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- a) Hopkins dines with HMJr; tells HMJr he understands \$1 billion is available; hopes to work out way to put 250,000 to 500,000 more people to work by reducing amount to be paid per month -
- b) HMJr now thinks publicity eventually released was ready before Hopkins came to dinner; asks Gaston to check
- c) Harrington explained to HMJr manner in which he arrived at the 350,000 figure: "There's so much percentage of unskilled labor - so much of skilled labor - and so much in between; we will simply take this percentage and increase the unskilled labor part, which automatically adds about 350,000 persons"; HMJr considers this absolutely dishonest

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- a) Straus abandoned first proposal with respect to "relieving those fellows of contribution if they came in this year"
- b) Straus admitted he had not one actual commitment to date; has two applications - one in New York and one in St. Petersburg, Florida - which may be able to produce the 10% by borrowing on bonds secured with a first mortgage on the projects to be developed, thus subordinating the Government's 90% loan to their own 10% loan

- 1) McReynolds counters with proposal that Government lend full 100% but that the local authority be required to contribute an equal amount on the annual basis with the Federal Government
- 2) Final offer by Housing Authority is that "they put up 60% instead of 20% of the Federal loan"
 - a) Taylor expresses dissatisfaction - feels that McReynolds accomplished nothing; HMJr disagrees and states Treasury will send this forward to Budget with its approval although he, too, feels bill is far from ideal

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December 14, 1937. 1
9:31 a.m.

H.M.Jr: Good morning Knoke. Knoke I wish you would watch particularly the Japanese balance this morning, if you can.

L.W.
Knoke: Yes.

H.M.Jr: Will you?

K: All right, sir.

H.M.Jr: It's very important.

K: Yes. All right I shall look into it and I'll call back a little later and report.

H.M.Jr: Yes, please.

K: All right, sir.

H.M.Jr: Thank you.

December 14, 1937

H.M.Jr. told the following to Mr. Oliphant and Mrs. Klotz at 4:15 P.M.

The President asked me where he can get a lawyer to advise him on the following and I suggested you (Herman). He said, "There are lots of ways of declaring war. In the old days, sinking of an American battleship would be a declaration of war. To-day it is not considered such." If he (The President of the United States) wanted to take possession of all the worldly goods that belongs to the Japanese Government and their citizens and hold it against payment by them for damages done, first, what authority has he got to take it and, second, lacking the authority, can he take it and what could they do to him as President of the United States for having taken it? I told the President that there was nobody better than you to get the information for him and he said, "Swell".

TREASURY DEPARTMENT
Washington

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FOR IMMEDIATE RELEASE.
Tuesday, December 14, 1937.

Press Service
No. 11-97

Secretary of the Treasury Morgenthau today announced the final subscription allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1945 and 1-3/4 percent Treasury Notes of Series C-1942.

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

2-1/2 PERCENT TREASURY BONDS OF 1945

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 388,392,700	\$ 27,632,000	\$ 6,163,300	\$ 33,795,300
New York	2,078,465,700	146,232,700	196,157,900	342,390,600
Philadelphia	242,038,350	17,345,000	440,800	17,785,800
Cleveland	208,652,800	15,400,750	3,431,200	18,831,950
Richmond	134,496,600	9,902,150	1,468,500	11,370,650
Atlanta	102,447,700	7,920,800	2,848,900	10,769,700
Chicago	381,247,050	27,935,700	16,468,900	44,404,500
St. Louis	97,155,700	7,926,800	2,039,700	9,966,500
Minneapolis	51,270,550	4,001,200	893,500	4,894,700
Kansas City	68,324,750	5,282,400	9,370,400	14,652,800
Dallas	73,715,050	5,586,800	2,635,100	8,221,900
San Francisco	243,346,550	17,310,950	1,852,300	19,163,250
Treasury	14,756,000	1,034,500	3,658,000	4,692,500
TOTAL	\$4,084,309,500	\$293,511,750	\$247,428,500	\$540,940,250

1-3/4 PERCENT TREASURY NOTES OF SERIES C-1942

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 189,842,000	\$ 15,290,500	\$ 616,700	\$ 15,937,200
New York	1,265,430,300	101,438,800	7,254,300	108,693,100
Philadelphia	186,337,500	15,018,200	1,553,000	16,571,200
Cleveland	169,601,100	13,763,700	541,100	14,304,800
Richmond	99,027,200	8,198,000	608,300	8,806,300
Atlanta	85,031,200	7,179,500	-	7,179,500
Chicago	276,319,100	22,516,600	1,130,600	23,647,100
St. Louis	78,991,400	6,956,700	997,700	7,944,400
Minneapolis	43,403,000	3,592,000	25,000	3,617,000
Kansas City	55,226,200	4,575,300	184,500	4,759,800
Dallas	53,427,800	4,445,500	82,000	4,527,500
San Francisco	198,014,500	15,916,000	281,500	16,197,500
Treasury	1,765,000	142,000	44,800	186,800
TOTAL	\$2,702,416,300	\$219,032,700	\$ 13,339,500	\$232,372,200

GROUP MEETING

December 14, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Gibbons
Mr. Bell
Mr. Upham
Mr. McReynolds
Mr. Lochhead

H.M.Jr: I've got a couple things here, George. On this department store - you better make a note what I'm going to tell you - stuff, what I'd like to do is to get out a telegram noon today giving those who haven't answered the information prior to last week. See what I mean?

Haas: Uh-huh.

H.M.Jr: I mean the week - anything we've got on the week ending December 4.

Haas: We asked for two weeks, November 27 and December 4.

H.M.Jr: A telegram along these lines. This would go to the people who have acknowledged, you see.

Haas: Who have?

H.M.Jr: Whom we have heard from. Be two telegrams. In one I'd send out the information that we have received for the weeks ending the 27th and December 4, as of noon today, see? Then those that we haven't heard from - I'd send them the information and say that we haven't heard from them, but we hope they're going to cooperate. You see?

Haas: But give them the information.

H.M.Jr: But give them the information as a little bait, see?

Haas: Uh-huh.

H.M.Jr: Then by noon tomorrow you ought to begin to have stuff for the week ending December 4, oughtn't you?

Haas: Yes, we got some of it in. It's coming in now.

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- H.M.Jr: Well, I think a telegram ought to go out. Wait until noon Thursday, then send them a telegram. But as a bait I'd send out what you've got for the 27th and the 4th, see?
- Haas: O.K.
- H.M.Jr: And then by Thursday noon - and I'd use Government telegraph, and that doesn't - practically cost nil.
- Haas: Think I ought to check with Ruml to see what he thinks of this sample we've got so far?
- H.M.Jr: Yes. And I saw today in the Tribune that they published today what the twelve department stores did last week in New York. Did you know the Tribune made a specialty of that?
- Haas: No, I didn't.
- H.M.Jr: Yes, Ruml told me that they make a specialty of that. And last week's sales in New York are up 4 percent. There's one day that they ran 50 percent ahead.
- Gaston: Ahead of the previous year?
- H.M.Jr: Previous year, same week. It gives it by stores and by days, but they don't give - "Two stores registered gains of close to 50 percent. Three other merchants said their increases were better than 30 percent, while several reported an improvement of between 15 and 25 percent." If they get two more weeks like that, December will shoot ahead.
- Haas: That checks with Boston. They're up too, but not that much.
- H.M.Jr: I thought as bait we'd do that.
- Then, Herman, if you haven't already thought so, write a letter for me to sign to the Attorney General and Stanley Reed, if he's the fellow, thanking him for winning the gold case. They tried it, didn't they?

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Oliphant: Yes, they did.

Gaston: We thank them; maybe they'll thank us.

H.M.Jr: Anyway, it doesn't do any harm. What? Are you hesitant?

Oliphant: No, I'll prepare it.

H.M.Jr: What?

Oliphant: I'll prepare it.

H.M.Jr: Well, they tried it, didn't they?

Oliphant: They argued it.

H.M.Jr: What?

Oliphant: They argued it, yes.

H.M.Jr: (To Magill) Read this (a letter). See whether we should or shouldn't, see? Just read it to yourself. George, this (newspaper clipping) is on the Social Security.

This comes in from Oliphant, about giving me a copy of the letter which the President wrote Mr. McFarlane. I don't know how you know about that.

Oliphant: I state it in the beginning of the letter.

H.M.Jr: Oh. Well, is that straightened out now or isn't it?

Gaston: Well, I don't believe this has anything to do with that other; you mean sending that information up to McFarlane. Well, there's a letter went up to McFarlane last night.

H.M.Jr: All right.

Oliphant: I just passed that on for your review and information.

H.M.Jr: O.K.

Now, this (cartoon, The Great Hindu Magician - He Grants Wishes, by McCutcheon) is the most remarkable thing I've received almost since I'm Secretary of the Treasury.

Gaston: Isn't that extraordinary?

H.M.Jr: It's a cartoon in the Chicago Tribune. Well, I just can't explain it. You better all look at it. It's the damnedest thing I ever saw. Favorable to our tax program.

Gaston: It's old man McCutcheon.

Taylor: John S. McCutcheon; he's quite a boy.

Gaston: McCutcheon could get away with things nobody else could. It isn't Tribune policy.

Taylor: He does it on his own time.

H.M.Jr: It's the damnedest thing I ever saw.

Taylor: Haven't seen it, but if it's John McCutcheon

Oliphant: McMullen?

H.M.Jr: Just now got that.

Gaston: I sent you in a note - two very interesting paragraphs there.

Magill: I'd like eight of these (cartoon) to take up and give to the Committee.

Gaston: I'll photostat it. I have the original as well as the photostat.

H.M.Jr: You have the original?

Gaston: No, I don't mean the original drawing; I mean the newspaper print.

Taylor: You can get the original.

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H.M.Jr: I want the original.

Magill: I want one for myself, and as I say, I wish you'd give me eight or - there are nine on the Committee.

Upham: Doughton.

Magill: Ten with Doughton.

H.M.Jr: Damnedest thing I ever saw. I want that one for the President.

Gaston: I'll get about a dozen photostats of it.

H.M.Jr: That one is what they call blown up?

Gaston: Yes, it's blown up about twice the size.

Magill: Well, that's a good size. Even Treadway can read that one.

H.M.Jr: I want one for Morrison Shafroth too.

(Hearty laughter)

Gibbons: Incidentally, did you hear anything about his partner being indicted for tapping wires?

H.M.Jr: Yes, I know all about it.

Gibbons: Somebody told me; I don't know who it was.

Oliphant: Well, I think that McMullen thing is equally

H.M.Jr: Well, I just got it.

Magill: Wayne, I didn't know you could draw as well as that.

Taylor: I can't.

H.M.Jr: Mac, take a minute, not more than three, boil it down and tell them what we have done with Straus. Get this, Wayne, will you please?

McR: Wayne is familiar with the material that I took over there - their request for modification of the law.

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The first thing - I went over and spent all afternoon with Straus. Edward Long, at Straus's request, Herman - he specifically requested that he come along.

Oliphant: Good, I'm glad to hear that.

McR: Got along very nicely; as a matter of fact, he wanted a number of other

(Bell comes in)

Well, I'm glad to have Danny here.

Bell: Be excused in a moment? Got some people waiting for me.

McR: Just started to tell

Bell: (Answering question of Secretary) Yes, this morning. Won't be in until 12 o'clock.

H.M.Jr: Yes, but this is yesterday's.

Bell: That's the one I gave you yesterday.

H.M.Jr: When will I get the next one?

Bell: About 12 o'clock.

H.M.Jr: Got two minutes to listen to this fellow?

Bell: Yes.

McR: Went over and spent the afternoon with Straus. I had his proposal for amendments of their Housing Act. He abandoned his first proposal with respect to relieving these fellows of contribution if they came in this year; he admitted it was no good, didn't want to follow up on that.

But he started with the statement that they have no commitments for housing projects so far. Not a single one cleared yet.

Bell: What are all these grants that he's been making public?

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- McR: Well, those are commitments to states of the way they're going to split this up if, as, and when they get satisfactory applications.
- H.M.Jr: He hasn't done a God-damn thing except talk in the newspapers.
- McR: Says they have two applications that show prospects of - think they can come through and qualify on the ten percent. One is in New York and one is down in Florida - St. Petersburg, Florida. But on those they will only provide the ten percent by borrowing on bonds secured with a first mortgage on the projects to be developed, subordinating the Government's 90 percent loan to their ten percent loan. That's the only condition on which they'll get the money.
- Bell: Working out just like we thought.
- Lochhead: That ought to be a good mortgage; ought to be able to sell that.
- McR: Well, he admitted after discussing it that as they were considering these prospects there was no point in the ten percent borrowing outside of the Government. It would just add - that kind of a thing, even if it didn't subordinate - weren't made senior to the Government's loan - there would be no Government advantage to having outside financing which would cost more than the Government financing, and which would merely mean that additional grants would have to be made to the thing to make up the additional cost of financing. In other words, the ten percent requirement for non-Federal loans, which is the basis on which they are considering it, doesn't add anything - certainly doesn't make it any cheaper; makes it more costly - and it merely puts the Government's contribution toward it in a disadvantageous position rather than an advantageous one.
- But in order to get rid of that proposition, I proposed to them that the Government undertake to loan the full hundred percent, but that the local authority be required to contribute an equal amount on the annual basis with the Federal Government.

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- H.M.Jr: You didn't say equal.
- McR: I said equal. Yes, that was my original proposal, and that is the basis on which we went into the discussion. Now, the law requires them to contribute one fifth as much. I said they ought to contribute as much.
- Taylor: One fifth as much, but with that ten percent required.
- McR: Yes, ten percent required. But then the ten percent required, Wayne - my God, it doesn't mean anything except making a project worse rather than better.
- Gaston: Government in effect guarantees the ten percent loan.
- McR: Sure, the Government would be in a position where they'd have to protect the ten percent. Merely mean you'd be paying a higher rate for the ten percent - cost us more than it would cost us to do it ourselves.
- Taylor: Well, subject to some argument.
- H.M.Jr: Well, wait until we hear what Mac got out of them. I think it's all to the good.
- McR: We argued back and forth, as I say, all afternoon, and we finally got down to a basis - they said they couldn't get the communities to put up the full amount that the Government put up. Finally they came down - the proposal they're going to make and send over here for approval is that they put up 60 percent instead of 20 percent of the Federal loan.
- Taylor: Well, I don't think that's enough.
- Oliphant: You mean the annual - 60 percent of the annual.
- Taylor: No, certainly don't think it's enough.
- McR: They now put up one fifth of what the Government puts up.
- Bell: The local housing authority?

- McR: Yes.
- Bell: Now they're proposing that the local housing authority put up how much, 60?
- McR: 60 instead of 20.
- Bell: They can do that under the law?
- McR: No, they've got to change the law.

Now, his position is that they haven't started anything, and pressure is being brought by the White House to have them get started. He says these fellows haven't the authority and they haven't the money. The disposition - they're willing to commit ahead for future years, but they're not in the position so they can commit immediately. They can't get the money. They can't get started.

And as I see it, there is no - I just can't see any advantage, unless they would donate, and there seems to be no - says that nobody has any disposition to make any donation at all on the original cost, and that would mean they'd have to borrow and they'd have to borrow - to go to the financial market on this capital loan and borrow at a rate substantially higher than the Government rate, which would mean an additional charge against your project, which on the other hand has got to be offset by additional grants to keep your rent down.

Now, that's the place where you start. Now, there's a question - well, what they're going to send over is the proposal, as I say, and I don't know what they'll get; but he's going to put it up for the President to send, and he's going to send it over here for initialing before they send it over to the White House. It's a proposal to ask for a modification of the law that will permit the fellow, not necessarily - not take it out, just give an additional alternative that the Government may put up, loan the full hundred percent if the local authority will increase their grant from 20 - annual grant from 20 to 60 percent of the amount of the Government's grant.

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Oliphant: 60 percent could be in the form of tax exemption too, couldn't it?

Taylor: It can be in tax exemption, it can be in water, or electric light, or whatever the boys have to put up. And 60 isn't enough.

H.M.Jr: Now listen, Wayne - now listen - now, we had this talk yesterday and Mac took three hours to go through this.

Taylor: I know.

H.M.Jr: You and I agreed that we wouldn't be sitting here each of us trying to write the other fellow's ticket. Now, as a matter of fact, Mac has gotten three times as much as what's in the bill now. We're not giving up anything when we give up that thing that the community has to put up ten percent of the money, because they simply go and hire the money at four or five percent, and there's only one place in the United States where they've been able to get it, and the additional interest which they pay, we pay. And as a matter of fact, if you wanted to do this thing straight across the board and honestly, simply say, "We are loaning a million dollars to New York City to build the thing, at no interest rate"; that's the honest thing, because whatever the interest is, we pay it; it's unbelievable. But the reason that they want to remit the interest and have us pay it back to them is because they say we control the purse strings and then we can control the rent. But actually what we're doing is to give them a million dollars at no interest rate. But they want us first to have the city pay it and then pay it back.

Now, whether the city raises ten percent of the money and goes to X-Y-Z, bankers, who - the city doesn't put it up; they hire it at a rate higher than the interest rate we pay; they pay five or six percent, which means we have to contribute just that much more.

The way the bill is written, the city puts up one fifth of what we do. Mac has got them to put up 60 percent. And instead of what Straus wanted, which was to see McReynolds, Taylor, Morgenthau, and Bell and tie us up for a half a day, McReynolds and Ed

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Foley did it. And I say here now, as establishing the principle, that, having sent Mac into the trenches, I am willing to take what he got and say O.K. I'm not going to - if you don't mind, I'm not going to sit around with you and with Straus and with Bell for three afternoons and come out with nothing more, or Straus, who is in a hole - have him give out word - I don't know that he would - that the reason he can't get this thing is because Morgenthau, not Taylor, won't let him have what he wants.

And I'll go on record now that we take the McReynolds plan and I'll say he won't build anything anyway.

Gaston: No, they won't build on that.

H.M.Jr: Now, I just want to say, Wayne - and you come back at me, because the purpose of it is - if you say I'm wrong. But yesterday you turned to me and said, "Henry, well, you hold up Jones as much as anybody else does." Now, if you want to take this thing alone and sit down with Straus and let me announce publicly that Taylor's handling it, all right. But I wouldn't let you do it.

Taylor: Well, it's all right with me and I don't think it's enough.

McR: I don't think it's enough either, Wayne.

Taylor: I don't think we ought to approve it as being enough, because it isn't.

H.M.Jr: Wayne, I'll go further than you; I'll say this is the most asinine, ridiculous program for the United States Government to be a part of. You can't go any further than that.

Taylor: And on that basis, I don't think the Treasury ought to approve those changes in that form.

H.M.Jr: Well, I say to you that I'm not - we can't divide up our strength here, and McReynolds got three times as much; not only that, but through our loaning the hundred percent there is less interest rate, so we've got to give back less.

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Taylor: Well, with all due respect to Mac, why, we had that before we started yesterday.

H.M.Jr: But you didn't have it that they'd contribute 60 percent.

Taylor: Yes.

H.M.Jr: You did? Well, I still say it's all right. I'm not going to sit around and

McR: Did Straus tell you he'd consent to 60 percent?

Taylor: No, but I think you had that before you started.

H.M.Jr: Well, how do you know you had it?

Taylor: Well, based on the conversation I had with Ed Foley the day before.

H.M.Jr: That doesn't mean that Straus

Taylor: No, but it's

H.M.Jr: I don't think it's a fair statement.

Taylor: All right, I withdraw it, then.

H.M.Jr: I don't think it's a fair statement.

Oliphant: I thought.....

Gibbons: Is it 60 percent of the annual maintenance cost?

H.M.Jr: I don't think it's fair to Mac.

Taylor: I withdraw the statement; I don't think it is either, then.

McR: Well, I agree with Wayne that it isn't enough. As far as my idea of what would be fair is concerned, the thing ought to be turned around with respect to this cost of this annual grant, and the bulk of it ought to be locally instead of from the Federal

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Government, and I proposed that it be an equal amount, 50-50, and we argued three hours over the question of how far we could go, and 60 percent was as far as they would go. They said they could get by on the grant and in some cases actually reduce

Gaston: That is more than you proposed.

McR: No, no.

Bell: He proposed 100 percent of the grant.

McR: Their proposal is that the state put up 60 percent of the amount that the Federal Government puts up.

Gaston: Oh, oh.

McR: They now put ^{up} 20 percent of what the Federal Government does.

Gaston: On the grant.

McR: On the annual grant. And of course, that's as far as the gift is concerned.

H.M.Jr: Well ...

McR: That's the contribution toward the maintenance.

H.M.Jr: I say - excuse me - I say again, I didn't write this bill, I think it's cock-eyed, I think it's crazy. The United States Government - it just gets back to the original plan. We spend \$500,000,000 and then it gets back to about the original thing, and these buildings are not only - can't earn the interest, they can't earn the maintenance. And I'd much rather come out and publicly say we're going to borrow \$500,000,000, build \$500,000,000 worth of houses, and we're going to donate to these people five dollars per room per month, because that's what it costs and that's what it amounts to - maybe six dollars per room - instead of doing all this sleight-of-hand thing which practically nobody but three or four people understands. Now, what we're

-14-

actually doing is building a house and then to these people we're contributing five or six dollars per month - room a month. Now, that's about what it amounts to - I mean plus the city's contribution if they come through.

And I don't want to - I think it's crazy. As a matter of fact, Congress will contribute this interest for a couple years, then they'll stop. They won't do that. But I'm not going

Bell: Very definite obligation.

McR: It's a contract.

H.M.Jr: You can not obligate Congress for more than one year.

Bell: They can repudiate it, of course.

H.M.Jr: It's unconstitutional to pledge Congress on an appropriation more than one year. One Congress can't pledge a future Congress to an appropriation. It just can't be done.

Oliphant: Well, we do it on our public borrowings all the time.

H.M.Jr: Well, I'd hate to have somebody challenge it.

Gibbons: What's the municipality going to do, make all these buildings tax-exempt that are under assessment?

McR: That's their contribution.

Gibbons: Finally bankrupt your large cities. Take New York City. It is so cock-eyed.

H.M.Jr: Take the whole thing. If anything goes wrong in the Treasury, I'm willing and do take the blame, but I'm not going to find myself in the position with this whole housing gang that I'm holding up this bill. Now, what McReynolds got is certainly, from the Treasury standpoint, better than what we had before.

McR: Well, I don't think it affects the amount that will go out from the Treasury, because there is a

-15-

\$500,000,000 program, and that means we're going to give away that \$500,000,000. This means that their housing projects will get - will get about - I don't know how much, but 4 or 5 percent more in the aggregate contributed toward the project than they would get under the present law, but that will be contributed locally and it will enable Straus to reduce the amount of the Federal grant in some cases, because of the size of the local grant, and enable him to spread his program a little further. In other words, for \$500,000,000 spent by the Federal Government, there will be a few more buildings built and a few more projects up.

H.M.Jr: Well, Behl, as far as I'm concerned, I'm willing to say, whether I put my name to it or not, "Let 'er go." I don't know how you feel.

ell: Well, all I've heard about it sounds pretty good to me, if we can get something more than we've got now.

H.M.Jr: Well, I personally - if I send a fellow in, I'm willing to take his word and let it go. It's exactly the same thing as Commodity Credit. That thing has been around here for three or four weeks. I agreed to what was done in Taylor's office. The bill still isn't up there. And now Mr. Jones tells me on the phone he wants to wait until after the first of January before having it introduced. Now, the thing could have gone up three weeks ago. But now he says he wants to wait until after the first of January. And most likely the same thing will happen on cleaning up his balance sheet.

Taylor: Well, that's on the advice of Mr. Rayburn. Mr. Rayburn doesn't know what the bill is.

H.M.Jr: well, if you don't want to get in on this housing bill, you don't have to, but I'm saying to McReynolds I accept what he did. And in the future, if I designate one person to do something, unless I completely disagree, I'm willing to take what he gets. I think Mac got a good bargain and we can do business on that basis. Doesn't tie up four or five people for a month.

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- Taylor: Well, my point is that the Treasury should not be placed in the position of approving that program.
- H.M.Jr: Wayne, you can't duck these things. You just can't duck them.
- Bell: What do you have in mind, Wayne? Offer no objection?
- Taylor: No, I think you ought to disapprove it.
- Bell: Oh, ought to come right out and disapprove. Well, we should have disapproved the original bill.
- Gibbons: Too late now.
- Gaston: We did disapprove the original.
- Bell: We didn't approve it, but we didn't object very loudly.
- H.M.Jr: Well, we spent hours and hours on the thing.
- Taylor: And that is entirely on the basis of the amount of the local contribution.
- H.M.Jr: Say, I have in the President's own handwriting that his plan was that the city should contribute 40 percent - and neither labor nor materials. I've got it in his own handwriting. That was his plan. What did he do? He agreed to this.

Now, I'm still here and I still think that the President listens to me on financial matters more than he does to anybody else, and I always say there is a time to fight, and I fight for really worthwhile things. I could go and publish this memorandum, say, "This is what the President wants." He said 40 percent and he ended up by getting nothing. Now, Wayne, my usefulness to this country is, when I go in to fight, to win, and I've got a record now almost a hundred percent. I want to keep it.

Now, as I say, I'm doing all of this on account of a lot of other stuff, and I'm certainly not going to fight for this. And as far as I'm concerned, it can go from my office to Bell with my approval. See?

-17-

And if you (Bell) don't mind my giving you as my Assistant some advice, tell the Director of the Budget when you see him that I wouldn't hold this up too long, because then it will be on your hands, see?

Bell: I don't know when I'll see him, but I'll tell him.

H.M.Jr: Now, let me just tell you people - and let me tell you people one other thing, just to show you what's going on. I want you to know it. This is extra, extra confidential, and I want Gaston to get it from me. And if you (Bell) don't mind my taking two more minutes - because it affects you. I want them to know it.

Mr. Hopkins comes to my house and has dinner. We talk about relief and people going to work.

Hopkins says, "I understand the figure is one billion three."

I say, "That's right. That's what I understand. That's - you've got what the President has said."

He said, "Well, I'm going to try to work out a way that we can put on from 250,000 to 500,000 more people by reducing the amount that we pay the people per month."

"Well," I said, "that sounds very interesting."

He says, "I'm going to find out about it."

Well, next morning I pick up the paper and read an announcement that there's been - they're going to put on 350,000 more people. And Herbert, I'd like to get a copy of that release and find out when it was released. You see, Herbert?

Gaston: Yes.

H.M.Jr: Colonel Harrington was here yesterday. He comes in with a memorandum saying that they're figuring on this.

I say, "How did you get this, because Hopkins said

if he didn't have time to let me know what they decided after talking to me, he'd have you let me know, but my understanding with Hopkins is one billion three and not another cent until he talks to either Bell or me."

"Well," Harrington said, "I'm in an embarrassing position, Mr. Morgenthau, because Mr. Hopkins never saw any of us after he left your house, and we don't know what Hopkins did say to you."

So I said, "Well, how did you arrive at this figure?"

"Well," he said, "I tell you how we arrived at it. There's so much percentage unskilled labor, so much percentage skilled labor, and so much in between. And we're simply going to take this percentage and increase the percentage of unskilled labor, and that's the way we arrive at it, and we figure on that basis we can put 350,000 more people to work."

"Well, Mr. Colonel Harrington, if you don't mind my telling you, that's wishful thinking; that's pretty far from doing it."

He said, "No, this is just what we hope."

"Well, don't you think to announce publicly 350,000 people additional as purely on a percentage basis - I mean in dealing with human beings - is a pretty risky thing to do?"

He says, "Well, we hope to work it out. But the last thing Hopkins told us when we left - said we never spend as much as we say we will and we don't think we'll put on as many men this December as last."

Now, there's the whole business. If I didn't tell it to you, you wouldn't believe it. You just wouldn't believe it - that this announcement of putting on 350,000 people in addition is simply doing it on a piece of paper and saying, "We reduce the number of skilled and increase the unskilled and we can put on 350,000," using one billion, 379 million dollars - and they haven't got it.

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Bell: Of course that's the answer, Mr. Secretary.

H.M.Jr: They haven't got it.

Bell: They've tried since July 1 to figure out how much money is available, and I won't tell them. They try to figure out themselves. So they're counting on one billion, 380 million, and then they say, "That's our program"; whereas the President has written them a letter allocating them not more than a billion three; and they have never stuck to that figure.

H.M.Jr: Well, I think personally it is one - well, I don't want to use the adjective - but to me it's just unbelievable.

Bell: Well, they've been told plenty of times that they should forget the 80 million dollars.

H.M.Jr: I know, but Dan, leaving the 80 million out, they still are simply doing it on a percentage basis.

Bell: Well, of course, that's typical.

H.M.Jr: And I'd like to know what day that release was given out, because I think that release was written and given out before Hopkins dined with me.

Gaston: What day did he dine with you? That release came out

Bell: Thursday - Wednesday or Thursday.

H.M.Jr: Ask Mrs. Klotz. She'd have the record; I think it was Wednesday night.

Bell: I think it was in the paper next morning.

H.M.Jr: I think he gave it out ...

Bell: ... before you came to dinner.

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

O.K., Dan. Listen, Jones at lunch - as far as I'm

-20-

concerned, I'm not going to budge on the interest rate.

Bell: That's right.

H.M.Jr: See? And I don't know where Taylor stands on it.

Bell: Wayne was going to have some conversations with him. What did you accomplish?

Taylor: I don't know.

Bell: You made the suggestions?

Taylor: What?

Bell: You made the suggestions, I take it.

Taylor: I did a lot of talking around, and I don't know what I accomplished.

Bell: Wayne was going to suggest that he accept these and keep still.

Taylor: Which I did, but I don't know whether he took the hint or not.

H.M.Jr: Well, I don't know where we stand. And on the Commodity Credit bill, I'm not discussing that either. I'm through.

Bell: Well, on that one, he also was going to suggest that we accept it and leave these items that were in controversy go.

Taylor: Well, I have

Bell: You've performed ...

Taylor: I've performed as well as I know how. And I didn't try to find out what the answer was.

H.M.Jr: Well, I'm - as far as I'm concerned, I'm not going to discuss the Commodity Credit bill. I'm finished. And on the interest, on this cleaning up his statement,

-21-

we'll do just what we said the other day. I won't do anything more. And then if he doesn't like it, my time is too valuable, and he can take it and do whatever he jolly well pleases. My time is just too valuable.

Bell: You've got an ace in the hole. The interest rate on the regular stuff beginning January 1 - you've told him already that you would go down to 2 percent.

H.M.Jr: That's right.

Bell: I think you could very well - it's five-year money, and if necessary you can go down to 1-3/4; give him another cushion. I'd keep that as an ace in the hole.

H.M.Jr: Well, that gives you people a background.

Taylor: I used that as a "for example," Dan.

(Bell leaves)

H.M.Jr: Will you (Gaston) find out on the Hopkins thing?

Gaston: Yes.

H.M.Jr: And on that other thing I'll see you at 10:30 tomorrow.

Gaston: 10:30 tomorrow.

Haas: I've got a couple little things here.

H.M.Jr: I'll tell you, come in at 11:45, George.

Haas: Yes, sir.

H.M.Jr: Come in at 11:45.

December 14, 1937.

To: Hon.-Henry Morgenthau, Jr.
Hon. Wayne C. Taylor.

From: Robert T. Stevens.

Subject: Cotton Promotion Plan.

The writer feels that he is in a very delicate position. He was so sincerely impressed with the plan outlined by the Secretary last Thursday evening that he hesitates to make this report lest it be interpreted as showing either lack of appreciation or unwillingness to put a shoulder to the wheel. I can only hope that thus far in my discussion with you I have been sufficiently constructive and cooperative to preclude any possible misunderstanding in your minds. I should deeply regret any feeling at the Treasury that I had failed to measure up.

My report to you is to the effect that, in my judgment, it is not possible to put over at this time the plan reviewed last Thursday evening. My quick survey during the last four days convinces me that, while the industry is deeply appreciative of the unique offer on the part of the Administration to be of assistance, that it is not possible to raise the funds necessary to take full advantage of the wonderful cooperation offered. In order properly to carry out the proposed campaign on cotton, a large sum of money is needed to supplement the cooperation of the Administration. With the severely depressed conditions currently prevailing in the cotton textile industry, it is not possible, in my opinion, to raise the necessary funds at this time.

On the basis of the original plan submitted, the writer, in his enthusiasm, believed he could raise \$200,000 from this depressed industry to consummate the unusual program outlined. That program, in so far as money raising within the industry is concerned, is something so definite and so tangible that I believe I could have raised the funds. In this connection, however, many of my friends in the industry feel that I was entirely too optimistic. Coming over now from the original plan to last Thursday's unusual suggestion, I

-2-

find that the value of the latter is so difficult to figure in dollars and cents - in other words, is less tangible - that even my enthusiasm does not fairly permit me to say that I think the funds can be raised. My own judgment and that of others with whom I have conferred is that this plan, with all of its unlimited possibilities, is not workable at this time.

We are all interested in the same thing - stimulation of the consumption of cotton as an aid to the cotton farmer, to the textile worker, to business and to the United States Treasury. The original plan had wonderful possibilities along this line. It does not seem unreasonable that the mere announcement of that plan would start textile activity. Furthermore, this additional evidence of cooperation with business on the part of the Administration would have a favorable effect on all business. It would seem a small price to pay for the possible benefits involved, and that price appears wholly justified in the light of the Government's stake in cotton. It is simply a matter of good business to apply tested modern merchandising methods to the cotton problem. Other governments follow such procedure. I call your attention to the attached advertisement in last Sunday's New York Times which seems to be an effort by the Brazilian Government to sell more Brazilian coffee to the American people. Why not make a similar effort to sell more American cotton to the American people?

If the million dollar proposal in connection with the original plan is out of line, it may be possible to work out an effective plan on a smaller scale. Some financial support, however, on the part of the Government is necessary if this promising plan is not to be forced into the discard because of lack of funds. Time is a very vital factor in the situation. If any reconsideration of the original plan is possible, I hope that reconsideration may take place promptly. It would seem most unfortunate if this promotion plan for cotton cannot be carried out. I know firsthand of the Secretary's enthusiasm for it and, through him, of the enthusiasm on the part of the President. With all this interest and enthusiasm, it would seem that there must be some way to carry it out and thereby give cotton the "break" which it so badly needs.

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PARAPHRASE OF TELEGRAM RECEIVED

28 /

FROM: American Embassy, Paris, France

DATE: December 14, 1937, 10 a.m.

NO.: 1726

FROM COCHRAN.

This morning I returned from Basel to Paris.

Governors decided upon Roger Auboin of France, at informal meeting on Sunday, to take office on January 1st as successor to Quesnay as General Manager. Governors agreed to choice of French nominee, rather than risk offending France or personally hurting Governor Fournier of Bank of France, in spite of rather general opinion that desired reorganization should not be postponed long of B.I.S. and particularly of top-heavy managerial staff. Questions as to whether B.I.S. capital should continue to be expressed in gold and as to whether statutory provision for further possible calling up of 75% of capital should be altered were discussed by the governors but they did not come to any decision. It is hoped that at an early meeting the study upon gold which was assigned to the management in July by directors will be submitted. The absence of Economist Jacobson has caused delay thereon and his report will be finished in December as he is working on Irish Free State Monetary Commission.

Monday

-3-

Monday at a formal meeting Auboin was named General Manager by directors.

The question of future relations between Hungarian finances and the League of Nations, which matter was studied recently at Geneva by director of committee, was discussed while they were present in Basel with British central bankers by Governor Imredy and Adviser Bruce of Hungarian National Bank.

BULLITT

EA:EMF

EF

31

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1726
of December 14, 1937, from the American Embassy, Paris

The Governor of the Bank of the Netherlands, Trip, expressed to me his satisfaction that the United States had acted so promptly and favorably on his request for conversion into gold of fifty million ordinary dollars. Trip said that the Netherlands Bank felt no reaction from the action of the Swiss central bank in November to stop capital inflow into Switzerland. Trip believes the Swiss measure is ineffective and therefore he expects no repercussion. The French, he said, have already drawn one hundred million florins on the banking firm from Mendelssohn which, subject to Mendelssohn's approval, may be increased to one hundred and fifty. The Dutch bankers, he said, have a rigid gold clause in this credit in addition to the same Bank of France guarantee of transfer on interest and repayment such as the Swiss bankers received on their recent credit to the French railways. The Swiss did not obtain the gold clause in their credit. The French transaction does not involve a gold deposit. It was not necessary for Trip's bank to approve this operation because the banking funds going into it - principally French expatriated capital - were not of such character as to be useful in the Dutch Treasury loan conversion which the Government wants to launch

31
4.

launch as soon as the market is favorable and as soon as they have overcome the objections of insurance companies and other important holders of Government securities. Good progress is reported by Dutch shipping and colonial business. Internal business is not doing as well, since it is difficult to export Dutch manufactured products, the Dutch budget has a heavy charge on account of the large unemployment, and it is difficult to maintain the customary high standard of living.

END SECTION TWO.

BULLITT.

EA:LWW

RECEIVED
DEC 14 1937
TREASURY DEPARTMENT
Office of the Director
Foreign Affairs to the Secretary

PARAPHRASE OF SECTIONS THREE AND FOUR OF TELEGRAM No. 1726 of December 14, 1937, from Paris.

I gave oral answers to President Bachmann of the Swiss National Bank and his assistant Pfenniger on the questions on gold and exchange operations which they had submitted to me before I left for Washington. Bachmann and Pfenniger said they were cabling the Federal Reserve Bank of New York to ask permission for immediate conversion into gold of sixty million dollars from ordinary dollar account. The reason for such conversion was to increase the ratio of gold against foreign exchange for the annual statement of the Swiss National Bank.

The information from Washington which I gave to Bachmann and Pfenniger seemed to be entirely satisfactory to them.

President Bachmann is quite pleased with the advantages he has under the Tripartite Agreement. Roem, a British central banker, asked him about carrying pounds on London for investment purposes, but Bachmann replied that he preferred to hold dollars which have practically a fixed value in gold.

Capital inflow into Switzerland has ceased since the first of November. President Bachmann said he did not know whether this was caused by the French improvement or

by

- 3 -

by the action against "hot money" which he took. He said it was still too early to see the full effects of this action. In the meantime, there had been a rise in the price of Swiss securities, he said, showing investment of funds from the banks. However, note circulation had shown no increase, which indicated that abroad Swiss paper currency was being hoarded.

The Acting Governor of the Belgian National Bank, Janssen, was in Basel. Galopin (the other Belgian) said that it is very likely that before the first of the year Janssen will be made Governor. This is especially the case since by that time Paul Van Zeeland's name cannot be ^{cleared} ~~clear~~ed.

I was informed by Paul Van Zeeland's brother Marcel that Paul's health had much improved. He also said that very shortly the economic report should be ready for submission to the British and French Governments, and will ^{be} also/referred to President Roosevelt, presumably.

The Governor of the Bank of England, Norman, spoke in a more complimentary fashion of the Tripartite Agreement than he ever had at any time. Norman insists that no arguments be attempted now by any of the members, that
there

there should be no hesitancy on the part of one to suggest to the others what they should do, and that too many public statements on operations should not be made. Norman believes that a really constructive work will result if a traditional policy can be developed, along the lines already established, through friendly cooperation and common consideration. On the whole, on this visit to Basel I found more appreciation of the Tripartite Agreement than at any other time.

I mentioned to The Bank of France Governor, Fournier, that the American authorities were happy to see the regularity with which the stabilization fund of France had for some weeks been acquiring fair amounts of dollars, and the assistance given in publicizing the shipments to France of the proceeds from the gold sales. Governor Fournier said that on his own part he did not like to carry this publicity too far, but he did feel that it was really necessary to have a certain amount thereof. He told me that as I was aware, exchange control was continually anticipated and recommended by the Communists and certain Socialists in France. For instance, Reynaud and Flandin on the Right were endeavoring to give the impression that in reality no funds had been repatriated to France but that

French

- 4 -

French borrowing abroad was responsible mainly for the foreign exchange which the control has acquired. Reynaud and Flandin were predicting that by February or March another French Treasury crisis would consequently develop.

Fournier

I was told by ~~Maxime~~ that he was greatly satisfied at having the Tripartite Agreement as a rallying point for internal French sentiment in opposition to proposals for exchange control in France; in this regard he feels that the agreement has been of genuine service to France. Norman said he was glad to have the demonstration that through its mechanism gold would move to France from the United States and that French capital was in reality being repatriated. He knew there had certainly been no French borrowing on the American market to account for the movement of the gold.

Before Fournier had left Paris he had talked with Bonnet. As a result of their talk Bonnet had decided to give an early public statement of the budgetary situation in refutation of hints of financial crisis early in the coming year. The current treasury loan, Fournier thinks, will bring in about three billion francs. Should the situation remain about the same as at present through the holidays, Fournier believes it may be possible for the

Government

- 5 -

Government to pay off all of the British loan without drawing on the Bank of France credit, where it may be necessary to meet end-of-the-year requirements of the Treasury. Next Thursday's statement for the Bank of France will ~~show~~ ^{show} no advances to the state nor any change in gold holdings.

The recent improvement in France has pleased Basel observers, but they are still a little skeptical about it. The Bank of England Governor in particular believes that the gains have been mainly "bluff". He does not think that the basic production problem has yet been solved. The heavy carrying charge for the French public debt is of especial concern to Niemeyer, as well as the extent to which loans must still be issued at high interest rates.

I was informed by Schacht that he will continue to hold his position in the Reichsbank, and Hulse and Blessing will stay with him. The story which appeared in the FINANCIAL NEWS that Niemeyer was trying to get Schacht as general manager of the BIS was wholly untrue.

END SECTIONS THREE, FOUR, AND FIVE.

BULLITT.

JR

GRAY

Paris

Dated December 14, 1937

Rec'd 1:40 p.m.

Secretary of State,
Washington.

1726, December 14, 9 a.m. (SECTION SIX).

Following the recent diplomatic conversations Schacht told me that he thought a beginning had been made in clearing up Germany's problem of colonies and that eventually a solution would be found more likely through bilateral treaties than through the League of Nations. He said that the problem revolves about the points as to what guarantees on the part of Germany for peace in Europe France and the others will demand and as to how extensive Colonial concessions may be made. Schacht hoped Hitler "would be patient in the meantime". Schacht insists that Germany will precipitate no war. As to the Spanish situation Schacht thought that the Italians would withdraw from Spain after the war is settled. He said that if they did not the Spaniards themselves would drive them out.

My friends were all keenly interested in news from the United States since they feel that an upturn in world economics depends principally upon our emerging
from

-2- #1726, December 14, 9 a.m., (SECTION SIX) from Paris.

from present relapse. I distributed a few copies of Secretary Morgenthau's New York address since only press extracts or summaries had been received over here. This proved such an interesting document that all of my friends sought copies (Jacobson to use before the Irish Monetary Commission, Galopin to present to his Societe Generale, et cetera) so I must make some more for distribution.

At the end of our various conversations I felt last night that the following opinion was held by at least several of my contacts:

BULLITT

RR:PRA

PARAPHRASE OF SECTIONS SEVEN AND EIGHT OF TELEGRAM NO. 1726 of December 14, 1937, from Paris.

The following reasons were given for the belief that after a continuing period of gradually declining hesitancy and nervousness the United States by April of 1938 would witness a real economic pick-up -

First. The United States has a more conservative Congress. The President must naturally take into consideration its tendency toward adopting less radical legislation.

Second. Increased confidence should result from the President's efforts toward rapprochement with business through inviting business leaders to Washington for consultation, and through leaving the possible revising of unsatisfactory tax measures to congressional discretion. In like manner further encouragement of private construction should help to change recovery measures from emergency public works to needed developments privately financed.

Third. The Secretary of the Treasury took a courageous position publicly by opposing exorbitant spending and by working for a balancing of the budget.

Fourth. There is a prevailing impression that the Treasury is now sure of itself in its dollar policy, that it is successful in its financing, and that it is expert in the handling of its stabilization fund - letting operations speak

- 2 -

speak for themselves.

Fifth. There are present no essential factors for a real economic depression, such as wild credit expansion, unsound financial conditions, and so on.

Sixth. Recently there has been more stability in commodity prices, and they promise to recover now.

Seventh. There are unduly low security prices.

Eighth. There is indication that sensible big business realizes that its own interest lies in assisting recovery, and that this sentiment will spread to others.

Ninth. While unskilled labor has been overcoddled and is too costly, there is a decline in the aggressiveness of labor which, in the face of a stricter government policy and a more impatient general public, will have to subside.

Tenth. The period we are going through at present is merely an unpleasant transitional period the successful outcome of which will be determined by conservative confidence-inspiring measures.

RECEIVED
When I spoke with the Italians they denied that their country intends to undertake further devaluation of the lira.

January 10 has been set for the date of the next meeting of the BIS.

Reference is made to my telegram of December 14, 1937, 11 a.m., No. 1727.

END MESSAGE.

BULLITT.

TREASURY DEPARTMENT

41

INTER OFFICE COMMUNICATION

To Secretary Morgenthau

DATE: December 14, 1937

FROM A. Lochhead

Re: Japanese Gold Shipments

On October 6, 1937, the statement was made by the Vice Governor of the Bank of Japan:

"that within the next few days it may be necessary to ship a further quantity to the United States of about the same value as that shipped on the 4th of October."

(The actual shipments made between October 6 and November 11 totaled \$50,750,000 instead of the \$6,650,000 mentioned.)

On November 11, 1937, the Vice Governor of the Bank of Japan stated:

"The Finance Ministry under its present program does not contemplate shipping any more gold this year."

(Since November 11 to date there have been actual shipments made by Japan to the United States of \$18,800,000."

On December 14, 1937;"according to the Vice Governor, the Bank of Japan will not make any more gold shipments this year".

()

December 14, 1937.
10:27 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley. Go ahead.

H.M.Jr: Hello.

Barkley: Hello Mr. Secretary. Good morning.

H.M.Jr: How are you?

B: First rate. I don't know whether I made clear to you what I was calling about.

H.M.Jr: Well, I kind of got it on the sly that - they want me out in Cleveland -

B: Yes, Rabbi Brittner, - he is a great fellow there, there are two very important Rabbis - Brittner and Silver.

H.M.Jr: Yes.

B: Rabbi Brittner has been a great friend of ours and a fine democrat, and your father remembers him well.

H.M.Jr: Yes.

B: And he sent me the most cordial message urging that I should do everything possible to get you there for Sunday, January 9th.

H.M.Jr: Well.

B: Do you think there's a possibility.

H.M.Jr: No, because it means a speech, doesn't it?

B: Oh, yes.

H.M.Jr: What?

B: Yes.

H.M.Jr: Well, what you tell ^{him} is this, for me, please, that I appreciate very much his asking me, but if he'd ask me a little later on I'll try my best to go, but I couldn't go at that time, see?

B: Oh!

H.M.Jr: Towards Spring I might be able to go.

B: Yes. Well, I'll tell him that.

H.M.Jr: See?

B: I'll tell him that.

H.M.Jr: You tell him, towards Spring, if things ease up a little bit, I'll make a real effort to go.

B: Well, I'll just tell him you can't get away from Washington at that time, is that right?

H.M.Jr: That's right.

B: Yes.

H.M.Jr: But -

B: I'll get in -

H.M.Jr: Thank you for passing the message along.

B: Well, it certainly was a very cordial one, and I want to make it as strong as I know how.

H.M.Jr: Thank you.

B: Yes. All right, much obliged.

H.M.Jr: Goodbye.

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December 14, 1937.
10:30 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Colonel
Harrington: Mr. Secretary?

H.M.Jr: Talking.

H: This is Colonel Harrington.

H.M.Jr: Yes.

H: We weren't able to get with Bell until Thursday morning.

H.M.Jr: Yes.

H: On account of the Budget.

H.M.Jr: Yes.

H: And that is arranged for Thursday.

H.M.Jr: Yes.

H: And the purpose of my call now to you is to say that I plan to be out of town tomorrow and Thursday.

H.M.Jr: Yes.

H: And wondered whether it would be satisfactory to see you on Friday.

H.M.Jr: It would.

H: Will forenoon -

H.M.Jr: Just a minute, it'll have to be because we have Cabinet in the afternoon.

H: Yes, sir.

H.M.Jr: But you also or have you - you didn't give me the figures on how much money the community's contributing. Remember, I asked you if you'd bring that over?

H: That's right, I didn't leave it with you.

H.M.Jr: Well, if you bring it over on Friday.

H: All right, sir.

H.M.Jr: Let's say 10:15 Friday.

H: 10:15 Friday morning.

H.M.Jr: Yes.

H: Yes, sir, I'll be there.

H.M.Jr: And I do hope we're going to get this straightened out.

H: Well I think - I don't think there's much question on it, Mr. Secretary.

H.M.Jr: And would you leave word with somebody that when you get the figures, today or tomorrow on the increase, let Mrs. Klotz know?

H: I can give you those this afternoon, I'm quite sure.

H.M.Jr: Well, will you give them to her, please?

H: I will.

H.M.Jr: Thank you.

H: And then 10:15 Friday morning.

H.M.Jr: Yes.

H: Yes, sir.

H.M.Jr: Goodbye.

December 14, 1937

11 a.m.

Present:

Ambassador Najera
Minister of Finance Suarez
Dr. Feis
Mr. Taylor
Mr. Lochhead
Dr. White
(Oliphant and Opper for part of the meeting)

HM, Jr.: How do you like our Washington weather?

Mr. Suarez: Fine, Mr. Secretary; very pleasant.

(Mr. Suarez handed the Secretary the attached document.)

HM, Jr.: Do you mind if I read this out loud?

(Reading) "As I understand it, a loan on the stabilization fund is made from Government to Government, and the loan must be guaranteed by the pledging of gold or silver. For the loan to solve the present crisis of the Bank of Mexico, I wish to propose the following formula, which is practically equivalent to giving the pledge in question.

"1 - The loan will be made by the Government of the United States of America to the Mexican Government for monetary stabilization purposes.

"2.- During the life of the loan, the Bank of Mexico binds itself to maintain in deposit at the Federal Reserve Bank in New York \$10,000,000 or over in gold or silver.

"3 - The Mexican Government will have the Bank of Mexico constitute a pledge on that gold or silver, in the event the Department of the Treasury of the United States may so require."

HM, Jr.: I don't know just what that means. Do

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you mind my saying, it looks as though a lawyer wrote that one. I haven't brought in any lawyers yet. Just a couple of farm boys around here, you know. But that looks to me like you had had a lawyer on that. Are you a lawyer?

Mr. Suarez: Yes, Mr. Secretary.

HM,Jr: I thought I smelled the law!

Ambassador: And all the traits of an international lawyer.

HM,Jr: I knew he was an economist and a financier, but I did not know he was also a lawyer.

Mr. Suarez: Yes, I am, Mr. Secretary.

HM,Jr: How are you fixed, Taylor, right now for time?

Mr. Taylor: Fine.

HM,Jr: Shall we do it here? There are words here -- I have to get my lawyer.

(Telephoned for Mr. Cliphant to come in.)

HM,Jr: This is going to take a little time.

"The loan will be made by the Government of the United States of America to the Mexican Government for monetary stabilization purposes."

As I remember it, the other time it was between Treasuries and not a loan.

Mr. Taylor: Not a loan.

Mr. Suarez: Between Treasuries; yes.

HM,Jr: Not a loan. That's number one. It was simply advances.

Mr. Suarez: That's right; advances of foreign exchange.

Mr. Taylor: A commitment to purchase and re-purchase exchange which is secured.

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HM, Jr: That is number one.

"During the life of the loan, the Bank of Mexico binds itself to maintain in deposit at the Federal Reserve Bank in New York \$10,000,000 or over in gold or silver."

Well, you have that on deposit, but where's the title? It either is or isn't pledged. Either it is collateral or it isn't. Do I make myself plain?

Mr. Suarez: Yes.

HM, Jr: It has to be collateral or it doesn't. You don't mind my talking frankly? What you have tried to do, and I am in sympathy from your standpoint ----

(Mr. Cliphant and Mr. Opper came in at this point.)

Mr. Cliphant: There's a very able international lawyer.

HM, Jr: I will read this memorandum to you. An informal memorandum that's handed to me by the Mexican Minister. We are talking of creating again a situation whereby the Mexican Treasury -- this is from our standpoint -- could again put on deposit gold and silver at the Federal Reserve against which they could negotiate foreign exchange, on the same basis which they had before, and if the Mexican Finance Minister does not mind my talking frankly, they find themselves in the situation where it might be embarrassing to pledge that as collateral on account of the position the Mexican Treasury is in. They want to maintain their reserve at 20% silver. If they pledge this, it does not show up in their balance sheet and he is trying to find some way to overcome that difficulty, but, as I explained to him yesterday, we are ready to make exactly the same arrangement we did last time, but from our standpoint it's absolutely necessary that when we advance this foreign exchange the gold and silver is collateral, and this is his suggestion as to the way of getting around that situation, which I am afraid does not answer it, but we are trying to be helpful. You see? I don't know whether we can meet your particular situation, but we will try earnestly to do so, but I am fearful about it. So I will read this to Mr. Cliphant.

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(The Secretary again read aloud the document handed to him by Mr. Suarez.)

HM, Jr: Now, without consulting the law, he says the loan is to be made by the United States of America to the Mexican Government, first; plus we don't consider it a loan, second; plus it's the United Treasury doing business with the Treasury of Mexico -- it's not the Government; and the third thing, either it's collateral or it isn't. Now what I think, if we adjourned to Mr. Taylor's office and have Dr. Suarez explain his law and see if there is any way we can meet this situation. I am very fearful that we can't, but possibly there is some way, but from our standpoint, if we are going to finance foreign exchange, the gold and silver must be collateral. Now possibly Dr. Suarez has thought up some way in which he can suggest, but we are more than pleased to listen, but I am afraid it's a difficult thing to overcome -- that collateral. Now, the only other possibility, you suggested you had 35,000,000 ounces of silver that you wanted to sell -- whether that could be, possibly, put up as collateral if we bought it or part of it. Is that 35,000,000 in your balance sheet?

Mr. Suarez: Yes, sir.

HM, Jr: So if you sell that, you need your money right away. You can't put that up as collateral.

Mr. Suarez: No.

HM, Jr: You need that money?

Mr. Suarez: Yes.

HM, Jr: Well, as I can suggest is -- Taylor, if the gentlemen would not mind going to your office.

Mr. Lochhead: The question of whether or not you have an excess -- you say you have 35,000,000 ounces of silver to sell. But you are not carrying that as monetary reserve on the statement?

Mr. Suarez: Yes, we are.

Mr. Lochhead: Then I wouldn't say -- it wouldn't

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do any good to sell it if you are already carrying

Mr. Suarez: Yes, but we can turn that into gold. We have been losing gold and now we have to keep relation between silver and gold. We have been selling gold to buy exchange and now we have too much silver.

Mr. Taylor: Simply a transfer of silver into gold?

Mr. Suarez: Yes.

Mr. Lochhead: But if you collateral that silver, couldn't you use that silver for the dollars because if you get foreign exchange you could treat foreign exchange the same as gold. Seems to me there must be an excess of silver if it could be used for sale.

Dr. White: But they are going to use the gold which they get for their silver as part of their monetary reserve.

Mr. Lochhead: They will also use the loan?

Dr. White: That's what they feel they can't use.

Mr. Taylor: There might be some relationship in their monetary law which requires a certain percentage.

Mr. Oliphant: I think your suggestion to go into Mr. Taylor's office to go into a technical discussion of the law

HM,Jr: We know our law, but we don't know yours.

Mr. Suarez: I think we should.

HM,Jr: And I will hear from Mr. Taylor and when you feel that you have arrived at some point I will be more than glad to meet with these gentlemen again, but we will try to do our best.

Mr. Suarez: I appreciate that.

oOo-oOo

As I understand it, a loan on the stabilization fund is made from Government to Government, and the loan must be guaranteed by the pledging of gold or silver. For the loan to solve the present crisis of the Bank of Mexico, I wish to propose the following formula, which is practically equivalent to giving the pledge in question:

I - The loan will be made by the Government of the United States of America to the Mexican Government for monetary stabilization purposes.

II - During the life of the loan, the Bank of Mexico binds itself to maintain in deposit at the Federal Reserve Bank in New York \$10,000,000 or over in gold or silver.

III - The Mexican Government will have the Bank of Mexico constitute a pledge on that gold or silver, in the event the Department of the Treasury of the United States may so require.

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MR. HARUKAGE UKAWA.

SECRETARY TO THE JAPANESE
FINANCIAL COMMISSION
IN NEW YORK

December 14, 1937

3:45 p. m.

Present:

Mr. Ukawa
Mr. Lochhead

(Mr. Oliphant and Dr. White sent for after Mr. Ukawa had departed.)

HM, Jr: Mr. Ukawa, the reason I spoke to your Ambassador was this.

Mr. Ukawa: Yes.

HM, Jr: It's we get certain information ...

Mr. Ukawa: Yes.

HM, Jr: From Japan ...

Mr. Ukawa: Yes.

HM, Jr: And then later on....

Mr. Ukawa: Yes.

HM, Jr: The information that we get seems to be incorrect. To give you an example

Mr. Ukawa: Yes.

HM, Jr: On November 11th

Mr. Ukawa: On November 11th.

HM, Jr: The Vice Governor of the Bank of Japan ...

Mr. Ukawa: Yes.

HM, Jr: Stated that the Finance Ministry -- this is what the cable said -- under its present program does

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not contemplate shipping any more gold this year. Now he made this statement on November 11th, and he made it to a representative of the American Embassy. We got a cable to that effect.

Mr. Ukawa: I have never heard of that.

HM, Jr: Well, anyway, this is the cable we received and he made the statement to the Commercial Attache. On November 11th he says, "The Finance Ministry under its present program does not contemplate shipping any more gold this year," and then

Mr. Ukawa: That is the sphere of the Vice Governor of the Bank of Japan.

HM, Jr: On November 11th and that statement was made to our Commercial Attache in Tokio.

Mr. Ukawa: Yes.

HM, Jr: From November 11th ...

Mr. Ukawa: Yes.

HM, Jr: There has been 18 million

Mr. Ukawa: Yes.

HM, Jr: ..800,000 has left Japan.

Mr. Ukawa: Yes.

HM, Jr: After he made that statement.

Mr. Ukawa: Yes.

HM, Jr: \$18,800,000 has left Japan since November 11th.

Mr. Ukawa: Yes.

HM, Jr: After the Vice Governor said there would be no more gold.

Mr. Ukawa: Yes.

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HM,Jr: Now, what I would like to have

Mr. Ukawa: Yes.

HM,Jr: Is an arrangement as between this Treasury ...

Mr. Ukawa: Yes.

HM,Jr: And the Treasury of Japan.....

Mr. Ukawa: Yes.

HM,Jr: That we get this information directly, here....

Mr. Ukawa: Yes.

HM,Jr: So that there can't be any misunderstanding
in the future.

Mr. Ukawa: Yes.

HM,Jr: I want to receive this information.....

Mr. Ukawa: Yes.

HM,Jr: Myself.

Mr. Ukawa: I see.

HM,Jr: I would like to be notified in advance

Mr. Ukawa: Yes.

HM,Jr: Of any shipment of gold.

Mr. Ukawa: Gold received?

HM,Jr: Now we get another message today, again
from the Vice Governor, and he says

Mr. Ukawa: Today?

HM,Jr: Today.

Mr. Ukawa: Yes.

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HM, Jr: And today he again says

Mr. Ukawa: Yes.

HM, Jr: The Bank of Japan will not make any more gold shipments this year. Now to me ...

Mr. Ukawa: He said to the Commercial Attache?

HM, Jr: Again. Now I don't know whether I should believe it or not. You see?

Mr. Ukawa: I can't believe that statement.

HM, Jr: The Vice Governor of the Bank of Japan.

Mr. Ukawa: I know him very well.

HM, Jr: He made that statement to the Commercial Attache and I get this statement today saying again no more gold shipments this year.

Mr. Ukawa: I see.

HM, Jr: All I want is

Mr. Ukawa: Yes.

HM, Jr: Our policy is ...

Mr. Ukawa: Yes.

HM, Jr: That we will buy gold at \$35.000 an ounce.

Mr. Ukawa: Yes.

HM, Jr: But in order to arrange my finances

Mr. Ukawa: Yes.

HM, Jr: And because we have to borrow money to pay for this gold, you see

Mr. Ukawa: Yes.

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HM, Jr: And we would like to do our financing in an orderly way, and we simply ask you, if you represent -- whoever represents the Treasury

Mr. Ukawa: Yes.

HM, Jr: Not the bank of Japan, but the Treasury.

Mr. Ukawa: Not the Bank of Japan?

HM, Jr: No. I want to do business with the Japanese Treasury.

Mr. Ukawa: Oh, I see.

HM, Jr: I want contact the way I have with other Governments, with England, France, Holland and all the other countries. I want somebody who can talk for the Japanese Treasury.

Mr. Ukawa: Oh, I see.

HM, Jr: You see?

Mr. Ukawa: Yes. I understand.

HM, Jr: I want somebody who will say 'If this gentleman comes in and talks to you or Assistant Secretary Taylor or Mr. Lochhead, whoever I send he represents the Minister of Finance'.

Mr. Ukawa: Yes.

HM, Jr: I would like to have that kind of arrangement. That someone be appointed to represent the Minister of Finance in Japan.

Mr. Ukawa: Yes.

HM, Jr: So if he says to me 'I am going to do this or that,' I can believe him.

Mr. Ukawa: Yes, I see what you mean.

HM, Jr: Because it's upsetting to me not to know from week to week and especially when we get statements

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like this -- no more gold, and then suddenly there is a shipment of 18 or 19 million dollars worth of gold. Again today, in this (referring to cable) no more gold. And I don't know -- should I believe it or shouldn't I. But if you could send word to your Government

Mr. Ukawa: Yes.

HM, Jr: That I would like a representative of the Minister of Finance of Japan who can come here and talk to me whenever it is necessary.

Mr. Ukawa: Oh, I see.

HM, Jr: You see?

Mr. Ukawa: Yes.

HM, Jr: So that if he will give notice in advance that so much gold is coming or if we could say 'Could you give us an idea for the next 30 days?'

Mr. Ukawa: Oh, I see.

HM, Jr: Now, if you say 'I am very sorry; we can't' -- all right, but if you could

Mr. Ukawa: Yes.

HM, Jr: Say for the next 30 days this is what our policy will be -- because, you see, at present Japan is selling us more gold than any other country -- than all the rest of the world combined.

Mr. Lochhead: Much more so.

HM, Jr: More than the world combined, and every other Treasury that we asked

Mr. Ukawa: Yes.

HM, Jr: Has complied with this request.

Mr. Ukawa: Yes.

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HM, Jr: England, France, Russia -- we have an arrangement with the Russian Government. They let us know in advance, so we know from week to week. And all I would like to know -- if you say 'We can't let you know more than a week or a day in advance', that's all right, but if you could let me know some idea, approximately so much gold will be coming during the next month, but I would so much rather have you say 'I am sorry; we can't let you know at all' than to tell me no gold and then have something else

Mr. Ukawa: Heretofore I have an engagement with Mr. Taylor of the Department and he told me I ought to speak to Mr. Knoke of the Federal Reserve Bank and the Federal Reserve Bank told me information from the Bank of Japan sufficient, so I received from the Treasury Department after two or three days gold was shipped information.

HM, Jr: Now, Mr. Knoke feels just the way I do, because I have spoken to Mr. Knoke.

Mr. Ukawa: Oh, I see.

HM, Jr: Mr. Knoke does not know, any more than I do

Mr. Lochhead: I tell you -- you came in and gave us advice of gold that had actually been shipped sometime after it had been shipped, but that's not only what we want to know. We receive your advice any way. We know what you actually ship. What we want to know is what you contemplate shipping.

Ukawa: Oh, yes. I see.

HM, Jr: I can further, that you are the only country in the world that does not notify the Federal Reserve Bank, who are our agents, in advance of shipment. Mr. Knoke says that it has never happened before that any Central Bank in the world

Mr. Ukawa: Yes.

HM, Jr: Put it on the ship

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Mr. Ukawa: Yes.

HM,Jr: And then afterwards notified us. It's never happened, except in the case of Japan. Is that right?

Mr. Lochhead: Yes.

HM,Jr: No other Central Bank -- no other Government in the world has done what your Government has done.

Mr. Ukawa: I under the President Bank of Japan has notified the information after gold was shipped.

HM,Jr: After.

Mr. Ukawa: Yes.

HM,Jr: But every other country in the world notifies us in advance.

Mr. Ukawa: In advance.

HM,Jr: In advance.

Mr. Ukawa: Oh, I see.

HM,Jr: We know when gold goes on board. We get it from the consuls. We get it two or three days before you come in, but every other country notifies us. The Bank of Japan is the agent of the Japanese Government.

Mr. Ukawa: Yes.

HM,Jr: The Federal Reserve is my agent. They notify them in advance. You notify them afterwards. And Mr. Knoke says it has never happened before, as he knows of, any Central Bank

Mr. Ukawa: Oh, I see. I see Mr. Knoke very often. He did not tell me.

HM,Jr: No, because he doesn't -- he's our agent.

Mr. Ukawa: Oh, I see.

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HM, Jr: But he feels that -- but he reports to me and I have to report to the President of the United States. And I have got to know.

Mr. Ukawa: I understand.

HM, Jr: And Knoke tells me that in the whole history of Central Banking, that has never happened before. All that I ask is that the Japanese Government and their agent, which is the Bank of Japan, just play the game the way every other Government does it. That's all. Simply that you do it the way every other Government does it. That is, notify us in advance. And then, if you can, give us some indication of how much gold will come this year. If you can't I will understand. I don't say you will have to. I just say it's a courtesy which we would appreciate. That's all.

Mr. Ukawa: Yes.

HM, Jr: But Mr. Knoke -- that's where we get our information from and we get our information from consuls who have the shipping documents. We get it before Knoke. That's never happened before. I just want to say this: after all, gold is as important to you as it is to us and everything must be done to keep gold as a precious monetary metal. If it isn't going to be handled as money, as between Governments, it soon becomes discredited and I don't want that to happen. And that's why I am doing this, if you understand.

Mr. Ukawa: Yes, I understand.

HM, Jr: Gold as a medium of exchange, as between Governments, it is used for balances of payment, if we begin to handle gold carelessly it will soon lose its value as a medium of exchange. And that's why these rules, which have been laid down over many, many years.

Mr. Ukawa: Yes.

HM, Jr: It's important they be lived up to. But we will buy all the gold that you have for sale. You know our policy. I announced to the world that we will buy gold at \$35.00 an ounce.

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Mr. Ukawa: Yes. We did not know the practice and our Treasury Department did not know the practice. So I will tell the Treasury Department.

HM, Jr: Do you mind? If you don't mind, who do you represent? The Finance? Which branch of the Government do you represent?

Mr. Ukawa: Department of Finance.

HM, Jr: Finance?

Mr. Ukawa: Yes.

HM, Jr: Now, if you could work that out, I think it would be better for both Governments.

Mr. Ukawa: Oh, I see.

HM, Jr: For your Government and mine, if that could be worked out, so that you would conform to the rules that every other Government lives up to in shipping gold.

Mr. Ukawa: Oh, I see.

Mr. Lochhead: May I explain one thing. You said Mr. Knoke said it would be all right to notify him and not us. That was because you were giving the same information in Washington that you are giving in New York. But, for instance, the shipment made last Friday or Saturday. We knew about that Friday or Saturday, but not from the Japanese at all. Up to last night the Federal Reserve, Mr. Knoke, did not know from any advice received from Japan that there was any shipment going, yet we knew gold had been put on board boats from consular reports last Friday.

HM, Jr: But Mr. Knoke did not know it.

Mr. Ukawa: Not Mr. Knoke. Mr. Sproul.

Mr. Lochhead: Just the same.

Mr. Ukawa: I notified Mr. Taylor after we received the cablegram from Japan, but recently we stopped

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that because Mr. Sproul told me that it would not be necessary.

Mr. Lochhead: They were sending the letter down here. We haven't received anything, neither has the Federal Reserve, on the last two shipments. No advice from you yet we know they are coming.

Mr. Ukawa: Mr. Sproul told me it was not necessary.

Mr. Lochhead: Not necessary to tell Mr. Sproul either?

Mr. Ukawa: Yes.

Mr. Lochhead: Not necessary to tell Mr. Sproul or did he say it was not necessary to tell the Treasury?

Mr. Ukawa: No. The Federal Reserve Bank. We inform the Treasury.

HM, Jr: But the Federal Reserve Bank did not even know about these last two shipments of gold.

Mr. Ukawa: Last two shipments?

HM, Jr: Yes.

Mr. Ukawa: We have not received the cable.

HM, Jr: It's unheard of. There is not another Government that does business that way. There isn't another one. It's unheard of. Now I think the Japanese Government wants to do business the way every other Government does. We buy gold from 31 or 32 nations -- 35, I think -- we have agreements and why, may I ask, do the Japanese do it differently from anybody else? Now, the Federal Reserve of New York are our agents. I don't know where Sproul comes in.

Mr. Lochhead: Sproul is senior officer, who sees foreign visitors.

HM, Jr: You had better see Governor Harrison in New York. This is important enough so that there is no misunderstanding and the way we want it, as I un-

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derstand it, is that they would notify in advance -- (to Mr. Lochhead) notice would come from the Bank of Japan to the Federal Reserve Bank who would then notify us?

Mr. Lochhead: That's right. In advance.

Mr. Ukawa: I think it is our fault.

HM, Jr: I am quite sure it is.

Mr. Ukawa: At first we made arrangements with Mr. Taylor, but I did not notice that point.

HM, Jr: In advance. I am sure if you will go down and see Governor Harrison and have a talk with him, he will explain to you how every other Government does it and, in addition to that, if you will notify them we would like to have, if possible, but we don't insist on this, some indication whether this last message we have received from the Vice Governor -- which we received today -- that no more gold will come this year -- is that correct or is that incorrect?

Mr. Ukawa: I see.

HM, Jr: I don't want any more messages from the Vice Governor unless they are correct, because the one on November 11th was incorrect. But the Federal Reserve of New York are our fiscal agents and if you were to see them and then as long as these gold shipments are concerned, I think it would be advisable if somebody from the Treasury of Japan would come in once a week and see us once a week so that there isn't any misunderstanding. If they can call on us here once a week and simply say, advise us once a week, what the position is; how much gold we may expect. Would that be possible?

Mr. Akawa: I will ask the Treasury Department. I am stationed in New York.

HM, Jr: Yes. But every other embassy has a Financial Attache and I am asking that once a week a representative of the Japanese Treasury come in and

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advise us about gold shipments that we may or may not expect.

Mr. Akawa: Oh, I see.

HM, Jr: And if you would report that to your Government. I would like to see somebody who could represent the Japanese Treasury, who would call on either me or Mr. Taylor once a week and advise us what we may expect in the way of future gold shipments.

Mr. Akawa: All right. Yes, I will ask my Government.

HM, Jr: Please. And will you please see Governor Harrison in New York and ask him to tell you, and I will tell him please to see you and explain to you just the way the other Governments handle the gold.

Mr. Akawa: Oh, I see.

HM, Jr: I am going to ask Governor Harrison to see you. You are head of the Finance mission?

Mr. Akawa: Yes.

HM, Jr: I will ask him to see you, because we don't want any misunderstanding.

Mr. Akawa: Thank you very much.

(Mr. Akawa departed.)

Mr. Oliphant came in. Dr. White also.

The Secretary spoke on the telephone to both Governor Harrison and Mr. Knoke in New York. (Copies of the conversations are attached hereto.)

HM, Jr: (To Mr. Lochhead and Dr. White) I want you two to burn the midnight oil. I want to know -- the Japanese have net \$55,000,000 cash here.

Mr. Lochhead: Net assets.

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HM,Jr: Well, all right. How much more have they got -- that belongs to the Japanese Government -- in the United States, stocks, bonds, Japanese citizens, anything. How much belongs to the Japanese citizens.

Dr. White: That they can liquidate.

HM,Jr: No. Let me do it again. We have just got a memorandum that there is \$55,000,000 net assets belonging to the Japanese. How much more belongs to Japanese citizens here in the United States? Is that plain?

Dr. White: With one further question. You said how much more and you mentioned securities.

HM,Jr: Anything.

Dr. White: How many assets that they can put into dollars.

HM,Jr: Please listen closely. You are thinking of something that is your idea. I want you to get my idea. You have got something else in mind and I don't want to explain entirely what I have in my mind. I am asking you a very different question. The Government plus the Bank of Japan, governmental agencies, has \$55,000,000. I am asking you two men, and I don't want anybody else to know about it, how much more is there in the United States that belongs to the Japanese citizens, plants, factories, anything.

Dr. White: You want their current market value; has to be in dollars?

HM,Jr: Yes. Anything that belongs to Japanese citizens that's in the United States.

Dr. White: We mean exactly the same thing.

HM,Jr: And you get me?

Dr. White: I do.

HM,Jr: And I want you two fellows to do that

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Job. When can I have an approximate answer?

Dr. White: We will work on it tomorrow.

HM, Jr: Give me a preliminary report tomorrow.
But do I make myself plain?

Dr. White: Perfectly.

December 14, 1937.
3:38 p.m.

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H.M.Jr: Hello.

Operator: Mr. Knoke.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello. Hello.

O: Hello Mr. Knoke.

Knoke: Hello.

H.M.Jr: Go ahead Knoke, please.

K: Yes, Mr. Secretary.

H.M.Jr: How much have you got?

K: Hello.

H.M.Jr: Yes, how much have you got?

K: Excuse me a moment. I've just got a guest here.

H.M.Jr: All right.

K: Japanese were in here just now.

H.M.Jr: Oh! Well I've got one outside here.

K: Well the figures, I gave them to Lochhead a moment ago, they are the total balances here today, that they can draw out are fifty six million dollars.

H.M.Jr: All right.

K: Fifty six million dollars.

H.M.Jr: All right.

K: Which if - which compares with a short overdraft at the beginning of these gold movements.

H.M.Jr: Yes.

K: The gold movements, as you know, started early in March. Since then they have shipped a total of

- 2 -

two hundred and thirty odd million dollars. That's of these two hundred and thirty million, up to early September, they used everything for commercial payments here in the country. Since then they have, out of eighty three million dollars, which were shipped since the beginning of September, they have only used seventeen million and employed the sixty six million to build up balances here.

H.M.Jr: Leaving them a net -

K: Hello.

H.M.Jr: A net of how much?

K: With a result that they have today fifty six million.

H.M.Jr: O.K.

K: But their claim that all that they need these gold shipments is not entirely borne out by that.

H.M.Jr: Uh-huh. Knoke, I'll call you back a little later.

K: All right, sir.

H.M.Jr: Call you back a little later.

December 14, 1937 70
4:04 p.m.

H.M.Jr: Hello.

Operator: Here's Mr. Knoke:

H.M.Jr: Thanks.

Operator: Go ahead.

H.M.Jr: Hello.

Knoke: Mr. Secretary?

H.M.Jr: Yes.

K: I have to explain. I had to boot this chap out here of my office before I could talk before.

H.M.Jr: That's all right. Knoke?

K: Yes, sir.

H.M.Jr: - - - - - Ukawa just left here, see?

K: Yes.

H.M.Jr: And I explained to him that twice now, rather beginning with November 11th, they told us no more gold.

K: Yes.

H.M.Jr: And after that we got in almost nineteen million dollars worth of gold.

K: Yes.

H.M.Jr: I said we can't do business that way, we can't arrange our financing that way, that - and that I want to know if - in advance, approximately how much gold they're going to ship us, you see?

K: Yes.

H.M.Jr: And that furthermore, they don't notify our agents, the Federal Reserve Bank of New York until after gold is shipped.

K: Yes.

H.M.Jr: And I said that, that they're the only country that do business that way, and that they simply have got to let you know and they have to conform. Now,

he said, "Well you'd never complained", and I said "No, because you're our agent, but I'm here and I'm complaining." So then he said that he'd seen Sproul and Sproul said the way they were doing, it was all right. Well I'm going to talk to Governor Harrison and tell him that I want him to see Ukawa and explain that every other Central bank notifies in advance of shipping gold and that we want the Japanese to conform, see?

- K: Yes.
- H.M.Jr: And that the shipment they made last Friday, that up to this morning you hadn't heard that they'd made that shipment.
- K: Well, as a matter of fact that's what this fellow came in for.
- H.M.Jr: All right. Well, I've been raising hell, and they're scared to death. Now, on account of bringing Allen Sproul in, I'm going to tell Mr. Harrison, you see?
- K: On account of what?
- H.M.Jr: Well, he's saying he had conversation with Sproul and Sproul told him what he was doing was all right. So I'm going to tell Harrison that I'm not satisfied.
- K: Yes.
- H.M.Jr: See?
- K: Yes.
- H.M.Jr: Now, and then I told him furthermore that once a week I want a representative of the Japanese Treasury to come in here and give me some idea of how much gold is going to come this way. See?
- K: Yes.
- H.M.Jr: Well, that's the whole story.
- K: Yes. I see.
- H.M.Jr: What?
- K: That was Ukawa.
- H.M.Jr: Ukawa

K: Yes.

H.M.Jr: What could you add to it?

K: Well I can add nothing except that to the figures I gave you before I think they are very expressive, for this reason that they are now - they clearly show that the Japanese are now shipping more gold than their commercial indebtedness seems to require. I think that was fairly definite.

H.M.Jr: Uh-huh.

K: Up to beginning of September the gold proceeds were used for payments in the market. I can't say for what but at anyrate their payments in the market.

H.M.Jr: Yes.

K: Since then they - part of - greater part of these gold - the proceeds of these gold shipments they've used, to build up balances up here.

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

K: Yes, it's all right except it isn't quite - doesn't bear out their arguments.

H.M.Jr: Oh, no. Well, it's - all right, but I - I just want to let you know, and Archie will tell you more about it.

K: All right, sir.

H.M.Jr: O.K.

K: All right, Mr. Secretary.

H.M.Jr: Thank you.

December 14, 1937.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.
Governor
Harrison: Hello Henry.

H.M.Jr: George?

H: Yes, sir.

H.M.Jr: I just had Mr. Ukawa here, the Japanese
Financial Commission.

H: Yes.

H.M.Jr: And I was complaining because in the first place they've
told us that on November 11, they weren't going to
ship any more gold. We got that message through the
Vice-Governor of the Bank of Japan.

H: Yes.

H.M.Jr: And then subsequently to that they shipped almost
nineteen million dollars.

H: Yes.

H.M.Jr: That was number one, and I said if I got a message
from the Vice-Governor of the Bank of Japan, could I
believe it or couldn't I. And I got another message
today from the Vice-Governor of the Bank of Japan
saying no more gold shipment, and did it mean yes or
did it mean no.

H: Uh-huh.

H.M.Jr: And I said that the Japanese were the only Government
in the World that didn't notify our agents, the
Federal Reserve of New York, in advance of the ship-
ment.

H: Uh-huh.

H.M.Jr: And that they had shipped gold last Friday and that up to this morning they hadn't yet notified you.

H: Uh-huh.

H.M.Jr: Well, Knoke said he just got the notice a few minutes ago.

H: Uh-huh.

H.M.Jr: And I said we did business with thirty odd different countries and we didn't see any reason why the Japanese shouldn't conform with the same rules and regulations and practices that every other Central bank practiced.

H: Yes.

H.M.Jr: Now, I brought this up last Saturday, so this was brought up in advance of this incidence, so it has no connection, you see?

H: Yes.

H.M.Jr: Now, then he said "Well," he said, "Mr. Sproul told me that what we were doing was all right." And he said, he said that your bank was perfectly satisfied. So I said, "Well I don't know what Mr. Sproul's got to do with this. We do business with Mr. Knoke." So I said I would call you and ask you personally to see Mr. Ukawa and tell him just what we do or what - and how every other Government in the World notifies you in advance.

H: Yes.

H.M.Jr: And not three or four days later.

H: Yes.

H.M.Jr: And that I must insist that they conform with the same rules and regulations every other Central bank in the World has.

H: Yes.

H.M.Jr: See?

H: I think I'll check on it. I'm sure you are quite right so far as any shipment by a Government or a Central bank is concerned.

H.M.Jr: Quite.

H: In the event of - of course in the old day commercial transaction, don't know if you remember that or not.

H.M.Jr: No, I'm just stressing Government.

H: Yes.

H.M.Jr: I'm just stressing Government. So if you will please him, see?

H: Yes, I will. Is he going to get in touch with me?

H.M.Jr: Yes. And you'd better find out just what Sproul did or didn't say to him.

H: Yes.

H.M.Jr: Because I wouldn't believe the Jap on a stack of bibles.

H: Well, I'm in the same boat with you.

H.M.Jr: And I just spoke to Knoke, and he had to ask the Japanese to step out of his office while he talked to me.

H: Yes.

H.M.Jr: And they've only just now told him that they shipped gold last Friday.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: And in addition to that I asked them to have a representative of the Japanese Treasury come down here once a week and give us some idea how much gold they were going to ship.

H: Yes.

H.M.Jr: See?

H: Yes.

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H.M.Jr: So if you'll - would see him, but all I'm asking you to see him about is to explain to him what every other Central bank in the World does, namely notify you in advance.

H: I'll be glad to do that.

H.M.Jr: Right.

H: That's fine.

H.M.Jr: Thank you very much.

H: Henry, have you got just a minute now?

H.M.Jr: Yes.

H: On another subject. You tipped me off about what we'd ask for reimbursable expense.

H.M.Jr: What?

H: You raised the question of our - the amount of reimbursement which we asked for, Knoke's salary, for instance.

H.M.Jr: Oh, don't let's do that now.

H: All right.

H.M.Jr: I'm up to my ears in the Japanese -

H: All right then, I won't bother you.

H.M.Jr: No, let's do it a little later.

H: Uh-huh.

H.M.Jr: Thanks.

H: All right.

December 14, 1937

MEMORANDUM FOR THE PRESIDENT:

Our best information is that the net current liquid assets of the Japanese Government, as of December 11th, are \$55,000,000.

December 14, 1937

The Secretary called Mr. Hull at 4:20 and said, "For your confidential information, as of December 11th, the Japanese government had net liquid assets in New York of 55 million dollars. I just got that for the President and I want to give it to you".

Ribbon copies of this memo were sent to the following, with letters of transmittal dated December 14, 1937; signed by the Secretary.

The President

Secy. of War - Attention: Col
Strong

Secy of Navy - Attention: Rear
Adm. R. S. Holmes

Secy. of State - Attention:
Dr. Feis

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1937

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Current trade with Japan and China

A. United States trade with Japan during November 1937 ^{1/}

(1) United States exports to Japan.

United States exports to Japan in November 1937 were 9 percent less than during October 1937, considerably less than our exports during the summer months of 1937, and 24 percent less than in November 1936.

	1937	1936
November	\$18,295,000	\$24,100,000
October	21,133,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000
July	26,509,000	11,975,000
June	25,194,000	13,627,000

Excluding exports of raw cotton, our exports to Japan in November 1937 were almost twice as large as our exports in the same month of 1936, but considerably less than our exports to Japan during the summer months of 1937.

United States exports to Japan, excluding raw cotton.

	1937	1936
November	\$17,498,000	\$ 9,335,000
October	19,582,000	9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000
July	24,566,000	10,965,000
June	21,962,000	9,352,000

^{1/} Previous reports cover weekly figures only. This report is for the whole month of November.

Secretary Morgenthau - 2

(2) United States imports from Japan.

United States imports from Japan in November 1937 were 12 percent larger than during the preceding month, and 13 percent larger than during November 1936.

	1937	1936
November	\$17,282,000	\$15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000
July	16,482,000	12,187,000
June	18,637,000	11,088,000

(3) Cotton exports to Japan continue to be negligible.

U. S. exports of cotton
to Japan

November 1937	\$ 797,000
October 1937	1,551,000
November 1936	14,765,000

(4) Exports of iron and steel scrap to Japan were lower in November than in the preceding months.

U. S. exports of iron
and steel scrap
to Japan

November 1937	\$ 633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average, May to August 1937	5,600,000

(5) The following export items show increases in trade with Japan during November 1937, compared with October 1937. The value of exports in November 1936 is shown for comparative purposes.

Secretary Morgenthau - 3

	<u>November 1937</u>	<u>October 1937</u>	<u>November 1936</u>
Petroleum products	\$5,706,000	\$4,585,000	\$3,611,000
Copper	2,433,000	1,893,000	567,000
Industrial machinery	1,507,000	1,394,000	654,000
Vehicles, parts and accessories	1,217,000	788,000	960,000
Brass	723,000	418,000	79,000

(6) The following export items show decreases in trade with Japan during November 1937, compared with October 1937. The value of exports in November 1936 is shown for comparative purposes.

	<u>November 1937</u>	<u>October 1937</u>	<u>November 1936</u>
Iron and steel semi-manufactures	\$1,622,000	\$3,982,000	\$ 170,000
Cotton, unmanufactured	797,000	1,551,000	14,765,000
Scrap iron and steel	633,000	1,148,000	274,000
Hides and skins, raw	372,000	898,000	32,000
Pig iron	234,000	887,000	N11
Ferro-alloys	170,000	279,000	16,000
Wood, unmanufactured	94,000	223,000	28,000
Lead	63,000	167,000	N11
Photographic and projection goods	13,000	131,000	142,000

(7) The composition of our imports from Japan, with a few exceptions, was approximately the same in November 1937 as that of October 1937.

(a) The import items showing large increases in trade were:

	<u>November 1937</u>	<u>October 1937</u>	<u>November 1936</u>
Raw silk	\$8,943,000	\$8,076,000	\$9,987,000
Fish	764,000	365,000	300,000
Tea	535,000	462,000	203,000
Silk manufactures	533,000	475,000	299,000
Pyrethrum flowers	455,000	260,000	82,000
Paper and manufactures	315,000	252,000	67,000
Glass and manufactures	222,000	142,000	54,000

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(b) The import items showing large decreases in trade were:

	<u>November 1937</u>	<u>October 1937</u>	<u>November 1936</u>
Lily bulbs	\$ 84,000	\$198,000	\$ 43,000
Rayon and manufactures	227,000	373,000	381,000

(8) Of the total exports of \$18,295,000 to Japan during November 1937, the following items account for almost all. The value of exports during October 1937 and November 1936 are shown for comparison.

	<u>November 1937</u>	<u>October 1937</u>	<u>November 1936</u>
Petroleum products	\$5,706,000	\$4,585,000	\$3,611,000
Copper	2,433,000	1,893,000	567,000
Iron and steel semi-manufactures	1,622,000	3,982,000	170,000
Industrial machinery	1,507,000	1,394,000	654,000
Vehicles, parts and accessories	1,217,000	788,000	960,000
Paper base stock	1,103,000	1,222,000	700,000
Raw cotton	797,000	1,551,000	14,765,000
Brass, including scrap	723,000	418,000	79,000
Scrap iron and steel	633,000	1,148,000	274,000
Hides and skins, raw	372,000	898,000	32,000
Fertilizers	262,000	238,000	115,000
Pig iron	234,000	887,000	Nil
Industrial chemicals	216,000	137,000	223,000
Coal tar products	206,000	255,000	75,000
Ferro-alloys	170,000	279,000	16,000
Tobacco and manufactures	140,000	18,000	217,000
All other	<u>954,000</u>	<u>1,440,000</u>	<u>1,642,000</u>
Total	\$18,295,000	\$21,133,000	\$24,100,000

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(9) Of the total imports of \$17,282,000 from Japan in November 1937, the following items account for almost all.

	<u>November</u> <u>1937</u>	<u>October</u> <u>1937</u>	<u>November</u> <u>1936</u>
Raw silk	\$8,943,000	\$8,076,000	\$9,987,000
Cotton manufactures	1,130,000	1,157,000	1,162,000
Fish	764,000	365,000	300,000
Tea	535,000	462,000	203,000
Silk manufactures	533,000	475,000	299,000
Pyrethrum flowers	455,000	260,000	82,000
Perilla oil	385,000	346,000	Nil
Porcelain and chinaware	355,000	385,000	140,000
Paper and manufactures	315,000	252,000	67,000
Vegetable food products, except tea	284,000	193,000	175,000
Metals and manufactures	234,000	216,000	131,000
Earthenware	232,000	206,000	92,000
Wool and manufactures	227,000	277,000	57,000
Rayon and manufactures	227,000	373,000	381,000
Glass and manufactures	221,000	142,000	54,000
Wood and manufactures	164,000	175,000	62,000
Flax, hemp and ramie manufactures	157,000	137,000	27,000
Chemicals and related products	123,000	199,000	306,000
All other	<u>1,998,000</u>	<u>1,724,000</u>	<u>1,815,000</u>
Total	\$17,282,000	\$15,420,000	\$15,340,000

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E. Trade with China for the month of November 1937

(1) United States exports to China, Hong Kong and Kwantung.

United States exports to China, Hong Kong and Kwantung increased considerably in November 1937 over October 1937, and are greatly in excess of our exports one year ago.

	<u>North China, Manchuria and Kwantung</u>	<u>South China and Hong Kong</u>	<u>Total</u>
November 1937	\$3,490,000	\$6,212,000	\$9,702,000
October 1937	-	-	7,153,000
November 1936	-	-	4,035,000

(2) United States imports from China, Hong Kong and Kwantung.

United States imports from China, Hong Kong and Kwantung were about the same in November 1937 as during the previous month, but considerably higher than imports during November 1936.

	<u>North China, Manchuria and Kwantung</u>	<u>South China and Hong Kong</u>	<u>Total</u>
November 1937	\$2,129,000	\$4,749,000	\$6,878,000
October 1937	-	-	6,914,000
November 1936	-	-	4,668,000

(3) The principal items of export to China were:

(a) To North China, Manchuria and Kwantung:

Iron and steel semi-manufactures	\$1,967,000
Petroleum and products	572,000
Vehicles, parts and accessories	325,000
Tobacco and manufactures	198,000
Raw cotton	192,000
All other	<u>236,000</u>
Total	\$3,490,000

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(b) To Shanghai, South China and Hong Kong:

Petroleum and products	\$1,566,000
Vehicles, parts and accessories	1,354,000
Iron and steel, semi-manufactures	762,000
Tobacco and manufactures	415,000
Vegetable products, edible	292,000
Firearms and ammunition	243,000
Explosives	165,000
Industrial machinery	156,000
Medicinal and pharmaceutical products	88,000
Electrical machinery and apparatus	85,000
All other	<u>1,086,000</u>
Total	\$6,212,000

(4) The principal items of import from China were:

(a) From North China and Manchuria:

Bristles	\$ 879,000
Wool and manufactures	545,000
Leather	139,000
All other	<u>566,000</u>
Total	\$2,129,000

(b) From Shanghai, South China and Hong Kong:

Tin	\$ 776,000
Tung (wood) oil	721,000
Flax, hemp and ramie and manufactures	653,000
Raw silk	420,000
Wool and manufactures	263,000
Bristles	210,000
Tea	153,000
Vegetable food products (except tea)	170,000
Cotton manufactures	113,000
Silk manufactures	113,000
All other	<u>1,157,000</u>
Total	\$4,749,000

MEMORANDUM OF THE DAY'S ACTIVITIES

December 14, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Revision

The Subcommittee has shown great impatience with the various minor administrative amendments which we have presented to them at the request of the Bureau. Consequently, it has seemed advisable to hold back all but the most important amendments of this character. The draftsmen are pretty well along with their work on the modification of corporation taxes but they still have a good deal of work to do on the remaining amendments to which the Committee has definitely agreed. Mr. Vinson seems to be in no great hurry but would like the Subcommittee report to be ready shortly after the first of the year. The tax bill will hardly be ready before January 15th.

2. Conference with Mr. Jesse Jones

Mr. Jones feels that the proposed corporation income tax will be very acceptable to business. He would like to see the tax on capital gains eliminated in favor of a rather heavy tax on gross transactions on the stock exchange. He is also troubled about the personal holding company provisions in the law as they affect a mortgage guaranty company in Houston, in which he is apparently interested.

3. Consolidation of Tax Appeals

Mr. Oliphant is arranging for a further conference with the Attorney General as soon as possible. Mr. Vinson has told me that he is reluctant to put any provisions in the bill on this subject on account of the danger of reopening the Court fight.

RM

Copy

CHINESE EMBASSY
WASHINGTON

December 14, 1937

My dear Mr. Secretary:

I find awaiting my return your letter of December 2 confirming our conversation regarding the purchase of 50,000,000 ounces of silver from the Republic of China with the information that the Federal Reserve Bank of New York has been instructed to cable bids on five dates ending with February 15, 1938.

Permit me to take this opportunity to express to you and, through you, to your Government our most sincere appreciation of the kind assistance you are giving us at this time of our national crisis.

Yours sincerely,

(Sgd.) Chengting T. Wang

Honorable Henry Morgenthau, Jr.

Secretary of the Treasury.

(COPY)

GROUP MEETING

December 15, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Haas
Mr. Gibbons
Mr. Lochhead
Mr. Bell
Mr. Upham
Mr. McReynolds

H.M.Jr: I may have a call coming through from the President. If he does call, I've got to ask you gentlemen to get out, if you don't mind.

nos?

Magill: Nothing. I have a conference on the Hill with the Sub-committee this morning. The Democratic members have pretty well concluded our discussion, except for one or two important subjects.

H.M.Jr: I got your memorandum, particularly about that one gentleman.

Magill: Yes.

H.M.Jr: Incidentally, that other information which you gave me about that other guy - I did not pass that information along. Simply said if that person wanted any information, they should write in. I did not give any information.

Magill: That's good.

H.M.Jr: I withheld it.

Gaston: I told you in that note last night that we talked to Bob Allen. I thought it was rather amusing about what happened in the State Department about the Japanese note, didn't you?

H.M.Jr: Yes.

Gaston: I haven't anything.

-2-

H.M.Jr: I don't know what you told Allen; I don't know what that story is. Would it be very difficult - not to tell me now - would it be very difficult to give me the facts on unjust enrichment?

Gaston: No, it would not. Not a lot of trouble. Some details.

H.M.Jr: Would you send it up to me?

Gaston: Yes, yes.

H.M.Jr: I'd like to have it. Anything else?

Gaston: That's all.

Taylor: Have you any suggestions about what we do about the Mexicans who are on ice or the opposite?

H.M.Jr: Yes. Welles said to me last night that he was going to see them at five o'clock tonight, and I think that we could very well say that until Mr. Welles and the State Department have seen them, there is no use of our seeing them any further. Then we'll wait to hear from the State Department tomorrow, and after we hear from the State Department, as a result of their conference with them, why, so and so and so and so - see? I mean we understand they're going to have a conference with the State Department. All right, we'll wait until we hear from the State Department. There's no use our seeing them.

Taylor: Oh no, I don't think there is any use our seeing them. But the way I left it was, I would get in touch with them this morning with a view to discussing the situation further; that obviously it would require a great deal of study.

H.M.Jr: Well, tell them you're not ready, hope to see them some time tomorrow. No use saying about the State Department. We're not ready. How's that? O.K.?

Taylor: Uh-huh.

H.M.Jr: George?

Haas: I haven't got anything except that tentative appointment this afternoon. I forgot to check with Mrs. Klotz to see if it's still good.

-3-

H.M.Jr: Well, it's still good. It's still good.

Would you arrange with Miss Lonigen to go - between now and Christmas, if she could still go, I'd like her to go into the State of Michigan, see? Then right after Christmas I'd like her to go down to Texas. I see that the biggest increase that they have put on of any number this past week is in Texas. See?

Haas: Uh-huh.

H.M.Jr: And I can't understand why the South - they put on more than 3500 people - increase in unemployed in Texas. And the next state is Oklahoma. But if she would do the State of Texas, and spend a full week down there right after Christmas - a full week.

Haas: Uh-huh.

H.M.Jr: But in between now and Christmas, if she would do Michigan.

Haas: O.K.

H.M.Jr: And if you don't get these (weekly WPA figures by states) - these come to me; I'll let you take a look at them. I like to keep those in my file. But arrange with what's-his-name that you get those also. See what I mean? You see, this is the week of December 4. But that ought to go to you.

Haas: O.K.

H.M.Jr: I mean I'm getting them.

Haas: I'll get a copy.

H.M.Jr: I mean here they put on last week - they increased their unemployment by 18,000 people, 3500 of which go into the State of Texas. What? And New York State - New York State - well, in New York City they reduced it by 61 (hundred) and in New York State, the whole New York exclusive of New York City, it went up 49 (hundred). So for the state they reduced - the State of New York - the unemployment went down last week in the State of New York. Can you explain that

-4-

one? And the State of Texas went up 3500. Who's the next candidate for President?

Gibbons: Jesse.

H.M.Jr: I'd say the State of Texas.

Gibbons: That's right; that's where he comes from.

H.M.Jr: I'd say the State of Texas.

Haas: I think some of those figures we get show up well for the State of Texas.

H.M.Jr: Pardon?

Haas: I think they show Texas fairly good, but I'm not positive.

Taylor: Everybody I've talked to from Texas, including Steve's friend, says things are all right down there.

H.M.Jr: The State of New York - this week the number of unemployed goes down. The State of Texas gets 3500 out of 18,000. That's one fifth - one fifth of the number of unemployed added to the rolls in the State of Texas.

Gibbons: I didn't know there were any unemployed in Texas, because the Collectors of Customs - two or three of them have been up here, and they say everything is humming - oil wells, and so on - and they get good money on wheat.

H.M.Jr: It's interesting. Do you get this, Dan?

Bell: I get it, but I haven't seen it lately. Comes to the office. Haven't had time to look at it.

H.M.Jr: Well, I want you to.

I think it would be good to send her down there, George, and find out how the State of Texas is running.

Gibbons: I have nothing.

-5-

Lochhead: Nothing.

H.M.Jr: Daniel?

Bell: I have nothing. As a matter of interest - and maybe you already know it - the Government of Finland took advantage of the discount on our 2-1/2 percent '49-'53 bonds. Going to pay today - \$210,000 of them.

H.M.Jr: In bonds? Smart boys, those Finns.

Bell: Made somewhere between \$5,000 and \$8,000.

H.M.Jr: Sold. It means good health to Finland.

MCR: Like to see some of the other governments take advantage of it too.

H.M.Jr: What else?

Bell: That's all.

Taylor: Hungary is going to pay their nine thousand bucks - ninety-eight hundred bucks, according to Mr. Lochhead.

Lochhead: They're making more fuss about how they're going to pay that in New York.

Taylor: Well, you've cleared that release with Herbert and Dan and everybody as to how it's going to work.

H.M.Jr: I don't know what's the matter with Herman Oliphant, but this ought to go over to the White House. I sent one serious and one phony - rather funny telegram to LaGuardia. Fix it up (to Gaston). Find out who's handling it - City Building, New York. I guess Herman's sick. Maybe you can get hold of Opper. I just dashed something off; it isn't very good.

Gaston: Something for your signature should go over there.

Magill: I've talked to him (Oliphant).

H.M.Jr: What's he doing? Maybe he's got Senator King back there.

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(On phone) Where is Mr. Oliphant? - What? -
Let me talk to his office.

But I want that to go over there this morning,
early.

(On phone) Herman? Anything wrong? - Oh. -
All right. - Oh. - Well, let me - phone me
when you're ready. - Phone me when you're ready. -
Telephone me when you're ready.

Gibbons: Magill has thrown another scare into Wall Street.
They're sending out from Internal Revenue a statement
asking for reconciliation of capital of anybody having
over a hundred thousand dollars, and they all think
you're getting ready for a capital assessment.

H.M.Jr: He did that a month ago.

Gibbons: What?

H.M.Jr: He did that a month ago.

Gibbons: I know, but a fellow just told me yesterday that
that's what it's going to be - a capital assessment.

H.M.Jr: You never know what Magill will do, you know.

Magill: I hate to see these fellows getting ahead of us that
way.

McR: Hate to see them disappointed, wouldn't you?

Magill: I told Upham not to let the leak out about the capital
levy until the first of the year.

Upham: I thought it was only fair to let them have a little
notice.

H.M.Jr: Known as the Magill-Upham plan.

Gibbons: They'll only be blamed for the illegitimate children.

H.M.Jr: No, it's the Magill-Upham plan.

Mac?

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- McR: Ask him (Bell) if he ever sees the Director of the Budget. I asked him yesterday if he had seen him; he said he hadn't.
- H.M.Jr: Oh, the Straus plan is in.
- McR: It's been sent to the Budget. I took it over there.
- Bell: It's been sent to the White House. Asked me to pass on it in a few minutes. I said no. They wanted an O.K., but I wouldn't pass on it.
- H.M.Jr: O.K., gentlemen, thank you.

December 15, 1937

Talked to the President of the United States at five minutes past ten. Mr. Oliphant present. Told him that Mr. Oliphant and I were ready to report on the special mission which he gave us to perform for him in regard to Japan.

Told him that the Mexican situation was desperate; Mexico was busted, and that if we did not do something to help them that within a year I prophesy that Italy, Germany and Japan would walk in there and treat Mexico the way they did Spain. That Mexico is the richest colony in the world for those three countries to take over, and I wished that he would see Hull and Welles and myself together. He said, "Can this matter wait a couple of days?" and I said it could; that I could stall Suarez for that length of time.

C
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P
Y

THE WHITE HOUSE
WASHINGTON

97
7-170

December 15, 1937

PERSONAL (In President's handwriting)

Dear Fiorello:

I have your telegram of December 14th before me. I gather from the same that the Secretary of the Treasury is out-trading you.

If you insist on seeing "teacher", I wish to warn you that "teacher" can be tougher than the Secretary of the Treasury!

Sincerely yours,

(Signed) FDR

President's notation:

"Bring the \$5,000,000 with you."

Hon. Fiorello LaGuardia,
Mayor, City of New York,
New York, New York.

December 15, 1937

At 1:03 today HM,Jr telephoned McIntyre and told him the President had said he might want to see him today. HM,Jr explained to McIntyre that he was going out at 3:30 to Miss Madiera's school to see his daughter and would be away until about 6:30. McIntyre said he did not think the President would have a chance to see the Secretary this afternoon, but HM,Jr asked him to tell the President anyway before he, McIntyre, went to lunch. He said he would.

December 15, 1937

Mrs. Roosevelt asked me whether it would be proper for her to inquire about the Philips Jones Company who have a claim against the Internal Revenue for approximately \$95,000.

I spoke to her last night at about six o'clock and told her that I had burned her letter and that it would be perfectly proper for Mr. Philips to write and inquire from me what the status of his case was and that I would be glad to inform him. I gave her no information about the status of the case.

December 15, 1937.
10:21 a.m.

100

H.M.Jr: Hello.

Operator: Congressman Mead. Go ahead.

H.M.Jr: Hello.

Congressman Mead: Hello, Mr. Morgenthau?

H.M.Jr: Talking.

M: This is Jim Mead of Buffalo.

H.M.Jr: How are you?

M: Fine. Say, Mr. Morgenthau, the Associated Gas and Electric has extensive lines up in Western New York.

H.M.Jr: Yes.

M: We've been writing back and forth to several of their friends about the attitude of the Government. They seem to be under the impression that they're singled out for special severe treatment, and I talked it over with -

H.M.Jr: Hello - Hello.

M: Hello. Hello, Mr. Morgenthau?

H.M.Jr: Talking. We were cut off.

M: All right. I talked it over with a former member of Congress who is now representing the Associated Gas and Electric.

H.M.Jr: Who was that?

M: Ham. From Oklahoma. He was a - no Mississippi. Vicksburg, Mississippi. What the devil is his name. He was Chairman of the Ways and Means Committee before Bob Doughton.

H.M.Jr: Oh! McCullen?

M: No. I'll - it'll come to me anyway. Phil was his name. He was from Vicksburg, Mississippi, and he was Chairman for a while, then he went with the Associated Gas. No, he didn't go with the Associated Gas. He just went out and practiced law and I think that he was one of their representatives, but he

said that the matter was working around very very satisfactorily and he thought they'd be able to conform with the holding company regulations and eventually they'd be a big strong and up and coming company, see?

H.M.Jr:

Yes.

M:

Now the only thing that I have to do is to convince these people that Mr. Weidman and several others in the Internal Revenue - Wideman -

H.M.Jr:

Yes, he's with the Department of Justice.

M:

Oh well.

H.M.Jr:

over the Department of Justice, with Mr. Wideman handling it, it's out of our hands.

M:

Oh, is it?

H.M.Jr:

Yes.

M:

Well, I want to tell them that the Treasury Department is not concerned with persecuting it, that -

H.M.Jr:

Oh, now, wait a minute. You can't tell them that.

M:

Well, I mean persecuting -

H.M.Jr:

Well -

M:

Persecuting.

H.M.Jr:

I - I announced publicly to the whole United States that anybody that's being persecuted can come in and see me personally.

M:

Yes.

H.M.Jr:

Now I haven't - after Professor William Starmeyer said that Ex-President Hoover would be persecuted.

M:

Yes.

H.M.Jr:

I haven't had a legitimate case yet, and anybody that comes forward and says that the United States Treasury is persecuting them, and I still stand ready, but I refuse to see the Associated Gas and Electric, because the matter is in the hands of the United States Attorney General.

M: Uh-huh.

H.M.Jr: And if you - and they - if you don't mind my saying so, you're the fourth member of Congress that has spoken to me in the last ten days.

M: Uh-huh.

H.M.Jr: And the Associated Gas and Electric can, if they will comply with what the United States Government asks them to, namely pay the taxes which is due us.

M: Yes.

H.M.Jr: They can settle the thing in two minutes.

M: Yes.

H.M.Jr: But - but, Congressman Mead, they're not being persecuted, but they are trying every way they can, to avoid paying the taxes which are due the United States Government.

M: Yes, that's just what I want to tell them.

H.M.Jr: And if they will do - if they will do what the United States Government is asking them, we would be more than pleased, and they can go about their business and we can go about ours.

M: Yes.

H.M.Jr: And that's the whole situation, and I think you ought to know. I think you're the fourth member that they've approached.

M: Yes. Well, the last letter I got was November 27th.

H.M.Jr: Yes.

M: And I've just been holding it up, see?

H.M.Jr: But they - they're doing everything they can to find somebody or some means which will keep them from paying what they owe us.

M: Yes.

H.M.Jr: You see?

M: Yes.

- H.M.Jr: And they're not being persecuted, and as I say, I threw a challenge out to the whole world to have anybody come in, because I make the statement that the United States Treasury is not persecuting anybody.
- M: Uh-huh.
- H.M.Jr: But we are trying to collect the taxes, as sworn officers, which we are supposed to.
- M: Yes.
- H.M.Jr: So that's the whole story.
- M: Yes. Well, they just wrote me and I've been writing them back, and telling them that everything was going to work out all right, that the President was sincere in his statement about cooperating with these folks, that they were complying with the law.
- H.M.Jr: Well they're not.
- M: They keep telling me that - well for instance here's a little paragraph, is it - is it - are they being persecuted on the basis of vengeance against the country - company, and its activity against the holding company bill. Haven't they forget that - that bill is a law and we have, and so on, see?
- H.M.Jr: That's got nothing to do with it.
- M: I'll tell them that. That's just what I wanted to know. I wanted them to know that I talked with you.
- H.M.Jr: Yes.
- M: The statement you made public, with regard to the Hoover incident, whether I say that or not I'll say something like that.
- H.M.Jr: Right.
- M: Stands for all these companies and if they'll just come in and pay their bill, they'll be treated on the square and there's no vengeance in it at all.
- H.M.Jr: Now the last time that - about ten days ago, a similar approach, wouldn't I see the Vice-President of this company, see?

M: Yes.

H.M.Jr: Yes. Well he called up and I said, "Would you mind putting it in writing".

M: Yes.

H.M.Jr: And after I've read it, I'll decide whether it's worth my while to see you.

M: Yes.

H.M.Jr: He refused to put it in writing.

M: I see.

H.M.Jr: So my request was fair, wasn't it?

M: Yes, sure.

H.M.Jr: Inasmuch as it's out of our hands, I said, "Now put it in writing".

M: Yes.

H.M.Jr: He wouldn't do that.

M: Well, they've got to pay the tax. There isn't any doubt about that.

H.M.Jr: I think so, Congressman.

M: Yes, because I wouldn't want them punished unduly, but -

H.M.Jr: Oh no.

M: But they - they were perfectly ready to punish us unduly some twelve months ago.

H.M.Jr: Well, that has - that - we don't consider that. This is just what is due United States Government.

M: Yes.

H.M.Jr: And they owe us some - oh fifty four million dollars.

M: I see.

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H.M.Jr: And it's been all very, very carefully handled, and it's not a matter of persecution. It's just what they've withheld.

M: It isn't persecution, it's collection.

H.M.Jr: Correct, sir.

M: All right.

H.M.Jr: Nobody loves a tax collector, but we've got to have the wherewithal to keep the country going.

M: That's right. We've got to have it, and we want it.

H.M.Jr: That's right.

M: Thank you very much.

H.M.Jr: Thank you.

M: All right, sir.

RE SUBMISSION TO CONGRESS OF
REVENUE ESTIMATESDecember 15, 1937
2:30 p.m.

Present: Mr. Magill
Mr. Taylor
Mr. Haas
Mr. O'Donnell
Mr. Helvering
Dr. Crum
Mr. Daggit
Mr. Driver
Mr. Leahey
Mr. Bell

H.M.Jr: What's the story, George?

Haas: I thought that Mr. O'Donnell, who is in charge of the estimating, might handle it.

H.M.Jr: All right.

O'Donnell: We have here in tabular form a presentation of the kind of estimates which we hope we'll be discussing. We have a few copies that I can distribute.

H.M.Jr: Well, go ahead. Just talk it out, see?

O'Donnell: All right, sir.

The forecasts on which these estimates are predicated are the result of a consensus of opinion of the business conference that we had a couple of weeks ago, in which we had invited some of the leading individuals who forecast business for the various large industrial corporations of the United States - General Motors, American Telephone, the chief economist of the First National Bank of Chicago, Lionel Edie, investment consultant, and Dr. Crum, who is with us today. And the particular forecasts are indicated on page 2 of this write-up, which gives you some conception of what we expect in the way of business for the next twenty months.

The recession in business is pretty well indicated by our estimate of the Federal Reserve index, which is expected in the calendar year 1938 to average only 95, as contrasted to an estimated level of 111 for the current calendar year. We expect the low point to be reached in January, followed by a spring upturn, which,

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however, will not in our opinion carry through, but will be followed by a further recession in the summer and then a gradual upturn and stabilization at about 103 in the first quarter of the following year, 1939. Now, that is a very fundamental part of our estimate picture, because on that forecast and on the forecast for prices, many of the other indexes which we forecast are predicated. And then, in making particular forecasts of particular yields from particular revenues from commodities, we get correlation with a various group of indices, all of which are predicated on these two forecasts.

Now, these forecasts are revised from our October forecasts to reflect the lowered estimate of business as contrasted to what we had then estimated. And the aggregate reduction is 330 millions below our estimate made last October.

H.M.Jr: You mean for this fiscal year?

O'Donnell: Fiscal year 1938.

H.M.Jr: Three ...?

O'Donnell: 330 millions, which represents a five percent

H.M.Jr: You mean below what we did in October?

O'Donnell: That's right.

H.M.Jr: You mean even after we took off that 125?

O'Donnell: That's right. We have several factors that caused that. The stock market has not come back as we had then anticipated. You will recall that it was as we met last time - it was even then practically at what proved to be the bottom of a very steep decline. But it has not snapped back; it has stayed at that lowered level. And that affects us in several ways. It is particularly important with this optional valuation question on the estates, because the decedents who died a year ago are now having their estates valued at that sustained low level, at least for that portion of the estate which they pass on in kind, and it affects our further forecast in the future because

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with the optional valuation they now can select the time of death - they have either the option of taking the time of death or one year later, whichever is the lower.

(Bell comes in)

H.M.Jr: Have you got a copy for Mr. Bell?

O'Donnell: Yes.

Magill: I may say, for the information of the gathering, I tried to get the Ways and Means Sub-committee to change that particular optional provision and they would not do it.

O'Donnell: It's a very expensive provision for us, but I think the sentiment of that Ways and Means Committee is that, faced as the estates are now with the very high estate tax rates, it would mean confiscation of a great many estates; it was bad enough in 1930 and '31, when we were taxing the estates under the Revenue Act of 1926, with its much lower rates.

H.M.Jr: Pardon me - I don't want to get into all that stuff. Let's stick to our estimates. I mean when you fellows get started on that - I haven't allowed enough time for that.

Now, look

O'Donnell: Want to go any further into those changes?

H.M.Jr: Yes. First place, I want Mr. Bell to get this. Bell, now they say that - instead of this year six billion six fifty, it's going to be six billion three hundred twenty million. And I say if their estimates between then and now aren't any good, how the hell are we going to do anything for 18 months from now?

Bell: Gee whiz! October 19, we had an estimate of six billion six; January 1, we're going to cut 300 million, in two months.

H.M.Jr: 330 million more. And how much was October below June?

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Bell: 250.

O'Donnell: Yes.

H.M.Jr: How much?

Bell: 256 million.

H.M.Jr: 250 and 330 - 880, isn't it? No, 580.

Bell: 586.

H.M.Jr: About ten percent. Yes, just about ten percent.

Bell: That's about a billion dollars over last year's budget. Billion dollars over the January budget.

O'Donnell: A year ago, that's right.

H.M.Jr: It's ten percent off - is it ten percent off the estimates when the message went up in January?

Bell: Oh, about nine. No, no, nine percent off the April 20 estimate.

O'Donnell: That's right.

H.M.Jr: But how much off the

Bell: About 15 percent.

Haas: 13 percent.

Bell: 13 percent off the January estimate.

H.M.Jr: Well, I'd rather - I don't know how - I'd rather figure from what I have listened around. I think you're too high now.

Haas: On that, Mr. Secretary, we're taking the - you may well work that out that way - we're taking the consensus of opinion of our group with that other group we called in.

H.M.Jr: Well, I saw that stuff. The average of that was 90 percent - would be 90 percent for the Federal Reserve.

Haas: Yes?

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H.M.Jr: I think so.

O'Donnell: 95 was my recollection. Right?

Daggit: 95 is what I recall.

H.M.Jr: Lot of them said 90.

Daggit: And some said higher than that, I believe.

O'Donnell: They expected the low point to go below 90, and we in our estimate, if you will observe on page 2, expected it to go to 85 in January.

Haas: I tried to put it down below 95 for an average. They didn't want me to do it; said that was getting too conservative on that.

H.M.Jr: I wouldn't begin '38 above 90. I'd figure '38 90 and I'd figure the first six months of '39 - I'd figure it 95. The worst that can happen is that we'll be pleasantly surprised.

Haas: I think there's something to that.

H.M.Jr: What did you say?

Haas: I wanted to get it down lower.

H.M.Jr: It's just sheer guess work. Do you know, Dan, has the country ever been in shape like this before? Have they ever talked of doing this thing in two bites?

Bell: How do you mean?

H.M.Jr: Well, I mean having - just that; I mean trying to figure this thing for six months. I mean supposing - supposing we said that - I mean I'm just thinking out loud - supposing we said, "All right, we give an estimate for the second six months of '38, then we'll put this country on a calendar year basis," and at the beginning of that we put it on a calendar year. This whole thing of having the Government on a fiscal year basis - July 1 - I think is all cock-eyed anyway.

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- Bell: Well, we were on a calendar year basis at one time, several years ago, half a century ago, and I guess they thought the same thing about it then.
- H.M.Jr: Well, it's just - I just use it as an excuse not to forecast for 18 months. I don't think - if you don't mind my saying, I don't think it's worth the paper it's written on. I mean we might as well, in the room here, call a spade a spade. I'd defy anybody to make good on that. I don't want to put my name to it. I mean if I've got to do it, I'm just going to - I'd want to
- Bell: Of course, the fiscal year was adopted to fit in with the session of Congress. Now, you couldn't get your appropriations beginning January 1 through Congress till March for the calendar year 1938. You would have had to do it last spring some time, and you'd be in a worse position in estimating your revenue and expenditures than you are now. It's a question of time and getting it through your Congress.
- H.M.Jr: I know, but you put your mind to thinking how we can keep from estimating for 18 months, will you?
- Bell: All right.
- H.M.Jr: I mean try to think of a good reason why we don't have to do it for 18 months and I'll bless you.
- O'Donnell: Mr. Secretary, if you could arrange your estimates so that you have the March collections in, it would reduce the margin of error in your estimates just ever so many fold, because once you establish the base
- Haas: That's what Great Britain does.
- O'Donnell: That's what Great Britain does. They always have the first collections in. We know then what the level of income was in calendar '37, on which the individual income taxes are based and the corporation taxes are based. And with those who take advantage of the privilege of paying quarterly installments, it is merely a matter of an experience factor which we can with great accuracy determine once we have the base.

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H.M.Jr: Does that make sense to you, Crum?

Crum: That sounds reasonable to me. If we could have the revenue side of the budget message as late as April or early May, it would be very advantageous to us. Mr. Bell would know ...

Bell: I'm not so sure I wouldn't like it, but I think you have to take into consideration the difference in the two governments, in the method of operating. In appropriating or in authorizing and approving the budget in Great Britain, they use a legislative act of about 12 pages; ours contains about 1200 pages. So there is that difference, see?

Crum: That's true.

Bell: They vote over there, say, 500 million dollars to the Army, and then the Treasury has control as to how that will be handed out from month to month. In other words, you have the second appropriating organization. We don't have that, and can't get it under our Constitution.

H.M.Jr: But we've got to do some original thinking around here to keep me from going in the hole for the President and we've just got to The fact that we have - you don't mind my talking this way - the fact we have always done it this way doesn't make it so, and we've got to find some way of doing this thing differently, because I'm not going to put my name to this; I'm just not going to do it, that's all. I mean I'm not going to be a damn fool and put my name to this thing. I'm not going to do it.

Bell: Well, you'll have to hedge, qualify your estimates.

H.M.Jr: No, I'm not going to do it. I'm just going to tell the President there's nobody in the United States - you can't get a reputable - I don't - you can't get any reputable business man in the United States to write me a letter and say what the estimated income of his business will be the last six months of this period. There isn't a reputable business man in the United States that would sit down and write me a letter and say what his business will be; he won't say what it will be the first six months of next year, let alone the first six months of '39. Why should I

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do it? So I say somebody has got to do some original thinking around here, so maybe we can say, "Well, let's wait until the tax returns come in."

Magill: What's the difficulty with waiting until April 1 to make a new estimate?

O'Donnell: There is no difficulty. That will establish for the individual income tax about 60 percent of the liability for the last half of your fiscal year, and it will give you a start of 40 percent of your liability on the next fiscal year for the individual income tax.

Magill: What difficulty would you get in with Congress about it? Suppose Bell - could you ride along on your October estimates?

Helvering: No, you couldn't.

Haas: Couldn't do that.

H.M.Jr: The question is... Here's the other thing. We had Biggers for lunch. Mr. Biggers is coming out on January 5 with an estimate for unemployment. How's anybody going to say? He says, talking, he thinks business will be better in March. Well, that's as far as he'll go.

And I think if you explain this thing to the President and simply said to Congress, "We're not going to be ready and I can't send any budget message until the first of April," that's all.

O'Donnell: We can estimate

H.M.Jr: "I'll have a budget message for you on the first of April."

Taylor: Be closer to the 15th, won't it?

H.M.Jr: What? Pardon me?

Taylor: Be closer to the 15th, won't it?

H.M.Jr: Whatever it is. Whatever the boys said, I'd add two weeks to it. Whatever they told me, I'd just add two weeks to it.

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- O'Donnell: Mr. Secretary, we could estimate for the whole calendar year as well as we could the close of the fiscal year on April 1 or April 15, whichever you said, because we will then have established the base on which we predicate the most difficult estimates.
- H.M.Jr: You would do what?
- O'Donnell: We would have already established the base. In other words, the income of corporations and the income of individuals is known at the end of March, because they have made at least a quarterly return, and even though they take advantage of quarterly payments, their payments through December are then a matter of available record. So that we could give a calendar year 1938 estimate as of April 15, 1938, with a pretty good degree of precision.
- H.M.Jr: There wasn't one that you called in who would estimate the first six months of 1939.
- Haas: Nobody would do it unless they're forced to it.
- H.M.Jr: They wouldn't do it then, George.
- Haas: No, no, they
- H.M.Jr: And if a business man wouldn't do it, what confidence would they have if I do it? Might as well take a tea cup and pour out the tea and read the tea leaves. Be just as accurate. Might be better, if you had a good reader of tea leaves.
- Haas: We could use some of that.
- Crum: That's the one thing we haven't tried.
- O'Donnell: We need a gypsy in the office.
- H.M.Jr: I think that you people better get together, just put this stuff in the icebox, and think of some way so that whoever is responsible for this - I'm one, Bell's another, Magill's another, and Mr. Helvering and Mr. Haas - better find some way - a letter that I can write the President why I can't do it, and let's get - we've got brains enough around

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here to give a suggestion of how we can give him an estimate that is worth the paper it's written on.

Helvering: Of course, we can establish the base of which Mr. O'Donnell is speaking on about the second of April, but as to the income

O'Donnell: You can't, however, get the full collections; they are not tabulated by your districts until about the 20th of April.

Helvering: We can get a telegraphic report.

O'Donnell: You do that on your income tax?

Helvering: Uh-huh.

O'Donnell: That's the important thing.

H.M.Jr: Would you (Helvering) put your name to this thing, stake your reputation on this?

Helvering: I'd have to take some ...

H.M.Jr: I'll put it differently. You've got a business in Kansas. Will you give me an estimate of what your revenue is going to be for next year? I'm just saying for the calendar year '38.

Helvering: No.

H.M.Jr: How's your business going to be next year?

Helvering: The way it's going right now, it's going to be pretty bad.

H.M.Jr: And I think the country would have a lot more confidence in the United States Treasury if they said frankly, "We can't give an estimate. Now, we can do this; we can on the second of April or the 15th of April give an estimate for the calendar year." And then I don't see why they couldn't say, "All right, for the first six months of '39 every department will get half of whatever the appropriation is." I mean they'll get 1/12 of the appropriation each month until Congress meets, that's all; we run on that basis. They'll get 1/12 for January, 1/12 for February, and then - or

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somebody devise something. I mean just let's say - I say right here and now I won't put my name to it. Now, it's up to somebody around here to have some brains and think up a new way. I won't do it, that's all. I think the country would have far greater confidence in me as Secretary of the Treasury if I say I won't do it. I'd just be the laughing-stock of America if I give a forecast for 18 months.

Haas: I think you're right. I think this continuous budgetary thing, being off on the estimates - it's a

H.M.Jr: I mean this is bad enough now. - I don't - I never write a letter to him when ~~anything~~ is disagreeable; I've got to go over and face the President. Again it's off 330 million. I've got to take that; you gentlemen don't have to. I've got to take it. And even when you came in with your estimates, I cut 125 million then; I mean just by rule of thumb. And I thought I was awfully smart when I did that; I wasn't smart enough. After you people got all through, I said, "All right, we'll take off 125 million."

Now, somebody around this shop ought to have brains enough to think up something else other than giving me some tea leaves. And it's better for you to have it this way, straight from the shoulder, than to have me put it up in a nice package, with pink ribbons and a little holly on it.

Now, Magill, have you got some bright idea?

Magill: Well, I think I know where to start to find out one, but I haven't got one yet.

H.M.Jr: Well, where would you start?

Magill: Well, I'd start

H.M.Jr: Excuse me - (on White House phone) Hello. - I can't. I'm in the middle of a conference right now. - Thank you.

Magill: I'd start on, why is it that we have to submit this estimate on January 1 anyhow?

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- H.M.Jr: That's the first question.
- Magill: Is there any - I'm not thinking "why" as a matter of policy, but "why" as a matter of actual requirement; but where does the requirement come from?
- Bell: The law requires the President to submit a budget on the first day of the session.
- Magill: Budget for what?
- Bell: Budget for the Federal Government. Now, the budget isn't complete without a revenue estimate.
- Magill: Is ne supposed to submit it for
- Bell: For the fiscal year for which Congress is to appropriate money, and that's the coming fiscal year. That's the requirement of law.
- H.M.Jr: Does the law say that?
- Bell: Yes, sir, very definitely. If we haven't complied with it in two or three days we can get away with it, but we can't for three months without a resolution.
- H.M.Jr: I mean you can get a resolution through.
- Bell: Have to be very carefully explained, or I'm not so sure the country wouldn't get a little excited about it; but that's not impossible.
- H.M.Jr: Well, if I were an editorial writer on any paper and the President in the first place announces again he's off 330 million, which is the third time or fourth time he's been wrong, I've been wrong, we've been wrong; then he comes along with another estimate - they say, "Well, it's just a joke. Just a joke."
- Bell: Well, we've always said it was difficult.
- H.M.Jr: But they've never faced them, Dan. The last two years Mr. Mills was here, he was off about a third one year and 40 percent another.

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- Bell: It always happens, and ever since I've been here it's happened, that on a climbing business scale we always go ahead in the revenue and in a descending business scale we fall behind. It never has failed yet, and it's something that, it seems to me, unless the law is changed, you've got to face and just acknowledge.
- H.M.Jr: Well, I'm not going to do it. Now, I suggest you adjourn to Mr. Magill's room and you people put your heads together and see if you can't find some way out of this thing so that we can give an honest estimate or at least an honest statement to the people of the United States. I'm willing to sign any statement explaining why we can't do it, and the reasons for it; I'm more than willing to put my name to it. But I won't do this.
- Haas: Just as - almost as difficult a problem on the expenditures.
- H.M.Jr: You take relief. Who can figure out what that's going to be?
- Bell: Well, there again we've had it every year.
- H.M.Jr: But Dan, that's the reason why the people don't believe when the President gives a statement, because he's been wrong too often. Now, I want to get out a statement that they will believe, for him. And they say - you know just as well as I do that they keep saying, "Well, he's going to balance the budget - ha ha ha!" and they just don't believe it. Now, I think that - I'm not going to - I think the thing to do is to have the courage to explain it, and I think you've got to give confidence, and then not to give them an estimate until we can give them something that's good. Now, Mr. Helvering says the second of April, and add a reasonable time and it will be the 15th of April.
- O'Connell: If you then intend to give him fiscal '39, however, you will always be confronted with the problem of forecasting the business for '38; but it reduces by 50 percent your margin of error.

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- H.M.Jr: Well, you can get some reputable people to come in here late in March, after you know whether you do or don't get this spring rise that everybody is talking about. And then everybody is talking about the next slump; everybody is talking the same thing. Well, nobody knows. But if I can sit here and have two and a half months of business behind me, I'd feel a lot different. Wouldn't you, Mr. Crum?
- Crum: Yes indeed. If we can work out some means of putting off this detailed forecast through June 1939, I think it's very much to be desired. It's an almost impossible assignment to any group of men, I don't care how much work they put on it. Now, that doesn't mean to say you may not have to do something in order to comply with the law. But as a question of fact, there is no doubt about the fact that any curve we draw at this stage reaching to June '39 is affected particularly in the late months with a very wide margin of error.
- H.M.Jr: Well, I think that this thing - I don't know anything that is more important, and I called a staff meeting of the Treasury for 11 tomorrow and I'm more than willing, if you people will be ready, to substitute another meeting of this crowd. I'll meet with you at 11 tomorrow rather than the other Treasury people. You think you could have something? Well, at least let's talk it over tomorrow at 11. And this is more important, if you don't mind my saying, Magill, than the Hill stuff.
- Magill: Oh yes.
- H.M.Jr: I mean you'll just have to make some explanation up there, because with this on - I mean the sooner the President knows how I feel, the better.
- Now, I just want to go around a minute and see if anybody says that I am being unreasonable in my position. George?
- Haas: I agree with you a hundred percent.
- O'Donnell: I'm with you.

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- Helvering: Well, our experience - we just had to cut ours down in October. Our actual experience over there has reduced it by 400 million.
- H.M.Jr: Pardon me?
- Helvering: I say our actual experience over there reduced our estimate by 400 million. We were a little higher.
- H.M.Jr: But I mean is my position all right?
- Helvering: Absolutely.
- H.M.Jr: I mean to explore this thing. I mean so - you know what I'm talking about. I mean is my position reasonable?
- Helvering: I think it is.
- Crum: I agree with you perfectly.
- Daggit: I do too.
- Driver: I think we will always have a margin of error in any estimates, but I do think it will be materially reduced if we can wait until next April. There will be a margin of error, however, in that estimate, but it won't be nearly as great.
- H.M.Jr: Well, how much error can you eliminate between doing it this week and doing it the first week in April?
- Driver: Well, I think we could reduce at least half the error for this fiscal year, and perhaps more than that for fiscal '39.
- Leahey: Well, I agree with Mr. Driver.
- H.M.Jr: Pardon me?
- Leahey: I agree with Mr. Driver.
- H.M.Jr: Taylor?
- Taylor: (Nods affirmatively)

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H.M.Jr: With me?

Taylor: (Nods yes)

H.M.Jr: Magill?

Magill: Yes, I think it's well worth exploring to see if we can't put it off until April 1 instead of January 1.

H.M.Jr: Bell?

Bell: Well, I don't think your position is unreasonable, but I think we want to be very careful about our position on this, because we might destroy this whole budget set-up, and we certainly don't want to do that. We've got it now where it goes together, and I think we ought to keep it that way. We had a hard time getting it, you know. It took years.

H.M.Jr: All right.

Bell: I don't think your position is

H.M.Jr: I tell you, when you come in in January, June - do we have one in April? Estimates in April?

O'Donnell: After we get the tax returns.

H.M.Jr: Did we have one?

O'Donnell: We had January and June.

H.M.Jr: O.K.

Bell: No June.

O'Donnell: Didn't have any June this year.

H.M.Jr: Well, January, April, October, and now we have a fourth.

And from the time we started in January until now we're off a billion dollars?

O'Donnell: That's right.

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- H.M.Jr: I think that that in itself destroys your whole budget picture. I've lost confidence in this.
- Hsas: It's off 13 percent, Mr. Secretary. Many people think it's a close estimate, but the Government - but the budget is so large now that 13 percent is a tremendously big thing.
- H.M.Jr: Well, I'm going to ask you gentlemen to go into Mr. Magill's room and I'll meet with you at 11 o'clock tomorrow, and I'll meet every day until we can or can not get a solution. But I will not put my name to this.
- Magill: Well, it seems to me the main question, as far as a conference in my room - I'll check this with you - is essentially a matter for discussion between, say, Bell and myself. That is, the problem now is not a matter of estimating. The problem is seeing what can be done in the legal situation to advance the date at which this report has to be made.
- Hsas: The only place the estimating comes in is that the manner in which you advance it affects the estimates.
- H.M.Jr: This isn't a matter of estimating, it's a matter of ingenuity.
- Bell: Of course, you can get a resolution through Congress which changes the date of the submission of the budget to April 15 of this year and authorizes the President to submit one half the budget, which would be the estimates of appropriations and the estimate of expenditures based on those appropriations, which the Committees would have three months and a half to consider before the revenue estimates come up.
- Now, it's a little bit difficult for the Congress - I mean if they were operating properly and normally - to pass on appropriation figures until they have the revenue. I mean no business would do it. But they haven't paid much attention to it during this emergency.
- H.M.Jr: No. You've got the answer. He's got the answer right there.
- Bell: It could be done, if they

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- H.M.Jr: But I think you've got to talk it over, got to justify it, got to fix up a letter for me to write to the President, doing something like that. But I still think that the men in this room - you could talk this thing over, think about it, put it down in memorandum form for tomorrow morning, and see whether I'll take it.
- Magill: All right.
- H.M.Jr: I'm willing - I mean if you give me anything reasonable like Bell said, I'm willing to be the goat, I'm willing to say so, and use this year's figures and use the figures for '32 - '31 and '32 and '33, and show it's impossible in a rapidly declining business situation to estimate and it's far better to wait until we get those March 15 returns. And give me - and use, as I say, the years '30, '31, '32, and '33; those were the years.
- Bell: You can go back - I don't care where you go. In my twenty years in the Secretary's office it has always been true that they've never hit it on a declining or ascending scale.
- H.M.Jr: But these gentlemen who say they can be 50 percent nearer right than now
- Bell: That's right. When you get your March estimates - returns, you can determine your September and December payments; you can base your 1939 revenue estimates pretty accurately on your '38 calendar year.
- H.M.Jr: Now, how do you want to do this, Magill?
- Magill: Well, how about Bell, Taylor, Commissioner, and Haas?
- H.M.Jr: All right. I'd take Professor Crum in there.
- Magill: Probably better have Mr. O'Donnell too.
- H.M.Jr: I'll meet with you at 11 tomorrow.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Confidential

DATE December 25, 1937.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Exposition of the estimates of Federal revenues:
Revised estimate for the fiscal year 1938; and
original estimate for the fiscal year 1939.

The estimates of the revenues of the Federal Government for the balance of the current fiscal year and for the entire fiscal year 1939 assume the continuance of the existing tax structure. The tax revenue from practically every major source is directly dependent, although in varying degree, upon business conditions during the period in respect of which the tax is levied. In making these estimates of future revenue, it was therefore necessary to forecast the general business situation for the period ending in June 1939.

While appraisals of many business indices are helpful, the most important forecasts upon which these revenue estimates are based are:

- (1) Federal Reserve Board Index of Industrial Production
- (2) Bureau of Labor Statistics Index of Wholesale Commodity Prices
- (3) Standard Statistics Index of 419 Stock Prices

The particular forecasts used in these revenue estimates represent the concensus of opinion of the experts attending the business conference in the Treasury on November 23, 1937. Outside consultants attending this business conference were Walter Lichtenstein (First National Bank of Chicago), F. Leslie Hayford (General Motors), Seymour L. Andrew (American Telephone and Telegraph), Leonard Ayres (Cleveland Trust Company), Lionel Edie (Investment Counsel), and William L. Crum (Professor of Economics at Harvard).

The estimated monthly trend of basic data used in the revenue estimates was as follows:

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These business forecasts indicate lower levels of business activity than had been anticipated when the October budget estimates were submitted. Converted into estimates of revenue receipts, they represent a decrease of \$330 millions, or 5.0 percent, as contrasted to the October budget message. The largest item of change is an estimated decrease of \$99 millions in income tax receipts. The business recession is now expected to reduce the estimated customs receipts by \$79 millions. The sharp decline in security prices with the sustained lower levels increases the revenue costs of the Federal Government of the optional valuation provision on estates. Not only will the value of estates of decedents currently dying be affected by these lowered prices but also those of decedents who died a year ago. Consequently a \$74 millions reduction in estate tax collections is now estimated. The reduction of \$35 millions in the estimates of yield from the social security taxes is in large measure a reflection of the regulation recently promulgated which changes the time of the payments of the Title VIII tax liabilities from a monthly to a quarterly basis effective on liabilities accruing after December 31, 1937.

Estimates of Receipts

Present estimates place receipts to general and special accounts for the fiscal year 1938 at \$6,321 millions, or \$1,027 millions higher than the receipts of the fiscal year 1937. For 1939, a slight decline from this exceptional total is anticipated, but the estimate now made, of \$5,919 millions, points to a volume still markedly above the 1937 figure of \$5,294 millions.

For both 1938 and 1939 the net expansion over the 1937 level may be ascribed primarily to two sources -- the income and the social security (including carrier) taxes. Numerous other sources of receipts are indeed expected to yield larger collections in 1938 than in 1937, but the increases do not approach in magnitude the \$535 millions estimated gain from income taxes, nor the \$456 millions increase from social security taxes, including those levied upon carriers and their employees. Moreover, against the numerous smaller increases are to be set anticipated decreases of small amount in the tobacco and stamp taxes and in miscellaneous receipts, as well as a substantial decrease in the customs.

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For 1939, further falling off in collections from these same sources, and a downturn in receipts from liquor taxes and manufacturers' excises, suffice to overbalance minor gains estimated for other sources from the 1937 level, and even to reduce to some extent the still very sizable margin of gain over 1937 recorded by the social security (including carrier) and the income tax estimates. It will be observed, however, that even though a net expansion over 1937 is retained, receipts from most sources, including the two important groups of taxes last mentioned, are expected to be lower in the fiscal year 1939 than in the fiscal year 1938.

The accompanying tables display in summary, as well as detailed form, the estimated amounts of receipts for the two years and the actual amounts for 1937. An explanation of the estimates, for each source contributing appreciably to the revenues, is presented below.

Income taxes. - Under this head are covered the receipts from individual and corporation income taxes, both on current and on back account, and the much smaller receipts from the excess-profits tax on corporations. Individual income taxes, which yielded \$996 millions on current account in the fiscal year 1937, will according to present estimates yield about a quarter billion more, or \$1,233 millions, in the current fiscal year, and in 1939 will yield \$1,145 millions. If these estimates are realized, new records in current receipts from individual income taxes will have been established. The basic causes making for expansion include an improved level of individual incomes, most marked in the calendar years 1936 and 1937; full years of collections reflecting not only application of the normal tax to dividend income, but also the higher rates of surtax made effective by the Revenue Act of 1936; and the preventive measures set up by the Revenue Act of 1937 against tax avoidance and evasion. The moderate reduction of the total for the fiscal year 1939 reflects the estimated lowering of individual incomes in the calendar year 1938, with a consequent lowering of tax payments during the next year.

Corporation income tax collections on current account are expected to run somewhat lower than collections from individuals in fiscal years 1938 and 1939, as they did in 1937. Their augmentation to \$1,184 millions in 1938 and \$1,006 millions in 1939, from the 1937 level of \$894 millions, is predicated on the relatively high corporate profits of 1936 and 1937, the alterations

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in the rate scale under the Revenue Act of 1936, partial inclusion of dividend receipts in income subject to tax, and the imposition of surtaxes on undistributed profits -- influences that did not affect fiscal year 1937 collections until the second half year. The estimate for the fiscal year 1939 drops below that for 1938 chiefly because of the present prospect for a lowering of corporate incomes in the calendar year 1938.

Collections of back income taxes are expected to continue during the next two fiscal years not far from the 1937 volume of \$258 millions, though a moderate diminution of their amount is allowed for. Because of the probable variation in business profits, already referred to, the relatively small receipts from the excess-profits tax are estimated as fluctuating slightly upward in 1938 and then downward in 1939.

Social security (including carrier) taxes. - The comparatively recent accrual and collection of liabilities from this group of new taxes largely accounts for the sharp rise in 1938 of estimated receipts therefrom. The 1937 fiscal year collections from taxes levied under the Social Security Act itself are representative of hardly more than four full months' receipts, even though some payments were received prior to March 1937. In the case of the important Title VIII, even the 1938 receipts -- though covering a much larger fraction of a year than the 1937 -- will not be representative of a full twelve-months, because of the technical circumstance that after the December 1937 liabilities are settled, payments will be due only quarterly, with the due date for the second quarter of 1938 falling in July. Hence collections emanating from liabilities of April and May 1938, which would to a large extent enter fiscal year 1938 receipts were payments on a monthly basis continued, will under the new arrangement be received instead in the fiscal year 1939. Estimates of receipts under the title are influenced also by anticipated changes in employment conditions. Appraisal of all these factors leads to the present conclusion that the Title VIII collections of \$207 millions in the fiscal year 1937 will be succeeded by collections of \$491 millions in the fiscal year 1938 and \$500 millions in the fiscal year 1939.

The Title IX comparisons, in turn, are affected by the fact that both the 1938 and 1939 estimates represent collections for a full twelve months liability, against the part year covered into fiscal 1937 receipts, and that the tax rate under this title advances from one percent on 1936 payrolls to two

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and three percent respectively on 1937 and 1938 payrolls, with a tax credit for up to ninety percent of amounts paid as similar taxes to States whose unemployment insurance laws had been approved by the Social Security Board. All States and territories have now passed laws which under certain conditions will entitle their taxpayers to this tax credit. However, the Title IX collections during fiscal year 1937, and to a much lesser extent during fiscal year 1938, in respect of calendar year 1936 liabilities were swollen by the non-recurring collection of taxes at the full one percent on payrolls from the thirteen States and two territories whose unemployment insurance laws had not been passed in time to qualify their taxpayers for the tax credit. As a result of these various technicalities, as well as of anticipated changes in the business situation, receipts under Title IX, amounting in the fiscal year 1937 to \$38 millions, are estimated for the fiscal year 1938 at \$81 millions, and for the fiscal year 1939 at \$99 millions.

Collections under the Carriers' Act, approved June 29, 1937, would naturally be expected to display a very great increase over collections under the disputed prior Act. This natural rise is augmented in the fiscal year 1938 by the fact that liabilities accrued for the first nine months of 1937 did not become due until November 30. Hence the estimate of receipts from this source for the fiscal year 1938 covers, in effect, the liabilities of five quarters, whereas the 1939 estimate covers but four, while both take into account probable fluctuation in railroad employment. Whereas receipts under the former Act ran in the fiscal year 1937 to but \$287 thousands, estimated receipts under the present Act amount for the fiscal year 1938 to \$150 millions and for 1939 to \$117 millions.

Capital stock tax. - Receipts from the capital stock tax, according to present estimates, will advance slightly from actual collections of \$137 millions in the fiscal year 1937, to \$142 millions in 1938 and \$146 millions in 1939. One factor in this advance is the presumable increase, associated with larger business profits, in adjusted declared value of the capital stock of corporations from December 31, 1935 to December 31, 1936, to December 31, 1937, since collections for a given fiscal year depend chiefly on adjusted declared value at the end of the calendar year preceding its start.

Estate and gift taxes. - From the standpoint of revenues, the estate tax is much the more important of these levies. In the fiscal year 1937, when a majority of the estate tax returns were filed under the Revenue Act of 1935, with its lower exemption and higher rates as compared with the Revenue Act of 1934,

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collections from the tax reached the then record total of \$282 millions. For the fiscal year 1938, when practically all returns will be filed under the 1935 Act, still larger collections, of \$303 millions, appear to be in prospect, even after allowance is made for a probable decrease in number of returns as executors take advantage of the extension of the filing period and the option of valuing estates at death or a year later. The likelihood of lower valuations on the 1939 returns than on the 1938, offset in some measure by probable upward reaction in number filed, suggests that in 1939 receipts from this source will diminish moderately. The estimate sets the amount for that year at \$289 millions.

Collections from the gift tax, though augmented in level by the sharp upward shift of rates under the 1935 Act, have never attained much relative importance excepting in the fiscal year 1936. The \$160 millions collected in that year on the tremendous volume of gifts made prior to the effective date of rate increases already enacted was followed by collections of but \$84 millions in the fiscal year 1937. For the fiscal years 1938 and 1939 estimates of \$25 and \$27 millions, respectively, are made, on the assumption of an approximately uniform volume of gifts, conjoined with the rise in applicable rates as additional gifts are made.

Liquor and tobacco taxes. - The rising volume of receipts from liquor taxes since legalization in 1933 of the manufacture and sale of beer and repeal late in the same year of the 18th Amendment may culminate temporarily in the fiscal year 1938, when receipts from this source are expected to aggregate \$614 millions as against actual collections of \$594 millions in 1937. A less favorable outlook for consumption as industrial recession affects payrolls leads to an estimated decline of receipts in the fiscal year 1939 to \$565 millions, almost \$30 millions below the 1937 figure. Of the two large revenue-producing taxes in the group, that on beer is expected to rise more in 1938 and to decline less in 1939 than that on domestic distilled spirits. Most of the small liquor taxes vary like the total, although a decline in collections from imported distilled spirits is indicated not only for 1939 but for 1938 also, with the sufficient aging of domestic whiskey.

Tobacco is one of the few tax classifications expected to yield less revenue in the fiscal year 1938 than in 1937. That the record receipts of \$552 millions during the past fiscal year can be fully maintained in the face of industrial recession appears improbable. Hence the estimates presage a slight

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downturn to \$545 millions in 1938 and a more pronounced decline to \$529 millions in 1939. The decline will affect not only the major product -- cigarettes -- but also the lesser products in the group, with the principal exception of snuff, consumption of which varies little.

Stamp taxes. - For this group of taxes in the aggregate, a decline of collections seems probable in both this fiscal year and the next. While actual collections in 1937 approximated \$70 millions, the estimate for 1938 approximates only \$66 millions, and for 1939, \$65 millions. The continuous decline thus indicated is expected to characterize stamp tax receipts from sales of produce, silver bullion, and playing cards.

Manufacturers' excises. - Estimated receipts of \$458 millions for the fiscal year 1938 will, if realized, constitute the maximum collections of record for excise taxes of this type. The comparable record, however, does not extend back further than the fiscal year 1933 -- the first year in which the increased number of excises imposed by the Revenue Act of 1932 were fully reflected in the revenues. In 1937, actual collections totaled \$451 millions; and following the 1938 rise, a decrease to \$423 millions in the fiscal year 1939 is at present predicted.

Not all the separate excises are expected to contribute to the gain of collections in 1938. On the contrary, a larger yield principally from gasoline and from electrical energy is expected to offset numerous declines, most notable in passenger automobiles and parts and in toilet preparations. These varying estimates reflect the dissimilar effects on various products of cyclical changes in business. Further shrinkage in collections from some of the products just named, and extension of the decline to collections from other products, accounts for the downturn of aggregate receipts for 1939.

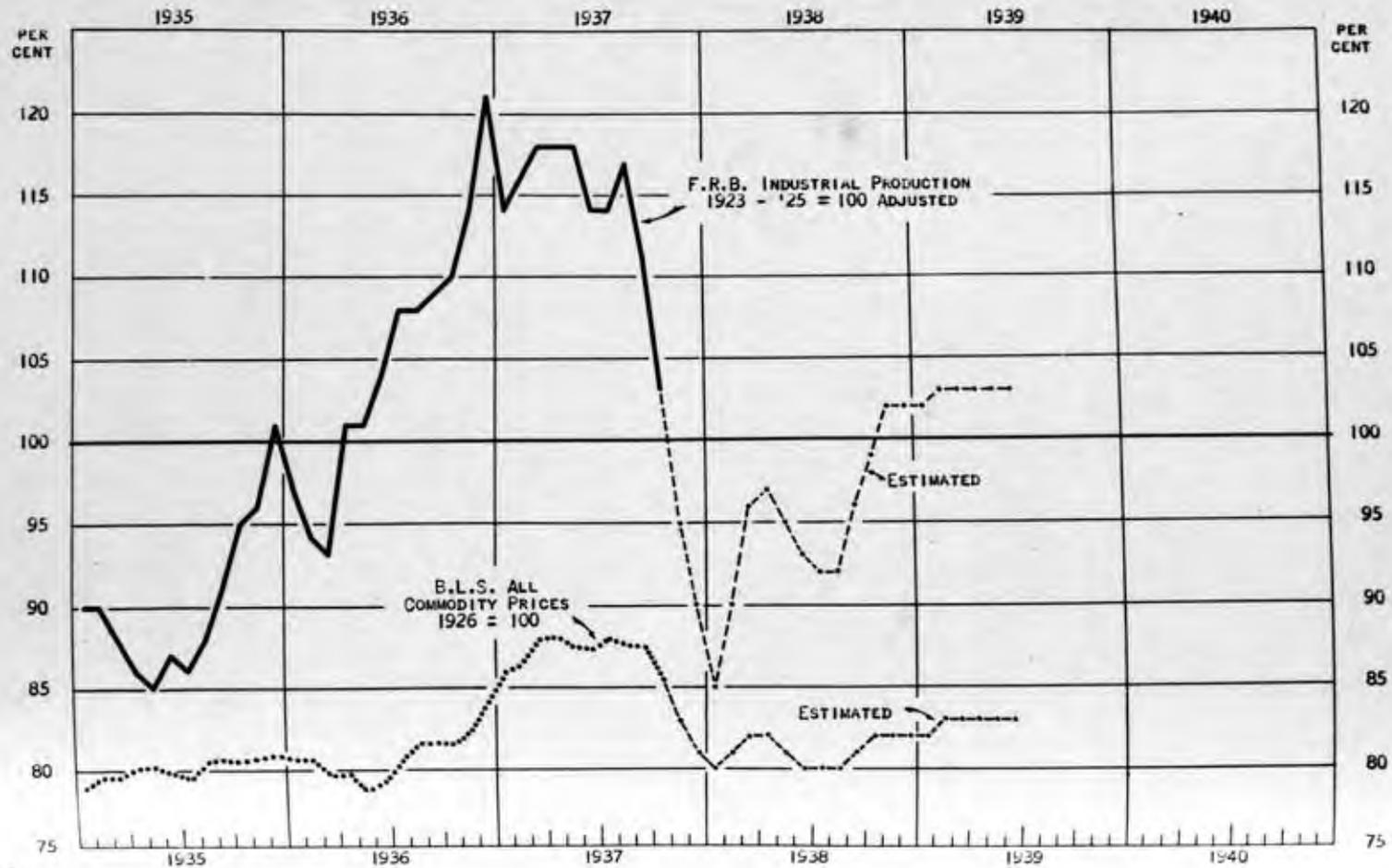
Miscellaneous taxes. - The sharp increase displayed by this group in the aggregate, from actual collections of \$79 millions in 1937 to estimated collections of \$127 millions in 1938 and \$145 millions in 1939 results from the inclusion in the two latter years of receipts from two new taxes. The more important of these new taxes in point of size is that on sugar, which is estimated to yield \$44 millions in 1938 and \$66 millions in 1939, as compared with no yield in 1937. The other new source, the bituminous coal tax, is of minor importance in size yet serves to counterbalance decline of revenues from some other miscellaneous taxes.

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Customs. - After four consecutive years of recovery in customs collections, extending from a low of \$251 millions in the fiscal year 1933 to a top of \$486 millions in 1937, receipts from this source appear likely to decrease rather markedly, to \$415 millions in the fiscal year 1938 and \$390 millions in the fiscal year 1939. Decline of collections in 1938 is estimated for most of the important commodities which produce customs revenues, including agricultural products, vegetable oils, whiskey, wool, cotton manufactures, metals, and sundries, because of diverse influences making for reduced imports. For the fiscal year 1939, reduction in imports of commodities subject to these duties is not expected to be of such a general character, but small gains in some directions may be counteracted by further reduction in receipts from agricultural imports, whiskey, and sugar.

Miscellaneous revenues and receipts. - Unimportant changes appear likely to take place in collections from these sources in the fiscal years 1938 and 1939. Small declines are, however, indicated from total collections of \$210 millions in 1937 to estimated figures of \$207 millions in 1938 and \$199 millions in 1939.

PRODUCTION AND PRICES



EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending December 11, and December 4, 1937

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending December 11	Week Ending December 4	
GRAND TOTAL	1,557,689	1,537,561	+ 20,128
CONTINENTAL UNITED STATES	1,555,117	1,534,988	+ 20,129
Alabama	22,866	22,010	+ 256
Arizona	6,720	6,627	+ 93
Arkansas	19,977	19,472	+ 505
California	70,776	68,723	+ 2,053
Colorado	17,676	17,334	+ 342
Connecticut	15,518	15,004	+ 514
Delaware	1,892	1,812	+ 80
District of Columbia	5,567	5,691	- 124
Florida	23,459	23,162	- 3
Georgia	22,397	22,098	+ 299
Idaho	6,239	5,785	+ 454
Illinois	106,253	107,563	- 1,310
Indiana	13,360	13,104	+ 276
Iowa	17,805	17,477	+ 328
Kansas	26,080	25,873	+ 202
Kentucky	37,754	37,472	+ 282
Louisiana	23,203	22,765	+ 438
Maine	3,817	3,568	+ 149
Maryland	9,397	9,058	+ 339
Massachusetts	63,485	62,955	+ 530
Michigan	43,583	43,255	+ 328
Minnesota	36,337	36,068	+ 269
Mississippi	18,299	18,134	+ 155
Missouri	49,071	48,717	+ 354
Montana	12,606	12,586	+ 20
Nebraska	19,232	18,892	+ 340
Nevada	1,604	1,496	+ 108
New Hampshire	5,299	5,221	+ 78
New Jersey	57,057	56,645	+ 412
New Mexico	6,116	5,999	+ 117
New York City	136,377	135,644	+ 733
New York (Excl. N.Y.C.)	52,686	53,051	- 365
North Carolina	20,935	20,578	+ 357
North Dakota	12,499	12,336	+ 163
Ohio	89,004	88,869 A/	+ 135
Oklahoma	42,034	39,741	+ 2,293
Oregon	11,758	11,252	+ 506
Pennsylvania	158,794	157,825	+ 969
Rhode Island	10,234	9,970	+ 264
South Carolina	18,190	17,818	+ 372
South Dakota	15,439	14,744	+ 695
Tennessee	20,857	20,642	+ 215
Texas	51,590	48,399	+ 3,191
Utah	6,546	6,487	+ 59
Vermont	2,801	2,566	+ 235
Virginia	17,501	17,239	+ 262
Washington	28,655	26,899	+ 1,756
West Virginia	28,103	28,251	- 148
Wisconsin	35,604	35,123	+ 481
Wyoming	2,085	1,983	+ 102
Alaska	11	11	-
Hawaii	2,531	2,562	- 31

A/ Revised.

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending December 11, and December 4, 1937

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending December 11	Week Ending December 4	
GRAND TOTAL	1,557,689	1,537,561	+ 20,128
CONTINENTAL UNITED STATES	1,555,147	1,534,983	+ 20,164
Alabama	22,866	22,010	+ 256
Arizona	6,720	6,627	+ 93
Arkansas	19,977	19,472	+ 505
California	70,776	68,723	+ 2,053
Colorado	17,676	17,334	+ 342
Connecticut	15,518	15,001	+ 514
Delaware	1,892	1,812	+ 80
District of Columbia	5,567	5,691	- 124
Florida	23,459	23,462	- 3
Georgia	22,397	22,098	+ 299
Idaho	6,239	5,785	+ 454
Illinois	106,253	107,563	- 1,310
Indiana	43,360	43,104	+ 256
Iowa	17,805	17,477	+ 328
Kansas	26,050	25,878	+ 202
Kentucky	37,754	37,472	+ 282
Louisiana	23,203	22,765	+ 438
Maine	3,817	3,668	+ 149
Maryland	9,397	9,058	+ 339
Massachusetts	63,485	62,955	+ 530
Michigan	43,583	43,255	+ 328
Minnesota	36,337	36,068	+ 269
Mississippi	18,289	18,134	+ 155
Missouri	49,071	48,717	+ 354
Montana	12,606	12,586	+ 20
Nebraska	19,232	18,892	+ 340
Nevada	1,604	1,496	+ 108
New Hampshire	5,299	5,221	+ 78
New Jersey	57,057	56,645	+ 412
New Mexico	6,116	5,999	+ 117
New York City	136,377	135,644	+ 733
New York (excl. N.Y.C.)	52,686	53,051	-- 365
North Carolina	20,935	20,578	+ 357
North Dakota	12,499	12,336	+ 163
Ohio	89,004	88,869	+ 135
Oklahoma	42,034	39,741	+ 2,293
Oregon	11,758	11,252	+ 506
Pennsylvania	158,794	157,625	+ 969
Rhode Island	10,234	9,970	+ 264
South Carolina	18,190	17,818	+ 372
South Dakota	15,439	14,744	+ 695
Tennessee	20,857	20,642	+ 215
Texas	51,590	48,399	+ 3,191
Utah	6,546	6,487	+ 59
Vermont	2,801	2,566	+ 235
Virginia	17,501	17,239	+ 262
Washington	28,655	26,899	+ 1,756
West Virginia	28,103	28,251	- 148
Wisconsin	35,604	35,123	+ 481
Wyoming	2,085	1,983	+ 102
Alaska	11	11	-
Hawaii	2,531	2,568	- 37

A/ Revised.

FINANCIAL COMMISSION
OF THE
IMPERIAL JAPANESE GOVERNMENT
120 BROADWAY
NEW YORK, N.Y.

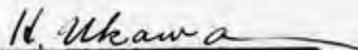
December 15, 1937

His Excellency, H. Morgenthau Jr.
Secretary of the Treasury
Treasury Department
Washington, D. C.

Your Excellency:

It was a great pleasure that I had the honor to have seen Your Excellency yesterday in Washington. I have sent a cablegram to the Minister of Finance today with respect to the matter Your Excellency requested yesterday and I hope I shall be able to see Your Excellency in a few days and explain the matter.

I avail myself of this opportunity to renew expressions of my highest consideration and esteem.


H. Ukawa

December 15, 1937.
3:17 P.M.

H.M.Jr: Hello

Feis: Henry

H.M.Jr: Yes, Herbert.

F: Sorry to disturb you. Are you alone?

H.M.Jr: Ah - well - ah - McReynolds is here.

F: All right. It's about that 1727 from Cochran which we sent over in one copy to you. It's a long cable in which Cochran has done the most disturbing thing to the Department that's happened in endless months. Have you had a chance to look at it?

H.M.Jr: Is it the cable from Basle?

F: That's right - the second one.

H.M.Jr: Well how does it end?

F: I sent it to you with a little covering letter. It relates that on his own he discussed trade policy with Schacht, Azzolini and the Jap.

H.M.Jr: No, I haven't seen that.

F: Well the first thing we'd ask.....

H.M.Jr: Now wait a minute - wait a minute - just hold on, will you - I'll - I'll ask Miss - ah

F: All right, the first thing to ask is please give it no distribution - in the Treasury.

H.M.Jr: Well let me find out where it is. A letter from you to me?

F: A covering letter I signed to you, yes, feeling that.....

H.M.Jr: Wait a minute.

- 2 -

- F: It was headed, "Confidential for the Secretary of State", with one copy to go to the Secretary of the Treasury - thats the heading on it.
- H.M.Jr: Now I haven't seen it but I want to tell you this. You know the Secretary of State instructed Cochran himself to talk trade treaties.
- F: Yes, but.....
- H.M.Jr: Did you know that?
- F: I - ah - we had that in mind but.....
- H.M.Jr: That the Secretary of State personally.....
- F: He would have instructed him in general - told him in general.
- H.M.Jr: Well I - I don't know what he said but Cochran told me that the Secretary of State said, "Now when you go to Basle, I wish you'd please also find out all you can about the Trade Treaty and do all you can".
- F: That's right.
- H.M.Jr: And Cochran said to me, "Is that all right with you?"
- F: Yes.
- H.M.Jr: And I said, "Anything that Mr. Hull asks you to do is all right with me".
- F: Well that was - that's the basis - on what I suspected to be the basis of the slip - I didn't think he would have done it.....
- H.M.Jr: Now just a minute.
- F:without - yes.
- H.M.Jr: (Conversation aside with Miss Chauncey) What's the number of the cable?
- F: 1727.
- H.M.Jr: (Conversation aside with Miss Chauncey)

- 3 -

F: It came in one copy.

H.M.Jr: (Conversation aside with Miss Chauncey)

H.M.Jr: She's going to try to get it. So whatever - I don't know what 's in it, see? But whatever is in it - I mean I'll see that nobody reads it but myself - if that's what you want.

F: No, that's - that's not the primary thing - that was just by way of introduction.

H.M.Jr: Oh.

F: The - what's in it.....

H.M.Jr: Yes.

F:is the Secretary.....

H.M.Jr: Hello

F:wanted Cochran.....

H.M.Jr: Yes.

F:to do what every other diplomatic representative in the field.....

H.M.Jr: Yes.

F:is urged to do - preach the general program .

H.M.Jr: Yes.

F: Cochran went out, as you will see from this cable, and urged Schact who said he would immediately get an instruction to Deichtmann;.....

H.M.Jr: Yes.

F:urged Azzolini who said he would immediately report to Mussolini.....

H.M.Jr: Yes.

F:and the Jap.....

H.M.Jr: Yes.

- F:to immediately begin trade negotiations. Now in each one of those three instances we've had a six months' diplomatic situation on. In the case of Germany, we very definitely can not get into that until we've got the British thing out of the way and have been exerting ourselves very much to that effect.
- H.M.Jr: Yes.
- F: In the case of Italy - to show you what he stepped into -
- H.M.Jr: Yes.
- F:we to-day are concluding a a modus vivendi.....
- H.M.Jr: Yes.
- F:which we insisted on.....
- H.M.Jr: Yes.
- F:with a new trade article.....
- H.M.Jr: Yes.
- F:in order to see whether they would carry out anything satisfactory before we'd enter into a trade agreement.
- H.M.Jr: Well just - just wait - will you hold the wire?
- F: Yes.
- H.M.Jr: Now I'm all alone. Go ahead.
- F: We - we choose to enter into a trade agreement with Italy saying we'll work on this modus vivendi with you.
- H.M.Jr: Yes.
- F: Then if, under the terms of this modus vivendi, this new provision that we've worked out works all right at some later time we'll talk trade agreement.....
- H.M.Jr: Yes.

- 5 -

- F:the difference being under the modus vivendi we just give them - continue most favored nation treatment. Under a trade agreement we'd cut rates and so on so we definitely told Mussolini we wouldn't enter into a trade agreement. He tells Azzolini who immediately said he'll report to Mussolini that we wanted an immediate trade agreement. With the Japs, he steps into that situation and urges them. He - he picked the three worst possible situations.
- H.M.Jr: Ah-ha.
- F: Now - I agree with you. I think he considered himself as carrying out the Secretary's instructions although, even then, it's naive. He certainly conceived himself as Economic Ambassador at large. If he mustn't have.....
- H.M.Jr: Yes, but listen, old man, I have sympathy, see, but he isn't - on this he's essentially not acting as my agent.
- F: Oh this isn't complaint to you in the least.
- H.M.Jr: Oh.
- F: Ah - gosh - ah - this is report to you because we don't - I told Jimmy Dunn that I didn't think we should move in this matter without acquainting you with what we plan to do.
- H.M.Jr: Well that.....
- F: We're not asking the Treasury to do anything but on the other hand I didn't feel that we ought to move without - without acquainting you, do you see?
- H.M.Jr: Well that - that I appreciate because I mean if you're going to sort of call him down in the eyes of Schacht and the rest.....
- F: That's - that's the whole thing. That's why I'm calling you - exactly. I suggested that we shouldn't move in this thing without.....

H.M.Jr: But Mr. Hull realizes that this is - Cochran is acting under instructions from him and not from me.

F: Well Mr. Hull - oh yes - Oh.....

H.M.Jr: But there's no misunderstanding there?

F: Oh no - oh no. The only reason for the telephone call is to - it's my idea because I felt - that's the only reason - there's no thought that he's acting under instructions from you or that he was acting as your man or anything of that sort in this. It was because I felt that any action we took would affect possibly Treasury relationship.....

H.M.Jr: Well -

F:that I felt that before taking it we ought to acquaint you with what was in prospect.

H.M.Jr: Well as long as you have called me up.....

F: Yes.

H.M.Jr:when you do decide what you're going to do would you mind letting me know?

F: I can even go further. I can give you an indication now of what we'll probably do - if you want to hear it.

H.M.Jr: Ah - just a second.

F: Well if you don't, I can give it to you later.

H.M.Jr: (Conversation aside with Miss Chauncey)

H.M.Jr: Hello

F: Yes. Do you want to hear what we.....

H.M.Jr: Please.

F: The present idea is - we think we've got no choice, since he's stepped into the most troublous situation, except to ask him personally to telephone Schacht and Azzolini.....

H.M.Jr: Yes.

- 7 -

F:and say to them that they must realize that those are his personal suggestions;.....

H.M.Jr: Yes.

F:that he had no authority in putting them forward at all. In short, withdraw - practically withdraw the suggestions.

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

F: The Japs we'll have to handle from our end.

H.M.Jr: Well I can't - I can't - I have no suggestions and no objections.

F: Right, well I just wanted to make sure.

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

F: And I don't think we'll even give him a personal reprimand.

H.M.Jr: I've got your letter.

F: Yes.

H.M.Jr: Was it marked, "Personal and Confidential"?

F: I can't tell you, Henry.

H.M.Jr: But anyway I've got it and there's only one copy and you don't want it circulated.

F: That's right.

H.M.Jr: Well it won't get out of my hands.

F: Now if there's any other action taken besides the one I'm discussing, I'll let you know.

H.M.Jr: Thank you very much.

F: Right.

December 16, 1937

Dear Dr. Feis:

This will acknowledge receipt of your letter of December 15th, transmitting a copy of Mr. Cochran's telegram, No. 1727, dated December 14th. I have read the cable with interest.

Sincerely,

Dr. Herbert Feis,
State Department,
Washington, D. C.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



*File
Morgenthau*

DEPARTMENT OF STATE
WASHINGTON

December 15, 1937.

My dear Mr. Secretary:

I am enclosing for your confidential information a copy of a telegram (partially paraphrased) from Mr. Cochran, dated December 14, in which he gives the substance of certain conversations which he had with central banking contacts, principally on trade matters.

Sincerely yours,

Herbert Feib

Enclosure:

No. 1727 from
Paris, December 14.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 14, 1937, 11 a.m.

NO.: 1727

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF STATE AND
FOR COPY TO THE SECRETARY OF THE TREASURY FROM COCHRAN.

I submit the following telegram, separate from the telegram No. 1726, since several of my conversations at Basel touched more upon trade than finance and might therefore be of some primary interest in the Department of State.

There is general feeling among my central banking contacts that gold loans or credits or revolving funds to assist central banks in reestablishing their respective currencies on stable bases are not in themselves sufficient; they feel that these measures should only be used as auxiliary measures, and only where necessary. The main requirement is so to manage the country's disposal of its goods and services that it gains foreign exchange and so to manage its internal economy that such exchange may be safely held and profitably employed. Fulfillment of these requirements accomplished, there is hope for a stable currency and an economy which is nearer normal. My friends, while appreciative of all of the many other benefits, look upon lowering of trade barriers as being directly helpful in effecting the most normal and lasting distribution of the gold stocks of the world, which is a prerequisite to currency stabilization

- 2 -

stabilization on a general international scale. Should there be brought about a more general distribution of gold stocks, this would eliminate disagreements of sterilization and should render the present gold price more secure. In addition the return to a world monetary standard would be made more certain, and at the same time the rise in world commodity prices would be made more bearable. This rise is eventually expected in view of the extensive currency depreciation.

If trade is to be used by American policy as an instrument of peace, it would seem logical to attempt to carry this policy to the warlike. Therefore I had separate talks, quite confidentially and without any pretense of authority, with the Reichsbank's President Schacht, the Bank of Italy's Governor Azzolini, and the Bank of Japan's European representative, Yanagita. I told these representatives of our announced commercial agreement negotiations with Great Britain and Czechoslovakia, and explained our plan of generalization of concessions under a most-favored-nation policy. One point I brought out was that many of Czechoslovakia's and Great Britain's exports to the United States were manufactured in Japan, Germany and Italy, too, and emphasized the economic advantages to them of profiting from privileges similar to those which may be granted

- 3 -

granted to Great Britain and Czechoslovakia.

I told these representatives that opposition to these two trade agreements was expected from ^{certain} American industrial interests, and even ventured personally to wonder whether, in view of this opposition and taking into consideration American business decline, increased unemployment and the rise in cost of living in the United States, it might not be that strong pressure would develop to influence the Government not to generalize these new concessions to countries which so far have shown no convincing desire or capacity to negotiate agreements with the United States. Such countries, it occurred to me, would improve their chances by establishing their eligibility through negotiations entered into before the Anglo-American agreement is consummated.

I was told by Schacht that he understood the outlook for a treaty was viewed with skepticism in London. I told Schacht that it was only after months of study that the recent announcement was made by the United States and Great Britain, and that unless the responsible authorities were reasonably sure of a favorable issue they would not have made the announcement. Schacht and I had a long talk, and at the end he said that although he is no longer Minister of Economics, he will take it upon himself to see that

Dieckhoff

- 4 -

Dieckhoff at once looks into the matter of regularizing the position of Germany looking toward possible negotiations for an agreement.

There is a keen desire on the part of Azzolini to make every effort to extend the trade of Italy since there is real cause for concern about the present foreign exchange situation as well as the treasury position of Italy. Azzolini had not before our talk consulted with Guarneri and d'Agostini to ascertain the present status of the Italo-American trade relations with which they, and not Azzolini, are concerned. However, Azzolini told me that upon his return from Basel to Rome he would go directly to Mussolini and urge an approach to the American Government. The exchange control of Italy he insisted was sufficiently flexible to be fitted in with a trade agreement. He said it was in fact being used partially as a means for negotiating commercial accords.

The Japanese representative, Yanagita, thought that an end to the Japanese-Chinese affair was rapidly drawing near. The capture of Nanking he thought would bring the Japanese move to a pause and there would be time for reflection on the part of both the Japanese and the Chinese. Yanagita expressed regret that the need for conserving

the

- 5 -

the gold and foreign exchange resources of Japan for military purposes had made necessary the imposition of certain restrictions on imports into Japan. Yanagita reminded me that the United States and Japan were natural friends and traders, and expressed the hope that very soon a move might be made to improve relations between Japan and the United States so that normal commerce could be restored and expanded. He hoped that the United States would continue to grant Japan most-favored-nation treatment. He made the recommendation that the United States consider some sort of credit or deferred payment for Japanese importers from the United States, the amount of Japanese excess of imports over exports being covered approximately by such credits or deferred payments. In 1936 he said there was an import excess of almost 300 million yen, for Japanese exports to the United States were 650 million yen and Japanese imports from the United States were 952 million yen.

The/~~man~~^{opinion} was expressed by Norman that the negotiations of the United States with his country would be drawn out over several months, but that eventually, and in spite of objections of British manufacturers and supporters of the policy of Imperial preference, an agreement of fair scope would be consummated.

Last

- 8 -

Last week Niemeyer had a talk at Geneva with Leith-Ross and found the latter quite optimistic as to the outcome of the negotiations.

The BIS economist Jacobson believes that the United States and Great Britain will negotiate a good agreement. He is influenced in his opinion by the fact that Chamberlain, known to be a strong advocate of empire policy, is (omission) it. Chamberlain occupies a strategic position and a great deal of prestige at present, and he is trusted in financial and business affairs. One good argument which he can use is the fact that one of the original purposes of the present customs duties of Great Britain was to provide a bargaining weapon for tariff and trade negotiations, and that it is logical that reductions in these duties be made now in their negotiations with a large and friendly customer.

With the consummation of a trade agreement between the United States and Great Britain, the latter is thereby in a good position to serve notice on her colonies that when current agreements with them expire, (omission) agreements will be expected.

The Swedish Central Bank Governor said he was highly pleased at the working of the trade agreement which we have
with

- 7 -

with his country. He related to me the experience of a large Swedish manufacturer of electric elevators as an illustration of liberal trade policy benefits. This particular firm had not made much improvement in its product during the thirty years that the Swedish market was closed to imports of elevators. It was not able to export any elevators. With the opening of the market to ^{the} foreign product, the concern had to improve its elevators and lower the price on them. The firm was so successful that now it has overcome all foreign competition on the Swedish market and is exporting 40 percent of its production.

A member of the BIS economic staff, Conolly, is just completing a comprehensive and authoritative memorandum on international trade financing. Very soon I will be able to make this available to you. I am quoting in the meantime pertinent excerpts from the introduction and conclusion - but it must be remembered that this is only a first draft and there should be no publicity on any of it:

BULLITT.

END SECTIONS ONE TO SIX, INCLUSIVE.

EA:LWW

JR

GRAY

Paris

Dated December 14, 1937

Rec'd 2:30 p.m.

Secretary of State,
Washington.

1727, December 14, 11 a.m. (SECTION SEVEN).

Introduction. "It is not generally realized how profoundly the financing of international trade was dislocated during the world crisis and how much ground still remains to be **regained**. It is well known that at its worst the volume of world trade declined by one-quarter from the 1929 level and its gold value fell by two-thirds; but the credits currently outstanding on account of foreign trade were contracted by an even greater extent: a lower value of trade naturally needed a smaller volume of financing but in fact credits were granted for smaller and shorter periods so that total credits outstanding fell considerably more in proportion than trade itself. So far did this go that over a wide area trade normally conducted on credit terms was reduced to a cash basis, the few "credits" remaining being the proceeds of exports blocked in the receiving country. The position was further distorted
by

-2- #1727, December 14, 11 a.m. (SECTION SEVEN) from Paris.

by the fact that in some cases the countries usually in receipt of trade credits on balance became the unwilling creditors. The reason this question has attracted so little attention while the evil effects of quotas and other obstacles to trade have been emphasized, may be partly explained by the complexity of the subject and partly by its obscurity, the facts being largely unknown.

BULLITT

PRA:KLP

JR

GRAY

Paris

Dated December 14, 1937

Rec'd 3:15 p.m.

Secretary of State,
Washington.

1727, December 14, 11 a.m. (SECTION EIGHT).

Conclusion. To summarize the conclusions reached: trade financing has fallen more severely in central and southeastern Europe than the decline in trade itself. Western countries have put pressure on Germany, first for the repayment of standstill and later of clearing debts. Germany has probably reduced the volume of the credits she grants to importers in central and southeastern Europe although there must still be a large volume of such credits outstanding. The pressure on Germany has meant however that to a large extent her imports from agricultural countries normally paid cash have been delayed by the accumulation of debts on the clearing accounts. The countries around Germany have striven to export overseas to obtain free devisen. For these countries there are two balances of payments, that in blocked currencies and that in free devisen. To pay debt service and purchase certain essentials such as rubber and other raw materials coming from overseas they must strive to have a surplus on the free devisen account

-2- #1727, December 14, 11 a.m. (SECTION EIGHT) from Paris.
account whatever happens to the blocked account. Dr.
Englis, at the annual general meeting of the National
Bank of Czechoslovakia in February 1937 drew attention
to this fact: 'Thus we have in fact two foreign market
spheres, two trade balances and, two balances of payments'.

BULLITT

KLP:CSB

LMS

GRAY

Paris

Dated December 14, 1937

Rec'd 3:50 p. m.

Secretary of State,
Washington.

1727, December 14, 11 a. m. (SECTION NINE)

Out of the favorable balance with the clearing countries we cannot pay off the adverse balance with the free market countries, and even if we had a considerable favorable balance against the clearing countries our reserves of exchange and gold would decline so that as our balance vis-a-vis the free markets was adverse".

This problem has recently come to the fore in the discussions of the raw materials committee of the League of Nations and certain plans such as that of Monsieur Tomchiloff have been brought forward in an effort to facilitate the import of raw materials by such a country as Bulgaria. But this is only one aspect of a larger problem. The solution of this problem for the countries normally depending on Germany for the building up their foreign trade cannot be solved without tackling the core of the problem which is found in the German foreign exchange restrictions.

It has

LMS 2-No. 1727, December 14, 11 a. m., Sec. 9, from Paris.

It has so often been recommended that foreign exchange restrictions should be abandoned but it is very necessary to draw the distinction between restrictions on the items in the current balance of payments and restrictions on capital movements. Restrictions on capital movements cannot be removed without a breakdown and any approach along this line seems doomed to failure until there has been a further change of sentiment. More practicable would be an attempt to free the current items in the German balance of payments and if a solution to this problem were found it would solve at the same time most of the currency problems of central and south-eastern Europe. The necessary steps appear to me a devaluation of the reichsmark to such a level that the present export subsidies could be abolished.

BULLITT

CSB

LMS

GRAY

Paris

Dated December 14, 1937

Rec'd 4:05 p. m.

Secretary of State,
Washington.

1727, December 14, 11 a. m. (SECTION TEN)

At the same time the registered mark would have to be abolished and tourist expenditure at present earmarked against standstill agreements should accrue to Germany. This together with the increased product of shipping freights and other services should allow the freeing of foreign trade from present restrictions and increase the possibilities of trade credits to Germany freely granted and the resumption of German long term debt service at first on a reduced level while negotiations were undertaken for final settlements.

As regards the possibility of increased trade credits to Germany there seems to be two approaches. In the first place a renewed study of the trade credits granted through the gold discount bank in 1924 and 1925 should be made. Secondly, trade credits were granted to Russia from 1922 onwards reaching in 1930 the equivalent of some pounds 100,000,000 that is roughly equal to a whole year's imports. On these credits no losses

WERE

LWS 2-No. 1727, December 14, 11 a. m., Sec. 10, from Paris.

were made.

Credits were first extended by English and American banks to Russia in 1922 secured on foreign currency actually deposited or goods already in warehouses outside Russia. These credits were usually unconfirmed and revoked and in addition the acceptance commission was three or four times the normal. In the autumn of 1925 the credit granted by German banks for the financing of Soviet purchases in Germany began to be significant.

BULLITT

MC:HPD

LNS

GRAY

Paris

Dated December 14, 1937

Rec'd 5:25 p. m.

Secretary of State,
Washington.

1727, December 14, 11 a. m. (SECTION ELEVEN)

As time went on the granting of credits to the U.S.S.R. became more liberal as to amount and security. At first the credits, as already mentioned, had to be covered 100 percent by foreign exchange deposits and goods warehoused abroad, but gradually the foreign exchange deposit required was reduced to 50 percent and the credit was granted against advice that goods were ready ^(for?) from despatch or were warehoused in Russia. Credits granted with regard to Russian imports have in many cases carried Government guarantees and it is not suggested that such exceptional measures should be taken with regard to new credits to Germany. There appears to be much greater possibility from financing German exports where the importer i.e. the final debtor is to be found under the same jurisdiction as the accepting bank, than there is for the financing of German imports. Later, if it is found that such a scheme could work, credits could be extended with regard to

LFS 2-No. 1727, December 14, 11 a. m., Sec. 11, from
Paris.
gard to trade between two countries, neither of which
could afford to give credit to the other. The exper-
ience of American acceptors recently reviewed in a
report by the Federal Reserve Committee on acceptance
practice is worth study in this connection.

BULLITT

SFS:NPL

EDA

GRAY

PARIS

Dated December 14, 1937

Received 6:20 p.m.

Secretary of State

Washington

1727, December 14, 11 a.m. (SECTION TWELVE)

The importance of foreign trade has been emphasized repeatedly in recent years, not only for the countries mentioned in this paper but also for England and the United States of America, et cetera. Professor Bohler has emphasized that there appears to be a 'permanent optimum relation between a country's national production and its foreign trade,' and there is little doubt that the volume of foreign trade at the present time is far below that optimum for most countries. It is true that with the growing industrialization of many agricultural countries foreign trade in consumption goods e. g. textiles, leather and rubber goods, et cetera, tends to become relatively less important but it is precisely in that sphere of production i.e. in raw materials and in capital goods where credit terms are most necessary, that the future expansion of world trade seemed to lie. American export trade for example before the war amounted to around 46 percent of industrial semi-manufactured finished goods and

EDA - 2 - #1727, December 14, 11 a.m. Section 12.

and this percentage increased to 60 in the period 1926 to 1930 and to 73 in 1937. This experience is similar to that of the other industrial countries. If more trade financing is necessary it appears probable also that with the emergence from depression the banks must also take a larger share. The excessive liquidity of many companies which has enabled foreign trade still to be financed to some degree without much help from the banks was itself a product of the depression. As prices rise liquidity of the producing companies is reduced and bank credit becomes more necessary both international and internal.

BULLITT

SMS:NPL

JS

Gray

PARIS

Dated December 14, 1937

Rec'd 7:09 p.m.

Secretary of State,
Washington, D.C.

1727, December 14, 11 a.m. SECTION THIRTEEN.

Nothing can come without confidence and confidence must return naturally as the result of conditions deserving confidence--it cannot be manufactured but with confidence there is a large margin to be made up of normal foreign trade financing. Fears of a return to the exaggerated trade credits of the years 1928 to 1930 are not appropriate until a much greater expansion has taken place from the present very low levels.

In conclusion it may be mentioned ^(that?) and the estimates of the balance of payments of Germany made by the Institute Furkonjou Turf Orschung show in 1924 an increase in the credits given to German exporters by some rm 1,250,000,000 (that is the increase during that year was greater than the present total of standstill credits outstanding). An official statement covering these estimates said that: "balance of payments in 1924 and 1925 is the outcome of the merging of German economic life into that of the world following on the stabilization of the reichsmark."

(END OF MESSAGE).

BULLITT

SMS NPL

MEMORANDUM OF THE DAY'S ACTIVITIES

December 15, 1937

To: The Secretary
From: Mr. Magill

1. Proposed message on overlapping taxes

I spoke to Messrs. Doughton and Vinson this morning regarding the possibility of the President including in his message a proposal to designate an impartial commission to study and report upon overlapping state and Federal taxes and means of curing the present situation. Both men felt that it was an excellent idea and would be well received. Mr. Vinson spoke of the report on the subject by the Joint Committee on Internal Revenue Taxation in 1932; but felt that a new report by an outside group now would be useful.

I discussed the proposal later with Senator Harrison. He said he personally approved the idea and would support it but that he would like to get the sentiment of a few other members of the Senate since he had some doubts as to whether this was the best time for the President to make the recommendation. He later called me to say that the sentiment in the Senate was that it would be well for the President in his message to call attention to the overlapping of state and Federal taxes; that the Joint Committee had reported on the subject in 1932; and that there should be a new study by the Joint Committee at this time. I told him that the difficulty with that proposal was that the states would feel that the report was being prepared by a group which represented only the Federal Government and asked whether it would not be more satisfactory to designate a commission which would be impartial or would contain representatives from both the state and Federal Governments. The Senator, however, adhered to his original position, that the study ought to be made by the Joint Committee and that a proposal of this character in the President's message would tend to promote good feeling in Congress. He said prompt action could be obtained on his proposal and the Joint Committee could go to work as soon as the tax bill is out of the way.

For my part I do not think the Senator's proposal meets the situation as well as the President's suggestion. We will get one more report but the likelihood of favorable action on it by the states becomes more remote.

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2. Tax revision - simplification of court procedure

Mr. Oliphant informs me that in his conference with the Attorney General this afternoon it became clear that the Attorney General did not agree to the Treasury proposal for a single mode of appeal in tax cases. If the Treasury proposal is to be submitted to the Committee Mr. Oliphant believes that the issue between the Treasury and the Department of Justice on this subject will have to be presented to the President for his decision. I have discussed the Treasury proposals informally with Mr. Vinson and he has expressed the tentative conclusion that this is not a good time to bring up proposals affecting the jurisdiction of Federal courts, in view of congressional memories of the court fight last spring. I should like to discuss the situation with you further, since our proposal is in my judgment an important and desirable one. My own present reaction is that we had better let the recommendation go over for this year, much as I regret doing so.

Rm

GROUP MEETING

December 16, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Lochhead
.. Mr. Upham
Mr. McReynolds

H.M.Jr: Mr. Magill, I'd like to try something new. Here's a man by the name of Robertson comes out and says "600% Levy Boost of Westinghouse Enough to Pay 6,500 People Wages," see? I'd like to get out the Westinghouse tax return.

Magill: I anticipated you by twelve hours. They're out in the field now.

H.M.Jr: How could you anticipate twelve hours?

Magill: It was on the ticker.

H.M.Jr: I think we might answer them.

Magill: I think you might too.

Gaston: I was thinking yesterday when I saw that, that you don't even have to go to the tax returns; use some figures on the increase of their profits in business.

Magill: Guy said their returns are under examination in the field. I said anyway to telegraph out and get gross and net income and Federal taxes.

H.M.Jr: Well, let's get their state taxes too.

Magill: Well, they wouldn't have an estate, you see.

H.M.Jr: They pay state taxes.

Magill: Oh, the state.

H.M.Jr: The state and city. Westinghouse. I mean just the way Fortune Magazine took it. And you'd find out the

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proportion of non-Federal taxes each fellow pays is so much greater than ...

Gaston: question of their net profits before tax in the year when they were paying six thousand dollars, and net profits after they paid the taxes when they paid sixteen.

H.M.Jr: The year after. I think we may make a public statement.

Megill: I'd like to. Try to get it this morning if we can.

H.M.Jr: Fine.

Where is Gibbons? You (Gaston) give him that (clipping from Wash. Post of 12-16 - "Bootleg Fleet Held Supplying Lottery Tickets").

I've got an invitation to go up to the Yale-Harvard-Princeton Conference on Public Affairs. I did it last year, Herbert. Don't you think that's enough?

Gaston: Oh, I should think so.

H.M.Jr: What?

Gaston: I think so. I don't believe there is any reason why you should burden yourself with it unless you particularly want to.

H.M.Jr: (To reporter) Give this to Miss Chauncey and ask her to write a polite letter of regret.

What else?

Megill: Nothing. We're working on that matter of yesterday afternoon.

H.M.Jr: Oh. Can I have something?

Megill: We'll have something.

H.M.Jr: I don't know whether the President will see us, but I asked him to see us at two o'clock today on that.

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(To Oliphant) I refuse to put my name to an estimate for business for the next 18 months. I won't do it, - especially in view of the fact that the October 19 estimate is now off 330 million dollars.

You might start working, Herbert - go back to 1930, will you, this morning, please - this is important; I want you in on that at 11 o'clock - and take every budget message beginning with 1931 and see what it was and see how far off they were.

Magill: We got that back to 1927.

H.M.Jr: Have you? Who's got it? Going to bring it in?

Magill: George Haas got it together.

Haas: Yes, yes. I'll give it to Herbert.

H.M.Jr: Let Gaston sit in, because this is 90 percent a matter of how it's going to be presented. What's it look like?

Haas: Oh, the largest error was 48 percent. And since you've been in the Treasury - that's the best sector of the curve, isn't it, Ros? Since you've been in the Treasury - your error has been the smallest.

H.M.Jr: Well ...

Haas: Much smaller than the average. I mean taking the best part of the other curve.

H.M.Jr: Let me just take a minute. I don't know of anything of more importance. I want Herbert Gaston to get this, because it's largely a matter of presenting it. When the thing gets down the way it is now, nobody can estimate it. We have had three estimates and they're all wrong; and going back to last January, they're off a billion dollars.

Now, Danny Bell, of course, went right up through the ceiling - "This is going to break the budget" and all that. Well, there's nothing that will break the budget quicker than for the Secretary of the

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Treasury to hand the President a wrong estimate. And there is no business man who's got the faintest judgment that's going to say what his business is going to be the first six months of '39. And I claim that, if properly presented, the business man will say, "Morgenthau has got horse sense. Of course he isn't going to extend himself and say what business is going to be the first six months of '39. It's ridiculous." And then that stuff - it will be the President rather than me, unless the President uses a letter which I give him, and I'm willing to stick my neck out.

And if he does it the regular way, how can anybody tell? "The President of the United States can tell us what business is going to be the first six months. Well, he's a crystal gazer."

What we're proposing to do, unless there is something else, is to give them the estimates of expenditures and let them chew on that for three months, see, and then after we get the tax returns, the boys say that the first week in April they can give a 50 percent better estimate, and let the estimate for revenues go up in April, see?

Furthermore - I thought this over - I think it's a wonderful weapon for the President to hold over their heads, because he isn't going to say until April how much revenue he's going to demand. He can keep cracking that whip all that time. "Now, you do this Agriculture - all right, I'm just going to add that to my tax bill, that's all." I slept on it; I think it's a swell idea. The Bureau of the Budget sends up an estimate of what things should cost. That's what the President does. He's given them an estimate. On the revenue - he doesn't say this publicly, but privately - "Well, gentlemen, I'll wait until I see how you behave. I'll send up my revenue estimates in April, when you pass these various bills. Oh, I'll sign this; I'll sign the agricultural bill, but I'm just going to add that much to taxes."

I think it's a swell thing. As a matter of fact, the more I think, the more I like it. Do you (Upham) get what I mean?

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- Upham: Yes.
- H.M.Jr: I mean supposing they say, "Well, the President has got from now until April to estimate what revenues he's going to need," and if they think that's going to hang over them, I think it's going to dampen their feeling for spending money. I think it's a sensible way to do it.
- Gaston: I wonder if there isn't something in the statute to forbid that.
- Magill: There is.
- Upham: Want to change that.
- Gaston: We're required to submit in January an estimate of the revenues and expenditures.
- H.M.Jr: That's why I want to see him. And who's doing that for you?
- Magill: Well, that's easy. It's right there in the book.
- H.M.Jr: All right. We can get a resolution through.
- Upham: At this session - special session?
- H.M.Jr: Yes.
- Gaston: Of course, it will be a wholly novel procedure. The custom has been in times of declining revenue for them to make an optimistic guess, and in times of rising revenue they make a conservative guess.
- H.M.Jr: Do you get what I'm after?
- Gaston: I get what you mean, yes.
- H.M.Jr: And if this thing is wrapped up in a nice way - "Well, Roosevelt and Morgenthau - both of them have got their feet on the ground."
- Oliphant: I'd like to take a look at that statute.

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H.M.Jr: All right.

Oliphant: See whether or not it requires the impossible.

H.M.Jr: What?

Oliphant: I'd like to see whether or not it requires the impossible.

Magill: Well, it's got this kind of a loophole; it provides that you shall give estimates in summary and in detail of receipts and expenditures for the existing fiscal year and the ensuing fiscal year.

H.M.Jr: Well, that's the purpose of a 9:30 conference, to keep each other informed.

Gaston: I suppose there's nothing in the law to prohibit your sending up your formal estimates, just exactly the revenue that we are anticipating for this year, and saying in the text of the message, "We don't believe this; we don't know whether this is above or below; but the law requires us to make some kind of an estimate, so we're putting these figures down. We'll supplement them later."

H.M.Jr: That loses the whole thing. No, we either - no, I don't want to do that. That, I think, is terrible.

Gaston: Well, I was thinking about the requirements of the law.

H.M.Jr: Well, you can get through a resolution.

Oliphant: You mean to change that rule?

H.M.Jr: Yes.

Oliphant: (Nods negatively)

H.M.Jr: What's the matter with that? Why can't the President get a resolution through?

Oliphant: Excusing him from making the estimates, you mean?

Upham: Postponing it.

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H.M.Jr: Postponing it.

Oliphant: I think one chance in a thousand of getting it through. Political reasons. That is, they'd see the very thing that you point out.

H.M.Jr: Well, anyway, take a look at it. You're invited here for 11 o'clock. And you (Gaston).

Gaston: I'm still a little doubtful

H.M.Jr: What?

Gaston: I'm still a little doubtful of the idea.

H.M.Jr: I say it's 90 percent.

Well, I'll tell you this, Herbert. I will not send in an estimate, so I have - so it isn't a question of whether you're doubtful. I positively refuse to send in an estimate, so what I told these fellows - they could work from that basis and use their "bean"; and I say there's enough brains in the Treasury to do it. Because I have positively - I will not send in an estimate. So it isn't a question, will I or won't I. I won't! Now, the question is - the question is - it's past the arguing stage, is it a good idea or isn't it? I say I won't. Now, the question is, what are you going to do about it, see?

I say that to constantly send up estimates which are three times wrong in a year - there's nothing that shakes the confidence of a nation worse. And I say I will not send up another estimate when no business man, no economist in America, would put his name to it; why should I do it?

As a matter of fact, publicly I don't appear. I keep thinking of the President of the United States. They keep thinking about - nobody will believe him. I say about giving people confidence I've reached the point - just so you two gentlemen get this - I flatly refuse to do it. I said to these people yesterday when they brought this thing in - they sit down and say, "Average of production for next year, 95 - Federal Reserve." How the hell do they know when it's 90 now that it will be 95 average next year?" It goes down and they say it'll be 85 in January and it's got to go

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up to 120 in December. I told them they used every method except looking at tea leaves; they overlooked that. That's no reflection on you, George.

Haas: Did the best we could.

H.M.Jr: You had a job to do and you did the best you could. But I say it's just crystal gazing after all.

So, Mr. Gaston, it isn't a question - the question for you and Mr. Oliphant, if you're going to join this group, is to find out what you're going to do about it.

(Hearty laughter)

All right?

Magill: Well, the starting question is a lawyer's question, as a matter of fact.

H.M.Jr: All right, we've got a good lawyer.

Magill: You start with the provisions of the statute.

H.M.Jr: All right, we've got a damn good lawyer. Now, what's he going to do about it? "Old Loophole" - we'll call him "Old Loophole" Oliphant. We'll see if he can't find a loophole. Herman?

Oliphant: All right, We'll take a look at the statute.

H.M.Jr: All right. If DuPont - after all, if DuPont can find one, why can't you?

Upham: He's just been closing them.

Oliphant: DuPont doesn't pay me.

H.M.Jr: Well, I'll pay you. There's six billion dollars involved.

Magill: Section 11 of Title 31.

Oliphant: Well

H.M.Jr: Now, have you got the proper - do you know where

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you're jumping off from, Mr. Gaston?

Gaston: Yes, I know.

Magill: In mid-air somewhere.

Oliphant: No, he just knows where he's going to land.

H.M.Jr: Well, he knows where the scratch line is, where he's starting from.

All right, who else has got anything this morning?

Gaston: Of course, if you're going to abandon hypocrisy in governmental matters, you're up against a pretty hopeless situation.

Taylor: It's an interesting innovation. I think it ought to be tried.

Upham: Just a beginning.

Oliphant: Transacting public business publicly.

H.M.Jr: Well, I want the history at 11 o'clock to show what some of these other birds who were Secretary of the Treasury did.

Haas: That'll make you feel a little better.

H.M.Jr: Well, I want that, and have it by 11.

Haas: I have it already. It's already written up.

H.M.Jr: Let's have it then.

Haas: Have it all ready.

Oliphant: Year before last did it, when Jackson was there.

H.M.Jr: You (Oliphant) got anything?

Oliphant: Well, I had

Magill: Not a care in the world.

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- Oliphant: I had a conference with the Attorney General on our plan to improve our court system. Did you get a look at that?
- Magill: I gave you a brief in that memo.
- H.M.Jr: I didn't read your memo last night.
- Magill: Well then, you don't have it.
- H.M.Jr: I had Mr. White and that fellow (Lochhead) at the house. Then I went to sleep.
- Lochhead: That shows you how good we were.
- Oliphant: Well, he's opposed to our plan merely because the alternative plan that they've put up to him would enable him to reopen the court.
- H.M.Jr: This is too - I can't - in the mood I'm in this morning, I can't take it.
- Oliphant: You can't?
- H.M.Jr: No. What do you two gents recommend?
- Oliphant: Well, we have a good plan for improving the tax courts - splendid, fine plan. The Attorney General is opposed
- H.M.Jr: I can't hear you.
- Oliphant: The Attorney General is opposed to it for the reason I stated, that an alternative plan which his staff suggests gives him a chance to open a court right away, speaking very bluntly. So the thing is out unless the President wants to interest himself.
- H.M.Jr: Well, I'd say with all we've got on the gridiron this week, I wouldn't bother the President about that, but - I mean
- Oliphant: Of course, he could conceivably go over into January and February, then take it up.

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H.M.Jr: Oh, very definitely, with what he's got on his mind.

Oliphant: I suggest we take it up with the Chairman of the Judiciary Committee in the Senate.

H.M.Jr: Listen, I'll tell you right now, between now and the first of the year, law reform can be postponed.

McR: Oliphant's going away.

H.M.Jr: Listen, we can't be - what did you say, Herbert? - we're going to be from now on - oh, give up hypocrisy. Well, we can't give up both hypocrisy and

Oliphant: ... and idealism?

H.M.Jr: No, we'll give up hypocrisy and postpone law reform.

Taylor: For two weeks.

H.M.Jr: For two weeks. You go down to Key West.

Oliphant: Reform's off, Oliphant's away.

H.M.Jr: What's he say? I didn't here what he said.

Magill: "Reform is off, Oliphant's away."

H.M.Jr: That's all right.

Oliphant: O.K.

H.M.Jr: Listen, if you're that snappy, you don't have to go away.

Oliphant: I told Mrs. Klotz about my
(Mrs Klotz comes in)

H.M.Jr: Good morning.
He just told me, "Oliphant's going away, reform is off." I said, "If he feels that snappy, he doesn't have to go away."

Klotz: (Laughs)

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H.M.Jr: Taylor?

Taylor: Yes, sir.

H.M.Jr: How are you and Nathan Straus these days?

Taylor: Haven't seen Mr. Straus.

H.M.Jr: Well, how's Mr.

Taylor: I assume we're getting along fine.

H.M.Jr: Well, how's Mr. McReynolds and Nathan Straus?

McR: The only thing I ~~heard from~~ Nathan was that he hadn't got anything from Mr. Bell. I told him I spoke to Mr. Bell in the Treasury but I hadn't been able to find him in the Budget.

H.M.Jr: And Taylor says, "Good old Danny Bell." This is a very snappy meeting this morning.

Taylor: But I haven't seen Mr. Bell either.

H.M.Jr: All right. What else?

Taylor: Mexico.

H.M.Jr: Well, I talked to Sumner Welles last night.

Taylor: I just talked to Feis right now.

H.M.Jr: Yes. And?

Taylor: My recommendation is that the boys cool their heels for quite a period.

H.M.Jr: And give the Japs and Germans and Italians a chance to go in there?

Taylor: For two weeks.

H.M.Jr: Well, Sumner Welles is coming over this afternoon and I'm going to see him alone at 3:30. At 3:30 he's coming over. He says he wants to see me very much. See?

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Taylor: Well, I gathered that they - they spent an hour and a half or two hours yesterday afternoon and got nowhere.

H.M.Jr: Well, they wouldn't.

Taylor: What?

H.M.Jr: They wouldn't. I told you that.

Mrs. Klotz, if the Minister of Finance is still here Saturday night, we'd like to have him - I don't know whether his wife is with him or not

Klotz: Minister of Finance.

H.M.Jr: ... of Mexico - he and his wife, and the Mexican Ambassador and his wife. Tell him just the Morgenthau family, nobody else. If he's still here - 3 o'clock. Just tell him with the family.

Klotz: Saturday night.

H.M.Jr: Well, Sumner - I can wait until I see Sumner Welles. I'm in total disagreement with him, see?

Taylor: Well, I don't know what he told you, but in terms of trading with ...

H.M.Jr: Well, he told me it was hopeless, and I knew it would be hopeless. And I know when they begin to look at this thing, they look just first, can they get some payment for American bondholders, and concentrate on that for two years and get nothing. And then they take a little land from some American land company; they concentrate all their efforts on that for six months and get nowhere. Then they look at the interests of one American oil company and concentrate on that for three months. They're not going to get anywhere. We're just going to wake up and find inside of a year that Italy, Germany, and Japan have taken over Mexico. I'll just put money on it that those boys - it's the richest - the greatest store of natural resources close to the ocean of any country in the world. I mean it's perfectly amazing what they've got. They've

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got everything that those three countries need - everything.

Taylor: I'm not arguing about it.

H.M.Jr: I know, but those boys over there

Taylor: I'm talking in terms of this thing - we ought to stall this fellow a little bit. I don't mean indefinitely.

H.M.Jr: If you don't mind, I'm in complete disagreement.

Taylor: O.K.

H.M.Jr: Complete. And they'll just stall the thing long enough to let these boys walk in there, and we'll just have them walk in - I mean, after all, these countries aren't crazy; they know where they can get oil and they can get quicksilver, get gold and silver and lumber and coal. I mean they know where it is.

Taylor: But they are all three of them fairly busy at the minute.

H.M.Jr: They've got plenty of time for pushing their commercial thing too. Germany is not busy. Germany's got plenty of time. She's got a favorable balance of trade too.

Taylor: You remember my suggestion was a maximum of two weeks, which would coincide with Herman's reform element there.

H.M.Jr: Well, all right. Well, I feel very, very strongly, and I feel they are making a major mistake.

Taylor: What?

H.M.Jr: I feel the State Department is continuing their policy and that they are making a major mistake. Pretty speeches aren't going to get them anywhere. But I'll see Welles this afternoon. I'm going to have a very heart-to-heart talk with him, and - I mean I'd like to - the reason I'd like to see him alone, I want to be able to talk to him in a way I

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can only do if I'm alone with him.

Taylor: Here's a message I just got from Dr. Feis.

H.M.Jr: Yes.

Taylor: I asked the question as to whether we ought to see the Mexicans this morning or not.

H.M.Jr: Yes.

Taylor: This says the following: "Dr. Feis just phoned, saying he has spoken to Mr. Welles, who suggests that you see the Mexicans for a few minutes this morning, but to keep the Mexicans in suspense until Monday."

H.M.Jr: All right. Well, will you see them?

Taylor: What will I talk to them about?

H.M.Jr: Suspense. I mean I won't see them and I won't kid them; I won't kid them. I would suggest that you don't see them until after I see Welles this afternoon.

Taylor: Well, I think that's much better.

H.M.Jr: I don't want the Treasury to kid them.

Haas: I have nothing except I'm going to be tied up, I presume, this morning at least, on this problem in connection with the estimates. I asked Miss Michener to call up Ruml - some questions.

H.M.Jr: All right, you hang on to it. I told you and Ruml - she can come in a quarter of 12.

Lochhead: (Nods nothing)

Upham: (Nods nothing)

McR: Nothing.

H.M.Jr: I read your thing last night. You don't think the Intelligence

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McR: There's nothing that the Intelligence Unit didn't have when we made the investigation in Baltimore. Not one single thing.

H.M.Jr: Well, why was that boy moved from Baltimore to Kansas City? That's what I want to know.

McR: It was on his own formal application for removal, his own initiation. They didn't put him out of Baltimore.

H.M.Jr: They didn't?

McR: He didn't like the assignment he got there.

H.M.Jr: Well, Mac, you see the boy and have a heart-to-heart talk. I think he's a psychopathic case.

McR: Perfectly obvious that he is.

H.M.Jr: I think the boy's got a mental disturbance.

McR: Perfectly obvious.

H.M.Jr: Name's Davis, isn't it?

McR: Yes, Davis is the name.

H.M.Jr: You (Taylor) know that case.

Taylor: (Nods yes)

H.M.Jr: He thinks Harold Graves is going to machine-gun him.

Klotz: He may.

McR: I'm afraid Graves hasn't shot a gun for 25 years, and he wouldn't know how to point it.

H.M.Jr: Herman, how about that fellow that's got a baby and brother and everything else?

Oliphant: He's working with Lawes over in Procurement.

H.M.Jr: How much?

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Oliphant: Twenty-six.

H.M.Jr: Is that temporary or permanent?

Oliphant: Temporary.

H.M.Jr: Before you lay him off, will you talk to me?

Oliphant: Yes.

H.M.Jr: Please.



TREASURY DEPARTMENT
WASHINGTON

Magill 183

December 16, 1937.

To: Secretary Morgenthau
From: Mr. Shoup *CS*

Record of Interview with the President Concerning Revenue
Estimates and the General Problem of the Fiscal Year.

Mr. Magill explained to the President the plan under consideration for postponing the first two quarterly installments of the income tax until July 15th, and postponing the submission of the revenue estimate for the ensuing fiscal year until April 15th, in order that the estimate for the ensuing fiscal year would, so far as the income tax is concerned, be based on revenue derived from business conditions of the past calendar year and reflected in the returns which would be filed as usual on March 15th.

The President raised the objection that Congress would need a revenue estimate earlier than April 15th, in order to work intelligently with the Appropriation Bills, especially in 1938 when the Congress would be eager to adjourn by April or May. Mr. Shoup pointed out that if this objection proved strong enough to bar the postponement of the date of submitting the estimate there would still be reason for postponing the date of tax payment since the estimate to be given in January for the ensuing fiscal year would be for income tax solely on calendar year 1937 business. Of course, this estimate, while more accurate than the one possible under existing law, would not have the precision of an April 15th estimate.

The President pointed out that these plans were merely part of the general problem of the Government's fiscal year. He remarked that the layman is usually confused by the distinction between a fiscal year and a calendar year. This confusion could be removed and several other advantages gained, the President continued, if the fiscal year were changed so that it coincided with the calendar year. Without attempting at the moment to weigh the advantages and disadvantages the President outlined for further study the following plan:

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Let Congress, during the first half of the calendar year, formulate and discuss Appropriation Bills for the succeeding calendar year. These bills would not be passed before the adjournment in the Spring or Summer, or, if passed, would be clearly understood as subject to amendment. In the Fall the Director of the Budget would compile his data for the forthcoming calendar year. Congress would meet in November for an "Appropriation Session" and would be in a position to revise speedily the appropriation bills considered earlier in the year, using now the data furnished by the Director of the Budget. This plan would make easier the task of estimating expenditures for the ensuing fiscal year since even the end of that fiscal year would be only about fourteen months away instead of about twenty months as under the present system. It would also make the task of estimating revenues somewhat easier than under the present system since the income tax collections would be derived from incomes arising during a calendar year of which four-fifths would have elapsed by the time the estimates were made. To make the estimates still more dependable, it might be feasible to request corporation taxpayers, and possibly even some individual taxpayers, to submit in November a simple one-page estimate of what their income would probably be for the current calendar year. April 1st might be a good date for final returns. The precise date of payment would not be especially important but some time in July might be advisable.

The transition from the present fiscal year to the new fiscal year could be made either by extending the current fiscal year six months so that it would be eighteen months in length, or by creating a transitional six months fiscal year. If the plan were to be put into effect as soon as possible perhaps the best way would be to have the Congress consider and possibly pass (subject to amendment) during the Session in the earlier part of 1938 the Appropriations for the calendar year 1939. Meanwhile, the six months, July - December, 1938, inclusive, would be cared for by simply appropriating for each activity for that period fifty per cent of the appropriations for the fiscal year that ends June 30, 1938.

The President also pointed out that if no changes at all were made in collection dates or in the fiscal year it might be advisable to stress, in the January message, the fact that the estimate for the ensuing fiscal year was nothing but guesswork, and this might be supplemented by revised estimates every month. The Secretary emphasized the danger, however, that no matter how carefully the estimates were qualified they would be subject

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to misrepresentation. He referred to the record under Secretary Mills during 1931-1933 where the percentage of error during the recession was as high as forty-eight per cent in one year and in no year lower than seventeen per cent. The record for 1934-1937 shows far smaller percentages of error, but again the Secretary stressed the great uncertainties produced by the current business recession and said that none of even the best forecasting experts were willing to say at this time what they thought the calendar year 1938 business conditions would be. It was, he said, especially because of these factors that he thought the plan for a change in the basis of estimates should be given careful consideration.

The conference concluded with the understanding that both the narrower plan for merely changing the estimate date and collection date and the broader plan for changing the fiscal year would be subject to study prior to a resumption to the discussion the following Monday.

Those present at the conference were: The President, Secretary Morgenthau, Under Secretary Magill, Acting Director of the Budget Mr. Bell and Mr. Shoup.

December 16, 1937.
10:49 a.m.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Flexton: Hello.

H.M.Jr: Yes.

F: Mr. Morgenthau.

H.M.Jr: Yes.

F: This is Mr. Flexton speaking, at Princeton.

H.M.Jr: Yes Dr. Flexton.

F: I beg your pardon for calling you in this way, but I think I can probably save more time by calling you than if I didn't. Now I get this morning, from the American Express Company, three letters, one addressed to the Collector of Customs, New York, one to the United States Treasurer, New York, one to the Commissioner of Customs, Washington.

H.M.Jr: Yes.

F: And he writes me, asking me whether in my judgment, they ought to be sent. I haven't done it because they cover exactly the same ground that I covered in my letter to you.

H.M.Jr: Well Dr. Flexton I can't handle these things personally. I don't handle these things personally.

F: Yes.

H.M.Jr: I mean, I don't know - I mean really, it's impossible, I mean I don't even know what it is, if - I take it, it's some document you want to bring in.

F: Yes, they're documents, they're they're they call them.

H.M.Jr: Well I mean,

F: They're documents -

H.M.Jr: I know.

F: Documents -

H.M.Jr: Well let me look it up Dr. Flexton. Really when you consider that I've got sixty five thousand employees and my job, I mean it's almost impossible to ask me - to know the details about one case.

F: Well I appreciate that and - what was in my mind was that these three letters were sent. they will be set to work on relatively small problems.

H.M.Jr: Well, if you'll let me ask Mr. Gibbons, who has charge of Customs and I'll ask him to look into it and get in touch with you.

F: Well I'll, for the present, just hold back these three letters.

H.M.Jr: Well I really can't tell you, Dr. Flexton I'm not familiar with these cases. I mean, let me find out from the Customs.

F: I'll hold them back until I hear from Mr. Gibbons.

H.M.Jr: Well, you'll hear today.

F: Thank you very very much.

H.M.Jr: Well you'll hear today.

F: I don't want to complicate the thing.

H.M.Jr: No.

F: By writing to three different persons at once.

H.M.Jr: Well I don't understand, but you'll positively hear today.

F: What's that?

H.M.Jr: Some one will call you today.

F: All right. Thank you very, very much. I beg your pardon for worrying you.

H.M.Jr: That's all right.

F: Goodbye.

RE SUBMISSION TO CONGRESS
OF REVENUE ESTIMATES

December 16, 1937
11:00 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Haas
Mr. Bell
Mr. O'Donnell
Mr. Shoup
Mr. Gaston
Mr. Helvering

H.M.Jr: Now, who's going to talk first?

Magill: Well, I think you start with the law and then go from there to what changes you may want to make in it.

H.M.Jr: You mean you start with the law and then we talk how we can bend it, huh?

Magill: That's right. That's right.

H.M.Jr: All right.

Magill: That's the customary method of legal procedure as I was taught it.

Oliphant: Well, I'm engaged now - was engaged now in looking through the last thirty annual reports to see whether or not there was any practice on the part of the Secretary of the Treasury which would vary what seems to be the clear law on the thing. I doubt if we'll find anything. I think we'll find that this is the situation: that the Secretary of the Treasury, in connection with his annual report, is under positive statutory duty to make an estimate of public revenues for the fiscal year then current and also for the fiscal year next ensuing at the time the said report is submitted. That is the duty of the Secretary of the Treasury.

The Director of the Budget is under the same - under statutory duty to prepare the budget for the President, and his estimates of receipts of the Government during the ensuing year as well as

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during the fiscal year in progress; and those estimates by the Budget, as opposed to the estimates in the annual report of the Secretary of the Treasury, have to be set forth in general, in summary, and in detail. But the Secretary of the Treasury has no duty to perform in connection with the budget estimates; his duties are limited entirely to his annual report.

H.M.Jr: And is there any limit - any time - as to when his annual report has to come out?

Oliphant: That wouldn't help, because the language is that he must include "estimates of revenues for the fiscal year then current and also for the fiscal year next ensuing at the time said report is submitted."

H.M.Jr: But when does said report have to be submitted?

Oliphant: The time of the submission of the report is not fixed in the statute.

Bell: Time limit on the printing, isn't there?

Oliphant: What's that?

Bell: I think there is a time limit on the printing.

Oliphant: There may be.

Bell: George may know.

Hues: I thought there was.

Bell: I think you have to have the final proof at the Government Printing Office probably not later than December 1, or something like that, I don't know.

Oliphant: But in any case

H.M.Jr: Well then, we've broken the law now.

Bell: I don't think you have complied with it. But I think there is something in the statute that requires you to submit it.

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- H.M.Jr: Well, when the annual report of the Secretary of the Treasury has to go to the Government Printing Office.
- Bell: I think so.
- H.M.Jr: Let's check that.
- Bell: All right.
- Oliphant: Now, to go on. If the Director of the Budget, or if the Secretary of the Treasury and the Director of the Budget, in performing their respective duties, found officially that an estimate could not be made without an estimate of the level of business activity for the ensuing period, and further found that nothing which could fairly be characterized as an estimate of such level of business activity could be made, I think they would still be under duty to do the best they could, although both of them would be at liberty to state any qualifications or any assumptions that they think they want to state, in order to show the tentative and uncertain character of the estimates. For example, he could - the Secretary of the Treasury could say, "I'm just going to assume that the level of business activity for the next six months is the same as it was for the last six months," - otherwise safeguard his estimates.
- H.M.Jr: Well, that doesn't help any.
- Well, now, what do I have to do - well, or the President have to do, if I want to carry out the idea legally that we don't want to give them an estimate until April.
- Mugill: Well now, going on from there, the section of the law under which the budget is transmitted - Section 11, Title 31, of the code - is to the effect that the President shall submit early in January - forgot the precise language
- Well: First day of the regular session.
- Mugill: first day of the regular session, estimates in

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summary and in detail of the expenditures for the fiscal year past, for the fiscal year that you're in, and for the ensuing fiscal year - submit that - both of expenditures and receipts - as the law now reads.

So that, as I gather from what Mr. Oliphant has said, and certainly it seems so to me, you are required to put in some statement as to expected receipts for the fiscal year 1939 under the present law. The leeway that you have from a lawyer's point of view, only loophole I see, which maybe Mr. Oliphant can enlarge, is that - the question of how much detail you'll submit them in. Now, in the present budget, for example, there is a statement of six pages showing how much receipts there are going to be from the Alaska Railroad and from game refuges and I don't know what all; that is in very great detail, which I think is objectionable mainly because it gives the public the idea that you can state all these things with meticulous accuracy, which of course is not true. And Mr. Bell suggested yesterday afternoon that one of the possibilities we were exploring - possibility of cutting down that detail to a series of, say, six or seven headings - seven, I think, it figured out, which to some extent would tend to remove that impression but doesn't remove your main objection. That is, you'd still wind up with a total of what you thought you were going to get, and that total is almost certainly going to be wrong by quite a bit.

Now, before leaving that alternative, Shoup has suggested one thing in connection with that which I think is also worth considering by way of getting a little more rational about this thing. You've got certain receipts which are highly uncertain and certain receipts which are rather definite. You can figure it out pretty well how much you're going to get from cigarettes and liquor and various other things. You can't figure with any accuracy in a period like this what you're going to get from the income tax. His suggestion was, why not change the classification a little and have one series of receipts that you regard as pretty certain and

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another series that are at least more uncertain. I think the main objection to that, aside from the difficulty of doing it, is that it tends to emphasize the virtues of a series of taxes we don't like; the ones that are certain are the ones, on the whole, which we'd like to get rid of if we could; the ones that are uncertain are the ones we think are preferable.

H.M.Jr: Be a swell argument for sales tax.

Magill: Yes, exactly.

Well then, the last point I put to those of us that were working this morning, was another alternative. I take it your idea is, suppose that we had the power to change Section 11 of this law to suit ourselves; that is, supposing we could now lay down the rules for the budget; what kind of rules would we have?

Well now, in the first place, I get the impression, which is a little different from what you have, from Mr. Haas and Mr. O'Donnell, that they don't regard this April estimate as very much of an improvement. That is, as I get their impression - they can speak for themselves - that there is not enough gain in an estimate in April over an estimate in January to make it worthwhile to try to get a statutory change for that purpose. There is some improvement.

H.M.Jr: Well, somebody made a statement here - Professor Crum made the statement, or somebody - that there is a 50 percent better chance.

Haas: Yes, that's about right.

O'Donnell: On the current fiscal year, I think, Mr. Secretary - I think you can be sure that you will have a little margin of error, very small.

Magill: How about your ensuing fiscal year?

Bell: You've got two payments in the next fiscal year which you might estimate with a great deal of accuracy. But still you've got to project your

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business curve on into the future to get your last two payments; that's uncertain.

Magill: I think the worst situation is your present year. We estimated in April for '38 seven billion 293; well - oh, I beg your pardon, we revised it from seven billion 293 to six billion 906. Well, now we're down 600 million under that in our present guess.

d.W.Jr: Yes, but on the thing - the thing that frightens me is this. Everybody sits around here, says pretty well universally that we're going to have a pick-up in the spring, then another sluff-off again. Now, that's about what everybody talks.

We now have our production - Federal Reserve - 90.

Wass: We don't know exactly. Around 91, 92.

H.W.Jr: All right. And you're forecasting an average for next year of 95. And I simply would feel, while it's not accurate - I'd feel that if we had two or three months of the spring and did see whether steel was going to stick around 27 or whether it was going to go back to 40 or 50, and all the rest of that stuff, that it would be a much more intelligent way of doing it. And I think, after sleeping over it, from a tactical standpoint, for the President and Director of the Budget - I think it's a great improvement to hold that thing back and say, "All right, gentlemen, you go ahead and spend a billion dollars in Agriculture, do this and that," and let them get in, and then come in with the bill and if necessary recommend for increased taxes in the middle of April in order to make up the difference. And I think it puts the President and Director of the Budget in much stronger position. Much stronger. So much so that I - if I was thinking of it, I'd do it for that and for no other reason.

The President can sit back and simply say, "Well, go ahead. In April I'll tell you what I'm going to do about taxes. But I can't tell until April, boys. If you want to go wild up there, all right, but in April I'll tell you." He can sit back there and

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say, "Go ahead." Now, so much so that if they thought that's what he was going to do - I mean I wouldn't tell him to say so publicly - I don't think they'd give it to him for a minute. But if he could get it and wait until April, and most of the stuff was passed, and kept using that every day as a threat, I think he'd save a lot of money.

Just think, Dan, if the President could sit back and say every day, "All right, boys, put it through, but in April I'm going to give you a tax bill." As a matter of fact, he'd know then - when most of the stuff was passed, he'd know how much revenue he needed, not from the standpoint of business but from the standpoint of what Congress did.

Magill: I've got still another drastic suggestion to make to you.

H.M.Jr: What's that?

Magill: Wait until you get through with that.

H.M.Jr: "Estimates made in the budgets of last ten years. Twenty years' estimates preceding." What's that mean?

Magill: Well, you see, the budget estimate when this first came out was an estimate that - that would be the beginning of 1927, February '27, they said this. January '28 they said that.

H.M.Jr: January '28.

Magill: January, 1928.

H.M.Jr: Why wouldn't they have a second one, just the way we do now? Don't we make one now for fiscal '39? Well - but this isn't public.

Magill: Oh yes.

O'Donnell: That's what you're discussing now.

Magill: This was before the fiscal year started - January before; this was in the January during the fiscal

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year; and this was the actual receipts.

H.M.Jr: Oh yes.

well, I didn't - 1, 2, 3, 4 - I was '34. I've been right three years and wrong one. Mills was wrong three years running. He was here '31, '32, and '33, wasn't he? He was off 21 percent, 48 percent, and 16 percent. I'm plus 11, plus 1, and plus 8.

Haas: You had the processing tax invalidated too; that was bad.

H.M.Jr: All right, go ahead; you've got a radical suggestion.

Magill: The reason why the British are right and we are wrong is that they bet on a sure thing. They have a much longer period of delay in the payment of their income taxes than we do, so that the receipts which they are estimating are receipts which are going to come from business conditions in the past, so they see exactly where they are.

So Shoup suggested this, one of those violent changes that you ought to think about a lot. Suppose we take our most difficult performer, the income tax, and provide that the returns are to be filed in March, as at present, but the tax is to be paid, say, one half on July 15, and the balance in October and December; and provide, further, in line with your other suggestion, that the President will transmit an estimate of expenditures in January, as he does now, but he won't transmit an estimate of the receipts until April 15. Well, then he would have the returns for March 15.

H.M.Jr: I get that.

Magill: And would know what they show. And he would be estimating - and estimating for the ensuing fiscal year, he would be estimating largely receipts that he knows he's going to get, on the basis of returns already in. Now, it means

H.M.Jr: But I don't get what the advantage is there in saying you wouldn't pay until July first.

- O'Donnell: That is in the next fiscal year, Mr. Secretary. For instance, now, it would be in fiscal '39, and we would have the exact income tax receipts for fiscal '39 determined, whereas under the present system, where the return is filed in March and a second payment made in June, we know only about 40 to 50 percent of what is going to be paid in fiscal '39, because in fiscal '38 we would have collected
- H.M.Jr: I still don't get it. Let Shoup explain it.
- Shoup: Put it briefly this way: that if we take 1937 business and incomes
- H.M.Jr: What's that?
- Shoup: Suppose we take 1937 business and incomes.
- H.M.Jr: Calendar year?
- Shoup: Yes. The calendar year is the thing we're going to collect the tax on. Now, under the existing system, the
- H.M.Jr: We're talking about the calendar year '37.
- Shoup: Yes. Under the existing system, those calendar year conditions will be reflected in tax receipts partly in the fiscal year ending in '38, because we have some money coming in on March 15, haven't we?
- H.M.Jr: Well, March 15 is based on the business of calendar year '37.
- Shoup: That's right. What I'm trying to get at is that calendar year '37 reflects itself in tax receipts partly in the fiscal year '38, partly in the fiscal year '39.
- H.M.Jr: That's right; I've got you so far.
- Shoup: Now, let's move one year ahead. Take the calendar year '38. Business conditions - they likewise are

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reflected partly in the fiscal year '39 and partly in the fiscal year '40.

H.M.Jr: That's right.

Shoup: Now, that means that fiscal year '39, which we are now so bothered about in trying to estimate ...

H.M.Jr: That's right.

Shoup: ... is composed of two segments, you might say, as far as business conditions are concerned.

H.M.Jr: That's right.

Shoup: One segment representing the calendar year '37 business, which we know about pretty well, and one segment representing the calendar year '38 business, which we don't know about at all.

H.M.Jr: That's right.

Shoup: Now, if there is some way in which we could make the fiscal year '39 reflect only the calendar year '37 business conditions - if we could do that, you see, and moreover if we could do it with the actual returns filed in hand based on '37 business conditions, we'd have a pretty close estimate for fiscal year '39.

H.M.Jr: I'm up with you so far. Now what?

Shoup: Now, the way to do it is to say to the taxpayer, "Although you filed your return March 15, 1938, based on '37 conditions as usual, you will not pay any of the money that your return shows is due until July first, which means that the annual - put it this way: we're going to give you a little relief, if you like, or a little extension of time now."

H.M.Jr: Three months.

Shoup: Shove it ahead three months. "And we'll make you pay half of it right then, and then we'll make you pay the other two quarters along in October and December" - or when you will. Now, we're going to

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project that for the future. Every future year is going to be the same way. Consequently, there will be no income tax payments at all coming in, to speak of, during, we'll say, February, March, April, May, June, you see - only returns instead.

Now, what does that do for the fiscal year '39? Well, it means that the fiscal year '39 has the following payments: Big half, lump sum, coming in in July, right at the beginning of the fiscal year, based on '37 business conditions. Then a couple of smaller installments coming later in the year, likewise based on '37 business conditions. And that's all; that's all fiscal year '39 will have.

H.M.Jr: But what's the advantage of giving up the March 15 payment? That is, on '37.

Shoup: We don't give it up, we shove it ahead.

H.M.Jr: What's the advantage of that?

Shoup: Because by eliminating the March 15 payment we don't have to estimate future business conditions. Put it this way: Specifically, as we look ahead

H.M.Jr: I don't get the advantage of it. Why give it up?

Shoup: Well, perhaps I could put it again this way.

H.M.Jr: You haven't explained it yet.

Shoup: As we look ahead to March 15, 1939, now, there's a tax payment coming in there. It's going to be on '38 incomes, isn't it?

H.M.Jr: On the calendar year '38.

Shoup: Calendar year '38 incomes. And that's what's bothering us. If we can cut that out, if we can get rid of that March 15 payment on '38 incomes, our estimating problem is solved. Put it in terms of a swap. ...

Bell: Let me ask a question there. You contemplate

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- H.M.Jr: He - there's a missing link somewhere.
- Bell: There is a gap there.
- H.M.Jr: Yes, there is.
- Bell: You contemplate sending the revenue estimates to Congress, say, on April 15?
- Shoup: That's right.
- Bell: So you've got your March 15 returns. And on the basis of your March 15 returns you determine your income for the coming year, because it all comes in in the coming year.
- H.M.Jr: It all what?
- Bell: All comes in. Now, take the March 15 returns. You get no revenue on it in the fiscal year '38. The revenue starts to come in beginning July 1, and all of the income tax comes in from July 1 to the end of the calendar year.
- H.M.Jr: Now let me put it - what I think he's trying to explain, but he hasn't explained it. Let's put it this way. What you're saying to me is - we'll take this year - that we'll collect beginning with July 1, 1938, one year's revenue based on 1937 business.
- O'Donnell: That's correct.
- H.M.Jr: Is that right?
- Shoup: Correct.
- H.M.Jr: And then, projecting that forward to what our present problem is, what you're saying is that, beginning with July 1 - which is the year we're talking about - '39, that's the year we're talking about, isn't it?
- Bell: That's right.
- H.M.Jr: No, we're talking about July 1, '38.
- Bell: That's fiscal year '39.

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- H.M.Jr: We're talking about July 1, '38, and '39.
- Shoup: That's right.
- H.M.Jr: That that revenue - that that revenue will be based entirely on the calendar year '37.
- Shoup: That's right.
- H.M.Jr: What?
- Shoup: Correct.
- H.M.Jr: Now, wait a minute. Just go slowly. I never say I understand these things until I do. Now, what's the advantage of that over the present? That I don't have to worry about the business for the first six months of '39?
- O'Donnell: So far as it affects income taxes for '38.
- Shoup: '38 business as it would be reflected in payments during the first six months of '39.
- Bell: Because '38 business conditions will affect your 1940 revenue.
- Shoup: Fiscal '40.
- H.M.Jr: But this thing I'm talking about now - we're trying to work out how much revenue we're going to take in in the fiscal year '38-'39, is that right? July 1, '38, to June 30, '39. And what he's saying is that that should be based on the business of '37.
- Shoup: That's right.
- H.M.Jr: Oh, instead of the business of '38.
- Haas: '37 and '38.
- Shoup: As it is now.
- H.M.Jr: Do it entirely on '37.
- Shoup: Entirely on '37.

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- H.M.Jr: And not try to do it on ...
- Shoup: Not half and half, as we now do.
- H.M.Jr: In other words, instead of gambling on what it will be in '38, we'll estimate it on '37.
- Gaston: Shove '38 ahead into ...
- Shoup: But, more than that, we will have the returns filed on March 15. Not only do we know what '37 business conditions are, but we know what we're going to collect because we've got the returns in March.
- H.M.Jr: Is that the way the English do it?
- Magill: Essentially, yes.
- H.M.Jr: What's the matter with this?
- Haas: You lose some revenue in ...
- Gaston: You'd lose a billion and a half revenue in this fiscal year.
- O'Donnell: Cuts out the March and June payments, and those March and June payments represent, Mr. Secretary, not half, but 60 percent of the individual income tax collections.
- Gaston: 56, I think.
- H.M.Jr: Wait a minute. You pick up a lot, because you're basing it on '37, which is one of the best years we've ever had, and '38 can go to hell.
- Haas: Of course, you said you're going to balance the budget this fiscal year.
- Gaston: You add a billion and a half to this year's deficit in order to make next year's picture better.
- Taylor: I don't think it gets away from your basic problem.
- H.M.Jr: Oh yes.

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- Taylor: The basic problem is that you don't want to estimate.
- Magill: This is like betting on a horse race that's already been run.
- Taylor: Why do you call it estimating?
- Gaston: It is estimating.
- O'Donnell: On your other taxes you do have to estimate business conditions of '38 and the early part of '39, because there is not over a month's lag in a good many of the tax collections.
- H.M.Jr: This is a "sweetie." ~~As a~~
- Magill: It's a very interesting idea.
- H.M.Jr: This is a "sweetie."
- Haas: New York State has something like this, don't they?
- Shoup: New York State
- H.M.Jr: Don't tell me Mark Graves is for this. Or Morris Tremaine.
- Shoup: No, I don't think so. But New York State had somewhat the same system with the corporation taxes. Now, this is true: no matter - as a matter of history, to get the record straight, that during the depression, a year or so ago, New York State moved back to the kind of system that we now have. But the setting was entirely different. In the first place, it wasn't the same problem of estimating; they didn't thereby make estimating much more difficult. But they moved it back as a means of getting some ready money; rather, they shoved it ahead, where we'll be shoving it back.
- H.M.Jr: Well, this takes all the guessing out of it.
- Shoup: It does, yes, sir.
- Sell: Out of your income tax.
- Haas: Just your income tax.

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- H.M.Jr: Well, that's where the guessing is.
- Haas: No, there is guessing on estate taxes and gift taxes.
- H.M.Jr: Well, that's something else.
- O'Donnell: You reduce your error tremendously.
- Gaston: Of course, it would have some business - it would have to be of some benefit to business. They'd be able to defer their March and June payments into July. But I don't know how it would affect Guy in the way of difficulty of collection. It might add to difficulty of collection.
- H.M.Jr: Well, we'll come to that in a minute. As a matter of fact, the payment they are all worrying about is the 15th - one of the bogeys they have been raising for me.
- Gaston: Make our deficit this year look pretty sick..
- O'Donnell: Help your budget picture next year tremendously, because we're working on a very high base for '37.
- Oliphant: Lose some interest.
- H.M.Jr: This is very - you (Oliphant) got a variation?
- Oliphant: Sure.
- H.M.Jr: What is it?
- Oliphant: Let them bring their March 15 and June 15 payments down in the basement of the Treasury, but not use them until after July 1; don't change the date of payment, but change the date of availability of funds for expenditure.
- Bell: I didn't get
- Oliphant: Let the dates of payment of installments remain the same, see; the money comes in on March 15 and June 15; but don't let those funds be available for expenditure until after July 15. Would that do the same thing?

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Bell: That would be - that's taking funds out of the

H.M.Jr: Then we don't put it

Bell: ...out of the money market. That's a reserve problem.

H.M.Jr: (On phone) Did you hear from Mr. McIntyre? - - Uh-huh. Well, if he calls, I want to talk to him myself. - Please.

Bell: I assumed that you were going.

H.M.Jr: Well, I assume so, but I want a chance - I asked

Bell: Oh, you asked.

H.M.Jr: I asked definitely for an appointment at two, that's the thing. And I wanted Magill to go along with us to talk about this, praying that we'd have an answer. But is this - you've got - I mean I didn't know that you had asked for two o'clock, and I formally - I even wrote for an appointment at two o'clock.

Bell: No, I didn't ask for two o'clock. I asked for an appointment when we were there the other day.

H.M.Jr: I wrote a letter to the President which he got this morning. I said, could Magill, Bell and I see him at two o'clock today, and that we want to talk about - put it right in the letter - the estimates of revenue for next year. I put it right down, specifically. And could we see him at two. See?

Bell: I see.

H.M.Jr: I said, could Magill, Bell and I see him at two o'clock, and I wrote him a letter and sent it over, said it was urgent.

Let me just check up. I'm thinking all the time - I'm just - this is

(On White House phone) Mr. McIntyre please. - - Hello. - Henry talking. - Good morning. - He's right here. - Well, the point is, I want to talk about a thing that affects both Bell and I. See? - -

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Now, if it's all right - Dan's sitting here - why, we'll come over and talk about what Dan wants and what I want. - Yes. - Will you please. (Conv. ended)

He's going to find out.

Why do you have to give up the March 15 payment? I don't quite understand. Why couldn't you still get a March 15 payment?

O'Donnell: Because you will have collected then in preceding December. Now, on the new basis

H.M.Jr: Why do you have to give up the March 15?

O'Donnell: because that throws it into the fiscal year ahead of

Bell: You'd have to estimate some time before March 15.

H.M.Jr: (On White House phone) What's that? - Both of us. Thank you.

He says both of us. He didn't say anything about you (Magill).

Magill: That's all right with me.

H.M.Jr: I tell you, you leave word where you are and I can get you in four minutes. I mean leave word with Miss Spangler where you'll be, because we could start on his budgetary matters, which would run half an hour. Now, I say, "Mr. President, when you're through will you give us some time on this thing." Then I could get word to you, see?

Let me just ask a minute - Guy, would this upset you very much, your office?

Helvering: Well, of course, the delay in payment always makes any payment

H.M.Jr: Excuse me.

Helvering: Any delay in payment, of course, makes the payment harder to collect; there's no question about that. But I don't think that it would cause us any great

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inconvenience.

H.M.Jr: well now, what a fellow would do, if I understand - let me go over this thing again. I want to make sure I understand it. I'm in business; the Government has got to collect six or seven billion dollars in revenue for the fiscal year '38, and so we'd give the President an estimate. When will we give him that estimate? Couldn't we - we wouldn't have to hold that back, wouldn't have to hold back on that.

(On phone) Hello? - - Well, I did. He just talked to me.

So we give him that any time.

Haas: No. Have to wait until you get the returns in April.

Bell: If the law was changed, you wouldn't

H.M.Jr: What's that?

Haas: The estimate would be based on the returns which came in, but without any money.

Bell: The Secretary is talking about the current year now.

O'Donnell: Current year, you could get them all right.

Magill: Be two changes that you'd want to make, so far as your budget. Let's assume the new system was going to work. You'd submit - could submit on January 3, whenever Congress convened, a statement of the proposed expenditures for the ensuing fiscal year, statement of the actual receipts for the previous fiscal year, a statement of the estimated receipts for the existing fiscal year. You would not then at that moment give him a statement - give Congress a statement of the receipts for the ensuing fiscal year, but on April 15 you would do that.

H.M.Jr: Based on what?

Magill: Based on your March 15 returns.

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- H.M.Jr: But I thought you said there weren't going to be any March 15 returns.
- Magill: Be returns, but postpone the payment.
- O'Donnell: When tabulate them. See, what they....
- Magill: If you have had your March 15 returns in, your estimate on receipts on April 15 ought to be quite accurate, because you're pretty nearly betting on a sure thing.
- H.M.Jr: I think this is a nifty.
- Magill: Well, I think it's a nifty, but of course it's a billion two
- Bell: ... for '38.
- H.M.Jr: Well, it would be any other time, but it means that we ought to be able to come - well, make all the difference in the world. I mean
- Bell: Sure. So far as your income tax is concerned, your liability is fixed on March 15.
- Magill: Well, it's a question, I think, of balancing the accuracy of the estimates; certainly ought to be accurate under this system. As for the insolvencies and things of that kind
- H.M.Jr: This is inflationary.
- Haas: Sure, it's a help to business.
- H.M.Jr: It means that we'll take how much less away from the business man this year?
- Bell: Well, just temporarily; they can keep it another three or four months.
- Oliphant: How much for three months and how much you keep for six months?
- Bell: Keep about a billion and a half for three and a half months.
- H.M.Jr: This takes all the guessing out of it.

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- Shoup: Quite a good deal.
- O'Donnell: After this year you'll always know it, because you will have received it in December.
- H.M.Jr: I still think there's enough brains around the Treasury, if they'll only go to work instead of playing around here.
- Haas: You've got this advantage too: it's modeled after the British system - I mean it's been worked before; nothing new.
- H.M.Jr: You'd need to have some legislation right now, wouldn't you?
- Magill: You'd need two pieces. You'd say, "We wish to relieve business by giving them a longer time to pay the taxes."
- Gaston: Yes, that would be the angle, the play.
- Taylor: I don't get it at all. What you were talking about yesterday is the perfectly ridiculous position that any Secretary of the Treasury is placed in if he has to estimate 18 months ahead. That's right, isn't it?
- H.M.Jr: Yes.
- Taylor: The same thing might be true of any other period. I mean your Treasury position isn't like a business, because you have this constant carry-over, which is always reflected in certain things. Now, I have a suggestion which is the same thing and would work out to be the same and gets away from this goddamned estimating entirely.
- H.M.Jr: All right.
- Oliphant: Did he say "estimating" or "estimators"?
- Magill: We are getting away from the estimating.
- Taylor: But you still call it estimating.
- Gaston: Oh, it is estimating.

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O'Donnell: It is estimating except for the income tax.

Bell: It's estimating for that.

O'Donnell: The estimate is a little more exact.

Taylor: These are very rough notes which go like this:
"Change the law. Require the President to give to Congress detailed figures on the previous fiscal year. If we cannot move to December 31, suggest we go to September 30."

H.W.Jr: I don't follow you.

Olipnant: Change the fiscal year from July 1 to December 31.

Taylor: . Yes. In other words, here's what you've got.

H.W.Jr: Well, I'll let Shoup argue with you on this.

Taylor: Well, wait a minute.

Magill: You only have to change the law as to the date of the ending of the fiscal year, so far.

Taylor: Yes. Then you furnish a Treasury statement showing the condition at the close of the fiscal year and as of December 1, showing the debt, what the revenue is, any cash balances, etc. Then you only require the following from the President: Special recommendations covering new or regular activities. Over-all recommendations to cover total expenditures. In other words, you estimate the expenditures. "Here's the condition of the Treasury," and so on. Then you have special recommendations, if you want them, applying to the necessity for increasing the revenue or decreasing the expenditures. Then you have comments on state of business, if advisable or necessary. And then the Treasury will give detailed estimates on productivity of any tax to Committees in Congress.

H.W.Jr: Well, let some one of these other fellows argue. I'll listen. I'd rather listen.

Magill: Well, that - I think that's all right; I mean that just depends on how far you want to go. What Wayne is saying, as I get it, is this. We all approached

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this thing in much the same way he has. It's a question of where you want to stop on it. You can tell with complete accuracy - leave out the question of changing the fiscal year, and you can tell with complete accuracy how much you got as of some period in the past. You can also tell with a pretty good degree of accuracy what you're going to get for the fiscal year you're in. Won't be perfect, but be fairly good. Now, where you get your trouble is estimating for the future, for the fiscal year that begins later. Now, what Wayne is saying, as I get it, is this: Change this Section 11 so that you only have to give these two things that you can do with a good deal of accuracy. And then, as far as the ensuing fiscal year is concerned, have the President say, "I propose expenditures of such and such a character, and they total so much, and I think that the revenues will be adequate to meet that" or "I think you ought to have some new taxes to enable you to meet it."

H.M.Jr: But you don't have a fixed figure.

Magill: But you don't commit yourself to any figure for the receipts, or at least keep it nebulous.

H.M.Jr: That's not as good as this.

Taylor: What?

H.M.Jr: That's not as good as this. This thing that we're talking about now would be the way - if I was in business, the way I'd be running my business. In other words, I'd get everybody together - you do that in your business - I'd get everybody together and say, "Well, boys, how much did we take in, how much did we spend, and what is our net position for '37 - I mean calendar year '38, based on what we know business is in '37." And that's what this does for the Government.

I mean your (Taylor) thing still leaves an open end. The President can't guarantee those

Taylor: I'm not suggesting that he should.

H.M.Jr: Well, I

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- Taylor: The only thing he guarantees is the expenditures.
- H.M.Jr: Well, he can't even guarantee that. He can't even guarantee that.
- Taylor: But he has to make a recommendation about expenditures.
- H.M.Jr: Right.
- Taylor: All right. Now, look - now, if you show as of the close of December 31, or whatever period - call it September 30 - that you ran at a deficit of X amount, why, I assume that you'd want to either increase the revenues or decrease the expenditures for the current period - I mean for the coming period.
- H.M.Jr: But I - he still - the President, through the Director of the Budget or through me, can't give a firm figure which will have any accuracy as to revenues, even under your plan.
- Taylor: No, I duck the revenues.
- Bell: No, you said in the President's message, "I recommend so many expenditures; I think the revenue will be so and so." That's an estimate. What's the difference?
- H.M.Jr: That's what I don't want to say.
- Bell: That's what we're saying now.
- Taylor: It concentrates on the fact that you have this constant carry-over, and the only thing you know is how much they spent the year before and what your position is.....
- Bell: That's exactly what we know now.
- Taylor: ... as of the close of business. Then you know that if you don't like that position you've got to do something about it.
- Gaston: That sacrifices your budgetary control over Congress. It's leaving too much to Congress.
- Taylor: I don't see that it does.

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Gaston: Leaving too much in the dark.

Bell: It isn't a budget.

Oliphant: No.

Bell: It isn't a budget.

H.M.Jr: That's the point. Let the boys think over what Taylor is saying. But I think that the Shoup thing is - it gets - puts my feet back on firm ground. That's what I like about this thing. I mean I think this won't - it'll be a little bit more difficult, but not much more. Listen, you (Helvering) would rather have that than have me say, "Listen, I'd like you to go over and explain why you were 400 million dollars over on your estimates," wouldn't you?

Helvering: Of course, you've got to realize there's going to be a hiatus in there.

H.M.Jr: That's all right. All I've got to do on this now is to adjust my borrowing.

Oliphant: That's all.

H.M.Jr: That's all. And I've got - simply got to borrow X hundred million of dollars more to carry me through, and that's all.

Bell: Probably a billion and a half dollars between now and July.

Oliphant: And on that basis, adjusting your borrowing and properly administering your general accounts - I think I'll discuss it with Dan; there's a way to work it so that you won't run a risk of insolvency in

H.M.Jr: On the part of the Government?

Oliphant: No, insolvency on the part of the taxpayers.

H.M.Jr: This would push me kind of hard. I'd have to do some - beginning the first of January, I'd have to step on it on the borrowing; and we might have to

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borrow 150 million dollars on bills a week instead of 50 or 100. That's all. But we can work that thing out, can do it right in the bill market.

And incidentally, I never once rubbed it into Burgess that he advised me to take an extra 500 million on the 15th of September, and walked out of here and said, "This is the first time you and I have had a major difference." I never rubbed it into him once.

Let's think it over. Could this be done on one sheet of paper between now and 2 o'clock, fairly simple?

Shoup: Sure.

H.M.Jr: What?

Shoup: Yes.

Magill: Oh yes.

H.M.Jr: It could. I'd like to have it. Could hand it to me, Magill, or Shoup, or Bell, or somebody; let's give it to Bell, so that he can take it over to the white House at two o'clock.

And then you (Magill) leave word where you are and I'm sure the President will want to see you.

Magill: I'm going to lunch with Gaston.

H.M.Jr: And Shoup, you leave word where you are, please. Leave it with Mrs. Spangler, who is my own operator.

Shoup: Mrs. Spangler, yes.

H.M.Jr: S-p-a-n-g-l-e-r.

Haas: It won't slow up the audits of returns. Guy could start the audits right after the returns are in, just the same.

H.M.Jr: I think it's a knockout. I'm crazy about it.

Magill: Might even have an advantage

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- O'Donnell: Mr. Secretary, you might want to postpone the payment, not make it due July 1, because a good many people anticipate the payments, and that would throw us into the fiscal year that is ending. It might be better to make it July 15 or August 1.
- H.M.Jr: Why?
- O'Donnell: It will upset your situation again, because in March now we collect in the first 15 days of March the great bulk of the income tax collections, so that
- Bell: You even collect some from January 1.
- O'Donnell: We don't want to make July 1 the due date, because that will put most of it back into June. We don't want it
- H.M.Jr: Well, make it July 15. Make it July 15. I'd make them pay half, wouldn't you?
- O'Donnell: Yes.
- H.M.Jr: Make it July 15. We always have it on the 15th. Make it July 15. Then your next day would be, say, October 15.
- Bell: And December 15.
- H.M.Jr: Because September is always bad. Make it July 15, October 15, and December 15.
- Shoup: December 15 - two months' interval.
- O'Donnell: That's all right.
- Gaston: Or make it October 1.
- Bell: I'd make them the same dates.
- H.M.Jr: No, I'd make it July 15, October 15 - and could you make it January 15?
- Shoup: That's all right as far as this is concerned.
- H.M.Jr: What?
- Shoup: Doesn't make any difference so far as this goes.

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- H. I. Jr: There is this advantage: They won't be complaining that we're taking all that money out of the market just before Christmas.
- Gaston: Why not make it 50-50, 50 percent payment in July and 50 percent payment in October?
- O'Donnell: Or another 50 percent in November.
- Gaston: Or November, yes.
- H. I. Jr: Oh, I think three payments.
- Gaston: You've got four payments. Under this new scheme it would be three payments anyway. Why not cut it down to two half payments?
- Cliphant: Hurt a lot of people's habits of budgeting.
- Magill: I'd be inclined to just change the one, leave the July 15 and leave the others.
- O'Donnell: In Great Britain the people study the tax returns during the summer, they make an assessment in the fall on the taxpayer, tell him how much he has to pay, then he has to pay the full amount in twenty-one days; and I believe he pays it in full, with very few exceptions - in one lump sum on January 1.
- Bell: After you once made the change, it wouldn't make any difference if you still had four payments.
- Haas: Still crowds too much over in the other fiscal year.
- O'Donnell: Yes.
- Haas: We can work that out.
- H. I. Jr: You've got time on the thing. But as to the idea - do you think enough of it, Dan, that we could just give it to the President, say, to sleep on it?
- Bell: Yes, I think very well of it, but the time is short to make such a radical change, and if we're going to make a change of this character in the income tax collections and reporting to Congress, we've got to recommend a change in the whole budget machinery.

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I don't know whether you remember or not, but I recommended to the President that the day on which the budget is to be submitted to Congress should be changed to February 15, and he said that he agreed with it and would go along, but he didn't want to do it last year; because we need more time in the Budget.

Furthermore, you have a President coming in every four years on the 20th of January, and he just can't accept the budget that his predecessor submits. It ought to be changed from that standpoint.

H.M.Jr: February 15.

Bell: Well, no. I said February 15 before this came up. Now, if you're going to change this up to April 15, then I think the whole budget ought to go up on April 15.

Magill: What's Congress going to do during the first two or three months?

Bell: Just as they are doing now: Have their hearings on all of the appropriation bills and get them ready to submit the week the budget goes up.

Oliphant: What about the farm bills?

Bell: Include a few of them.

Oliphant: Don't know what the money situation is. Be passing farm bills in that hiatus.

Bell: They pass them now and they don't know what the money situation is; if they did, wouldn't pass them, probably.

H.M.Jr: what you say loses the advantages I want for the President. If he sends a budget message up before, then he indicates what he thinks expenditures should be and Congress works on those for three months; and at the end of three months they have worked on these expenditures and they either have or haven't passed the bills the way he said. Then he comes along on the 15th of April and it gives him a much more accurate chance of sending his estimates - recommendations based on the action Congress took for the first three months.

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- Bell: Of course, that's not a budget.
- Taylor: That's just what I'm talking about.
- H.M.Jr: No, only send up an estimate of expenditures.
- Taylor: Well, that's just what I'm talking about.
- Gaston: But you lose the benefit of a budget as a guide to Congress in that event.
- Taylor: Well, I think it's a damn good position to be in.
- Oliphant: Suppose you're a man who takes his legislative duties seriously. You're entitled to know, if you're a conscientious legislator, what the position is, if you don't want to throw away money.
- Taylor: Well, you've got your last year's experience right in front of you.
- Oliphant: No, under this plan you've merely got the estimates of expenditures, no idea how much money is going to be available during that period. There will be pressing national problems and they will be entitled to all the data
- H.M.Jr: Which way are you arguing?
- Oliphant: I'm opposed to the idea of postponing sending down estimates of receipts.
- H.M.Jr: Opposed to what?
- Oliphant: Postponing sending down the estimates of receipts.
- H.M.Jr: I'm talking about estimates of expenditures.
- Oliphant: You say send them on the 4th of January and then wait until the 15th of April on receipts.
- H.M.Jr: Are you with me?
- Oliphant: I think if you will adopt this other plan, so that your receipt estimates are dependable - then I think a conscientious legislator is entitled to that information.

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H.M.Jr: When?

Oliphant: January 4.

Gaston: Just one good argument that presents itself for deferring it, and that is the inauguration of a President in the middle of January; your budget ought to come along after January, and I should think that date of February 15 would be all right.

H.M.Jr: Now listen, that's very pretty, if Dan - I'd like to see a President come in here on the 20th of January and know a god-damn thing about the budget by the 15th of February. And you know he wouldn't, Dan. In three weeks a new President of the United States going to know something about a budget?

Bell: No, but you elect a President in November and certainly the first thing he should do would be to pick out his Secretary of the Treasury and Director of the Budget, and they should be in on all of the financial arrangements made for the coming year, so that when the President comes in he can go over the figures and make such changes in one month.

Gaston: The budget that is put out should be his budget.

H.M.Jr: Well then, don't make it February 15; make it April 15.

Bell: That's exactly what I'm coming to. If you're going to change the revenue picture

H.M.Jr: Based on March 15 returns.

Bell: ... then let's change the budget submission.

H.M.Jr: To when?

Bell: To April 15.

H.M.Jr: The whole business?

Bell: Yes, sir.

Gaston: Then Congress would go ahead for three months without any budget to work on.

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- Bell: Except their hearings. They'd have to go ahead on the hearings, that's all; be ready to enact the appropriation bills right after April 15.
- Oliphant: But it's the farm bills and bonus bills and the battleship bills and all the other bills.
- H.M.Jr: Well, may I say this. We have gone much farther than I thought we could in one session. I'd like to present to the President on one piece of paper today this idea of not collecting any money for the fiscal year '38 until the beginning of the first of July '38, based on the tax returns of March 15, based on the calendar year '37. That's your (Shoup) idea. Now, I think that's a peach of an idea. Then these other things, when the budget message, and all that - I just want to give him one piece to chew on, see, Dan? An idea, this idea, just the way I've got it; then this other thing. So he could say, "All right, let me sleep on this, and you gentlemen come back tomorrow, come back Saturday, and I'll talk to you about it more. I want to sleep on it. This is too radical. you've been talking about this for a week; don't expect me to give you an answer." What?
- Bell: That's right. But I think he ought to have both pictures, the budget summation and the revenue changes. I mean they're going to ...
- H.M.Jr: Well, all right. All right, put that all in. That's all right; put it all in. I don't want him to say not to do it on the revenue because we insist on making the whole budget go up on the 15th of February or 15th of April. With this plan, the 15th of April, you wouldn't be any better off, you don't know - on your (Shoup) plan, we don't know until the March 15 returns are in. Is that right?
- Shoup: That's right.
- H.M.Jr: What?
- Shoup: well, we would - it would help some even if we didn't have the March 15 returns in; but I think the fact that we have the March 15 returns in hand is the biggest
- Magill: Might as well get that too.

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- H.M.Jr: I think it would be really pointless'not to wait for that; if you're going to, then you really know.
- Shoup: You would be helped anyway.
- H.M.Jr: But I - even if you had the March 15 returns in hand, you could give a very definite picture. And then your worries would be over, George, wouldn't they?
- Haas: On the income tax, which is my biggest worry. Still be estimating on the estate tax, miscellaneous taxes. Still some error.
- H.M.Jr: But your big error is on business.
- Helvering: On those other taxes, you can guess close enough for two percent.
- H.M.Jr: Guy, are you willing that I present this in this form? Can I quote you as saying at first blush you think it's all right?
- Helvering: Oh yes.
- H.M.Jr: What?
- Helvering: Just those few little things that happen all the time, that will happen; that is, insolvency, delaying payment, all that. I don't think they make any appreciable difference.
- H.M.Jr: Well, let me have one piece of paper and I'll give it to the President as a tentative suggestion. How's that? Then we can meet again. And Dan, I'm counting on you to bring that piece of paper over.
- I'm just delighted. I think it's the most encouraging thing that's happened in a long time.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 16, 1937

TO Secretary Morgenthau
FROM Herman Oliphant

The Secretary of the Treasury is under a positive statutory duty to file an annual report "on the subject of finance, containing estimates of public revenues and public expenditures for the fiscal year then current * * *" and also "for the fiscal year next ensuing at the time said report is submitted."

The Director of the Budget is under positive statutory duty to prepare the Budget for the President, who, in turn, is under a positive statutory duty to see that there is included in such Budget "his estimates of the receipts of the Government during the ensuing fiscal year" as well as during the fiscal year in progress. The Budget estimates are required to be set forth in summary and in detail. The Secretary of the Treasury has no statutory function to perform in connection with the preparation of the Budget.

Although, in connection with their respective duties, the Secretary of the Treasury and the Director of the Budget found, and the President approved, that an estimate could not be made without an estimate of the future level of business activity, and further found that they could make nothing which could be fairly characterized as an estimate of such level, the duty would remain to do the best that could be done, with full liberty to make any qualifications and state any assumptions involved

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in such estimates as might seem warranted in order fully to disclose the uncertain character of such estimates.

AC
(1-24-58)

December 16, 1937

My dear Mr. President:

Mr. Magill, Mr. Bell and I are very anxious to see you today about how we are to go about estimating next year's revenue. I have a suggestion which I would like to present to you.

On account of Magill being on the Hill in the morning, if convenient for you we would appreciate your giving us an appointment right after lunch.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

DEC 16 1937

December 16, 1937

MEMORANDUM FOR THE PRESIDENT:

The present law requires the President to transmit to Congress on the first day of the session a budget containing among other items estimates of the receipts of the Government during the ensuing fiscal year, stated in summary and in detail. In such times as the present it is impossible to estimate with accuracy the receipts for a period of eighteen months in advance, particularly in view of the fact that those receipts are largely composed of income taxes which will be collected on the basis of the incomes of individuals and corporations that are to be realized in large part in the future.

The accuracy of the forecast of revenues to be received during the ensuing fiscal year could be greatly increased if two changes were made in the law. First, the income tax law would be amended to provide that the first half of the tax would be paid on July 15th instead of in two installments on March 15th and June 15th as at present. The requirement that returns be filed on March 15th should be retained. Second, the estimates of receipts for the ensuing fiscal year would be submitted to Congress on April 15th instead of on the first day of the session.

The result of these two changes would be that the estimate of receipts for the ensuing fiscal year would be much more accurate than at present, since the amounts of income taxes to be received during the ensuing fiscal year would be known at the time the estimate of receipts would be made. This is true because the amounts which would be received during the ensuing fiscal year would be based upon the income of the past calendar year; and the income tax returns for that year would be in hand prior to the time that the estimate is made. Although the estimates of receipts other than the income tax would not be materially affected by the proposed changes, the increase in the accuracy of the statement of total expected receipts would be considerable since the receipts from the income tax are by far the largest uncertain factor in present revenue estimates.

orig. to Bill Bell - 12-16-37

December 16, 1937

For the past few days we have made purchases of spot silver in the London market up to a total of 1,000,000 ounces each day, if such offers were made at the London fixing price.

Today London spot silver was fixed at the equivalent of 42.04¢ per ounce, unchanged from yesterday, but the forward market, due to the feeling of uncertainty, was fixed at the equivalent of 40.58¢, off more than 1/2¢ from yesterday.

After the fix, 400,000 ounces of spot silver were offered to us, which were accepted, and after consultation with the Secretary an offer of 500,000 ounces forward silver was also accepted for account of the Stabilization Fund. This purchase in the forward market was made in order to help stabilize the silver market and to prevent, as far as possible, any further disturbance in the general commodity market which might be occasioned by a break in silver at this time.

Dec. 16, 1937.

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Estimate of Japanese assets in the United States

As of December 15, 1937.

I. Short term funds in the United States

(a) Deposits in the United States	\$ 49 million
(b) Bills held for account of Japanese	22 "
(Data on the above items are obtained through confidential reports to the Federal Reserve Banks of New York and San Francisco. Almost all of these funds are with Japanese agencies in New York.)	
(c) Deposits with brokers, dealers, etc.	1 "
(Estimated from the total reports of banks, bankers and dealers who report holdings under the category of the "Far East".)	
Total	\$ 72 "

II. Securities

(a) U. S. notes and bonds	\$ 25 to \$50 "
(b) Direct investments	25 to 50 "
(c) Corporate bonds and stocks	<u>5 to 25</u> "
Total	\$ 55 to 125 "

III. Merchandise, ships, real estate, etc.	<u>25 to 50</u> "
Grand Total	\$152 to 247 "

The above estimates are arrived at with the aid of:

(a) List of subscriptions to Treasury note and bond issues of 1936 and 1937 in the confidential files of the Treasury Department;

- 2 -

(b) Registered Government bond holdings in the files of the Treasury Department;

(c) Income tax returns by Japanese agencies and by non-resident aliens;

(d) Report of the Department of Commerce, who have made sample studies of some holdings of foreign investments in the United States;

(e) Estimated foreign investments of Japan in all countries.

Unfortunately, except for information that the Treasury obtains from the reports of banks, brokers and dealers, the estimates of Japanese assets here are little more than intelligent guesses. We have used all sources available that do not involve going into the field and making inquiries from numerous sources -- a program which would doubtless yield more information.

To obtain more accurate information, the quickest and most effective way would be to send at once an Internal Revenue agent to each of the Japanese agencies and each of the Japanese firms which are operating in the United States. An examination of their books will reveal information that does not appear on their income tax returns and that is available to us in no other way. We believe that the bulk of Japanese holdings in the United States would be revealed by such an examination. However, such a step would:

(a) Make a very considerable stir in Japanese quarters and financial circles;

(b) Probably cause the Japanese to liquidate their cash assets as quickly as possible. They could probably convert most of their deposits and bills into sterling in a few hours.

(c) It may have immediate political repercussions.

Our estimates of direct investments and security holdings of Japanese in the United States are much larger than those made by the Department of Commerce. However, in each instance, on the basis of information we have, we believe our estimate to more nearly represent the actual situation. It must be emphasized, however, that there is no way of getting the facts short of investigation in the field and contact with some other agencies in Washington.

- 3 -

In addition to the above holdings, the Japanese have very substantial investments in the Philippine Islands and in the Hawaiian Islands. We have been unable so far to obtain any data which will help us to estimate the amounts so invested. Doubtless there exist in Washington some agencies which would be able to give us more information on this subject if we have permission to get in touch with people outside the Treasury.

HDW
A.L.

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HDW:lg
12/16/37

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris.

NO.: 1738.

DATE: December 16, 1937, 4 p.m. (SECTION ONE)

Last Saturday the French control did no business; on Monday some foreign exchange was lost, Tuesday 200,000,000 francs and Wednesday 300,000,000 francs, making total of a little over one-half billion francs since trend turned.

The same reasons for the decline in the franc as those set forth in my 1734, December 15, 4 p.m., were advanced at Bank of France this morning. Speculators have intervened, according to my contact, in anticipation of rumored possible financial crisis early in 1938.

Bank of France is providing dollars and sterling which continued in demand today; in bank statement there were no changes of importance. Gold coins higher and rentes lower in atmosphere of depression which has not been helped today by publication of the general report without its annexes of the committee of inquiry on production "to examine present conditions of French production, taking into account existing laws, and to propose measures to improve production and in a general way the agricultural, industrial, and commercial situation", created by decree of August 25, last.

BULLITT

December 16, 1937. 233
4:00 p.m.

H.M.Jr: Get Oliphant on the telephone.
Operator: All right. Mr. Oliphant.
H.M.Jr: Herman?
Mr. Oliphant: Yes.
H.M.Jr: I only got the full impact of what you told me about leaving Friday.
O: Yes.
H.M.Jr: Now, until the President hears -
O: Yes.
H.M.Jr: From the Japanese.
O: Yes.
H.M.Jr: I'm going to have to ask you to stick around.
O: That's the easiest thing in the world to do.
H.M.Jr: Until the President gets an answer from his message which is after all -
O: Fine.
H.M.Jr: On the verge of war.
O: Fine.
H.M.Jr: And I don't -
O: I know it'd merely make at most - it would make the difference between driving down and going down on the train. It's the simplest thing in the world.
H.M.Jr: No, no. You don't - I mean about leaving Friday.
O: I know.
H.M.Jr: Oh, it's - well - Oh I didn't - are they driving.
O: Yes, if I left Friday I'd drive, if I left later I'll go on the train, and it doesn't matter.

H.M.Jr: Well, I'm going to ask you, if you don't mind, officially, until the President hears from the Japanese, I want everybody on duty.

O: I'll be right here, right here with bells on.

H.M.Jr: Thank you.

December 16, 1937.
4:05 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Cochran: Hello Mr. Secretary.

H.M.Jr: Yes.

Cochran: Hello.

H.M.Jr: Go ahead.

Cochran:

H.M.Jr: Pardon me. I don't hear very well. Hello.

Operator: Hello.

H.M.Jr: I can't hear him.

O: All right.

H.M.Jr: (aside) I don't know what it is, but you can listen, this is Cochran from Paris. - Hello.

O: She says she will have to call me back.

H.M.Jr: Oh, all right.

O: Sorry.

Cochran: Hello.

H.M.Jr: Hello.

C: Can you hear me, Mr. Secretary?

H.M.Jr: Yes.

C: I saw Reist yesterday.

H.M.Jr: Who?

C: Reist, Professor Reist.

H.M.Jr: Oh yes.

- C: They like the idea of going to America in January or February.
- H.M.Jr: Yes.
- C: Actually on your invitation.
- H.M.Jr: Yes.
- C: To listeners on the side.
- H.M.Jr: Yes.
- C: When Riefler was here, he suggested to me two lectures.
- H.M.Jr: Yes.
- C: The first for his Institution, to be given up at New York.
- H.M.Jr: Yes.
- C: And the second in the Washington Forum
- H.M.Jr: Uh-huh.
- C: Reist would prefer to give only to one in New York.
- H.M.Jr: That's all right.
- C: Is that agreeable to you.
- H.M.Jr: Oh yes, entirely.
- C: Fine, because he doesn't feel like preparing a speech for such a big meeting.
- H.M.Jr: Well, you mean he wants to give that one that Professor Riefler is talking about, before the Foreign Trade Policy?
- C: Counts on foreign relations, I think it is.
- H.M.Jr: Foreign relations, that's all right.
- C: That's all right, if he gives only one.
- H.M.Jr: It doesn't make, I don't care whether he gives one or six.

C: I see. Fine.

H.M.Jr: Good.

C: And Reist will see Bonnet on Saturday.

H.M.Jr: Pardon me?

C: Reist is to see Bonnet on Saturday.

H.M.Jr: And what am I to do?

C: Oh, nothing yet. But he suggested that I see Bonnet tomorrow.

H.M.Jr: Yes.

C: To tell of this new invitation.

H.M.Jr: Yes.

C: As you put it, to discuss the economic situation of France.

H.M.Jr: That's all right.

C: And Riefler insisted to me that the trip should be looked upon as an official visit under the tripartite.

H.M.Jr: The trip would what?

C: That the visit should be looked upon as an official visit under the tripartite arrangement.

H.M.Jr: Well I don't know about that.

C: Well, that - that was just the point I wanted to check with you.

H.M.Jr: Oh!

C: Because I want to see Bonnet tomorrow, I want to be absolutely right.

H.M.Jr: No, no. We don't like that.

C: Well, that - that was the point, because -

H.M.Jr: No, this is sort of semi-informal. The Treasury will ask him formally, but I don't want to make it too formal.

- C: I mean it was my understanding it would be known purposely that you had invited him over.
- H.M.Jr: It will be known.
- C: Was coming as your guest.
- H.M.Jr: That's right.
- C: But we don't need to say that he's to come to discuss the tripartite arrangement.
- H.M.Jr: Not - no.
- C: Well, he's coming under that.
- H.M.Jr: No, no, no. That's - that will be just what I don't want.
- C: Well, that's - that's why I asked, - I called tonight. Then there's a question as to whether I should see Bonnet tomorrow, or let Reist handle it alone.
- H.M.Jr: Oh, I wouldn't push it. I think I'd let Professor Reist see him.
- C: Let him see Bonnet first.
- H.M.Jr: Let him see him, and then if it's acceptable, then I will send a regular cable, through the State Department, asking him, see?
- C: Surely.
- H.M.Jr: I mean it -
- C: I shan't see Bonnet until after I get Reist
I shan't see Bonnet until Reist - get his reply and give it to you.
- H.M.Jr: No. This is something that I want the French to let Professor Reist come cheerfully. It isn't something that I want to urge.
- C: No, no.
- H.M.Jr: You see?
- C: Yes.

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H.M.Jr: It's something that I'd like them to do cheerfully.

C: Fine.

H.M.Jr: Now if they have any worry about Professor Reist coming over here, why just forget it.

C: All right then, I'll let him make his arrangements entirely with Bonnet.

H.M.Jr: That's right.

C: And then I'll report to you before anything else is done.

H.M.Jr: That's right.

C: Fine.

H.M.Jr: Thank you.

C: But I have a couple more things.

H.M.Jr: All right.

C: If I may bother you.

H.M.Jr: That's all right.

C: The situation - may not be awfully good in January. I mean you saw the trend, change a little bit this week.

H.M.Jr: I see.

C: They've lost half a billion francs this week so far.

H.M.Jr: Uh-huh.

C: And the other thing. Rouef wants me to come to Sweden, but not for two or three months, so let's not mention that.

H.M.Jr: All right.

C: Then the other thing, Bullitt answered Mr. Smith's letter on that consularship.

H.M.Jr: What's that?

- C: I say Bullitt wrote to Mr. Smith.
- H.M.Jr: Yes.
- C: And said that he was against - consular this year.
- H.M.Jr: Oh!
- C: Unless I could be specifically designated as financial.
- H.M.Jr: I see.
- C: I just wanted to let you know about that.
- H.M.Jr: I see.
- C: Then he said it was only the prestige of Wilson if there were two of us.
- H.M.Jr: I see.
- C: Then the other thing, will just take a minute, when I came back from the States, I found that my Treasury telegram file and the message that my assistant had sent while I was away -
- H.M.Jr: Yes.
- C: Had been made available to use, a newly arrived First Secretary.
- H.M.Jr: Yes.
- C: I took exception since I had always assured you that only the Ambassador and the Consular should see them.
- H.M.Jr: Yes.
- C: And that had been my understanding of your wishes.
- H.M.Jr: Well -
- C: Now - Bullitt has written you about it.
- H.M.Jr: Well, then I'll wait until I hear from Bullitt.
- C: Fine, because he said - couldn't see him, and you'd have this man report on finance himself, you know.

- 7 -

- H.M.Jr: Well, if Mr. - if Bullitt's written, I'll wait until I hear from him.
- C: Fine. Well I just wanted to let you know that.
- H.M.Jr: All right.
- C: Then on this trip, down to Basle do you remember that Mr. Hull asked me to talk trade treaties to his friends?
- H.M.Jr: Yes.
- C: Well the Department today after receiving my message thought that I had gone pretty far.
- H.M.Jr: Yes.
- C: I can't reply on that, but I'm telling you confidentially that I did have a pretty direct suggestion that I'd been under those three countries. But I mean this came from your I can't recall, but I did want you to know I hadn't gone wild at all.
- H.M.Jr: Well, all I know was that you told me that Mr. Hull asked you to do certain things in Basle
- C: Yes.
- H.M.Jr: And you wanted to know whether it was all right, and I told you that anything that Mr. Hull asked you to do of course do it.
- C: Yes.
- H.M.Jr: I didn't ask you specifically what Mr. Hull's instructions were.
- C: Yes.
- H.M.Jr: I didn't feel that it was any of my business.
- C: Well I'm just telling you this now, that they thought I went a little far, I mean it -
- H.M.Jr: Well they've kept me informed because they felt that inasmuch as you represented the Treasury they wanted to let me know that they were upset.

C: Yes.

H.M.Jr: And they've kept me informed of what happened the last couple of days.

C: Yes.

H.M.Jr: Well I mean, it's really - it's gotten, that particular thing, it's strictly a State Department matter.

C: Yes.

H.M.Jr: And there's nothing that I can do about it, one way or the other.

C: Oh, I didn't ask you to, I mean I was just telling you that I didn't do this on my own initiative.

H.M.Jr: Right.

C: At the same time I can't explain to the State Department the whole thing because it came directly from the chief himself.

H.M.Jr: Well I reminded them yesterday, when they called me up, that you had had this conversation with Mr. Hull and asked me if it was all right for you to talk trade treaties in

C: Yes.

H.M.Jr: And I said - told them, that I told you whatever Mr. Hull asked you to do, of course carry it out.

C: Fine.

H.M.Jr: But as to the method of carrying it out, whether that pleased them or not, it was frankly none of my business.

C: Perfectly all right. Fine.

H.M.Jr: All right.

C: Just this other thing. You don't mind if I distribute some more copies of your New York speech, do you?

H.M.Jr: No. Fine.

C: Because they were really interested and it had a very good effect on them.

H.M.Jr: Fine.

C: I'll mimeograph some more and I'll send them out.

H.M.Jr: Fine.

C: I'm sorry to bother you so much. All right.

H.M.Jr: That's all right.

C: Fine. I'll be awfully sparing - only when necessary.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

December 16, 1937. 244
4:22 p.m.

H.M.Jr: Hello.

Operator: Mr. Keenan. Go ahead.

H.M.Jr: Hello.

Keenan: Mr. Secretary.

H.M.Jr: Talking.

K: Mr. Keenan.

H.M.Jr: Yes, sir.

K: When I was up at the Hill, a little bit ago, discussing the appointment of a United States attorney to take the place of Mr. Simpson, who recently died.

H.M.Jr: Where?

K: In the Western part of the State of Washington.

H.M.Jr: Oh yes.

K: Homer Bone said that he'd go along with the man suggested by Senator Schwellenbach.

H.M.Jr: Yes.

K: In the course of a conversation he said that he wished that Schwellenbach would agree to continuing in office as a regular appointee, the Collector of Internal Revenue.

H.M.Jr: I get it.

K: Mr. Henrick, whom he said he thought had an excellent record in the Treasury Department.

H.M.Jr: Henry?

K: Henrick.

H.M.Jr: Yes. Henry, like my first name?

K: No, it's H-E-N-R-I-C-K. Henrick.

H.M.Jr: Henrick, yes.

K: Now the purpose of my call is this. We have enough to do to take care of our own trouble.

H.M.Jr: Yes.

K: But he said he didn't know who would be foisted on him if they got rid of this man and I'd like to know, if you care to, whether you'd look up and see whether Henrick is a very good man.

H.M.Jr: Now, let me talk -

K: If you'd like us to team up a little bit. We might make a little, sort of trade along with Schwellenbach, and say, well you leave Henrick and Homer go ahead with the other fellow.

H.M.Jr: I tell you what -

K: Whereas, if you don't care anything about it at all. We'll mind our own business and go ahead and put Simpson in and let the other people take care of the collector.

H.M.Jr: All kind offers are accepted these days.

K: You know what I mean by that.

H.M.Jr: Just - I tell you what you do. If you'll stay on the phone, I'll get hold of a fellow by the name of Steve Gibbons.

K: Yes.

H.M.Jr: Talk to him and you can listen and you tell him the details.

K: All right.

H.M.Jr: See?

K: O.K.

H.M.Jr: And you just stay put, will you?

K: All right.

H.M.Jr: And I'll turn you over to Steve, if he's in. I don't know whether he's in, but stay on.

K: All right.

Operator: Hello.

H.M.Jr: Leave the Attorney General on the wire and is Mr. Gibbons in?

O: I'll find out.

H.M.Jr: Please. Are you still there?

K: Yes, I'm here.

H.M.Jr: All right. I'll wait until we hear from We'll see whether she can get him.

O: Mr. Gibbons is attending a conference over in the Commerce Department.

H.M.Jr: Well when he's through, ask him to call up Mr. Keenan, will you?

O: All right.

H.M.Jr: All right. Hello, Joe.

O: Just a second.

H.M.Jr: Hello

K: Yes.

H.M.Jr: Keenan?

K: Yes.

H.M.Jr: As soon as Steve Gibbons comes back, I'll have him call you.

K: Thank you very much.

H.M.Jr: And whatever you two fellows do I'll underwrite it, how about that?

K: All right.

H.M.Jr: Fair enough.

K: That's fine.

H.M.Jr: O.K.

December 18, 1937.
4:43 p.m.

Operator: Go ahead.
Jere
Cooper: Hello.
H.M.Jr: Hello.
C: Mr. Secretary?
H.M.Jr: Talking.
C: Jere Cooper.
H.M.Jr: How are you?
C: Fine, thank you. How are you getting along?
H.M.Jr: Oh, fine.
C: Well that's good. Listen, I'm sorry to bother you.,
but I have a matter I want to talk to you just two
or three minutes, about my district. Would it
be convenient for me to see you some time in the
morning.
H.M.Jr: Well now let me just see, please. Just a moment.
C: Or Saturday, would that be more convenient for you
Saturday morning?
H.M.Jr: No, tomorrow - how's ten o'clock?
C: Well, of course, that'll be all right. The Sub-
Committee we're working on, you know, meets at
ten. I just thought -
H.M.Jr: Why don't you come in -
C: If I could get there at nine thirty, if that - be
too early for you.
H.M.Jr: No.
C: Give me a chance to get to the Sub-Committee meeting
on time, or I could leave the Sub-Committee meeting
at eleven thirty and come down, if that would suit
you.
H.M.Jr: It's nine thirty.
C: Nine thirty be all right.
H.M.Jr: All right.

C: Well that'll suit me fine. Be much better, and I can get right to the Sub-Committee meeting then.

H.M.Jr: All right.

C: All right. Nine-thirty.

H.M.Jr: Thank you.

C: Thank you so much.

H.M.Jr: Fine.