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December 17, 1937

9:45 a. m.

Present:

Mr. Bell  
Colonel Harrington  
Mr. Ross  
Mr. Keene, Budget Bureau

HM,Jr: Good morning, gentlemen.

Col. H: I got back to town this morning, having been away for two days. Mr. Ross and Mr. Keene, in the meantime, have had discussions along the line that you indicated when we were in here last to the end of arriving at an agreement of the amount of money that was available and one or the two of them will explain.

HM,Jr: Guess we had better hear from the Budget first.

Mr. Kenne: The actual amount that is available is \$11,600,000 in the emergency rolls of 1937.

HM,Jr: When you say \$11,600,000 you mean \$1 billion 160 million.

Mr. Keene: No; this is over all the things the President has earmarked.

Mr. Bell: That's unallocated balances.

Mr. Keene: Unallocated balances of ERA of 1937; in addition, about 7,000,000 unallocated status, collected funds, of the ERA of 1936 and 1937 combined and 18 million in process of transfer into the unallocated status, 2,000,000 of which has been on warrants for over two months.

HM,Jr: That's a total of how much?

Mr. Keene: Total in process of being transferred to the 1937 fund or in the 1937 fund of 36,600,000. Now in addition to that there is about 39,000,000 shown in the status reports of the Treasury as unobligated balances



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that are not being continued under allocations in the 1935 and 1936 Act. These are very widely scattered and it will be slow and difficult to obtain anywhere near 39 million. The freight bills have not been rendered in many cases and the Comptroller will not countersign warrants transferring that to an unallocated status until everything is cleared up, so that we might get \$30,000,000 within a reasonable time -- that is in three or four months more.

HM, Jr.: January. February. March. You will have it by April?

Mr. Keene: I should say by the middle of April we might get another \$30,000,000 of it. ~~-----~~

Mr. Bell: We will know what we can get by April.

HM, Jr.: Certainly would have it to spend in the month of June, if necessary.

Mr. Keene: If necessary we would have it by June.

HM, Jr.: But they can't count on it today.

Mr. Keene: Not for a long time.

Mr. Ross: You have substantial amounts of WPA you could count on.

Mr. Keene: We have been trying to get them from you since the first of August. You gave us 15,000,000 this week.

Mr. Ross: You have had 30,000,000 in all. It's just the process of getting it; no question of getting it.

HM, Jr.: How much of that 37 million is in that?

Mr. Keene: About 30 million. Pretty close to that.

Mr. Bell: Most of that.

HM, Jr.: That's 30 million plus 33.

Mr. Keene: I wouldn't want to say much more than

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that. Whatever they have that is coming back.

HM, Jr: About 36 million?

Mr. Keene: 36,000,000 we have already started back to the fund and then there will be 30 million that we will have sometime in April probably.

HM, Jr: That's 63 million.

Mr. Keene: 66 million. That's the most that we have to consider and much of that won't be ready until April.

HM, Jr: Is that on top of the 1 billion 3?

Mr. Keene: It's on top of everything the President has allocated or promised.

Mr. Bell: About 16 million over and above what he allocated.

Mr. Bell: We estimated in June that we could pick up 159 million and we asked the President to write letters to each one of the agencies -- not all of them, but WPA, Resettlement Administration and one or two others -- that he was willing to allocate so much money and he allocated the 1 billion 659 million, we will say, and then he set up certain reserves against each one of those and in the WPA letter he says, 'I am allocating to you 1 billion 300 million.

HM, Jr: That's written as of when?

Mr. Bell: July 1.

HM, Jr: That's July 1 -- 1 billion 3.

Mr. Bell: That's July 1. And he said, 'I have set up against that 1 billion 3 a 100 million reserve.

HM, Jr: Is that inside the 1 billion 3 or on top?

Mr. Bell: Inside.

HM, Jr: Within. The 100 million is part of the 1 billion 3.



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Mr. Ross: Are you sure of that? I don't think so.

Mr. Bell: Yes. This was not an official allocation in the sense it went to warrant. It was merely that WPA was notified how much money they could have to plan their program. Then he said 'I am going to allocate to you definitely, by quarters, 1 billion 200 million. The first quarter will be 350 million; the second, 300 million; the third, 300 million and the fourth, 250 million. And then he said 'The reserve of 100 millions will be for future allocations for unforeseen emergencies that might arise during the fiscal year. He told them in that connection that the 1 billion 3 included administrative expenses, National Youth Administration and Land Utilization of the Resettlement Administration and also included any projects that they might approve as WPA projects for the various Departments. And he told them that he would allocate, in addition to the 1 billion 3, \$35,000,000 for the first quarter for the Federal agencies.

HM,Jr: I can see that Colonel Harrington from the way he is acting has not seen this letter.

Col. H: No.

HM,Jr: You had better read that letter.

Mr. Bell: That's July 1. That's the program we have been working on and we allocated the first quarter and then we said we will notify you for three months ahead so you can plan your program; at this moment we are up to February 28, under that program. Any additional program that is launched now ought to be planned within that amount of money set aside or there ought to be a change in the letter from the President.

Now we have gotten today, as Mr. Keene has just told you, \$159 million. We have got in addition \$11,000,000 on the books above that. We think we will get \$60,000,000 additional.

HM,Jr: On top of that?

Mr. Bell: On top of that. We don't know definitely, but we think we can get it.



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Mr. Keene: The \$60,000,000 includes the \$11,000,000.

Mr. Bell: Oh, I should have said about \$50,000,000.

HM, Jr: How much on top of the 1 billion 3 have they a reasonable hope of getting in addition to the 1 billion 3.

Col. H: \$66,000,000, isn't it?

Mr. Keene: That would mean the President kept nothing for any other agency that has an emergency, and it means using the \$66,000,000 that he counted on towards balancing his budget.

Mr. Bell: The \$60,000,000 -- it now looks as though we would get it.

HM, Jr: What I think we should do, inasmuch as the President has asked us to work with Col. Harrington, if I were in Colonel Harrington's shoes, you want to work on this letter. As I understand that letter, the President does not release -- he has not released the \$100,000,000 yet. So I think in fairness to you and in fairness to us, if there is any change it shouldn't be the President told Hopkins or this was a dinner conversation I had with Hopkins on such and such a date -- doesn't make awfully good testimony before Congress -- and as I get it from listening to Mr. Bell, as far as the Budget is concerned, the amount of money they are working on is the 1 billion 200,000,000 basis.

Mr. Bell: That's right.

HM, Jr: If there is going to be any change, it ought to be in writing in a letter from the President to you. Now I think from the President's standpoint -- after all, I put all my cards on the table -- I would recommend to him at this time to make the third quarterly payment come within the 1 billion 3. I would recommend that to him and I think Bell would do the same, but I think at this time he should still keep that 60 million.

Mr. Bell: Yes.

HM, Jr: I think you and I are in accord on that.

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Mr. Bell: Yes.

HM, Jr: I think he definitely should keep the \$60,000,000. I think there should be a new letter and I think these people for the third quarter ought to have a fair proportion of the 1 billion 3, also leaving -- how much would you leave for the fourth quarter?

Mr. Keene: We have half a year together. We could split it.

Mr. Ross: We need much more for the third than we do for the fourth.

HM, Jr: Again, I am a sort of go-between and what I say does not bind Mr. Bell; does not bind anybody. But to save time, my inclination would be to shoot the \$100,000,000 into the third quarter and then take our chances on the fourth; in other words, what were they allocated for the fourth?

Mr. Keene: \$250,000,000. It was a cut of \$50,000,000.

HM, Jr: I would keep the fourth quarter 250 millions and I would add 100 millions to the third quarter and take my chances on the fourth. Now I told Hopkins -- I am going to keep my word with Hopkins and am sure Bell will back us up, that we won't give the \$80,000,000 to anybody without giving Hopkins a chance to plead his cause.

Mr. Bell: That's right.

HM, Jr: That's my bargain with Hopkins as Secretary of the Treasury, which does not bind Mr. Bell, but you go along on that?

Mr. Bell: Absolutely.

HM, Jr: So what the picture would be -- how much under that letter do they have for the third quarter?

Mr. Bell: \$300 millions; the first two quarters, \$650 millions. Now I don't believe they will obligate



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all of that \$650 millions in the first half year.

HM, Jr: The first quarter they were shy, they did not obligate by \$33 millions.

Mr. Keene: Of course, you realize that WPA had transferred to other agencies some of their money so in your status reports it does not show as an obligation of WPA. You have got to add to their obligations the obligations of the Reclamation Service and obligations of the Land Utilization and Flood Control -- three things.

HM, Jr: Let me do it this way. You start with the President's letter in which he gives them in the third quarter \$300 millions. Now we say tentatively, subject to the President's approval, we add \$100 millions.

Mr. Bell: For the third quarter.

HM, Jr: For the third quarter. Plus anything that was left over. I got a figure of \$33 millions from the first quarter they did not spend.

Mr. Bell: I think it was \$18 millions.

HM, Jr: How much is left over from the \$650 millions that won't be spent the first three months?

Mr. Keene: About \$18 millions.

HM, Jr: And in the other agencies?

Mr. Keene: That includes WPA and the agencies to which they have transferred.

HM, Jr: \$18 millions all that will be left over?

Mr. Keene: That's all. You see, these other agencies are now going into operations.

HM, Jr: Would you add that?

Mr. Bell: It is already added.

HM, Jr: Then they have another \$18 millions?



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Mr. Bell: Whatever they carry over they have; they understand that.

Mr. Ross: We can get by in the third quarter with the \$418 millions and make good on this 350,000 increase.

Mr. Bell: This question comes up: can you get by in the fourth quarter if we are not able to raise any more than the \$250 millions?

Mr. Ross: No; by no means.

HM, Jr: Can you get by with \$300 millions?

Mr. Ross: It will take us about \$315 millions -- the \$250 millions plus the \$60 millions would get us by the fourth quarter.

HM, Jr: Well, you are all right.

Mr. Bell: Including what the President's letter included -- Land Utilization, National Youth?

Mr. Ross: This does not include the miscellaneous Federal agencies.

Mr. Bell: How about National Youth?

Mr. Ross: Yes.

Mr. Bell: How about other Department. You approve for other Departments that are WPA funds.

Mr. Ross: That's the big question. They are not in this figure and when Mr. Hopkins said 1 billion 3 I am convinced he never thought of those agencies.

HM, Jr: Oh, I think you are wrong.

Col. Harrington: The difference is in phrasing. In WPA Federal Projects we include projects that are operated actually by WPA. We don't include projects in which we turn the funds over to the War Department, Reclamation Service or any other agencies. That is the phraseology we use in our shop.

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Mr. Keene: You have turned over 6 million 600 to Reclamation out of your quota of 1 billion 2 or 1 billion 3, which of course is gone. Two dams in Texas and one in Montana. You turned -- the President directed you to reduce your quota by 22 million 500 on account of Flood Control projects that the War Department was going to operate. In effect he has reduced that by 22 million 500 and you reduced it yourself the 6 million 600 for the Reclamation projects and you are reducing it probably some 15 millions for Land Utilization projects. Now after deducting those, then you see you won't have the whole 1 billion 3 to spend.

Mr. Ross: The point I am trying to make, that in all of our internal statistics and all Mr. Hopkins had before him, those other agencies were not counted and were not in his mind as part of the program.

HM,Jr: Now don't say that with that letter there.

Mr. Ross: Yes, but that's six months old.

Mr. Bell: It has not been changed.

HM,Jr: Don't make statements like that. You have the letter and you don't pay attention to it. You don't read it.

Mr. Ross: Oh, certainly we pay attention to it.

HM,Jr: You can't say you don't understand it when there is a letter from the President of the United States giving you your orders. The whole trouble is, if you don't mind my saying it, is we get the impression over here that you people don't read letters or don't want to read them when the President of the United States sends them.

Mr. Ross: That is not the situation, but there is a new situation that has arisen and considering the new situation when Mr. Hopkins was reviewing it he had figures in front of him when he was considering them ...

HM,Jr: Who gives them his figures?



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Mr. Ross: I do.

HM,Jr: Did you have that letter before you?

Mr. Ross: Not at that point.

Mr. Bell: WPA is going on a program of men and the President can't go on a program with men unless he knows how much money he has got.

HM,Jr: In order to save everyone's time, Colonel Harrington has not seen this letter before. He has got it. I want him to come back Monday. I want him to live within the letter of what's in that letter or say that he can't.

Col. Harrington: Yes, sir.

HM,Jr: I can't, and Mr. Bell can't, and nobody can afford to be kidded about unemployment. That's the one thing we can't play fast and loose with it. I am not and I am sure you are not. You have your letter and what we are trying to do is get a new letter and we don't want to write a letter that's impossible for you to live up to. What I am suggesting is that Mr. Bell draft a new letter which he will present to you on Monday morning so you can come prepared to say I can or I can't live within that letter and if we get the President to sign it -- here's the money Hopkins' organization say they can or can't live within it -- we can't go any further; I think you had better see them. But, if you don't mind, that letter was written because we had exactly the same kind of a situation before and I don't want to find myself -- we are not dealing with a machine; we are dealing with human beings. You have that letter. You know now exactly where you stand. Mr. Bell and I are willing to recommend that you get whatever the savings were from the first and second quarters of money allocated plus the \$100 millions allocated for the 3rd quarter out of the 1 billion 3, but that 400 million is for everything.

Mr. Bell: That's right. It's all the money.

HM,Jr: What we have in mind -- what we want to ask them is will that \$400 millions, which is everything that we have got, carry on this program and then we want



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to ask them for the fourth quarter that they have \$250 millions plus whatever we can scrape together. Isn't that the whole picture? Nothing to trade about. You know now everything that is there. There isn't any more.

Col. Harrington: Yes, sir.

HM, Jr.: What we want to find out -- Mr. Bell will have for you, Monday, a draft of a letter and you can come back. Is that agreeable to you?

Mr. Bell: That's all right.

HM, Jr.: We will present that letter to you and you know now what will be in that letter.

Col. Harrington: Yes, sir.

HM, Jr.: It will be a draft of a letter covering the second six months?

Mr. Bell: Yes; that's right.

HM, Jr.: Are you and I entirely together or do you differ?

Mr. Bell: No. I go along with that. That's all right with me. There is little doubt about the 60 millions; their getting that.

HM, Jr.: You can describe the funds and say whatever they are.

Mr. Bell: Whatever we get they can have.

HM, Jr.: Not only is it high time that Colonel Harrington knows what the situation is, but high time that the President knows whether they can or can't live within what we have got and if Col. Harrington comes back and says 'I can't' and gives his good reasons, it's most important that that is conveyed immediately to the President, because you and I have to give him a budget message. All I try to be around here is to be realistic.

Mr. Bell: We set up a reserve for Resettlement of \$14 millions. That's gone.

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Mr. Keene: Every cent is gone.

Mr. Ross: What I can't understand is Resettlement is spending just as much this year or more than last year without any drought program.

Mr. Keene: They will spend more this year.

HM, Jr: Is that the construction program?

Mr. Ross: That's a minor part of their program.

Mr. Keene: \$25 million 900 they have had allocated so far.

Mr. Ross: But the Land Grant program is larger this year.

HM, Jr: Is 10:30 all right with you, Monday?

Mr. Bell: Yes, I think so.

HM, Jr: I hope, Colonel Harrington, we can do this within these figures.

Colonel Harrington: So do I. HM, Jr: Before you leave, is there anything that you don't understand or any additional information? Haven't we given you the whole story?

Colonel Harrington: The discussion Monday morning is going to be on the basis that the 1 billion 3 plus the \$60 millions has got to include Federal agencies?

Mr. Ross: Certain of the Federal agencies. If I could inject one question.

Mr. Keene: Isn't it all in that letter? Except Flood Control?

HM, Jr: Give Colonel Harrington the subsequent letter. May I say, a step further, if there is anything bearing on this after the first of July, please give it to Colonel Harrington so he has the whole picture because evidently he has not got it. Is that agreeable to you, Bell?



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Mr. Bell: Yes.

Mr. Ross: With particular -- the \$20 million item, for example, there are certain of these projects that we have sent pieces of paper over saying we would like this charged against the 1 billion 3, but the 20 millions in Land Use we were told on both of those ...

Mr. Keene: Right in this letter.

Mr. Ross: We did not send a piece of paper on Land Use or Flood Control. If you charge on Flood Control, is that included in the \$60 millions?

Mr. Keene: It's part of the \$60 millions. It's included in the \$60 millions.

Mr. Bell: It's all part of the 1 billion 360.

Mr. Ross: You set up a statutory or some kind of a charge for the Corps of Engineers for 654 millions. The \$20 million you also charged against us and that would be included in the \$60 millions?

Mr. Keene: Yes.

Col. Harrington: One question I would like to ask. Why Flood Control? The latter only took 22½ millions and not an additional 30 millions.

Mr. Keene: It was the \$22½ million figure the Corps of Engineers estimated they could actually use under the provisions of the Relief Act from both bills. Just a coincidence.

Mr. Ross: If the discussion, Mr. Secretary, could be put on the basis of wiping the slate clean, the potential amount of money available to us, what we could go into, then we would not get into that situation of whether the \$20 millions should be charged as part of the 1 billion 3 or not.

Mr. Bell: It just reduces the amount of money available; it does not make any difference to us, but you people are passing on these projects. We don't know how much should be used against Land Utilization. It's always been part of your program. If you want to



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set it aside and give us enough money, we will reduce the figure.

Col. Harrington: But you can't count it twice.

Mr. Bell: Oh, no. It's not my program. It's one worked out between you and Resettlement. Maybe it isn't necessary.

Colonel Harrington: Land Use?

Mr. Bell: Yes.

Colonel Harrington: Well, we cut it pretty nearly in half. ~~we~~

HM, Jr: Have you got all the pieces?

Colonel Harrington: I think so.

oOo-oOo

THE WHITE HOUSE  
WASHINGTON

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July 1, 1937

My dear Mr. Administrator:

As under the provisions of the Emergency Relief Appropriation Act of 1937 no additional funds will be made available for relief or work relief during the fiscal year 1938, it will be necessary to make the appropriation contained therein last during that entire fiscal year.

I am reserving therefrom, \$1,300,000,000 to provide for all obligations to be incurred for the administration and work relief projects of your Administration, including the National Youth Administration, as well as the land utilization projects of the Resettlement Administration. In addition to the foregoing amount, I am prepared to approve direct allocations, not to exceed \$35,000,000 during the first half of the fiscal year, to Federal agencies to provide employment on work relief projects for such numbers of certified workers as you recommend.

You are directed to so administer the funds made available to your Administration that obligations incurred shall not exceed the following amounts for the periods indicated.

|                |                |
|----------------|----------------|
| First quarter  | \$ 350,000,000 |
| Second quarter | 300,000,000    |
| Third quarter  | 300,000,000    |
| Fourth quarter | 250,000,000    |

This will leave a reserve of \$100,000,000 to be allocated by me to your Administration to meet any unforeseen emergency which may arise during the fiscal year.

In order that you may be able to make sufficient funds available to the state administrators to enable them to plan their work more efficiently, I have allocated the following amounts for the first quarter of the fiscal year:

- 2 -

|   |                  |
|---|------------------|
| For obligations incurred under limitation a   | \$ 8,000,000     |
| " " " " " b   | 12,000,000       |
| " " " " " c   | 17,000,000       |
| " " " " " d   | 7,000,000        |
| on projects approved<br>under the Emergency Relief Appropriation<br>Act of 1935 and the Emergency Relief Appre-<br>priation Act of 1936 | 260,000,000      |
| For obligations incurred for Administration   |                  |
| General   | 10,000,000       |
| Supervisory   | <u>5,400,000</u> |
| Total allocated .....   | \$319,400,000    |

This leaves \$30,600,000 for allocation including funds for land utilization projects of the Resettlement Administration within the \$350,000,000 for the first quarter.

Should it be found that the foregoing distribution does not provide enough funds in some accounts and provides surplus funds in other accounts an adjustment may be made about the middle of August when I allocate funds for obligation in October.

Sincerely yours,

(signed) FRANKLIN D. ROOSEVELT

The Honorable,

The Administrator,

Works Progress Administration.



## THE WHITE HOUSE

Washington

C  
O  
R  
Y

JUL 27 1937

My dear Mr. Administrator:

I have allocated from the appropriation in the Emergency Relief Appropriation Act of 1937 \$52,500,000 to the War Department, Corps of Engineers, representing funds earmarked by the War Department Civil Appropriation Act of 1938 for the exclusive use of that Department on flood control projects.

I am advised that, although the War Department Civil Appropriation Act made available \$7,500,000 of the foregoing allocation on flood control projects in the lower Mississippi Valley free from the restrictions and limitations of the Emergency Relief Appropriation Act of 1937, the Corps of Engineers can use these funds under such restrictions and limitations, and that they can use \$15,000,000 of that allocation on flood control projects elsewhere which can be so prosecuted. I am therefore charging \$22,500,000 of the foregoing allocation against the funds reserved for the Works Progress Administration for obligation during the fiscal year 1938. The amount you were authorized by my letter of July 1, 1937, to obligate in each quarter of the fiscal year 1938 will therefore be reduced by \$5,625,000.

It is desired therefore that you approve such projects submitted by the War Department for operation with the foregoing funds as can be prosecuted under the provisions of the Emergency Relief Appropriation Act of 1937.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

Honorable Harry L. Hopkins,  
Administrator, Works Progress  
Administration

December 17, 1937.  
11:49 a.m.

H.M.Jr: Hello.

Operator: Miss Scully, the chief operator -

H.M.Jr: Who?

O: Miss Scully - S-C-U-L-L-Y, the chief operator.

H.M.Jr: Just - all right.

O: Go ahead.

H.M.Jr: Hello, Miss Scully?

Miss Scully: Miss Scully speaking.

H.M.Jr: This is Mr. Morgenthau, Secretary of the Treasury.

S: Yes.

H.M.Jr: I want you to take an ex-report Government call. I want you to handle it yourself for me, will you?

S: All right, you're - you're very distant Mr. Morgenthau.

H.M.Jr: Well, can you hear me now?

S: Yes, that's much better.

H.M.Jr: Right. I want to talk to Sir John Simon.

S: Is that John Simon.

H.M.Jr: Yes.

S: Yes.

H.M.Jr: He's Chancellor of the Exchequer - Chancellor.

S: Chancellor of the Exchequer?

H.M.Jr: Yes. Of Great Britain.

S: Of Great Britain.

H.M.Jr: Yes, in London.

S: And that's London, England.

H.M.Jr: And I want this - what you call the diplomatic channel.

S: Diplomatic.

H.M.Jr: Now I don't care who's ahead of me, but I'm going to ask you, that I want this call put through, unless there's a State Department call ahead of me, I'd like the right of way. You understand?

S: Yes, I see.

H.M.Jr: I mean -

S: Does the operator at Washington have your number?

H.M.Jr: Well I'll put my own operator on, but I want to impress on you that I want, right of way, over any commercial calls.

S: Yes. All right Secretary Morgenthau.

H.M.Jr: Now, do you understand?

S: Yes. That will be put immediately.

H.M.Jr: Yes, and I want right of way over any - I want the utmost secrecy - frequency.

S: Yes, we'll use the privacy - maximum privacy.

H.M.Jr: All right. Thank you. Now, wait a minute, you can talk to my own operator.

O: Yes, sir.

H.M.Jr: Take that.

O: All right.



RE POSSIBLE CONTROL OF JAPAN'S CREDITS  
AND PURCHASING CHANNELS IN UNITED STATES

December 17, 1937  
11:50 a.m.

Present: Mr. Taylor  
Mr. Lochhead  
Mr. Oliphant  
Mr. White  
Mrs Klotz (at 3:20)

H.M.Jr: Where's Harry White? I don't want to do this twice.  
(On phone) Where's Harry White? - All right.

Now, this is triple confidential, and the State Department doesn't know. It isn't to know it, and nobody's to know it. I'm acting directly under the President's orders, see?

(White comes in)

Come on, Harry, sit down.

(On phone) Ask Miss Chauncey to come in a minute. I'm waiting for that overseas, you know.

Have you (Oliphant) got a copy of your memorandum?

Oliphant: No, that one you've got is the only one.

H.M.Jr: The President kept that. She's got one; I gave that extra to Mrs. Klotz.

Oliphant: I've got my longhand.

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

In the first place, to bring you all up-to-date - I haven't got all the pieces, but I'm going to give it to you now.

The President asked me ....

(Miss Chauncey comes in)

Memorandum from Mr. Oliphant; I want a carbon copy.

Now, the President asked me several days ago whom

~~#95~~  
20A

The proclamation  
has been approved by  
the Attorney General  
personally. The  
regulations have  
been drafted

HO



20B  
~~19~~

MEMORANDUM TO SECRETARY MORGENTHAU

The exchange restrictions under the 1933 amendment to the Trading-with-the-Enemy Act would be instituted by a Presidential Proclamation declaring a national emergency, accompanied by regulations describing the prohibited and restricted transactions.

(1) The Proclamation could be drawn in general terms reciting the necessity for forestalling events which might plunge this country into war, for quarantining a war situation dangerous to the peace of the United States, and consequently for providing a basis of indemnity as well as protection against future acts.

(2) The regulations would then be drafted to specify the acts and transactions which it is intended should be covered. They could expressly prohibit banking and foreign exchange transactions and monetary exports in which the Japanese Government is directly or indirectly interested; and for the purpose of making that prohibition effective, could require licenses for all such dealings which involve the Japanese yen or the transmission of funds or credits to or from any place or person in territory under the control of Japan. The licenses for transactions of this character which, upon investigation, proved to be outside the prohibition would be granted by the Treasury upon applications made through the various Federal reserve banks. These banks would make a preliminary investigation and recommendation on such applications. Provision could also be made for requiring reports of any international monetary transaction whether or not covered by the regulations, if required by the Treasury.

December 20, 1937

Samuel C. Roberts

MEMORANDUM TO SECRETARY MORGENTHAU

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-2-

he could get to give him an angle on how he could lay his hands on Japanese funds in this country if he wanted to do so, and I told him there was no better man in town than Herman Oliphant. And I had him do it and then these two fellows (Lochhead and White) separate, to let me know what there was. When the President read this, he said, "My God, I completely forgot about it."

Now, let me get this thing. I'm a little upset. You (Oliphant) better make notes. The first thing he wants - you better all make mental or - or notes.

If he did this, put into effect the Trading with the Enemy Act, would it (1) Have the effect automatically of stopping imports and exports from the United States to Japan?

Shoot from the hip on that, Archie.

Lochhead: It wouldn't necessarily, just by its effect, stop imports and exports immediately. There could be exports and imports that are not being paid for, that are being carried on balance.

Oliphant: May I answer? The way it's drawn, in answering ....

H.M.Jr: Yes.

Oliphant: The plan proposed would involve the licensing of all transactions in yen or transfers of payments involving the Japanese Government, as well as transfers involving private individuals. That is, we lay down a blanketing license system involving everybody in Japan, so as to get a chance to scrutinize them.

H.M.Jr: Everybody in Japan?

Oliphant: In Japan, public and private - all Japanese transactions - giving us a chance to scrutinize them. Then you would license ordinary commercial transactions and refuse to license transfers of funds to the Japanese Government.

H.M.Jr: Well, how about commercial?

-3-

Oliphant: You would license them.

H.M.Jr: But I still - that doesn't answer the President's question. Would it automatically affect imports and exports? What he means is this. You still haven't - now, let's - what he's got in his mind is this. If we impound all funds belonging to the Government of Japan, does that - this is the word he used - automatically mean that it stops flow of trade in and out of the United States to Japan?

Oliphant: No.

H.M.Jr: It does not. You've got to make another thing. You've got to go into the licensing. I mean - in other words, what he's trying to think of - if he impounds all funds, could he just sit back and say, "Well, all I did was to impound the money," but wouldn't it go a long ways towards stopping it.

White: It would make it a little difficult for them, because they would no longer have cash here.

Lochhead: The immediate result would be that they'd rush everything they had on their boats and get it out - everything they bought.

Oliphant: Let's distinguish between private funds and Japanese Government funds.

H.M.Jr: We're first talking about Japanese Government funds. We impound those.

Oliphant: Those we just freeze on to - then what happens is that we refuse to issue licenses, just sit there.

H.M.Jr: But wouldn't that mean, if we impound all Government funds, that that would put an awful kink in the commercial transactions?

White: I don't think so, Mr. Secretary, because we don't know what proportion of that is Government funds. May be very small. They could transfer it over.



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H.M.Jr: But you gave me a figure of 72 million.

White: Japanese - not Government.

Taylor: You haven't got any breakdown of what the Government funds would be. That's all in the Bank - I mean the Bank of Japan stuff probably, isn't it?

Lochhead: Bank of Japan would be the only one that could give you that, because even the banks on this side would not know. The Yokohama Specie Bank on this side, holding deposits of the Yokohama Specie Bank in Tokio, would claim that they didn't know whether they were entirely Government funds or not, and the Yokohama Specie Bank is the only one - the one that has the large balance of the deposits here.

Oliphant: Does he want the minimum interference with private trade?

H.M.Jr: What he had in mind on this first thing is, if he did this, would this - how far would this go toward stopping trade, without his doing anything else, you see.

Oliphant: Wanting or not wanting to stop trade?

H.M.Jr: Wanting to stop trade.

White: It wouldn't go far unless the Japanese Government got sore over it, but if the Japanese Government wanted to trade here, it wouldn't interfere at all.

H.M.Jr: It wouldn't?

Oliphant: May I answer that? Want to take a little time now.

Assuming that you set this thing up, that the thing you're going to stop and take - seize, is Japanese funds - that's the proclamation; now, there's two types of machinery you can set up.

We can say that it is unlawful for anybody to export funds belonging to the Japanese Government, and we can leave it to the banker or the broker or the merchant to decide whether or not funds, credits, he has belong to the Japanese Government. See? That would be a minimum of interference.



-5-

Or we can say that everybody exporting funds, public and private, involving the yen, has to get a license. Now, how much interference with private trade would depend on the speed with which that - for example, the speed with which that licensing system operated.

White: You may have to do more than that, because supposing they converted their dollar balances into sterling. That's what they'd do.

Lochhead: That's what they do, sell the gold for dollars and then they sell their dollars for sterling.

White: They're already doing it. Just had a phone call this morning....

H.M.Jr: Wait a minute. One at a time.

White: ...from New York.

Taylor: All saying the same thing.

White: Phone call from New York this morning.

H.M.Jr: Go ahead, Harry.

White: In which the man in the Federal Reserve Bank of New York who had instructions to keep us informed currently of any bits of news ...

H.M.Jr: Yes.

White: ... said that they just - they got word that Japan is offering some dollars in London, and he said that the amounts are not very large, but they look - they suggest that they are beginning to convert a little more of their dollars into sterling.

Lochhead: "Continuing" is the word.

White: Continuing. And this seven million dollars of gold that's coming in - he thinks they're going to take care of it that way. Nothing serious, but a possibility. That shows how they would do it.

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H.M.Jr: That's why I want to call up directly Sir John Simon, say what we're thinking about, and if we did it would he join us - (1) - and (2) if we went further we could possibly use the tripartite agreement. I'll come to that in a minute. But this is one. There's no use our doing it unless the English.....

White: They could also go further. They'd not only deal with the English. They could deal with Italians or deal in marks.

H.M.Jr: I'll come to that.

Oliphant: This proclamation and the regulations under it - we're talking about "directly or indirectly" and assuming that you put in that wider licensing system - it would be up to us to determine whether it was indirect, and we can operate that at any speed we please, and you can completely control private trade.

White: That's right.

Oliphant: I mean within limits. Because it's for you to say whether it's directly or indirectly.

H.M.Jr: On that, Herman, then, what I'd like to get from you next is for the President another sheet showing what we could do, the various steps that we could take, and what they would affect.

Oliphant: There are two types of structures to be built up. Do you follow me on that?

H.M.Jr: Yes.

Oliphant: One for Government - one Government and the other would be commercial as well.

H.M.Jr: All-inclusive.

Oliphant: That's right.

H.M.Jr: But that would take care of that answer. You see, I need another memorandum.

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Oliphant: I get it.

White: That's the right approach.

H.M.Jr: What?

White: That's the right approach.

H.M.Jr: Well, I need the one - simply, the first one would be a threat, and if you really meant business, you'd ...

White: The threat would merely be followed by taking - if you were to threaten in any way at all, that 70 million would disappear like that. In a half hour probably get rid of it, don't you think, Archie? Well, a couple hours.

Lochhead: It would take two days to move out their spot stuff.

Oliphant: That would be all over the United States in two minutes on the tickers, and can be put on the bond tape and wheat tape and commodity tape, and no banker in this country will move until he has consulted the Federal Reserve Bank.

Lochhead: The Yokohama Specie Bank in New York would move. If I know the Yokohama Specie and the Japanese, they're going to move and move very fast. The bulk of the money is kept in Japanese agency banks.

H.M.Jr: Now, everybody will have a chance to talk. Please. I'm the only one that can be excited, and I'm not very excited. When you're through - are you through?

Lochhead: I'm through.

H.M.Jr: Now, Harry.

White: If we're going to move at all on this, and if you want any effect, I think you've got to take practical extreme measures which he suggested in the second instance, that no funds be moved at all, directly or indirectly; and you'd have to go right to those banks, practically, and do something right - the first intimation that they would get



-8-

of any action, I think, may have to be ....

H.M.Jr: Well, what you do is the way we did the other thing. You do it at five o'clock at night; get George Harrison on the telephone, and he'd call every bank, so when these fellows woke up in the morning, it would be done. He did that for us once.

White: Nobody would buy their dollar balances. Nobody is to buy their dollar balances without permission.

H.M.Jr: But it would be no good unless you did the whole thing.

Taylor: That's right.

White: They could operate in London, but you're going to take care of that.

Lochhead: That would be necessary, because they would sell their dollar balances to London. That's their usual procedure.

H.M.Jr: Supposing Britain says, "All right, but you have to cover Holland."

White: And France.

H.M.Jr: "Could you do it?" I think they'd have to cover the tripartite countries.

White: I think they could sell it in a good many markets pretty quickly. Unless the word got around, they could sell it in France, they could sell it in ...

Lochhead: There would have to be transfers of dollars on the books here, though. They would sell it, but the actual transfer would have to take place, and that's where we'd have to stop them.

White: There is where you might be able to. If it quickly got abroad that those funds were not safe, then they would have difficulty selling them anywhere.

Taylor: Well, they've got to make delivery.

-9-

Oliphant: Now we're going to get down to it.

H.M.Jr: How they going to deliver them 70 million dollars if we don't give them a gold license?

White: Have to draw on their various deposits, and you could stop that.

Lochhead: Not only that you stop payment out, but you would stop any receipts in any place of Japanese funds. It would be both sides.

H.M.Jr: In talking to Sir John Simon - this bracket here is all Government funds, isn't it?

White: No, no, Japanese funds. We don't know how much.

H.M.Jr: Well, how much has the Government got?

Lochhead: Don't know.

H.M.Jr: Well, this is short-term funds?

White: Short-term funds. Now, all ...

H.M.Jr: What?

White: All we can say about that is that it's pretty accurate.

H.M.Jr: But it's short-term.

White: Short-term funds, deposits and bills, both in San Francisco and New York.

H.M.Jr: All right, now get this. He shot - gosh, he was tickled with this, because this is the first real fight he's had. Then he raises the next question, would this be a way - a method of quarantining the goods, you see, going in and out of the country through foreign exchange?

White: Through foreign exchange, yes.

H.M.Jr: Through their foreign exchange.



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White: Of course, they've got a little that's paid for already. They could take that out, but it doesn't amount to much.

H.M.Jr: But this would quarantine .....

White: Oh yes. No transactions in foreign exchange - no direct or indirect. It's that "indirect" that's important, because then the decision whether it's destined for Japan ....

H.M.Jr: All right, now, the next question is, would this ....

Oliphant: May I interrupt there just a minute?

H.M.Jr: (On phone) Hello. - - Yes. - Thank you.  
- And leave word with the messengers that if Mrs. Klotz comes back I want her to come in.

Oliphant: Apropos of that last question of the President's .....

H.M.Jr: Sir John Simon is between the House of Commons and his residence.

Oliphant: This statute under which we are operating doesn't in terms refer to goods at all. It refers to our control - bank credits, gold, and that sort of thing. Now, the quarantining of - this is the present set-up: The movement of goods to and from the country will come as a result of the way we operate the control of funds and credits, the speed with which we operate it, the strictness with which we operate it, etc. But I don't ....

H.M.Jr: Incidentally, when this was set up before, for some reason or other the President brought in a man from the outside to run it, see? What was his name?

Lochhead: Kent. Frank Kent.

H.M.Jr: But there is no reason why this shouldn't be operated by myself.

White: It should be.

Lochhead: You've got our division. Our division still stands up in the Federal. We took Kent out, but the nucleus is there, and we have Raymond.



-11-

H.M.Jr: Under my orders?

Lochhead: Entirely. They're entirely under the Treasury.

H.M.Jr: Well, I mean the machinery we've got here - there's no reason I can't sit here and tell them what to do.

Lochhead: Absolutely not. You can do it. You've got Mr. Raymond there instead of Kent. You've got somebody to do it.

H.M.Jr: I can get Knoke to do it. Raymond isn't good enough.

Lochhead: I'll tell you frankly, as far as being good enough, Raymond ran it for Kent.

H.M.Jr: We only pay him three thousand.

Lochhead: Three - only pay him five thousand. That's just simply - that's the point.

H.M.Jr: I've never seen - even seen Raymond. Don't even know what he looks like.

Lochhead: They've kept him just as a divisional man in there.

H.M.Jr: Does he know this stuff?

Lochhead: Worked on it all his life.

H.M.Jr: Why not ....

Oliphant: I'd like to see him.

H.M.Jr: I'd have him in here tomorrow morning, if that's the fellow. What? Have him here tomorrow.

Lochhead: I feel we'll have full cooperation.

H.M.Jr: Are you satisfied as to his ability?

Lochhead: I'm satisfied with his ability and, as I say, not only that, but he'll be working with Knoke and Harrison, and so forth. They're all right there together. Should be absolutely no difference of opinion at all.

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White: May I make a suggestion? The thing, if it's going to be done at all, unquestionably you want it properly done so there would be no slip. In that event, don't you think, Archie, that if you had both Knoke and him down here - one may overlook some little angle; you never can tell.

H.M.Jr: Have them both down.

Lochhead: As a joint thing, possibly.

H.M.Jr: Have them both down.

Lochhead: As I say, Raymond has worked on these from the very day they set them up; worked on it every day.

H.M.Jr: Have them both down. I will. When I get this thing, I'll tell Harrison, because he likes to get in on the Treasury business.

(On phone) Governor Harrison, N.Y.

All right.

Oliphant: Just going to tell him to have a man come down, that's all?

H.M.Jr: That's all. Enough for his Executive Committee on Foreign Affairs - Mr. Owen D. Young, Mr. - International Business - what's his name?

Taylor: Watson.

H.M.Jr: Watson.

Well, anyway. Would this create non-intercourse?

White: What kind? I mean ...

H.M.Jr: I mean commercially.

White: Because it would probably give rise to the other kind.

Taylor: It would put it on a credit basis.

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Lochhead: Depend entirely on how you wanted to operate your ....

H.M.Jr: Well, let me go a step further. Would this create non-intercourse? Would it be helpful if we had the tripartite supporting it? The whole tripartite, you see, because the President said, could they go into the Dutch West Indies, so forth and so on.

Then, if we did this - let me run through the whole thing, questions he raised - have the Governments of Germany and Italy and .....

(Phone rings)

Raymond?

Lochhead: Raymond.

H.M.Jr: (On phone) Hello. (Conversation with Governor Harrison follows:)



December 17, 1937  
12:11 p.m.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Hello.

George Harrison: Hello.

H.M.Jr: George.

H: Hello, Henry.

H.M.Jr: Good morning.

H: Good morning, sir.

H.M.Jr: On strictly Treasury business and for nobody else, I'd like Knoke and Raymond to be here tomorrow.

H: Knoke and Raymond.

H.M.Jr: Yes. On strictly Treasury business.

H: All right.

H.M.Jr: Foreign exchange. But - I mean this is - when they come back, I have no objections to their telling you what I'm doing, in fact I want you to know. But I don't want to even say it over the phone.

H: Well, all right. Well, that's quite all right. What time do you want them?

H.M.Jr: Oh, let them come down on the midnight, or whenever they - come to Archie's office at 9, 9:30 tomorrow morning.

H: I'll have them there 9 o'clock in the morning.

H.M.Jr: Yes. This is one of those things that we're - fiscal mat- - I mean you as agents for the Treasury.

H: All right, I understand.

H.M.Jr: And I can tell you even the State Department doesn't know.

H: All right, that's first rate.

-2-

H.M.Jr: O.K.?

H: I'll have them there.

H.M.Jr: Thank you.

H: Ah - by the way, your friend Ukawa has not been to see me.

H.M.Jr: Well, he asked to come to see me Tuesday, and I - I'll get word to him that there's no use his coming to see me until he's seen you. How's that?

H: That's all right. I - I just thought you ought to know that he has not been to see me.

H.M.Jr: I - I'll take care of that.

H: Yes.

H.M.Jr: I saw the Japanese Ambassador and he asked me about it, and I said, "Has Ukawa been to see Governor Harrison?" He said he didn't know.

H: Well, he hasn't.

H.M.Jr: Well, I'll get that word to him.

H: Ah - Henry, can Mrs. Klotz give me a pass to your Treasury vaults? I'm going to Louisville - Fort Knox - to visit my sister for Christmas. I'd love to see them.

H.M.Jr: I'll have one .....

H: I wouldn't want to do it without asking you first.

H.M.Jr: I'll trust you to take a look.

H: Do you think it would be all right? I'd love to go in ....

H.M.Jr: Oh, of course. I'll have one mailed down to you.

H: First rate.

H.M.Jr: Righto.

H: Thank you.

H.M.Jr: Thank you.

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H.M.Jr: (To reporter) Governor Harrison wants a pass to the Treasury vaults at Fort Knox. He wants to see it.

Lochhead: Mr. Morgenthau, may I point out one thing, speaking of the British, and that is, the first thing they're going to say is they haven't got the machinery we have for this kind of business.

H.M.Jr: I think you're wrong.

Lochhead: When I say that, I know that if they pass the word around, it's the same thing, but they may say they haven't got the legal machinery.

H.M.Jr: I think you're wrong, because they have the right to keep anybody from selling any securities, and all that.

Lochhead: I know, but it's not done in a completely formal ....

H.M.Jr: Well, you don't know what they've got.

White: I think the answer to that is, Mr. Secretary, if they don't want to do this, they can give a lot of good reasons; if they do want to do it, they can do it.

H.M.Jr: All true, but don't take my enthusiasm away, see? All true.

Lochhead: I'm just pointing out that that may be their answer; and, as Harry says, the other answer - if they want to do it, they can do it.

Taylor: Credit.

H.M.Jr: What?

Taylor: Credit.

H.M.Jr: What about credit?

White: Buying on credit. In other words, the Japanese can order things here and promise to pay six months from now, a year from now, it doesn't matter what they buy,



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and there would be no exchange transaction. It is not likely, but it is possible that they would.

Lochhead: Wouldn't we interpret that as a foreign exchange transaction?

Oliphant: We'd like to look into that.

White: You might. Foreign exchange and credit. You might.

Taylor: The thing that I have in mind - suppose the Germans, Japs and some other third party - I mean Italians or some other third party, are willing to take Japanese credit and operate for them.

White: They'd do that. That would be their next step. If we had goods that they wanted, that is their obvious channel. Then we would have to determine whether that's indirect.

Taylor: How could you tell? You'd never know about it.

White: No. Might merely mean they'd buy copper here and they'd use their other copper to ship to the Japs.

Oliphant: The shoe's on the other foot. We're sitting here and we don't issue any license until somebody convinces us we want to do so.

Taylor: I'm talking about - still not - Japanese balances shut off, everything quiet, no transactions at all. They make a deal with X country - doesn't make a damn bit of difference what country it is - by which as of a given date, why, they will pay for whatever those things are; and the other country operates, pays cash, renders its own credits, and so on.

White: And in fact you would have a difficult time saying that that's "indirectly," because supposing Germany bought copper ...

Taylor: No tie-up at all.

A.M.Jr: (To Kieley) Will you get word to the Japanese Embassy that I do not wish to see Mr. Ukawa on

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Tuesday unless he sees Governor Harrison first. I suggested that he see Governor Harrison in New York first, and Governor Harrison informs me that he has not yet seen him, and unless he sees Governor Harrison I don't care to see him.

Lochhead: I asked Knoke this morning whether Ukawa had been in there. He said he hadn't been in to see Governor Harrison, but he had come in to apologize for the incident.

H.M.Jr: For doing what?

Lochhead: He had come in and apologized to Knoke for the incident.

H.M.Jr: What incident? The Panay?

Lochhead: Yes, the Panay. The financial men are coming in and apologizing.

Taylor: That makes it unanimous, then.

H.M.Jr: No, it doesn't. The Emperor hasn't done it yet. That's the whole question.

Taylor: Oh yes.

H.M.Jr: I mean what are they going to do? I mean that's.... What's the Emperor going to do? No, the Emperor doesn't know about it yet.

Taylor: They haven't complied with the request yet.

H.M.Jr: I mean the Emperor of Japan doesn't know about it yet, you see.

Oliphant: You didn't finish going through that list. You started.

H.M.Jr: No, I haven't. That's a good point.

Taylor: Well, this credit thing is terribly important.

H.M.Jr: That's all right; they've raised it, and the boys have got to study it.

Now, on this question of getting cooperation to make

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it effective, the President raises the question of making this a tripartite matter, you see.

Now, the next thing he raises is this: Supposing we do make this a tripartite matter. Have Italy and Germany the raw material sources necessary to send to Japan?

White: No.

H.M.Jr: Now, wait a minute. What are the raw materials necessary to Japan?

White: We have that and we can get more. They have a report that should be almost ready. You want me to contact them?

H.M.Jr: Tell them for Christ's sake to put the steam on.

In other words, if the President kept using this, made a non-intercourse pact with the tripartite countries, you see first what raw materials does Japan need and then what have Germany and Italy that she could use? I mean if they were thrown entirely on Germany and Italy.

White: If they were thrown entirely on Germany and Italy.

H.M.Jr: I mean what could Germany and Italy do, and what does Japan need?

White: Yes.

H.M.Jr: Now, the thing that he pointed out, which isn't in here: How much United States dollars and assets can the Japanese tie up?

White: Yes, we have that too.

H.M.Jr: You didn't give it to me.

White: No, you didn't ask for it.

H.M.Jr: Also, how much good property has the United States got in China that Japan might lay its hands on? I mean he was hitting on all six this morning, see?



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Furthermore, he says - not in this list -: How much are the total number of Japanese - dollar value of Japanese bonds which are dealt in - the face value - on the New York Stock Exchange - quoted, you see, and what proportion of those are owned by United States citizens? Now, he says for instance, if we do this - I see Japanese bonds are quoted at 65; he says they most likely will go to 5.

Now, that's the whole picture. In other words, if they get ugly, they say, "All right, you did this," and what can they do to us? Now, that's the whole thing. And as I say, he was .....

Olliphant: Hitting.

H.M.Jr: He was hitting on all six. And he was just delighted - you could tell, it was like a breath of fresh air. And God, did I have to chisel my way to get in to see him this morning!

White: Shall we suggest some of the loopholes that would have to be plugged up on this now?

H.M.Jr: Now, while I'm on this - this is just a paragraph that has nothing to do with this. (Dictates paragraph re Mexico, transcribed separately).

(On phone) Hello. - No, I'll talk to nobody but Sir John Simon. Nobody but Sir John Simon. - - Thank you.

"Mr. Hopkins will talk." This is not the unemployment problem. Who's Hopkins?

Taylor: I don't know; secretary, probably.

On the tripartite, I think we ought to keep this thing out - whatever is done out of the framework of the tripartite.

H.M.Jr: Huh?

Taylor: We've got to keep it out of the framework of the tripartite, on the basis that the tripartite is purely monetary. And also, you're not going to be able to do it with them anyhow.

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Oliphant: I thought it was purely democratic.

Taylor: Oh yes.

H.M.Jr: Well, maybe we won't do it as a tripartite thing, but maybe we'll have all the countries in.

Taylor: That's something else again.

H.M.Jr: The same countries. Now, whether you need Switzerland, I don't know - or whether you need Belgium. You certainly need Holland, you certainly need France.

Lochhead: In fact, the members of the tripartite could ....

Oliphant: Wayne, let's recall back when the tripartite was announced; when it was announced, what was the world reaction? "At last the great democracies of the world have demonstrated their willingness to act together."

Taylor: That's all right. I think you can get the same countries, but you ought to keep it out.

White: It was a step toward maintenance of peace and stability.

Lochhead: And to increase - break down barriers and increase trade. Now, be careful; you've got that in it too.

White: The right kind of trade.

H.M.Jr: Well, the important thing is to get enough countries in to make it effective. A rose by any other name is as sweet.

Taylor: If you do it on that basis, I would have somebody discover the strange coincidence that it is those countries.

Oliphant: Let somebody else point it out. That's all right.

White: The loophole that you (Taylor) talked about is an important one.

Taylor: Damn 'right.

White: That's the important plug so far as we're concerned.



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Oliphant: Well, it might take me a good while, in that case, to decide whether or not Italy was the agent of Japan. And we have a doctrine of "fecit per alia, fecit per se," which, being rendered, means you're stuck if you act through an agent.

White: Herman, how would <sup>you</sup> handle this?

Oliphant: You (Taylor) said a little bit ago, "How would you know?" Well, you just don't get the point. We don't worry about how we know. They worry, how are they going to convince us?

Taylor: All right, you're not licensing any of these other countries.

Oliphant: We don't have to worry at all about finding out any of this mysterious stuff about these relations. We haven't any worry at all. The worry is on the other side - can they convince us that it is not? See?

Taylor: Well, would you - I mean getting back to this question ....

H.M.Jr: Now, do you mind just a second ....

Taylor: Not a bit.

H.M.Jr: Can you hold your thought? Now let me just rehearse what I'm going to say to Sir John Simon, will you? Will you hold everything? This is what I want to say: "Now, Sir John, I'm talking with you at the suggestion of the President of the United States. This is for you and Mr. Chamberlain only. Nobody else. If you don't mind, I want to talk on that basis - just for Mr. Chamberlain and you. While we're waiting to hear from the Emperor of Japan, we're thinking along the following lines, exploring various things which we may do in case we don't get a satisfactory answer from the Japanese. We have on our books, which undoubtedly you can get, a Trading with the Enemy Act of March, 1933, which permits the President" - and I'll read it from here - "he is authorized to define and declare that a national emergency exists for reasons of necessity to forestall events which might plunge this nation into war and to quarantine a war situation dangerous to the peace of the United States," and so forth.



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"Now, what we'd like to know is, first, if we should do such a thing, would you and Mr. Chamberlain be thinking over whether you would also simultaneously put into effect measures which would be as effective as these, because we realize perfectly that the money which the Japanese have on deposit here - if we do this alone, it will simply flow to you.

"Furthermore, in thinking this matter over and discussing it with Mr. Chamberlain, would you also think that it would be necessary to invite any other countries to join us in this? But we are principally interested in knowing what you think about this, and would you join the United States Treasury in simultaneously doing something along these lines? Do you think it would be effective? And we'd like to have your frank reaction."

Now we'll go around the room clockwise. Herman, what do you think?

Oliphant: I think that's - I think that's all right. I have .....

H.M.Jr: Well, that's what the President said, that he wanted to get this thing directly, and the only way to get it direct to this bird is to call him up.

Oliphant: Now, are you calling him at the request of the President or with the suggestion of the President, or with the approval of the President? At the request or with the approval?

H.M.Jr: With the approval - with the knowledge and approval. With the knowledge and approval.

Oliphant: That's right.

H.M.Jr: With the knowledge and approval. And this is a Treasury matter and not a diplomatic matter.

Oliphant: That ought to be added.

H.M.Jr: And I'd say, "And frankly, at this particular stage our State Department knows nothing about it." Because I don't want them to start - send an inquiry back here to Lindsay, and for the time being I'd like to keep it

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out of diplomatic channels.

Oliphant: "And just between the three of us."

H.M.Jr: "Just between Mr. Chamberlain, yourself, the President, ...."

Oliphant: "Just among the four of us."

H.M.Jr: Yes.

Oliphant: Well, I think that's all right.

Taylor: Do you want me to be Sir John Simon for a minute?

H.M.Jr: Yes, put on your monocle.

Taylor: "Well, that's very interesting, Mr. Secretary. Now, for how long do you contemplate this, and under what circumstances would you remove it?"

H.M.Jr: I couldn't answer that. I wouldn't - I don't know.

Taylor: Well ....

H.M.Jr: I don't know.

Taylor: That's a pretty good question, isn't it?

H.M.Jr: Well, I thought you were going to ask, "Under what circumstances would you put it on?"

Taylor: "Well, having put it on, under what circumstances would you remove it?"

Oliphant: I would answer that by saying that we would remove it when the emergency declared by the President to exist had passed, that emergency being determined in the circumstances by the necessity to take action to forestall action and events which might plunge this nation into war and to quarantine a war situation which is endangering the United States, and to assure reparations in order to avoid the necessity of resorting to force. As long as the emergency declared by the President in his judgment continues, the measures would of course continue.



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Taylor: Yes, but - I mean that's fine, but if I were Sir John Simon or Secretary Morgenthau, I'd want to know, first, what you'd put it on for, and second, particularly under what circumstances you'd remove it.

Oliphant: Well now, I think the best answer to that is the legal - the legal answer.

Taylor: Such as?

Oliphant: This thing that I have dug up for the President is not one of those lawyer things.

Taylor: I know that, Herman, but I'm looking, say, two years from now. You have to know under what circumstances you'd remove it.

H.M.Jr: Well, I can remove it when the Japs will agree to be good boys.

Oliphant: Exactly. When the emergency which the President describes ceases to exist.

H.M.Jr: When the Japs agree, which would mean - leave this here so I can grab it - which means - what?

Taylor: Yes.

H.M.Jr: ... when they agree to recognize American property and American life and conduct themselves like gentlemen at the table of international nations; I mean when they begin to conduct themselves like God-fearing people.

In other words, I don't think - I'll bet ten to one he doesn't ask that question, but if he does: "When the Japs learn how to behave themselves."

Oliphant: I'd like to suggest, Henry, ....

Taylor: That is, toward us and the British?

H.M.Jr: The world.

Taylor: The world. All right, how about the operations that



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they are engaging in with their pals the Chinese?

H.M.Jr: Oh, Wayne, I think you're conjuring up things.

Taylor: No, I'm quite serious about it.

Oliphant: I think if you will take Wayne's question the way he asks it, without getting to the details, it's an important question to be asked. I think your answer to it is easy, Henry, and I think it is very important just the way you answer that question. Say that the thing will end when the emergency which the President has declared ceases to exist, and it is described in this document. Nobody can be more definite. And that is sufficiently definite for anybody. Do you follow me?

H.M.Jr: I understand. I hear every word both of you are saying.

Oliphant: When the emergency which is declared by the President ceases to exist, both the authority to continue the measures and the reason for continuing the measures will cease. And the reason I think that form of answer is important is because you are now talking to a representative of a foreign power, and the face you disclose to him ought to be the face that you'd be willing to disclose to the world, and which you propose to disclose to the world.

H.M.Jr: Listen, if he asks me that question, I'd simply say, "Sir John, I've got to have time to think that over." I'm not going to answer one single thing, because what I'm authorized - I'm not going to find myself in any mess; I have the President's approval, and I went over this thing - I know where I stand. I can go just so far: What does he think if we do this?

He's not going to ask me - I'll tell you what Sir John is going to ask me. "Well, Mr. Morgenthau, this is very interesting. I'd like to think it over. How can I reach you?"

I say, "Well, Sir John, if you'll tell me approximately when, I'll be at the Treasury, and I'd like

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to have you telephone me if you could. What do you say is a reasonable time? Say Sunday or Monday, whenever it's reasonable."

He'll come back. He isn't going to say. "It's very interesting. Thank you." He'll repeat so somebody can write it down, and he'll say, "Let me think this thing over, and I'm going shooting tomorrow, and I'll call you up Monday."

White: "with one exception. He may ask this question: "Could you give me an idea of what measures you propose, what measures you think will effectuate ~~y~~ policy, and what measures you expect us to cooperate with?"

Oliphant: That third paragraph there; it's right there in the document.

H.M.Jr: It says right here, "to prohibit banking and foreign exchange transactions and monetary exports in which the Japanese Government is directly or indirectly interested."

White: Those are the specific things you're going to ask cooperation on.

H.M.Jr: This reference is to ..... (reads portion of memo in monotone) " .... Those privately owned are being studied further."

What we're thinking - using "all-inclusive" - is to apply strict exchange control to all Japanese negotiations.

White: Direct and indirect.

H.M.Jr: Transactions. See, Wayne? Then he comes back, asks me something. I can say - I'll stall; I won't - on this thing, I wouldn't give him an answer unless I knew the President of the United States was a hundred percent behind me.

White: Just one suggestion that I'd like to make, a correction of what you were going to say when you said, "We know



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that the money will slip from here to England." I wonder if you could alter that and say, "We know that without the cooperation of England, our own would be less effective," without specifying just what it is.

Lochhead: Well, we know it, and we speak to the Bank of England, we tell them when money is being transferred back and forth. We've been working very closely with England and the Bank of England on these Japanese gold transactions, and we - remember, we agreed that we'd let each other know when we bought any further gold

H.M.Jr: You know, this is the kind of thing I get a great kick out of. I enjoy this because I love to come through on something for the President like this, when he's in a tough spot.

White: This will be a bombshell to Simon.

H.M.Jr: Huh?

White: He'll be the most surprised man in the world. He won't show it over the phone, but he'll certainly be a surprised man.

H.M.Jr: Incidentally - wait a minute - do you know what this will do? This will stiffen the Britons.

White: They'll love it.

H.M.Jr: They'll like it, because this will - they'll say, "Oh gosh, we can go ahead, but just think, if we don't, the United States is ready to do this." And this would solve the Mexican problem and a lot of problems. Incidentally, they could get some oil from Mexico, couldn't they?

Taylor: (Nods yes)

H.M.Jr: You'd have to think about where they can get this stuff. Don't overlook Mexico.

What about Russia?

White: They won't get anything except from North Sakhalan.



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H.M.Jr: Where from?

White: From that island North Sakhalan.

H.M.Jr: Get it without taking it?

White: Yes, they have contracts which the Russians are meeting.

H.M.Jr: How about the Dutch West Indies, oil?

White: They can buy a lot there. Got a very big supply there.

• Oliphant: Would you like to hear this, White?

H.M.Jr: What's this?

Oliphant: I mean what that thing, when you read it out a little further, means.

H.M.Jr: Go ahead.

Oliphant: Here would be the regulations issued under ....

H.M.Jr: Little louder.

Oliphant: Here would be the regulations issued under the proclamation.

"Except as hereafter specifically authorized in licenses issued by the Secretary of the Treasury, transactions specified in Sub-division B (which I'll come to in a minute) hereof are prohibited" - see, we prohibit anything unless we license; we start there - "if they involve (1) Funds, credit, or foreign exchange in which Japan is directly or indirectly interested; (2) the transmission of funds, credits, or foreign exchange, directly or indirectly, to or from any place or person within the territorial jurisdiction of the Japanese Government; (3) the Japanese yen."

Now, let me pause just a minute to explain that. The first clause covers the world, if Japan is

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directly or indirectly interested.

White: That covers North China.

Oliphant: Covers the world - France, Germany, Italy - it covers the world, if Japan is directly or indirectly interested.

And then the second clause covers transmission of funds, credits, or foreign exchange, directly or indirectly, to or from any place or person within the territorial jurisdiction of the Japanese Government. And finally, then, the Japanese yen.

Now, the things that are prohibited, coming to the "B" you see - we'll go back and read again: "Except as hereafter specifically authorized by license issued by the Secretary of the Treasury, transactions specified in Sub-section B hereof are prohibited if they involve..." - now here, are the transactions - all the following are prohibited if within the provisions of Sub-section A, which I just read: "(1) All transfers of credit between any banking institution within the United States and any banking institution outside of the United States, including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States. (2) All payments by any banking institution within the said United States. (3) All transactions in foreign exchange by any person within the United States."

White: Just one item it doesn't seem to me to include. Supposing Japan sent gold to Italy in exchange for purchases of copper. Italy sells Japan copper from her own supplies. Italy in turn uses this gold to purchase copper for her own supplies from the United States. It did not involve credit, it did not involve the ....

Oliphant: Well now, they would have to satisfy me. We wouldn't have to make any inquiry at all, but they would have to satisfy me, have to bring in enough evidence to satisfy me that that wasn't really a plan to get copper from the United States to Japan.

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Taylor: No credit involved. They simply buy it, as Harry says.

White: They send gold.

Taylor: Don't even know where they send the gold.

Oliphant: Wait a minute, what about getting the copper out of here?

Taylor: As far as we know, they're a bona fide purchaser of copper.

Oliphant: That begs the question. I say, Wayne, they would have to get documentary evidence, and so on, to convince me that they weren't acting really as agent for the Japanese Government. Now, when they act in this country, then that involves payment and transfers in this country, see?

White: And evidence might be if they were buying copper at a higher rate than they had been buying over a given period, which you might select for your purposes.

Oliphant: Yes. We wouldn't have to look at all for any evidence that it was an agency.

Taylor: Well, suppose they buy it from Mexico.

Oliphant: Let me finish that. We wouldn't have to look at all for any evidence that it was an agency. They would have to dig out evidence that it was not an agency.

Lochhead: Make it a little bit difficult, because, as I say, if the Credito Italiano opens a credit here for so many tons of copper - now, it's just their ordinary line of customers, and so on, that they've always had. Are we going to question - I mean how are we going to do about that? This appears as an Italian transaction right on its face.

Oliphant: All I'm trying to say is that the extent to which you can control the situation depends on the rigor with which you administer it.



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- White: More than that, you can't expect to stop Japan from being able to pick up raw materials that are afloat in the world. They will do it; but where you hurt them is in their not being able to sell in order to get the gold which which to pay for it. They'll be able to pick up rubber here, copper, silver, gold there. But the more countries you get in on this, the more difficult you make it.
- Oliphant: The very countries in which they could get it would be the least willing to let them go.
- Lochhead: Italy could give up her copper, but then, if she thought there was a possibility that she couldn't replenish her stores, she's going to be careful about letting it go.
- White: If you could get the British Empire as well as Britain, then ....
- Taylor: Well, here's - all right, you get a signed statement, from whatever evidence that you want, from the King of Italy or the Christ Almighty, I don't care who it is; they say, "This is for my account and nobody else's." Now, you've got to accept that unless you want to get into a jam with them too.
- Oliphant: Well now, Wayne, if it really is for their account and is not an indirect method ....
- Taylor: What they give you is a signed statement - "This is for my account. Il Duce." What you going to do about it? You can't say, "You son of a bitch, you're a liar."
- Oliphant: Don't say anything. Just happens that the governmental license doesn't go out.
- Taylor: Well ....
- White: There's a lot of stalling you can do, Wayne. You can delay.
- H.M.Jr: On this thing - this thing - in the first place, if it were 75 percent good, I'd say it would be wonderful.

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Taylor: Well, that's ...

White: The political effect, too.

Taylor: Nobody wants to do it any more than I do. I'm just thinking of what you're up against.

H.M.Jr: But, Wayne, if this is 75 percent good and if Great Britain will join us - it isn't 25 percent good unless Great Britain joins us; but if Great Britain joins us and we can get Holland and France, see - France will come in because she wants the (word not understood) on her forehead, see? She'll come in. Why, these boys - listen, when these fellows go around and you get the whole Japanese Navy apologizing to the personnel of the United States Navy, well, they're pretty swell scared. But we don't know yet whether they're scared enough that the Emperor is going to know about it. And I think the President is a thousand percent right that this is the time right now. We'll never be in a better position to simply put a pistol to these fellows' stomach and say, "Now listen, either you're going to treat us right or we shoot," because we're in beautiful shape; we're in beautiful shape.

White: You have a full appreciation, I am sure, of the position of the Emperor in Japan. He's almost like a divine being ...

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

White: ... among the Japanese. I don't say it shouldn't be asked.

Oliphant: We need a little of his divinity right now.

H.M.Jr: Well, he needs a little bit of humanity too.

Lochhead: As somebody remarked in one of his comments, that may be the case over in Japan, but over here he isn't.

White: He's just another king.

I gave the State Department that figure - just the total. Approximate total. Now, I ....



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H.M.Jr: I asked the President whether I had to give the State Department these figures and he said it was not necessary.

Lochhead: Just gave it to them roughly.

White: Just gave them rough figures. He was there at my doorstep.

Lochhead: I said as long as we said between 100 and 200 million, something like that ...

White: I put it between 75 and 200.

Lochhead: Just a rough figure.

H.M.Jr: No more. The President said it's not necessary.  
(On phone) Hello. - I'll take it in the other room. (Steps out to take phone call)

This may be the deciding factor in whether this world is going to have democracy or become all dictatorships.

White: The first step that's ever been made in opposition to the march of those three governments.

H.M.Jr: What we're talking about here may be ...

White: First political step. Every time they have receded, receded, receded.

H.M.Jr: I've told the President several times - he's asked me about Japan and I've always said the only way the Treasury could do it was through this method. He asked - he appointed a committee a couple years ago - at that time poor Harry Roosevelt and myself - what could we do economically to stop Japan?

(On phone) Hello. - Well now, don't bother me, but I'm going to let you handle it. I want Dr. Viner here tomorrow morning, and it's important. If he says no, I want to talk to him. If he says yes, you handle it. And get out the Secret Service,



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if necessary; if they fail, you try Coast Guard.

Taylor: You've got me worried. Break off diplomatic relations with these boys?

H.M.Jr: I don't know. I'm just doing one piece for the President.

Taylor: All right. Going to fight them?

H.M.Jr: If necessary.

Taylor: Well, under what circumstances?

H.M.Jr: They've sunk a United States battleship and killed three people.

Taylor: Sure.

H.M.Jr: Now I'll ask you a couple. You going to sit here and wait until you wake up here in the morning and find them in the Phillippines, then in Hawaii, and then in Panama? Where would you call a halt?

Taylor: I'd wait quite a while.

H.M.Jr: Well, I disagree a thousand percent. Economically, psychologically, financially, on a war basis we're ready. Why wait until these fellows - why wait until we have these fellows - they can draw on four hundred million Chinese to put them in the army?

Taylor: Well, of all the cock-eyed things in the world that we can do that would be more cock-eyed than the last world War we got into, this would be it.

H.M.Jr: Now listen, Wayne, I'm under great strain; I can't always stand having you do this to me. Now, this is what I'm - and I have yet to find you come in and say, "Well, Henry, I'll help you on this thing." But when you say that this is - what the President wants is cock-eyed, I object.

Taylor: I said to get into war would be cock-eyed.

H.M.Jr: All right, you say that. I object.

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Taylor: I didn't say this would do it.

H.M.Jr: You've got to remember, I'm trying to do things; I want suggestions.

Taylor: So am I.

H.M.Jr: But I say if what I'm trying to do for the President - if you say it's cock-eyed, then I can't work that way.

Taylor: What I said was that to get ....

H.M.Jr: I can't do ....

Taylor: ....to get into a war with the Japs would be the most cock-eyed thing that I could think of.

H.M.Jr: Has anybody said we were going to get into war? I say to you this is what the President wants. I think it's all right. I'm going to do what he asked me to do. But I can't always work under this terrific strain and always have you feel - "well, this is cock-eyed" - what I'm doing. Now, be reasonable. I mean I'm - I'm only a human being, Wayne.

Taylor: Well, God knows I don't always think so, as you know, or even close to it. But I think that this particular thing we have to think through, and I don't think we have.

H.M.Jr: Well, I'm very sorry, but this is what the President wants. Personally, I think it's a marvelous idea. I think it's a time to call a halt when a United States battleship has been sunk and three of our people have been killed. For us to let them put their sword into our insides and sit there and take it and like it, and not do anything about it, I think is un-American, and I think that we've got to begin to inch in on those boys, and that's what the President is doing. Now, if you'll let me see three steps - one, two, three - I don't know what it will lead to, but if it should lead - I mean there is such a thing as exposing both cheeks and one's behind in this thing, and one's human life - there's a limit to what you can do.

Taylor: Certainly.



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H.M.Jr: Now, how long are you going to sit there and let these fellows kill American soldiers and sailors and sink our battleships? Now, I ask you that.

Taylor: A hell of a while.

H.M.Jr: What?

Taylor: A hell of a while.

H.M.Jr: Well, that's - that's the fundamental - a difference. And all I can tell you is that certainly Mr. Hull doesn't feel that way. Mr. Hull is begging and pleading for three new battleships.

Taylor: I know.

H.M.Jr: And I want all the advice that I can get to do this thing technically correct, see? But as to the question, is this a good policy or is it not, then I've got to ask you - that's for the President to say. But I can't - I understood you to say that this was a cock-eyed plan.

Taylor: I said it would be a cock-eyed war.

H.M.Jr: All right.

Taylor: Of all the wars that I can think of that would be cock-eyed, that would be at the head of the list.

Oliphant: You might be interested, Wayne, in knowing that I've been going over the American cases, and while the Constitution puts the power to declare war on Congress, the American cases are pretty clear that where on the outside, like this, we have violence, authorized violence by the executive end of the government, and authorized resistance by it, that constitutes a state of war.

Taylor: Well, that's all very pretty, Herman. Now, if under any circumstances this particular move can lead to war, I'm absolutely opposed to it.

Oliphant: Wayne, it's not that simple, for this reason: that not making this move might lead much more quickly to war than making it.



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- Taylor: That's what I don't know. That's my background for any discussion - I mean war with the Japs, war with the Italians, war with the Germans.
- Oliphant: I think, Wayne, you can't dismiss what I say by saying you don't know - I mean if you're fair to me. We're in a situation where not acting is just as fraught with consequences as acting, apparently.
- Taylor: That I don't know. But the only language the boys will understand, that they'll pay any attention to, is war.
- Oliphant: No, what I meant by this - if you don't mind this discussion while we're waiting?
- H.M.Jr: What I understood - the reason I got angry, I thought it was a reflection on the President.
- Taylor: (Nods no)
- H.M.Jr: If there was no reflection on the President, then I don't get angry.
- Taylor: There's no reflection on the President and there's no reflection on you. I'm talking about the possibilities of getting - of going through with this thing, and where do you go?
- H.M.Jr: What you were practically saying was that the President and his ideas were cock-eyed. That's the reason I got angry. If that's it, it's all washed up.
- Taylor: I'm thinking about the possibilities of our getting into war with Japan, and I'm ....
- H.M.Jr: Now, I say to you - you sit in this chair and let me sit there - and if the President says to you, "Henry, explore this thing; I want to know; I want you to find out; I don't want anybody to know that you're doing this. I want to know in case that I don't hear and get a satisfactory answer, what can I do?" - what would you do?
- Taylor: Do exactly what you're doing.

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- H.M.Jr: That's all I want to know. That's all I want to know.
- Taylor: And I would add to it any comments that you felt should be added to it as a result of any of the conversations that may have been made here or any other place.
- H.M.Jr: That's all right, but all we're doing at this time is exploring for the President so that he can have all the cards. And now, when he gets this thing, certainly he isn't going to do anything hastily. But he's entitled to know from his Secretary of the Treasury what he can do.
- Taylor: Absolutely.
- H.M.Jr: And that's all. Now, where it would lead, I don't know. But as to my personal opinion, an honest opinion, and from what I have seen going on all over this world, I feel very, very strongly, and there you and I just have a fundamental difference. I feel very, very strongly that this is the time for the United States Government to tell Japan, "Now, you've got to behave yourselves, and if you don't, we'll take the necessary steps to make you behave yourselves." Because if we don't do that, it's only a matter of five or ten years before we'll have them on our neck.
- Taylor: Well, that's where I disagree.
- H.M.Jr: That's all right; you're entitled to your opinion and I'm entitled to my opinion, and we can have an honest difference of opinion. But the only thing - well, I won't go back again. But as to exploring this, you and I are in agreement. I want all the technical knowledge, all the assistance; I want as near perfect a job of getting this thing for him - I mean the most nearly perfect technical way that we can do this thing.

\* \* \* \* \*



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3:20 p.m.

H.M.Jr: Hello, everybody.

Well, I really - I wish you could have been at this Cabinet meeting, particularly in view of this conversation. It started off when I was there this way. The President pulled out a memorandum from his pocket - Oliphant's memorandum - doesn't tell them whose it is - "We want these powers to be used to prevent war." He said, "After all, if Italy and Japan have developed a technique of fighting without declaring war, why can't we develop a similar one?" which is very interesting.

Then he goes on - Wallace says - well that was just incidental; but the Vice President turned to Cordell and said, "Do you think moral persuasion will have any effect on Japan? Don't you think the only thing that will have any effect will be real force?"

Well, the President kept saying, "The trouble with England is that they are 25 years behind times and they don't realize that there is such a thing as using economic sanctions without declaring war, and that's what I - I want to get that technique." He says, "I want - we don't call them economic sanctions, but call them quarantines. We want to develop a technique which will not lead to war. We want to be as smart as Japan and as Italy. We want to do it in a modern way."

Then he says that I and Hull and Cummings should get together and discuss this thing. He doesn't tell whose memorandum this was. So I leaned over and told Cordell that we had had three days' head start on it and if he wanted to catch up he could see you (Oliphant). That is, Cummings.

Oliphant: You told this to Cummings?

H.M.Jr: I told this to Cummings.

Oliphant: Oh, to Cummings.

H.M.Jr: That if he wanted to catch up, because the President



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said the three departments should get together.

But it's interesting - what's-his-name, the Secretary of War - of Navy, I mean, said, "The way to let Japan know we're ready is to send all our battleships into dry dock and have their bottoms scraped. That will be notice to Japan we're getting ready."

(Hearty laughter)

I thought that was about as ....

Oliphant: Well, that's an interesting idea of the President's, to develop a peace technique - develop a modern technique of peace.

H.W.Jr: He said, "This is a modern technique. Italy did it first. When they went out of the League of Nations, no one said they declared war. They didn't declare war on the League of Nations." He said, "This is the modern way. I don't want to go to war, but I want to do things in a modern way."

Well, I think it's very interesting, and I thought particularly he might have been listening here, you see. That make you (Taylor) feel a little happier?

Taylor: (Nods yes)

H.W.Jr: Good. I hope your lunch was better than mine.

Honestly, when the President described this line they wanted - he said, "We take the Aleutian Islands, Hawaii, -----, and that other island down in the Philippines" - what's the other island? Anyway, two in the Philippines. "Then the French, English and Dutch take the Philippines to - down as far as Singapore."

And then a Cabinet member whose name should be unmentioned said, "Where would the British base, Mr. President?"

He said, without a crack or smile - he said, "Singapore."

Then the other thing which I thought was interesting - Wallace said, "Well, if we did this, we'd have to

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look out..." - I wrote it down; Wallace said, "We should be careful not to work economic hardship in the South because of the loss of the cotton export market." He does not seem to know that we've stopped exporting cotton for three months - we haven't sold them any cotton.

The President had a class there.

I can't tell you how much I love coming over here to join you people.

Klotz: Thank you.

H.M.Jr: (On phone) Where's Johnny Simon? - All right.

Oliphant: What does Garner say, that they don't respond to anything but what?

H.M.Jr: Force. Mr. Hull said it would take an hour to explain it to him. Been explaining it to Congressmen and members of the Cabinet so long. Wanted to take an hour to take him aside and explain it to him. Vice President's been riding Hull now for last two or three times.

Oliphant: That they, having developed a method of waging war without declaring war, we ought to develop a method of continuing peace without a declaration of war - of waging peace without a declaration of war.

H.M.Jr: He said, "We've got to develop a technique - Jefferson called it ...."

Oliphant: Reprisal?

(H.M.Jr. calls in Miss Chauncey to return eye glasses to her)

Oliphant: Technique for peace.

Klotz: What are you mumbling?

White: He's coined a new phrase here that's going to publicize this.

Oliphant: I think that's very interesting: "technique for waging peace."

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H.M.Jr: That's what he said. He said, "Great Britain hasn't learned it yet."

(Phone rings)

Oh gee, tell Harris not to come in. I just buzzed for Harris. Tell him not to come in.

(On phone) Hello.

Operator: Mr. John Simon. Go ahead.

(First portion of conversation with  
Sir John Simon follows:)



Friday  
December 17, 1937  
3:30 p.m.

HMJr: Sir John Simon -  
Sir John  
Simon: Yes.  
HMJr: Can you hear me all right?  
Simon: Pretty well, thank you. Is this Mr. Morgenthau?  
HMJr: Yes.  
Simon: How are you?  
HMJr: I'm very well, thank you. The reason I'm calling you up is the following. I am doing so with the knowledge and the approval of the President - and what I'd like to discuss with you would be just for your own information and that of Mr. Chamberlain's. Hello?  
Simon: But I didn't hear what you said.  
HMJr: Well, I'll do it again.  
Simon: I'm sorry.  
HMJr: I say, I'm calling you up with the knowledge and the approval of the President. Did you get that?  
Simon: Yes, I got that, thank you.  
HMJr: And what I'd like to say if I - would be only for your own information and that of Mr. Chamberlain.  
Simon: Through Mr. Chamberlain?  
HMJr: No, I say, what I'm calling you about I'd like to give - I'd like to discuss only with you ---  
Simon: No, I don't understand.  
HMJr: Hello.  
Simon: - own information and not with.....  
HMJr: And for Mr. Chamberlain.  
Simon: Chamberlain. Of course you'll appreciate that in this Country -  
HMJr: Yes.

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Simon: - - - everyone objects to information, -  
HMJr: Oh, they do?  
Simon: Oh yes, certainly.  
HMJr: I see. Well, I'll have to leave it to your good judgment.  
Simon:  
HMJr: Hello? - hello?  
Simon: Hello.  
HMJr: I say, I'll have to leave it to your good judgment.  
Simon: Yes, very well.  
HMJr: But the reason I put it that way was that I would liked to have done it as between Treasuries rather than through a diplomatic channel. Hello?  
Simon: Yes.  
HMJr: Did you hear me all right  
Simon: Yes, sir. Yes, Mr. Morgenthau.  
HMJr: All right.  
Simon: In foreign affairs we have to stick to our you know.  
HMJr: I see.  
Simon: I'm sure Mr. Chamberlain would think it right, but even so, if you would just tell me what you want if you think it well to do it on the telephone.  
HMJr: Yes, Well, let me tell you what I have in mind anyway.  
Simon: Yes.  
HMJr: While we are waiting here to hear from the Japanese Government - Hello?  
Simon: They've -  
HMJr: Hello?

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Simon: They've -

HMJr: Hello? Should I try and get a better telephone connection?

(Short Pause)

HMJr: Hello?

Simon: Yes.

HMJr: I'm afraid we have a very poor connection. Should I try and ask them to give me a better one?

(Long Pause)



H.M.Jr: Well, at least we are getting our lesson in English government.

White: Foreign Secretary has to sit in on anything that deals with foreign affairs, was that what he said?

H.M.Jr: No, he didn't say that. He said, "We do things over here as a Cabinet."

White: That may explain why it took so long to get him. Wanted to get the others.

H.M.Jr: I wonder if it's necessary for them to notify their embassy here. I think I'll ask them that, because then if it is, I think I better send it as a cable. That's just what the President doesn't want.

White: Would you want to get in touch with the President and tell him that they have to know that before you go further?

H.M.Jr: No. His instructions were to get it to them as far as and as secretly as I could. Well, I can't do it any better than this. Now if they want to tell it - I could ask him, "Is it necessary to shoot it back here?"

Glilmant: You appreciate that it has to be disclosed to the Cabinet.

H.M.Jr: Well, it's necessary - is it necessary - do they have to notify their embassy here?

Loonhead: Make that point that you're taking it as a Treasury matter.

H.M.Jr: I'll talk to him and then argue with him afterwards. And then he knows it. Don't you think so, Wayne?

Taylor: (Nods yes)

(Phone rings again)

H.M.Jr: (On phone) Hello. - Sir John Simon.

(Second portion of conversation follows:)

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HMJr: Hello?

Simon: Hello.

HMJr: Sir John Simon.

Simon: Yes.

HMJr: I can hear you much better now.

Simon: That's right. Thank you very much.

HMJr: I am going to give you the information that I have in mind. And then when I am through I would like to impress on you that the less people that know it the better, if that's agreeable. Hello?

Simon: Yes.

HMJr: Can you hear me all right?

Simon: Well, not very clearly. You were going to say something about some suggestion?

HMJr: Yes.

We, here, while we are waiting -

Simon: Yes.

HMJr: - to hear from Japan ....

Simon: Yes.

HMJr: - in answer to our note, we are exploring various methods of what we might do....

Simon: Yes.

HMJr: - in case we got an unsatisfactory answer or got no answer. Hello?

Simon: Yes.

HMJr: Now, under a law of March, 1933....

Simon: I'm very sorry but I don't understand what you're saying.

HMJr: Under a law of March, 1933 -

Simon: Yes.

HMJr: - so-called, "Trading with the Enemy Act."

Simon: Yes.

HMJr: We have the authority to declare a national emergency.

Simon: Yes.

HMJr: And under such an act the idea would be to keep this nation quarantined against a war. Hello?

Simon: I'm sorry, but I'm afraid I don't follow what you are saying. I hear you refer to a "Trading with the Enemy Act" of 1936. That is an American statute, is it?

HMJr: Yes. 1933.

Simon: 1933?

HMJr: Yes.

Simon: And after that you have a power -

HMJr: Yes.

Simon: - in case of an emergency....



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HMJr: Yes. - to put our - what amounts to exchange control.....

Simon: Yes.

HMJr: ...which would be complete exchange control over all bank credit or exports or import of gold.... Hello?

Simon: Yes.

HMJr: Hello?

Simon: Yes.

HMJr: Now, ~~what~~ we're simply exploring is the possibility of using ~~this~~ as a quarantine against Japan.

Simon: As a what?

HMJr: What we call a 'quarantine'....

Simon: As a quarantine?

HMJr: Yes.

Simon: Yes.

HMJr: Against Japan.

Simon: Yes.

HMJr: Now, I simply wanted to let you know that we were thinking about this.

Simon: Yes.

HMJr: And wondered whether you might think it over because unless we had cooperation it wouldn't be very useful.

Simon: Yes. Now, look here, Doctor Henry Morgenthau, thank you very much for even consulting me. I do appreciate your speaking about a rather technical thing.

HMJr: Yes.

Simon: And, of course, when you use a long-distance telephone it's hardly possible to grasp details unless I shouldn't for the present find out the details and I am certain that if we are going to do this

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that we must really have the opportunity of looking at this act you speak of and considering it in some detail.

HMJr: Of course.

Simon: With this to think of, if you don't mind my suggesting it, you - I suppose that Lindsay is in Washington, isn't he?

HMJr: He is.

S: Sir Lindsay is a completely confidential person and I think he has a very

HMJr: Yes.

Simon: And our foreign office is afraid - I think it would be much more practical, if you would excuse me for suggesting it, I hope you'll forgive me, but I think if you would tell Lindsay what is in your mind he could then of course send his own telegram through the Foreign Office perfectly confidential and private and we should then get the thing and its whereins in plain terms, don't you think so?

HMJr: Well, quite frankly I did and that's why I'm telephoning you, but I will take it under consideration.

Simon: You see my reason, don't you?

HMJr: Uh -

Simon: A mere telephone message is very easy to be misunderstood.

HMJr: Well, we didn't - frankly we didn't want to put it in writing.

Simon: No, but then wouldn't you send for Lindsay and tell him?

HMJr: Well, I will have to think that over.

Simon: Well, I will do my very best to deliver the message but I have not found in the past that long distance telephone messages on public affairs are always quite understood, and I don't want to get into any further misunderstanding. Of that I am sure.

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HMJr: Well, I understand what you say and I don't mis - it's quite all right.

Simon: But, look here. What I will do is I will, of course, inform the Prime Minister of what you have been kind enough to say on the telephone...

HMJr: Yes.

Simon: ..to the best of my ability - describing to me a statute that I have never seen, which of course Lindsay can copy out in detail - - - as I haven't of course grasped all the implications, but I will certainly tell the Prime Minister. Of course, I don't know that I can do it tonight, for in this country you see we try to conduct our business from our offices as far as we can and I don't know where the Prime Minister is tonight, but I will try.

HMJr: Well, of course, I put in the call at 12 o'clock Washington time.

Simon: Yes. Well, you see, it's just half past eight here. I am just dining at the present moment.

HMJr: Well, and if ...

Simon: And I couldn't very well send him a note tonight, but I will certainly try to let him know tomorrow morning. Shall I?

HMJr: Well, that's entirely up to you.

Simon: All right, I will do that.

HMJr: Now, just a moment, please.

Simon: But certainly...

HMJr: If you don't mind, I would appreciate it that if we decide we don't want to tell Lindsay about it -

Simon: Yes.

HMJr: - that if you don't mind, I would greatly appreciate it if you would not cable to Ambassador Lindsay what I have told you.



Simon: Oh! No! We shouldn't - my dear Sir, I shouldn't dream of doing it, of course, without your authority.

HMJr: Yes. I am making quite a point of that.

Simon: Of course.

HMJr: - that I wouldn't...

Simon: What I don't want is I don't want there to be a misunderstanding. And I don't want it to be said hereafter that a suggestion was made to us and I didn't understand and the consequence is that if they had only acted differently something else would have happened. You know that happened in the case of Stimson. And I don't want there to be any misunderstanding.

HMJr: Well, I didn't know how you felt about telephone calls.

Simon: Yes, I don't think well of them for this sort of purpose, to tell you the truth because I can't make a proper record.

HMJr: Well, I assure you I will not call you again on the telephone.

Simon: It's all right. It's a great pleasure to hear your voice.

HMJr: And - but I just want to make this point again. I will find out if the President thinks it's all right to discuss this with Lindsay. If he doesn't...

Simon: May I just try to repeat, Mr. Morgenthau, what I understand you to have said to me because I must give the message as well as I can.

HMJr: Please.

Simon: I am down in the country - just a little house - with my wife, and we're having dinner, but it is just a little difficult here on this little telephone, but I will do my best.

HMJr: Please.

Simon: I understand you to say, first of all, that you have a Federal law, which I think was passed in 1933, called, "Trading with the Enemy."

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HMJr: Right.

Simon: Do I understand you to say that under that in certain circumstances, the Executive - or the President can declare an emergency?

HMJr: That's correct.

Simon: All right. Then do I understand you to say that if that was done, then the result, amongst other things, of establishing an exchange control, I suppose, for certain parties overseas to clear debts and payments.

HMJr: That's right. As it would affect the Japanese.

Simon: As it would affect a particular Power.

HMJr: That's right.

Simon: Yes. And that either of these suggestion and you were wondering whether that sort of suggestion would be a useful one and you would like to let us know because you felt that if anything of the sort were done it ought to be done all around.

HMJr: That's exactly right.

Simon: Now I think I understand it, but I didn't tell you that I will at once communicate if I can to reach the man tonight or in the morning.

HMJr: And if I may again say I will take your suggestion under consideration, but if we decide.....

Simon: The difficulty is that I am afraid we must give you or someone must give you, an answer.

HMJr: Yes. But the only way I could get an answer then would be, would be, ah, well, would this be agreeable to you if after having a chance to talk this over with the President that I would call up Mr. Butterworth on the telephone.

Simon: Would you?

HMJr: And then ask him to get in touch with you or with somebody in your office and suggest to him that we will continue this by cable or how we would like to receive the answer?

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Simon: That's quite all right. Did you understand, Mr. Morgenthau, I want to do everything that is helpful and frankly it is very difficult -- our own methods in this country are rather the mode of our habits

HMJr: Well, we all have our habits and in America we have gotten so we use the telephone very freely.

Simon: (Laughing) Yes, I know, but this is a small country and so we try not to do it. We have a system that is completely confidential and there is no need.

HMJr: Well, I understand, and of course I will get word to Butterworth and ask him to communicate with your office and let you know how we wish to continue this conversation, if we wish to continue it at all.

Simon: Well, thank you very much.

HMJr: Thank you.



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Oliphant: I think the telephone works.

H.M.Jr: I can be just as rude as he can.

White: He got the point.

Lochhead: The nicest one you got across was the one about habits - "We all have habits; our habit is to use the telephone." I thought that was the best one. It just isn't done.

H.M.Jr: He said he had some misunderstanding with Stimson on the telephone - I don't know - that was over Manchukuo, I guess.

Taylor: I suppose so.

H.M.Jr: He got into a terrible jam.

Oliphant: It's Sir John, too. He's ...

H.M.Jr: But I think ...

Klotz: Oh, he got it.

H.M.Jr: I think I held up my own end. I also told him we would not call him on the telephone again, because the answer is - the only way now to do it is to do it through Mr. Hull; I wouldn't dream of doing it any other way. I mean I'm not going to let him think that we don't trust Hull. And that's what we - the only way to do is through Hull.

I'm going back over there.

Otherwise it would look as though we didn't trust Mr. Hull.

Oliphant: Then this picture - from that standpoint, has the picture changed from what happened over in Cabinet meeting?

H.M.Jr: Well, the President was still playing it awful close to his chest.

I'll go back.

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December 17, 1937  
1:21 p.m.

H.M.Jr: Hello.

Operator: Dr. Viner will talk to you.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello.

Jacob  
Viner: Hello.

H.M.Jr: Jake?

V: Yes, Henry.

H.M.Jr: Where are you?

V: I'm at Cambridge, Massachusetts - at Harvard.

H.M.Jr: Oh. How long you going to be there?

V: Why, I was planning to be here until Monday morning.

H.M.Jr: Well, we've got a very important thing on our hands down here, approaching a crisis, in your field.

V: Well, you think I ought to be there?

H.M.Jr: Well, I - it's important enough that I sent for Knoke.

V: I see. Well - and you'd want me there tomorrow morning?

H.M.Jr: I think so.

V: Well, I'll have to see about trains. I must - I - you see, I've come here on a special engagement, and I must be here this evening.

H.M.Jr: Oh.

V: But if I can get a train leaving here this evening that gets me to Washington tomorrow morning, I'll be there.

H.M.Jr: Well, if you get here at noon tomorrow it's time ....

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V: Noon is all right?

H.M.Jr: Oh yes.

V: Oh well, then I'll be there at noon tomorrow.

H.M.Jr: Yes, if you get here at noon tomorrow it's all right.

V: Oh well, I'll be there at noon tomorrow.

H.M.Jr: And if you could stay with us, we - we'll .... It's something we want to do in case something else doesn't happen, see?

V: I see. You will not?

H.M.Jr: What?

V: Well then, all right, I'll get there by at least noon tomorrow.

H.M.Jr: And if I'm not here ....

V: Yes.

H.M.Jr: .... Taylor and Oliphant know what's going on.

V: All right, so I'll speak to Taylor and Oliphant if you're not there.

H.M.Jr: Yes, but it's a strictly Treasury matter. There's nobody outside the Treasury.

V: Nobody outside.

H.M.Jr: Strictly Treasury.

V: All right, Henry.

H.M.Jr: Thank you.

V: Thank you.



## MEMORANDUM OF THE DAY'S ACTIVITIES

December 17, 1937

To: The Secretary  
From: Mr. Magill

1. Tax revision

As reported on the news ticker, the subcommittee by a party vote rejected Mr. Treadway's proposal to repeal the undistributed profits tax and to reduce the tax on capital gains to  $12\frac{1}{2}$  percent. The draftsmen discussed with the committee the details of the Vinson proposal for a modified undistributed profits tax and substantially completed the committee discussion of it.

We expect to take up with the committee tomorrow a number of left-over matters, most of which are not of great importance. The subcommittee may meet again next week but will shortly adjourn for the holidays. The subcommittee report can hardly be completed much before the middle of January.

*Run*

## TALK WITH F.D.R. RE MEXICAN FINANCES

December 17, 1937

I told the President that I had had a long talk with Sumner Welles about Mexico; that Mexico was financially broke; that trying to do a patchwork job would not be of any assistance; that we'd have to treat Mexico the way you would reorganization of the Missouri Pacific Railroad or any big public utility, and we'd have to do an all-inclusive job.

I pointed out that he had laid down the principle in the case of public utilities, of railroads, or of individual farmers, that the thing to do was to write down their debts to a point where they could afford to pay the interest and amortization on such a debt; that that's what we'd have to do with Mexico.

I told him I had suggested to Sumner Welles that either the President of the United States should invite President Cardenas to come here with a commission, which I thought was the best thing, or if that wasn't possible, and if it was agreeable to the President of Mexico, that he should ask Sumner Welles and myself, plus a commission, to go to Mexico; that the idea of handling it this way was entirely agreeable to Sumner Welles. And the President said, "Fine," and that he would make the next move and call in Hull, Welles, and myself to talk it over. And he agreed that this is most important and he agreed with my contention that if we didn't do something like that, we'd see Germany, Italy, and Japan there within a year - in Mexico.

H.M.Jr.

December 17, 1937

Bell, Lochhead, Harris and Mrs. Klotz were present.

H.M.Jr:

At this time I am not worried so much about government life but Federal Deposit Insurance has 33 million or about 9 per cent of their government holdings in 2-7/8's and the only purpose of FDIC having 2-7/8's was that we used their funds to buy 2-7/8's when the market was weak. Now the market is strong and I do not think that an organization like FDIC ought to have 10 per cent of their governments in long-term and, ~~therefore, I~~ want to reduce their holdings.

In the case of Postal Savings <sup>they</sup> have 100 million in 2 per cent Treasury notes so that if again the government market is weak we can use Postal Savings for investment funds. I would like to sell 70 million dollars for Postal Savings and put it into a 2 per cent note. When the time comes around, I want to sell 20 million of the Civil Service Employee Fund and reinvest that in 4 per cent certificates.

Bell said, if we sold much now we would be taking money out of the market and he thought it better to wait until later on when we got more money in before we engaged in any more of these operations.

H.M.Jr:

I will sell 10 million for FDIC and then not do anything until after January 1st.



C O P Y

WPA EMPLOYMENT AND OBLIGATIONS

|                               | Employment<br>(000) | Obligations<br>(In Millions)<br>Work Projects |
|-------------------------------|---------------------|---|
| July                          | 1,662               | \$ 115.7                                      |
| August                        | 1,514               | 92.1  |
| September                     | 1,458               | 89.0  |
| October                       | 1,464               | 89.9  |
| November                      | 1,505               | 88.6  |
|                               | <u>Estimated</u>    |   |
| December                      | 1,575               | 95.9  |
| January                       | 1,800               | 109.8   |
| February                      | 1,900               | 114.0   |
| March                         | 1,800               | 108.0   |
| April                         | 1,650               | 99.0  |
| May                           | 1,550               | 93.0  |
| June                          | 1,500               | 90.0  |
| Total Work Projects           |                     | 1,185.0                                       |
| National Youth Administration |                     | 50.0  |
| Administrative Expense        |                     | <u>65.0</u>                                   |
| TOTAL                         |                     | 1,300.0                                       |

This estimate is exclusive of the need for working capital  
the latter part of June.

December 18, 1937.

EG

GRAY

Paris

Dated December 17, 1937

Rec'd 2:35 p. m.

Secretary of State,  
Washington.

1747, December 17, 5 p. m.

FROM COCHRAN

Early this morning French Chamber voted by 547 to 25 ordinary budget for 1938 carrying receipts at 54,600,000,000 francs and expenditures 1,229,000 francs less. Budget now goes to Senate where debate expected to begin December 26. In Chamber budgetary discussion Minister of Finance Bonnet took exception to arguments of Reynaud that over 40 billion francs will have to be borrowed next year. Bonnet places this figure at twenty billion. He claims eight billion francs in cash available for end of this year. Bonnet reiterated his opposition to exchange control and fidelity to tripartite agreement.

Exchange market reacted favorably to massive majority for balanced budget but gains were lessened by continuing gloom over big borrowing necessary next year. Observers feel that Bonnet will be obliged importantly to draw upon Treasury's credit with Bank of France to provide

-2- No. 1747, December 17, 5 p.m. from Paris

provide the eight billion cash mentioned above and which will be sufficient to meet only some of the Government's "preferred" year end requirements. Continuing talk of exchange control naturally tends to keep expatriated capital out.

Control took advantage of such improvement in sentiment as there was to strengthen franc sterling rate which was brought to 147.19 apparently without fund yielding much exchange. Belga slightly weaker on sales from London and on measure before Belgian Chamber favoring redemption before January 15th next of French loans totaling 1,153,000,000 French francs.

BULLITT

CSB

RECEIVED  
DEC 18 1947  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.



December 18, 1937

9:01 am

From his home, this morning, the Secretary spoke on the 'phone to Butterworth and read to him the attached message for Sir John Simon. The Secretary had written this out himself and his pencilled notes are attached. (There was no recording of the telephone conversation because the Secretary spoke from his home, but see diary entry of December 21st where reference is made to the telephone call of December 18th.)

Please, in strict confidence, inform Sir John Simon as follows:

QUOTE In pursuance my telephone conversation with you it is obvious that the subject is correlary to but an essential part of naval conversations and studies about to be made. The British Ambassador and your foreign office have been advised. With full concurrence of Secretary of State Hull we are asking the American officer who will shortly arrive in London to see you and obtain your views on the economic phase which I discussed with you by telephone Friday evening END QUOTE

Butterworth

Please ~~inform~~  
in strict  
confidence  
inform Sir  
John Simon  
as follows:—  
quote in pursuance  
my telephone  
conversation with

you it is obvious  
that the subject is  
correlary to but an  
essential part of  
naval conversations  
and studies about to  
be made. The  
British Ambassador  
and your foreign  
office have <sup>been</sup> advised.  
With full concurrence  
of Sec. of State Hull  
we are asking the  
American officer who  
will shortly arrive  
in London to see  
you and obtain



your views on  
the economic ~~of~~ ~~for~~  
phase which I  
discussed with  
you by telephone.  
Friday evening.

RE POSSIBLE CONTROL OF JAPAN'S CREDITS  
AND PURCHASING CHANNELS IN UNITED STATES

December 18, 1937  
10:45 a.m.

Present: Mr. Taylor  
Mr. Oliphant  
Dr. Viner  
Mrs Klotz  
Mr. Lochhead  
Mr. White

H.S.Jr: Let me take a couple minutes. Most secretive guy I ever saw. Well, anyway, going back to yesterday morning, going back three, four days ago, the President asked me who there was around town who could look up for him a device so that he'd know what's at his disposal in case he got an unsatisfactory answer from Japan.

Now, in order to give you - so you could think of this thing, what's going through his mind is this. He feels that this is the time for him to find out what is the real attitude of the Japanese towards us. I mean do they feel towards us the way they do towards the English, that they stall, give them an apology but not too prompt, not too much; shoot the Ambassador in the back and say, "Well, a misunderstanding," so forth and so on - never explain what happened to the officers. And, looking forward - in other words, he wants to see how sharp are their teeth and what's their real feeling towards us. He feels this is the time to do it, in view of our situation in the Far East and future action; he keeps saying, "Future." I mean they apologize this time, next time they do something else. You see? And the way to do is to be extremely stiff at this time. We have the Phillippine situation - what, '45, '43?

White: Want to end it in '39.

H.S.Jr: Well, anyway, we still have the Phillippines. And, to give you his philosophy, that we can afford to be very stiff and see, do the Japanese really want to be friends or do they look to us as a potential enemy five or ten years hence? Do you see? So what he's trying to do is to go all around and see what the things are that he can pick up, and he asked me who I had. Well, I said, "No better person than Oliphant." And Oliphant picked up this Trading with the Enemy Act, which the President said he completely

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Forgot about.

Then, for what I'd like to do with the Treasury - I haven't got the slightest idea if he's going to use it or not, but I'd like to be able, if he presses the button and says, "At five o'clock tonight I want to put in exchange control," to say, "Mr. President, the regulations are ready." I feel that's what my job is, and that's the way I'd like to run it. I'd much rather burn the oil now to put on a thing which is as delicate and with all the impacts and ramifications than not to do it well.

Incidentally, you (Viner) might take a look at the last two pages - the whole last cable that came from Basel. Montagu Norman says the tripartite is good; then they list nine or ten things, and they now admit for the first time the Treasury has a technique and knows how to run a stabilization fund. The first time they've admitted it. Very interesting.

Now, the President actually doesn't want to give this thing in writing. Therefore, he is discussing - in discussing it with him yesterday, he suggested, have I any way of reaching the British. I said, "Yes, I can telephone." Well, I telephoned Sir John Simon yesterday at this time, and I interrupted him at his dinner, which upset him very much, and I forgot it was Friday night; I shouldn't have called him until Tuesday morning. But after sputtering around, reminding me that there had been a misunderstanding, evidently through using the telephone, with Mr. Stimson, and he didn't want the Stimson case repeated again, I said that's why I was phoning him, and I didn't want to do it in writing.

Well, I read it to him over the telephone, and he didn't seem to - kept sputtering; but then he said, "Now let me see if I have this straight," and word for word he repeated the whole thing, did it exactly. He did some more sputtering. "Well, I can't reach Mr. Chamberlain tonight. I'm in the country. I'll get him first thing in the morning."

Well, now was he going to get word back to me when I said I didn't want to talk through the British Embassy?

Oliphant: You also told him to be darn sure you wouldn't ....



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H.M.Jr: Then I also told him, "I can assure you, Sir John, that I will never telephone you again, although in America we use the telephone quite commonly."

So he said, "Well, of course, we're a little country here, not used to those things."

Very nice little conversation. But I assured him I never would telephone him again. I wouldn't.

Well, the President - I went back last night, and since - during the day, or something or other, the President has kind of cooled off a little bit on this thing; he's not in such a great hurry. And all I can tell you - I can't tell you who or what it is - he's sending somebody to England, and this person will get in touch with Sir John Simon. And the person that's going - someone the President selected, but he's going with the full knowledge and approval of Mr. Hull. So I called Butterworth on the telephone this morning and read to him what the President dictated to me, the substance, which simply is that this man will be coming, and when he comes will Sir John Simon see him; and he will communicate to him the economic part of what the President has in mind; but he has other things in mind which he doesn't want to put in writing.

Viner: May I ask this question. Was that the substance of your conversation with Sir John Simon, that the man was coming?

H.M.Jr: No, the substance was that we were thinking of putting in exchange control, we realize that we can't do this thing alone, and we'd like to know how England would feel about it.

Viner: Well, may I suggest that if you are working along that line, you ought right at the start to bring Canada into the picture.

H.M.Jr: Who?

Viner: Because it would be a very convenient channel of evasion to both countries if Canada didn't participate.

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H.M.Jr: I told you Jake could - he'd pay for his carfare.

White: Well, that holds true of the whole British Empire - Australia, British India.

Viner: They're out of the way. American transactions could be handled on a wholesale scale with Canada.

H.M.Jr: I told you he'd pay for his carfare.

When I called you (Viner) yesterday, I thought this was something that might be done Monday or Tuesday. Now, unless - of course, it might still happen. I mean there are two stories going around from the papers this morning. One is that the Japanese Emperor is taking this thing personally in hand and is going to withdraw one fleet and substitute another.

Viner: Withdraw one?

H.M.Jr: Withdraw one fleet - going to withdraw the whole fleet as an apology.

Viner: As a gesture of apology.

White: I understand that most of the fleet will have to be withdrawn soon anyway, because those guns need to be worked on.

Viner: Even so, the gesture is an apology.

H.M.Jr: I mean if they withdraw that whole fleet - I mean as a gesture, and the Emperor - even if the Emperor took cognizance of the fact - I mean no one could ask for anything more than that.

But I just feel here that I don't want to be caught short, and I wanted your brain on it, because after all, this all was - can't have too many brains on this thing.

The reason I'm not having Knoke and the other fellow - we're talking policy here; they're down here purely on mechanics. Which are two entirely separate things.

And then the other thing we were talking about was that, of course, we'd have to bring Holland in, on



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account of the West Indies - I mean Dutch ....

Viner: East Indies.

H.M.Jr: East Indies. And I don't know - as I say, it's - as I told these gentlemen yesterday, I just feel that unless democracies show a united stern front, wny, five or ten years from now these people are going to be so strong that they're just going to own the world, that's all.

Now, you take the Mexican thing. I want to tell you about that. They're up here, and they're broke. They're absolutely broke. They're not only broke, but they've pledged 30 million dollars in advance, haven't they?

Lochhead: In exchange.

H.M.Jr: How foolish they talk. The Government is drilling wells. They're already talking about pledging oil wells which they haven't found, which they expect to get ten months hence. I mean that's how foolish they are. See? And I've suggested that we go down to Mexico so that we don't find we have another Spain on our hands; that the President make up his mind either to invite Cardenas up here and try to do a reorganization for them, with their approval - complete reorganization, and help them write down their debts and everything else, and not just keep fussing about individual things, but do the whole thing, so that we have a friendly, prosperous nation to the south of us; or otherwise I'm sure within the year we'll find Italy and Germany and Japan in there. They've got everything those countries need. Everything. And with the cry for colonies - I mean Mexico would be the richest colony in the world.

What the President says he's looking for is a new technique to combat peace.

Viner: To combat?

H.M.Jr: To combat, just like ...

Viner: To promote peace.



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H.M.Jr: To promote peace without declaring war. Now, that's this thing, you see. We're not declaring war.

Viner: It's economic sanctions.

H.M.Jr: Yes, but doing it with a lot of talk about peace, you see.

Viner: Oh, for peaceful purposes.

H.M.Jr: Yes.

Viner: It's policing, international policing.

H.M.Jr: Yes. Now that - I mean he says they have developed a new technique of going to war without declaring war. We have to outsmart them and develop a new technique to quarantine ourselves against that sort of thing and promote peace. And he thinks this is it. And he hasn't said so, but he wants us to explore this thing just as far as we can.

I've told - have you (Oliphant) heard from Justice or State?

Oliphant: Justice was over here last night.

H.M.Jr: (On phone) State Department, Mr. Hull, please.

I want to tell him.

Who?

Oliphant: Well, late last night Justice's man called me up.

H.M.Jr: Little louder.

Oliphant: Judge Townsend over there called me up, said he'd been up to the Attorney General, who had told him about the Cabinet meeting. I shut him off before I told him on the telephone. He came over and talked with Oppen about it. Incidentally, ....

H.M.Jr: Go ahead.

Oliphant: ... the Attorney General had given the President a memorandum on all his powers.

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H.M.Jr: On what?

Taylor: On all his powers.

H.M.Jr: His what?

Lochhead: Powers.

H.M.Jr: (On phone) Hello. (Conversation with Hull follows:)

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

H.M.Jr: Hello.

Good morning Mr. Secretary. Just one moment, please.

H.M.Jr: Hello. Hello.

Sec.

HULL: Hello, Henry.

H.M.Jr: Good morning.

H: What's going on?

H.M.Jr: Well Cordell, you remember yesterday, the President read that memorandum.

H: Yes.

H.M.Jr: About exchange control.

H: Yes, I told my chief, to go over that whole thing and report to me.

H.M.Jr: Well, what I wanted to tell you, we've had three or four days head start.

H: Yes.

H.M.Jr: Mr. Oliphant is prepared and be glad to cooperate with anybody that you will designate.

H: Well Mr. - Mr. Hackworth.

H.M.Jr: All right. Well, we - we've got - we've had three to four days head start.

H: Oh, that's fine. I - we'll be glad to get a copy of it.

H.M.Jr: And so would you like me to send you a copy of what the President read?

H: I'd be delighted.

H.M.Jr: I'll send it over to - you in 15 minutes.

H: That's fine.

H.M.Jr: And as I say, we've - we've had a little head start, so

H: Yes.



- 2 -

H.M.Jr: Anything that Hackworth wants, if you communicate with Oliphant, we'll be more than pleased to report to him.

H: Well, yes, thank you so much Henry.

H.M.Jr: All right.

H: Thank you very much.

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H.M.Jr: (On phone) Miss Chauncey. Ask her to come in please.

Oliphant: He had given the President a memorandum ....

H.M.Jr: Yes.

Oliphant: And had overlooked this one.

H.M.Jr: When did he do that? I never get these little by-plays of the President. He said he completely forgot this thing, then didn't look straight ahead. I see.

Oliphant: Townsend had prepared it.

H.M.Jr: Have you furnished them with a copy of this?

Oliphant: What?

H.M.Jr: Have you furnished them with a copy of this? Have you given Mr. Cummings one of these?

Oliphant: No.

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

Oliphant: Cummings?

H.M.Jr: Yes. Sure.

(To Miss Chauncey) The Attorney General and the Secretary of State - each one a separate letter. "My dear Mr. X: I am enclosing herewith a copy of a memorandum which was prepared by Mr. Oliphant, General Counsel of the Treasury, for the President. Needless to say, we consider this memorandum of a most confidential nature, and would appreciate if you would treat it as such. Yours sincerely."

Well, there's the whole story, Jake.

Viner: Could I know what the drift of that memorandum is, what that deals with? I'm not clear as to that. Is it involved in this story?

H.M.Jr: Yes. I haven't got another copy, Jake; otherwise ....

Oliphant: Can I state the substance of it?

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H.M.Jr: Well, why ....

Oliphant: Or after the meeting.

H.M.Jr: Well, why don't ....

Viner: All right, I just want to be sure that I'm not missing an essential step.

H.M.Jr: I don't want you to miss anything. Whenever I call you in, I don't want - I want you to get the whole thing. What I want you to do is this - not so much - Knoke and what's that other fellow's name? ...

Lochhead: Raymond.

H.M.Jr: Raymond and this fellow could work out this.

Viner: Well, I've been working on that already.

White: He already made a contribution this morning.

H.M.Jr: Well, you've got everything but what's in that memorandum. I'd give it to you, but I - there are only two copies in existence; the President's got one and this is one.

Viner: Well, I'll get it from Herman.

H.M.Jr: You get it from him, and then after you've soaked this up I'd like to see you.

Viner: Yes. Well, there's another angle that I didn't raise when talking to them. But if you're going at that, there is still another area that I'd like to see explored that isn't Treasury, but that oughtn't to be overlooked, and that's clearances - harbor clearances, shipping. It's a very important step, because ....

Oliphant: No authority, Jake.

Viner: Well, you're sure there isn't?

Oliphant: Yes, I'm sure.

Viner: Well then, I'll ask some questions later on. I'll ask you some questions.



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H.M.Jr: Have you seen Oliphant at all on this?

Viner: No. But I've been talking to Oppen. But we've been talking only of technique of exchange transactions.

H.M.Jr: How long you going to be here, Jake?

Viner: As long as is necessary.

H.M.Jr: The way this thing is now, there is no need of anybody working on Sunday, you see. I mean I'd work through today, but there's no need of anybody working on Sunday. I mean we save our Sundays to work when it's necessary, you see. But it's not necessary to work Sunday.

So I again say, what would your plans be?

Viner: I'll stay here until I see that there is no reason for staying longer.

H.M.Jr: Well - I mean I'm not feeling extra well, so are you going to be here tomorrow?

Viner: Well, I'll be here until the 24th of December if necessary.

H.M.Jr: Well, I mean will you be here tomorrow?

Viner: Yes, and Monday and Tuesday and Wednesday, if necessary - and Thursday.

H.M.Jr: All right. You're staying at the Hay-Adams?

Viner: Yes.

H.M.Jr: Then if I feel all right tomorrow, I'd like you to come up and we can take a walk tomorrow. How's that?

Viner: Fine.

H.M.Jr: But there is no necessity for anybody to work tomorrow.

Lochhead: Would you want those Federal men to stay down here?

H.M.Jr: No.

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Lochhead: No.

H.M.Jr: They can return.

Lochhead: You can get them down .....

H.M.Jr: Pardon?

Lochhead: You can get them down on Monday or Tuesday.

H.M.Jr: Well, I think - you people decide that, Taylor. I mean I don't know how that's going, you see, but you people decide. I don't know how much we need Knoke and Raymond, you know. If you need them, I'd let them go home tonight and come back Monday. But there's no necessity for anybody working tomorrow.

Taylor: I would think that that would be the thing to do - is to let them go back and think about it.

H.M.Jr: I mean I ....

Taylor: Because you've got them ....

H.M.Jr: The way I was talking yesterday morning, I thought it was something he might want to do Monday. Now, it's a question of sending somebody overseas; it's a matter of ten days and two weeks. But I still say I could see him wake up tomorrow morning and have him get a message, "Who does the President of the United States think he is?" and he's going to send a message to the Emperor, see? And if they slap the President's face, I could see him call me over there and say, "Are you ready?"

So I still say, let's get ready, but I don't think that I want you people to work Sunday.

Now, does anybody want to ask me a question, except I can walk back and say hello to Raymond and Knoke. Where are they?

Lochhead: 296.

H.M.Jr: You mean in the private suite of Dr. Viner?

Lochhead: Dr. Viner's private suite.

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H.M.Jr: I'll walk down and say hello. Besides that, anything you want to ask me, because you won't get another chance until Monday.

Lochhead: Here's something outside of this which you'd be interested in.

H.M.Jr: Incidentally, for your information, the Belgian loan was a complete flop. The bankers had to take 70 percent of it. I still say the farm boy as Secretary of the Treasury ....

Oliphant: ... knows how to sell apples.

H.M.Jr: ... knows how to sell apples.

Viner: And gray strawberries.

H.M.Jr: This gives Archie, next to being able to chisel - the Chemical Bank, is it?

Lochhead: No, I don't have any particular ....

Taylor: He plays no favorites.

Viner: Chisels them all.

H.M.Jr: We just sold this gold, converting 80 million at one quarter of one percent.

Lochhead: Taking 80 million in gold. Incidentally, though, we will not give it to them right away; still make them comply with the formalities of telling who it's for and what it's for; they have to. They've asked for 80 million dollars in gold.

Viner: They're converting balances into ....

Lochhead: Into gold.

Viner: And that takes it out of the inactive?

Lochhead: Out of the stabilization account just now.

Viner: But you can take it out.

Lochhead: We can take it out as you need it.



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H.M.Jr: I'll tell you what I'm doing. This will give us in the Stabilization Fund roughly 150, 160 million dollars.

Lochhead: The only point - I might have to take 10 million out of the inactive.

H.M.Jr: been  
What we've/doing up to now is, we only take it out of the inactive; we wanted to fill the Stabilization Fund with dollars, cash. Then as the money left the country, actually left, we'd show it. Well, up to now we've had enough gold in that fund for a nice cushion. Japanese gold came in, 15, 20 million - and the Mexican and Canadian stuff - just take it in and as gold left the country we'd show it. That's what we've been doing up to now. I think so far it's been all right. I've been tempted at times to show 40 or 50 million, but this seems - while it's less dramatic, seems more practical.

Viner: I'll study that.

H.M.Jr: You know, Holland took 50 million.

Lochhead: I don't think you've been here since Holland took that.

H.M.Jr: Holland took 50 million.

Lochhead: The Swiss have also asked us not to show it, you see.

H.M.Jr: So we're very rich.

And incidentally, we've got the final New York Times index - tomorrow will be up two tenths of a point, notwithstanding several things. So I mean that's that. There's several big things have happened.

But when you stop and think, first the Swiss sold us all this gold, then not over 30 days ago they had a commission here studying how they could convert their cash into raw materials - within the last 30 days. Did you know that?

Viner: (Nods no)

H.M.Jr: Within 30 days ago they had a commission here; they wanted to buy war materials - war raw materials.

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Now they're buying gold. I'm going to give, if this keeps up a little bit longer - make a speech.

Viner: There's one other thing that has nothing to do with what's been raised this morning, a question I've asked before and it's still alive. Douglas Brown, of the Social Security Board, is still bothering me about wanting ...

H.M.Jr: Of Princeton?

Viner: Yes.

H.M.Jr: He's been here.

Viner: Well, their Advisory Committee - I don't know just what it is - wants to talk to me about their reserve, and I keep on telling them that I don't know the Treasury position, that I've got contact with them, and I don't believe it's good public administration to free-lance. So I'd like to get enlightenment as to that.

H.M.Jr: Would you mind - he was here, and would you mind talking to Magill about that?

Viner: All right.

H.M.Jr: Because he came down; I had everybody - I had eight or ten people here to meet him. He went away entirely satisfied and spent the afternoon with Magill. Now, we designated certain people to go over this with him and it's not quite clear in my mind what they did, but Magill has it, so will you talk to him?

Viner: You see, I have some personal ideas on the subject, I've had them all the time, and I want to know just where I stand and where the Treasury stands.

H.M.Jr: Maybe you could find out where the Treasury stands and let me know.

Viner: All right.

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Taylor: I've got something to add to what Jake is talking about.

H.M.Jr: Well, look, this can go over to Monday.

Viner: It's important, but ...

H.M.Jr: Right now let's concentrate on gold and foreign exchange. But he did come down here and he did have a good ....

Viner: I've been asking this now for five weeks and I haven't gotten any light.

~~Taylor~~: -I had a very peculiar lunch which ties right in with what Jake is talking about. Why they picked on me I don't know. But it was more or less along the lines that I think Jake has in his mind.

Viner: I keep on saying I can't talk, say anything, until I know. I'm trying to find out. I have to tell them that the Treasury isn't telling me, see?

H.M.Jr: Five weeks? That's nothing.

Taylor: Mañana, mañana.

Oliphant: Por la mañana.

Taylor: What these fellows were doing was trying to tip the Treasury off that we ought to be much closer to that situation than we are.

H.M.Jr: Well ....

Taylor: As I say, why I was measured for it I don't know, but that was the purpose of it.

H.M.Jr: All right. You'll be here Monday.

Viner: I'll be here Monday.

H.M.Jr: All right. And then if I feel all right I'll get in touch with you tomorrow.

White: One question. You asked certain questions. The presumption is we are to continue; that is, I'm to continue at work answering those questions which you asked.

H.M.Jr: Yes.



December 18, 1937

To: Mr. Morgenthau  
From: Mr. Shoup *CS*

Present Status of Revenue-Estimate Problem

I am submitting to you today two memoranda on the revenue-estimate problem that was discussed at the conference in your office last Thursday and at the White House Thursday afternoon.

One memorandum—the longer one—describes the plan for shifting the dates of collecting the income tax and the date for submitting the revenue estimate. The advantages and disadvantages of the plan are also given. The plan is somewhat revised, as a result of further study and conversations with Mr. Taylor, Mr. Bell, Mr. O'Donnell, and others, compared with the plan as presented Thursday, but essentially it is the same plan.

The other memorandum discusses briefly the more restricted proposals that might be considered if the above plan as a whole was not desired. However, that plan carries so many advantages that it seems decidedly better than any of the more restricted ones.

In a third memorandum that will reach you Monday, I shall discuss briefly the possibility of changing the dates of the fiscal year—e.g., to make it coincide with the calendar year.

I shall be in New York over the week-end. At Columbia University I have classes scheduled for early Monday morning and Tuesday morning, and ordinarily would not be back in Washington until Wednesday. In view, however, of the conference at the White House scheduled for 2 o'clock Monday afternoon, I assume that, unless I hear from you to the contrary, I should fly down to Washington Monday morning after classes, which would get me to the Treasury Building about 1:30 or 1:45 p.m., and then return to New York in the evening. If you think it is advisable for me to get here earlier Monday, please let me know, and I can cut one class and get here about 12:30, or can cut both classes and come down Sunday night.

I can be reached over the week-end at 641 West 238 Street, New York City, 'Phone Halifax 5-0972.

December 18, 1937.

To: Dr. Morgenthau

From: Mr. Shoup *MS*

The Simpler Plans for Dealing with the Estimate Problems.

The proposals for modifying budget dates, etc., that have been under consideration in the past few days are ranked below in the order of their complexity (the simplest first), with a summary statement of what would probably be the chief consequences in each case.

1. Emphasize in the budget message the large element of guesswork in the revenue estimates for the ensuing fiscal year. Issue revised estimates month by month. (While this plan would make the situation more understandable to those who chose to listen, it would be subject to misrepresentation as a confession of incompetence, and would do nothing toward making it possible for the executive and the Congress to plan for the ensuing fiscal year).

2. Amend the income tax law so that in the place of the March 15 and June 15 collections there would be a July 15 collection of half the tax, although the March 15 returns would still be required. Possibly the present September 15 and December 15 collection dates would be shifted ahead a month. (This plan would make an estimate of income tax revenue for the ensuing fiscal year much easier than it is at present, since the estimate would not be submitted until after the close of the calendar year whose economic condition would determine the income tax yield for that ensuing fiscal year. For example: An estimate in January, 1938, of income tax collections for the fiscal year July 1, 1938 - June 30, 1939, would have to take into account the economic conditions only of the calendar year 1937 - not at all of 1938. Moreover, the taxpayers would have the use of the money for four months longer than usual - a moderate inflationary device that might be helpful in the present period of recession. Further, the revenue to be attributed to the fiscal year 1939 would be greater than under the present plan, assuming that calendar 1938 will be a poorer year than calendar 1937. On the other hand, there is danger that just because of this improvement in 1939 figures, opponents would charge trickery and budget tampering (this might be obviated by a strong disclaimer of any particular pride in this betterment in the 1939 situation). Moreover, the improvement would be gained at the expense of a permanent increase in the debt represented by the expenses of government during the four months. There would be some, but probably not undue, decrease in collections owing to increased insolvencies, etc.)



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3. Change the collection date as in (2) above, and also amend the law to require the taxpayer to submit, in November, a rough one-page estimate of his income for the current calendar year. (This would add greatly to the certainty of the estimates, especially when not only business conditions but also substantive provisions of the tax law had undergone considerable change. On the whole, there would probably not be much difference between the total income shown on these tentative returns and on the final returns. But the requirement might not be practicable to enforce on all individual taxpayers, and there might be an outcry against "unnecessary" paper work and a "useless" harassing of the taxpayer. This objection gains in importance when it is recalled that the moderate and high individual (rather than corporation) incomes are probably the chief source of unreliability of estimates, owing to the sensitivity of the steeply graduated rate scale. Hence it would be on such individuals that the demand for preliminary returns would need to be most rigidly enforced. However, it might be possible to get this preliminary information on an informal basis, somewhat as the British do, and by a sample method rather than an attempt to study all returns within the high-income and corporate groups.

4. Use the procedure just outlined in (3) above, and in addition submit a second or "definitive" revenue estimate for the ensuing fiscal year on April 15. By this time the March 15 returns would have been examined and the estimate would be very close to the final result. (The advantages and disadvantages are the same as in (3) above, plus these considerations: it would be helpful to have this second estimate, since it would still not be too late to adjust appropriation and revenue bills if need be; but the fact that such adjustment might be contemplated would have a somewhat unsettling effect on the work prior to April). (Note that this "second estimate" feature could be used simply with the shift in collection dates - that is, without requiring the November estimate from the taxpayer).

5. Shift the collection dates (as in (2) above) and make no revenue estimate until April 15. Submit "ordinary"-expenditures estimate in January as usual, but postpone estimates of "controversial" or "flexible" expenditures until April 15. (This plan is described in detail in my other memorandum of today,....."Revised 'April 15th Plan' for Making Estimates Dependable.")



December 18, 1937

To: Mr. Morgenthau

From: Mr. Shoup *CS*

## Revised "April 15th Plan" for Making Estimates Dependable.

This memorandum describes the plan that was discussed in your office last Thursday morning and laid before the President that afternoon—but the present draft contains some refinements suggested by conversations I have had since then, particularly those with Mr. Taylor, Mr. Bell, and Mr. O'Donnell. This plan, which may be called the "April 15th plan," would be as follows:

1. March 15 and June 15 collections would be postponed to July 15. Possibly the September 15 and December 15 collections would be postponed to October 15 and January 15, respectively.

2. The date for filing returns would remain unchanged (March 15) but any tentative returns would have to show an approximate figure for net income, and no extensions of time for filing full returns would be allowed without the filing of such tentative returns.

3. The January budget statement would contain:

(a) a definite program for the ordinary (or "essential" or "regular" or "recurring," or "non-controversial") expenditures—that is, the expenditures that would be made almost regardless of what the business conditions would be in the ensuing fiscal year and almost regardless likewise of what tax revenues would be available in that fiscal year (an extreme example is interest on the public debt; as to expenditures of the legislative, civil departments and agencies and the judiciary, national defense, etc., perhaps a lump sum in each case equal to what had been appropriated for the expiring fiscal year could be tentatively put in this group).

(b) a list of non-ordinary, etc., activities, the expenditures for which cannot be reasonably stated in definite figures as early as January, because the amount to be appropriated depends either on the way business conditions develop (e.g., relief) or on the relative abundance or scarcity of the revenues that will be received (e.g., certain flexible items in a capital outlay program, as for national defense). (In effect, this procedure would be merely extending somewhat a practice that has necessarily developed in the past few years with respect to relief.)

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(c) a statement to the effect that revenues were being analyzed and that by April 15 a precise statement for the ensuing fiscal year would be given.

4. From January to the middle of April the Congress would be debating and enacting appropriation bills for the "non-controversial" items. The Congress would also be engaged in reforms of the tax system, in so far as these reforms were not designed to affect greatly the sum total of revenue (this is the procedure being followed at present by the subcommittee of the Ways and Means Committee).

5. From March 15 to April 15 the Treasury would be estimating revenue for the ensuing fiscal year. As to the income taxes, the returns received on or about March 15 would be used, making a high degree of accuracy possible. As to other taxes present techniques would be used, but the task would be easier than at present, since the estimating would be done about six months later.

6. On April 15 the Congress would be given a definitive revenue estimate for the ensuing fiscal year, and also a program for the "controversial" expenditures.

7. In case the April 15 date seems too late, it could be moved up to, say, April 1 or even March 15, provided the taxpayers were required to file "estimate-of-income" returns on March 1 or February 15, respectively. This requirement is to be avoided if possible because of the resistance it would create. Realistically considered, April 15 may not be too late, even in the extreme case that Congress is not willing to stay in session that long; for if Congress is in such a hurry to adjourn, it must, perforce, under any plan, rely on an uncertain revenue estimate (or none at all).

8. Let it be assumed that the changes required in the law by the above plan could not be made until some time in January or February, or even March, 1938. It would then be necessary to present early in January, as usual, an estimate of the fiscal year 1939 yield under the existing system. But this estimate would be immune from criticism; by the subsequent change in the law (say in February or March) the entire basis for the fiscal year 1939 estimate would be changed and there would never be any official figure that would show whether or not the estimate delivered in January, 1938, was in error.

This plan can be defended as a permanent step in improving the budget system on the following grounds:

1) It eliminates practically all of the uncertainty of estimate of income tax revenues and reduces the uncertainty on the other items to an inconsiderable amount.



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2) It tends to lag the cyclical swings in revenue slightly behind the cyclical swings in business. Thus the Government's leanest revenue period would come, not practically in the trough of the depression, but slightly beyond, on the upswing of recovery. The period of heaviest revenue would come somewhat after business had started to recede. The importance of these factors may not be great, but with a revenue system as unstable as that of the United States, they probably have a valuable psychological influence.

3) It recognizes a natural division between expenditures that can (or must) fluctuate markedly with both business conditions and available revenue and those that do not so fluctuate. This division can not be made precisely, but even a rough division is probably better than none. The estimates of the fluctuating revenues would be submitted within three months of the opening of the fiscal year, not six months; thus greater accuracy would be possible.

The plan may also be defended, on immediate grounds, as a measure of relief to taxpayers at a time when they may be hard pressed for cash, owing to the business recession.

The plan would increase the revenue for fiscal 1939 (assuming calendar 1938 will be a worse business year than calendar 1937) by from \$300,000,000 to \$400,000,000, it has been computed. At first sight this feature might seem to be an advantage. It might be seized upon, however, to misrepresent the entire plan as a mere trick or camouflage. It might be well to disavow specifically any attempt to better the 1939 figure and refuse to take any credit for the betterment that would inevitably be shown.

The disadvantages of the plan are:

1) The deficit for the fiscal year 1938 would, it has been computed, be increased by from \$1,300,000,000 to \$1,400,000,000. This might create an unfavorable public reaction.

2) The Treasury would, presumably, have to borrow over \$1,000,000,000 more, about March 15, 1938, than it otherwise would. While part of this addition to the debt might be paid off when the July 15, 1938, payments came in, part of it would be a permanent addition (logically, this permanent addition to the debt would be equal to the expenditures made in the period March 15-July 15, 1938).



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3) It calls for some readjustment of the order of procedure of the Bureau of the Budget and of the Appropriation Committees, in view of the division between "ordinary" and "controversial" expenditures. Possibly the Congress would feel itself too rushed in getting the latter expenditures through between April 15 and June 30.

4) It increases somewhat the chances of losing tax money through insolvency, etc., on the part of the taxpayers.

If this plan is thought too ambitious, attention may be directed to the simpler plans outlined in my other memorandum of today; if not ambitious enough, to the memorandum on change in the fiscal year that I shall submit on Monday (December 20).

THE SUBMISSION TO CONGRESS  
OF REVENUE ESTIMATES

December 20, 1937.  
9:30 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Oliphant  
Dr. Viner  
Mr. Haas  
Mr. White  
Mr. Seltzer  
Mr. Bell  
Mr. Gaston  
Mr. Upham

H.M.Jr: Well, let's start in with this thing of the estimates. We'll go right ahead; we won't wait any longer.

Magill: What Shoup has here is, first, an outline of what was discussed - Thursday morning, wasn't it?

H.M.Jr: (Nods yes)

Magill: Then secondly I suggest various other possible modifications, for the most part, you might say, more extreme than that proposal. The chief change in the original proposal which he has made here is intended to get around that objection that was raised that between the first of January and April 15, when the estimate would come out, Congress wouldn't have anything to do on appropriation bills. He suggested the possibility of dividing appropriation bills, estimates of appropriations, into two categories in the budget; that is, those items of ordinary expenditures which are going to be made irrespective practically of what the total receipts will be; and then, secondly, what he termed non-ordinary expenditures, by which he evidently means something more than relief expenditures, because he suggested that possibly whether the Government purchased two battleships or three might depend on whether the receipts were going to be good or not going to be good. Then the idea is that in the period between January and April the Congress could work on these ordinary appropriation bills, which in general would be the appropriations for the regular Government departments, for interest, so forth.

H.M.Jr: You mean only make a partial estimate?

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- Magill: What he proposes to do is to divide the two expenditures, as I get it, and suggest that he's going to give a definitive statement in April as to what the receipts will be, and then what can be done on these non-ordinary expenditures.
- H.M.Jr: Well, how far does he mean? I still don't get it. I mean do I give a statement, for instance, as to the estimates of everything except income tax?
- Magill: No. What I'm speaking of has to do simply with expenditures.
- Bell: Appropriations.
- Magill: Let me restate it this way. What he wants to do, as he proposed on Thursday, is to give his statement of estimated receipts on April 15, and not on January 3 or whatever it is. Now then, in order to meet the criticism that we'll have Congress in session in January and they want to work on appropriation bills, he says why not divide the expenditures into - somewhat as they have already been done, into ordinary expenditures and other expenditures? Let them work on the ordinary expenditures, which can be estimated as of the first of January with some accuracy, and leave the others until you see where your receipts are going to be.
- H.M.Jr: I don't think that would help at all, do you, Dan?
- Bell: Well, I don't ...
- H.M.Jr: I don't think that would help at all.
- Bell: I - well, I don't know exactly what he means by ordinary expenditures. If he means eliminate the emergency or recovery and relief items ...
- Magill: What he means is interest on the public debt, expenditures of legislative and civil departments, judiciary, national defense.
- H.M.Jr: Let me state the proposition for - some of you have got part of it and some of you haven't. The reason I asked you in - this is terribly important, we haven't got an awful lot of time, so I want to get the advice



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of the people that think in terms of finance.

Haas comes in with the very best estimate that he can give me; I mean - naturally extra-confidential. He goes through the regular thing and does the best job that anybody can do, seeking advice, and so forth, and then he gets this. Our estimated receipts for 1938 are six billion three; that's down some 300 million from October 19. They estimate for '39 five billion nine.

Now, George, I'm going to do this later on again, and I can't just lay my hands on that report which you had showing how much they are up and down - previous ones. Bring it in next time you come in, because we'll continue this. I've got two appointments in between. But you know the one I mean.

Haas: Yes, I know.

H.M.Jr: Up to date I have estimated it four times, I've been right three. In the previous Administration, '30, '31, '32, and '33, they had two Secretaries of the Treasury, Mellon and Mills; they were off as much as 48 percent in their estimates.

(On phone) Yes. - Yes. - Yes. - I'm to keep it free. - Pardon me? Now, just say it again so I get it. - Yes. - Yes. - All right. I take orders. - Thank you.

Magill, Bell and I at 12:30. I'm to have lunch with the President and I'm to make no appointments this afternoon.

Magill: 12:30.

H.M.Jr: Yes.

Magill: Let me call.

H.M.Jr: You (Upham) go outside, find out what Szymczak wants. I've got a message from the White House. He was coming at ten. I need those 15 minutes, and the President has asked me to do something for him, and as soon as I'm free he'll be the first. See if you can find out what he wants. Terribly sorry.

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Magill: Do you want Shoup down here? He has classes at Columbia. He can come down on a plane.

H.M.Jr: Too late. At 12:30. Let me just go ahead. Don't worry about Shoup. Let me give these - Bell and I have to meet with the Hopkins organization at 10:15. Be half an hour. Let me tell you how I'm thinking, get these people up-to-date.

All right, '39. As I say, what we're saying here is triple-confidential. The estimates now are five billion nine. All right, now let's say I take Haas's estimates, although I think he's five percent high. But let's just say for argument's sake we take what he's got, which is five billion nine.

Mr. Bell tells me, again in triple confidence, it looks as though the expenditures will be around seven billion dollars, which means that the President sends a budget message up showing an estimated deficit of a billion one.

Now, I want - as I always am, I'm honest with you people. I wasn't thinking naturally of the conclusion you'd jump to. In fact, I didn't know these figures when I hit the ceiling. I didn't know. You (Bell) just got that to me. But what I'm worrying about is the uncertainty which you add. I mean you just have to take my word at face value that I didn't know those figures. In fact, I didn't know them until this morning, did I, Dan, walking down. What bothers me is the uncertainty of having a Secretary of the Treasury or a Director of the Budget or the President of the United States again make an estimate which might be 48 percent off. And I say - what I said to the crowd here was that for any Secretary of the Treasury, any Director of the Budget, or the President, to estimate what '38 business is going to be, and what the first six months of '39 - that it's just a physical impossibility, and I think a person ought to have the courage to say it can't be done, show the record of the years '30 to '33 inclusive, that it wasn't done, that they were off from 24 to 48 percent. The President has said again and again he's going



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to balance the budget, so the answer is, well, now can he do it and do it intelligently.

So I told these fellows I wouldn't sign this thing, because I didn't think, with no reflection on anybody, it was worth anything. It was the best they could do mathematically. They had the best advice: people like Ayres and the statistician of General Motors and Tel & Tel, and the fellow up in New York - what's his name?

Hass: Edie.

H.M.Jr: Edie, and the statistician of the First National Bank of Chicago.

Hass: Lichtenstein.

H.M.Jr: We've had people like that here, so we've gotten as good advice as anybody can get.

Now, I put this up as a challenge: What can we do to overcome it? And Shoup came in with this suggestion - I want to give him the credit - that we send up an estimate of expenditures but not of receipts until April, when we will have the March returns in; let the people make the March returns, and after we have looked at them we can give a really accurate estimate of what business was in '37 and forecast what the revenue will be for the year, based on what we actually know business was after we take a look at the returns.

The President said, "That's out of the window. I want to get Congress away from here. We can't wait for that."

Then - I don't know, I think this is his idea - out of that group came the suggestion, which I think was his - at least this is the end; whose it was I don't know, and it isn't important, but that's the way we went, and you (Bell) correct me on this.

He said, "Why can't we simply continue the Government the second six months of '38 on the same basis of the same appropriations we have now, just have a continuing



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appropriation, and then simply say it costs for six months just so much to run. Just continue the appropriations. That's been done before. Then we'll start the calendar year on January 1 and put the Government on a calendar year basis."

And then his suggestion was that we will ask business in November to send us the information blank which will give us their best estimate as to what their '38 business would be, and then base it on that. He doesn't like the idea of waiting until April until we have a look at the March returns, although I understand that's what they do in England.

Of course, it could be shifted. We could make the fellows come through with their returns in February. I think that if we could get - whether we get this country on a calendar year basis or not doesn't particularly interest me; I don't think it's important. But I do think it's important, terribly important, that for future accuracy in balancing the budget we do get a look at the man's return for his calendar year before we estimate or guess what the business is going to be. And whether it's a calendar year or any other year, I think if we could get a look at his returns and then put the estimates in, why, then we put an estimate in that is worth something.

Now, aside from everything else - you don't mind my - I've presented it about right, have I?

Magill: Yes.

H.W.Jr: Dan, about right?

Bell: Right.

H.W.Jr: Now, when I was doing this I was being very noble and doing this thing purely, as I put it -- I didn't want to send up a figure that would be a part of the machinery sending up a figure that isn't worth the paper it's written on, although I again say it's as good as anybody can do; don't misunderstand.

Now, walking down with Mr. Bell, I suddenly go

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political, see, again being terribly honest.

Bell: My influence.

H.W.Jr: Under the influence of Mr. Bell.

And I say to you people here, how the hell can the President of the United States.... I'll take - I've got this fellow - wait a minute - I've got him sweating, working on a new figure. This is based on production of 95 as the average for next year - Federal Reserve. So I say I won't take it and to make it 90. So he says it will take three weeks to do it. But let's just take his figure; we'll take 95; we'll take it on that basis. Now, if the President of the United States sends up a deficit of one billion one - now, I say I'm getting political, and I say after all that he's said - leave me out of the picture; doesn't make any difference about me. But how the hell can he send on January 4 an estimate that shows a deficit of a billion one, and which will show a deficit this year of at least a billion? I just ask you. You can call it political, or let's use Viner's words and "let's be practical" or whatever you use. I say to you fellows - and it only struck me this morning - I just don't think he can do it.

Seltzer: You mean he could postpone it for three or four months.

H.W.Jr: Now, he doesn't know these figures, see, and I've been doing it - I want to - up to this morning, until I walked down with Bell, I was just being scientific. Now, after a 45 minute talk with Bell, I'm being political.

Bell: What did I say that changed it?

H.W.Jr: You gave me the figures of what it's going to cost, and I had no notion, and I say the President can't send a thing up showing a deficit of a billion one. My God, he just can't do it, that's all.

Now, under those circumstances, doesn't it get down to - we're seeing him at 12:30 - doesn't it get down to a question of a resolution - nobody knows about



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these things - of Congress, asking them to extend this fiscal year for six months. You could draw it up in four lines, simply extending this thing on a basis of six months, so that we start the calendar year and we will continue the appropriations so that July will get the same proportionate amount as we spent last July, and not one-twelfth of the total. See what I mean? Not one-twelfth of the total, but we will spend in July next year what we spent in July this year, which is low - I mean we're way down on our expenditures. I mean not give them for July one-twelfth, but the President will explain - he'll have to ask a continuing appropriation for six months, but explain that in July we'll only spend what we did last July, and no more, and the same for August. Then he'll trot out the years '30, '31, and '32, and show what Mr. Mellon and Mr. Mills did, that they varied 24 to 48.

And I'll tell you, if he shows these confidential figures to those four leaders, I'll bet you they get along and they'll get a resolution through about midnight Wednesday night, if somebody's there.

Seltzer: Of course, the comparison you just cited .....

H.M.Jr: We can build up a beautiful picture why he should do it. I think he's got to do it, and do it the Taylor way, which is the calendar year. That's what Taylor's been crying for.

Now, I'm giving first the scientific and the intellectual reasons; now I'm giving you the political reasons. You've got the Taylor plan, you've got the Magill plan, and you've got the Bell plan.

Magill: Magill plan?

H.M.Jr: No, this is terribly - I don't want to crack up, I mean, and I'm getting funny about it. I've had about all I could take last week.

Viner: If the only reason you give the President for operating on this basis is the evidence that the previous administration over-estimated their



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revenues so drastically in the years '30, '31, and '32.....

H.M.Jr: And '33.

Viner: .... and '33, and that is given to Congress too - that reason - and the public, isn't that sort of telling the public that we think the chances that we're going to reproduce the down movement, the '31-'32-'33 experience, are high enough that we want to avoid particular technical estimating procedures which worked badly then? In other words, wouldn't it be more pessimistic than is justified by the circumstances to give that sort of an explanation?

H.M.Jr: Well, I would say - well, I don't - I mean you're not telling anybody anything that everybody doesn't know - steel ingot's on 28 percent production, and take all those figures. I don't see - it's no news, and you simply say to the people and explain to them that nobody knows, that you've got to estimate this thing by, first, what '38 business is going to be, plus what the first six months of '39 are, and that thing is just crazy; and that no business man in the United States will put his name on a piece of paper saying what business is going to be the first six months of '39. Now, why should the President of the United States do what no business man will do? It's unbusiness-like, it's unreasonable, and it's foolish.

Viner: I agree of course with the logic of that. The only difficulty I see is that the timing of introducing it is chosen rather unfortunately.

White: That's true, Jake.

Viner: That's always the case, of course.

White: Yes.

H.M.Jr: All that is correct, but please remember I've got a pistol to my head, he's got a pistol to his head.

Viner: You've got to do the best thing that is available, and none of them are going to be very happy.

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H.M.Jr:

All true. If you said to people, "For God's sake, why didn't you think of it sooner?" - I thought of it the minute I saw the figures. I couldn't think of it any sooner. The minute I saw it I called up the President, said, "I've got to see you." I saw him within 24 hours. So I've acted as promptly as I could. I mean I'm not doing it - I'm not kidding anybody - I'm not doing it because I want to put the country on a calendar year basis; I'm trying to think of a damn good reason - how to get out of this hole. As to timing, it couldn't be worse, but we're facing a situation; now, I'm asking, what the hell can we do about it? I want a good excuse that doesn't look too phony in the eyes of the public.

White:

Just see what would happen if he came out with a billion dollar deficit prognostication within a few months after the previous one. Then the public will say, "He's certainly not going to over-estimate it. He must be under-estimating it. Therefore, the Government is already figuring on probably a two or three billion dollar deficit, and if they feel so pessimistic, goodness knows what's going to happen." Whereas if he takes the position you suggest he take, and if it is couched in the proper terminology, I think it will be accepted as much more reasonable and will be apt to be much less pessimistic. From a political point of view, as well as from the logic of the situation, it appears to me there is much to be gained by presenting it in the light you suggest, rather than coming out with a billion dollar deficit estimate at this time.

H.M.Jr:

Again, I'm being terribly honest. I don't care anything about myself. The fact that I've been for a balanced budget doesn't make a damn bit of difference to me - I mean because I don't have to run for office, and all that. But for the President to come out - I just - I don't want to get ill over it, but - Herbert, what do you think from the public relations angle?

Gaston:

I'm thinking about the political end of it and the public relations effect. My opinion now is that the political and public effect will be worse by failing to submit an estimate than if you submit one with a billion dollar deficit. I think that the inevitable deduction if you refuse to submit an estimate now and just go along - propose to go along for another



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six months on the old appropriations - that will be taken as a confession that you are not able to have a balanced budget, that you are going to have a deficit of unestimated proportions, and that you are refusing to admit it because of the fact that you have given indications that you have hoped to have a balanced budget, and consequently you can't drive yourself now to admit the real fact, which is that there is going to be a whopping big deficit. And I think the effect will be much worse than if you come out with figures predicting a deficit of a billion dollars, but saying that this is the way the present situation is, and that these forward estimates, because of the great difficulty, are subject to a very large margin of error.

H.A.Jr: All right, then I come back - this is a press conference and you're the President. "All right, Mr. President, you said you wanted a balanced budget and now you're facing a billion dollar deficit. You going to ask for any increased taxes? What you going to do about that?"

Gaston: You're just exactly in the same situation as if you weren't announcing your estimates.

H.A.Jr: No, but that's the question: "What you going to do about new taxes? You going to ask for a billion dollars more taxes?"

Gaston: "No."

H.A.Jr: "Then you've given up all hope of balancing the budget?"

Gaston: "Unless conditions improve."

Viner: "Unless estimates prove to be excessively pessimistic."

Gaston: Yes, yes.

Viner: I think the thing to do in a time like this is to budget the expenditures and leave your tax system alone and take what time brings you that way. But budget your expenditures.



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Bell: You mean don't send up any estimate of revenue?

Viner: Oh, send up an estimate of revenue, but don't - do any move toward budget-balancing you want to on the expenditures, but not on the taxes. And just simply - you can estimate the expenditures; that is what you have under control, or can have under control.

H.A.Jr: Let me just argue quietly here. In the first place, not only - we'll use the figure that Haas has here, see?

Haas: By the way, I'll have another figure for you by a quarter to twelve.

H.A.Jr: Will you? All right. We'll use the five billion nine figure. Now, when it comes to expenditures, I take it when you told me seven billion dollars that you (Bell) had in a billion for relief.

Bell: That's right.

H.A.Jr: All right.

Bell: That's a rough figure. I may get it lower than that. If

H.A.Jr: /the President said to me, "Do you think a billion dollars will do for next year, under present circumstances?" I'd say, "No." I don't think he can say it. I hate to see him put it in, and I'd hate to put himself out for a billion dollars for relief. So that's another argument why, if he could postpone this thing for six months - and then if the country - and his argument is simply this: "No, I'm not ducking this thing, but I don't know what the relief figure should be. If, as most people seem to think, this is largely an inventory matter and when the inventories are depleted they'll go along, while we may not be as good as '37, we may be as good as '36, and things will go along; why, along about April I can tell. I want to take a look at what business did in '37, I want to see those returns. And we'll continue on the present appropriations and we'll postpone this thing. I don't know - things are too uncertain, and rather than to give the country misinformation I'd rather give them no information.

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But just as soon as I have information, and once I do see what business did in '37, through the Treasury Department we'll announce what the scale of business was in '37."

Now, I can't tell, nobody can tell - if the President said to me, "Henry, will you recommend a billion dollars for relief for next year?" I'd say, "No, sir, I wouldn't dream of doing it. I don't know whether a billion and a half will do."

Bell and I are seeing the relief people at 10:15 and we're completely up in the air.

Seltzer: You'd have been in a bad position in 1930 on that basis. You had a spring upturn in 1930. Along about April you made your estimates, in the midst of rather promising business conditions. No sooner did your estimates get out than you had a sharp downturn.

H.M.Jr: All true, but - all true, but somebody helped me write a speech in which I said conditions weren't the same as they were in '30. I don't think they are. But if you'll give me January and February, I'd be willing to make an estimate for the returns for '38, after I see what happens in January and February. And if I'd get two months behind me and under me, I'd feel a lot different about '38 than I would now - and if I didn't have to forecast for the first six months of '39. Give me two months of '38 - wouldn't you feel a lot different about '38? Never mind about '37.

Seltzer: Well, personally I wouldn't feel as if I could get a lot from January, which is seasonally such a low month. February would ....

H.M.Jr: Well, we're asking for three months, January, February and March.

White: Moreover ....

Bell: You may want to wait until the March returns are in.

H.M.Jr: I may want to wait until the March returns are in.



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- White: Moreover, if it becomes apparent as a consequence of this kind of statement that the reaction has been negligible, when March comes around, if you feel as much uncertainty, there may be other alternatives that you will have.
- H.M.Jr: Well, look, if we were going to continue on a continuation of present appropriations, couldn't the President call a session of Congress immediately after election next November to pass on appropriation bills for the calendar year '39?
- Bell: Well, sure, he could.
- H.M.Jr: I mean couldn't we wait until November 15, call a session of Congress November 15, '38, put in - and have everything ready, your hearings finished? Isn't that what he said anyway, from November 15 until .....
- Bell: He referred to it as an appropriation Congress.
- H.M.Jr: And put in from November 15 to January 1 our appropriation bills and just have them sit on that. And then, we would then be working on appropriations for the calendar year '39, and we'd know then where we're at. We'd know what our relief situation was and everything else.
- Bell: You wouldn't be in any different situation so far as estimating your revenue was concerned at that time.
- H.M.Jr: Oh well, you couldn't be any worse than we are now.
- Bell: Well, you'd be in the same situation, practically.
- Gaston: No, you'd have the experience of nine, ten months of the year.
- Bell: You'd have to estimate for your calendar year '38; wouldn't have the returns for that.
- H.M.Jr: But you'd know whether this thing was a recession or a depression.
- White: Exactly. This year seems to be one that will be crucial.



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H.W.Jr: You know what you've got - you know whether you're - you know whether these boys are right that the Federal Reserve is going to be 95 or 90 or 85 or 80, or what it's going to be.

Bell: well, it seems to me that this budget message has got to be optimistic, whether you like it or not.

H.W.Jr: well, that's just a question of ....

Bell: for the sake of the country, I think we've got to take an optimistic attitude.

Gliphant: That's Hoover.

Bell: It isn't Hoover. You can't put into a budget message that the production level is going to be down to 80 as opposed to 95 today. You can't do that.

White: But do you need to say anything? Couched in the proper terms - and I think that's awfully important - couched in the proper terms, it can be made to seem like a very reasonable thing. You hope that the revenues are going to be such and such, but the business situation has developed since then so as to give you a little pause, and rather than make the error of over-estimating, and rather than give the public the impression that you are constantly over-estimating, you'd rather wait a little while and see what we can reasonably expect; and I think the result would be a very marked increase in confidence in the Federal Government. Much rather than a mere statement that you're going to have a billion dollar deficit. Then everybody will immediately say, "Good night, if it's a billion now, they really think it's going to be three or four billion, because they always make an optimistic statement."

H.W.Jr: What I'd like to ask you people to do is this. I've got a meeting at 10:15. I'd like to meet with you people again at 11. There is nothing more important. Why don't some of you people go into Magill's room and have a good argument, take your shirts off, see? Bell has to be with me at 10:15. But I'd really like you to go in and just fight this thing out.

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And there's one thing in discussing this - wouldn't this mean that a man wouldn't know what his income tax was going to be until next year on this year's basis? Would he know? Would a man of business know - I mean he wouldn't know what his '38 return was going to be.

Wagill: No, he knows now, unless he hopes that Mr. Treadway's bill is going to go through.

Taylor: What his payments, rather than his returns, are going to be.

H.M.Jr: I don't know of anything more important. When we go over there at 12:30, I'm just going to put it up to the President this way - "Here are the facts" - and see how he reacts, that's all.

You're (Bell) going to be with me at 10:15, aren't you?

Bell: I thought it was 10:30.

H.M.Jr: There's no banking meeting today. Didn't you (Upham) call it off?

Upham: No.

H.M.Jr: I thought you said ...

Upham: No, I've heard nothing about it being called off. As far as I know, they're coming.

Bell: What time is that?

Upham: 10:30.

H.M.Jr: I thought you said Eccles couldn't be here.

Upham: We postponed it a week for him. He couldn't be here last week because he was making that speech in Chicago.

H.M.Jr: Well then, we'll just - I had it and crossed it off; well then, you'll just have to - I can't do it tomorrow.

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Bell: You can postpone relief for ...

H.M.Jr: No, no, I want that. It's all a part of it.

You (Upham) call up and let's make it 10:30 tomorrow, see? I'll make the banking tomorrow, because I really - I don't want to get my mind off this.

Upham: It isn't important.

H.M.Jr: Tell them something has come up that I'm working on. Better go right away.

Harrington is coming at 10:30. Then we can continue with this crowd at 11. No, I don't want to get it mixed up. This is too important. Please.



December 20, 1937  
10:16 a.m.

H.M.Jr: Hello.

Operator: Szymczak. Go ahead.

H.M.Jr: Hello, Mr. Szymczak.

M. S.  
Szymczak: Hello, Mr. Secretary.

H.M.Jr: I'm terribly sorry, but I've got something special  
I'm working on for the President.

Szymczak: Yes, that's perfectly all right.

H.M.Jr: And ....

S: Any time.

H.M.Jr: It may run a day or two. Now, my switchboard is  
all right if yours is.

S: All right, may I speak to you?

H.M.Jr: Please.

S: O.K. Just one minute, I'll close the door. Just  
one minute, Mr. Secretary.

I was called a week ago Friday to New York by George  
Backer. You know him.

H.M.Jr: Yes.

S: And Judge Fisher of Chicago was there.

H.M.Jr: Yes.

S: And Mr. Waldman. Hello?

Operator: Hello.

H.M.Jr: Been cut off.

Operator: I'm sorry. Call you back.

(Pause)

H.M.Jr: Hello.

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Operator: Szymczak. Go ahead.

H.M.Jr: Hello.

S: Hello.

H.M.Jr: We were cut off.

S: Yes. Well, at any rate....

H.M.Jr: I heard you say Mr. Backer; that's as far as I heard.

S: Backer, Judge Fisher, and Mr. Waldman.

H.M.Jr: Waltman?

S: Yes, Dr. Waldman, the social leader.

H.M.Jr: Oh.

S: Now then, they - Judge Fisher was the first to talk to me, told me he had a very important thing for me, and said that he had come from Chicago purposely for the purpose of discussing the Jewish-Polish problem or the Polish-Jewish problem.

H.M.Jr: Yes.

S: And that they have decided upon trying to help Poland economically.

H.M.Jr: Yes.

S: They thought the problem was purely economic.

H.M.Jr: Yes.

S: And that by, for example, increasing the exports from Poland and helping in that way to rebuild Poland, Poland wouldn't have this problem. They think that that is because of conditions in Poland and that by eliminating those conditions the thing would take care of itself, because it isn't the Government's attitude, it's the attitude of some of the people in the Government.

H.M.Jr: Yes.

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- S: And they thought that perhaps someone could go to Poland to tell some of the individuals in the Government that there are people here who are ready and willing to assist on exports from Poland to the United States, and in return for that all they require is a just attitude toward the Jews in Poland. They were going to send a delegation out there from the American Jewish Committee, decided at the last moment to ask me to go there.
- H.M.Jr: Yes.
- S: And asked me whether I would be willing to go.
- H.M.Jr: Yes.
- S: Well, I said before I could say anything about it I'd first have to study the situation myself, knowing nothing about it; second, I would have to speak to you and the President and the Secretary of State; and then, after having talked to you and the President and the Secretary of State, I would go back to New York and get more information from them. I told them that it was rather a delicate thing because as a member of the Board somebody might misinterpret my mission. They said that this would be purely a private mission, that it would not be an official thing, but I would just go out there and give them this message for these people and come back and they would follow it up.
- I would not enter into any agreements or contracts. Now, that's the purpose of my desiring to see you.
- H.M.Jr: I can talk very frankly to you.
- S: Yes. Yes, sir.
- H.M.Jr: On these Jewish questions, I have kept myself entirely out of them.
- S: Yes, I know.
- H.M.Jr: And - I mean ....
- S: Oh yes, I know. The only reason I'm speaking to you is because of my position on the Board, you know.
- H.M.Jr: I understand.



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S: Yes.

H.M.Jr: And, quite frankly - I mean - I mean I think you'd have to see the President ....

S: Yes.

H.M.Jr: ... and the Secretary of State.

S: Yes.

H.M.Jr: And whatever they decide I'm sure would be wise. But when it comes to - whether it's the Jews in Germany or the Jews in Poland ....

S: Yes.

H.M.Jr: .. I - I just lean over backwards.

S: Oh yes, I know. And the only - the only reason - I can understand that perfectly. And it places me in a rather embarrassing position because I'm of Polish extraction.

H.M.Jr: I understand.

S: I could go over there only as an American.

H.M.Jr: Yes.

S: And there would have to be no confusion between my citizenship and my mission and my membership on the Board. And all that I would want from you, if this thing would work out, is a knowledge that you would know what I'm going there for, that's all.

H.M.Jr: I appreciate that, but I couldn't advise you to go or not to go.

S: That's right. I can understand.

H.M.Jr: Because I'm here for - if you don't mind my saying it, for 130 million people.

S: That's right.

H.M.Jr: And I just never let my own religion interfere with my job.

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S: That's right.

H.M.Jr: But I appreciate your talking to me. But I couldn't advise you one way or the other.

S: Well, here's what I have done up to date. I've talked to Jim Roosevelt and gave him the whole story, and he said he would talk to the President. And if the President wanted me to go over there to the White House to talk to him, I'd be glad to do it; if not, why, then Jim could tell me what to do or what not to do. And then I would call on the Secretary of State or someone there. And then I would go back and see George Backer and tell them just what the situation is and how I stand on it.

H.M.Jr: Well, I'm sure if you see the President and the Secretary of State, why, you couldn't get any better advice anywhere.

S: Yes.

H.M.Jr: But you'll just have to leave me out.

S: Yes. Well, after I've checked with all these people, well then, I'll ....

H.M.Jr: I'd like to know what you decide.

S: Exactly. I'll let you know just what I'm going to do, so that ....

H.M.Jr: Well, I appreciate your courtesy.

S: All right. Thank you, Mr. Secretary. Then I won't need to take up your time.

H.M.Jr: Thank you very much.

S: Thank you again.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Dec. 20, 1937

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Cotton Situation.

Summary

Developments in the cotton situation this week include:

1. A further advance in raw cotton prices to the highest levels since early October, largely in response to increased activity in the textile markets.
2. Expansion of the textile buying movement, which has broadened to include all types of cotton goods, and has brought price advances on a wide variety of such goods.
3. Improvement of the price outlook for finished goods by a further curtailment in goods production during November, as indicated by reduced cotton consumption by domestic mills. The November figure of 485,000 bales compares with 526,000 bales consumed during October. (Table 1)
4. A decline in forwardings of American cotton to mills, particularly in foreign countries, which tends to confirm reports of a less satisfactory textile situation abroad. (Chart 1)

Prices continue to advance.

On continued heavy textile sales, cotton prices this week advanced further to the highest levels since early October. The buying of cotton futures by mills to fix prices as they sold their finished goods was an important market factor. The prospect of an effective acreage control program under the pending farm bill was a further bullish influence.



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Textile buying expands.

For the second consecutive week, cotton textile sales have exceeded current production. A further expansion of the buying movement this week, which has broadened to include a wide variety of finished goods, leads market observers to believe that a general buying movement is getting under way. The demand from mail order houses and other important buyers this week was sufficiently large to result in increased prices on a broad list of cotton goods. A considerable volume of buying for spring requirements remains to be done, according to trade reports. Some confirmation of this appears in Census Bureau tabulations of the orders on mill books for certain types of knit goods, which on October 31 were 40 to 73 percent (in quantity) below the corresponding figures for 1936.

Mill consumption of cotton declines in November.

A further curtailment of cotton goods production, which appears as a strengthening factor in the textile markets, is shown by a reduction in the consumption of cotton by mills to 485,000 bales in November, as compared with 526,000 during October. This reduction, while greater than that in 1936, (see Table 1) is about comparable in percentage to the average November decline during the previous five years. A rather sharp drop in cotton consumption may be expected during December, due to seasonal influences, which normally would be followed by an upturn in January.

Forwardings of cotton to mills decline.

Tending to confirm recent reports that the mill situation abroad has turned unfavorable, the forwardings of American cotton to foreign mills during the current week, according to preliminary figures, have dropped below those of last year, (see Chart 1) despite the record large crop and low prices. For the season to date they have averaged 12.6 percent higher than last year. Current advices from most European countries indicate a declining tendency in mill activity due to a reduced volume of orders and to narrowing mill margins. Indian mills, however, are running at a record high rate, and mill activity in Japan is down only slightly from recent high levels. Forwardings of cotton to mills in the United States continue below those of last year.

Table 1

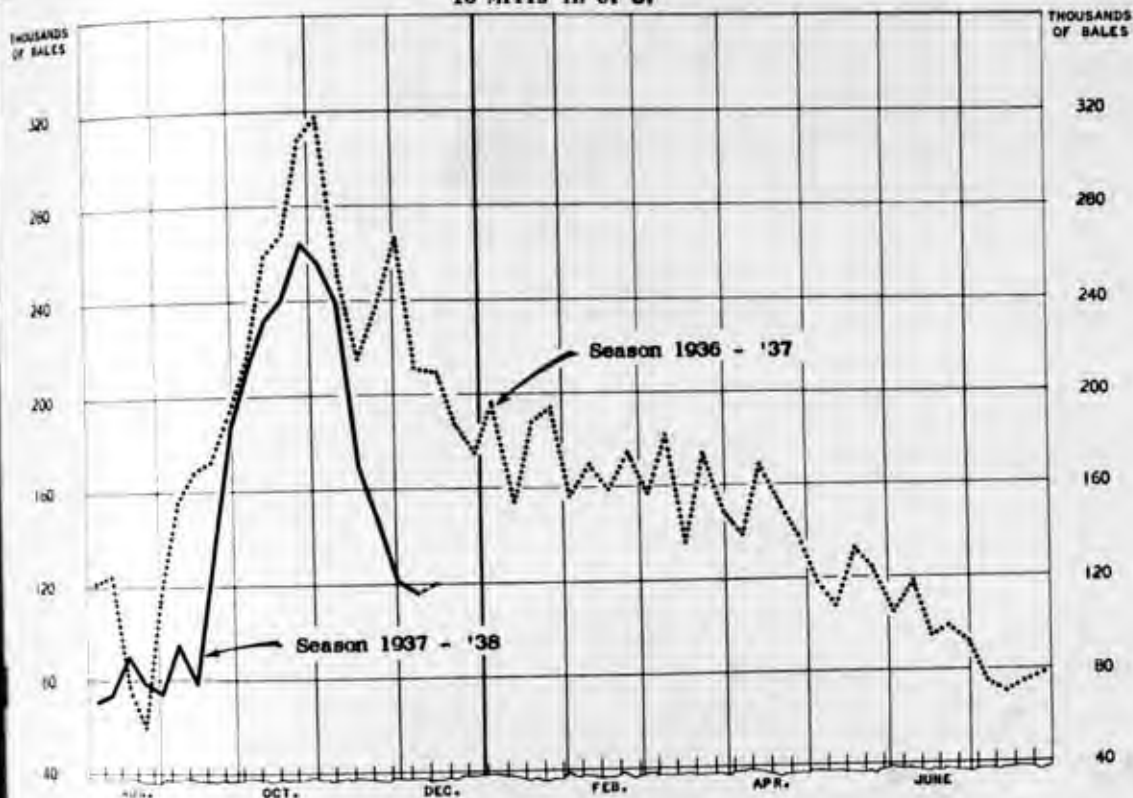
Mill consumption of cotton in the United States,  
by months, October through January, 1932 to 1937

| <u>Consumed during month (thousand bales)</u> |                |                 |                 |                              |
|---|----------------|-----------------|-----------------|------------------------------|
| <u>Year</u>                                   | <u>October</u> | <u>November</u> | <u>December</u> | <u>January<br/>following</u> |
| 1931  | 461            | 426             | 415             | 435                          |
| 1932  | 502            | 503             | 440             | 470                          |
| 1933  | 504            | 476             | 347             | 508                          |
| 1934  | 523            | 480             | 417             | 551                          |
| 1935  | 553            | 512             | 500             | 590                          |
| 5-year<br>average                             | 509            | 479             | 424             | 511                          |
| 1936  | 646            | 627             | 693             | 679                          |
| 1937  | 526            | 485             | -               | -                            |

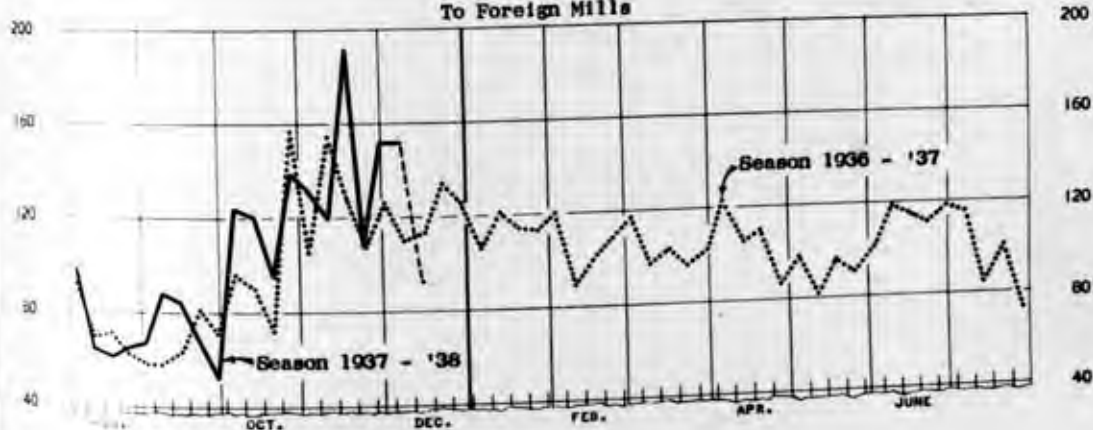
Source: New York Cotton Exchange Service.

## FORWARDINGS OF AMERICAN COTTON

To Mills in U. S.



To Foreign Mills





December 20, 1937

10:30 a.m.

Present:

Colonel Harrington  
Mr. Bell  
Mr. Keene  
Mr. Ross

Colonel Harrington: Well, I think we have got a meeting of minds here this morning, Mr. Secretary.

(Mr. Bell handed the Secretary draft of a letter from the President to the Administrator of WPA.)

HM,Jr: May I read it now for the first time?

Everything is clear to me except the \$42,655,000 I understand that they got it, but where do you get it back?

Mr. Bell: That's taken out of the unallocated balances.

HM,Jr: Where were we talking about \$70,000,000?

Mr. Bell: You mean \$60,000,000. What happens, if you leave it in, you in effect give them 1 billion 343 so it's leaving WPA clear for their own projects with 1 billion 3 and we find other money to finance these other departmental projects.

HM,Jr: As I remember, you thought they had \$30,000,000 and you thought you would pick up another \$30,000,000.

Mr. Bell: Comes out of that.

HM,Jr: They release the \$30,000,000 they think they have got?

Mr. Keene: They released all their money.

Col. H: That leaves a possible \$18,000,000.

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HM, Jr: I won't ask too many questions, but can you relieve them of the \$42,000,000 and part of that comes from them?

Mr. Bell: Comes from old funds.

HM, Jr: Old funds?

Mr. Bell: Yes, sir.

HM, Jr: And you (Col. Harrington) have seen this?

Col. H: Yes, sir; we have seen this.

HM, Jr: Perfectly happy about it?

Col. H: Except for one point. Except we would appreciate if a phrase or sentence were added that any additional funds would come to us.

Mr. Bell: I can't agree with that. That's for future consideration.

HM, Jr: All you can have is -- you have Bell's and my assurance -- at least I speak for myself and Bell can say yes or no, that before I recommend any additional funds be given, I will fight for you fellows.

Mr. Bell: I think we have always done that, but I don't think the President should start out in January and promise every dollar that comes back when I know they won't get it. I have seen this situation develop from time to time.

HM, Jr: I think you are right. In other words, then he can say 'What I put in writing, I mean'.

Mr. Bell: They have got it on record. This is what they ought to follow. If something comes up between now and March 31 and they require a little more money, let's review the situation at that time.

HM, Jr: I would put it this way. I won't ask you if you are happy. I will put it this way. Do you feel, considering the unemployment situation as it is

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today, as far as your most honest judgment, that you can take care of the situation if you receive the letter as it is written, as you see the situation today?

Col. H: Mr. Secretary, I can't say that. I mean, we don't know what the situation is going to be this winter. It may be such that the President -- that is ultimately up to the President as to what may be necessary to meet the needs of the situation. All I can say to you today is we can take this money and we can operate a program covering the 350,000 increase.

HM, Jr: Say that again.

Col. H: That we can take the funds that are made available under this letter and can carry on a program including the increase that Mr. Hopkins has announced.

Mr. Bell: What peak of unemployment do you reach on this basis?

HM, Jr: I was going to ask that. Taking this money, what is your employment schedule?

Col. H: Maximum of 1,900,000.

HM, Jr: If you receive this letter from the President, you can put this schedule into effect?

Col. H: That runs \$14 million over the 1 billion 3, but that is something that can be adjusted in the latter part of the year provided the situation permits us to come down.

HM, Jr: Can't you do this? Can't you give me, so that I could say to the President, or Bell could say to the President, that if you receive this letter they will work on such a basis. Let's have the facts. Based on this letter, I would like, I think it is fair to ask, how much employment can you give. I would like you to revise this to come to 1 billion 3.

Col. H: All right, sir.

HM, Jr: How long will it take you to get that out?

Col. H: Get it to you by noon.



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Mr. Ross: It can be done today.

HM, Jr: Bell and I are going over at 12:30. I don't know that we would get to it because we have the whole budget message.

Mr. Ross: I could revise that over here immediately, before we go back.

HM, Jr: Could you? Because I think we can get this cleared up today. I know he will ask how many people will it put to work and I don't want any 14 million if's and and's.

Mr. Bell: Isn't your estimate for December a little high?

Mr. Ross: That's supposed to be the average on the 11th.

HM, Jr: I don't want to go over there. I know the first question: How many men is it going to put to work?

If you get this signed, under the circumstances it's the best you can get; there isn't anymore, is there?

Col. H: Apparently not.

Mr. Ross: We think there are sizeable sums.

Mr. Bell: There may be and we may get it.

HM, Jr: I think you have done darn well.

Mr. Ross: There are funds around.

HM, Jr: The important thing is you know where you stand.

Col. H: That's right.

Mr. Secretary, I would like to have a clear understanding on this one point. You ask me whether this will meet the situation and I can't say that it will. In other words, if a situation as to need arises in this

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country in the next two or three months, that justifies the President asking for a deficiency appropriation, that would be his decision.

Mr. Bell: That's another problem.

Col.H: And I just want to make it clear that I did not want to go on record with you ....

HM,Jr: I understand. On the other hand, what I have been trying to do is to find out where Mr. Hopkins and his people were going to get the money to put on 350,000 extra people and when he made that statement I did not know where he was going to get the money. I did not know. I know now, and you know. You have something in writing to work on.

Col.H: I think that's very satisfactory.

HM,Jr: I think it's highly satisfactory. I know I would not want to be putting 350,000 people on and hope I was going to get the money.

Col. H: I thought it was so satisfactory that in talking to one of our people up in Rochester, Saturday, that I asked him to tell Hopkins that we had this arrangement I thought was going to be consummated this morning, which I thought would be good news to him. He's probably on the operating table this morning.

HM,Jr: Oh! When you hear, let me know. But you thought it would be good news?

Col. H: I did.

HM,Jr: When we read this to the President, suppose he says to me, What does Aubrey Williams think? I don't know.

Col. H: We discussed this with Aubrey Williams just before we left. He thinks it's all right. He's worried about the need situation.

HM,Jr: Well, so am I.

Col. H: But as far as this operating procedure with funds available, he thinks it's all right. I just

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left his office.

HM, Jr: Will you and Aubrey Williams be available in case the President wants you? You may be called. I am going to try to get this signed between 12 and 1, with Mr. Bell's help. Am I moving too fast?

Mr. Bell: No. I am ready.

oOo-oOo



THE WHITE HOUSE  
WASHINGTON

My dear Mr. Administrator:

On July 1, 1937 I advised you I had reserved \$1,300,000,000 from the appropriation in the Emergency Relief Appropriation Act of 1937 to provide for all obligations to be incurred during the fiscal year 1938 for the administration and work relief projects of your Administration, including the National Youth Administration, as well as the land utilization projects of the Resettlement (now Farm Security) Administration. You were directed to so administer the funds made available to your Administration that obligations incurred should not exceed the following amounts for the periods indicated:

|                |                    |
|----------------|--------------------|
| First quarter  | \$ 350,000,000     |
| Second quarter | 300,000,000        |
| Third quarter  | 300,000,000        |
| Fourth quarter | <u>250,000,000</u> |
| Total          | \$1,200,000,000    |

This left a reserve of \$100,000,000 to be allocated by me to meet unforeseen emergencies. Either at my direction or at your request, to date there has been charged against this \$1,200,000,000, you were authorized to obligate, \$42,655,278 as follows:

|                       |               |
|-----------------------|---------------|
| For:                  |               |
| Flood control         | \$ 22,500,000 |
| Land utilization      | 14,032,761    |
| Reclamation           | 6,029,000     |
| Rural Electrification | 63,635        |
| Quartermaster Corps   | <u>29,882</u> |
| Total                 | \$ 42,655,278 |

In order to provide additional employment during the winter months, I am willing to release the \$100,000,000 previously held in reserve and replace the \$42,655,278 transferred to other agencies. This will make \$1,300,000,000 available for obligation by the Works Progress Administration during the fiscal year 1938. It is to be understood that of the foregoing amount not to exceed \$50,000,000 will be obligated by the National

- 2 -

Youth Administration for all purposes and not to exceed \$65,000,000 by the Works Progress Administration for administrative expenses. If any further funds are needed for land utilization projects they must come from the foregoing \$1,300,000,000. As obligations incurred by the Works Progress Administration to November 30, 1937 were about \$520,000,000, there will be left \$780,000,000 for obligation during the last seven months of the fiscal year.

Therefore you are authorized to incur obligations for the projects and administration of the Works Progress Administration and the National Youth Administration on the following revised basis:

|                       |                    |
|-----------------------|--------------------|
| July 1 to December 31 | \$ 620,000,000     |
| January 1 to March 31 | 380,000,000        |
| April 1 to June 30    | <u>300,000,000</u> |
| Total                 | \$1,300,000,000    |

To date you have had \$812,745,350 made available to your Administration. I propose to allocate immediately \$44,599,372, to allocate \$100,000,000 each on January 20, February 20, March 20, and April 20 and to allocate the remaining \$42,655,278 on May 1 or as soon thereafter as the funds may be available.

Sincerely yours,

The Honorable,

Administrator,

Works Progress Administration.

DEC 20 1937

My dear Mr. Administrator:

On July 1, 1937 I advised you I had reserved \$1,300,000,000 from the appropriation in the Emergency Relief Appropriation Act of 1937 to provide for all obligations to be incurred during the fiscal year 1938 for the administration and work relief projects of your Administration, including the National Youth Administration, as well as the land utilization projects of the Resettlement (now Farm Security) Administration. You were directed to so administer the funds made available to your Administration that obligations incurred should not exceed the following amounts for the periods indicated:

|                |                    |
|----------------|--------------------|
| First quarter  | \$350,000,000      |
| Second quarter | 300,000,000        |
| Third quarter  | 300,000,000        |
| Fourth quarter | <u>250,000,000</u> |

Total ..... \$1,200,000,000

This left a reserve of \$100,000,000 to be allocated by me to meet unforeseen emergencies. Either at my direction or at your request, to date there has been charged against this \$1,200,000,000 which you were authorized to obligate, \$42,655,278 as follows:

|                       |               |
|-----------------------|---------------|
| For:                  |               |
| Flood control         | \$ 22,500,000 |
| Land utilization      | 14,032,761    |
| Reclamation           | 6,029,000     |
| Rural Electrification | 63,635        |
| Quartermaster Corps   | <u>29,882</u> |

Total ..... \$ 42,655,278

In order to provide additional employment during the winter months, I am willing to release the \$100,000,000 previously held in reserve and replace the \$42,655,278 transferred to other agencies. This will make \$1,300,000,000 available for obligation by the Works Progress Administration during the fiscal year 1938. It is to be understood that of the foregoing amount not to exceed \$50,000,000 will be obligated by the National Youth Administration for all purposes and not to exceed \$65,000,000 by the Works Progress Administration for administrative expenses. If any further funds are needed for land utilization projects they must come from the foregoing \$1,300,000,000. As obligations



- 2 -

incurred by the Works Progress Administration to November 30, 1937 were about \$520,000,000, there will be left \$780,000,000 for obligation during the last seven months of the fiscal year.

Therefore you are authorized to incur obligations for the projects and administration of the Works Progress Administration and the National Youth Administration on the following revised basis:

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|-----------------------|--------------------|
| July 1 to December 31 | \$620,000,000      |
| January 1 to March 31 | 350,000,000        |
| April 1 to June 30    | <u>300,000,000</u> |

Total ..... \$1,300,000,000

To date you have had \$812,745,350 made available to your Administration. I propose to allocate immediately \$14,599,372, to allocate \$100,000,000 each on January 20, February 20, March 20, and April 20 and to allocate the remaining \$42,655,278 on May 1 or as soon thereafter as the funds may be available.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

The Honorable,  
Administrator,  
Works Progress Administration.

AVK/mab

## Funds to be Made Available for Obligation

by the W.P.A.

(Proposed Revision)

Existing Authority

|   |                    |
|---|--------------------|
| Allocated to date (December 20, 1937)   | \$812,745,350      |
| Remaining to be allocated under letter<br>of July 1, 1937 as revised by letter of July 27 | <u>344,599,372</u> |
| Total under present authorization   | \$1,157,344,722    |

Proposed Changes

|   |                   |
|---|-------------------|
| Release of reserve  | 100,000,000       |
| Replacement of funds transferred to<br>other agencies from W.P.A. quota | <u>42,655,278</u> |
| Revised total   | \$1,300,000,000   |

-----

|  |                   |
|--|-------------------|
| Balance available for allocation under<br>E.R.A. of 1937, less all earmarked funds                         | 11,626,013        |
| Funds in process of transfer to E.R.A. of 1937   | 25,637,461        |
| Old funds held by W.P.A. available for return<br>to an unallocated status after transfer to E.R.A. of 1937 | <u>29,329,655</u> |
| Total  | \$66,593,129      |
| Deduct proposed additional funds<br>to be allocated to W.P.A.  | <u>42,655,278</u> |
| Balance  | \$23,937,851      |

C O P Y

## WPA EMPLOYMENT AND OBLIGATIONS

|                               | Employment<br>(000) | Obligations<br>(In Millions)<br>Work Projects |
|-------------------------------|---------------------|---|
| July                          | 1,662               | \$ 115.7                                      |
| August                        | 1,514               | 92.1  |
| September                     | 1,458               | 89.0  |
| October                       | 1,464               | 89.9  |
| November                      | 1,505               | 88.6  |
|                               | <u>Estimated</u>    |   |
| December                      | 1,575               | 95.9  |
| January                       | 1,800               | 109.8   |
| February                      | 1,900               | 114.0   |
| March                         | 1,800               | 108.0   |
| April                         | 1,650               | 99.0  |
| May                           | 1,550               | 93.0  |
| June                          | 1,500               | 90.0  |
| Total Work Projects           |                     | 1,185.0                                       |
| National Youth Administration |                     | 50.0  |
| Administrative Expense        |                     | <u>65.0</u>                                   |
| TOTAL                         |                     | 1,300.0                                       |

This estimate is exclusive of the need for working capital in the latter part of June.

December 18, 1937.



RE SUBMISSION TO CONGRESS  
OF REVENUE ESTIMATES

December 20, 1937.  
11:10 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Oliphant  
Mr. Gaston  
Mr. Seltzer  
Dr. Viner  
Mr. Upham  
Mr. Bell  
Mr. O'Donnell  
Mr. Haas

H.M.Jr: I don't think that - this is what he's got now.  
Listen to this, Jake, please, if you don't mind.  
He goes down to 80 in January, February 85, March  
91, April 92, May 90, June 88, July 87, August 87,  
September 91, October 94, November 97, December 97,  
January '39, 97, and the rest of that 98, for '39.

Now, am I going to - this is Summary - this is  
Table A, would you call it?

O'Donnell: Yes.

H.M.Jr: This is B - December 20.

Now, don't say something to please me, but after  
you've done it how do you feel? Which would you  
rather stick by, the first one you did or this one?

O'Donnell: I think you might feel a little safer .....

H.M.Jr: I didn't say me.

O'Donnell: We felt fairly confident on the one last week, Mr.  
Secretary, but we fully realize the difficulties  
of trying to forecast it in times like these. We  
don't have any real confidence - we'd like to have -  
in forecasting the future.

Haas: I'd take the second. I think Al feels that way too.  
Better to be on the under side if you're going to  
have an error.

Viner: The second was a 90 average for '38 and the first  
was 95?

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Haas: That was the concensus ....

H.M.Jr: First goes in January to 85 and finishes the year at 102. This starts at 80 and finishes the year at 97. The first group - they figured next year, '39, at 103; this group figures it at 98.

George, are you going to bring in that table - you know, showing the errors before; have you got that?

Haas: Yes.

H.M.Jr: You've got a copy of that for me. And may I say, Haas, I think that your estimating group did a swell job in doing this as fast as they did. O'Donnell.

O'Donnell: Yes, sir.

H.M.Jr: I'm pleased that you were able to do three weeks in three days.

O'Donnell: Yes, sir. Thanks.

Haas: They worked night and day.

H.M.Jr: Shows how much can be done.

All right, Mr. Magill.

Magill: I put up three questions to them, and as I spent so much time discussing the first one and I was such a good chairman, I couldn't get into so many arguments, we got the first one worked out, but not the second and third. I think I can make a report on what they think on it, though.

H.M.Jr: May I ask, just as a farm boy, was it too many lawyers or too many economists that embarrassed you?

Magill: They were about equally spunky.

Oliphant: You and I, you mean?

Magill: Why, I don't think there were any lawyers there except ....

Oliphant: Except Upham. Upham and I didn't say anything.

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A.M.Jr: All right.

Magill: Upham, I understand, feels so violently that he is afraid to blow off steam.

Upham: afraid to talk.

H.M.Jr: Well, we'll give him a chance.

Magill: Well, anyway, the first question I presented to them was whether or not the budget estimates of receipts for '39 ought to be submitted in the usual fashion, accompanied by some type of statement as to their possibility of error, and so forth; that is, although everybody wanted to talk a lot about that paragraph and the statement, we didn't outline that. There was substantial unanimity, except possibly Harry White, to the effect that an estimate of receipts for '39 ought to be presented at this time; that more harm would be caused by failing to present such an estimate at this time than would be caused by presenting one, even though the one presented showed a deficit of proportions of a billion dollars.

The second question I asked them was whether or not the budget statement should also contain a recommendation in some form of increased taxes to make up the difference between the estimated receipts and estimated expenditures. On that there seemed to be great difference of opinion. I don't think that one could give any sense of the meeting. Some of them were strongly in favor of such a statement and some of them seemed to be equally strongly opposed to it.

The third question was whether or not some recommendation as to improvement in budgetary procedure should be made. There seemed to be general agreement that such a statement should be made, that recommendations of improvements ought to be included in the budget statement, but I could find no agreement as to what those improvements should be. The Division of Research and Statistics seemed to be violently opposed to Shoup's proposal, as nearly as I could make it out. Mr. Taylor, I gathered, was somewhat in favor of it, with some variations of his own. And I don't know what Mr. Viner thought. He was essentially critical of everybody.



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Viner: Well, my position was on questions 2 and 3 that there was an adequate time to justify answers.

Magill: That's a good point.

H.M.Jr: Viner's gotten somebody's goat. ..

Viner: I don't think so. No, I think that particularly the question as to taxes - that that was much too important a question to be decided at two minutes to 11 for an 11 o'clock meeting. In other words, we need more time, I'd say, to canvass more carefully.

H.M.Jr: But the concensus here was that we should give them an estimate and shoot it in. Is that what everybody thinks?

Magill: Yes, very much so.

Haas: Harry had some question, I think, about it.

H.M.Jr: Where is Harry?

Haas: I don't know. I think Lochhead dragged him out.

H.M.Jr: Gee, that's nice; a fellow objects and you give him ether.

(On phone) See if you can locate Dr. White. He's around somewhere, maybe with Lochhead. Tell him to come in.

Bell: That makes it unanimous, as long as we've gotten away with White.

Magill: Find the body out in the courtyard.

Taylor: Saw somebody tap him on the head just as we went across the hall.

H.M.Jr: Nice people.

Magill: Now, Mr. Upham, as I gather it - and all views ought to be reported - Upham's view is that the estimate is too low on receipts.

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Viner: Well, that's my view too.

Gaston: My view too.

Taylor: Ought to make the mistake that way on purpose.

Bell: Lot to be said for that.

Taylor: I don't know whether we're going to get more receipts or not, but I think if you're going to make a mistake you ought to make it on the high side at this time.

Oliphant: I don't think you ought to start consciously any such thing.

Taylor: Not too rosy a picture, but if it's a question between 95 and 90, make it on the basis of 95. We haven't got any more idea what's going to happen in 1939 than ....

Bell: I'd state in the message that your '39 estimates are based on a little higher scale of business, and I'd so state it.

Viner: Little higher than what?

Bell: Little higher than what your '38 estimates are based on.

H.M.Jr: Are you (Taylor) through?

Taylor: Temporarily.

H.M.Jr: I mean what you're saying is we should take the 95.

Taylor: Yes. At least.

H.M.Jr: Even though we think it's high.

Taylor: I don't think anybody knows.

H.M.Jr: Well then, why not take 100?

Viner: I think 95 is low.

Taylor: I'd just as soon take 100.

H.M.Jr: What?

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Taylor: I'd just as soon take 100.

H.M.Jr: You (Viner) would just as soon take 100?

Viner: I didn't say so, but I say I think 95 is low on the basis of anything we know now or can conceive.

H.M.Jr: It's 90 right now.

Taylor: Sure.

Viner: It may be 85 in January, but ....

(White comes in)

H.M.Jr: I refuse to have you put in the ash can, Dr. White. Sit down. They tell me ....

Magill: Wayne, you were deputed to tie him up. What's the matter?

Taylor: What?

Magill: You were deputed to tie him up and lock him in the closet.

Taylor: You didn't tell me so.

Oliphant: I'd like to say that I'd like to see the estimating continue to operate with the same flavor and the same spirit with which you turned to the chief estimator a moment ago and asked him to tell you how he felt, and not to please you, about what it would be. I think if the Treasury ever tinkers with that we've just gotten lost from our moorings.

H.M.Jr: May I point out this to you, Mr. Oliphant, that the chief estimator came in here October 19 with a set of estimates and I then sliced off 2 percent, after they got all through, which was 2 percent of 7 billion - was what? I took off 150 million.

O'Donnell: Took 150 million.

H.M.Jr: 190 or 125.

Bell: 125.



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O'Donnell: Yes, 125.

H.M.Jr: Took off 125 million after they all got through. I was then - after I did that I was 330 million dollars too high, and Mr. Helvering was 400 million dollars too high. So - I mean ...

Oliphant: But you conscientiously did the very best you knew now.

H.M.Jr: And when I got through they were perfectly satisfied. I said, "Boys, this is too high. Where we'll fix it - you can fix it up where it needs the padding the most." And that was October 19, and this is two months later; and between that date and this - 330, 150 - they were wrong by 450 million dollars in two months.

Oliphant: That's been the history of the estimating in periods of recession; they overshoot the mark.

Haas: Of course you have an unprecedented decline in business.

Oliphant: I still make my point that you went about that and tried to do the very best conscientious job you could.

H.M.Jr: That's what I'm trying to do now.

O'Donnell: At that date in October there the New York Times index stood at 101.3; on December 4, it was 85, almost an unprecedented drop in that interval. And of all the business experts that we called in to confer with us and substantiate or deny our forecasts subsequently, not one was willing to say that he had foreseen the extent of that depression which was coming.

H.M.Jr: Well, that's true, but if you don't - all very interesting, but you're still off 450 million dollars in two months, which just shows that the human brain, when it comes to estimating even for two months, isn't very good. And that is why I'm trying to get this thing so we quit guessing and quit calling in experts and do this thing on a factual basis; that is, after we see what the '37 year basis looks like and then, based on what we

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know and not what we think, then we tell the country the revenue will be so much. That makes horse sense. This other thing is just damn nonsense.

Oliphant: I think I heartily agree; we ought to go down there with a plan for improving our estimating machinery.

H.M.Jr: I'm not saying that you boys aren't doing as good a job as anybody else can do, using the slide rule the way you're using it, but I think it's been demonstrated the last six months that the slide rule method isn't any good.

Bell: How much of this 330 million dollar reduction in the estimates is due to income taxes?

O'Donnell: You mean since last October?

Bell: Yes.

O'Donnell: I don't have the October estimates with me, unfortunately, Mr. Bell. We quit at 2 o'clock this morning. We had only time to ...

H.M.Jr: Well, just approximately. Is most of the 330 reduction in the income tax, or is it scattered through the miscellaneous?

O'Donnell: No, the customs were quite heavily hit; the estate taxes are especially heavily hit because of the sustained low level of the stock market and the optional valuation. And outside of the income taxes, those are the two large items.

Bell: Well, is half of it income taxes?

O'Donnell: I think that's a fair estimate.

Bell: Your problem is - the situation is bettered a lot by the change that's been suggested, but it hasn't been thoroughly corrected, it will not be completely corrected by the change.

H.M.Jr: Well, it would if we took the original suggestion to make no estimates of what the revenue should be based on '37 returns until we see the '37 returns.



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Bell: No, because you've still got to estimate your excise taxes, your gift ....

O'Donnell: But you're that much further along with your business picture, Dan, and you have that less far to go.

Bell: You're three months beyond, but you still haven't corrected the whole situation.

Boss: No, not by any means. You're absolutely right.

O'Donnell: Oh no, never can correct that.

H.J.Jr: Cy, why have you got high ~~blood~~ pressure?

Wanam: I don't think it's particularly high. I just feel that there's as much chance of estimators being wrong on one side as on the other, and that under the circumstances it is essential to the welfare of the country, it seems to me, that we be fairly if not plenty optimistic. I think the tax changes are going to mean a tremendous difference to business; business is going to be better than you think it is.

H.J.Jr: I have a man who influences me - you'd be surprised - a lot on this. I mean not on this thing. Professor Wesley Mitchell. And he spent an evening with me about a month ago at my house in the country; very quietly he went through the whole history of the so-called wishful thinking of Mr. Hoover, and described to me what happened and how dangerous it is for us to do just that kind of thing. And he described just the particular circumstances of "prosperity around the corner." First week in January '32, wasn't it, that Mr. Hoover said that? Professor Mitchell went to the man, got the whole background, now he explained to Mr. Hoover but he didn't allow for the seasonal change and all that.

And I, as far as an individual is concerned, my influence is concerned, am not going to be any part of wishful thinking, because I think that in the long run, whether it's Mr. Hoover or Mr. Roosevelt or anybody else, that's the worst kind of thing that can happen to the country. Now, either I'm going to give the President what I think is an honest figure of what the revenue would be, and do what I've always done since I've been here, always taking the



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lowest - I always said I would take the lowest on the revenue and the highest on expenditure - or I feel that we should wait and let the country ride along under present appropriations and see whether this is a depression or recession. That's the way it boils down.

If I go to the President - "We're off so many hundreds of millions of dollars" - then he comes back and says, "Well, do you want to make it up in new taxes?" I'm like Jake Viner; I can't answer that in two minutes. I don't know. It took me six weeks to work out the philosophy in my speech, and I certainly couldn't in two minutes get a new philosophy. And when I worked it out, I worked it out with the President. I mean when I gave that, it was as much his philosophy as it was mine. I can't say here whether we want new taxes or whether we don't, or whether we should continue this thing or not. And we've just gotten through, Bell and I have, going over this thing with relief; certainly we know that picture better than anybody else outside of the relief organization, and they don't know. I mean nobody knows - they say these factories have shut people down - whether this is the new technique, whether this is a drive against labor, whether this is a drive against the Administration, or just whether it's good business. I mean nobody knows. I mean they don't know.

Now, the manufacturers say Mr. Hoover, again using him, urged them to keep on, to share the work; they did it, continued to build up their inventories, and first thing they found themselves in a really bad way, and they don't want to be found that way again. Now, they were wrong then; maybe they're wrong now. Maybe they're right now. Who knows? Know a great deal more about it next April.

Well, Harry, as the man that they wouldn't let talk, let's hear from you.

White:

I'm afraid I talked enough in there. Well, I can only repeat what I said before. I agree with what you have just said. I don't see that anybody can make an estimate at all. We all agree as to that, of course, but I'm thinking exclusively of the effect

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of a statement on the psychology of business, and it is purely a matter of trying to guess how the public will react; it is not a question of economic analysis. It appears to me that the comment of the writers and the comment of business men, the leaders who formulate public opinion in matters of this kind, would react favorably rather than unfavorably to a statement such as you contemplated giving, providing, again, it was couched in proper terms, which I presume it would be, as against a statement that you now expect a billion deficit, which they would interpret as being an optimistic one because they would put themselves in your position and would say, "Well, certainly I would make an optimistic one, certainly I wouldn't make a pessimistic one." And judging from the past as well as on a priori grounds, I would expect this estimate to be lower than you really think is going to happen. Government economists have a prestige which they in no way deserve, and their statements bear more weight than they should, and the business world is going to say, "Well, they feel we're in for a bad year." It won't be definitive in their mind, but it's another bearish factor. And I think that a statement accompanying the other approach might be made which would be more apt to eliminate the possibility of that additional bearish feeling at this time.

H.M.Jr: I don't think I quite get you. You've got to make it a little simpler. Make it a little simpler.

May I ask - the choice is this: Should I send up an estimate - let's say it's the best estimate that we can give, see, whatever it is; or should I ask the President to get some kind of resolution through Congress before they adjourn postponing through some means or other so they don't have to give an estimate? That's what it boils down to.

White: That is, I understand, the choice.

H.M.Jr: Which are you for?

White: I'm in favor of the second, not giving them an estimate at this time, for the reasons I just said. I think I can repeat that this is a question of



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Judging how the business community will react, not a question of any economic analysis. And in that case the opinion of a large majority certainly is worth more than the opinion of a small minority. But that's my opinion and I stick to it. I think if there is an opportunity and if it were possible, somebody might be used as a test tube to see how some of these people might react, if that is possible. I don't know that you have time.

Viner: I'm not at all sure that you really have a choice. Congress must have the best guidance it can get from anybody, and you are in a position to give it, and it is your official responsibility to give it that best guidance. If you say, "I can't do it under the present circumstances," they might say, "We can't legislate in the absence of it, intelligently."

Bell: The resolution might be the other way.

Oliphant: That happened once when Secretary Gage ....

H.M.Jr: Who?

Oliphant: Secretary Gage declined once to give estimates on the ground that it would be pure speculation, and Congress promptly passed a bill requiring him to do so.

H.M.Jr: What year was that?

Oliphant: 1903.

H.M.Jr: When?

Oliphant: 1903, wasn't it, Dan?

Bell: That's right. Under Roosevelt's administration, when you were going into the 1907 panic.

Waite: I think if that should happen - I'm a little bit skeptical about it, because the situation is not the same - but should that happen, I think the Secretary could be in a position to give an estimate, after taking the position he has. He'd have to abide by the orders of the Congress.



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H.W.Jr: Oh no you don't.

Viner: I think the important thing is not whether you are saving yourself, but what help are you giving Congress in doing its difficult job. It is in a difficult position too. It needs to have a basis on which to operate and it needs to have a responsibility under the light of the information you give it that its acts shall be as reasonably well designed to the situation as it can make it. And I think you are depriving them of a necessary aid in their legislative process and one which you are required by your office to give them, at whatever cost it may be to yourself and to the President.

H.W.Jr: Well, the cost to myself ....

Viner: Or to the President - I mean the Administration; that is one of its burdens.

H.W.Jr: I don't see what it's going to particularly - I mean I can take it either way.

Viner: Oh, and I'd say this too, that with conditions as fluctuating and as uncertain as they are, provided there is reasonable good faith in making the estimates, if they prove to be sour there wouldn't be any excitement about that in the sense of criticizing you for it, because everybody who knows anything at all about it knows that there is bound to be liability to a very pronounced margin of error.

H.W.Jr: Well, as far as I - am I correct, Dan, that they brought Mr. Mills up on the Hill on those estimates when they were so wrong and they had to go back? Wasn't there a terrible row about it?

Bell: Yes. I don't know as they particularly had him up there on that, but they rode him pretty hard in connection with the '32 tax bill. Garner, who was then - who had been on the Ways and Means Committee, at that time Speaker, I believe, rode Mr. Mills pretty hard about the estimates being off so much.

Upham: Of course, that was a Democratic Ways and Means Committee riding a Republican Secretary of the

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Treasury.

Bell: Entirely political.

H.M.Jr: I know.

Bell: And you might say Mr. Garner just delighted in riding Mr. Mills and Mr. Mills delighted in riding Mr. Garner. They were the best of friends, but publicly they rode each other unmercifully.

H.M.Jr: I know.

As a matter of fact, next to the President I'd rather have Mr. Garner's opinion on this particular problem than anybody else in Washington. I mean I'd pretty near let Mr. Garner write the ticket.

Oliphant: If we take the experience of the past ....

H.M.Jr: Next to the President I'd rather go on Garner's word about this than anybody else.

Oliphant: You have had the experience of the past, since we've been here, of coming out with the unfavorable and being surprised how well it's been taken. And is it really true that the reaction ... Just now the worst of the news is out. What is this mysterious thing that is underlying the whole thing? It's the way that people are thinking. And what will the country say about this request to postpone this?

H.M.Jr: Oh, I've got the reputation on the Hill - whenever I make an estimate, they always say I'm underestimating, don't they, Dan? Up to this year, I mean, they always have thought I've underestimated, because I have three years out of ...

Haas: I think the public - I mean the thinking public that are analyzing the budget outlook probably feel the situation is going to be worse than indicated, than that estimate based on the 90. I think that is important in terms of the reaction. But I'm not sure about that.

Taylor: I certainly don't think that on the basis of anything

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we know today you would be justified in making a forecast for 1939 on the basis of an index of 90. I think it would be a terribly unfortunate thing to do, just from one month when you know everything is closed up tight.

H.M.Jr: We're not - on the B schedule we're forecasting 98 for '39.

Bell: That's the end of the year, isn't it?

H.M.Jr: No, you start off January with 97 and every other month they've got 98.

Viner: January '38, you mean.

Bell: That's January '39. Last six months of the fiscal year.

H.M.Jr: From 97 to 98, January to June.

Viner: But that's the second half of that fiscal year. The first half they have lower. For the other half they have July, 87, then running to 97.

Bell: Is that an average of 90 over the whole year?

Taylor: Average of 90 for the whole year.

Bell: What is it now, 91?

Bass: Oh, it's lower than that right at the moment.

O'Donnell: I suspect November will probably prove to have been 91 when we get the figure.

H.M.Jr: What do you think December is?

O'Donnell: Maybe 85.

H.M.Jr: Well, the difference to me - and it's surprising to me that there is such little difference - there is a difference - one is what I called the A schedule, which is five billion 919, and the other is five billion 893.

O'Donnell: There are a good many taxes, Mr. Secretary, that don't respond either in timing or in direct proportion



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as changes in general business occur. Some substantial sources of revenue are fairly stable.

Magill: You take even your income tax; half of it is dependent on business which has already gone by, which is a pretty good year.

H.M.Jr: I'm surprised it's as little difference as that.

Magill: People smoke as many cigarettes when there is a depression as they do any other time, and generally a little more.

Bell: Smoke them a little longer.

Oliphant: Shorter.

H.M.Jr: Only 226 million dollars difference.

O'Donnell: That's right.

H.M.Jr: George, when you and O'Donnell - is it? - ....

O'Donnell: Yes.

H.M.Jr: ... brought this thing in, were you on the low side then, in your own mind?

Haas: When we brought it in?

H.M.Jr: When you brought in Schedule A.

Haas: No. Well, I'll give you the history of the thing. When we had these men down, I wanted to take the lowest estimates anybody would give in the room, and to figure that's the way the Treasury wants to figure, and I said 90. Well, they shouted all over and said, "No, you're leaning over too far that way; don't do a thing like that. Take 95." So the consensus of the group was 95. So I thought, rather than have the estimate represent any one person's particular opinion, that probably we'd come nearer to it by taking what the group as a group could agree on, and that was 95.

In back of my own mind, I figured this way: that that's probably about where it would work out, but I

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thought it would look better if it worked out where the actual was greater than the estimate so we had an error on the lower side.

H.M.Jr: You mean when you gave 95 you had an error on the lower side.

Haas: No, I thought that the ...

Viner: 90, you mean.

Haas: I thought 90 would give an error on the lower side, that it actually would work out better than 90.

Bell: But the group thought ....

Haas: The group thought 95.

Bell: From Crum's statement the other day, that 95 was a conservative figure.

Haas: They thought so, yes.

O'Donnell: You might add, however, that the group thought November would prove to be no lower than 95 and we now have reason to believe that it may have been 91.

White: The group thought that the low point in the early spring would be 85. I think that was the lowest thing mentioned.

Taylor: That was January.

White: January or February.

Taylor: Well, it is possible to say that you've gotten your low earlier and all that is moved up, so that you're going to get your bounce quicker.

Viner: You see, nobody has foreseen the full speed of the adjustment to the reversal in sentiment, and that will tend - if things work well, it will tend to bring the recovery earlier also.

H.M.Jr: Well, I mean 226 million dollars - I mean that is an easy thing; I'd almost flip a coin on that. I

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don't think that that is ....

Viner: I say, on the contrary, if an estimate on the basis of 90 instead of 95 lowers the revenue estimates only by 226 million, you're paying a small price in estimated revenue for a big increase in conservatism of estimating. In other words, if that's all the difference it makes in your estimated revenue, then I would be, for various reasons, for the 90 rather than the 95.

H.M.Jr: You'd be for the 90.

Viner: Yes. If it made a tremendous difference in the revenue, I'd say that the 90 figure seems to me excessively conservative.

H.M.Jr: But if it's only 226.

Viner: If it's only 226 ... And then you can later on say, "Although the signs were this, I estimated on 90 instead of 95." You've got a defense there that is perhaps worth while taking.

H.M.Jr: What I think we ought to do, either way - I think we ought to give out the figures.

Haas: The basis?

H.M.Jr: The basis.

Seltzer: Like a forecast for business.

H.M.Jr: Jesus, what do you call what we got now?

Seltzer: Yes, but ....

Taylor: When you're going into '39, you're making a hell of a bearish prediction.

H.M.Jr: "How does Morgenthau get that way?"

"This is the way he gets that way."

All right - "He's crazy. It's much too low." - or - "It's much too high." Then let them argue back and forth. "But how did he get that way?"



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Now, all you fellows are arguing that we announce the thing in order to let the public know, so that the uncertain factors - so as not to add to the uncertainty. Well then, let's go the whole way.

"How did Morgenthau get that way?"

"That's the way he got that way. That's his basis."

Now then, let all the sharpshooters, all the economists and everybody, go - and General Johnson and the rest, say, "He's crazy, it's going to be much better," or "He's too high." But "that's the way he got that way."

Viner: I'd say if ....

H.-Jr: Whatever they say, that's the basis of how we do it - W. O. May, and all the rest of them.

Viner: That might be all right, provided you told them that you haven't got any access to information which isn't available to the outside public. What would scare them is if they thought, as some of them do think, that the Government has secret sources of information not available to the rest of the public and therefore you had some reason which they don't have for indicating things are going to be worse than they think. Now, I don't know whether you can correct that.

H.-Jr: Well, we simply say - they say, "All right, Mr. Morgenthau says the thing is going to be five billion 693. How does he get that way? How does he arrive at that?"

I mean if you fellows say Congress is entitled to all the information, I go a step further; they ought to know how the Treasury gets this figure. I say they're entitled to that. Then, whatever they say, O.K.

Witte: And I say one step further, and I don't think - it seems to me we're confusing two things. I thought that the sole criterion was .....

Watts: Mr. Secretary, on that point let's take a hypothetical

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question which reverses the question somewhat.

Oliphant: Excuse me, so I can run over the statement.

H.M.Jr: Get it over.

Oliphant: I'll have it by 12:30.

H.M.Jr: Well, I don't need it by 12:30. I need it by one.

Oliphant: All right. (Leaves)

H.M.Jr: Go ahead, George.

Haas: Assume that the estimate - the outlook right now, as we saw it, with the best job we could do, wound up in 1939 at about 75, and that was our own best judgment; we thought the thing was going down. Then would you feel justified in putting it out? I raise this question because of the fact that the Treasury puts out a statement as to where business is going and that of itself a forecast made by a governmental agency of the type of the Treasury Department would tend to bring the forecast about.

H.M.Jr: All right, George. Do you believe in truth in advertising?

Haas: Yes, sir.

H.M.Jr: Do you believe in Pure Foods law?

Haas: Yes, sir.

H.M.Jr: All right, if you're going to have benzoate of soda in the soup, are you going to say so?

Haas: No, it's good soup; benzoate of soda doesn't hurt them.

H.M.Jr: Let them drink it.

White: That's a poor analogy.

Taylor: Yes, because you're thinking of something that's in some soup.

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H. S. Jr: What I want to know is, who's in the soup? I am.

Taylor: I don't think so.

Hess: No, I don't think you are.

Viner: His point is that if you say there is benzoate of soda in the soup, it will get in the soup.

H. S. Jr: Well, I say I'm in the soup right now and I've got lots of benzoate right with me.

Bell: What would you think if you stated in the budget message that you had all of these experts in - I don't mean name them - and it seemed to be the consensus of opinion that the business level would be an average of 95 for the calendar year 1938, but in making these estimates you have been conservative and make them on the basis of 90. I don't suppose you'd want to give 90 or 95, but just say that you have been slightly under what the experts have said.

H. S. Jr: No, I don't - no, because - any more than I'd say that I had this same group of experts in on October 19 and they were off 450 million dollars. I want them to come down again.

Wagill: I think your proposition is right. I've been trying to say to these fellows - and I had no more luck than you did - I don't see why - I don't know about these index figures, but I don't see why you can't relate your estimates for fiscal '39 to present business conditions which people know about, and say that this estimate is based on business conditions which are - now, from there on you'll have to write your own ticket - better than the existing conditions by such and such a way, or approximately the same; and brag about the fact you're being conservative. You are. No question about that.

Hess: At this time it might look conservative. At another time .... That's the point. What you're going to do now is establish this policy; if you want to do it under all circumstances, it would be O.K.

Wagill: We all agree, as the Secretary points out, that you



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get out a figure here of five billion nine, or five billion seven, whatever it is, and at once it acquires a sanctity which none of us believe in, and that is really what we object to. If we could get out a figure which was just to be used by Congress in working on expenditures, which nobody would give any particular validity to, we'd all be much happier.

How do you get that point of view? Well, you do it, as I see it, by telling the people that we've got no magic formula, we've got no crystal ball; all we're doing, using the Secretary's words, is looking at tea leaves. What the figure represents is this: we think that business activity is going to be approximately what it was, let's say, in November, 1937. We think that you're going - that, based on that level of activity, your estimate for 1939 is so and so. If business should be better than that, why, then it will be such and such; if it should be worse, it will be something else. And put in all this business, if you want to, that the great bulk of the taxes - a good part of the taxes don't depend on business conditions primarily, and you're pretty sure of ....

Seitzer: Your actual estimates translating these business conditions are not mechanical responses to those things. For example, to do an adequate job of that, you'd have to show what the stock market is going to be. Want to show that in your estimate?

Wagill: All I'm asking for is simply this, to get some kind of a paragraph in there that indicates that this figure that you've got there is based on some kind of reasoning as to what business is going to be, and what that reasoning is.

Vibber: That it isn't very important except as a guide to Congress, that the public oughtn't to take it too seriously, because there is no reliable method of forecasting.

Wagill: I agree with the Secretary that you are taking very inconsistent positions. First of all, this is very uncertain, we don't know how much it is, and so forth. Then you put that figure in there and refuse

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to tell anybody how you got it, which, as I see it, gives it a surface validity which, as you all agree, it really doesn't have.

H.M.Jr: Well, I feel this way. I think that if these people are going to say yes, I've got to give an estimate, then I say, in fairness to everybody concerned, let's say how we got the estimate.

Magill: I think so too.

H.M.Jr: And I'd just as leave make it look ridiculous; make it look ridiculous and simply say, "All right, this is the way we do this. It's the most ridiculous thing; we find ourselves in the position - as far as I'm concerned, I don't think it's worth the paper it's written on. But Congress says we've got to give an estimate. Here's the best anybody can do. Congress says we've got to do it. I don't think ....."

Taylor: That's O.K.

Switzer: Suppose they don't think it's ridiculous, suppose they think these fellows really ....

Viner: You've got to tell them that we don't know anything more ....

H.M.Jr: Supposing I say, "I'm under the law," and I'll quote the law, and "I've got to give it." I say, "All right, this is the best that can be done, and this is the way it's been done for the last ten years. Out of the last ten years, they've been wrong so many times and right so many times. And I say at that juncture I'm doing what Congress demands, but I say it's ridiculous."

Viner: All except the last phrase - I think it's fine. Swell.

H.M.Jr: "And this is the way it's done." And say, "This is the way it's arrived at."

Now, we look back over the last ten years. Where is it? Ten years, come here. Last ten years - 1, 2, 3, 4, 5, 6, 7, 8, 9, 10. All right, they've been right six times and wrong four. Of those six, I was right three. Well, they've been wrong four times, been right six. But when they're wrong, they're wrong

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in a glorious way. When they go wrong, there is no demi-virgin. Go wrong in a big way.

Magill: Well, you can fairly say what seems to me is the nub of the whole thing: that if a boat goes along evenly, smoothly, and there are no storms, why, any damn fool can estimate with a fairly close degree of accuracy; but that when it becomes really important to know, in a time of changing conditions, why, nobody can tell. And that's the situation we're in now.

Taylor: If you pick a particular number, you've got to say why you picked it.

H.M.Jr: well, we do.

Taylor: You can say, "They're none of them worth a damn, but I picked this one."

H.M.Jr: Well, simply say, "This is the way it's always been done in the Treasury, and this is the technique. Now, over ten years, this is how close they've hit it. Using the same technique they've used the last ten years, I say it will be so much, and there's the technique."

Hess: It's not the same technique, Mr. Secretary.

Seltzer: Department store sales are so important in some times, and their relative importance changes as time goes on.

H.M.Jr: Do you think - excuse me - do you (Gaston) think that Steve Early's opinion on this would be any good for the President?

Gaston: No.

H.M.Jr: What?

Gaston: No. I liked your other suggestion.

H.M.Jr: What was that?

Gaston: Jack Garner.

H.M.Jr: But not Steve Early.



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Gaston: But not Steve Early.

H.M.Jr: Well ....

Viner: There's a lot of stuff here that you could use very well in that statement - right up at that table.

H.M.Jr: Let me read it.

Viner: It's long; it's too long to read it.

H.M.Jr: Let me sit here and just by myself read it.

O'Donnell: That table is page 3 of the write-up.

Reas: That ten years goes in on page 3 of that.

H.M.Jr: Well, let me skim it a minute. You people just wait a second. I'll skim it.

(Oliphant returns)

H.M.Jr: That's a good statement. That's a good statement.  
Well, thanks very much.

When Magill, Bell and I go over at 12:30, I think the thing to do is to give the President ...

Bell: The figures.

H.M.Jr: ... the figures, state the problem, and let's watch his reaction.

Magill: I think so.

H.M.Jr: What? I mean I won't - just "Here's the thing, Mr. President. You can figure it on plan A, you can figure it on plan B." Show him how we arrive at the thing. "Here's what we're up against. Here's what's happened. Now, what's your reaction?" And then just let him react first. I mean I won't put - it's been of tremendous benefit to me to spend a couple of hours talking it out. Now I want to go over like that and let's see; he may have some very definite idea that he'll want to do the thing one way or the other. Let's see. But I'd be more - I think the way to do is just go over and say, "Here,

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Mr. President, are the facts. On plan A we figure so much revenue, on plan B so much. Mr. Bell will give you the figure on expenditures. Now, here's the history of the estimating. Under the circumstances, what do you think we ought to do?"

All right.

**Suggested Write-up for Secretary's Annual Report**  
**ESTIMATES OF RECEIPTS**

Each November the Treasury Department is required to make estimates of the revenues of the Federal Government, on the basis of the existing tax structure, for the balance of the current fiscal year and for the entire following fiscal year.

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. Making estimates of future revenue, therefore, requires the Treasury Department to forecast the general business situation for a period ending approximately twenty months later. These forecasts are based on the analysis of a large variety of financial and economic data, including estimates of future industrial production and profits, security and commodity prices, employment and payrolls, and other pertinent information. Historical relationships which portray the action of revenues from particular taxes, as related to the appropriate series above mentioned, form the basis for estimating the future revenues of the Federal Government.

It is not possible to foretell with accuracy the future and there is a necessary and inevitable range of uncertainty in connection with any such forecasts of future revenues. Any business man knows how impossible it is to predict



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accurately the profits of his own business a year and a half in advance. The problem of the Federal Government is to predict among other things not only the profits of all businesses but also the aggregate income of all individuals and its distribution among the various net income classes as well as the consumption and importation of commodities upon which taxes are levied. The difficulties are augmented in periods of business recession such as the recent past, when the New York Times weekly index of business declined from 101.3 on October 2 to 55.0 on December 4 (the latest available figure at the time these estimates are made).

An appreciation of the extent of this range of uncertainty which exists in connection with Federal revenue estimates may be obtained by examining the record of forecasting in the President's January Budget Messages in each of the last ten years. The pertinent figures are as follows:

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**Comparison of President's January Budget Message Estimates  
of Revenue with Actual Revenue**

**Fiscal Years 1928-1937**

**(in millions of dollars)**

| <u>Fiscal<br/>year</u> | <u>Actual<br/>revenue 1/</u> | <u>Estimate 1/<br/>that year</u> | <u>issued in January of<br/>Preceding year</u> |
|------------------------|------------------------------|----------------------------------|--|
| 1928                   | 4,042.3                      | 4,075.6                          | 3,772.6  |
| 1929                   | 4,033.3                      | 3,831.7                          | 3,809.5  |
| 1930                   | 4,177.9                      | 4,249.3                          | 3,841.3  |
| 1931                   | 3,317.2                      | 3,834.9                          | 4,225.7  |
| 1932                   | 2,121.2                      | 2,359.5                          | 4,085.1  |
| 1933                   | 2,238.4                      | 2,624.3                          | 2,696.0  |
| 1934                   | 3,277.7 2/                   | 3,415.8                          | 2,949.2  |
| 1935                   | 4,172.0                      | 3,979.6                          | 4,128.8  |
| 1936                   | 4,550.3                      | 4,867.1                          | 4,186.0  |
| 1937                   | 5,886.0                      | 6,371.4                          | 6,234.6  |

Using these figures, the percentage differences of actual receipts from the estimates -- as made in the preceding year and in the current year -- are as follows:

| <u>Fiscal<br/>year</u> | <u>Percentage difference of actual receipts<br/>from January estimate issued:</u> |                       |
|------------------------|---|-----------------------|
|                        | <u>That year</u>  | <u>Preceding year</u> |
| 1928                   | - .62   | + 7.14                |
| 1929                   | + 5.26  | + 5.87                |
| 1930                   | - 1.68  | + 8.76                |
| 1931                   | - 13.50   | - 21.50               |
| 1932                   | - 10.10   | - 46.07               |
| 1933                   | - 14.70   | - 16.97               |
| 1934                   | - 4.04  | + 11.14               |
| 1935                   | + 4.83  | + 1.05                |
| 1936                   | - 6.51  | + 8.70                |
| 1937                   | - 7.62  | - 5.53                |

1/ Total receipts exclusive of postal receipts.  
2/ After subtracting increment resulting from reduction in the weight of the gold dollar of \$2,811.4 million. Negligible amounts (less than 2 million dollars) not deducted in 1935 and 1936.

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Regardless of whether the estimates were higher or lower than the actual receipts, and without attempting to explain the degree to which changes in the law, business activity and/or similar factors either increased or decreased differences, estimates made of the revenues for the current fiscal year and for the ensuing fiscal year, as compared with actual receipts, differed by an average of 6.9 and 13.5 percent, respectively. The first percentage is pertinent to our present estimate for 1938 and the second for 1939.

The past decade covers years of high, low, and rapidly changing business activity. The record shows that in years of rapidly improving business, estimates are usually less than realizations, whereas in years of declining business activity estimates are usually in excess of receipts and at times vary widely from actual receipts. Moreover, this period covers instances in which the changes in the tax laws had substantial effects upon the accuracy of estimating. Hence, though the unweighted averages of differences between estimates and receipts are not precise measures of the probable differences in present estimates, they include allowances for both known and unknown influences, and as such, may be considered as bearing directly upon the present estimates.

The entire Federal budget, both revenues and expenditures, is no more than a fiscal plan. It is necessarily influenced by



unpredictable developments which take place after the plan is made, just as in the case with the budget of any business concern. Attention is again directed to the fact that these are estimates and that as estimates they will be revised from time to time as is inevitable under rapidly changing conditions as new factors develop which obviously affect the expectation of receipts.

In considering estimates of future revenue in connection with forecasts of business conditions, it is important to remember that changes in business profits and individual incomes do not occur in direct proportion to increases and decreases in the volume of business activity and in the general price level. In periods of declining business, for example, profits and incomes drop much more than proportionally to the decrease in the volume of business due to the relative inflexibility of certain costs. In addition, consideration must be given to the fact that the decrease in the amount of income tax collections which will result from a given decrease in individual incomes is accentuated in a tax system which employs progressive rates not only because the individual taxpayer's income is less but also because the taxpayer pays a smaller percentage of the lowered income as an income tax.

There is a lag between the time income is received by taxpayers and the time of collections of income taxes. Thus, in general, the changes in earnings in the calendar year 1937 will not be reflected in income tax collections until the income tax returns are filed on

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or before March 15, 1938. Because of the privilege of making quarterly installment payments of these tax liabilities the collections will be received throughout the calendar year 1938, thus falling into the receipts of fiscal years 1938 and 1939. Hence, the estimated income tax collections, both corporation and individual, for the fiscal year 1938, are made up partly from payments on 1936 incomes and partly from payments on 1937 incomes. Similarly, fiscal year 1939 estimates of income tax receipts involve payments on both 1937 and 1938 earnings. Because of the variation in Federal practices in the collection of taxes, collections from estate and gift taxes and from the Social Security Act tax on employers of eight or more persons also lag behind changes in general business conditions while most of the other tax sources of revenue reflect such business changes within a comparatively short time.

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A.

| Federal Reserve Board : Bureau of Labor Statistics : Standard Statistics |     |    |      |       |
|--|-----|----|------|-------|
| Index of : Index of : Index of : 419 Stock                               |     |    |      |       |
| Industrial : Wholesale : Factory : Price                                 |     |    |      |       |
| Production : Commodity : Payrolls : Index                                |     |    |      |       |
| adjusted for : Prices : 1923-25 = 100 : 1926 = 100                       |     |    |      |       |
| seasonal : 1926 = 100 : : 1926 = 100                                     |     |    |      |       |
| variation : 1923-25 = 100 : : 1926 = 100                                 |     |    |      |       |
| 1923-25 = 100 : : 1926 = 100   |     |    |      |       |
| 1937:  |     |    |      |       |
| November   | 95  | 83 | 95   | 85    |
| December   | 90  | 81 | 93   | 83    |
| 1938:  |     |    |      |       |
| January  | 85  | 80 | 87   | 80    |
| February   | 90  | 81 | 86   | 86    |
| March  | 96  | 82 | 86   | 94    |
| April  | 97  | 82 | 86   | 90    |
| May  | 95  | 81 | 84   | 87    |
| June   | 93  | 80 | 83   | 86    |
| July   | 92  | 80 | 82   | 86    |
| August   | 92  | 80 | 82   | 89    |
| September  | 96  | 81 | 83   | 95    |
| October  | 99  | 82 | 84   | 99    |
| November   | 102 | 82 | 86   | 103   |
| December   | 102 | 82 | 87   | 103   |
| 1939:  |     |    |      |       |
| January  | 102 | 82 | 85   | 103   |
| February   | 103 | 83 | 86   | 104   |
| March  | 103 | 83 | 86   | 104   |
| April  | 103 | 83 | 86   | 104   |
| May  | 103 | 83 | 86   | 104   |
| June   | 103 | 83 | 86   | 104   |
| Calendar 1937  | 111 | 86 | 99.4 | 112.0 |
| Calendar 1938  | 95  | 81 | 84.7 | 91.5  |
| Fiscal 1938  | 99  | 83 | 92.0 | 93.9  |
| Fiscal 1939  | 100 | 82 | 84.9 | 99.8  |



Actual revenues and receipts for the fiscal year 1937, and January 1938 Budget Message estimates of revenues and receipts for the fiscal years 1938 and 1939, by sources 1/

Summary Table

| General and special accounts  | Actual 1937         | Estimated 1938   | Increase or decrease |                              | Estimated 1939   | Increase or decrease |                              | 1938 over 1937  | 1939 over 1937 |
|---|---------------------|------------------|----------------------|------------------------------|------------------|----------------------|------------------------------|-----------------|----------------|
|   |                     |                  | 1938 over 1937       | Percent increase or decrease |                  | 1939 over 1937       | Percent increase or decrease |                 |                |
| 1. Internal revenues:   |                     |                  |                      |                              |                  |                      |                              |                 |                |
| (1) Income taxes  | \$ 2,157,526,981.33 | \$ 2,662,106,000 | \$ 504,579,019       | 23.8                         | \$ 2,414,200,000 | \$ 256,673,019       | 11.9                         | \$ -243,206,000 | -10.4          |
| (2) Miscellaneous internal revenues:                                    |                     |                  |                      |                              |                  |                      |                              |                 |                |
| Capital-stock tax   | 177,459,245.53      | 141,500,000      | 4,000,754            | 2.9                          | 145,700,000      | 8,200,754            | 5.0                          | 4,200,000       | 3.0            |
| Estate tax  | 261,635,983.21      | 303,200,000      | 21,564,017           | 7.7                          | 289,400,000      | 7,764,017            | 2.9                          | -13,800,000     | -4.6           |
| Gift tax  | 23,911,703.26       | 25,200,000       | 1,288,217            | 5.4                          | 25,800,000       | 3,888,217            | 12.1                         | 1,600,000       | 6.9            |
| Alcoholic beverage taxes  | 593,831,352.97      | 613,860,000      | 20,028,647           | 3.4                          | 564,770,000      | -29,061,353          | -4.9                         | -49,090,000     | -8.0           |
| Tobacco taxes   | 561,322,580.32      | 545,111,000      | -6,811,580           | -1.2                         | 529,312,000      | -29,570,580          | -4.1                         | -15,719,000     | -2.9           |
| Stamp taxes   | 69,919,336.11       | 65,880,000       | -4,039,336           | -5.8                         | 65,440,000       | -4,479,336           | -6.4                         | -440,000        | -.7            |
| Manufacturers' excise taxes   | 450,581,584.74      | 458,090,000      | 7,508,415            | 1.7                          | 423,130,000      | -27,451,585          | -6.1                         | -34,910,000     | -7.6           |
| Miscellaneous taxes   | 79,432,758.77       | 126,570,000      | 47,137,241           | 59.5                         | 145,300,000      | 65,867,241           | 83.0                         | 18,730,000      | 14.8           |
| Total miscellaneous internal revenue taxes (collection basis)           | 2,138,735,064.91    | 2,279,511,000    | 90,775,935           | 4.1                          | 2,190,072,000    | 1,336,935            | .1                           | -29,473,000     | -1.3           |
| Adjustment to daily Treasury statement basis (unrevised)                | -7,517,208.37       | -                | -7,517,209           | -                            | -                | -7,517,209           | -                            | -               | -              |
| Total miscellaneous internal revenue taxes                              | 2,131,217,856.54    | 2,279,511,000    | 98,293,144           | 4.5                          | 2,190,072,000    | 5,854,144            | .3                           | -29,473,000     | -1.3           |
| (3) Processing taxes (Agricultural Adjustment Administration)           | 2,501.14            | -                | -2,501               | -100.0                       | -                | -2,501               | -100.0                       | -               | -              |
| (4) Other internal revenues:  |                     |                  |                      |                              |                  |                      |                              |                 |                |
| Taxes upon carriers and their employees                                 | 286,403.55          | 150,000,000      | 150,011,096          | 52,386.9                     | 116,500,000      | 116,613,096          | 40,645.3                     | -33,400,000     | -22.2          |
| Social Security taxes   | 265,458,404.29      | 571,002,000      | 305,543,596          | 115.1                        | 596,865,000      | 331,406,596          | 125.6                        | 27,863,000      | 4.9            |
| Tax on unjust enrichment  | 6,073,251.02        | 5,000,000        | -1,073,251           | -17.7                        | 10,000,000       | 1,526,649            | 64.7                         | 5,000,000       | 100.0          |
| Total other internal revenue taxes (collection basis)                   | 271,818,698.86      | 726,002,000      | 454,183,341          | 167.2                        | 726,765,000      | 454,946,341          | 167.0                        | -57,000         | -.1            |
| Adjustment to daily Treasury statement basis (unrevised)                | -13,425,894.88      | -                | -13,425,895          | -                            | -                | -13,425,895          | -                            | -               | -              |
| Total other internal revenue taxes                                      | 258,392,793.98      | 726,002,000      | 467,609,236          | 181.1                        | 726,765,000      | 467,372,236          | 180.9                        | -37,000         | -.1            |
| Total internal revenue taxes  | 4,597,140,102.49    | 5,698,713,000    | 1,101,572,898        | 24.0                         | 5,330,837,000    | 732,696,898          | 15.4                         | -266,676,000    | -5.8           |
| 2. Customs (daily Treasury statement basis)                             | 486,256,598.90      | 415,300,000      | -71,056,599          | -14.6                        | 390,400,000      | -95,556,599          | -19.7                        | -24,500,000     | -6.0           |
| 3. Miscellaneous revenues and receipts (daily Treasury statement basis) | 210,243,535.48      | 205,500,000      | -4,743,536           | -1.8                         | 199,000,000      | -11,243,536          | -5.4                         | -7,500,000      | -3.6           |
| Total receipts, general and special accounts                            | 5,293,640,236.87    | 6,320,513,000    | 1,026,872,763        | 19.4                         | 5,419,437,000    | 825,796,763          | 11.8                         | -401,076,000    | -7.3           |

Treasury Department, Division of Research and Statistics.

1/ Collections for credit to trust funds are not included.

[illegible]



Confidential

Estimated revenues and receipts for the fiscal year 1938, January 1938 Budget Message  
compared with October 1937 Budget Message 1/

11 Summary Table

| General and special accounts<br>(on the basis of the daily Treasury statement (unrevised)) | October 1937 Budget Message | January 1938 Budget Message | Increase or Decrease<br>January 1938 Budget Message over<br>October 1937 Budget Message | Percent Increase or Decrease<br>January 1938 Budget Message over<br>October 1937 Budget Message |
|--|-----------------------------|-----------------------------|---|---|
| 1. Internal revenues:  |                             |                             |   |   |
| (1) Income taxes   | \$2,791,500,000             | \$2,692,900,000             | \$-98,600,000   | -3.5  |
| (2) Miscellaneous internal revenues:   |                             |                             |   |   |
| Capital-stock tax  | 142,000,000                 | 141,500,000                 | -500,000  | -.4   |
| Estate tax   | 376,800,000                 | 303,200,000                 | -73,600,000   | -19.5   |
| Gift tax   | 25,200,000                  | 25,200,000                  | -   | -   |
| Alcoholic beverage taxes   | 639,570,000                 | 613,560,000                 | -26,010,000   | -4.0  |
| Tobacco taxes  | 548,105,000                 | 545,111,000                 | -2,994,000  | -.5   |
| Stamp taxes  | 70,810,000                  | 65,880,000                  | -4,930,000  | -7.0  |
| Manufacturers' excise taxes  | 453,520,000                 | 458,090,000                 | 4,570,000   | 1.0   |
| Sundry taxes   | 130,270,000                 | 126,670,000                 | -3,600,000  | -2.8  |
| Total miscellaneous internal revenue taxes   | 2,386,275,000               | 2,279,511,000               | -106,764,000  | -4.5  |
| (3) Other internal revenues:   |                             |                             |   |   |
| Taxes upon carriers and their employees  | 158,200,000                 | 150,300,000                 | -7,900,000  | -5.0  |
| Social Security taxes  | 605,535,000                 | 571,002,000                 | -34,533,000   | -5.7  |
| Tax on unjust enrichment   | 5,000,000                   | 5,000,000                   | -   | -   |
| Total other internal revenue taxes   | 768,735,000                 | 726,302,000                 | -42,433,000   | -5.5  |
| Total internal revenue taxes   | 5,945,510,000               | 5,698,713,000               | -246,797,000  | -4.1  |
| 2. Customs   | 413,000,000                 | 415,300,000                 | 2,300,000   | .6  |
| 3. Miscellaneous revenue and receipts  | 210,000,000                 | 205,500,000                 | -4,500,000  | -2.1  |
| Total receipts, general and special accounts   | 6,568,510,000               | 6,320,515,000               | -247,995,000  | -3.8  |

Treasury Department, Division of Research and Statistics.

1/ Collections for credit to trust funds are not included.



| General and special accounts<br>[as itemized in the daily Treasury statement (unrevised)] | October 1937 budget message | January 1936 budget message | Increases or decreases<br>January 1936 budget message over<br>October 1937 budget message | Percent increase or decrease<br>January 1936 budget message over<br>October 1937 budget message |
|---|-----------------------------|-----------------------------|---|---|
| <b>Internal revenues</b>  |                             |                             |   |   |
| (1) <b>Income taxes</b>   |                             |                             |   |   |
| Individual, current 1/  | 81,179,000.00               | 81,183,500.00               | 4,500.00  | 1.0   |
| Individual, current 1/  | 1,380,000.00                | 1,733,400.00                | 353,400.00  | 25.6  |
| Corporate   | 270,000.00                  | 250,000.00                  | -20,000.00  | -7.4  |
| Estate  | 29,500.00                   | 29,500.00                   | -   | -   |
| Total income taxes  | 82,848,500.00               | 83,206,400.00               | 357,900.00  | 0.4   |
| (2) <b>Miscellaneous internal revenues</b>  |                             |                             |   |   |
| Optical-etch tax  | 142,000.00                  | 142,500.00                  | 500.00  | .4  |
| Alcohol tax   | 376,800.00                  | 376,800.00                  | -   | -   |
| Alcohol tax   | 25,200.00                   | 25,200.00                   | -   | -   |
| Total   | 544,000.00                  | 545,300.00                  | 1,300.00  | .2  |
| Alcoholic beverage taxes:   |                             |                             |   |   |
| Distilled spirits (imported) (excise tax)   | 33,400.00                   | 28,900.00                   | -4,500.00   | -13.5   |
| Distilled spirits (domestic) (excise tax) 1/  | 259,700.00                  | 247,600.00                  | -12,100.00  | -4.7  |
| Fermented malt liquors (beer) 1/  | 301,700.00                  | 295,300.00                  | -6,400.00   | -2.1  |
| Wines (domestic and imported) (excise tax) 1/   | 7,180.00                    | 6,900.00                    | -280.00   | -3.9  |
| Rectification tax   | 12,540.00                   | 11,370.00                   | -1,170.00   | -9.3  |
| Rectifiers, liquor dealers, and manufacturers of stills (special taxes)                   | 7,640.00                    | 7,420.00                    | -220.00   | -2.9  |
| Container stamps (liquor Taxing Act, 1934)  | 12,000.00                   | 10,650.00                   | -1,350.00   | -11.3   |
| General Retail and Wholesale Dealers (special taxes)                                      | 4,000.00                    | 4,000.00                    | -   | -   |
| All other   | 1,110.00                    | 1,120.00                    | 10.00   | .9  |
| Total alcoholic beverage taxes  | 639,570.00                  | 613,860.00                  | -25,710.00  | -4.0  |
| Tobacco taxes:  |                             |                             |   |   |
| Cigars (large) 1/   | 12,300.00                   | 12,500.00                   | 200.00  | 1.6   |
| Cigarettes (small) 1/   | 474,000.00                  | 471,500.00                  | -2,500.00   | -.5   |
| Snuff   | 5,710.00                    | 5,700.00                    | -10.00  | -.2   |
| Tobacco (chewing and smoking)   | 53,820.00                   | 53,840.00                   | 20.00   | .0  |
| Cigarette paper and tubes   | 1,110.00                    | 1,105.00                    | -5.00   | -.5   |
| All other 1/  | 155.00                      | 155.00                      | -   | -   |
| Total tobacco taxes   | 546,125.00                  | 545,111.00                  | -1,014.00   | -.2   |
| Stamp taxes:  |                             |                             |   |   |
| Issuance of securities, bond transfers, and bonds of conveyance                           | 31,300.00                   | 30,000.00                   | -1,300.00   | -4.2  |
| Stock transfers   | 12,300.00                   | 25,500.00                   | 13,200.00   | 107.3   |
| Sales of produce (future delivery)  | 3,300.00                    | 3,000.00                    | -300.00   | -9.1  |
| Silver-vault sales or transfers   | 10.00                       | 230.00                      | 220.00  | 2,200.0   |
| Flaring cards   | 4,200.00                    | 4,120.00                    | -80.00  | -1.9  |
| Total stamp taxes   | 70,510.00                   | 65,850.00                   | -4,660.00   | -6.6  |
| Manufacturers' excise taxes:  |                             |                             |   |   |
| Lubricating oils  | 31,500.00                   | 31,800.00                   | 300.00  | .9  |
| Crewer's work, salt, etc.   | 500.00                      | 500.00                      | -   | -   |
| Liquors   | 7,150.00                    | 6,900.00                    | -250.00   | -3.5  |
| Gasoline  | 205,800.00                  | 205,000.00                  | -800.00   | -.4   |
| Electrical energy   | 36,100.00                   | 36,500.00                   | 400.00  | 1.1   |
| Tires and inner tubes   | 39,350.00                   | 40,600.00                   | 1,250.00  | 3.2   |
| Toilet preparations, etc.   | 17,500.00                   | 17,100.00                   | -400.00   | -2.3  |
| Articles made of fur  | 6,930.00                    | 6,930.00                    | -   | -   |
| Automobiles, trucks   | 3,320.00                    | 3,300.00                    | -20.00  | -.6   |
| Passenger automobiles and automobiles   | 60,500.00                   | 61,500.00                   | 1,000.00  | 1.7   |
| Parts or accessories for automobiles  | 9,500.00                    | 9,100.00                    | -400.00   | -4.2  |
| Radio sets, phonograph records, etc.  | 6,500.00                    | 6,500.00                    | -   | -   |
| Mechanical refrigerators  | 9,500.00                    | 9,700.00                    | 200.00  | 2.1   |
| Sporting goods, cameras and lenses  | 7,800.00                    | 7,600.00                    | -200.00   | -2.6  |
| Firearms, shells, and cartridges  | 3,340.00                    | 3,300.00                    | -40.00  | -1.2  |
| Chewing gum   | 930.00                      | 940.00                      | 10.00   | 1.1   |
| Total manufacturers' excise taxes   | 453,530.00                  | 456,790.00                  | 3,260.00  | .7  |
| Rundry taxes:   |                             |                             |   |   |
| Telephones, telegraph, radio and cable facilities, leased wires, etc.                     | 26,000.00                   | 24,500.00                   | -1,500.00   | -5.8  |
| Transportation of oil by pipe line  | 11,340.00                   | 10,500.00                   | -840.00   | -7.4  |
| Leases of safe deposit boxes  | 2,100.00                    | 2,000.00                    | -100.00   | -4.8  |
| Advertisements to theaters, concerts, circuses, etc.                                      | 19,600.00                   | 19,500.00                   | -100.00   | -.5   |
| Club dues and initiation fees   | 6,440.00                    | 6,400.00                    | -40.00  | -.6   |
| Cigarettes, etc., including special taxes   | 2,650.00                    | 2,650.00                    | -   | -   |
| Cocaine and other vegetable oils, processed 1/  | 10,520.00                   | 11,690.00                   | 1,170.00  | 11.1  |
| Processing tax on crude petroleum   | 920.00                      | 870.00                      | -50.00  | -5.4  |
| Sitelenses coal tax   | 3,600.00                    | 3,410.00                    | -190.00   | -5.3  |
| Sugar Act of 1937   | 46,200.00                   | 44,150.00                   | -2,050.00   | -4.4  |
| All other, including repealed taxes   | 800.00                      | 800.00                      | -   | -   |
| Total rundry taxes  | 130,270.00                  | 128,570.00                  | -1,700.00   | -1.3  |
| Total miscellaneous internal revenue taxes  | 2,366,475.00                | 2,379,511.00                | 13,036.00   | .5  |
| (3) <b>Other internal revenues</b>  |                             |                             |   |   |
| Taxes upon carriers and their employees   | 155,200.00                  | 150,300.00                  | -4,900.00   | -3.2  |
| Social Security taxes (Public No. 271, Aug. 14, 1935):                                    |                             |                             |   |   |
| Employment tax (title VIII)   | 530,000.00                  | 490,500.00                  | -39,500.00  | -7.5  |
| Tax on employers of 8 or more (title IX)  | 70,575.00                   | 70,500.00                   | -75.00  | -.1   |
| Total Social Security taxes   | 600,575.00                  | 561,000.00                  | -39,575.00  | -6.6  |
| Tax on unjust enrichment  | 5,000.00                    | 5,000.00                    | -   | -   |
| Total other internal revenue taxes  | 660,775.00                  | 626,800.00                  | -33,975.00  | -5.1  |
| Total internal revenue taxes (daily Treasury statement basis)                             | 9,445,510.00                | 9,688,711.00                | 243,201.00  | 2.6   |
| 4. <b>Outlays</b>   |                             |                             |   |   |
| Total outlays (daily Treasury statement basis)  | 923,900.00                  | 915,300.00                  | -8,600.00   | -.9   |
| 5. <b>Miscellaneous revenues and receipts</b>   |                             |                             |   |   |
| Total receipts, general and special accounts  | 6,520,410.00                | 6,330,515.00                | -189,895.00   | -2.9  |

Treasury Department, Division of Research and Statistics.

Collections for credit to trust funds are not included.

|               | Federal Reserve Board           | Bureau of Labor Statistics          | Standard Statistics   |
|---------------|---------------------------------|-------------------------------------|-----------------------|
|               | Index of Industrial Production  | Index of Wholesale Commodity Prices | 419 Stock Price Index |
|               | adjusted for seasonal variation | 1923-25 = 100                       | 1926 = 100            |
| 1937:         |                                 |                                     |                       |
| November      | 91                              | 83                                  | 85                    |
| December      | 88                              | 79                                  | 83                    |
| 1938:         |                                 |                                     |                       |
| January       | 80                              | 78                                  | 81                    |
| February      | 85                              | 79                                  | 88                    |
| March         | 91                              | 80                                  | 89                    |
| April         | 92                              | 80                                  | 89                    |
| May           | 90                              | 79                                  | 84                    |
| June          | 88                              | 78                                  | 83                    |
| July          | 87                              | 78                                  | 83                    |
| August        | 87                              | 78                                  | 87                    |
| September     | 91                              | 79                                  | 90                    |
| October       | 94                              | 80                                  | 94                    |
| November      | 97                              | 80                                  | 94                    |
| December      | 97                              | 80                                  | 95                    |
| 1939:         |                                 |                                     |                       |
| January       | 97                              | 80                                  | 96                    |
| February      | 98                              | 81                                  | 96                    |
| March         | 98                              | 81                                  | 96                    |
| April         | 98                              | 81                                  | 96                    |
| May           | 98                              | 81                                  | 96                    |
| June          | 98                              | 81                                  | 96                    |
| Calendar 1937 | 110                             | 86                                  | 112                   |
| Calendar 1938 | 90                              | 79                                  | 88                    |
| Fiscal 1938   | 96                              | 82                                  | 93                    |
| Fiscal 1939   | 95                              | 80                                  | 93                    |



B. New 20, 1937

Actual revenues and receipts for the fiscal year 1937, and revised December 1937 estimates of revenues and receipts for the fiscal years 1938 and 1939, by source 1/

B.

Summary Table

| General and special accounts   | Actual 1937        | Estimated 1938  | Estimated 1939  | Percent increase or decrease 1938 over 1937 | Percent increase or decrease 1939 over 1937 | Estimated 1939  | Percent increase or decrease 1939 over 1937 | Percent increase or decrease 1939 over 1938 | Percent increase or decrease 1939 over 1938 |
|--|--------------------|-----------------|-----------------|---|---|-----------------|---|---|---|
| 1. Internal revenues:  |                    |                 |                 |   |   |                 |   |   |   |
| (1) Income taxes   | \$2,527,526,981.33 | \$2,692,401,000 | \$539,173,019   | 74.9  |   | \$2,308,100,000 | \$158,371,019                               | 7.0   | -8.1%                                       |
| (2) Miscellaneous internal revenues:                                       |                    |                 |                 |   |   |                 |   |   |   |
| Capital-stock tax  |                    |                 |                 |   |   |                 |   |   |   |
| Estate tax   | 137,499,745.53     | 141,500,000     | 4,000,754       | 2.9   |   | 142,700,000     | 5,000,754                                   | 3.6   | 1.3%  |
| Gift tax   | 281,635,983.21     | 303,200,000     | 21,564,017      | 7.7   |   | 279,500,000     | -21,735,983                                 | -7.2  | -7.0%                                       |
| Alcoholic beverage taxes   | 23,911,793.76      | 25,700,000      | 1,788,207       | 7.4   |   | 26,500,000      | 788,207                                     | 3.4   | 6.3%  |
| Tobacco taxes  | 593,931,752.77     | 581,400,000     | -12,531,753     | -2.1  |   | 528,850,000     | -65,081,753                                 | -11.0                                       | -9.0%                                       |
| Stamp taxes  | 551,922,580.32     | 538,313,000     | -13,609,580     | -2.5  |   | 528,850,000     | -23,072,580                                 | -4.3  | -2.9%                                       |
| Manufacturers' excise taxes  | 69,919,336.11      | 54,543,000      | -15,376,336     | -21.6                                       |   | 59,250,000      | -10,669,336                                 | -15.3                                       | -8.0%                                       |
| Miscellaneous taxes  | 450,581,964.74     | 448,700,000     | -1,881,965      | -0.4  |   | 436,980,000     | -13,621,965                                 | -3.0  | -11.9%                                      |
| Total miscellaneous internal revenue taxes (collection basis)              | 794,432,721.77     | 774,157,000     | -20,275,722     | -2.6  |   | 768,130,000     | -6,292,722                                  | -0.8  | -0.8%                                       |
| Adjustment to daily Treasury statement basis (unrevised)                   | 2,180,735,264.71   | 2,217,523,000   | 36,787,735      | 1.7   |   | 2,110,720,000   | -70,013,265                                 | -3.2  | -10.4%                                      |
| Total miscellaneous internal revenue taxes                                 | 2,180,735,264.71   | 2,217,523,000   | 36,787,735      | 1.7   |   | 2,110,720,000   | -70,013,265                                 | -3.2  | -10.4%                                      |
| (3) Processing taxes (Agricultural Adjustment Administration)              | 2,501.14           | -               | -2,501.14       | -100.0                                      |   | -               | -2,501.14                                   | -100.0                                      | -   |
| (4) Other internal revenues:   |                    |                 |                 |   |   |                 |   |   |   |
| Social Security taxes (Public No. 271, August 14, 1935)                    | 286,458,404.29     | 554,582,000     | 268,123,596     | 108.7                                       |   | 577,297,000     | 290,838,596                                 | 117.5                                       | 71.2%                                       |
| Taxes upon carriers and their employees (Public No. 174, June 29, 1937) 2/ | 286,903.55         | 149,600,000     | 149,313,096     | 52,042.4                                    |   | 112,500,000     | -137,313,096                                | -39.0                                       | -24.9%                                      |
| Tax on unjust enrichment   | 6,073,351.02       | 3,000,000       | -3,073,351.02   | -50.6                                       |   | 10,000,000      | 3,926,649                                   | 64.7  | 100.0%                                      |
| Total other internal revenue taxes (collection basis)                      | 271,816,658.86     | 707,182,000     | 436,843,341     | 160.7                                       |   | 699,797,000     | 427,980,341                                 | 157.4                                       | 63.5%                                       |
| Adjustment to daily Treasury statement basis (unrevised)                   | -13,425,834.88     | -               | -13,425,834.88  | -   |   | -               | -13,425,834.88                              | -   | -   |
| Total other internal revenue taxes   | 258,390,823.98     | 707,182,000     | 423,417,506     | 174.3                                       |   | 699,797,000     | 441,402,176                                 | 170.7                                       | 63.5%                                       |
| Total internal revenue taxes   | 5,577,140,100.49   | 5,619,085,000   | 1,001,944,592   | 22.2  |   | 5,118,417,000   | -458,668,100                                | -8.2  | -8.2%                                       |
| (5) Outlays (daily Treasury statement basis)                               | 486,356,598.90     | 424,073,000     | -62,283,598.90  | -12.8                                       |   | 376,346,000     | -110,010,599                                | -26.6                                       | -27.2%                                      |
| 2. Miscellaneous revenues and receipts (daily Treasury statement basis)    | 710,343,515.41     | 206,500,000     | -503,843,515.41 | -71.1                                       |   | 199,000,000     | -511,343,515.41                             | -72.1                                       | -72.1%                                      |
| Total receipts, general and special accounts                               | 5,291,840,236.57   | 6,229,658,000   | 918,101,076     | 17.3  |   | 5,693,772,000   | 401,931,763                                 | 7.6   | 4.6%  |

Treasury Department, Division of Research and Statistics.

1/ Collections for credit to trust funds are not included.

2/ Receipts for the fiscal year 1937 were authorized under Public No. 400, August 29, 1935, which act was superseded by the 1937 Act.



[illegible]

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SEE PAGES 20A-B-C



## MEMORANDUM OF THE DAY'S ACTIVITIES

December 20, 1937

To: The Secretary  
From: Mr. Magill

1. Budgetary procedure

Mr. Shoup has some further ideas regarding a possible change in the governmental fiscal year. He is going to put his ideas into a memorandum which we will have Wednesday morning.

2. Mellon case

Since several concurring and dissenting opinions were delivered in the Mellon case it is difficult to determine precisely how the Board members divided. Apparently, however, they stood 8 to 7 on one of the principal issues, namely, the validity of the sale by Mr. Mellon of Pittsburgh coal stock to the Union Trust Company. Apparently all of the members agreed that Mr. Mellon did not file a false and fraudulent return; and also agreed that the A. W. Mellon Educational and Charitable Trust was a valid trust organized and operated exclusively for educational and charitable purposes.

On the Pittsburgh coal point the members were in sharp disagreement, the minority concluding that the sale was obviously made for tax purposes only, without any real consideration by the buyer of the character of the securities purchased or of the price. The minority opinion indicates a point of view on the part of Mr. Mellon and his employees which is far from flattering.

Mr. Oliphant says that his office has not yet decided whether to appeal or not, but they have decided to make no statement at this time.

*Rm*



December 20, 1937.  
4:50 p.m.

194

H.M.Jr: How are you?

Bob

Doughton: Oh, I'm still going, thank you, how are you?

H.M.Jr: Oh, I'm about the same.

D: Well that's good, I just - do you know a man by the name of Whittingham, just connect with the - the -

H.M.Jr: Yes. The Alcohol -

D: Alcohol Administration.

H.M.Jr: Yes.

D: Uh-huh. What do you think of him?

H.M.Jr: Oh, I guess he's all right.

D: Got anything for him. He's been down to see me two or three times, and somebody told him - some of the Treasury if you did - - you would give it to him.

H.M.Jr: No, I don't think that's right. I - I - I've never had anything to do with him. You know that Federal Alcohol Control.

D: Yes.

H.M.Jr: It's - the appointing is up to the fellow that's the head of it.

D: Yes.

H.M.Jr: And he decided he wanted to lay him off to economize.

D: I thought - I got the impression from this - there's some other place in the Treasury, not in the Alcohol.

H.M.Jr: No, well we haven't -

D: They thought you might - now understand I'm not making pressure - bringing any pressure to bear.

H.M.Jr: Well -

D: I'm just doing what I told him I'd do.

H.M.Jr: Well, that's all right and I'll keep it in mind, but frankly there isn't anything.

D: Yes.

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H.M.Jr: See? But I understand. I understand you.

D: Yes. And I hope you and yours have a very Merry Christmas.

H.M.Jr: Same to you. You've done a grand job.

D: Thank you. I'll see you as soon as I get back Henry. I think we're going aboard now. I think we got out of the woods pretty well with our tax study.

H.M.Jr: Well, you've done a grand job.

D: I think we've done a pretty good job.

H.M.Jr: You've done a better than good job.

D: Well I'll tell you what we'll do now.

H.M.Jr: Yes.

D: When we get back and the subcommittee makes its reports - the subcommittee makes its report, and the experts get the draft of the new Bill along the lines of the report, you know.

H.M.Jr: Yes.

D: Then I'll get the full committee a hold of it.

H.M.Jr: Fine.

D: And we'll go ahead, with full steam night and day.

H.M.Jr: All right.

D: All right. Thank you.

H.M.Jr: Goodbye.

D: Goodbye.

December 21, 1937.  
9:39 a.m.

H.M.Jr: Hello

Operator: Governor Harrison will be there in about fifteen minutes.

H.M.Jr: All right. The minute he gets there I want to talk to him.

O: All right.



RE POSSIBLE CONTROL OF JAPAN'S CREDITS      December 21, 1937  
AND PURCHASING CHANNELS IN UNITED STATES      9:30 a.m.

Present:      Mr. Oliphant  
             Mr. Lochhead  
             Dr. Viner  
             Mr. Haas  
             Mr. White

H.M.Jr:      Where's Harry White? Well, I phoned him. At least,  
             I think I did.

(On phone) I said for Harry White to come in, didn't  
I?

Well, anyway, I read that thing - I can't just lay  
my hands on it - Oliphant's memorandum that you gave  
me yesterday, and the thing that I want to ask about  
it: since discussing it with you last time, you people  
have evidently decided to exclude the funds controlled  
by the Japanese Government. It says so specifically.

Oliphant:      Yes, that is in the form of a positive prohibition,  
             and then a general licensing of all other funds, in  
             order to effectuate that exclusion.

H.M.Jr:      Well, I mean in this thing you evidently decide to  
             exclude Japanese-owned ...

Lochhead:      No, Japanese.

H.M.Jr:      Well, that's the way she reads.

Lochhead:      The point was that Japanese Government funds are  
             absolutely prohibited from being moved at all.  
             Others - individuals - might possibly be moved under  
             license; but Japanese Government funds can't be  
             moved under any circumstances.

Oliphant:      Shall I get you another copy?

H.M.Jr:      No, it's right here.

Well, let me read it once out loud. "The exchange  
restrictions under the 1933 amendment to the  
Trading with the Enemy Act would be instituted by

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a Presidential proclamation declaring a national emergency, accompanied by regulations describing the prohibited and restricted transactions.

"The proclamation could be drawn in general terms reciting the necessity for forestalling events which might plunge this country into war, and quarantining a war situation dangerous to the peace of the United States and consequently for providing a basis of indemnity as well as protection against further acts.

"The regulations would then be drafted to specify the acts and transactions which it is intended should be covered. They could expressly prohibit banking and foreign exchange transactions and monetary exports in which the Japanese Government is directly or indirectly interested."

I read that awfully fast. They could do that - "and for the purpose of making that prohibition effective could require licenses for all such dealings which involve the Japanese yen or the transmission of funds or credits to or from any place or person in territory under the control of Japan."

Diligent: Regardless of whom.

H. J. Jr: "... to or from any place or person within the territory ....." Well then, that would take care of Manchukuo.

White: North China too.

H. J. Jr: "The licenses for transactions of this character which upon investigation proved to be outside the prohibitions, would be granted by the Treasury upon application through the various Federal Reserve banks. These banks would make a preliminary investigation and recommend on such applications. Provision could also be made for requiring reports of any international monetary transaction, whether or not covered by the regulations and required by the Treasury."

I read it very hastily and I thought you were excluding just the thing that I wanted.

-3-

Now let me ask you this. Does somebody say that this would be technically effective for goods leaving the country?

White: No, it will be technically effective for goods coming in, but Japan will take care of the other angle, because they will retaliate doubtless so that our exports will be very, very seriously curtailed, not so much as a consequence of our action as of theirs.

H.M.Jr: Well, it's a question who can stand it.

White: Oh, no question about that.

H.M.Jr: After all, silk business - about 2 million dollars a week for silk.

White: Might be interested that importations of silk for the first time have fallen off sharply.

H.M.Jr: How sharply?

White: A million dollars in two weeks, almost 25 percent.

H.M.Jr: You mean they're bringing in a million and a half a week instead of 2 million a week.

White: About that. That's just for two weeks. May or may not be definitive. But the first time.

H.M.Jr: What about the seasonal factor?

White: The what?

H.M.Jr: The seasonal.

White: We have no way of knowing, because we have no previous figures - no weekly figures for last year, only monthly figures; and the monthly figures are in no - show no seasonal variations, see, so that if it is seasonal it is for those weeks that are unusual.

Lochhead: An article in one of the papers this morning that the sales of silk hosiery were slackening up a



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little and some of the dealers were apprehensive about the stocks they have on hand.

Oliphant: There have been some conversions of knitting machines into lisle.

H.M.Jr: (On phone) Governor Harrison please.

I want to make sure he's seen Ukawa.

Oliphant: Your suggestion of the movement of goods out - I suggested to White the possibility of a very close study to see if you couldn't find very key commodities.

H.M.Jr: Very what?

Oliphant: Key commodities, such as nickel, of which there might be large amounts, but which they just had to have in order either to make their war machine work or make their commercial machine work.

Viner: But if it's a key commodity in that sense, vital but small in bulk and value, they've always got sources for a year or two years from which they could get it - indirect channels, etc.

Oliphant: Well, they're thinking about their future.

Viner: You mean long run?

Oliphant: Yes.

Viner: Well ....

Oliphant: Their ability to hold out now isn't dependent on their ability quickly ....

White: Herman, we'll know a little more about that as soon as we know what their current stocks are now, which information is supposed to be in the process of being obtained for us now.

Viner: Those mineral studies - that mineral group who have studied the special needs of Japan....

White: Yes, we've got that.

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- H.M.Jr: (On phone) Hello. - All right, the minute he gets there I want to talk to him please.
- White: It is clear according to those prohibitions, I take it, that you can go as far as you like or as little as you like, except in so far as Japan will retaliate, over which you have no control.
- H.M.Jr: Well, in reading this book by Bowman, it's surprising the amount of crude petroleum and gasoline - America, meaning North and South America, produces 37 percent of the crude petroleum and 94 percent of the gasoline.
- White: Unfortunately, they are supposed to have 18 months' war supply stock.
- H.M.Jr: All right, but what I am leading up to - a large bulk of this comes out of Mexico - the large bulk of this. But it is also perfectly true that that part of the stuff which comes from Mexico comes from the East Coast and not from the West Coast. I'm just drawing that to you gentlemen's attention. It's interesting.
- Oliphant: The developments down there last two or three days certainly confirm what you said - trouble about Popular Front.
- H.M.Jr: Well then - and the way they're handling the Japanese.
- That's a fascinating book, by Bowman. Anyone want to read it? Read about Japan and problems.
- Oliphant: I investigated Viner's suggestion of regulation through clearance of vessels, and what I find is that there is no law that corresponds to the Trading with the Enemy Act in the control of banks or banking credit. The thing is administered in the Department of Commerce, and if anything were done in that field at all, it would have to be done by deliberately being dilatory in the performance of what is a statutory duty.
- White: Well, suppose, Herman, that you prohibited exchange transactions and supposing Japanese had to pay dockage fees and unloading fees. How could they pay for them if you don't permit those transactions?

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H.M.Jr: Harbor fees.

Lochhead: Just the thing we could put our hands on ourselves. Clearing fees. They bring a check in. "How - why, we can't accept it."

Viner: In other words, Commerce needn't be dilatory; we could be dilatory in dealing with their relations with Commerce.

Oliphant: That's true of any of that. But there's no special law relating to clearance of vessels.

Viner: Who exercises the actual authority to clear vessels?

Oliphant: Secretary of Commerce.

Viner: In the harbor, I mean.

Oliphant: Well, the Secretary of Commerce, although Customs does it as his agent.

H.M.Jr: Well, the other thing that you better look up - the President has got a vague notion that he might want to do something about Japanese vessels going through the Panama Canal. Is there anything he could do there to retard ...

Oliphant: Well, that great struggle which ended in the Hay-Pauncefote Treaty ....

Viner: That international treaty.

Lochhead: The only thing is the exchange regulations.

H.M.Jr: He's got some idea.

Oliphant: I've learned that when ....

H.M.Jr: He's got some vague notion.

Oliphant: I've learned that when he makes a suggestion, better look at it.

Lochhead: If you refused to accept their ....



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Viner: They have to pay their fees. If they have to pay their fees in dollars ....

Oliphant: I'll look over the Panama Canal regulations.

H.M.Jr: He's just - on account of the gasoline on the East Coast.

Then he said - I don't like the twist that it's taken this morning, you see. Now, it's a question - what the Emperor is going to have to do, which is far more important - he's going to have to really make up his mind if he's going to run the country with civil authority or whether he's going to let the Army and Navy run it. The Navy is willing to apologize and the Army isn't; and he's going to have to decide between Army and Navy. So he's got a nice mess of pottage on his hands. I mean that's what it's gotten down to; it's between the Army and the Navy in Japan.

Oliphant: Three-cornered, in fact.

H.M.Jr: It's really a ....

Viner: Civil, Army and Navy.

H.M.Jr: Civil, Army and Navy, with Navy having gone full length on the apology.

Of course - you spoke about Canada; we'd have to get them in line, wouldn't we?

Now, by the way, on - I wish you'd (Lochhead) give me a little memorandum on where we stand - I'm rusty - on January 1. Aren't we to buy monthly, or does that expire?

Lochhead: The one with Mexico and the one with Canada, monthly renewal in any case. Expires the first of every month.

H.M.Jr: Give me a little memorandum on both of them. I think what we've got to do, tell each of them we'll renew it for one month. Let's say the President gets out his silver proclamation on the 30th of December, and on the 31st we can tell them - these countries we'll renew.

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Lockhead: Well, it's only a one-month renewal every month.

H.M.Jr: Well then, what's Mexico beefing about?

Lockhead: They feel that we probably won't renew at the end of this year because of the amount of silver that we've taken.

H.M.Jr: I ought to say, what is Mexico "Kennedying" about? All right?

Viner: "Kennedying" about. Is that the same thing?

H.M.Jr: Yes.

Oliphant: Do you know - while we're talking, do you know about the organization of the International Nickel Company?

H.M.Jr: International which?

Oliphant: International Nickel Company.

White: I can give you that.

Oliphant: That's a key situation, if we could get it in relation to strategic control.

Viner: Dig up the Royal Commission report on that. You see, the International Nickel Company sold nickel to the Germans although it was mining it on British soil during the war. And if ...

White: We have quite a long history on that.

Oliphant: Well, my thought was a little bit different.

H.M.Jr: Of the control.

Oliphant: Of the personalities involved.

H.M.Jr: Well, who's the President of it, and all that - Board of Directors.

Haas: I think that's available.

White: We have some members of the Board of Directors, American and English.

Viner: English Canadians. The Alfred Mong interests are involved.

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Oliphant: I don't know, those things always have underneath pictures. Thought somebody might look into it.

White: Have that information for you tomorrow if you really want it. Won't take long to get it.

Oliphant: I don't know, might very well be that the purchase of a block of stock by somebody might put you in control of the nickel situation for the next ten years.

White: Don't put too much stress on that, because they've got a fairly substantial stock of nickel, and they can pick up ....

H.M.Jr: Are you suggesting we buy that with the Stabilization Fund?

Oliphant: Yes (winking).

H.M.Jr: We need some investments.

Viner: Get pretty nice income on it now.

Hass: It's a good stock.

Oliphant: Dominate nickel like we do gold and silver.

H.M.Jr: Well, we might have a few friends get a syndicate. International Nickel selling at 45, low 37, high 73 - International Nickel of Canada. Let's find out. Your idea is to get control of it through stock ownership here in America. That's not impossible.

White: There is another company producing nickel now, or threatening to produce it. Would produce it if prices rose very much.

H.M.Jr: Where?

White: I think it's in South Africa.

H.M.Jr: Now, that's that.

White: Won't be a great deal of difficulty with Canada, because only 2 percent of her exports go to Japan.



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Viner: Oh, I don't think there'll be any difficult at all with Canada, because she is even more concerned about Japan with regard to her fisheries, and can't do anything about it. Might solve her problems for her. More scared about it than we are - the fisheries.

Oliphant: And her whole west coast is exposed.

Viner: And her whole west coast is exposed. And the country is more anti-Japanese than this country. I don't think there's any problem in that.

H.M.Jr: What was that about the Popular Front in Mexico?

Oliphant: Cardenas announced on Friday that he was going to organize a Popular Front.

White: It's taking very much the same course ....

H.M.Jr: As which?

White: As - well, probably the nearer parallel might be Czechoslovakia. France much more than Czechoslovakia - or as Spain's has done later on in the conflict.

Oliphant: The situation is desperate.

H.M.Jr: Last night, to make a record of it, I talked to Sumner Welles. He said, "Where do we stand on this thing, as between the President, Mr. Hull and yourself on getting down to brass tacks on Mexico?" So I said, "Well, I've talked to the President; he's more than agreeable. But I'm not going to push it, because I'm pushing myself into a foreign field."

So he said, "Well, do you mind if I talk to the President today when I see him?" I said, "No, I think that's the proper thing to do."

But what I told the President was this: that I forecast that within a year, if we just let this thing slide, we'd have a Spanish situation in the south of us. It's just as plain - because Germany doesn't have to look for a colony anywhere else; the richest colony is right there. And they'll go in and they have everything that Germany, Italy and Japan

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need.

Viner: Except American intervention.

H.M.Jr: O.K. Listen, if we let these fellows get away with the situation in China, they can get away with this thing in the south. And they've learned the technique, they've learned the technique. Well now, they're doing it right now.

Oliphant: Let me put something ...

Viner: I don't know anything about it.

Oliphant: Let me put something over.

Viner: Only one thing seems to me urgent, that we don't complicate the internal Mexican situation, make it impossible for the side we want to win out to win out by allowing the other side to cry, "American intervention, Yankee intervention."

H.M.Jr: Well, there are enough people in the State Department who we know would lean over backwards on the idea of saving face for South Americans, and we should have no thought of using the big stick. The suggestion is that we offer them our cooperation to help them do a financial reorganization the way you do for any business, busted corporation, instead of insisting on little piecemeal things, that they pay for the cotton land and they pay for individual oil business or individual bondholders, and keeping all the time pecking at them and not doing anything; and saying - sitting down with them, saying, "Now, do you want us to work with you?" That's what I say: "Do you want us to work with you?"

Now, I went so far as to make this suggestion, that either the President of the United States invite President Cardenas to come up here for a couple weeks with a commission to sit down, or, lacking that, that he ask President Cardenas whether it would be agreeable for Sumner Welles and myself to go there for two weeks with an idea of helping them work it out. They've got all the material, but they're just being choked to death, first by foreign debts, and second by foreigners holding valuable assets of the country.



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I saw what happened in Turkey. Now, the Turks were smart for the first time and they drove not only - they killed six to eight hundred thousand Armenians, they drove a million Greeks out, cancelled all foreign contracts, and they've got five million people living there in prosperity - also a very, very rich country. And they're getting along beautifully.

Now, either the Mexicans will drive everything out or they will let these Fascist countries go in there and get control, backed by American mine owners and oil owners who have given up hope of getting their rights. I mean an American mine owner, for instance, will say - he'll be approached by a German company - say, "Now listen, we're going in there, but we need your cooperation. But when we get in there we'll take care of your interests."

White: Just as in the Spanish situation between the British and ...

H.M.Jr: "We'll take care of your interests."

I needn't mention any names, but I can see Germans; Italians coming in - say, "Now listen, what's your government doing? Nothing. Now, we're going to go in there. We need your cooperation. But if we go in there we'll see that your interests are protected. But we want you to promise that so much of the output of your mine will go to these three countries."

Oliphant: Lot of them Fascists at heart anyway. Biggest Fascist in the United States is one of the biggest holders down there.

H.M.Jr: Well, that I don't know.

Viner: He means Hearst.

Oliphant: A story about intending to seize some of his big estate down there.

H.M.Jr: But Jake, this is just as plain as the picture on that wall, and I've painted it just as plain twice now to the President, for 45 minutes to Sumner Welles; and he's in complete accord with me.



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But not the big stick. I'd like to do it the same way we try to do it with China, give them the help and make no bond other than that there is a prosperous China, and we'll take our chances with the world; a prosperous Mexico, and we'll take our chances with the rest of the world; not insisting on anything other than that they just ....

Viner: Have we received any hint at all from them that they might be receptive to that sort of thing?

H.M.Jr: Jake, I can't do the thing. I can talk to Sumner Welles, I can talk to the President. I can't talk like this; they've got my hands tied. I told Sumner Welles - I said, "This thing is going to be a complete flop," and I said, "Once they get away with it here - they're getting away with it in Brazil, getting away with it in the West Coast; they've got subsidized Germans in beautiful stores selling merchandise under the most modern merchandising conditions. Either we make a model and say 'This is the way we work with Mexico' and then take up Brazil and Cuba, or somebody else will make a model out of Mexico and say 'This is the way we do it.'" And this whole question of "America for the Americans" is up, and it's moving awfully fast.

Oliphant: Jake doesn't know the Finance Minister is up here.

Viner: I do know, but I don't know ....

H.M.Jr: He's up here for help.

Viner: That's what I want to know.

H.M.Jr: He has no gold and silver. Pledged everything he's got and sold it out against futures. We can't help the man.

(On phone) Hello, George? (Has conversation with Governor Harrison)

Lochhead: Representative of Bank of Japan went into the Federal Reserve Bank to apologize.

H.M.Jr: How much have they told us is coming in those two shipments?

Lochhead: Roughly five million each.

H.M.Jr: All right. Everybody happy?

December 21, 1937.  
9:55 a.m.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Gov.

Harrison: Hello Henry.

H.M.Jr: Hello George?

H: Yes, sir.

H.M.Jr: I wondered if you'd seen Mr. Ukawa.

H: Oh yes, and I meant to call you yesterday.

H.M.Jr: You're a nice fellow.

H: But he came in - the day after I talked to you he called up.

H.M.Jr: Yes.

H: That was Friday.

H.M.Jr: Yes.

H: And I was tied up. He wanted to come at a specific hour and I had a meeting and I couldn't see him. He came in Saturday morning.

H.M.Jr: Yes.

H: That's when it was. And I had a good talk with him. I told him that frankly every other central bank - government in the world always advised us prior to a shipment of gold; that in the old days the Japs had let us know a program of shipment, but in recent months they'd never let us know anything.

H.M.Jr: Right.

H: Frequently we never found out anything until we got an application for - for entry.

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H.M.Jr: That's right.

H: And I said it wasn't helpful to us and it wasn't according to our usual practice and wasn't playing the game.

H.M.Jr: That's right.

H: He said of course he hadn't known anything about that. He was very sorry. He had already taken it up with his government, he said, and he assured us that it wouldn't happen again.

H.M.Jr: Yes.

H: So I think that'll be all right now.

H.M.Jr: Well, he didn't tell you that your assistant down there told him it was all right to do business that way?

H: He did not tell me that, and I asked Sproul about it, and Sproul said he'd never even seen the man. Never had met him.

H.M.Jr: Well, that's just - he - well, of course I had your friend the Stenotype machine here taking it down when he said it.

H: Yes.

H.M.Jr: So there's no question but what he said it.

H: Uh-huh.

H.M.Jr: I'm sure you wouldn't question my word anyway.

H: No, I don't think so. I don't.

H.M.Jr: No, but it - well, he very, very definitely told me that Sproul said that what he was doing was all right. But you say he'd never seen Sproul.

H: Well, I - Knoke - Knoke reported to me. He talked to Sproul about it, and that Sproul had said he'd - well, put it this way, that I know Sproul never told him that and I think that Sproul had never seen him.

H.M.Jr: Well, I - I won't throw it in his face, but I'm glad to hear that Sproul didn't tell it to him.



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H: No, Sproul never did.

H.M.Jr: But frankly it upset me.

H: Well, he never did and I can assure you he didn't because it's not the practice, and I'm sure - well, in fact I checked up on that, and he told me definitely he'd never seen the man.

H.M.Jr: Well that ends that.

H: I mean never - never told the man.

H.M.Jr: That ends that.

H: Yes. I think it'll be all right.

H.M.Jr: All right, George. I'm seeing him at ten fifteen. - Ukawa.

H: Yes. Well, he was very nice. He came across a hundred per cent. Very apologetic, and -

H.M.Jr: Did he apologize for the Panay incident?

H: Yes, and he added, "It's not my official business, but I want personally to extend to you my apology, " which he had already done with Knoke.

H.M.Jr: Uh-huh. Well, Cheero.

H: All right. Thank you Henry.

H.M.Jr: Goodbye.

H: Well he's all right now. He's cleared up now.

H.M.Jr: I hope so.

H: Thank you. Goodbye.

## U. S. TRADE WITH JAPAN

(1) U. S. IMPORTS FROM JAPAN

(millions of dollars)

|                          | <u>All Imports</u> | <u>Silk Imports</u> |
|--------------------------|--------------------|---------------------|
| 1st 4 weeks of Oct. 1937 | 14.7               | 8.0                 |
| " " Nov. "               | 15.2               | 8.0                 |
| " " Dec. "               | 9.5                | 4.9                 |

(Last year December imports from Japan were  
5% greater than in November of that year.)

(2) U. S. EXPORTS TO JAPAN

(4th week figures for exports will not be  
in for another few days.)

|                          | <u>All Exports</u><br>(in millions of dollars) | <u>Cotton</u> |
|--------------------------|--|---------------|
| 1st 3 weeks of Oct. 1937 | 12.0   | .5            |
| " " Nov. 1937            | 10.7   | .5            |
| " " Dec. 1937            | 9.4  | .9            |

## RE GOLD DEALINGS WITH JAPAN

December 21, 1937  
10:15 a.m.

Present: Mr. Ukawa  
Mr. Lochhead  
Mr. White  
Mr. Taylor

H.M.Jr: Well, you saw Governor Harrison.

Ukawa: Yes, and Mr. Harrison explained.

First I must express sincerely my deepest regret over the unfortunate incident in which the Japanese Navy attacked those vessels of your country by a great mistake.

H.M.Jr: Thank you.

Ukawa: And I must apologize that I am not familiar with this custom of gold shipment and I could not inform you of gold shipment ...

H.M.Jr: Yes.

Ukawa: ... before shipment was made.

H.M.Jr: Yes.

Ukawa: And I have just made an arrangement with the Department of Finance so that in the future I shall be able to inform the Federal Reserve Bank of New York before shipment is made.

(Taylor comes in)

H.M.Jr: You know Mr. Taylor.

Taylor: Yes indeed. Good morning.

Ukawa: Good morning.

H.M.Jr: You say that you will notify the Federal Reserve Bank ....

Ukawa: Yes.

H.M.Jr: ... from now on, before shipment is made.



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Ukawa: Before shipment is made.

H.M.Jr: Fine. Well, that's all been explained, and that's the usual practice.

Ukawa: Yes.

H.M.Jr: Governor Harrison explained that to you.

Ukawa: Yes. And I have also received the cablegram from the Vice Minister of Finance that gold shipment is not expected to be made this year. I must repeat. Gold shipment is not expected to be made this year.

H.M.Jr: Well now, there are two shipments which will arrive between Christmas and New Year's. There are two on the water, aren't there?

Lochhead: That's right.

Ukawa: Except those of which the Federal Reserve Bank of New York has been advised.

H.M.Jr: Well, those - we know about those two. About ten million dollars?

Lochhead: About ten million dollars, yes.

H.M.Jr: And they come about between Christmas and New Year's - they arrive.

Lochhead: They arrive, yes, sir.

H.M.Jr: Now, I understand that's the last.

Ukawa: That's the last one.

H.M.Jr: For this year.

Ukawa: Yes. But it is expected - and I am also very sorry that the story of the Vice Governor of the Bank of Japan has made you misunderstand about the future gold shipment, and I feel it my duty to explain the matter for the Vice Minister of the Bank of Japan. He was in the Department of Finance for long years and was the former Vice Minister of Finance. He had also the experience of Financial Commissioner

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in Paris and in New York. And - oh, it's rather a personal matter.

(Reporter instructed not to take succeeding portion of Ukawa's remarks, which were to effect that Vice Governor of Bank of Japan is very well regarded by and friendly with financial representatives of many governments; that he is a good friend of Mr. Williams, our commercial attaché in Tokio; that at the time the Vice Governor gave out the information that there would be no gold shipments from Japan in immediate future, such was the bona fide intention of the Japanese Government, but that it was later found necessary to change their plans and make the shipments.)

H.M.Jr: Well, I'm glad to receive the statement; but in the past the information of the Vice Governor of the Bank of Japan to our commercial attaché proved not to be very useful.

Ukawa: Yes, I understand.

H.M.Jr: And therefore, as I explained the other day, if we're going to get any information as to future shipments of gold, it is so important that we'd like to have them strictly accurate.

Ukawa: Yes.

H.M.Jr: And what I'd like to ask you today is to ask the Treasury of Japan if they could give me some idea what they are thinking of in the way of shipment for the month of January. I mean what are they planning in the way of shipment of gold for the month of January? If they can let me know, you see, does the Treasury of Japan - can they let me know - approximately how much gold they think they will ship in January?

Ukawa: Yes, I ....

H.M.Jr: I mean I don't expect you to answer that. I'm asking you if you can find out.



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Ukawa:

Yes.

H.M.Jr:

It may not be possible to give me that answer. If it isn't, all right. But if they could give me an idea, say, that they'll ship between ten and twenty million dollars or between five and ten million dollars, or - we don't know - but if they could give me some idea approximately how much gold they are thinking of shipping to us in January, so we can make our plans. You see, we have to pay you for it and we have to maintain our exchange also, and never knowing from week to week how much gold is going to come makes it difficult for us to maintain the dollar in relation to sterling and the yen and the rest of the world. And as Japan at present is the biggest shipper of gold, we'd like to know approximately how much gold. Because - if you don't mind my saying so, the recent shipment of gold - it's very difficult for us to understand that those gold shipments have a relation to your foreign exchange. I mean we just don't see where these shipments recently - because the money is piling up so heavily in New York that it looks more to us as though you were trying to build up a reserve of dollars rather than that it was an exchange operation. And of course, this whole method of exchange of gold between central banks is for the sole purpose of keeping exchange from fluctuating, and when we get these large shipments without any notice, which we will get from now on - after all, we have to maintain the dollar also.

Do you (Taylor) want to receive those people in your room? 10:30. I've sent them all to your room. I'll be there in a couple minutes. I just want somebody there to receive them. Would you please?

(Taylor leaves)

So, as I say, it may not be possible for your government to tell me, but if they could give me some idea how much gold will be coming in January, it would be helpful to us.

Ukawa:

I asked that point by cable, and the Government says it is impossible at present to say the approximate amount for the next months. And they said this year gold shipment there is not expected.



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H.M.Jr: "ell, no more.

Ukawa: And if the Government has decided to send gold to this country, then our Government is very pleased to advise the Treasury of this country.

H.M.Jr: Pardon me, I didn't get that last one.

Ukawa: If the Government decides to send gold to this country, then the Government is pleased to advise the Federal Reserve Bank.

H.M.Jr: You see, your balances here now are so much larger than they have ever been that it is hard to understand that they are so big just for exchange purposes. I mean they are far in excess of anything that you have had - I don't know when - I mean your balances are so big here, and I just mention that.

Ukawa: I see.

H.M.Jr: Well then, as I understand it, if and when you have any additional information for me from your Government on finances, you will come in and see me.

Ukawa: Yes.

H.M.Jr: Is that right?

Ukawa: Yes. And also, when I receive the particular information about the particular gold shipment, can I advise the Federal Reserve Bank?

H.M.Jr: Yes.

Ukawa: And at the same time I want to write Mr. Taylor that information.

H.M.Jr: What do you (Lochhead) think? I think if he lets the Federal Reserve ....

Lochhead: If you let the Federal Reserve know, it will really not be necessary ....

H.M.Jr: That's enough. If you will let the Federal Reserve know, that's sufficient.

Ukawa: Then it is not necessary for me to come here once a

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week.

H.M.Jr: No.

Ukawa: I see.

H.M.Jr: The only thing, it would - the only thing, if you will keep the Federal Reserve advised, as Governor Harrison explains is the custom, that's all that is necessary. But if you have something on general policy ....

Ukawa: General policy, yes.

H.M.Jr: ... general policy, then I'd like to see you myself.

Ukawa: Yes.

H.M.Jr: I mean if there is any change one way or the other, or if you want to ask us any questions. You may have some questions you want to ask us. On general policy matters, I'd appreciate your coming to see me. If it's just a matter of notifying of gold shipment in advance, just let the Federal Reserve know.

Ukawa: Oh, I see. Yes, sir, I'm very glad to have that.

December 21, 1937

A group met at 10:30 a.m. in the office of Assistant Secretary Taylor to discuss prospective banking legislation. Those present were:

Secretary Morgenthau  
Assistant Secretary Taylor  
Marriner S. Eccles, Chairman of the Board of Governors  
of the Federal Reserve System  
Jesse Jones, Chairman of the Reconstruction Finance  
Corporation  
Leo T. Crowley, Chairman of Federal Deposit Insurance  
Corporation  
William Prentiss, Jr., Deputy Comptroller of the  
Currency  
Claude Hamilton, General Counsel of the Reconstruction  
Finance Corporation  
Mr. C. B. Upham

Secretary Morgenthau stated that the meeting had been called to see if there was any banking legislation necessary for the extra session of Congress to enact.

Mr. Crowley said that so far as the FDIC is concerned, there are a number of administrative changes which would bring about uniformity and coordination with state statutes which, if there is to be a general banking bill, he would like to see included. He added, however, that they can all be foregone. Mr. Crowley said that sometime something ought



- 2 -

to be done about the situation in California for it is very disturbing. Restrictions should be placed on "him," he said, to prevent any more reaching out for additional banks.

Mr. Morgenthau said he would like to see one piece of legislation enacted--making it illegal for holding companies to own bank stocks. Mr. Jones thought this "a good idea." Asked by Mr. Crowley if the intention was to prevent future growth or to compel dissolution of present holding companies, Mr. Morgenthau and Mr. Jones said they meant dissolution, and Mr. Jones suggested that they be given thirty days to do so. Mr. Morgenthau referred to the fact that the McAdoo bill gave them three years and that he regards that as unreasonably long. He said he thought this was the one weak and dangerous spot in our banking system and the only thing in the banking picture that worries him. Mr. Eccles said that if the group were dissolved, we would have to provide branch banking in lieu of it. Otherwise, those systems would go back to the unit banks which gave us so much difficulty before. In the breakup of the Minnesota group, for instance, he said we would find a small North Dakota bank with thousands of shareholders. That would not be getting at the practical end of the problem.

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Mr. Jones suggested someone should explore the whole question and find out just what the facts are and what groups would be affected and how. Mr. Morgenthau suggested that Mr. Jones, as the largest stockholder of banks in the country, do the exploring and he added that the Treasury had a mass of information with respect to the problem.

Mr. Eccles said he thought the California situation was the only serious one.

Mr. Prentiss said that the Comptroller's Office had a few technical matters such as organizing national banks to declare quarterly dividends but that none of them was worth bothering with unless there was a general banking measure.

Mr. Eccles said the Federal Reserve Board had no legislation and he hadn't discussed the matter with his Board. There are a lot of things he would like to see done personally but he would not advance them unless there was major banking legislation. If there is to be major banking legislation, he will have a lot to say. If there is not, he is disinterested.

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Mr. Jones said the RFC had no proposal except what had already been discussed and announced.

Mr. Jones said he would be back from Texas by January 11th and hoped to make a report by the middle of the month.

At the close of the meeting Mr. Taylor said with a grimace that he was "delighted to learn that we have such a fine banking structure." To which Mr. Eccles said that "We have a hell of a banking structure."

Upm



December 21, 1937

Col. Harrington telephoned to say that unemployment figures for the week ending December 18th were 1,588,315, an increase of 30,626 over previous week.

Tuesday  
December 21, 1937  
3:09 p.m.

HMJr: Hello

O: Mr. Butterworth. Go ahead.

HMJr: Hello

Wm. W.

Butterworth: Hello, sir.

HMJr: Yes, Butterworth.

B: Good afternoon, sir. I telephoned to give you an account of what I've done about your message.

HMJr: Yes.

B: Immediately after you - your telephone call to me on Saturday afternoon.....

HMJr: Yes.

B: ...I got in touch with Waley.....

HMJr: Yes.

B: ...and explained that I was instruxted to deliver this strictly confidential message to the Chancellor from you.

HMJr: Now wait a minute, - what day did you tell that to Waley?

B: Ah - Saturday.

HMJr: Oh.

B: ...after I talked to you.

HMJr: I see.

B: And I asked him if he'd be good enough to fix an appointment on Monday.

HMJr: Yes.

B: Ah - Waley seemed to know of your telephone conversation with Sir John.

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HMJr: Yes.

B: And he readily agreed to arrange the appointment..

HMJr: Yes.

B: ...but communicated with me again on Monday...

HMJr: Yes.

B: ...to say that since Sir. John had to consult with some of his colleagues....

HMJr: Yes.

B: ...regarding the general subject of your conversation...

HMJr: Yes.

B: ....he would not be able to receive me until Tuesday noon.

HMJr: Yes.

B: Accordingly I called at the British Treasury at 12 o'clock today.

HMJr: Yes.

B: The Chancellor of the Exchequer began by referring to your telephone conversation and expressed regrets if you had been inconvenienced -

HMJr: Wait a minute...

B: - by reason of.....

HMJr: Wait a minute, wait a minute.

B: ...between London and Washington.

HMJr: Wait a minute. You will have to start over again. What did the Chancellor say?

B: He first expressed regret - he first referred to his telephone conversation with you....

HMJr: Yes.



B: .....and expressed regret.....

H.M.Jr: Yes.

B: ....that you had to be inconvenienced by reason of the difference in time.....

H.M.Jr: I see.

B: .....between London and Washington.

H.M.Jr: Yes.

B: He said there was some difficulty because he was in the country.

H.M.Jr: Yes.

B: I then handed him your message which he read with great care.

H.M.Jr: Yes.

B: He repeated out loud the sentence.....

H.M.Jr: What's that?

B: He repeated out loud.....

H.M.Jr: Yes.

B: .....the sentence which reads, "British Ambassador.....

H.M.Jr: Let me.....

B: ...your Foreign Office have been advised".

H.M.Jr: British what?

B: "The British Ambassador and your Foreign Office.....

H.M.Jr: Yes.

B: .....have been advised".

H.M.Jr: Yes.

B: And said that in your conversation with him....

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HMJr: Yes.

B: ....you had asked that the British Ambassador be not informed of this subject of discussion and your request had of course been acceded to.

HMJr: Yes.

B: And it had not been mentioned.....

HMJr: Wait a minute. We've got a bad connection. Do that again. Hello?

B: He repeated out loud the sentence in your message which reads, "The British Ambassador and your Foreign Office have been advised!..

HMJr: Yes.

B: <sup>he</sup> And/said that in your conversation with him you had asked that the British Ambassador be not informed....

HMJr: Be not informed?

B: ...be not informed....

HMJr: ...be not informed?

B: Yes. ...of this subject of discussion.

HMJr: Yes.

B: And your request had of course been acceded to.

HMJr: Yes.

B: And it had not been mentioned....

HMJr: Had not what?

B: ...mentioned...

HMJr: Had not what?

B: It had not been mentioned...

HMJr: Oh, mentioned?

B: Mentioned... He said that he assumed....

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HMJr: ...that he assumed?

B: ....sentence meant....

HMJr: I didn't get that.

B: He said that he assumed...

HMJr: Yes.

B: ...that this sentence meant that that request no longer stood.

HMJr: I get that.

B: You got that?

HMJr: ...that that request no longer stood?

B: ...no longer stood. He asked me about this.

HMJr: If what?

B: He asked me about this.

HMJr: Yes.

B: And I replied that his assumption seemed to be reasonable, but that I had no official information...

HMJr: Wait a minute. Hello?

B: Yes.

HMJr: That you had no official information?

B: I had no official information....

HMJr: Yes.

B: ...supplementary to the statement itself.

HMJr: Yes.

B: I said you had only given me the statement.

HMJr: Pardon me?

B: I said you had only given me the statement.

HMJr: Yes. - Hello?



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B: Hello.

HMJr: Yes.

B: He then said that the British Ambassador has a regular channel of communication; was, in point of fact, already dealing with very confidential communications...

HMJr: Very confidential what?

B: Communications...

HMJr: Yes.

B: ...on this general subject...

HMJr: Yes, that's right.

B: ...and that it was, of course, desirable that he should be in a position so that all aspects...

HMJr: All what?

B: All aspects.

HMJr: Yes.

B: ...of the present problem...

HMJr: Yes.

B: ...might be seen in due relation.

HMJr: ...that might what?

B: ...might be seen....

HMJr: Yes.

B: ...in due relation.

HMJr: In due relation?

B: Yes.

HMJr: Yes. I...

B: The Chancellor also mentioned....

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HMJr: What's that?

B: The Chancellor....

HMJr: Yes.

B: ..also mentioned....

HMJr: Yes.

B: ...in this general connection....

HMJr: In this general what?

B: ..connection...

HMJr: Yes.

B: ...that he had communicated your message....

HMJr: Yes.

B: ...of Friday...

HMJr: Yes.

B: ...to the Prime Minister...

HMJr: Yes.

B: And that Mr. Eden...

HMJr: That Miss what?

B: ...that Mr. Eden...

HMJr: Yes.

B: ...whom he termed, The Minister specially charged with all aspects of international relations, had also been informed.

HMJr: Yes.

B: He went on to dissertate somewhat....

HMJr: Yes.

B: ...on the British system of Cabinet responsibility.

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HMJr: Of what?

B: ...of Cabinet responsibility.

HMJr: Yes.

B: ...How every member of the Cabinet was jointly responsible for the acts of all other members,...

HMJr: Yes.

B: ...which necessarily entailed that they should be kept fully apprised of and in accord with each other's doings.

HMJr: Yes.

~~B:~~ He also referred to the second part of your message.

HMJr: Yes.

B: And said that he would be happy to see the American officer in question.

HMJR: Yes.

B: But that the views which he would express to him....

HMJr: Yes.

B: ....would not be personal views.....

HMJr: Yes.

B: ....but Cabinet views.

HMJr: I understand.

B: His general point which he elaborated on being that, whereas it was desirable for conversations to take place....

HMJr: What's that?

B: ....between experts or between officials having special knowledge of special subjects the responsible channels, both Cabinet and diplomatic, would, under the British system, have to be kept apprised of what was going on.



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HMJr: I understand.

B: And that both he and Mr. Eden would, in fact, in whatever they did, be acting, not personally but as members of the Cabinet.

HMJr: I understand.

B: Sir John went on to say that the British Government wished to thank you for the information you had supplied as to the powers conferred by our "Trading with the Enemy Act."

HMJr: Right.

B: He said that no similar power existed in the United Kingdom...

HMJr: Right.

B: ...save in the event of a foreign country becoming an enemy and thus a state of war arising.

HMJr: What's that?

B: ...and thus...

HMJr: I didn't get - I don't get that.

B: ...arising.

HMJr: I don't get that.

B: He said that no similar power....

HMJr: Yes.

B: ...exists in the United Kingdom.

HMJr: Yes.

B: ...save in the event of a foreign country...

HMJr: Yes.

B: ...becoming an enemy...

HMJr: Yes.

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B: ...and thus a state of war arising.

HMJr: Uh huh.

B: Or, in a case governed by Article XVI of the League's Covenant...

HMJr: Hello?

B: ...accordingly, special legislation would be necessary both here and in the Dominions before such action could in any case be contemplated.

HMJr: Now, - hello.

B: Yes.

HMJr: You are reading from a memorandum, aren't you?

B: Yes, I am.

HMJr: Well, when you get through I am going to ask you to read it again to Lochhead, see?

B: Right. I will, sir.

HMJr: Because, we haven't got a very good connection and I'm not sure that I got it all.

B: Good, sir.

HMJr: Are you through?

B: - Moreover.... - I - hello?

HMJr: Hello.

B: Hello. Shall I carry on?

HMJr: Please.

B: Moreover, the study and experience in earlier instances has convinced the British Government that every aspect of such problems has to be considered together...

HMJr: Uh huh.

B: ...and that no separation should be made of economic from political and strategic analysis.

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HMJr: Hello.

B: Hello.

HMJr: Yes, I got most of it, but I am going to have you read it back to Lochhead.

B: Right, sir. Shall I finish it now?

HMJr: Yes.

B: Sir John added that his own personal observation led him to believe that there were two possible aspects of economic pressure: one was a long-range affair where the pressure was not productive of immediate consequences, except in fostering irritation. This type of pressure hardly seemed to him to accomplish a worthwhile purpose. The other aspect lay in the application of drastic economic pressure, which, if of a nature to produce a decisive effect became, in his opinion, indistinguishable from other forceful methods. He said that he had always felt that this was the weakness of Article XVI of the Covenant.

The Chancellor particularly asked me to thank you for your courteous communications and he also wanted me to convey to you his kindest regards.

HMJr: His what?

B: His kindest regards.

HMJr: Good. Well, now, is that the whole thing?

B: That's the whole thing, sir.

HMJr: Now, - just a minute.

(Short pause) (Secretary talks to persons in his office.)

HMJr: Hello.

B: Yes, sir.

HMJr: Lochhead's going to a telephone where he can take this again. And - you've got a memorandum there you're reading from, haven't you?



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B: That's right. I wanted to get it absolutely clear.

HMJr: Well, read it to - hello?

B: Yes, sir.

HMJr: Read it - to Lochhead....

B: Yes.

HMJr: ...the whole business.

B: Yes, sir.

HMJr: Now, - are they - are they waiting for an answer?

B: No, I don't think there is any answer to make.

HMJr: You don't think there is any answer? Well, hello?  
- hello?

B: Yes, sir.

HMJr: You see, where we referred to - where we said,  
"The British and your Foreign office have been  
advised." ...

B: Yes.

HMJr: ...What we referred to was that they had been advised  
about this officer coming over,...

B: Yes.

HMJr: ...but not as to this conversation that I had with  
Sir John.

B: Oh, I see.

HMJr: See?

B: Yes, I see.

HMJr: Do you see?

B: Well, I think that's the problem. I --

HMJr: Because, if you noticed, the thing starts -Yes,there's  
a period there.

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B: Yes.

HMJr: Then it starts, "The British Ambassador and your Foreign Office have been advised."

B: Yes.

HMJr: And - but that really started a - that started a new sentence.

B: Yes.

HMJr: See?

B: Yes, I do.

HMJr: But you give the whole thing to Lochhead and he'll take it down because this is terribly important.

B: Yes, I think so.

HMJr: What's that?

B: Sir John that because of the British Government setup, with their Cabinet responsibility...

HMJr: I know, he gave me that whole lecture, himself.

B: (Laughs) Well, I heard it today.

HMJr: Yes, he gave me that whole lecture already.

B: All right, sir.

HMJr: And, you see, the reason all these good wishes and all that is because he was rather disturbed when I telephoned him down at his residence because he - he told that's just what happened when he had a misunderstanding with Mr. Stimson.

B: (Laughs)

HMJr: And he didn't want the same thing to happen over again, you see?

B: (Laughs)

HMJr: So - I can give you that much background.

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B: (Laughs)

HMJr: But I can turn you over now to Lochhead and he'll take it, you see?

B: Yes.

HMJr: Please. Now, just stand by.

Operator: Hello.

HMJr: Mr. Lochhead is at the phone in Mrs. Klotz' room.

Operator: All right.

2 2.



## TELEPHONE CALL FROM MR. BUTTERWORTH

December 21, 1937

(About 3:30 pm)

Immediately after your telephone call to me on Saturday afternoon, I got in touch with Waley and explained that I was instructed to deliver a strictly confidential message to the Chancellor of the Exchequer from you and asked that he be good enough to arrange an appointment on Monday. Waley seemed to know of your telephone conversation with Sir John Simon. He readily agreed to arrange the appointment, but communicated with me again on Monday to say that since Sir John had to consult with some of his colleagues regarding the general subject of your conversation, he would not be able to receive me until Tuesday noon.

Accordingly, I called at the British Treasury at twelve o'clock today. The Chancellor of the Exchequer began by referring to his telephone conversation with you and express regrets if you had been inconvenienced by reason of the difference in time between London and Washington. He said there was some difficulty because he was in the country.

- 2 -

I then handed him your message, which he read with great care. He repeated out loud the sentence "The British Ambassador and your Foreign Office have been advised, " and said that in your conversation with him you had asked that the British Ambassador be not informed of this subject of discussion and your request had of course been acceded to and it had not been mentioned to Sir Ronald Lindsay. He said that he assumed that this sentence meant that that request no longer stood. He asked me about this and I replied that his assumption seemed reasonable, but that I had no official information supplementary to the statement itself.

He then said that the British Ambassador has a regular channel of communication; was, in point of fact, already dealing with very confidential communications on this general subject, and that it was, of course, desirable that he should be in a position so that all aspects of the present problem might be seen in due relation.

The Chancellor also mentioned in this general connection that he had communicated your message of Friday to the Prime Minister and that Mr. Eden, whom he termed the Minister specially charged with all aspects of international relations, had also been informed. He went on to dissertate on the British system of Cabinet responsibility; how every member of the Cabinet was jointly responsible for the acts of all

-3-

~~the acts of all~~ other members, which necessarily entailed that they should be apprised of and in accord with each other's doings.

He also referred to the second part of your message and said that he would be happy to see the American officer in question, but the views which he would express to him would not be personal; but Cabinet views, his general point which he elaborated on being that whereas it was desirable for conversation to take place between experts or between officials having special knowledge of special subjects, the responsible channels, Cabinet and Diplomatic, would under the British system have to be kept apprised of what was going on and that both he and Mr. Eden would in whatever they did be acting not personally, but as members of the Cabinet.

Sir John went on to say that the British Government wished to thank you for the information that you had supplied as to the powers conferred in our Trading With The Enemy Act. He said that no similar powers existed in the United Kingdom save in the event of a foreign country becoming an enemy and thus a state of war arising or in a case governed by article XVI of the League of Nations Covenant and, accordingly, special legislation would be necessary both here and



in the Dominions before such action could in any case be contemplated. Moreover the study and experience in earlier instances has convinced the British Government that every aspect of such problems has to be considered together and that no separation should be made of economic from political and strategic analysis.

Sir John added that his own personal observation led him to believe that there were two possible aspects of economic pressure: one was a long-range affair where the pressure was not productive of immediate consequences, except in fostering irritation. This type of pressure hardly seemed to him to accomplish a worthwhile purpose. The other aspect lay in the application of drastic economic pressure which if of a nature to produce a decisive effect became, in his opinion, indistinguishable from other forceful methods. He said that he had always felt that this was the weakness of Article XVI of the Covenant.

The Chancellor particularly asked me to thank you for your courteous communication and he also wanted me to convey to you his kindest regards.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE: December 21, 1937

TO Secretary Morgenthau

FROM A. Lochhead

Re: Canadian Silver Agreement

On February 28, 1936, an arrangement was made whereby the United States Treasury agreed to purchase 1,200,000 ounces of newly-mined Canadian silver during the month of March, 1936, on the basis of the New York market price for silver. This Agreement was made on a monthly basis, and upon application by the Canadians, was renewed for each succeeding month up to and including December, 1937.

Canada has asked for the regular extension for the month of January, 1938, but we have not replied to this as yet.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE: December 21, 1937

TO Secretary Morgenthau

FROM A. Lochhead

Re: Mexican Silver Agreement

On January 7, 1936, an arrangement was made whereby the United States Treasury agreed to purchase 5,000,000 ounces of newly-mined Mexican silver during the month of January, 1936, on the basis of the New York market price ~~for~~ silver. This Agreement was made on a monthly basis, and upon application by the Mexicans, was renewed for each succeeding month up to and including December, 1937.

Mexico has asked for the regular extension for the month of January, 1938, but we have not replied to this as yet.



MEMORANDUM OF THE DAY'S ACTIVITIES

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December 21, 1937

To: The Secretary

From: Mr. Magill

1. Board of Tax Appeals procedure

The Joint Committee designated by Chairman Black and myself to recommend improvements in the procedure for the disposition of tax cases appealed to the Board has just reported. The Committee recommends a number of changes in the Board's rules which are being made; some changes in procedure in the Chief Counsel's office and in the Commissioner's office; and finally some statutory changes. The report does not go as far as it might but certainly its recommendations will result in some needed improvements.

2. Bureau procedure

I discussed with Mr. Graves the progress he is making in the analysis of procedure in the Income Tax Unit. Although his work is far from completed, I am quite sure that a number of very valuable recommendations will result from it. He has already ascertained that too many revenue agents are assigned to some districts and too few to others; improvements can be made in the assignment of cases to revenue agents so that the heavy work will be done on the cases in which there is a real prospect of tax deficiencies. Finally, he is in the process of devising orders to eliminate some of the time-wasting investigations where the question involved is simply the year in which a particular deduction should be taken, without any material change in the total tax due.

3. Tax revision

I talked to Mr. Vinson again today about the future operations of the subcommittee. He would like to have a subcommittee report immediately after the first of the year. He wants to hold hearings between January 6th and 15th; and to report a bill, if possible, around January 15th.

We have had further communications from Congressman McFarlane asking us to give him the confidential information and recommendations which we have submitted to the subcommittee. We have told him in substance that he must apply to the chairman of the subcommittee, since the subcommittee is the vehicle through which information on tax revision is being presented to Congress. He will probably be irritated by this response. McFarlane is one of the Maverick group with whom Mr. Oliphant discussed the tax situation a few weeks ago.

Rm



DEPARTMENT OF STATE  
WASHINGTON

December 21, 1937

In reply refer to  
FE 793.94/11723

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to previous correspondence in regard to the financial situation in China, encloses, for his confidential information, a copy of a paraphrase of telegram No. 88, under date December 19, 1937, received from the American Ambassador at Hankow.

Enclosure:  
Paraphrase of  
telegram No. 88,  
December 19, 1937,  
from Hankow.

**Department of State**

BUREAU  
DIVISION

**FE**

**ENCLOSURE**

**TO**

**Letter drafted** .....

**ADDRESSED TO**

**Secretary of the Treasury.**



PARAPHRASE

A telegram (no. 88) of December 19, 1937, from the American Ambassador at Hankow reads substantially as follows:

According to a report from a source believed to be reliable, the President of the Control Yuan has made the following demands: (1) the release of political prisoners; (2) a general change in military strategy; (3) the withdrawal of all restrictions on mass movements; and (4) the resignation of the Chairman of the Central Political Committee, Wang Ching-wei; Director of the Party Publicity Department, Chen Li-fu; Minister of Finance, Kung Hsiang-hsi; and all prominent Party leaders. These demands are backed by military leaders regarded as pro-communist, including Chang Pa-kuei. Colonel Stilwell received the above information from the recognized Hankow agent of the Chinese communists who stated that it is the hope of the communists to gain control of the Publicity Department of the Party. The Ambassador requests that the substance of the telegram be repeated to the War Department.

793.94/11723

December 21, 1937

Lunched with Colonel Watson, Military Aide to the President and General Andrews of the Air Corps. Discussed with them the possibility of purchasing more long distance bombers to use on the Pacific Coast.

General Andrews said that the new Boeing B-15 four engine Bomber, of which they have one, is even more efficient than the B-17. The War Department has bids out for 37 transports, 26 amphibians and 13 basic trainers which will cost somewhere between 5 and 6 million dollars. If these bids were rejected they would have enough money to buy 20 of the new B-15 Boeings which cost approximately 400 thousand apiece. General Andrews said that's what he would like to have. I saw the President between five and six and told him about my conversation with Andrews and urged him that he do something about it. He left me with the impression that he would.

I showed the President a copy of the message from Butterworth which I had received over the telephone. He read it with great care. It seems that the Counsellor of the British Embassy in Washington delivered to Sumner Welles a copy of this conversation between Sir John Simon and Butterworth. While I was there, the President called Welles on the South American matter and I gathered from the conversation that Welles was worried that Sir John Simon might "leak". The President assured him not to worry.

I feel very much embarrassed because I don't believe the President had told the State Department anything about my conversation over the week-end with Sir John Simon and that the first inkling they had was when the British Embassy called on them with the information.

The President is seriously thinking of the possibility of going ahead with exchange control, etc., against Japan, if he does not get a satisfactory answer. He asked what I thought about it. I said, "On first blush, I thought very well of it but it was too important to give a snap judgment". He said, "Of course, it would be most helpful if England and France and a number of other countries would follow suit". But he was even thinking of doing it alone because he thought we have more to gain than we have to lose.

I then had a swim with the President. I found him in excellent spirits.

Col. Watson

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Gen. Andrews.

Lunch 1.

Tuesday Dec. 21



STATUS OF AIRPLANE PURCHASE CONTRACTS

| Name of Contractor               | Quantity Contracted:<br>For | Type                     | Price Per     |           |           | Delivered | Remaining | Date of Delivery |
|----------------------------------|-----------------------------|--------------------------|---------------|-----------|-----------|-----------|-----------|------------------|
|                                  |                             |                          | Plane         | Engine    | G.F.E.    |           |           |                  |
| Northrop Corp.                   | 129                         | Attack                   | \$22,000      | \$ 9,422  | \$ 4,400  | 100       | 29        | May, 1937        |
| Douglas Aircraft Co.             | 133                         | Bombers                  | 69,197        | 16,408    | 15,617    | 54        | 79        | June, 1938       |
| Douglas Aircraft Co.             | 177                         | 2-eng.<br>Bombers        | 59,680.38     | 18,860    | 17,241    | 0         | 177       | Aug., 1939       |
| Seversky Aircraft Corp.          | 77                          | Pursuit                  | 19,250        | 9,598     | 4,189     | 3         | 74        | June, 1938       |
| Stearman Aircraft Co.            | 92                          | Primary<br>Trainers      | 5,924         | 2,380     | 2,000     | 12        | 60        | March, 1938.     |
| North American Aviation,<br>Inc. | 180                         | Basic<br>Combat          | 13,978        | 5,263     | 5,094     | 0         | 180       | Oct., 1938       |
| North American Aviation,<br>Inc. | 164                         | Observation<br>3-Place   | 28,580        | 7,799     | 6,046     | 0         | 164       | Feb., 1939       |
| North American Aviation,<br>Inc. | 224**                       | Basic<br>Trainers        | 10,686.90     | 3,814     | 3,518     | 81        | 143       | Feb., 1938       |
| Boeing Aircraft Co.              | 26                          | Bombers<br>4-eng.        | 207,150       | 40,000*** | 25,600*** | 0         | 26        | Aug., 1939       |
| Curtiss Airplane Co.             | 13                          | Attack<br>2-eng.         | 82,497        | 15,690    | 6,747     | 13        | 0         |                  |
| Curtiss Airplane Co.             | 210                         | Pursuit                  | 17,885        | 10,117    | 7,824     | 0         | 210       | Feb., 1939       |
| Curtiss Airplane Co.             | 13                          | Pursuit<br>Allison Eng.  | 34,480        | —         | —         | 0         | 13        | Jan., 1939       |
| Sikorsky Aircraft Co.            | 5                           | Amphibian<br>Observation | 114,868       | 13,892    | 7,029     | 5         | 0         |                  |
| Kellett Autogiro Corp.           | 7                           | Autogiro                 | 34,782.42**** |           |           | 1         | 6         | April 1938       |
| TOTAL                            |                             |                          |               |           |           | 269       | 1161      |                  |

\*\* 117 Regular Army, 67 Organized Reserves, 40 Navy.

\*\*\* Estimated.

\*\*\*\* Airplane Complete.

# ADDITIONAL CONTRACTS IN PROCESS OF PROCUREMENT

| <u>Name of Contractor</u>     | <u>Quantity</u> | <u>Type</u>              | <u>Estimated<br/>Price Completed</u> |                                  |
|-------------------------------|-----------------|--------------------------|--------------------------------------|----------------------------------|
| Bell Aircraft Company         | 13              | Fighters                 | \$292,661                            | Service Test                     |
| North American Aviation, Inc. | 5               | Bombers 2-eng.           | 419,040                              | Service Test                     |
|                               | 37              | Transport 2-eng.         |                                      | Circular Proposal opens 12/28/37 |
|                               | 26              | Amphibian                |                                      | " " " 2/24/38                    |
|                               | 13              | Basic Trainers<br>2-eng. |                                      | " " " 2/8/38                     |

The procurement of these airplanes will leave no unobligated balance.

NAVY DEPARTMENT  
As of Dec. 20, 1921

| CONTRACTOR                                | QUANTITY<br>CONTRACTED FOR | TYPE                 | PRICE PER PLANE                                      | QUANTITY          |             | ESTIMATED DATE OF DELIVERY                               |
|---|----------------------------|----------------------|--|-------------------|-------------|--|
|   |                            |                      |  | DELIVERED         | UNDELIVERED |  |
| The Northrop Corp.                        | 54                         | Bomber               | \$41,720.85  | 1<br>under trials | 53          | 2-1/30/38; 2-2/28/38; ten per mo. thereafter             |
| The Grumman Aircraft<br>Engineering Corp. | 81                         | Fighter              | 26,728.35  | 1<br>under trials | 80          | 3-per week Dec., 1937, then 4 per week thereafter        |
| Bellanca Aircraft Corp.                   | 1                          | Utility              | 26,944.88  | 0                 | 1           | 1/15/38  |
| The Grumman Aircraft<br>Engineering Corp. | 15                         | Utility (15 at       | 39,458.00  | 0                 | 15          | 1-3/15/38; 4 per month thereafter                        |
|   | 15                         | (15 at               | 38,980.00  | 0                 | 15          | 1-7/1/38; 4 per month thereafter                         |
| The Lockheed Aircraft Corp.               | 4                          | Utility              | 50,041.55  | 4                 | 0           |  |
| United Aircraft Corp.                     | 10                         | Utility (10 at       | 150,350.00   | 0                 | 10          | 1-12/22/37; 3-2/4/38; 3-3/22/38; 3-5/12/38               |
| Sikorsky Aircraft Div.                    | 4                          | (4 at                | 147,049.80   | 0                 | 4           | 1-6/1/38; 3-7/22/37                                      |
| Army Air Corps                            | 40                         | Training             | 17,617.16  | 7                 | 33          | 8 per month  |
| Naval Aircraft Factory                    | 80                         | Training (80 at      | 9,905.90   | 36                | 44          | 3 per week   |
|   | 15                         | (15 at               | 10,014.00  | 0                 | 15          | 3-2/14/38; 3 per week thereafter                         |
| Consolidated Aircraft Corp.               | 50                         | Patrol Bomber (50 at | 104,302.64   | 25                | 25          | 10 per month   |
|   | 66                         | (66 at               | 106,717.88   | 1                 | 65          | 2-2/28/38; 6-3/30/38; 8-4/30/38; 10 per month thereafter |
| Curtiss Wright Corp.                      | 83                         | Scout bomber         | 30,990.50  | 69                | 14          | 14 by 30 December 1937                                   |
| Curtiss Aeroplane Div.                    |                            |                      |  |                   |             |  |
| United Aircraft Corp.                     | 54                         | Scout bomber         | 44,354.15  | 1<br>under trials | 53          | 8-12/31/37; 5-1/31/38; 10 per month thereafter           |
| Chance Vought Aircraft Div.               |                            |                      |  |                   |             |  |
| Curtiss Wright Corp.                      | 83                         | Scout observation    | 26,580.54  | 0                 | 83          | 3-1/1/38; 10-2/1/38; 17 per month thereafter             |
| Curtiss Aeroplane Div.                    |                            |                      |  |                   |             |  |
| Naval Aircraft Factory                    | 22                         | Scout observation    |  | 0                 | 22          | 1-3/10/38; 4 per month thereafter                        |
|   | 22                         | (22 at               | 33,348.81  | 0                 | 22          | 1-9/1/38; 1-10/14/38; 4 per month thereafter             |
|   |                            | (22 at               | 30,579.16  |                   |             |  |
| Douglas Aircraft Corp.                    | 114                        | Torpedo-Bomber       | 57,200.00  | 11                | 102         | 6-12/31/37; 6-1/31/38; 12 per month thereafter           |
| Consolidated Aircraft Corp.               | 33                         | Patrol bomber        | 113,685.00<br>less engine (2)<br>less propellers (2) | 0                 | 33          | 1-6/30/38; 1-9/30/38; 6 per month thereafter             |

Note 1 - None of the data submitted includes cost of spare parts.  
Note 2 - Total amount of unobligated balance of funds available for new planes yet to be contracted for - \$8,986,684.00.

Note 3 - Data include cost of propeller and power plant; cost of radio and other government furnished equipment not included.  
Note 4 - Experimental planes are not included.



Ribbon copies of this memo were sent to the following - with letters of transmittal dated December 21, 1937: (signed by the Secretary)

The President

The Secretary of State

The Secretary of War - Attention:  
Colonel Strong (G-2)

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE December 21, 1937

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Current United States trade with Japan and China  
(Preliminary data)

United States trade with Japan during the first two weeks of December 1937.

(1) United States exports to Japan during the first two weeks of December were higher than during the first two weeks of November, but slightly less than during the first two weeks of October 1937.

### United States Exports to Japan

|               | <u>December 1937</u> | <u>First two weeks of<br/>November 1937</u> | <u>October 1937</u> |
|---------------|----------------------|---|---------------------|
| 1st Week      | \$1,704,000          | \$1,180,000                                 | \$1,727,000         |
| 2nd Week      | <u>5,305,000</u>     | <u>4,813,000</u>                            | <u>5,746,000</u>    |
| Total 2 weeks | \$7,009,000          | \$5,993,000                                 | \$7,473,000         |

(2) United States imports from Japan during the first two weeks of December show a large decrease compared with our imports during the first two weeks of November and October 1937.

### United States Imports from Japan

|               | <u>December 1937</u> | <u>First two weeks of<br/>November 1937</u> | <u>October 1937</u> |
|---------------|----------------------|---|---------------------|
| 1st Week      | \$2,159,000          | \$3,245,000                                 | \$3,328,000         |
| 2nd Week      | <u>3,407,000</u>     | <u>3,654,000</u>                            | <u>3,984,000</u>    |
| Total 2 weeks | \$5,566,000          | \$6,899,000                                 | \$7,312,000         |

## Secretary Morgenthau - 2

(3) The following items show large increases in our exports to Japan during the first two weeks of December as compared with the first two weeks of November 1937:

|                                | <u>December 1937</u> | <u>First two weeks of<br/>November 1937</u> | <u>October 1937</u> |
|--------------------------------|----------------------|---|---------------------|
| Paper base stock               | \$1,314,000          | \$260,000                                   | \$542,000           |
| Industrial machinery           | 684,000              | 526,000                                     | 265,000             |
| Iron & steel semi-manufactures | 631,000              | 512,000                                     | 2,639,000           |
| Scrap iron and steel           | 411,000              | 44,000                                      | 420,000             |
| Brass and scrap brass          | 304,000              | 8,000                                       | 5,000               |
| Tobacco & mfrs.                | 257,000              | nil   | 5,000               |
| Wood, unmd.                    | 100,000              | 40,000                                      | 78,000              |

The following items show sharp decreases in our exports to Japan during the first two weeks of December compared with our exports of these items during the first two weeks of November 1937.

|                      | <u>December 1937</u> | <u>First two weeks of<br/>November 1937</u> | <u>October 1937</u> |
|----------------------|----------------------|---|---------------------|
| Copper               | \$234,000            | \$738,000                                   | \$577,000           |
| Ferro alloys         | 51,000               | 331,000                                     | 189,000             |
| Hides & skins, raw   | 42,000               | 311,000                                     | 186,000             |
| Industrial chemicals | 14,000               | 189,000                                     | 33,000              |

(4) The imports of raw silk were about \$1,000,000 less in the first two weeks of December than in the first two weeks of November 1937. The relative composition of the imports other than silk was approximately the same, although the total was lower.

|                                   | <u>Imports during first two weeks of<br/>December 1937</u> | <u>November 1937</u> | <u>October 1937</u> |
|-----------------------------------|--|----------------------|---------------------|
| Raw silk                          | \$2,937,000  | \$3,916,000          | \$4,128,000         |
| Total imports other than raw silk | <u>2,629,000</u>   | <u>2,983,000</u>     | <u>3,184,000</u>    |
| Total                             | \$5,566,000  | \$6,899,000          | \$7,312,000         |



## Secretary Morgenthau - 3

(5) Of the total of \$7,009,000 of exports to Japan during the first two weeks of December 1937, the following items account for almost all:

|                                     |             |
|-------------------------------------|-------------|
| Petroleum products                  | \$1,408,000 |
| Paper base stock                    | 1,314,000   |
| Industrial machinery                | 684,000     |
| Iron and steel semi-manufactures    | 631,000     |
| Vehicles, parts and accessories     | 490,000     |
| Scrap iron and steel                | 411,000     |
| Brass and scrap brass               | 304,000     |
| Raw cotton                          | 287,000     |
| Tobacco and manufactures            | 257,000     |
| Copper                              | 234,000     |
| Fertilizer and fertilizer materials | 134,000     |
| Wood, unmanufactured                | 100,000     |
| Coal tar products                   | 99,000      |
| Pig lead                            | 75,000      |
| Ferro-alloys                        | 51,000      |
| Chemical specialties                | 43,000      |
| Hides and skins, raw                | 42,000      |
| Vegetable products, edible          | 39,000      |
| All other                           | 406,000     |
| Total                               | \$7,009,000 |

(6) Of the total \$5,566,000 of our imports from Japan during the first two weeks of December, the following items account for almost all:

|                                     |             |
|-------------------------------------|-------------|
| Raw silk                            | \$2,937,000 |
| Cotton manufactures                 | 455,000     |
| Tea                                 | 213,000     |
| Porcelain and chinaware             | 177,000     |
| Silk manufactures                   | 139,000     |
| Paper and manufactures              | 139,000     |
| Pyrethrum flowers                   | 133,000     |
| Fish                                | 129,000     |
| Chemicals and related products      | 121,000     |
| Vegetable food products, except tea | 89,000      |
| Metals and manufactures             | 87,000      |
| Flax, hemp and ramie manufactures   | 74,000      |
| Wool and manufactures               | 73,000      |
| Earthenware                         | 70,000      |
| Glass and manufactures              | 54,000      |
| Wood and manufactures               | 47,000      |
| Bristles                            | 44,000      |
| Rayon and manufactures              | 44,000      |
| All other                           | 541,000     |
| Total                               | \$5,566,000 |

Secretary Morgenthau - 4

United States trade with China during the first two weeks of December 1937.

(1) United States exports to China and Manchuria during the first two weeks of December were almost twice as large as in the first two weeks of November 1937, most of the increase going to South China ports, Shanghai and Hong Kong.

United States exports to:

|                              | <u>North China<br/>and Manchuria</u> | <u>Shanghai, South<br/>China and Hong Kong</u> | <u>Total</u> |
|------------------------------|--------------------------------------|--|--------------|
| 1st 2 weeks<br>of Dec. 1937  | \$1,323,000                          | \$1,808,000                                    | \$3,131,000  |
| 1st 2 weeks<br>of Nov. 1937  | \$54,000                             | 770,000  | 1,624,000    |
| Whole month of December 1936 |                                      |  | 5,255,000    |

(2) United States imports from China and Manchuria during the first two weeks of December 1937 were about the same as in the first two weeks of November 1937.

United States imports from:

|                              | <u>North China<br/>and Manchuria</u> | <u>Shanghai, South<br/>China and Hong Kong</u> | <u>Total</u> |
|------------------------------|--------------------------------------|--|--------------|
| 1st 2 weeks<br>of Dec. 1937  | \$541,000                            | \$1,905,000                                    | \$2,446,000  |
| 1st 2 weeks<br>of Nov. 1937  | 797,000                              | 1,498,000                                      | 2,295,000    |
| Whole month of December 1936 |                                      |  | 5,365,000    |

(3) Leading export items to China:

(a) North China and Manchuria

|                               | <u>First two weeks of<br/>December 1937</u> | <u>November 1937</u> |
|-------------------------------|---|----------------------|
| Iron and steel semi-mfrs.     | \$ 629,000                                  | \$ 467,000           |
| Vehicles, parts & accessories | 424,000                                     | 35,000               |
| Petroleum products            | 173,000                                     | 114,000              |
| Tobacco                       | 11,000                                      | 166,000              |
| Other                         | \$6,000                                     | 72,000               |
|                               | \$1,323,000                                 | \$854,000            |



secretary Morgenthau - 5

(b) Shanghai, South China ports and Hong Kong

|                               | First two weeks of<br><u>December 1937</u> | <u>November 1937</u> |
|-------------------------------|--|----------------------|
| Vehicles, parts & accessories | \$ 458,000                                 | \$ 33,000            |
| Iron and steel semi-mfrs.     | 267,000                                    | 375,000              |
| Petroleum products            | 237,000                                    | 110,000              |
| Tobacco and manufactures      | 190,000                                    | 1,000                |
| Edible vegetable products     | 144,000                                    | 74,000               |
| Firearms and ammunition       | 97,000                                     | Nil                  |
| Wood, unmanufactured          | 77,000                                     | Nil                  |
| Other                         | 338,000                                    | 177,000              |
|                               | <u>\$1,808,000</u>                         | <u>\$770,000</u>     |

(4) Leading imports from China during the first two weeks of December 1937:

(a) From North China and Manchuria

|                       | First two weeks of<br><u>December 1937</u> | <u>November 1937</u> |
|-----------------------|--|----------------------|
| Bristles              | \$207,000                                  | \$308,000            |
| Wool and manufactures | 97,000                                     | 271,000              |
| Perilla oil           | 57,000                                     | 63,000               |
| Other                 | 180,000                                    | 155,000              |
|                       | <u>\$541,000</u>                           | <u>\$797,000</u>     |

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

|                                | First two weeks of<br><u>December 1937</u> | <u>November 1937</u> |
|--------------------------------|--|----------------------|
| Tung (wood) oil                | \$ 330,000                                 | \$ 73,000            |
| Tin                            | 289,000                                    | 463,000              |
| Flax, hemp and ramie & mfrs.   | 285,000                                    | 149,000              |
| Bristles                       | 195,000                                    | 21,000               |
| Edible vegetable products      | 123,000                                    | 64,000               |
| Furs, leather and manufactures | 104,000                                    | 4,000                |
| Wool and manufactures          | 89,000                                     | 82,000               |
| Raw silk                       | 84,000                                     | 155,000              |
| Edible animal products         | 83,000                                     | 13,000               |
| Other                          | 323,000                                    | 474,000              |
|                                | <u>\$1,905,000</u>                         | <u>\$1,498,000</u>   |



December 21, 1937

At 3:30 today HM, Jr called and asked for the President. Miss Le Hand came to the telephone and said that the President could not come to the phone at the moment. The Secretary then said to her, "I have my answer to my overseas telephone conversation. It will take me about an hour to type it and it is what the President is waiting for. Send in a note to the President and find out when he will want to see me."

Miss Le Hand telephone at 5 o'clock and asked the Secretary to come over immediately; that the President would see him and that then he would like him to join him in the pool.

Personal and Confidential.

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DEPARTMENT OF STATE

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**THE SECRETARY**

December 21, 1937.

Returned to Secretary Morgen-  
thau with the best thanks of  
Secretary Hull.

THE SECRETARY OF THE TREASURY  
WASHINGTON

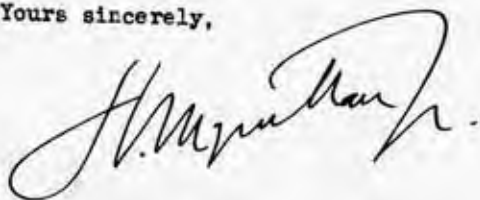
December 18, 1937

My dear Mr. Attorney General:

I am inclosing herewith a copy of a memorandum which was prepared by Mr. Oliphant, General Counsel of the Treasury, for the President.

Needless to say, we consider this memorandum of the most confidential nature and I would appreciate it if you would treat it as such.

Yours sincerely,



The Honorable

The Attorney General.

*P.S. Please call on me  
for further co-operation.*



COPY

December 15, 1937

TO: Secretary Morgenthau  
FROM: Herman Oliphant

Pending study of other angles, the President may be advised to this extent:

Under the amendment of March 9, 1933, to The Trading With The Enemy Act, the President is authorized to find and declare a "national emergency" existing, for example, by reason of the necessity to forestall acts and events which might plunge this Nation into war, to quarantine a war situation which is endangering the United States, or to assure reparation in order to avoid the necessity of resort to force.

Upon such a declaration of a "national emergency," the President could prohibit transactions in foreign exchange, withdrawal of bank credits in this country or export of gold or its proceeds. This reference is to exchange, credits and gold owned by Japanese Government. Those privately owned are being studied further.

This Proclamation declaring the "national emergency" would, in terms, be limited to the Oriental situation and the events flowing therefrom. Likewise, action under this Proclamation would be limited to foreign exchange, credits and gold directly or indirectly related to the Oriental situation.

(Signed) Herman Oliphant.

THE SECRETARY OF THE TREASURY

WASHINGTON

OFFICIAL BUSINESS

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

263

The Honorable

The Secretary of State.

**CONFIDENTIAL**

December 21, 1937

To: Secretary Morgenthau

From: Mr. Shoup

Changing Fiscal Year Dates and Income Tax Collection Dates

This memorandum suggests changing the dates of the fiscal year and making a slight change in the collection dates of the income tax.

The chief purpose of this plan is to make it unnecessary for the Treasury to forecast business conditions when it makes an estimate of income tax revenues. Another important purpose is to make easier the estimating of all other tax revenues and of all expenditures.

The plan is described below, and its advantages and disadvantages are then given. Two possible refinements to the plan -- Refinement A and Refinement B -- are then described and analyzed.

I. Description

The fiscal year would begin on April 1 and end on March 31, instead of beginning on July 1 and ending on June 30, as at present.

The income tax collection dates would be postponed one month and a half from the present dates, and thus would fall on April 30, July 31, October 31, and January 31. (It might be found feasible, on further study, to postpone them only one month -- to April 15, etc. This depends on the extent to which income tax payments tend to be early, with the consequent danger that much of the money would fall in the wrong fiscal year.)

The Congress would probably have to alter its accustomed calendar of action somewhat so that it could get the appropriations voted by March 31.

As existing debt matures, it would presumably be replaced by debt whose interest and maturity dates corresponded to the new tax collection dates.

These are the only changes that would be necessary (but see Refinement A and Refinement B below).



The transition period would presumably be handled somewhat as follows: If the law is changed in February or March, 1938, let Congress proceed as usual with the appropriations for the fiscal year ending June 30, 1939, but give the Director of the Budget authority to put all such appropriations on a nine-months basis. Then in January, February, and March, 1939, Congress would vote the April 1, 1939 — March 31, 1940 budget.

The chart on the next page shows how the various dates compare under the present system and this proposed system.

## II. Advantages Compared with Maintaining Present System

The advantages of making the changes described above would be:

1. The estimate of income tax revenues for the ensuing fiscal year, made public as usual in the first part of January, would be based on the economic conditions of a calendar year that would be past. (Actually, the Division of Research and Statistics would have to start making its estimate before the calendar year was quite completed, but ten or eleven months' data would be available). Thus, no forecast of business conditions would be implied in the income tax estimate. For example, the estimate made public in January, 1940, for the fiscal year 1940-41, would cover the April 30, July 31, October 31 (1940) and January 31 (1941) installments, all of which would represent tax on 1939 calendar year incomes. Thus the Treasury would not be in its present position of having to weigh the public reaction to an estimate that carries with it an implication of precise business forecasting. As it now is, the estimate tends to affect itself, since a low estimate may help make business low, owing to its effect on business confidence.

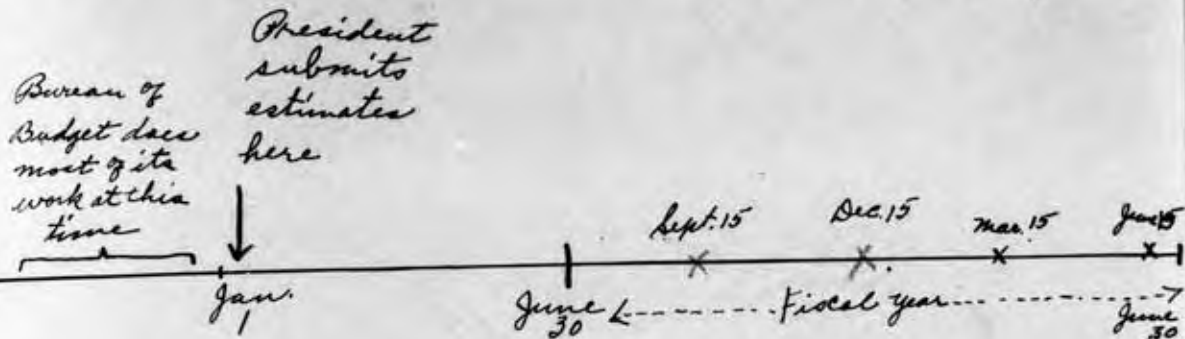
Recent experience indicates that the degree of error to be expected under these circumstances, while not negligible, is far less than under the existing system. The table on p. 4 shows the error since 1928 in estimating, each January, the income tax revenue for the current fiscal year — that is, the fiscal year ending the following June. Actually, under the plan proposed above, the experience might not be quite so favorable as these percentages indicate, for two reasons: (a) These estimates had the advantage of having two of the four income tax installments (the September 15 and December 15 installments) already in and counted; (b) since the fiscal year combined two installments based on one business year and two based on another, there was a tendency — perhaps slight — to average toward a greater stability and hence a greater certainty of estimate. (With respect to the possibility of having the returns in hand, see Refinement A below).

3. The estimate of income tax revenues submitted to the Bureau of the Budget about four months before the budget message — that is, in September — would likewise have a better chance for accuracy than under the present system, though of course some forecasting of business conditions (from September through December) would be necessary. It is important to note, however, that this forecast would not have to be made public.

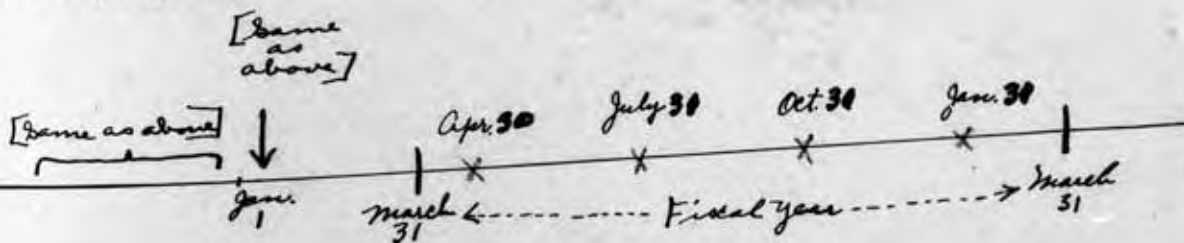
X = Income Tax Collection Dates  
 - No Estimating of Future  
 Business Forecasting Needed

Existing System:

X = Income Tax Collection Dates  
 - Business Forecasting needed



Proposed System:  
 (without Refinement A)  
 or Refinement B



ERROR IN FEDERAL INCOME TAX ESTIMATES FOR CURRENT FISCAL YEARS<sup>1</sup>.

| Estimate Was<br>for Fiscal<br>Year Ending: | Estimate<br>Was Made | Estimate Was in<br>Error by Follow-<br>ing Percentages: |
|--|----------------------|---|
| June 30, 1928                              | January, 1928        | +4/10 of 1%   |
| June 30, 1929                              | January, 1929        | +8%   |
| June 30, 1930                              | January, 1930        | -3%   |
| June 30, 1931                              | January, 1931        | -15%  |
| June 30, 1932                              | January, 1932        | -7%   |
| June 30, 1933                              | January, 1933        | -11%  |
| June 30, 1934                              | January, 1934        | -5%   |
| June 30, 1935                              | January, 1935        | +5%   |
| June 30, 1936                              | January, 1936        | -1%   |
| June 30, 1937                              | January, 1937        | -9%   |

1. Lack of time has made it impossible to check these figures thoroughly.  
It is therefore suggested that a thorough check be made.



3. The estimates for all taxes other than the income tax would be three months closer to the period they cover than they are under the present system. Thus, although it would still be necessary to assume something about future business conditions, as concerns these taxes, the task would be somewhat easier than it is now.

4. The estimates for expenditures would likewise be three months closer to the period they cover. While this advantage would not be an overwhelming one, it should help somewhat all along the line, from the time the departments start to make their estimates, before or during summer, up to the time that the estimates are considered by the appropriation committees.

### III. Disadvantages Compared with Maintaining Present System

1. The 9 months' transition period, July 1, 1938 — March 31, 1939, would show a fairly heavy deficit, since it would have the benefit of only two income tax installments instead of three (the March 15 installment would have been pushed over into the succeeding period). However, these two installments would be based on the relatively good 1937 calendar year incomes, not on the probably poor 1938 calendar year incomes. The new-type fiscal year 1939-40 would have income tax collections based entirely on 1938 calendar year incomes, which might or might not result in a poor net showing, depending largely on how Congress felt about expenditures when it convened in January, 1939.

2. The change would tend to confuse the public, and political opponents might charge trickery.

3. The postponement of the income tax collection dates by a month or a month and a half would necessitate additional borrowing and would add permanently to the public debt a total equivalent to about a month's or a month and a half's expenditures (assuming the debt retirement program remained unchanged).

4. The income tax collection dates would differ from the interest and maturity dates of practically all of the outstanding debt. Until these dates could be altered for most of the debt — and this would take many years — there would be a troublesome (though not impossible) money-market problem.

5. It would be highly desirable — indeed, practically essential — to go back over the revenue and expenditure records since, say, 1917, and restate the yearly subdivisions and totals on the new fiscal year basis.

6. Congress would have to work faster than it now does in order to get appropriations voted before the fiscal year began, and the actual result might be an increase in the use of the continuing-appropriation device.

7. Some, but probably not an important amount, of income tax revenue would be lost through insolvency, etc., as the collection dates were postponed.

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My own impression is that the advantages distinctly outweigh the disadvantages, but I suggest that it is desirable to get an estimate made of how great the deficit in the nine-months' transition period would be. Also, further thought is needed on how Difficulty No. 2 above might be lessened, and how serious Difficulty No. 4 is. (I think that Difficulties Nos. 3, 5 and 7, can be considered to be of minor consequence). Difficulty No. 6 is of course a matter for consultation with Congressional leaders.

#### Refinement A

If the income tax returns were actually in hand when the estimate was made, the accuracy of the estimate would of course be still further increased. Consequently it might be desirable to require taxpayers to make returns at the end of January or February. Perhaps individuals could be required to report on January 31 (or maybe February 15), while corporations would be required to submit a tentative estimate of net income on about the same date. Then the revenue estimate submitted to Congress early in January could be supplemented by a definitive estimate about March 1 or March 15. The precise dates could be settled on after further study, but the essential thing seems to be to allow at least a month between the filing of the returns and the date of estimate, and even this calls for rush work by all concerned.

Also, it might be necessary to impose heavier penalties on failure to file returns; taxpayers might tend to be more negligent than they now are, since the return would not carry with it the importance of an installment payment (the first payment would, as before, be due April 30).

#### Refinement B

Some expenditures are relatively inflexible — they must be incurred almost regardless of what the coming year's tax revenues will be, and they do not fluctuate as business conditions fluctuate. Others either depend on the tax revenue available or are linked closely to business fluctuations. If some separation could be made between these two, the budget message of January might be only a tentative one, containing estimates only of the inflexible items, and the real budget message might be delivered sometime in February or even at the beginning of March. It would present estimates of revenue and of both types of expenditure. If this refinement were coupled with Refinement A above, it might be possible to have the real budget message contain a very close estimate of revenues. Also, an incoming President would have a somewhat better chance to consolidate his thoughts and express them in his budget speech. However, the time schedule is an exacting one, and the possibility of dividing expenditures into the two groups needs further study. There is the danger that the unity of the budget would be seriously compromised, although in reply it may be argued that in practice the result is inevitable, in view of the difficulty involved in expenditure estimates for such an item as relief.



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General Remarks

I should prefer to reserve judgment for a while on both Refinement A and Refinement B, especially since I think the change in fiscal year and collection dates is desirable by itself without the Refinements.

Refinement A would be more acceptable if the fiscal year began May 1 instead of April 1. But any change in this direction means a bigger change in the income tax collection date, since it is essential to get what are now the March 15 and June 15 collections into the "ensuing" fiscal year. If that year begins May 1, the March 15 collection must be moved over to May 15 or May 30.

Refinement B might be acceptable in very broad items. The difficulty is, the distinction between inflexible and flexible expenditures often relates, not to one entire department against another, but to so many dollars of each item in each department against the other dollars in the same item -- and separation on this basis might not be very practicable.

I have devoted a considerable amount of study to the possibility of having the fiscal year coincide with the calendar year, but the disadvantages seem too great. The chief difficulty is that Congress would have to meet in special session toward the end of each calendar year, and this, difficult enough in any year, would be impossible in an election year except for a period so short that "continuing appropriations" would be inevitable. There are other points on both sides, and if it is desired, I can submit a memorandum discussing them.



FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE December 21, 1927.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

SWISS NATIONAL BANK, ZURICH.

I called Mr. F. Schnorf, director in Zurich, at 11:30 today in connection with our exchange of cablegrams with Swiss National Bank, Zurich, of December 18, December 20 and December 21. I referred to his request that we put these transactions through without giving them any publicity, and assured him that it had been and continued to be our policy, in any announcements dealing with the increase or reduction in the total of gold held by us under earmark for foreign account, never to mention the name of the foreign central bank involved. I also explained that we had decided to make the earmark value tomorrow because of the physical work involved. I finally suggested that if he had similar requests in future for conversion of balances into gold, he facilitate matters for us by stating in his cable the purpose for which conversion was required; that for instance, in the present case, a statement such as we happen to know he had made to Cochran, namely that application for gold was made in order to establish a more normal ratio between the Swiss National Bank's foreign exchange holdings and gold holdings, would have been helpful to us.

Mr. Schnorf inquired about our market for government securities and requested that we buy for his account \$10,000,000 Treasury bills three to four months at minimum .08% per annum. He also stated that if there were any more new issues this year, he would ask us by cable to tender on his behalf. Schnorf is going to confirm the above purchase order by cable.

LWK:KMG