent freezing of their assets.

In the above section the Istituto Mobiliare Italiano is now active in meeting to the fullest extent actual requirements, as was authoritatively recognised at the last session of the Insurance and Credit Corporation, with the valuable co-operation of the Syndicate for Advances against Industrial Securities, and the united efforts of the two institutions have proved of the greatest advantage in securing a more rational and economic distribution of medium term credit.

Through the active and close co-operation with the branches of the Banca d'Italia, the Istituto Mobiliare Italiano is placed in contact with industrial undertakings even of medium and lesser importance in every district and is able to perform thoroughly its valuable work.(1)

The premises owned by the Bank, which under its new constitution represent a capital investment of the Bank, are entered in the 1936 balance-sheet at 138.1 million lire.

The activity of the Inspectorate for the Defence of Savings and the Granting of Credit Facilities has in its first year already been the object of an exhaustive report at the last session of the Insurance and Credit Corporation. It will suffice here to mention that, in carrying out its vast and delicate tasks, the Inspectorate has constantly availed itself of the various services, and especially of the branch organisation of the central bank, which enabled it to carry out effectively its control over the activities and position even of the less important banks in the smallest centres.

As regards the technical advice which it has been required to give, the central bank, when examining the demands for the opening of new branches by banks, has followed generally the principle

(1) On the 31st December, 1936, the outstanding business of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities amounted to 1,850 million lire, whilst further operations involving 200 million lire were in course of completion.

of favouring such openings only in those centres which had no banking services; whereas it has expressed disapproval of the opening of new branches in those centres which were already sufficiently provided with other bank offices. Experience has on many occasions shown that these new banking branches would not be able to carry out useful work in connection with the actual requirements of the various centres, but would have ended by encroaching upon the activities of existing banks, thus intensifying competition which, in the public interest and to ensure the full attainment of the objects set out in the Law, it is desirable to discourage.(1)

Further efforts have been made to eliminate, through amalgamation or absorption, banks which served no useful purpose or were in a precarious condition, and to close the less efficient or redundant branches.(2)

In 1936 nine applications were made for opening new banks and three obtained the required authority. In this field the central bank, when expressing its opinion, recommended the creation, in

(1) In 1936, 113 applications were made, by which 56 banks—28 banks and 28 savings banks—asked for permission to open 244 branches. The competent Ministries first, and subsequently the Inspectorate, authorized the opening of 103 branches, as compared with 25 in the previous year.

44 banks have been authorized to carry out tax collecting functions and to extend their activities to neighbouring districts.

(2) In 1936 the applications for absorption or amalgamation numbered 28, involving 26 banks. Up to the present 11 of the above applications have received the prescribed authorization.

Other applications on which the Banca d'Italia gave the technical advice for which it is empowered, concerned:—

The changing of a partnership into a limited company:—

1 application, which was rejected;

The taking over of branches of banks which were being wound-up:—

28 applications concerning the taking over of 445 branches of banks of which 433 were admitted;

The transfer of branches:—

110 applications, of which 99 were authorized;

Authority to grant agricultural credits or their extension to other districts:—

27 applications, of which 16 were agreed to;

The assumption of responsibility for the winding-up of other banks:—

4 applications, of which 2 were granted;

Increase of capital:—

1 application, which was rejected;

Change of name:—

2 applications, both granted.

Applications for the granting of loan facilities, exceeding the limit of one-fifth of the bank's resources, amounted in the year 1936 to 57, involving a sum of 127,518 million lire, out of which 45 applications, involving a sum of 109 million lire, were admitted.

Out of 11,041 cases in which loan facilities exceeded the prescribed limits, involving an aggregate sum of 6,276.3 million lire, when the laws for the safeguarding of savings came into force, only 27 remained on the 31st December, 1936, with a total of 76.6 million lire, a reduction of 19.2 million lire as compared with the 31st December, 1935.

the centres unprovided for, of typically local banks which, as long as they are carefully and economically run, can carry out most useful work, for which they are particularly suited, in respect of the more modest industries, tradesmen and small owners. It has been proved that, where such banks are lacking, usury in its various forms may easily rear its head.

In the Register which has been set up at the Inspectorate six banks have obtained the authority to collect deposits, and 135 banks have been struck off.(1)

Altogether, on the 31st December, 1936, the number of banks operating in Italy was 2,099, working in 3,944 centres through 7,755 counters, whilst 815 banks were in course of liquidation.

During the past year the offices of the Bank carried out 149 inspections, 38 of which were made in order to ascertain whether the terms of the Bank cartel were being observed, which brings the number of total inspections, carried out since the provisions for the safeguarding of savings were first enforced, to 3,430.

The Profit and Loss Account for the year 1936 shows the following results:—

	Lire
Gross Profits ... ..	320,036,915.42
Expenditure and Losses ... ..	248,791,692.36
Net Profit ... ..	<u>71,245,223.06</u>

(1) 81 at the conclusion of legal proceedings for compulsory winding-up;  
192 on the judgment of a deed of arrangement or compulsory winding-up;  
11 on account of authority to receive deposits having been withdrawn;  
14 on account of absorption by other banks;  
10 on account of cessation of business.

The gross profits arise from :—		Lire
Discount Operations ... ..	122,494,661-28	
Interest on Advances ... ..	109,571,571-31	
Interest on the Deferred Payments at the Clearing Houses ... ..	1,465,375-82	
Interest on Current Accounts ... ..	9,084,126-11	
Various Commissions ... ..	15,179,390-81	
Profits on Foreign Business ... ..	631,833-68	
Miscellaneous Profits ... ..	14,448,035-86	
Interest on Government Securities	33,652,671-82	
Income from Real Estate ... ..	9,064,622-32	
Interest on Colonial Branches Fund ... ..	460,000-00	
Profits arising from the liquida- tion of late Note-issuing Banks	2,784,626-41	
Total ... ..	<u>320,036,915-42</u>	

Expenditure and taxes are as follows :—		Lire
Administration Expenses ... ..	101,239,326-59	
Directors' Fees, etc. ... ..	1,772,873-20	
Transport of Specie and other Values ... ..	1,414,683-29	
Printing of Notes ... ..	10,583,019-00	
House Property Account ... ..	2,269,200-67	
Foreign Business Expenses ... ..	16,309-78	
Various Taxes ... ..	33,169,927-97	
Unpaid Bills ... ..	6,891,876-11	
Various Amortisations ... ..	35,869,557-34	
Interest and Annuities ... ..	18,093,752-51	
Charities and other Contributions	2,500,000-00	
Contributions towards Employees' Pension Fund ... ..	8,873,606-00	
Depreciation of Bills against Losses, etc. ... ..	10,000,000-00	
Temporary Staff Pension Fund	3,000,000-00	
Compensation on Re-paid Shares ... ..	12,497,550-00	
Total Expenditure ... ..	<u>248,791,692-36</u>	
Net Profit ... ..	<u>71,245,223-06</u>	
Total ... ..	<u>320,036,915-42</u>	

In accordance with the terms of Article 54 of the Statutes, <sup>as amended</sup> of the Ministerial Regulations and at the suggestion of the Auditors, the Board of Directors of the Bank have decided to submit to the General Meeting the following distribution of net profits for the year 1936 :

20 per cent. to the Ordinary Reserve Fund ... ..	Lire 14,249,044-61
20 per cent. to the Extra- ordinary Reserve Fund ... ..	14,249,044-61
To the Crédit Foncier (Real Estate Mortgage Institute), formerly belonging to the late National Bank, being interest at the rate of 4 per cent. in respect of the reserve transferred to the Banca d'Italia in the year 1913 ... ..	281,060-00
To the Shareholders at the rate of 6 per cent. on the paid-up capital for 7 months (1st June to 31st December, 1936) ... ..	10,500,000-00
Balance of Profits to the State ... ..	31,966,073-84
Total net Profit ... ..	<u>71,245,223-06</u>

The results of the past year, which are submitted for your <sup>consideration</sup> approval, are characterised by the satisfactory trend in a period marked by the greatest events in our history.

The foundation of the Empire, a necessity for the life of our people and for their progress, imposes on our existence a standard which is the reflection of the genius who conceived it and animated it, and who is our guide through every obstacle towards the great goal set by the age-long traditions of our race.

Within the framework of the nation's economic life, which is to-day wider, safer and more full of promise, we feel the necessity of expressing our deep gratitude and profound devotion to His Majesty, the King of Italy, Emperor of Ethiopia, and to the Duce, the tenacious and untiring builder of the greatness of our country.

V. AZZOLINI,

*Governor.*

BALANCE SHEET,

—  
*31st December, 1936.*

PROFIT AND LOSS ACCOUNT.

## BANCA ITALIA.

PAID-UP CAPITAL 300,000,000.

## BALANCE SHEET at December, 1936—XV.—E.F.

ASSETS.		LIABILITIES.	
Gold in Hand.....	L. 3,055,791,000	Notes in circulation.....	L. 16,525,123,550.00
Balances Abroad.....	" 62,788,460	Unpaid Drafts Outstanding.....	" 725,084,416.33
		Current Accounts.....	" 705,843,272.23
<b>Total Reserve</b> .....	L. 4,021,701,460	<b>Total Sight Liabilities</b> .....	L. 17,951,651,037.56
Gold deposited abroad, due by the State.....	" 1,775,298,000	Capital.....	" 300,000,000.00
Cash in Hand.....	" 507,317,000	Statutory Reserve.....	" 74,100,878.54
Inland Bills.....	" 1,286,725,000	Profit Accounts.....	" 529,198,333.03
Bills for Collection.....	" 13,883,700	Treasury Current Account.....	" 7,083,504.73
Advances to Customers { Against Government Securities and Muni- cipal Bonds..... L. 3,590,273,309.51 Against Silk and Cocoons..... " 19,483.35		Regional Debt Sinking Fund Office " Current Account.....	" 12,072,583.80
		Liabilities.....	" 4,332,291,811.61
Investments (Government Securities owned by the Bank).....	" 1,533,274,700	Profits for the Year.....	" 71,243,223.06
Cr. Accounts in the Kingdom:			
Deferred Payments at Clearing Houses.....	L. 21,254,808.19		
Other Accounts.....	" 35,534,944.90		
	L. 56,789,753		
Advances to the Treasury—Temporary.....	" 1,000,000,000		
" " " Extraordinary, against Treasury Bills.....	" 5,000,000,000		
Premises.....	" 138,091,411		
Credit with Institute for Industrial Reconstruction.....	" 4,708,097,537		
Other Assets.....	" 1,510,441,500		
	L. 20,424,443,179	Reserves and other valuables deposited.....	L. 20,424,443,174.33
Securities and other valuables deposited.....	" 37,073,462,800		" 37,073,462,800.00
	L. 37,073,462,800	Amounts written off in past years.....	L. 37,097,906,198.03
Amounts written off in past years.....	" 287,447,000		" 287,447,041.51
	L. 287,447,000		
<b>TOTAL</b> .....	L. 38,285,334,139	<b>TOTAL</b> .....	L. 38,285,334,139.54

## PROFIT AND LOSS ACCOUNT

YEAR 1937—XV.—E. F.

		Dr.		Cr.	
Expenses in respect of:	Administration .....	L.	101,239,329.39		
	Board of Directors, etc. ....	"	1,775,873.20		
	Transport of specie and other valuables .....	"	1,414,553.29	417,495,421.31	
	Printing of notes .....	"	10,583,010.00		
	Home Property Account .....	"	2,409,409.97		
	Stamps and commissions on foreign business .....	"	10,509.78		
	Circulation tax on notes .....	"	17,145,372.99		
	Circulation tax on demand drafts .....	"	450,393.62	160,650.00	
	Income Tax .....	"	9,975,776.85		
	Additional Income Tax .....	"	1,544,927.58		
Taxes	Real Estate Tax .....	"	1,324,544.80		
	Bank Share transfer tax .....	"	1,347,701.00	35,160,947.07	
	Weights and measures control tax .....	"	1,250.20		
	Stamp duties .....	"	580,380.22		
	Contribution for Govern- ment supervision .....	"	200,000.00		
	Other tributes .....	"	1,323,994.57		
	Unpaid bills .....	L.		5,601,700.00	
	Amounts written off .....	"		35,800,557.00	
	Interests and annuities .....	"		18,607,000.00	
	Charities and other contributions .....	"		4,500,000.00	
Contributions to Employees' Pension Fund .....	"		2,875,000.00		
Depreciation of bills against losses, etc. ....	"		10,000,000.00		
Temporary Staff Pension Fund .....	"		3,000,000.00		
Compensation on reinsured shares .....	"		7,400,000.00		
Net profit to be divided .....	L.		248,791,800.00		
			71,245,223.00		
TOTAL .....	L.		570,036,621.31		
				122,494,604.26	
				109,371,324.31	
				11,240,304.63	
				15,179,390.81	
				631,833.68	
				14,445,035.86	
				271,471,024.80	
				33,852,071.82	
				9,664,032.32	
				460,000.00	
				2,784,626.41	
				46,561,020.31	
				120,036,621.41	

## DISTRIBUTION OF NET PROFIT

To ordinary Reserve Fund .....	L.	14,240,044.01
.. Extraordinary Reserve Fund .....	"	14,240,044.01
Dividend to Shareholders at the rate of 5% for seven months (L. 38 per Annual contribution to the Reserve Fund of " Credito Fondiario") .....	"	10,500,000.00
To the Treasury .....	"	251,060.00
	"	31,999,071.81
TOTAL NET PROFIT TO BE DISTRIBUTED .....	L.	71,245,223.00

Audited and found correct on the 10th March, 1937—XV.

VINCENTO AZZOLINI,  
Governor.ANTONIO VITTORIO,  
CORREO ARTURO,  
EMILIANO MARINO,  
NEEL ADOLFO,  
STRASSEN DISSO,  
Auditors.GIORGIO FERRARI,  
Chief Accountant.