

DIARY

Book 104

December 22 - December 31, 1937

- A -

Armour, Norman (United States Minister in Canada)  
See Debts, Foreign

Book Page

- B -

Budget

First draft of Message - 12/23/37.....	CIV	50
Second " " " - 12/29/37.....		77
First typed draft for inclusion in Message of Treasury's comprehensive study of Federal taxes.....		232
Third draft of Message as prepared by FDR.....		234
Bell's draft.....		260

- C -

Canal Zone

Oliphant memorandum quoting United States Code as to  
regulatory powers of Secretary of Treasury and Governor  
of Canal Zone - 12/22/37..... 46

Carmody, John

See Rural Electrification Administration

China

New York Times editorial, "The Silver Folly," discussed  
by FDR and HMJr - 12/28/37..... 152

Current United States trade with Japan and China during  
first three weeks of December, 1937 - 12/30/37..... 225

Cochran, H. Merle

Title of Financial Counselor discussed by HMJr - 12/29/37.. 190  
a) HMJr discusses with Messersmith - 12/30/37..... 281

- D -

Debts, Foreign

Great Britain:

Lord Tweedsmuir (Canada) informs Armour (United States  
Minister in Canada) Chamberlain and Sir John Simon  
are considering a proposal to be made in connection  
with settlement of war debt - 12/22/37..... 4

District of Columbia

See Housing

- F -

France

See also Stabilization

Sharp reaction on franc caused by strike on Paris subways,  
motor buses, and garbage trucks - 12/29/37..... 203,205,215

Chamber votes 1938 budget on second reading following  
approval by Senate yesterday - 12/31/37..... 328

	Book	Page
Germany		
American Embassy, London, cables that prevailing service arrangements of British holders of German bonds expiring tomorrow will be extended by mutual agreement - 12/30/37.....	CIV	211
Gold		
See Japan		
Great Britain		
See Debts, Foreign		
" Stabilization		

Housing		
Straus tells HMJr he does not approve Ihlder philosophy and so does not wish "to take Ihlder under his wing as FDR has suggested"; HMJr suggests two projects in District of Columbia: "one according to the Ihlder philosophy and one according to the Straus philosophy" - 12/22/37.....		14

Japan		
Federal Reserve Bank of New York to be advised in future before shipment of gold to San Francisco is actually made - 12/22/37.....		3
a) HMJr and Harrison (Federal Reserve Bank of New York) discuss - 12/22/37.....		29
"Tatsuta Maru at Los Angeles takes on mail with Japanese stamps which has not cleared through United States Post Office"		
a) HMJr reports to FDR - 12/22/37.....		33
b) Customs Agent at San Francisco advised to "proceed according to law".....		36
c) Oliphant memorandum explaining how matter came to the attention of HMJr.....		34
Customs memorandum concerning seizure, as read by FDR at Cabinet meeting - 12/23/37.....		48
Current United States trade with Japan and China during first three weeks of December, 1937 - 12/30/37.....		225

	Book	Page
Mexico		
Dinner at HMJr's home; present: Mexican Ambassador, Suarez, Taylor, Lochhead, and White - 12/22/37.....	CIV	32
a) Thorough-going assistance by United States suggested by HMJr, as a doctor advising a patient		
1) HMJr describes to 9:30 group - 12/23/37.....		65
2) Hull's reaction to plan also described to 9:30 group.....		69
Haas memorandum on form of government, climate range, status of foreign oil companies, et cetera - 12/22/37..		39
Gruening asked by HMJr if he would be available to assist - 12/28/37.....		140
Haas memorandum: "Obstacles in path of economic reconstruction; what steps Mexico can be expected to take to reduce obstacles; what United States can do to assist Mexico" - 12/28/37.....		143
Conference; present: HMJr, Lochhead, White; Welles and Feis; Ambassador Najera and Suarez - 12/28/37.....		163
a) Budgetary situation.....		175
b) Information United States would like to obtain with respect to economic situation.....		182
HMJr decides "all these long negotiations are the bunk"; decides to buy whatever silver Mexican Government has for sale "and let the State Department do the horse-trading" - 12/29/37.....		202
Peoples (Director, Procurement Division) memorandum concerning purchase of Mexican oil - 12/30/37.....		231
Conference; present: HMJr, Lochhead, White; Welles and Feis - 12/30/37.....		276
HMJr tells 9:30 group of Welles' successful talk with Mexicans; Welles to confer at Treasury concerning - 12/31/37.....		283
a) HMJr wants to get message from Cardenas inviting this cooperation and a memorandum of Welles' conversation (see pages 295,297: Welles sends HMJr (1) translation of letter from Mexican Ambassador stating Cardenas has authorized Suarez and Ambassador to "discuss possible plan of economic and financial cooperation between two countries; (2) memorandum of conference: Welles, Suarez, and Mexican Ambassador - (acknowledged by HMJr 1/4/38; see Book CV, page 38))		
b) Gruening has warned HMJr not to trust Mexicans too far		
Conference; present: HMJr, Oliphant, Lochhead, White, Gaston; Feis, Ambassador Najera and Suarez - 12/31/37..		306
a) Announcement to the press.....		320
Press conference; present: HMJr, Oliphant, Lochhead, Ambassador Najera, and Suarez - 12/21/37.....		321
a) Press release.....		320

- H -

	Book	Page
New York City Post Office		
HMJr tells Oliphant he "would like to clean this matter up" - 12/29/37.....	CIV	200
a) HMJr tells Oliphant of FDR's facetious note to LaGuardia		

- O -

Oil  
See Mexico

- R -

Revenue Revision		
Changes in Revenue Act as tentatively agreed to by Vinson subcommittee - 12/27/37.....		109
"Third Basket Plan" discussed by 9:30 group - 12/28/37..		133
Garner's proposal to reduce number of Federal taxes to five - 12/30/37.....		279
Rist, Charles		
See Stabilization		
Rural Electrification Administration		
HMJr tells James Roosevelt "some one should check on the way Carmody is now running it"; thinks he is "an awfully wild fellow" - 12/29/37.....		193

- S -

Silver		
See also Mexico		
Proclamation by FDR relating to newly-mined domestic silver - 12/30/37.....		273,325
Social Security		
Accounting difficulties of Wagenet plan discussed by HMJr and Altmeyer - 12/29/37.....		194
Stabilization		
France:		
Rist visit again discussed by HMJr and Cochran - 12/29/37..		187
a) Rist feels visit should be postponed indefinitely		
Sharp reaction on franc caused by strike on Paris subways, motor buses, and garbage trucks - 12/29/37.....		203,205,215
Great Britain:		
Gold holdings of British Equalization Fund and of Bank of England, as of 9/30/37, reported by American Embassy, London - 12/30/37.....		214

- T -

Taxation  
See Revenue Revision

- U -

	Book	Page
Unemployment		
Census as telephoned by Biggers from Toledo - 12/22/37...	GIV	38
Employment on Works Progress Administration projects by state - United States and Territories - weeks ending December 11 and December 18, 1937.....		76
United States Savings Bonds		
Correspondence between Julius Ochs Adler (New York Times) and HMJr concerning advertising in newspapers.....		154

- W -

War Debts  
    See Debts, Foreign  
Works Progress Administration  
    See Unemployment

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 22, 1937, 5 p.m.

NO.: 1761

FROM COCHRAN.

The French control had yielded 100,000 pounds by 12 noon today. According to my informant the weak trend of the franc had resulted principally from recrudescence of Paris strikes, in food stores, particularly. The Bank of France he said had been selling quite a lot of Swiss francs to people going to Switzerland for the Christmas season.

I talked with market operator this evening, who thought that control had not been called upon heavily to stop rate today at 147.19 quotation. Apparently there were no more sales by the Bank of Swiss francs. Market thought was that the Bank, the only seller, had offered these francs too cheaply, since in Paris and London there was considerable demand therefor. The National Bank of Belgium was reported as purchasing gold in London against belgas since the belga is weaker. Much tighter money market in Paris. More demand for gold coins; Canadian coins are being obtained in London by some French hoarders. As soon as the banks receive subscriptions for current loan the French Treasury ~~will~~ is calling in the proceeds.

There

- 2 -

There is a continuation of unfavorable comment on Faure's speech on nationalization of key industries. It is noticed that certain writers are beginning to emphasize the need for eventual conversion, forced or otherwise, of the heavy public debt of France before there can be very much recovery.

The tax returns for the month of November are above previous estimates.

BULLITT.

EA:LWW

RECEIVED  
DEC 23 1951  
TREASURY DEPARTMENT  
Office of the Secretary  
Thomas A. Blanton, Jr. Director

→ Mr. Lusk 3

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 22, 1937.

FILES

SUBJECT: GOLD SHIPMENTS FROM JAPAN.

FROM L. W. Knobe

Mr. Kobayashi called this afternoon to let me know that, according to a cable received by the Japanese Financial Commission in New York from the Treasury in Tokyo, Federal Reserve Bank of New York will, in future, be advised before shipment of gold to San Francisco is actually made.

LWK:KMC

DEPARTMENT OF STATE  
WASHINGTON

December 22, 1937.

My dear Mr. Secretary:

At the Secretary's request, I send along a letter from Norman Armour, our Minister in Canada, to Mr. Dunn. This gives in detail the nature of Lord Tweedsmuir's sounding regarding the possibility of a debt refunding discussion.

Mr. Hull's disposition is increasingly to the effect that we should encourage all advances in the thought that we could find a way of arranging the time of discussions as might be necessary to avoid complications or embarrassments. I am completely at your disposition in this matter, as is of course Secretary Hull.

Sincerely yours,

*Herbert Reis*

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

*Receipt ack'd 1-4-38  
(Bx 105 p. 31)  
see file of that date*

COPY

5

Legation of The  
United States of America

Ottawa, Canada.  
December 11, 1937.

STRICTLY CONFIDENTIAL

Dear Jimmy:

The last two times I have seen Lord Tweedsmuir he has made the categorical statement that he feels very strongly that the British Government should approach our Government as soon as possible with a view to reaching a settlement on the debt question. He feels that this is as important, if not more important, even than the conclusion of a trade agreement but that if both could be put through this would clear up all misunderstandings and really place the relationship between the two countries on a very firm and lasting basis.

Apparently, from what he says, he has written several private letters to Neville Chamberlain along these lines and has heard from Chamberlain in reply that the matter is being given the serious attention

The Honorable James Clement Dunn,  
Adviser on Political Relations,  
Department of State,  
Washington, D. C. U.S.A.

- 2 -

of his Government. More recently Lord Tweedsmuir appears to have been in correspondence with Sir John Simon, Chancellor of the Exchequer, which would indicate that things are "growing warmer". I understood from him in our last talk - unfortunately we were interrupted - that Sir John Simon also seems to share Chamberlain's and Tweedsmuir's views but sees certain practical difficulties which must first be removed. (It is not unusual that the man who has the carrying out of the policy is apt to move a little more slowly than those who furnish the ideas but leave it to others to carry them out.)

I judge from what Lord Tweedsmuir said, or was in the course of saying, that Sir John Simon would be inclined to divide the debt into two parts, the first dealing with debts contracted prior to the Armistice, and the latter those contracted after the Armistice.

I was glad to hear from you that the Secretary's reaction was that "we wouldn't for a minute discourage anything of that kind." I dined at Government House the same night that I had this message from you but unfortunately did not have an opportunity to speak to Lord Tweedsmuir. It was a large dinner for the newly arrived French Minister and I was not given an opportunity to have any conversation with the Governor General except formal greetings on arrival

and departure. However, if, as I hope, I have an opportunity within the next week or so to see him I shall certainly try to get him to clarify the position taken by Sir John Simon. In the meantime, in the talks I have had with him I have certainly done nothing to discourage the suggestion he has made. On the contrary, I was a little worried after my first talk with you lest I had done too much to encourage it.

While I am on the subject of Lord Tweedsmuir, he also said the other night that Lord Halifax's visit to Hitler really accomplished much more than had thus far been revealed. Halifax, he said, had gained the same impression as Mackenzie King, both in his talk with Hitler and Goering, that both of them are heartily opposed to war and determined to do everything in their power to avoid it. Tweedsmuir did not say in what particulars the Halifax visit had accomplished more than had been generally thought but confined himself to the general statement that he felt we had every reason for encouragement from the visit and that he thought the effect would soon make itself felt.

Tweedsmuir also expressed the opinion that the trade agreement negotiations were proceeding satisfactorily from the British end; that Neville Chamberlain and the Cabinet were all determined to put an agreement through. He felt

- 4 -

that King's Cabinet was on the whole now inclined to play ball. Howe and Ilesley he particularly mentioned as being behind the Prime Minister. He seemed less sure of Euler and Dunning, particularly the latter.

So far as Bennett was concerned, he deplored the position taken by Bennett as inconsistent and entirely out of date, but he insisted that Bennett no longer even represented the Conservative party and that most of his own group were against him in the position he was taking.

In this connection I told Lord Tweedsmuir what I had said to Sir Francis Floud before he left for England and have since repeated to Dr. Skelton and Norman Robertson, namely, that I felt it would be a great mistake if the British Government permitted the situation to become confused and did not make entirely clear the basis on which their negotiations with the United States are being conducted, namely, that it is the British Government, not the United States, which is asking the Dominions to consent to amend certain of the preferences they now enjoy in the United Kingdom market: that the United States has never challenged the principle of preferences, which is not involved in the present discussions: that the Secretary's objection is not to preferences per se but to preferences which amount to an embargo. We are willing to admit and have admitted that the Smoot-Hawley tariff was a mistake,

- 5 -

and we are doing our best to remedy the situation resulting from it. So also we hope that the British Government and the Dominions feel that the Ottawa Agreements, if not a mistake, at any rate were enacted to meet a situation that no longer exists. This being so, it is up to them - among themselves - to take steps to remedy this situation.

If this is not made clear - and certainly it seems to me that thus far the point has not been sufficiently stressed - then Mr. Bennett and those in Canada opposed to having them give up any of the preferences now enjoyed will continue to attempt to shift the issue where they want it and to put forward the argument that it is the "Big Bad Wolf" to the south that is insisting on Canada's yielding her place in the United Kingdom market: and of course with Bennett it is all black or white: his claim being that we are insisting upon the abandonment of preferences, not a reasonable reduction in certain of them.

I explained to Lord Tweedsmuir, as of course I had the others, that I realized that this was gratuitous advice and that it was given entirely on my own responsibility. I had no instructions from Washington and I had hesitated for some time to mention it as it might seem as though I were undertaking to tell them how to run their own show. (As a matter of fact, I feel that we have an

- 6 -

interest, although I didn't say so to them, in avoiding an unnecessary and unjust sense of bitterness being created in Canada against the United States through the use of such arguments which, even if later refuted and proved to be untrue, nevertheless make a lasting subconscious impression on the average man in the street.) Both Lord Tweedsmuir and Floud saw my point. Floud told me that he expected to see Chamberlain on his return and talk the matter over with him, and Lord Tweedsmuir said that he was in regular correspondence with Chamberlain and would see that this point was not lost on him.

Skelton still seemed inclined to argue, as did King at first - last August - though no longer, that the point I make is a distinction without a difference and that in fact it is we who are virtually forcing Canada to give up their preferences in the United Kingdom market to us. Norman Robertson, I think, feels that the position is now clearly understood. Mr. King, always the astute politician, argues with some reason that it is just as well to let Bennett go on shouting "treason" and that "King and his Government are giving up everything." Then when the truth is known everyone will be so relieved that they will accept willingly what is asked and laugh Bennett down.

King is right up to a certain point, that is, that it is just as well to let Bennett prepare them for the

- 7 -

worst and then they will be relieved to find out what they are actually called upon to do. But that does not answer the point I am trying to make, namely, that it is Britain and not the United States that is doing the asking of Canada and the other Dominions.

All the above is, I fear, very rambling and verbose and there is certainly nothing new in it, but I wanted you and Jack Hickerson to know just what indiscretions I have committed. Also, tomorrow is the day on which the British note on debts should be sent and it occurs to me it might be useful for you to have this word with regard to Lord Tweedsmuir's correspondence with Sir John Simon at this particular time.

Sincerely yours,

(Initialed) N. A.

P.S.

December 14.

Since the above letter was begun I have had another talk with Lord Tweedsmuir. He tells me that Sir John Simon's idea would be to propose payment by the British of a globular sum representing an amount which both

- 8 -

Governments agree is due, then to negotiate with us for a settlement of the balance in dispute. Whether this will be mentioned by the British Government in tomorrow's note or not he did not seem to know, but my guess is that they are not ready yet to make the proposal and would probably wish to sound us out first.

## GROUP MEETING

December 22, 1937  
9:30 a.m.

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

H.M.Jr: What do you know, Mac?

McR: I don't know a thing except what I read in the paper while I was in bed, because I just got out about 8 o'clock this morning for the first time.

H.M.Jr: O.K. Don't have anything?

McR: Nothing. The boys were telling me about that small claims thing; Ros was telling me about that small claims thing. All you can do is dispose of it one way or the other, open or shut.

H.M.Jr: That's all right. He said he's been waiting one month for that.

McR: I sent it down through Mr. Oliphant's mail; I didn't send it to his office.

H.M.Jr: That's got to be done by noon today. Got to give Helvering service. And I've also told him I don't want to get in on it again. Just one month it's been over at the Secretary's office; when I say the Secretary's office..... - so will you take care of it by noon and give him a decision? Please.

Magill: I'm afraid he won't like the decision.

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

McR: See, the trouble in the first place was that I refused - that is, advised against doing what he wanted to do, and now he's trying to find out the reason why ....

-2-

H.M.Jr: Mac, old man, do you mind ....

McR: Yes, sorry,

H.M.Jr: Mr. Magill was on the Hill. I told the secretary I wanted it settled by noon by the two of you. I didn't know Oliphant was in on it. I said it would be settled by noon between you and that I wouldn't get in on it. Is that fair enough?

Magill: All right with me.

McR: Sorry I raised the question.

H.M.Jr: As far as I know, Oliphant wasn't in on it when Mr. Helvering filed his complaint. If he wants to get in on it, all right. But you two will accept the responsibility.

Magill: Sure, sure.

H.M.Jr: Fine.

For the benefit of those here, because this is partly - I think you (Bell) are interested, and I think you may agree with me. Straus came to my house the other night very much upset about what he should do about this application of Ihlder, you see. So he wanted ... In the first place, the President told him through James Roosevelt that he - whatever was done, he wanted the Ihlder organization to be under the supervision of the United States Housing. Straus didn't know what to do. So I said of course he should do what the President wanted him to do; if the President said he should take that under his wing, he should do it.

Then, he didn't want to give him anything because he said Ihlder's attitude toward this thing was entirely different than his. It was the best explanation I ever got yet; that's why I'm taking time to explain it. The Wagner-Steagall Housing Act - the philosophy of it was that they were to give people who couldn't afford an economic rent ... Now, I think it's interesting to get this, because I never heard it so clear before. He said that the Wagner-Steagall bill says that under

-3-

that houses should be built for people who can not afford an economic rent, and therefore they give them this rent subsidy in place of relief.

What Ihlder is trying to do is to make the thing pay, which is entirely contrary to the Wagner-Steagall philosophy. Now, I'm just repeating it word for word. And that he charges what the traffic will bear, and then if the people get out of work, why, they have to go on relief. And Straus says you can't mix the two, because the two things just don't mix. And I don't want to - and, again, that Ihlder's theory was just a crackpot theory, that he made money on his real estate.

I'm not trying to belittle Straus; just want to give you this background. And that you just couldn't mix the two things, and he didn't want to have anything to do with it, so what should he do?

Bell: He says he doesn't want to have anything to do with it?

H.M.Jr: No, he doesn't want to give him any money at all. Wait until I get through.

So I said, "Now look, you asked me for advice and I'll tell you what I'd do. I'd give Ihlder a reasonable amount" - said he'd refer it to the Budget - "a million dollars to carry out the alley dwelling the way he thinks it should be done, provided that the District - Ihlder will take, say, another million dollars and do it the way you say the Wagner-Steagall should do it. Then you've got both of them right here in the District. You can't say that Ihlder's wrong any more than you can say Ihlder's wrong. I'd do it both - do it the way you say, \$5 a room plus the rent subsidy, then do it Ihlder's way, where he charges \$10 a room, or whatever he charges, and clears it up. My advice to you is to do both."

He says, "That's wonderful; I never thought of it."

So he's going to go ahead and build two kinds of projects on - one called the Straus theory and one the Ihlder theory.

-4-

- Bell: Is that what he's going to put up to me? I've asked him for a report on it.
- H.M.Jr: That's what he's going to put up to you.
- Bell: Of course, the alley dwelling authority doesn't come under the philosophy of the Wagner-Steagall bill; a section authorizes the President to allocate - to give them the money. There isn't any loan or anything.
- H.M.Jr: I know. But I thought it would be very interesting to see the two of them side by side in the same district, one with the rent subsidy and one paying for itself.
- Bell: Well, I had no intention of giving Ihlder all the money he wanted. He wants 7 million dollars; that's just ridiculous.
- H.M.Jr: I said give him a million dollars for each.
- Bell: A million and a half would be plenty.
- H.M.Jr: Whatever it would cost to do a low-rent job. If they can do it for half a million dollars under the Wagner-Steagall theory, let them do half a million dollars. Let them do both. Don't you think that's horse sense?
- Bell: That's all right. He can't get any contribution from the District. The alley dwelling authority is set up entirely differently than any housing authority in the states.
- H.M.Jr: I want to tell you what I advised them, because I thought I gave them good advice. He was going to turn down the alley dwelling authority entirely and not give them the money; then he'd be in a nice fix.
- Bell: Well, he couldn't do that. The Act directs the President to allocate it.
- H.M.Jr: Well, I never heard it explained as clearly as that. But I never quite - so I told him - I said, "Well, as long as you've told me, I want you to know, if that's the philosophy of the Wagner-Steagall bill, I'm in complete disagreement with it, and I think

-5-

that these things should pay for themselves." Then I said, "But that isn't what you came to ask my advice about. But I want to let you know how I feel."

Bell: All right.

H.M.Jr: I didn't want to make such a flat statement; I mean you people - somebody else, if he disagrees with me - at least he knows where I stand. Huh?

All right by you (Taylor)?

Taylor: Yes, sir.

H.M.Jr: What?

Dan?

Bell: I haven't anything.

H.M.Jr: Still Thursday noon?

Bell: (Nods yes) I'd like to talk to you tomorrow morning some time about your testimony before the Appropriations Committee. Won't take very long. Just a few places.

H.M.Jr: Want an appointment?

Bell: Yes. About the same time we talk about the other, I think - 11 o'clock.

H.M.Jr: Bell, 11?

Bell: All right.

H.M.Jr: And Haas wrote something for me to say on my estimating which everybody, including myself, thought was pretty good, and I asked him to give it to you.

Bell: I've got it, but I haven't read it.

H.M.Jr: Will you?

Bell: Yes.

H.M.Jr: Thank you. All right?

-6-

Haas: Mr. Secretary, with regard to the same subject, there's a few places in there where you made a statement and have authority for the statement you made, but it's a question of definition; I think it's best to leave it stand the way you said them. In other words, some people may say a thing a different way.

H.M.Jr: Mind you, I don't say anything. This is the President's budget message.

Haas: I don't mean that; I mean the testimony.

H.M.Jr: We'll go over it at 11 o'clock. I don't know what Bell has in mind. All right?

Bell: Yes. I don't think there's much. Just one or two places.

H.M.Jr: All right. Has Gaston looked at it?

Gaston: I've looked at it, yes.

Bell: Gaston has practically the same questions that I have, in two places.

H.M.Jr: Who else has got a question? Have you (Haas)?

Haas: I've looked at it.

H.M.Jr: Why don't you and Gaston come in at 11 also?

Gaston: All right.

Upham: Nothing.

H.M.Jr: Have you offered to help Bell on his budget message if he wants it? You usually help him.

Bell: I'll look to him next week.

Upham: Be very glad to.

H.M.Jr: Anything else?

Upham: (Nods nothing)

-7-

Lochhead: Nothing.

Gibbons: Got a memorandum on Honolulu from me?

H.M.Jr: Yes, let's clean that right up.

Gibbons: I haven't got the full written report yet.

H.M.Jr: Look, old man, can't you just use your horse sense and I'll back you up on anything you do?

Gibbons: That's what I intended to do, but you spoke about - when you got back, that you wanted me to keep you advised.

H.M.Jr: And you and Mac had it all fixed up for me to sign the thing, and I came back and I held it up. Now, what I say is, again ....

Gibbons: He was drunk in the hotel out there.

H.M.Jr: If he was, I say that that fellow, no matter what his politics are, even if he's a Democrat ...

Gibbons: On the other hand, they say this newspaper is a "black man" sheet.

H.M.Jr: Oh, that's what they told me. Never mind what the newspaper ....

Gibbons: Commander told me he's sending through a confidential report.

H.M.Jr: I say, even though Mac recommended that I sign it, that ....

Gibbons: That's all right; I've got plenty. And on the Bangs thing, you read his ...

H.M.Jr: Yes.

Gibbons: That's O.K. with you, is it? You don't want to make any changes?

H.M.Jr: I wouldn't change it.

Mac, Jere Cooper wants a letter saying what a swell guy he is and if I would give anybody a commemorative coin I'd give it to him, but I'm terribly sorry -

-8-

something he can show to the folks back home.

- McR: I'm just delighted to give him that kind of a letter.
- H.M.Jr: That's all he wants - that if I'd give it to anybody, I'd give it to him, and he's a swell guy.
- McR: As long as we don't have to give him the coin, it's all right.
- H.M.Jr: He doesn't want the coin. Just something to show the people back home.
- Taylor: To put in the papers.
- H.M.Jr: Listen, I don't want to get in on this either, Mr. Gibbons. I don't know a damn thing about Collectors of Internal Revenue. You and Mr. Helvering handle that. You and Helvering and Jim Farley. See, old man?
- Gibbons: He called me the other day.
- H.M.Jr: I don't know whether we want to have Keenan represent us on the Hill.
- Gibbons: I called Keenan and told him no.
- H.M.Jr: You and Guy fix it up - and Jim - whatever you do.
- Gibbons: Did you see where Schwellenbach said Bone is stealing all his patronage? Just a question between the two Senators. Can't worry about it.
- H.M.Jr: You and Guy and Jim Farley - whatever you agree, I'll sink with you.
- Gibbons: Professor from Princeton called up. Mr. Cairns said he's not a professor but a promoter. What was his name? About some paper from China that was supposed to come in free of duty, and they wouldn't submit samples.
- H.M.Jr: Not a professor?

-9-

Gibbons: He says he's a promoter.

H.M.Jr: He's one of the ranking educators of America. Are you joking?

Gibbons: Herman ...

H.M.Jr: Dr. Flexner of Princeton? Why, he's one of the greatest educators in America. I don't know who's trying to be funny.

Gibbons: Well, that's the reply I got.

H.M.Jr: From Cairns?

Gibbons: Yes.

Oliphant: Who?

Gibbons: Cairns said he was a promoter.

H.M.Jr: I guess Cairns was kidding you.

Gibbons: Well, he's all straightened out.

Taylor: Which one?

Oliphant: I haven't seen - will you send it to me? Have you got it?

Gibbons: No, it was some stuff .... He was wrong.

Oliphant: I mean you got his protest?

Gibbons: He just called up on the telephone. Johnson handled it, Herman.

H.M.Jr: He got the same day three different letters from Customs. "Now, Mr. Morgenthau, which one of these three letters should I pay attention to?" Got terribly upset and everything.

I said, "I can't handle it myself, but I'll have somebody call you the same day."

Gibbons: All taken care of.

-10-

H.M.Jr: He said, "I got three different letters. What should I do?" Terribly upset.

Gaston: Paper?

H.M.Jr: Some document.

Gibbons: Supposed to be something from China that came in for educational purposes. But in the shipment there was a lot of other stuff that wasn't that kind. He was wrong. He was absolutely wrong.

H.M.Jr: Who?

Gibbons: The professor ~~was~~ Herman, you needn't bother. Johnson's taken care of it.

H.M.Jr: Cairns was taking you for a ride.  
All right. When you leaving?

Gibbons: Friday night.

H.M.Jr: For ...

Gibbons: Havana.

H.M.Jr: Havana. I haven't said publicly I'm coming.

Gibbons: I'll talk to you when I get there - call you up.

H.M.Jr: The only person that knows I'm coming down there is the Ambassador.

Gaston: There's a story in the paper.

H.M.Jr: I know, but nobody following it up. I mean I don't want to ....

Gibbons: No, no, I understand.

H.M.Jr: You get down there Saturday?

Gibbons: No, we'll be there, I think, Monday. Takes about two days - Saturday - Friday night ....

H.M.Jr: You leave on the evening plane?

-11-

Gibbons: No, I'm going down with my wife on the boat, on this cruise.

H.M.Jr: Oh. Then you stay there?

Gibbons: No, I'll be back here. . They're going to stay. I'll be back on the second.

H.M.Jr: What boat is that?

Gibbons: The Virginia.

H.M.Jr: I - oh, I thought you were going to fly. Wayne?

Taylor: (Nods nothing)

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Herbert?

Gaston: I haven't anything. I don't know whether Mrs. Klotz got hold of this man Rukeyser or not.

H.M.Jr: He's in New York.

Gaston: He's in New York. Said he was going to be here until Thursday or Friday.

H.M.Jr: Who's handling Associated Gas and Electric? You (Oliphant). All right. Will you draft an answer for me to sign to Mr. Burroughs, telling him why I don't want to see him, and if he doesn't know now yet what a jeopardy assessment is, it's about time he learned.

Oliphant: Doesn't know what what is?

H.M.Jr: A jeopardy assessment. Is that the correct word?

Oliphant: That's right.

H.M.Jr: What did Henry pull on me? He pulled a word on me

-12-

last night. Had a great argument about it.

Oliphant: I'd like to have a few minutes, if I can, any time today.

H.M.Jr: You can.

You're (Gaston) going to do one for Julius, aren't you?

Gaston: Yes.

H.M.Jr: I've got more or less - make it short. I've got something pretty much myself, but you bring it in, let's go over it. I'd like to answer it today.

Gaston: Would you like <sup>me</sup> to draft something before I come in with it?

H.M.Jr: Yes.

Gaston: Yes.

H.M.Jr: Might show it to Taylor. New York Times - the man who's in charge of their publishing - advertising end, writes me a letter plus a clipping from the editor and publisher: politics and placing our advertising in magazines.

Gaston: He uses a phrase that gives us a nice opening. He says we're unfair to the newspapers, putting it on a patronage basis.

H.M.Jr: So when you're ready let Wayne know.

Gibbons: On Baby Bonds?

H.M.Jr: What? Baby Bonds, yes. Gives me a chance to unload a lot of stuff off my chest.

Taylor: That's a pretty good springboard for you.

H.M.Jr: Yes, plenty, and I just love it. And he quotes Herbert Gaston editorially, so he (Gaston) ought to rise to the occasion.

-13-

Gaston: Yes.

John Flynn has had a - did you see that in the News last night about Jesse Jones' capital stock? He's got the thing all beautifully mixed up. His column is just as crazy as it can be.

H.M.Jr: Oh, Flynn's crazy anyway; he doesn't know any more about economics - he doesn't know any more about it than General Johnson does.

Gaston: I thought I might write to Flynn about it.

H.M.Jr: There are two of them. I'd like to add a third, the lady of the Hope Diamond. The three of them ought to combine. Did you read that on gold? The three of them ought to get together and do a joint column.

Taylor: I just read the summary that we had in the Treasury thing there. I thought it was wonderful.

Oliphant: Every time I've heard Johnson on the radio, I've been haunted by the feeling that I've heard that voice somewhere else - somebody else's voice. I found out the other night. It's Joe Penner's.

Bell: Doesn't have a duck, does he?

Oliphant: Just the same.

Bell: General Johnson doesn't have the duck.

Magill: (Nods nothing)

H.M.Jr: All right, I guess.

December 22, 1937  
2:30 p.m.

W. R. Burgess: Yes, sir.

H.M.Jr: I just wondered how things were going.

B: Well, things are a little bit weaker today. I think they had a little drop coming to them, you know.

H.M.Jr: Yes. Well, I meant more - not on the ...

B: Oh, yes.

H.M.Jr: I meant how they've been going, say, the last week or so, because I really haven't ....

B: Oh, they've been going beautifully. They've been very strong.

H.M.Jr: Yes.

B: There's been insurance companies in the market buying. There's been banks in the market. It probably has been going too fast.

H.M.Jr: I see.

B: That's been the tendency. During the week we've - we've swung out twenty million of bonds and disordered stuff. That helped keep things in order somewhat.

H.M.Jr: How much?

B: Twenty.

H.M.Jr: You've bought or sold?

B: Sold twenty.

H.M.Jr: I see.

B: And then ten for you the other day on the FDIC.

H.M.Jr: Yes.

B: Whatever it was.

H.M.Jr: Yes.

B: And - but the market has gobbled all that up very easily.

-2-

H.M.Jr: Uh-huh.

B: And been strong as a bull pup.

H.M.Jr: Uh-huh. Well ....

B: Been afraid it would go too fast, too far.

H.M.Jr: I didn't want to sell any more, but I think beginning Monday, if it's strong again we may give you another ten million to sell.

B: That's O.K.

H.M.Jr: But I thought we'd wait now until Monday.

B: Yes.

H.M.Jr: Don't you think so?

B: I think I would. It's a little weak today.

H.M.Jr: Well, I can wait -

B: But if it gets strong and seems to mean something, why, we'll call you up.

H.M.Jr: Do that, and ...

B: I think it's a good time to make some of those shifts, and be ready to operate the other way when we have to.

H.M.Jr: Tell me, how many of your two and a halves have you disposed of?

B: We're down to forty-two and a half million.

H.M.Jr: I see.

B: And then we'd sold down to fifty last week.

H.M.Jr: Yes.

B: And they've sold seven and a half this week.

H.M.Jr: Uh-huh. Well, everything seems - the Government bond market - unbelievably good, doesn't it?

B: That's right. Yes, and it's lapped over some into the corporate markets too.

- 3 -

H.M.Jr: Yes, I know it has.

B: That's always helpful.

H.M.Jr: Fine.

B: Very good.

H.M.Jr: Well if I don't talk to you again, Merry Christmas.

B: Same to you, sir.

H.M.Jr: Thank you. Goodbye.

B: Goodbye.

December 22, 1937.  
3:45 p.m.

Operator: Go ahead.  
Gov.  
Harrison: Hello.  
H.M.Jr: Hello.  
H: Oh, Henry?  
H.M.Jr: Yes.  
H: Kobayashi, who is the agent of the Bank of Japan.  
H.M.Jr: Yes.  
H: Came in this afternoon to let us know that according to a cable he's received from the Japanese financial commission.  
H.M.Jr: Yes.  
H: In New York.  
H.M.Jr: Yes.  
H: From the Treasury in Tokyo.  
H.M.Jr: Yes.  
H: The Federal Reserve Bank of New York will, in future, be advised before shipment of gold to San Francisco is actually made.  
H.M.Jr: Good.  
H: So, we've got official confirmation of it now.  
H.M.Jr: That's fine.  
H: And I just wanted to let you know.  
H.M.Jr: Thank you. I got - I had that boy Ukawa sweating here yesterday.  
H: You had him what?  
H.M.Jr: I had him sweating.  
H: Really.  
H.M.Jr: Yes. He was so afraid I was going to make a public statement.

- 2 -

H.M.Jr: Craziest people I ever saw.

H: Yes, they're - I'm glad it straightened out anyway.

H.M.Jr: Well, I'm glad you got that cable. It shows when you put the pressure on them. ...

H: Well, we - I haven't got the cable itself. He just came over and advised us orally.

H.M.Jr: Good.

H: That according to a cable received by the Financial Commission from the Treasury in Tokyo.

H.M.Jr: Good.

H: We will be advised.

H.M.Jr: Good.

H: Yes, that's all straightened.

H.M.Jr: Thank you very much.

H: All right, and merry merry Christmas to you, Henry.

H.M.Jr: Many of them to you, George.

H: Thank you for your permit to see the vaults. I'm going out, leaving tomorrow afternoon, and I will be there Friday afternoon. I don't know whether it'll be open or not, but I'll try and see it Friday.

H.M.Jr: Well, it's a risk, but I'm willing to take it.

H: Yes. All right, you can tell me, what I used to tell everybody in my vault. They can get - take away anything they can get away with.

H.M.Jr: Right. Well I tell you - it - I feel very good about the gold standard when the Governor of New York wants to go out and take a look at gold.

H: Been so long since I've seen any Henry.

H.M.Jr: What?

H: It's been so long since I've seen any.

H.M.Jr: I know. I know. It's a good story, and I think I'll tell the newspaper men about it.

- 3 -

H.M.Jr: All right.

H: All right, Henry.

H.M.Jr: Have a nice time.

H: And my best regards to Mrs. Morgenthau.

H.M.Jr: Thank you.

H: Goodnight.

Henry

December 22, 1937

32

The Secretary of the Treasury today entertained the Mexican Minister of Finance, Eduardo Suarez, and the Mexican Ambassador, Dr. Najera at dinner at his home. Also present were Assistant Secretary of the Treasury Taylor, Mr. H. D. White, and Mr. Lochhead.

In the course of the general conversation there was some mention made of doctors, and Mr. Morgenthau took advantage of the opportunity to use the medical terminology in referring to Mexico's present condition. Mr. Morgenthau said that in his opinion treating the patient (Mexico) by applying adhesive court-plaster for a small scratch when the patient was suffering from a serious illness would not accomplish any real benefit. He felt that the general condition of the patient required a thorough examination but that at the present time, he reminded Dr. Najera and Minister Suarez, President Cardenas, of Mexico, was the doctor in general charge of the patient. He felt that if the doctor in charge cared to have the help of the United States in attempting a real cure of the condition he would find us receptive to a general examination of the whole situation. However, the ethics in cases of this kind was to have the physician in charge invite an outside physician as consultant to help in diagnosing the case, and although he was perfectly willing to cooperate, it naturally could be only at the invitation of President Cardenas. Secretary Morgenthau added that in this case he could assure them that the consultant would not insist upon any immediate payment of his fee and would be content to let this be taken care of at some future time.

Dr. Najera and Minister Suarez understood and took part in the conversation along these lines, and apparently were appreciative of the suggestion. They intimated they would get in touch with President Cardenas immediately and advise the Secretary of the outcome in due course.

December 22, 1937

HM, Jr telephoned the President at 3:30 and said: "The Tatsuta Maru took on Board at Los Angeles mail with Japanese stamps which did not clear through our Post Office. That is against the law. That boat is now in San Francisco. The normal thing would be for our Customs Agent to go on board and just seize the mail. Evidently the Japanese have something that they do not want us to know about. I am not asking anybody else's advice. Evidently before this thing got to me it had gone to the State Department and they have been objecting." The President said, "Go ahead and do it and don't ask anybody."

\* \* \* \* \*

After speaking to the President, the Secretary sent for Oliphant, Taylor, McReynolds and Dow, who had been waiting in Mr. Oliphant's office. The Secretary told Mr. Dow to send a telegram to Frederick S. Freed, Supervising Customs Agent at San Francisco, and give him his instructions. Also, to follow up the telegram by a telephone call. He told Dow to be sure to tell Freed to have enough men with him when the seizure is made and to be sure that the mail was immediately placed in the custody of the Post Office Department. He also told Dow to have all other ports watched.

(Attached is copy of Oliphant's memorandum to the Secretary showing how the matter was first brought to the attention of the Secretary. Also attached are a copy of telegram from Freed and copy of telegram of instructions from the Commissioner of Customs addressed to Freed.)

# TREASURY DEPARTMENT

34

## INTER OFFICE COMMUNICATION

DATE

December 22, 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

At three o'clock this afternoon, Mr. Cairns brought to my attention the matter of reported violations of section 496, Title 39 of the United States Code on the Pacific Coast, involving mail bearing Japanese stamps being taken on board outgoing vessels without passing through the United States Post Office. I attach copy of a telegram from Freed, Supervising Customs Agent at San Francisco, dated December 21, and a copy of the telegram which has been prepared in the Bureau for dispatch to Freed.

I was told that this practice was first suspected by the Post Office Department about the middle of December and has been under investigation since and is said to prevail at Los Angeles, San Francisco and Seattle. Mr. Weber of the Post Office Department had discussed it with Messrs. Sturgeon and Ballantine of the State Department, the latter two indicating that this mail should not be seized pursuant to the above-mentioned statute.

You will recall that I brought the matter to your attention at about 3:30, Mr. Taylor being present, and that you communicated with the President thereafter. You told Mr. Dow that the President had said the law should be carried out by the Bureau without consulting anybody and instructed Mr. Dow to wire to Freed and then to telephone him that, with

- 2 -

plenty of help, he should make the seizure in the regular way without seeking publicity, and that the same communication should go to the other Pacific ports.



Attachments

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

~~Collecting the Revenue from Customs, 1925~~

U. S. GOVERNMENT PRINTING OFFICE

3-14117

December 22 1937

Supervising Customs Agent  
Post Office Box 2588  
San Francisco California

If you are satisfied that letters are being carried on board any vessel whatsoever contrary to section 495 title 39 United States Code or any other law of the United States you should seize such letters and convey them to the nearest post office in accordance with section 495 title 39 United States Code.

NOYLE

WRJ-fg 12-22-37

TREASURY DEPARTMENT  
Telegraph Office

1937 DEC 22 AM 8 31

1 PO M 101/105 NL GOVT COLL

MR SAN FRANCISCO CALIF DEC 21 1937

Investigative Unit  
Bureau of Customs

We have information large quantity first class mail on board Japanese vessel Tatsuta Maru bearing Japanese postage stamps but actually taken aboard in this country STOP We intend seizing this wrongfully posted mail matter Wednesday under article one twenty one customs regulations nineteen thirty seven if Department perceives no objections at this time STOP Vessel sails from San Francisco Thursday noon STOP There is a similar case in Seattle which I am told has been subject of communication with both Customs Bureau and Postal authorities STOP Please reply immediately Postal Telegraph as we desire to make search Wednesday to avoid possible delay in sailing of vessel

FREED.....830A

about Dec. 22, 1937

CONFIDENTIAL

UNEMPLOYMENT CENSUS

1. Totally unemployed:			
	Male .....	4,127,000	
	Female .....	<u>1,651,000</u>	
			5,778,000
2. Working on Federal relief (W.P.A., C.C.C., N.Y.A., etc.)			
	Male .....	1,634,000	
	Female .....	<u>333,000</u>	
			<u>1,968,000</u>
	Totally unemployed and on Federal relief .....		7,746,000
3. Partly unemployed:			
	Male .....	2,590,000	
	Female .....	<u>567,000</u>	<u>3,157,000</u>
	Total .....		<u><u>10,903,000</u></u>

Note: Test check not completed but indications now are that it will run higher than above.  
 American Federation of Labor index of unemployment for October was 8,474,000 which compares with 7,746,000 above.

*swB*

*Mr. Biggs telephoned there from Toledo.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

December 22, 1937.

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Mexico

Climate ranges from tropical to temperate.

Mexico is about as big as the southwestern corner of the United States, comprising an area as large as that of Texas, Arizona, New Mexico, Nevada, and California combined. Two mountain ranges run down each side along the coast, somewhat as in this country. Between the two lies a vast plateau with an altitude of five to eight thousand feet (about altitude of Denver, Colorado), where the climate is temperate, much like that of New York in September. The lowlands along the coast are hot, unhealthy, with heavy rainfall on the Gulf side. Along the Pacific slope and in the interior irrigation is needed.

Percentage increase of population about as rapid as that of United States.

The present population is about 16½ million. Rate of increase since 1920 is about the same as in this country. The vast majority are of mixed Indian and white ancestry. Nearly half the people live in cities (United States only slightly more urbanized). Illiteracy is very high. Predominant religion is Roman Catholic.

Form of Government much like that of United States.

Mexico is a Federative Republic, divided into States, each of which has the right to manage its own local affairs. The Congress is composed of a Senate and Chamber of Deputies elected by popular vote. The President is likewise elected by direct popular vote for a six-year term. He has a Council of Secretaries, much like the Cabinet in the United States.

None of the more important legislative and executive officials are eligible to succeed themselves for the term immediately following.

- 2 -

Mexican history is marked by revolts and violence.

With the exception of the long, firm rule of Diaz, 1876-1911, Mexico has experienced a succession of revolts and political violence extending from the time of its independence in 1821 till the present. There was a series of uprisings following the World War till the election of Obregon in 1920, and following him, of Calles. Obregon was elected again but assassinated. Rubio resigned because of ill health, and was succeeded by the present President. Lazaro Cardenas, of the National Revolutionary Party, who was elected in 1934 for a six-year term.

The present Government is radical in tone.

The National Revolutionary Party early in 1934 embarked on a Six-Year Plan. The program provides for the complete secularization and expansion of the school system, Mexicanization of industry, direct intervention of the Federal Government in foreign trade by means of a commission for control of imports and exports and Government aid for exporters. Model working men's houses are to be constructed. Land is to be redistributed. A Federal commission with far-reaching authority over light and power companies is to be instituted. The program also provides for extensive public works. President Cardenas has been on the whole firm in his efforts to carry through the plan, and it may be said that substantial progress has been made.

What is the status of foreign oil companies in Mexico?

Since 1921 oil production in Mexico has declined steadily from a peak production of 193 million barrels in that year settling to an annual production at the present time of approximately 40 million barrels. It is well known, however, that only a small proportion of the total potential oil-bearing land in Mexico is being exploited.

The influx of capital from abroad has been impeded by Article 27 of the Constitution of 1917, which gave the Mexican Government title to subsoil rights on all lands not acquired prior to 1917. Despite legislation intended to clear up this difficulty, the position of oil companies in Mexico is still regarded as anomalous, due both to ambiguity of the law and to fear of possible future action.

In 1934 the Federal Government organized the "Petroleos de Mexico", control of which rests in the Government itself. Laws have been passed aimed directly at favoring operations

- 3 -

of this company, while placing difficulties in front of foreign owned oil companies. One important decree placed an extremely liberal interpretation on the theory of Federal ownership of rivers and waterways, making it possible for "Petromex" to drill on all rivers and waterways even if they run through properties of privately owned organizations, giving the Mexican government a great advantage in withdrawing oil from proven territory at little expense. Another decree placed a tax hectare on oil land concessions, forcing oil companies to turn back to Government ownership any speculative acreage, which acreage is made available for "Petromex".

The instability of labor conditions in the petroleum industry is an extremely important point of interest at the present time. Labor has been obtaining more and more concessions, increasing costs of production. Within the past month a Presidential decision has lifted the daily wage of Mexican oil workers until it is now many times that received in any other industry. This increase applies to workers of foreign oil companies only, and is equivalent to a tax upon foreign producers of oil operating in Mexico. This is but one of a series of steps designed to make exploitation of oil companies in Mexico by foreigners less profitable.

Recently the Mexican Government has arrived at an accord with a British Company, the Eagle Oil, which upsets an agreement made between Calles and Morrow. This agreement guaranteed that foreign companies would not have to pay higher taxes on concessions than had been arranged prior to the 1917 Constitution, nor that royalties would be collected on these concessions. This new arrangement states that the British company will pay 35 percent royalty on the majority of the plots given in the concession. This contract brings out possibilities of American oil interests in Mexico.

Some American companies have been approached and advised that pending concessions will be given if royalties are agreed to, although definite statements have not yet been made that such royalties will apply against concessions already held.

The present Government is furthering land redistribution measures passed under previous Administrations.

Land decrees opening Federal lands for agricultural purposes to all Mexican citizens over 18 were passed under Obregon in 1923 and under Rubio in 1930. Millions of acres have been distributed in this fashion. This is the fashion in which recent governments have attempted to combat feudalism in Mexico.

- 4 -

Present Government adamant in its stand against the Roman Catholic Church.

The present Government has heightened the long-standing controversy between Church and State in Mexico by demanding the expulsion of high Church officials, purging Government offices of nonsympathetic employees, and expropriating Church edifices and converting them into secular schools and other institutions.

What is the chief source of Mexican wealth.

Minerals are by far the most important cash products produced in Mexico. The ownership in mining properties is chiefly foreign, probably between 75 and 85 percent, with American capital leading, but exact percentages are difficult to ascertain. It is believed that this percentage has been reduced in recent years due to Mexico's laws forbidding new concessions being given to foreigners since 1917. Those foreigners already owning properties have been disinclined to invest new money or enlarge present plant capacities due to their feeling of insecurity in the country, and their fear of growing labor troubles. Labor's demands have increased to such an extent that large employers are loath to take on the responsibility of more help.

The minerals produced, listed in the order of their importance are: Silver, oil, gold, lead, zinc, copper, arsenic, antimony, cadmium, mercury, tin, and graphite. Mexico currently produces about 1/3 of the world's silver, and is responsible for about 2/3 of the world's total silver production during the last 400 years.

Mexico's large foreign and domestic debt remains in default.

The total recognized foreign debt is approximately \$200 million, of which a little more than half represents accrued interest.

All the above bonds have been in complete default since 1914 except for the years 1923, 1924 and 1925, when part of the interest payments were made. The foreign obligations, exclusive of accrued interest, are given on the following page:

- 5 -

## Mexican Foreign Obligations

## Dollar Bonds

	Issued	Outstanding
National	\$40,000,000	\$37,037,500
State	3,252,000	3,252,000
Corporate (Gov. guar.)	25,000,000	21,877,000
Nat. Packing Co. (Gov. guar.) <sup>1/</sup>	6,500,000	4,500,000
Total	\$74,752,000	\$66,666,500

## Sterling Bonds

	Issued	Outstanding
National	£42,700,000	£27,750,163 <sup>2/</sup>
State	2,650,000	1,572,800
Total	45,350,000	£ 29,322,963

## French franc bonds

	Issued	Outstanding
National	(fcs.) 280,275,000	263,891,790
State	3,380,000	3,380,000
Total	283,655,000	267,271,790 <i>fcs.</i>

<sup>1/</sup> Unrecognized.<sup>2/</sup> \$11,792,903 of that sum is unrecognized.

The recognized internal debt at the end of 1936 was about 450,000,000 pesos, of which approximately a third consisted of accrued interest.

(We are preparing a detailed study of the Mexican foreign and domestic debt and matters pertaining thereto.)

The domestic bonds likewise are in default with no immediate prospects of resumption of payment.

Peso virtually pegged to dollar since autumn of 1933.

By a decree issued 1932 the Mexican Treasury was empowered to buy (through the Bank of Mexico) any gold produced in Mexico at the prevailing market price. The following year the Bank of

Mexico was given the power to buy and sell foreign exchange, and was given preference in the market over all other buyers at an equal price, for the purpose of preventing speculation and controlling fluctuations in the rate.

Since November 1933, the peso has fluctuated only slightly in terms of the dollar, around 27.7 cents. From its former par the peso has depreciated some 67 percent in terms of gold and 26 percent in terms of the dollar. In recent weeks, however, there is reported to have been a flight of capital engendered in part by the speeded up program of the Mexican Government. The result has been pressure on the peso to an extent that threatens its stability.

Mexico has had an annual export excess of over 120 million pesos throughout the depression.

Imports amounted to 461 million pesos in 1936 and exports to 776 million pesos. Both imports and exports have more than doubled since the low in 1932 and are now in excess of the 1929 sums.

In the first four months of 1937 exports increased 18 percent and imports 3 1/2 percent over comparable period of 1936.

What does Mexico buy and sell?

Imports consist principally of vegetable and mineral products, textiles, machinery, chemicals, vehicles, arms and explosives.

Over 70 percent of Mexico's exports are represented by mineral products such as silver, gold, lead, copper, zinc, and petroleum, crude and refined, silver alone accounting for more than a fourth of total exports. Vegetable products such as coffee, tomatoes, hemp, bananas, etc., make up 15 percent of her exports.

Almost two-thirds of Mexico's foreign trade is with the U.S.

Over 60 percent of Mexico's exports go to the United States, 9 percent to United Kingdom, 11 percent to Germany, 3 percent to Belgium, and 2 percent each to France, Japan and Netherlands.

The United States is also her leading source of supply, 59 percent of her imports coming from this country, 15 percent from Germany, 5 percent from United Kingdom, 5 percent from Spain and 4 percent from France.

(Lfr 1937)

- 7 -

Our trade with Mexico is increasing.

Our imports from Mexico, which stood at \$118 million in 1929, declined to \$31 million in 1933 and rose again to \$36 million in 1934, \$42 million in 1935 and \$49 million in 1936.

Our exports to Mexico amounted to \$134 million in 1929, declined to \$32 million in 1932, and rose again to \$55 million in 1934, \$66 million in 1935 and \$76 million in 1936.

In the first ten months of 1937 compared with the first ten months of 1936, our exports to Mexico increased 49 percent, and our imports from Mexico increased 28 percent.

We buy chiefly metals, oil, and coffee from Mexico, and sell her chiefly manufactured products.

Leading exports to the United States from Mexico in the order of their importance are: silver, gold, copper, crude petroleum, coffee, bananas and sisal and henequen.

Principal imports from the United States are automobiles and trucks, petroleum and its derivatives, iron and steel products, machinery and chemicals.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

12-22-37

TO Secretary Morgenthau  
FROM Herman Oliphant

The following statute was enacted June 15, 1917. Hence, it is subsequent to, and not limited by, the Hay-Pauncefote Treaty of 1901 relating to the Canal Zone.

Later sections provide forfeiture and punishment for failure to observe the regulations issued by the Secretary of the Treasury under this Act and for the employment of the Army and Navy to enforce its provisions.

United States Code Annotated, Title 50, Chapter 12, Section 191:

"Secretary of Treasury and Governor of Canal Zone authorized to regulate anchorage, movement, and so forth, of vessels. Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Panama Canal, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury."

*Herman Oliphant*

December 22, 1937

MEMORANDUM TO SECRETARY MORGENTHAU

I have discussed the matter with Lochhead and Opper and we agree that, if the British really want to move in the exchange field without moving in the political and strategic field, they could find a way to do it. While this way would not be perfect, it would be sufficiently effective to effectuate our operations under the Trading-with-the-Enemy Act. Simultaneous public announcement of cooperation in exchange control could not be made, since the British would have to act by merely passing the word to their banking community; but that the two governments were cooperating would become known very quickly through ordinary financial channels.

That the British Government does have the de facto, as opposed to the legal, power was indicated by the way the recent Belgian loan was handled in London, and by the way in which they stopped excessive flow of funds into the American market some months ago. The way the sale of United Drug's interests in the Boots chain was handled is another case in point.

No

## OFFICE OF THE COMMISSIONER OF CUSTOMS

December 23, 1937.  
11 a.m.

## MEMORANDUM:

Yesterday afternoon the Customs officers at San Francisco seized from the Japanese vessel TATSUTA MARU approximately three or four hundred letters and post cards for violations of law and immediately delivered the same into the custody of the Superintendent of Mails at San Francisco.

The Japanese vessel HEIAN MARU is now at the Port of Seattle and is scheduled to sail tomorrow afternoon. Supervising Customs Agent Green of Seattle just telephoned that the Customs at Seattle would search the HEIAN MARU this forenoon.

There are several Japanese vessels at San Pedro, which is the port for Los Angeles, and searches of the same will be made today.

There are no Japanese vessels at Portland, Oregon.

*Pres. read this at Cabinet  
Dec. 23, 1937*

December 23, 1937.  
11:32 a.m.

H.M.Jr: Hello.  
Herbert  
Feis: Good morning, Henry.

H.M.Jr: Hello Herbert.

F: Henry, you - your mention of the Stimson-Simón episode.

H.M.Jr: Yes.

F: You remember. I've spoken with Hornbeck, and he says yes, he has a full first hand knowledge and he's completely at your disposition whenever you want to give him a chance to tell you about it.

H.M.Jr: Fine.

F: Well, how'll I leave it. That you'll let him know.

H.M.Jr: I'll get in touch with him the first of next week.

F: Second, on that book of his.

H.M.Jr: Yes.

F: He says he uses it all the time.

H.M.Jr: I'll send it back.

F: Would you. Third, as regards Stimson -

H.M.Jr: I'll send it back and get one.

F: I beg your pardon?

H.M.Jr: I'll send it back and get myself one.

F: All right, thanks.

H.M.Jr: Thank you.

F: And wait, just a minute.

White House

507

Dec 23, 1937

12:30 P.M.

FURTHER COMMENTS

1. Functional statement
2. Pressure groups
3. Civil Service employees
4. Social Security (Reserve \$15,000 M)
5. Grants to States
6. Reorganization ( ? )

RECOMMENDATIONS

1. Appropriation item veto
2. Repeal of section 32 AAA and similar provisions
3. Alternate Budget and improvement in Budget administration
4. Roads ( ? )
5. Fiscal year and tax collections
6. Commodity Credit Corporation

BUDGET

1. Review of 1937
2. Forecast for 1938
3. Forecast for 1939

Confidential

Alien

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1939, together with this message, which is a part thereof. The estimates have been developed after careful analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

PART I

During the first ten months of the calendar year 1937 business conditions improved substantially and it seemed to be the consensus of opinion that these improved business conditions would be maintained throughout the calendar year 1938. I had every reason therefore to expect that the revenues of the Government would increase, and that the total expenditures would decline rather sharply, and that we could thus obtain a balanced budget

-2-

for the fiscal year 1939. Due, however, to the recent business slump we will not receive the revenues anticipated and our expenditures, though less than this year, cannot be reduced as much as expected and we will not, therefore, be able to obtain our objective of a balanced budget. While there are indications that the slump which began in the fall has now come to a halt and that early in the calendar year 1938 we may expect a gradual improvement in business conditions, our 1939 revenue estimates, although predicated on some improvement, do not assume that the average level of business in the calendar year 1938 will reach as high a level as that of 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000, and of expenditures, exclusive of debt retirement but including \$1,138,000,000 for recovery and relief, is \$6,809,000,000, or a net deficit of \$980,000,000. In spite of a reduction from 1938 of more than 510 million dollars in expenditures there will be a reduction of only 110 million dollars

In the deficit because the revenue estimates are 400 million dollars less than for 1938.

Revenue Estimates

In this connection it seems appropriate to point out some of the difficulties involved in estimating the revenue of the Federal Government. Since the tax revenues from practically every major source depend on business conditions during the year for which the tax is levied the Treasury, in estimating the revenue for the ensuing fiscal year, is compelled to prepare business conditions eighteen months in advance. In other words, the Treasury must indicate in December of each year what business conditions will be throughout the period ending June 30, eighteen months hence, in order to determine a basis for estimating the revenues of the Government for that year.

Business concerns lay out programs months in advance but their control of their affairs is flexible enough to permit a change from month to month. The affairs of government are not

-4-

so flexible. The budget represents our fiscal plan and in the form adopted by Congress becomes practically a fixed program as to expenditures; but economic conditions may be such as to radically change the receipt side of this plan. Under this condition and after the expenditure program is adopted and put into operation there is no existing method by which the Executive can materially alter the expenditure program so as to bring it into line with the altered situation with respect to receipts. Later in this message I am suggesting certain changes looking to an improvement in this phase of our fiscal procedure.

-5-

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January, 1937, of the changes in the fiscal picture that have occurred in the last twelve months:

(In millions of dollars)

	Budget January, 1937	President's Message April 20, 1937	Budget Summation October 19, 1937	Budget January, 1938
Receipts-				
Income taxes	\$3,365.3	\$2,955	\$2,792.5	\$2,692.9
Misc. Int. Rev.	2,508.3 )	3,288	2,386.3	2,279.5
Other Int. Rev.	774.8 )			
Customs	463	463	493.9	415.3
All other	182.2	200	210	206.5
Total	7,293.6	6,906	6,650.4	6,320.5
Expenditures-				
Regular	5,430.3	5,494	5,469.6	5,429.2
Recovery & relief	1,826.2	1,830	1,876	1,979.7
Total	7,256.5	7,324	7,345.6	7,408.9
Surplus	37.1	--	--	--
Deficit (net)	--	418	695.2	1,088.4

## Expenditures

In our endeavor to reduce expenditures to bring them within the revenues we are immediately faced with the question as to what items of expenditure may best be reduced without serious interference with the performance of those governmental functions the exercise of which is required by existing law.

Certain expenditures of the Government represent fixed charges which cannot be reduced by Executive action, such as interest on the public debt, military and naval pensions, and contributions to retirement funds and to the old age reserve account.

Another class of expenditures that is subject to some measure of administrative control but which does not afford opportunity for large reductions is made up of such expenditures as must be incurred in carrying on the normal, every-day operations of government. In fact, expenditures of this character necessarily increase with any expansion of governmental functions.

A third type of expenditure is represented by the obligations which we have assumed for the purpose of providing a larger measure

- 7 -

of economic security to the individual citizens of the country, such as aids to farmers and home owners, relief of unemployment, and all the benefits provided under the Social Security program. These obligations, though large in amount, may not well be reduced without depriving a very large proportion of our population of much needed assistance.

A fourth and last category includes those items of public expenditure which might be termed capital improvements, such as highways, river and harbors, flood control, public buildings, reclamation projects, and other public works. This is the one class of Government expenditures which can be readily contracted or expanded in conformity with contraction or expansion of Government income.

There has been appropriated for expenditure on public highways during the past five years almost \$1,500,000,000 and as much more for construction, repair and improvement of roads and streets has been provided by the Federal agencies administering unemployment relief. These huge expenditures have placed the highway systems of the country

-8-

years in advance of what would have been our normal expansion; and it is only natural therefore that this should be one of the first items to receive consideration in any program of curtailed expenditure.

This Budget contains an estimate of appropriation for approximately \$100,000,000 and it will require almost another \$100,000,000 in the 1940 Budget to liquidate the authorizations for the fiscal year 1938. With such an accumulation of unliquidated authorizations there would seem to be no satisfactory justification for failing to adopt the proposals outlined in my Road's Message of November 27th last.

For the ten-year period ended June 30, 1933, the Government spent on an average of \$40,000,000 per annum for river and harbor improvement. During the past five years we have spent on an average of over \$100,000,000 per annum for this purpose. Meanwhile there has developed an insistent demand for greater protection against destruction of life and property by river floods. In view of the large

-9-

expenditures made during the past few years on account of river and harbor improvement and in order to meet this new demand without imposing an additional burden on the Budget, I am holding the Budget estimate of appropriation for river and harbor improvements for the fiscal year 1939 to \$30,000,000 and I am increasing the estimate of appropriation for 1939 for flood control to \$76,000,000.

The large expenditures that have been made in recent years on reclamation projects have not only exhausted the reclamation fund and necessitated additional appropriations from the general fund of the Treasury, but will require for the completion of the projects thus started future appropriations in the amount of nearly \$600,000,000. It would seem obvious, therefore, that new projects should not be undertaken until the projects now under construction shall have reached a substantial stage of completion.

During the past five years more than 1100 new Federal buildings have been constructed under the public buildings program, which

-10-

almost doubled the number of such buildings throughout the country. In many cases the annual maintenance costs are as much as fifty per cent greater than the costs of leased quarters which the buildings displaced, without including any interest or amortization costs of the Government's investment. Capital expenditures of this character, which make no return of the original investment and require instead substantial increased costs of operation, should be among the first items considered in any plan for curtailment of Federal expenditures. I am strongly of the opinion that we should confine our future public building program to those cases where the capital investment will be returned through savings in annual operating costs.

December 23, 1937.  
4:42 p.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner  
Welles: Hello. Yes, Henry.

H.M.Jr: I had a message on my desk when I got back, that you had called me.

W: I tried to reach you about one o'clock. They told me you were at luncheon. When are you off?

H.M.Jr: Tomorrow morning.

W: And when do you expect to get back?

H.M.Jr: Monday or Tuesday.

W: Monday or Tuesday, because Suarez is staying over.

H.M.Jr: Uh-huh.

W: The holiday, and I'll tell him then that if that's agreeable to you, that you'll be ready to speak to him again, about Tuesday.

H.M.Jr: Right. Now, what you said over there sounded quite encouraging.

W: Well, I think that's their attitude, as stated to me this morning. Before they go ahead, of course, I would require that that be an official expression from the President as a result of his cable.

H.M.Jr: Uh-huh.

W: I don't think we ought to go ahead on any other basis.

H.M.Jr: But I thought, my sort of talking there very informally, for myself was, didn't do any harm, you see.

W: Well, I think it was tremendously helpful.

H.M.Jr: And -

W: No, ~~because~~ Castillo Najera came in this morning bubbling over with appreciation.

H.M.Jr: Oh, did he?

W: Oh yes.

H.M.Jr: Because, you know, I asked about having him for dinner and you thought it was all for the good.

W: Awful?

H.M.Jr: I said you thought it would be all to the good.

W: Oh, all to the good. I should say so.

H.M.Jr: Yes.

W: And it was.

H.M.Jr: Yes.

W: I think it was a singularly helpful thing to do.

H.M.Jr: Well, I - depending upon what happens, I'll be back either Monday or Tuesday, and I think that I'll simply have Kieley call them up and tell them - I said

W:

H.M.Jr: I'd let them know, - that I'm going now. I'll tell them I'm leaving town. I'll be back Monday or Tuesday and hope to see Dr. Suarez after Christmas holiday.

W: Listen, Henry. If you do it that way, he may feel that you're simply stalling him. If you don't mind, I think it might be better for me to see them in the morning.

H.M.Jr: Well you tell them.

W: And give them your message, as a personal message.

H.M.Jr: Much better.

W: All right, I'll do it that way.

H.M.Jr: And I - I won't see them again until after I get back, and then before I do see them, I'll talk to you first.

W: All right.

- 3 -

H.M.Jr: How's that?

W: Thank you. That's fine.

H.M.Jr: I - I feel a little bit encouraged.

W: Well I think - I think there's reason for it. I think it - I think it may work out.

H.M.Jr: Well, we're playing for big stakes.

W: That's right.

H.M.Jr: Thank you. Well, Merry Christmas to you.

W: Same to you and yours.

H.M.Jr: Thank you.

W: Goodbye.

## GROUP MEETING

December 23, 1937  
4:50 p.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Oliphant  
Mrs Klotz  
Mr. Haas  
Mr. Gaston  
Mr. Lochhead  
Mr. Upham  
Mr. McReynolds  
Miss Chauncey  
Mr. White

H.M.Jr: (After phone conversation with Secretary Hull) Mac, go into Mrs. Klotz's room and find out all about it, will you? Or go into somebody's room. Cordell Hull wants to know what it's all about.

McR: I don't know what we can find out that we don't already know.

H.M.Jr: He says they're holding a vessel right now in San Francisco.

McR: As far as we're concerned, we aren't holding up anything, but put it up to Commerce whether they give clearance.

H.M.Jr: Call up South Trimble, and tell Dow not to go home. He goes home at 4:30 every day. First place, tell Dow to stay there, not to go home. Find out what South Trimble is doing.

(McR leaves)

This concerns some of you and it doesn't concern others.

No, I want you (Chauncey) definitely. Let me just see who it doesn't concern. This is on this Japanese thing.

If you (Upham) don't mind, I'm going to wish you a Merry Christmas.

Upham: And I wish you one also.

H.M.Jr: If you please. Thank you.

Upham: Good-bye.

-2-

H.M.Jr: Good-bye.

(Upham leaves)

H.M.Jr: (On White House phone) Hello. - Yes.

Hull. I'm going to tell him what the President told me to answer him.

(On W.H. phone) Yes, sir. - Yes. - Yes. - Yes. Oh. - Oh, fine. - So it's out of the hands of the Treasury. - Thank you, Cordell; that's one less worry. - Thank you.

I'll take care of it. I'll tell Mac that he's done a swell job.

(On phone) Tell McReynolds I want him to come right in. Either Mrs. Klotz's room or his own.

Now, let me just get this. You (White) and Archie - I want you to remember and write what I told the Mexican Ambassador last night, see, when I got on that "doctor" stuff. For the benefit of you, what I told him was - I said, "If you don't mind, this patient is very, very sick, but you doctors always have your etiquette." I said, "I don't know whether the President of Mexico, who is a doctor, realizes how sick this patient is, and I don't know whether he wants to call in a consultant. But on account of the etiquette between all of you doctors - after all, the United States Government can't move unless the President, who is the doctor, calls us in."

Well, this morning he rushed over to Sumner Welles bubbling over - "most marvelous thing, and this is wonderful." And President Cardenas was going to leave, but telegraphed he couldn't leave, he must stay in Mexico City. And the President of Mexico is going to stay there waiting to find out whether I was talking for the Administration, and the President told him I was - Mr. Roosevelt. See?

So when we got on this doctor business I'm thinking of Mrs. Klotz and her doctor and her troubles, so I had plenty of doctors and consultants, with one doctor calling in another. But the analogy worked.

-3-

And I thought you and Harry could .....

Lochhead: All right.

H.M.Jr: .... write it up while it is fresh in your minds.

(McReynolds returns)

Mac, that was wonderful. Cordell Hull just called up and said the Department of Commerce cleared it and the Japanese boats are on the high seas. I congratulate you. That's the quickest service you ever gave me.

McR: Well, let me call off this Pacific coast telephone call.

H.M.Jr: Wait a minute, I'll do it.

(On phone) McReynolds put in a call for the Pacific Coast.

McR: No, I told Johnson to put it in.

H.M.Jr: (On phone) He told Johnson, over in Customs, to put in a call for the Pacific Coast. And Mr. McReynolds has accomplished what I asked him to do, so it's unnecessary for Mr. Johnson to call the Pacific Coast. Johnson, in Customs. See, when you tell Mr. McReynolds to do something, it's done; you never have to worry. He's a wonderful guy, see? - That's all right.

How did you do it, Mac, so quickly?

Gaston: Go ahead. You've had time now to think it up.

Magill: Don't make him tell his system.

McR: I got all mad, you see. I pounded these fellows. I got all mad.

H.M.Jr: That was one. Then what did you do, Mac?

McR: Well, I put in the call for the boys over in Commerce, and they weren't there.

(Hearty laughter)

-4-

McR: Finally I called Oliphant's man Johnson and said, "For Christ's sake call this man up in Frisco and see what vessel it is." And I was still on that telephone when you called me.

Taylor: It's only 2 o'clock out there.

H.M.Jr: Well, Cordell called and said the Department of Commerce decided to waive their claims and the boat was on the high seas.

McR: Our boys reported to me earlier in the afternoon that they had turned this thing back to Commerce and told them the question of clearance was up to them.

H.M.Jr: Well, that's the snappiest work you've done in years. That was a swell job.

All right, now, we've accomplished that. I can't remember whether you (Oliphant) said you wouldn't or would go tonight.

Oliphant: I'm not going.

H.M.Jr: What was the last thing you told me?

Oliphant: That you'd speak to me after Cabinet.

H.M.Jr: Yes.

Oliphant: In the meantime I've decided not to go.

H.M.Jr: When did you decide that?

Klotz: After I called him.

Oliphant: No. You and I were talking. The time was too short.

H.M.Jr: What?

Oliphant: The time was too short.

H.M.Jr: Because I could have Opper tonight.

Oliphant: No, I decided on the merits. That's right.

H.M.Jr: Sure?

-5-

Oliphant: No, I won't; the time is too short.

McR: Herman is too curious. Too many things happening. Too curious. Doesn't want to go away.

Oliphant: No, just stingy.

H.M.Jr: All right. Then will you come with the necessary pieces of paper so that this fellow can take it and put it in his brief case, see? Various things, see?

Oliphant: (Nods yes)

H.M.Jr: And so this man - we've got to instruct him tonight. Going to make a little talk to him. And he's coming, and I imagine Lochhead and White. Have you (Taylor) got an engagement?

Taylor: I can get out of it.

H.M.Jr: It isn't that important.

Taylor: Well, whatever .....

H.M.Jr: I mean this man is leaving - he's leaving in a few days. That is, it's ... Have you got an engagement with your wife?

Taylor: It's at home. I can get out of it quite easily.

H.M.Jr: Have you got guests coming? Do you mind my being personal? You're all so polite, but I've got to be impolite.

Taylor: Guests that don't mean anything in my life.

(Hearty laughter)

H.M.Jr: All right. This is a - should be New Year's Eve. It's a marvelous ....

Gaston: Not friends, just guests.

Taylor: I've never seen them, so .....

H.M.Jr: I would be delighted to have you come at 8 o'clock. How's that?

-6-

Taylor: Be fine.

H.M.Jr: You better be there too, Naster.

Taylor: Along about what time?

H.M.Jr: 8:30. And you'll (Oliphant) have to have extra pieces of paper, see?

Oliphant: Full set. One copy is all you need.

H.M.Jr: I think I'm riding pretty high, wide and handsome. And over at this meeting with the President and Mr. Hull and Sumner Welles, they started in talking about - "Well now, we did this, we wanted this water right" - see? So I said, "Well, if you don't mind my saying my piece" - and the President and Mr. Hull don't like it - I said they can forget it. What I told them last night was that when it came to the fee for the consultant, I would be willing to wait and gamble on it, and we didn't want cash on the table. "And if we're going to say we want water rights and this and that," I said, "you can't do a job."

So Mr. Hull impressed on me two or three times - "Now, sensitive as the Mexicans are" and all that, "and wouldn't this look as though we were just going in and do a reorganization?" And I said, "Yes, that is just exactly what we're proposing to do if they invite us."

"Now," I said, "all these doctors and the Presidents and Ministers of Finance have got to make up their mind, do they or don't they want the United States Government to come in as a consultant and tell them what the trouble is. If they do, we're ready. That's that."

Then, in order to evade - I mean I don't want to get any more people down than - so I told Mr. Sumner Welles, asked him tomorrow when he sees the Mexican Ambassador and Suarez, would he please tell them that for January we'll buy five million ounces of silver as of the 15th, see? And if you (Taylor) will tell that to Canada. But Mr. Sumner Welles is going to tell the two of them tomorrow when he sees them, and they expect to have an answer tomorrow from President Cardenas whether or not he wants to consult.

-7-

And I guess that's the story, and if it doesn't make sense .....

Oliphant: That's the usual monthly amount, isn't it?

H.M.Jr: Yes.

All I've done - went to the White House with Bell at 12:30, went back at 1:30, Cabinet at two. And the high spot of the meeting was when Mr. Roper said, "Mr. President, I've been asked 150 questions by the Treasury Department about our - with this economy wave, and it would take us two or three extra clerks in order to give them the information." Well, I just burst, and I let him have it. So that was that.

Well, those of you whom I won't see tonight, I wish you a Merry Christmas. The rest of you ....

And Mac, may I again congratulate you on how you put the Japs to sea. It's marvelous.

*Mr. Lohhead*  
71

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 23, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knobe

BANK OF FRANCE.

I called Mr. Cariguel at 11 o'clock. The market was not altogether satisfactory to him, he said. It was true that the forward franc had somewhat recovered from the low of last Thursday but pressure had again begun to assert itself yesterday and more so today, with the result that on both days he had to sell exchange to support his currency. I asked him whether he was disturbed over this development and he replied, "No, not yet."

LWK:KMC

EDA

GRAY

PARIS

Dated December 23, 1937

Received 5:30 p.m.

Secretary of State

Washington

1767, December 23, 5 p.m.

FROM COCHRAN.

French control apparently called upon to yield sterling throughout the day but not in large amounts at 147.20. National Bank of Belgium said to have bought at least \$1,000,000 on their own market today following recent sterling purchases by it of around 3,000,000 pounds. This has naturally weakened belga. Slight improvement in three months franc against sterling is attributed to official French intervention on forward market. No change of importance in Bank of France statement released today. French railways apparently have exhausted their own rediscounting facilities at Bank of France and are working through individual banks to obtain cash. No official exchange market tomorrow. Banks close at noon. Today's market has been thin and traders are going away in a rather pessimistic mood, with

ETA - 2 - #1767 DECEMBER 23, 5 p.m. from Paris

with recrudescence of strikes, industry needing cheaper long term money and government facing heavy borrowing in 1938.

At 4:30 this afternoon official contact told me control had "lost a few pounds yesterday and more today" due to strikes here and continuing discussion in London of articles and speeches by Flandin and Reynaud.

BULLITT

NPL:ENB

03417031

03417031

03417031

03417031

FEDERAL RESERVE BANK  
OF NEW YORK

*Mr. Lockhead*

74

OFFICE CORRESPONDENCE

DATE December 24, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knoks

BANK OF ENGLAND.

I called Mr. Bolton at 10:15 and, in his absence, spoke to his assistant, Mr. Hawker. The French franc continued to show a slightly weak tendency which he ascribed to the renewed outbreak of strikes in France and the anti-Bonnet propaganda carried on by Reynaud and Flandin. I asked how he explained the large amount of gold <sup>on offer in London</sup> today and he replied that this was newly mined gold mostly from Africa. In addition there had been some from India where people were carrying very large stocks which they found <sup>it</sup> expensive to hold over the end of the year and which they, therefore, preferred to carry forward by selling spot and buying it back for future delivery in London. I explained that a small shipment from India had been reported to us yesterday, the first one in many months. I understood, I said, that it was more profitable for the seller in India to ship gold to New York rather than to London (because of the higher refining, etc., charges and the brokerage in London) if the dollar equivalent of the London gold price figured less than \$54.95.

We discussed the silver situation and I mentioned that according to a recent statement of the Secretary of the Treasury the President's Proclamation dealing with the price for domestic silver need not be expected until the last day of the year.

I made reference to the Japanese situation and Hawker said that they were seeing very little of the Japanese in the London market these days. The Yokohama Specie Bank was coming in only intermittently and had sold the Bank of England, during the last three weeks or so, not

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 24, 1957.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

- 2 -

more than \$10,000,000. I asked whether, at the Bank of England, they had any idea as to the size of Japanese balances in London and Hawker assured me again that it was quite impossible for them to even guess. He did not, however, imagine, he said, that these balances could be big because the Japs continued to use sterling to stabilize their exchange rate at a shilling and two pence and that they always seemed to be in want of sterling. Every time the Yokohama needed sterling and came to the Bank of England, they begged the latter to give it to them against dollars in a great hurry; all of which led him to believe that "Japanese balances in London could be only very small."

LWK:KMC

week ending Dec 25 - 1,628,163.

Confidential  
Not for Publication  
(12839)

+ 39,848

Weekly WPA Employment  
Series - Table 1

EMPLOYMENT ON WPA PROJECTS, BY STATE  
UNITED STATES AND TERRITORIES  
Weeks Ending December 18, and December 11, 1937  
(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease(-)
	Week Ending December 18	Week Ending December 11	
GRAND TOTAL	1,588,315	1,557,689	+ 30,626
CONTINENTAL UNITED STATES	1,585,756	1,555,117	+ 30,639
Alabama	21,020	22,866	+ 1,846
Arizona	6,924	6,720	- 204
Arkansas	20,292	19,977	- 315
California	72,027	70,776	- 1,251
Colorado	18,241	17,676	- 565
Connecticut	15,726	15,518	- 208
Delaware	1,928	1,892	- 36
District of Columbia	5,712	5,567	- 145
Florida	23,997	23,459	- 538
Georgia	21,631	22,397	+ 766
Idaho	7,003	6,239	- 764
Illinois	106,111	106,253	+ 142
Indiana	43,619	43,390	- 229
Iowa	18,180	17,805	- 375
Kansas	26,372	26,080	- 292
Kentucky	38,830	37,754	- 1,076
Louisiana	23,044	23,203	+ 159
Maine	4,121	3,817	- 304
Maryland	9,569	9,397	- 172
Massachusetts	66,447	63,185	- 3,262
Michigan	44,914	43,593	- 1,321
Minnesota	36,375	36,337	- 38
Mississippi	18,808	18,289	- 519
Missouri	49,633	49,071	- 562
Montana	12,942	12,606	- 336
Nebraska	19,604	19,232	- 372
Nevada	1,761	1,604	- 157
New Hampshire	5,360	5,299	- 61
New Jersey	57,674	57,057	- 617
New Mexico	6,348	6,116	- 232
New York City	136,938	136,377	- 561
New York (Excl. N.Y.C.)	52,587	52,676	+ 89
North Carolina	21,841	20,935	- 906
North Dakota	12,675	12,499	- 176
Ohio	88,934	89,004	+ 70
Oklahoma	43,780	42,074	- 1,706
Oregon	12,347	11,758	- 589
Pennsylvania	158,192	158,754	+ 562
Rhode Island	13,117	10,274	- 2,843
South Carolina	18,829	18,190	- 639
South Dakota	16,008	15,439	- 569
Tennessee	21,216	20,857	- 359
Texas	53,025	51,590	- 1,435
Utah	6,928	6,546	- 382
Vermont	3,036	2,801	- 235
Virginia	18,011	17,501	- 510
Washington	30,268	28,355	- 1,913
West Virginia	28,353	28,103	- 250
Wisconsin	37,094	35,504	- 1,590
Wyoming	2,364	2,085	- 279
Alaska	11	11	-
Hawaii	2,548	2,531	- 17

WORKS PROGRESS ADMINISTRATION  
Division of  
Research, Statistics and Records  
December 27, 1937

Regraded Unclassified

White House  
Dec 29, 1937  
12:00 P.M.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1939, together with this message, which is a part thereof. The estimates have been developed after careful analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

PART I

During the first ten months of the calendar year 1937 business conditions improved materially and it seemed to be the consensus of opinion that this improvement would be maintained throughout the calendar year 1938. There was every reason to expect that the revenues of the Government for the fiscal year 1939 would be greater than the expected revenues for 1938, and that, with a reduction in the cost of recovery and relief, total

-2-

expenditures for 1939 would substantially decline. This was the basis for our expectation of a balanced budget for 1939.

The recent slump in business has changed this favorable outlook. We cannot <sup>now</sup> hope to receive the revenues previously anticipated. Our estimated expenditures, though less than those for the current year, still remain above our estimated receipts. The Budget herewith presented is not, therefore, in balance.

There are indications that the slump which began in the fall has about come to a halt, and that the calendar year 1938 will bring an improvement in business conditions. Our 1939 revenue estimates, while predicated on some improvement, do not, however, assume that the average level of business in the calendar year 1938 will reach as high a level as that of 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000, and of expenditures, exclusive of debt retirement but including \$1,138,000,000 for recovery and relief, is \$6,899,000,000, or a net deficit of \$980,000,000. In spite of a reduction from 1938 of more than 510 million dollars in

expenditures there will be a decrease of only 110 million dollars in the deficit because the revenue estimates are 400 million dollars less than for 1936.

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January, 1937, of the changes in the fiscal picture that have occurred in the last twelve months:

(In millions of dollars)

	Budget January, 1937	President's Message April 20, 1937	Budget Summation October 19, 1937	Budget January, 1938
Receipts-				
Income taxes	\$3,365.3	\$2,955	\$2,791.5	\$2,692.9
Misc. Int. Rev.	2,508.3	3,288	2,386.3	2,279.5
Other Int. Rev.	774.8		768.7	726.3
Customs	463	463	493.9	415.3
All other	182.2	200	210	206.5
<b>Total</b>	<b>7,293.6</b>	<b>6,906</b>	<b>6,690.4</b>	<b>6,320.5</b>
Expenditures-				
Regular	5,430.3	5,494	5,469.6	5,429.2
Recovery & relief	1,826.2	1,830	1,876	1,979.7
<b>Total</b>	<b>7,256.5</b>	<b>7,324</b>	<b>7,345.6</b>	<b>7,408.9</b>
Surplus	37.1	- -	- -	- -
Deficit (net)	- -	418	695.2	1,088.4

The foregoing table illustrates the difficulty of estimating the revenue of the Federal Government. Since the tax revenues from practically every major source depends on business conditions during the year <sup>in respect of</sup> ~~1/~~ which the tax is levied, the Treasury is compelled, in estimating the revenue for the ensuing fiscal year, to prophesy business conditions eighteen months in advance. In other words, the Treasury is obligated to predict in December of each year what business conditions will be throughout the period ending June 30, eighteen months hence, in order to arrive at a basis for estimating the revenues of the Government for that year.

Business concerns are more fortunate. They also lay out programs months in advance, but these programs are flexible. They are controlled currently by the condition of business, which permits the making of necessary changes from month to month. The affairs of government are not so flexible. The Budget represents our fiscal plan and in the form adopted by Congress

-5-

becomes practically a fixed program as to expenditures, irrespective of the fact that economic conditions radically change the receipt side of this plan. It follows that, once the expenditure program is adopted and put into operation, there is no existing method by which the Executive can materially alter the expenditure program so as to bring it into line with the altered situation with respect to receipts. This unfortunate situation is not entirely without remedy. Later in this message I am making certain recommendations looking to its amelioration.

In our endeavor to reduce expenditures to bring them within the revenues we are immediately faced with the question as to what items of expenditure may best be reduced without serious interference with the performance of those governmental functions the exercise of which is required by existing law.

Certain expenditures of the Government represent fixed charges which cannot be reduced by Executive action, such as

-6-

interest on the public debt, military and naval pensions, contributions to retirement funds and to the old age reserve account, and certain grants to States.

Another class that is subject to some measure of administrative control but which does not afford opportunity for large reductions is made up of the expenditures incurred in carrying on the normal, every-day operations of government. In fact, expenditures of this character generally increase with any expansion of governmental functions.

A third type of expenditure is represented by the obligations which we have assumed for the purpose of providing a larger measure of economic security to the individual citizens of the country, such as aids to farmers and home owners, relief of unemployment, and all the benefits provided under the Social Security program. These obligations, though large in amount, may be reduced only by depriving a very large proportion of our population of such needed assistance.

-7-

A fourth and last category includes those items of public expenditure which might be termed capital improvements, such as highways, river and harbors, flood control, public buildings, reclamation projects, and other public works. This is a class of expenditures which can readily be contracted or expanded to conform with a contraction or expansion of Government income.

There has been directly appropriated for expenditure on public highways during the past five years almost \$1,500,000,000, and as much more has been expended for construction, repair and improvement of roads and streets by the Federal agencies administering unemployment relief. These huge expenditures have placed the highway systems of the country years in advance of what would have been the normal expansion. It is apparent, therefore, that this should be one of the first items to receive consideration in any program of curtailed expenditure.

-5-

We now have solely on account of the public highway authorizations for the fiscal year 1938, unescapable obligations of \$200,000,000. For their liquidation, the 1939 Budget contains an estimate of appropriation of approximately \$100,000,000, and there will be required a similar estimate in the Budget for 1940. With such an accumulation of unliquidated authorizations, and in view of the expanded programs of the past few years, there would seem to be no tenable ground for failing to adopt the proposals in my message of November 27th last, for cancellation of the 1939 authorizations of \$238,000,000, for restricting the 1940 and subsequent yearly authorizations to not more than \$125,000,000, and for elimination of the authority to incur contractual authorizations regardless of the availability of appropriations for their payment and of the fiscal outlook of the Treasury.

For the ten year period ended June 30, 1933, the Government spent an average of \$40,000,000 per annum for river and harbor

-9-

improvement. During the past five years we have spent an average of over \$100,000,000 per annum for this purpose. Meanwhile, there has developed a justified demand for greater protection against the flood destruction of life and property. Considering the large expenditures made during the past few years on account of river and harbor improvements, and in order to meet this new demand without imposing an additional burden on the Budget, I am restricting the estimate of appropriation for river and harbor improvements for the fiscal year 1939 to \$30,000,000 and I am increasing the estimate for 1939 for flood control to \$76,000,000.

The large expenditures that have been made in recent years on reclamation projects have not only exhausted the reclamation fund and necessitated additional appropriations from the general fund of the Treasury, but will require for the completion of the projects thus started future appropriations of nearly \$600,000,000. It is apparent that new projects

-10-

should not be undertaken until the projects now under construction have reached a substantial stage of completion.

During the past five years more than 1100 new Federal buildings have been constructed under the public buildings program, almost doubling the number of such buildings throughout the country. In many cases, and without adding any interest or amortization costs, the annual maintenance cost alone is as much as fifty per cent greater than the cost of the leased quarters displaced. Capital expenditures of this character, which make no return of the original investment but require instead substantial increased costs of operation and maintenance, should be among the first items considered in any plan for curtailment of Federal expenditures. I am strongly of the opinion that any future public building program should be restricted to projects where the capital investment will be returned through savings in annual operating costs.

-11-

The following table shows the distribution, on a functional basis, of the expenditure figures contained in this Budget and compares them with similar figures for the fiscal years 1930 - 1936:

-12 -

SOCIAL SECURITY

There has been some criticism of the financial provisions of the Social Security Act, particularly of those relating to the old-age reserve account. This criticism seemingly fails to take cognizance of the fact (1) that the funds appropriated by Congress as a reserve for old-age benefits are administered by the Treasury in accordance with the provisions of the law; (2) that they are invested in direct public debt obligations of the United States Government, bearing interest at the rate of 3 per cent per annum; (3) that the Government securities thus held for the old-age reserve account have the same standing and are redeemed from the same sources as securities of the United States held by private investors; and (4) that the securities will be redeemed at any time by the Treasury and the proceeds of such redemption made immediately available upon requisition of the Social Security Board to meet benefit payments authorized under the Social Security Act.

The same general criticisms are now made against the old-age reserve account as were made against the investment of funds set

- 13 -

aside in a reserve to meet the redemption of the veterans' adjusted service certificates, viz: that obligations issued are nothing but "scraps of paper" or that the transactions represent only "bookkeeping entries". The fact is, however, that when Congress authorized loans on these certificates and later authorized their payment before maturity, the securities held in the reserve fund were promptly redeemed from the general fund of the Treasury and the proceeds made available to meet the loan and redemption payments approved by the Veterans' Administration. In the thought that these unfortunate criticisms may have created some fear in the minds of those concerned that funds will not be available to meet old-age benefit payments as they become due, I take this occasion to state that there is no ground for any such fear.

Another criticism is to the effect that the Treasury is using the proceeds of the taxes to finance the current deficit. This criticism seems to overlook the fact that the taxes collected under Title VIII of the Social Security Act are covered into the

- 14 -

Treasury as internal revenue collections just like all other revenue collections and are included in the total revenues of the Government, and that the expenditures made for investments for the old-age reserve account and certain administrative expenses from appropriations provided by Congress are included in the total expenditures of the Government, and so long as they are equal in amount have no effect whatever on the amount of the deficit . It also overlooks the fact that when the Secretary of the Treasury sells Government securities to the old-age reserve account he is by law required to deposit the proceeds of such sales in the Treasury as public debt receipts. The money thus received is no different from the money he receives from the sale of Government securities to private investors. It might be added that there would be no difference in the Budget situation or in the gross public debt if these investments were made through purchases of Government securities in the open market and the Treasury sold to the market an equivalent amount of Government securities to raise funds with which to finance its deficit,

- 15 -

except that during the period in which these investments have so far been made no securities could be purchased which would yield a return of as much as 3 per cent, the rate on the special obligations sold directly to the fund.

Suggestions have been made for changing the financial provisions of the Social Security Act and placing them on a basis of "pay-as-you-go." The Social Security Act is a new experiment in this country and it is my opinion that no change should be made in the financial provisions of that Act until after sufficient experience has clearly indicated what changes are necessary. If the reserve feature is eliminated at this time, it only stands to reason that taxes to support a pay-as-you-go plan will later have to be materially increased over those now contemplated under the Act. Before we consider any changes in the reserve feature I hope that the reserve will have investments aggregating at least \$15,000,000,000. The earnings from such investments, amounting to \$450,000,000 a year, would then be available to meet any benefit payments in excess of the taxes collected in a year of falling revenue.

PART II

RECOMMENDATIONS

Appropriation Item veto: An important feature of the fiscal procedure in the majority of our States is the authority given to the Executive to withhold approval of individual items in an appropriation bill, and, while approving the remainder of the bill, to return such rejected items for the further consideration of the legislature. This grant of power has been considered a consistent corollary of the power of the legislature to withhold approval of items in the budget of the executive. There is need, in the interest of an effective budget system, for the establishment of a similar procedure in the Federal service, and I strongly recommend that the present Congress take the necessary steps for the correction of this defect in our existing procedure.

Commodity Credit Corporation: At present the funds for the operations of the Commodity Credit Corporation are provided through allocations from the Reconstruction Finance Corporation. Such losses as the Commodity Credit Corporation may sustain upon its commodity

-17-

loans remain an indefinite quantity until the liquidation of the Reconstruction Finance Corporation. In order to provide for an annual review of the operations of the Commodity Credit Corporation and of its annual net cost to the Government, I recommend the enactment by the Congress of legislation which will require an annual appraisal of ~~the assets~~ of the Corporation, and, as a means of providing funds to make and guarantee its loans, provide the Corporation with adequate capital and authorize the issuance by it of obligations guaranteed by the United States. Congress would be advised annually of the Corporation's net profit or loss and be in a position to make such appropriations as might be necessary to meet any annual impairment of the capital of the Corporation that would result from losses sustained upon its loans.

Strengthening Budget Control: Previously in this message I have indicated the desirability of making some provision whereby the expenditure program for a fiscal year may be curtailed during that

- 17  $\frac{1}{2}$  -

year to offset at least in part any falling off of receipts from the revenue estimates for the same fiscal year as presented in the Budget. This would give our financial procedure a larger degree of flexibility than is now possible. I, therefore, recommend that the Congress give consideration to the enactment of legislation which would authorize the President during the course of a fiscal year to withhold from expenditure moneys appropriated for the service of that year whenever he ascertains that the actual receipts of that year will fall below the revenue estimates presented in the Budget. My purpose in making this recommendation at this time is to have on the statute books a law which will supply a much needed adjunct to our financial control for use when the necessity arises.

-18-

## PART III

## REVIEW OF THE FISCAL YEARS 1937 AND 1938, AND THE FISCAL PROGRAM FOR 1939.

This review concerns itself with the cash actually received and paid out by the Treasury in the fiscal year 1937, with the estimates of receipts and expenditures for the fiscal year 1938, and with the fiscal program for 1939.

## FISCAL YEAR 1937

Receipts.— Total general fund receipts for the fiscal year 1937 amounted to \$5,293,840,236, which was \$536,000,000 less than was estimated one year ago but a gain over 1936 of \$1,178,000,000. The receipts from income taxes were \$215,000,000 less than the estimate contained in the 1938 Budget, while miscellaneous internal revenue taxes were \$93,000,000 less.

It was believed last January that taxes on carriers and their employers would produce \$134,552,000, but litigation delayed collection of these taxes and only \$345,000 was received in 1937. The tax on unjust enrichment produced only \$6,000,000 as against Budget estimates

-19-

of \$82,000,000 a year ago, while the receipts from Social Security taxes were \$72,000,000 less than was estimated at that time. Customs and miscellaneous receipts, however, exceeded the amount anticipated a year ago by \$40,000,000 and \$18,000,000, respectively.

As pointed out in my message of April 20 last, the March 1937 tax returns brought to light certain defects in the present revenue law. As a result of these disclosures, committees of Congress have been considering corrective tax legislation; and I hope that there may be enacted at an early date such amendments to the revenue law as will maintain the revenue producing power of the present tax structure while correcting at the same time its existing inequities.

Expenditures.—The total expenditures for the fiscal year ended June 30, 1937 (exclusive of expenditures from Postal revenues) amounted to \$8,105,158,547 as compared with an estimate of \$8,480,804,493 in the Budget submitted a year ago. This latter estimate included an amount of \$404,525,000 for statutory debt retirement while the actual expenditures for this purpose were \$103,971,200. Thus, excluding

-20-

debt retirement, the expenditures for the fiscal year 1937 were \$75,000,000 less than the estimate for that year contained in the 1936 Budget. The total expenditures for recovery and relief were \$3,014,569,913 as against an estimate of \$3,144,689,700. Revolving funds showed a net credit of \$243,569,165, which was \$85,000,000 less than the previous Budget estimate of \$328,532,600. Transfers to trust accounts totaled \$872,386,048, while the estimates for this purpose amounted to \$842,235,300. For the operation and maintenance of the regular departments and establishments of the Government, including interest on the public debt, there was expended \$4,357,780,551, while the amounts estimated for these purposes totaled \$4,417,887,193.

Deficit and Public Debt.—The gross deficit for the fiscal year 1937 amounted to \$2,811,318,311. Excluding \$103,971,200 for statutory debt retirement, the net deficit was \$2,707,347,111. The estimated net deficit, as contained in the Budget submitted a year ago, was \$2,248,128,774. The increase in the net deficit is more than accounted for by the decline in receipts.

The increase in the gross public debt during the year amounted

-21-

to \$2,646,070,238, bringing the total debt on June 30, 1937, to \$36,424,613,732.29.

#### FISCAL YEAR 1938.

Receipts.—The income of the Federal Government during the fiscal year 1938 is expected to increase \$1,027,653,000 over that of 1937, the increase of \$1,101,573,000 in internal revenue collections being partially offset by a reduction of \$74,900,000 in other classes of receipts. The total revenues from all sources (exclusive of postal revenues) will amount to \$6,320,513,000. This figure, however, is less by \$973,000,000 than the estimate of revenues for 1938 contained in the Budget last year.

Income taxes are expected to produce \$2,692,900,000 as compared with 1937 receipts of \$2,157,526,981. Miscellaneous internal revenue taxes will amount to \$2,279,511,000 as compared with actual collections in 1937 of \$2,181,217,856. The reenactment of legislation levying taxes upon carriers and their employers will produce \$150,300,000 in 1938, whereas last year's receipts amounted to only \$345,088. Taxes under the Social Security Act which were levied on a six months basis

in 1937 and produced \$252,160,640, in 1938. The tax on unjust enrichment is estimated at \$5,000,000, or \$886,836 less than the receipts from this source in 1937. Customs duties are expected to yield \$415,300,000 in 1938, whereas in 1937 they produced \$486,356,599. Miscellaneous revenues are \$2,411,000 less than last year, the estimate for the current year being \$165,409,083; and from realization upon assets there will be derived a total of \$41,090,917, or \$1,433,000 less than in 1937.

Expenditures—The total expenditures (exclusive of expenditures from Postal revenues) for the fiscal year 1938 are now estimated at \$7,612,758,300. Included in this amount, however, are statutory debt retirements of \$206,215,700. Eliminating debt retirement and the non-recurring item of adjusted compensation payments, the 1938 expenditures are expected to be about \$38,000,000 less than last year. There is a decrease of \$1,185,000,000 in expenditures for recovery and relief, the Agricultural Adjustment program, the Civilian Conservation Corps, and refunds of taxes, and an increase of \$1,147,000,000 for the following purposes: \$53,000,000 for the Legislative, Executive and Judicial

-23-

offices and the civil departments and agencies, \$168,000,000 for the General Public Works program, \$90,000,000 for National Defense, \$2,000,000 for veterans' pensions and benefits, \$91,000,000, principally for grants to States, under the Social Security Act, \$59,000,000 for interest on the public debt, \$280,000,000 for payments into the Old Age Reserve Account and the railroad and Government employees' retirement funds, \$200,000,000 for supplemental items, and \$206,000,000 representing a reduction in revolving fund credits.

Deficit and Public Debt: Including public debt retirements, the net deficit for 1938 is now estimated as \$1,086,000,000 as against an actual deficit in 1937 of \$2,707,000,000. Assuming that the general fund balance on June 30, 193<sup>8</sup> will remain the same as the balance on June 30<sup>7</sup>, 193<sup>7</sup>, the gross public debt on June 30, 1938, will amount to approximately \$37,510,000,000. This, of course, does not take into account any changes in the debt which may occur as a result of the Treasury policy with respect to the sterilization of gold.

-24-

**FISCAL PROGRAM FOR 1939**

Receipts: The estimates of revenues for the fiscal year 1939, which are necessarily based on existing tax laws, amount to \$5,919,437,000. This is \$401,000,000 less than the anticipated receipts for 1938. With the exception of social security taxes and realization upon assets, each major class of revenue shows a decline below the 1938 level. Income taxes are estimated at \$2,414,200,000 or \$278,700,000 less than for 1938. Total miscellaneous internal revenues will be \$2,190,072,000 which is \$89,439,000 less than 1938. The taxes upon carriers and their employees are expected to total \$116,900,000, a decline of \$33,400,000 from 1938, which is due largely to the fact that the 1938 collections included 1937 accruals deferred by litigation. Social security taxes will be \$598,865,000, an increase of \$27,863,000 over 1938. The tax on unjust enrichment will produce \$10,000,000, as compared with \$5,000,000 for 1938. Miscellaneous revenues show a total of \$148,882,320, less than the current year by \$16,527,000. Realization upon assets is estimated at \$50,117,000,

-25-

an increase of \$9,027,000 over 1938.

Expenditures. The expenditures contemplated for the fiscal year 1939 (exclusive of those from postal revenues) total \$7,095,558,000. This includes \$201,515,000 for statutory debt retirement, leaving \$6,894,043,000 for other purposes, which is \$514,500,000 less than the amount estimated for 1938. There are net increases of \$53,000,000 in the regular activities of the civil departments and agencies which are more than accounted for by increases of \$63,000,000 under the Rural Electrification Administration and the United States Maritime Commission. The General Public Works program will require \$404,026,500, or \$73,957,000 less than for 1938. Expenditures for national defense are expected to be \$55,000,000 greater than for 1938, reaching a total of \$988,623,400 in the fiscal year 1939. On the other hand the expenditures for veterans' pensions and benefits will decline from \$573,682,800 for 1938 to \$538,610,000 for 1939, because of the completion of payments of insurance claims on account of deaths occurring during the World War. Expenditures under the Agricultural Adjustment program will increase \$143,573,000 in 1939, due principally to the legislation enacted during the last

regular session of Congress providing for subsidy payments to cotton producers.

The Civilian Conservation Corps because of a contemplated reduction in the number of camps and reduced expenditures for cooperating agencies will require \$230,000,000, or \$80,000,000 less than for 1938. Expenditures for administration and grants to States under the Social Security Act will reach a total of \$336,230,000, which represents an increase of \$56,500,000 in grants to States and a decrease of \$2,000,000 in administrative expenses. The interest payments on the public debt will amount to \$971,000,000, or \$46,000,000 more than for 1938.

Expenditures for recovery and relief are estimated at \$1,136,304,000, or \$839,356,600 less than for 1938. The operations of the Social Security Act and the unemployment compensation laws of the States have the effect of materially reducing our program for work relief. Moreover, operations under the new Housing Act will greatly assist in providing employment. We can also look to the regular public works program to provide a certain amount of employment. With these aids and the assistance confidently expected from private industry, I believe that the foregoing

amount for expenditure will be sufficient to meet the needs for 1939.

An estimate of appropriation of \$1,000,000,000 for this purpose is contained in the 1939 Budget.

Expenditures from revolving funds are expected to amount to \$191,961,000, which represents, because of an excess of receipts of \$37,778,200 in 1938, an increase in total expenditures of \$229,739,200. For the Old Age Reserve Account the estimate is \$475,000,000, an increase of \$90,000,000 over 1938. For the Railroad Retirement Account \$117,250,000 will be required, \$20,286,000 less than for 1938. An accumulation of payments due in 1937 had to be met in 1938, whereas there will be no accumulation to be carried over into 1939. The amount for supplemental items is \$50,000,000, which is \$150,000,000 less than the amount now indicated for 1938.

Deficit and Public Debt. The net deficit for the fiscal year 1939, is \$969,606,000, or \$116,423,000 less than the deficit for the current year. Assuming no change in the general fund balance of the Treasury, the gross public debt on June 30, 1939, will show a total of \$38,480,000,000. This does not take into account any

-28-

changes in the debt which may occur as a result of the Treasury policy with respect to the sterilization of gold.

It should be pointed out, however, that the increase in the debt by reason of the deficit does not mean that the Treasury will borrow that additional sum on the market. Included in the expenditure figures which result in this deficit are approximately \$596,000,000 of transfers to trust accounts. About \$500,000,000 of these expenditures are for investment in special issues of Government obligations. An additional \$650,000,000 will be invested in such issues from the State contributions to the unemployment trust fund. As a result of these investment operations the Treasury financing for the fiscal year 1938 will be confined to refunding maturing obligations.

The following table shows the gross public debt at the end of the fiscal years 1936 and 1937 and the estimated gross debt at the end of the fiscal years 1938 and 1939:

-29-

( In millions of dollars)

	June 30, 1939 (estimated)	June 30, 1938 (estimated)	June 30, 1937	June 30, 1936
<b>Market Operations:</b>				
Held by -				
Public (banks, insurance companies, trust companies, corporations, individuals, etc.)			\$30,677	\$29,408
Federal Reserve system			2,526	2,430
Governmental agencies			451	381
Government Trust funds			1,212	933
	34,545	34,758	34,866	33,152
<b>Special issues:</b>				
Held by -				
Old-age reserve account	1,143	661	267	--
Unemployment trust fund	1,538	965	312	19
Railroad retirement account	137	80	--	- 280
Employees retirement funds	432	371	316	289
Veterans funds	515	525	538	127
Other	150	150	125	200
	3,915	2,752	1,558	626
<b>Gross debt</b>	<b>\$38,460</b>	<b>\$37,510</b>	<b>\$36,424</b>	<b>\$33,778</b>

- 30 -

Appropriations: The appropriations recommended in this Budget, including those for the postal service, the District of Columbia, and probable supplemental items, total \$

The appropriations already made and prospective supplemental items for the fiscal year 1938 for the same purposes total \$

This is a decrease of \$

## GENERAL BUDGET SUMMARY

	Estimated, fiscal year 1939	Estimated, fiscal year 1938	Actual, fiscal year 1937
<b>Receipts:</b>			
1. Revenues (Supporting Schedule No. 1):			
Internal revenue .....	\$5,330,037,000	\$5,698,713,000	\$4,997,140,102.49
Customs .....	390,400,000	415,300,000	486,356,998.90
Miscellaneous revenues .....	148,882,320	165,409,083	167,820,113.17
<b>Total, revenues .....</b>	<b>5,869,319,320</b>	<b>6,279,422,083</b>	<b>5,251,316,814.56</b>
2. Realization upon assets .....	50,117,680	41,090,917	42,523,422.31
<b>Total, receipts .....</b>	<b>5,919,437,000</b>	<b>6,320,513,000</b>	<b>5,293,840,236.87</b>
<b>Expenditures (Supporting Schedule No. 2):</b>			
1. Legislative, judicial and executive .....	41,086,200	44,373,300	40,934,120.82
2. Civil departments and agencies .....	692,986,500	639,969,800	591,006,739.02
3. General Public Works Program .....	404,026,500	477,983,300	310,189,254.96
4. National defense .....	988,623,400	933,776,100	844,056,155.30
5. Veterans pensions and benefits .....	538,610,000	573,682,800	571,407,217.98
6. Agricultural Adjustment Program .....	586,050,000	442,477,000	515,837,995.04
7. Civilian Conservation Corps .....	230,000,000	310,000,000	385,807,729.81
8. Social Security .....	338,230,000	273,696,000	182,759,138.73
9. Interest on the public debt .....	976,000,000	927,000,000	866,384,330.90
10. Refunds .....	50,808,800	47,910,900	49,398,268.68
11. Recovery and relief .....	1,138,304,000	1,979,660,600	3,014,589,912.78
12. Revolving funds (net) .....	191,961,000	37,778,200	243,569,164.51
13. Transfers to trust accounts, etc. ....	667,356,600	595,791,000	872,386,047.96
14. Supplemental items .....	50,000,000	200,000,000	-
<b>Total expenditures (excluding debt retirement) .....</b>	<b>6,894,043,000</b>	<b>7,408,542,600</b>	<b>8,001,187,347.47</b>
<b>I. Net deficit .....</b>	<b>974,606,000</b>	<b>1,088,029,600</b>	<b>2,707,347,110.60</b>
<b>Debt retirement .....</b>	<b>201,515,000</b>	<b>206,215,700</b>	<b>103,971,200.00</b>
<b>Gross deficit .....</b>	<b>1,176,121,000</b>	<b>1,294,245,300</b>	<b>2,811,318,310.60</b>
<b>Means of financing deficits:</b>			
1. Decrease in working balance, general and special accounts (Supporting Schedule No. 3) .....	-	-	1/1,048,490,304.64
2. Borrowings (Supporting Schedule No. 4):			
Replacing debt retirements .....	201,515,000	206,215,700	103,971,200.00
Increasing the public debt .....	974,606,000	1,088,029,600	1,658,856,805.96
<b>Total, means of financing .....</b>	<b>1,176,121,000</b>	<b>1,294,245,300</b>	<b>2,811,318,310.60</b>

2/ Excess of credits, debit.

1/ There was a further decrease in the balance of \$100,000,000 for the retirement of national bank notes, which affected a reduction in the public debt of this amount.

December 27, 1937

To: Secretary Morgenthau  
From: Mr. Magill

Attached hereto is a short outline of the amendments to the revenue laws which have been tentatively agreed to by the Vinson Subcommittee. Some of the descriptions of minor changes are too concise to be illuminating; but the description of the two principal groups of amendments, those to the undistributed profits tax and to the capital gains and losses sections are more adequate.

In addition to these amendments the draftsmen will complete in the next few days provisions designed to enable the Bureau to collect a surtax, probably of 20 percent, against closely held corporations, having more than \$50,000 net income, which distribute less than 70 percent of their earnings during the year.

*Rm*

December 27, 1937

To: Secretary Mergenthau

From: Mr. Magill

Attached hereto is a short outline of the amendments to the revenue laws which have been tentatively agreed to by the Vinson Subcommittee. Some of the descriptions of minor changes are too concise to be illuminating; but the description of the two principal groups of amendments, those to the undistributed profits tax and to the capital gains and losses sections are more adequate.

In addition to these amendments the draftsman will complete in the next few days provisions designed to enable the Bureau to collect a surtax, probably of 20 percent, against closely held corporations, having more than \$50,000 net income, which distribute less than 70 percent of their earnings during the year.

(Initialed) R. M.

December 21, 1937

CHANGES IN THE REVENUE ACT TENTATIVELY AGREED TO  
BY THE SUBCOMMITTEE

Corporation Income Tax

(The definition of net income for the purpose of classifying corporations by size is to remain the same as under present law; that is, it is to include intercorporate dividends and liberty bond interest.)

1. Corporations with net income of \$25,000 and less.
  - A. These corporations will be subjected to a tax on net income, minus liberty bond interest and minus 85 per cent of intercorporate dividends, of 12½ per cent on the first \$5,000, 14 per cent on the next \$15,000, and 16 per cent on the last \$5,000. In no case is the deduction from net income on account of intercorporate dividends to be more than 85 per cent of the excess of net income over liberty bond interest.
2. Corporations with net income of more than \$25,000.
  - A. These corporations will be subjected to a tax of 20 per cent of the "adjusted net income," which is the net income less liberty bond interest and less 20 per cent of dividends paid. In no case may the deduction from net income on account of

- 2 -

dividends paid be more than 20 per cent of the excess of the net income over liberty bond interest. In computing the amount of dividends paid for this purpose, liberty bond interest received will be subtracted. There will be allowed as a further deduction from this tentative tax of 20 per cent a tax credit of 16 per cent of the credit for intercorporate dividends received. This dividends received credit is 85 per cent of the dividends received, but not to exceed 85 per cent of the excess of the net income over liberty bond interest.

8. These corporations will be given the privilege of an alternative method of taxation, designed especially for the benefit of those whose tax liability is greatly increased by reason of their net income being somewhat in excess of \$25,000 rather than somewhat under that figure. The net income of corporations taking advantage of this method will be divided into two divisions--the Section 13 division and the Section 14 division. In the Section 13 division will be placed in the order of priority named, and up to a total of \$25,000: (1) liberty bond interest; (2) intercorporate dividends received; and (3) other income. In the Section 14 division will be placed the remainder of net income; that is, everything not included in the Section 13 division. The income

- 3 -

included in the Section 13 division will be taxed the same as that of corporations with net income of \$25,000 and less. The income in the Section 14 division will be taxed at 8 per cent on that portion which consists of intercorporate dividends and 32 per cent on the remainder, exclusive of liberty bond interest.

3. Special classes of corporations.

A. Corporations now exempt in Section 14(d) from the surtax on undistributed profits shall be taxed as they are at present (flat tax), except that the rate shall be 16 per cent instead of 15 per cent (foreign corporations 20 per cent instead of 22 per cent).

B. A holding company bank affiliate, as defined in Section 11 of the Banking Act of 1933, will be allowed a tax credit of 4 per cent of the credit allowed it by Section 26(d) of the Revenue Act of 1936.

4. Corporations will be permitted to carry forward net operating losses incurred during 1938 and thereafter for one year, for the purpose only of reducing the undistributed earnings surtax, if they are subject to it.

- 4 -

Capital Gains and Losses

1. Capital gains and losses are to be classified in two categories--those arising from sale of capital assets held one year and less, and those arising from sale of capital assets held more than one year.
2. Capital gains arising from the sale of capital assets held one year or less will be taxed like ordinary income, but losses resulting from the sale of capital assets held one year or less will be allowed as a deduction from income only to the extent of the gains arising from the sale of such assets held one year or less. But a one-year carryover of the portion of the loss disallowed will be provided for.
3. The present brackets provided for in respect to capital gains and losses by existing law will be modified as follows for application where the asset has been held over one year:-  
The percentage of the gain or loss to be taken into account in computing net income will decline from 100 per cent at the end of the such first year by 2 per cent a month for each full month during which the asset is held in the second year, and 1 per cent a month thereafter to a minimum of 40 per cent after the end of the fifth year. The net gain thus taken into account may, at the taxpayer's option, be included in ordinary income or taxed at a flat rate of 40 per cent. If the losses arising

- 5 -

from the sale of assets held over one year and taken into account exceed the gains arising from the sale of assets held over one year and taken into account, then only \$2,000 of such excess shall be allowed against income. But a one-year carryover of the portion of the loss disallowed will be provided for.

- 6 -

Capital Stock Tax

1. Corporations will be permitted to set a new valuation on their stock in July, 1939 and every three years thereafter.

- 7 -

Gift and Estate Taxes

1. The 1926 estate tax will be combined with the additional estate tax imposed by the 1932 Act as amended. The rates will be those of the 1932 Act as amended, and will be stated as totality rates. The present credit for state death will be retained, but expressed as a percentage of the new rate. The new provisions will be applicable only to decedents who die after December 31, 1939.
2. The \$40,000 estate tax exemption will be reduced by so much of the \$40,000 gift tax exemption as has been used.
3. The \$5,000 exemption per donee per year will be reduced to \$5,000.
4. The gift tax should be clarified with respect to its application to gifts in trust, where the grantor retains certain rights of revocation, alteration or amendment.
5. Amend Section 303(a) of the Revenue Act of 1926 to limit the deduction for claims against estate to an amount not greater than the value of the assets which are available for payment of such claims.

- 8 -

Excise Taxes

1. The following excise taxes are not to be effective after June 30, 1938:

Brewers' wort and malt syrup  
 Sale of crude petroleum  
 Processing or refining of crude petroleum  
 Gasoline recovered from natural gas  
 Toilet soaps, tooth paste, dentifrices, and tooth  
 and mouth washes  
 Cameras and lenses  
 Chewing gum  
 Furs  
 Sporting goods  
 Phonograph records

2. Strengthen provisions of tax on toilet preparations to prevent evasion, if possible.
3. The tax on paper matches is to be increased from 1/2 cent to 2 cents per thousand to equal that on wooden matches.
4. A 3 per cent excise tax is to be levied on gross premiums paid to foreign insurance and indemnity companies having no office or place of business in the United States.
5. The following rates are to be levied on certain vegetable oil seeds instead of the flat rate of 2 cents per pound now in effect:

Hempseed	1.12	cents	per	pound
Perilla	1.31	"	"	"
Kapok	.73	"	"	"
Rapeseed	1.50	"	"	"
Sesame	1.05	"	"	"

6. An amendment to clarify existing law by providing that the tax on imported oils shall not apply to articles because of their natural components which have never had a separate existence as oils, fats, or greases.

- 9 -

Income Tax

1. Deductions for charitable contributions are to be allowed only in the year in which actually "paid."
2. No payment shall be allowed as a deduction under Section 23(a) as a business expense if it is a contribution to charity of the kind which is deductible under Section 23(q).
3. Deductions for charitable contributions by individuals are to be limited to donations to domestic institutions.
4. In the case of "gifts in kind" deductions are to be limited to the basis of the property in the hands of the donor or the fair market value at the time of the gift, whichever is lower.
5. Dividends on paid-up insurance policies are to be fully included in gross income.
6. A deduction will be permitted under Section 23 for expenses immediately and directly incurred in the collection or production of income, limited to 50 per cent of the amount collected or produced.
7. Sections 117(a) and (d) shall not apply to assets used in a trade or business such as obsolete machinery.
8. Agreed that there should be worked out, if possible, a plan under which the statute of limitation should be so adjusted (without departing from its true intent and purpose) as to insure the taxation of income, and the allowance of deductions, in the year to which properly allocable.

- 10 -

9. Agreed that proper provision should be made for the taxation of impounded funds.
10. No deduction from gross income will be allowed for reinsurance premiums when the reinsurance is with a foreign insurance company not doing business in the United States and having no office or place of business here.
11. Deductions from gross income will be permitted of amounts paid to irrevocable pension trusts only and not to revocable trusts.

- 11 -

Filing Returns

1. A joint return will not be permitted by husband and wife where one spouse is a non-resident alien.
2. Persons with gross receipts of \$25,000 will be required to file an income tax return whether or not their gross income is \$5,000.
3. It was the sense of the Committee that there should be a joint and several liability on joint returns by husband and wife and there should be a joint deficiency notice in such cases.
4. Responsibility to see that an income tax return is filed by a corporation will be fixed on some officer of the corporation.
5. When a corporation dissolves, a tax return must be filed by the 15th day of the 3rd calendar month thereafter.
6. Anyone who is authorized by state law to administer oaths can administer oaths in connection with income tax returns.

- 12 -

Miscellaneous

1. Agreements by taxpayers to waivers of the statute of limitations on assessments and collections will be valid if secured prior to as well as following a final deficiency letter.
2. It was the sense of the Committee that separate deficiency letters should be given under Title III in connection with the Windfall Tax.
3. Interest on sums assessed will run from the date of notice and demand if not paid within ten days. If payment comes within ten days of notice and demand, no interest will be charged.
4. An amendment providing for declaratory rulings is to be prepared, if possible.
5. Give Commissioner additional power under Section 146(a) to close taxable year of dissolved corporation and demand immediate return and payment of tax.
6. Clarify the provisions of Section 113(a) 16 of the Revenue Act of 1936.

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 1773 of  
December 27, 1937, from Paris.

Unused credit is 10,180,000,000 francs, according to last Bank of France statement. Should the Government draw on this to the extent of two or three billion, presumably this would leave "available" - to use the Ministry of Finance's words - eight billion. Using the two or three billion may not upset the market, but it is feared that confidence would be seriously impaired by continued resort to borrowing from the Bank of France in January. At 11 o'clock this morning when I visited the Bank of France/<sup>I was told</sup> the fund had been obliged to yield small amounts of sterling up to that time. According to my contact some French investors had been purchasing gold mining shares importantly of late as a capital refuge.

French and British financial press carry Reuter and other reports attributing to Secretary of the Treasury statement that his Department was "not considering any plans to participate in an international foreign exchange clearing house." L'INFORMATION believes that London would also take a negative position and that any idea in this direction on the part of Van Zeeland would be "generous but perfectly utopian".

END MESSAGE

BULLITT.

EA:LWW

EG

GRAY

Paris

Dated December 27, 1937

Rec'd 2:25 p.m.

Secretary of State,  
Washington.

1773, December 27, 4 p.m.

FROM COCHRAN

With London closed, Paris exchange market is inactive today. Forward francs slightly more bid than on last Friday when market sentiment was quite bid as a result of relax of labor trouble and impression of weakness on the part of government in dealing with Goodrich strike suppression. Senate debate on budget began Sunday with little serious opposition manifested the first day and Bonnet stated that as of December 24 new treasury loan subscription totalled 3,600,000,000 francs and will be closed 29th. He spoke of having 8,000,000,000 francs available to start the year. Budget reporter Gardey thought it might be necessary for the state to borrow 2 or 3 billion francs from Bank of France to meet end of year requirements. Bonnet ridiculed idea of exchange control. He is planning assistance to industry through easier credits.

End section one.

BULLITT

WVC:ETM

Section two of No. 1773, December 27, 4 p.m. from Paris.

The foreign exchange with which the Treasury last Friday, December 24, made the fifth and last repayment on British banking credit to French Railways was provided for by the French stabilization fund. The entire amount for the five instalments to total 40,000,000 pounds or approximately six billion francs was thus provided for by the fund. The stabilization fund as of this morning contained slightly under five billion francs of gold and foreign exchange. The total franc assets, gold and exchange of the fund are approximately twelve billion francs. It was necessary for the Treasury to overdraw its account with the bank in order to pay the fund for the last half of exchange. It remains to be seen whether the proceeds from the new loan will be received in sufficient time and quantity to avoid showing new Government borrowing on next statement of Bank of France. In any event, it is anticipated at the bank, as Gardey suggests, that the Government will borrow there for a few billion at the end of the year.

BULLITT

EA:DJW

PARTIAL  
PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, PARIS

DATE: December 28, 4 p.m.

NO.: 1777

FROM COCHRAN

I spoke with Professor Charles Rist today. Professor Rist referred to the remarkable success which Minister of Finance Bonnet is having in the Senate with his budget, following its approval by the Chamber. No confirmation was forthcoming from Rist on the rumor that the French Government would seek a new credit on the London market in the near future. In principle Rist is opposed to foreign borrowing of this type on France's part. He realizes at the same time that heavy state borrowing with the Bank of France, after end of year requirements are met, would have a bad effect on the confidence of the people and on the exchange situation; he realizes also that in order to avoid such borrowing at the bank, a foreign loan in January may be necessary. He commented upon the fact that his own Bank de Paris et des Pays Bas is showing an encouraging increase in the proportion of its French franc to foreign currency deposits.

Paris exchange market a little more active today, with slight improvement in both spot and forward francs and control evidently acquiring a little sterling. Rentes better on report that Treasury loan closing tomorrow will probably bring in four billion francs.

BULLITT

## GROUP MEETING

December 28, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Lochhead  
Mr. Upham  
Mr. McReynolds  
Mr. Haas

H.M.Jr: I enjoyed this thing in the New Republic.

Upham: Yes, I thought you would.

H.M.Jr: As a left-winger.

Upham: He's the leader of the left-wingers now.

H.M.Jr: Well, if what I stand for is left wing, then I'm left wing. But I'm glad somebody at least is ....

Magill: Did this just come out?

H.M.Jr: Yes. ... can't be bought anyway, this - what's his name?

Upham: Well, nobody knows really. Probably Jonathan Mitchell.

H.M.Jr: Oh sure, very definitely.

Magill: What date?

H.M.Jr: December 29.

Oliphant: Current number.

(Haas comes in)

H.M.Jr: Hello, George. Have you got the latest commodity chart?

Haas: I have it around at my office.

H.M.Jr: Send for it. And any recent - those business figures. Got any new ones?

Haas: I've got some in my pocket.

-2-

H.M.Jr: All right, send for the others.

Herman?

Oliphant: There was some talk in the papers this morning about the possibility of using the Silver Purchase Act. If that were contemplated, I'd want to study it, because I have very grave doubt about it.

H.M.Jr: Well, I tell you, to show you how temperate I am these days, Mr. Magill wanted to tell me what Vinson told the press and I said I could wait. And what Mr. Steve Early told the press about silver - I can wait, see?

Oliphant: Well, I just wanted to ....

H.M.Jr: I don't know where he got all that from.

Oliphant: All right, but ...

H.M.Jr: What?

Oliphant: It's all right.

H.M.Jr: Well, as a matter of fact, what you better be doing is to draw up whatever puts silver at  $77\frac{1}{2}$ , whatever piece of paper did that, see?

Oliphant: It's in the safe ready; just the blanks to be filled in with the pen.

H.M.Jr: Whose safe?

Oliphant: My safe.

H.M.Jr: Is it safe?

Oliphant: It's all drawn up.

H.M.Jr: The same kind of piece of paper that put silver at  $77\frac{1}{2}$ .

Oliphant: It's all done.

H.M.Jr: And the length of time?

Oliphant: Yes.

-3-

- H.M.Jr: Are the world markets - New York markets open Friday, are they?
- Lochhead: New York markets were open Friday.
- H.M.Jr: No, next Friday.
- Lochhead: Oh, next Friday. Yes, they'll be open.
- H.M.Jr: As long as the President said 30th to 31st, we better do it the night of the 31st. Silver markets are closed all over the world on January 1 - and a Saturday.
- Lochhead: Possibly not Saturday. London market is open Saturday.
- H.M.Jr: On New Year's day?
- Lochhead: Oh no, not on New Year's day.
- H.M.Jr: I was thinking he better do it - as long as he says 30th to 31st, he better do it the night of the 31st.
- Oliphant: Night of the 31st.
- H.M.Jr: Better be dated. Give it out at five o'clock on the night of the 31st. I mean I was thinking it out. No sense of doing it on the 30th. I mean they read it Saturday and then they can have Saturday and Sunday to digest it.
- Lochhead: There's an awful lot of commotion and talk about it, but the actual business in silver doesn't warrant all this talk and excitement.
- Oliphant: You want London to have the first go at it.
- H.M.Jr: Nobody will - but Saturday's closed.
- Oliphant: Well, they'll have it Monday.
- H.M.Jr: That's all right.
- Lochhead: No trading, to speak of, in this market. Very small.
- H.M.Jr: I thought it all through. That's all right. They

-4-

don't open up their silver market until when?

Lochhead: Word comes about half past nine. Everybody interested in this market in silver operates in the London market anyway, and they'd have their orders in the London market when it was opened.

Oliphant: I see.

H.M.Jr: I think must have been Herbert Gaston talked to the Times yesterday about gold - handling it - didn't he?

Lochhead: Herbert came in and spoke to me about the whole thing. I saw one fellow - who was the fellow, that good-looking, rather young looking fellow?

Upham: John Crider.

Lochhead: Saw him in the hall. He said, "Did you see this article about that?" I said, "You fellows are getting more information than anybody else in the world is getting on that. What are you kicking about?"

I don't know whether that was the basis of it.

Oliphant: Possibility.

Lochhead: Said he'd spoken to Taylor.

H.M.Jr: Well, I called Herbert Gaston myself and told him I wanted that story answered. Because Thursday or Friday Krock ran the thing - no rhyme or reason - people beginning to have question about the gold thing. Then this fellow Bell follows the thing up with a feature article on Sunday. I brought it to Herbert's attention Monday, because it looked to me as though they were going to say England's dissatisfied, everybody else, and Mr. Kennedy's going over to straighten it all out; and he's going to find that they are perfectly satisfied. That Krock was just laying around .....

Lochhead: But the only thing I object to in all this talk is the fact that they get more information over here than any country in the world, and they kick.

H.M.Jr: It's a good story.

-5-

Oliphant: What story is that?

H.M.Jr: Why, it's on the financial page of the Times, right-hand corner.

Lochhead: You'd have to read the other article that appeared on Sunday in the Times.

H.M.Jr: By Bell.

Lochhead: By Bell.

H.M.Jr: And then look up Thursday's or Friday's Krock and you read the thing. I didn't read it because it was all about the President. Then the last two lines - "Well, Mr. So-and-so over in London thinks that Morgenthau's handling the gold is one of the chief responsibilities for the stock market going down."

Incidentally, tell Miss Reynolds to read that Thursday or Friday story and then get me the original. I'd be interested to see just what the man did say. Refers to the London Times. If she reads Krock on Thursday or Friday in the New York Times, he makes reference to some man in some article in the London Times.

Lochhead: Right.

H.M.Jr: And it would be interesting to see just what he did say.

Lochhead: O.K., we'll check up and get that original.

H.M.Jr: George, maybe you could handle this. But don't lose the original. I'd like about 48-hour service on that. It's a monetary scheme - script money - Mrs. Greenway. We sent in a report on that for Mrs. Greenway, turning it down, last year. Do you (Upham) remember about it?

Upham: Yes.

H.M.Jr: Between the two of you, look into it.

Upham: Be glad to.

-6-

- H.M.Jr: Of course, we've got - what we approve of towards that thing is what we're doing with the self-help co-op here in Washington. See, George?
- Hees: Uh-huh.
- H.M.Jr: I didn't know Mrs. Greenway was still in town.
- Upham: Oh, she isn't.
- A.S.Jr: I think the thing to do is to draw the President's attention to the self-help co-op in Washington, as compared to the thing that you (Upham) went out to see in Iowa City for me, see? The script thing, which was all a bust.
- Upham: Mason City.
- H.M.Jr: What?
- Upham: Mason City.
- H.M.Jr: Mason City.
- Oliphant: What did Greenway want?
- H.M.Jr: Script. We have the self-help co-op. We pay them with ....
- Upham: ... products that they make.
- H.M.Jr: We pay them the time that they earn. I mean if they work eight hours, they get a pair of shoes which is worth so many hours, a lunch which is worth so much, house rent, so forth. Did you know about it?
- Oliphant: No, I never heard about that.
- H.M.Jr: Worked out beautifully. I'm responsible for it.
- Upham: Quite a story in the paper last week, with pictures. "You can buy this toy automobile for five dollars' worth."
- Oliphant: Is it script in terms of hours?
- H.M.Jr: Yes, entirely. But they can't sell the products, you see.

-7-

Oliphant: And the script is in terms of hours.

H.M.Jr: Yes.

Oliphant: That's O.K.

H.M.Jr: No, it's in terms of hours, and it isn't like in California, where they made stuff and tried to sell it.

Oliphant: Uh-huh. This is a little like the Richmond plan.

H.M.Jr: Set up by the woman from Richmond. Set up by the woman from Richmond. Took more time and more effort to get the money for that than almost anything I have ever done. For some reason or other, the Hopkins organization didn't want it.

(McReynolds comes in)

Good afternoon, Mr. McReynolds.

McR: Good evening, sir.

H.M.Jr: That take care of you?

Oliphant: What?

H.M.Jr: That take care of you?

Oliphant: Yes, except that personnel thing is pressing - the time on it is - in connection with that other case.

H.M.Jr: Well, let me just get my feet on the ground; I haven't yet. I mean today.

Magill: I think nothing.

H.M.Jr: Will you please tell me why we're going back to the French Revolution and chopping the heads of Mr. DuPont off into the third basket?

Magill: The basket plan.

H.M.Jr: That's the goddamnedest thing I ever saw. Where do you get this "Off with their heads. DuPont - phwit! Ford - phwit! - into the third basket."

-8-

Magill: Seemed a good idea at the time.

Oliphant: You've got something there, Ros.

Magill: Of course, if you don't want to do it, we'll do something else.

H.M.Jr: What I want to know is, who is the auctioneer? I mean who's the ...

Oliphant: Executioner.

H.M.Jr: Who's the executioner?

Magill: Upham.

H.M.Jr: I swear, Magill - I mean I don't know whether I'm going to be able to keep that article - I mean the simile - because I can tell it to the President in strictest confidence; I mean I can tell it to him and he never would say a word.

Magill: Not a word.

H.M.Jr: No.

Oliphant: Not before tomorrow.

H.M.Jr: Not before this evening at dinner, probably.

McR: Unless he had a press conference in the meantime.

H.M.Jr: Well, tell us about it.

Magill: Well, I was saying to Cy that the thing surprises me a little, because somebody with your knowledge of history must have invented the basket business. We never talked about baskets in that particular connection.

H.M.Jr: It's the most - I swear I don't know - I mean, well, after all, if I tell it to the President in confidence - oh boy! Where did you get it?

Magill: You look out; you may kill off the third basket plan.

H.M.Jr: The third basket plan?

-9-

- Lochhead: Be careful of those words.
- Magill: There's been a lot of good work done on the third basket.
- H.M.Jr: Just in the family, Ros, where did they get that simile?
- Magill: I don't know. The boys may speak of it in that way. Normally we talk - we've been talking about baskets in connection with capital gains and losses.
- H.M.Jr: With what? How do you spell that?
- Magill: Which? Baskets?
- Upham: Gains.
- Magill: But I never heard of it talked about in this connection. They've got a lot of very curious language, such as "notches," but I never heard of baskets. We make notches ....
- Maes: On the gun.
- Magill: ... but we don't make baskets ...
- Upham: ...to lay your neck in.
- Gliphant: Parker, in a speech down in Virginia a year or so ago, talked about putting capital gains in a separate basket.
- Magill: That's very common, that language, on capital gains, and it's a useful metaphor there. You see, you talk about - if you've held it at least a year and you make a profit or a loss, then that goes into this basket.
- H.M.Jr: Well, some time when you have time and I have time, I want to be brought up-to-date.
- Magill: On baskets. Basket-weaving in the Treasury.
- H.M.Jr: Yes. Anything pressing?
- Magill: No, I don't think so. We're trying to formulate

-10-

a report for the Sub-committee to give to them as soon as they meet after the Holidays, principally with a view to getting the hearings started. There won't be a bill for quite a while, I think.

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

Well, just as soon as we get around - I mean I'm trying to ...

(Mrs Klotz comes in)

H.M.Jr: You missed a good time.

Klotz: Oh, I'm sorry.

H.M.Jr: Mr. Magill - I don't know - I told him I couldn't tell anybody but the President in confidence. Did you see in this morning's paper about the new basket plan, going back to the Revolutionary days?

Klotz: Oh yes.

H.M.Jr: DuPont - phwit! - in the basket. Ford - phwit! - in the basket. It's known as the Magill-Upham plan.

Klotz: Magill-Upham.

Oliphant: Guillotine plan.

H.M.Jr: I promised to tell nobody but the President.

Magill: I tell you right now, if you give these left-wingers any rope, they just run away with you; be back to the French Revolution any day.

Klotz: Enough rope, they'll hang themselves.

H.M.Jr: If you give them any rope, they'll hang themselves.

(Mrs Klotz leaves)

All right, now, where were we? Well, you're going to - if I get some of Mexico straightened out today, why, that's what I've got uppermost in my mind. Are you here today?

-11-

- Mogill: Yes, I'm here.
- H.M.Jr: George?
- Haas: I have nothing.
- Lochhead: London silver fixed this morning at 40.91. That's the lowest since May, 1934. Incidentally, articles in the papers this morning speak as if Suarez made an arrangement - they speak there of continuing silver purchases for this coming year at the same price as last year.
- H.M.Jr: What I did is this. Mexican Ambassador and Suarez were, I think, to come in to see Sumner Welles on Friday morning, and I told him at that time, after having got the clearance at Cabinet that he was to tell the Mexican Ambassador and the Minister of Finance that we would continue the arrangement for the month of January.
- Lochhead: That's right. No mention of price, though, in that arrangement.
- H.M.Jr: Listen, what do you think I am, a New York banker?
- Lochhead: No, I just wanted to - Sumner Welles ....
- H.M.Jr: Think I'm a New York banker? Don't insult me. New York international banker.
- Oliphant: Well, he's got a point there. Welles may have said something about it.
- H.M.Jr: No, no; no, no. Now, will you notify through the Federal Reserve today, for me, the Bank of Canada and the Bank of Mexico that for the month of January these arrangements are in effect.
- Lochhead: I have the letters. I think they're down in your (Oliphant) ....
- Oliphant: No, they've cleared my office.
- Lochhead: Oh, they've cleared your office.
- H.M.Jr: Now everybody's taken care of - China, Canada - and let's watch this market.

-12-

Lochhead: Yes.

H.M.Jr: But that's no - the other thing... Gee, where's Gaston today?

(On phone) Is Mr. Gaston ill? - Let me know.

When you (Upham) go back, tell him I want to begin clipping this stuff, see, if we get into Mexico. Yesterday the New York Times carried a very unusual dispatch from Mexico that we were using the silver policy to stop "Mexanizing" Mexico. I want to begin to have that right up on my desk, because I don't know if I get into it just where I'm going to be shot at, you see. But we've got to start a book right up to the minute on this stuff. Better get some Mexico City papers too.

(On phone) Hello. - All right.

And we better get Mexico City papers. If we don't go ahead - but here's a thing saying that we were using the silver thing to drive this bargain, stop Mex.... - you know.

Olightent: They gave it lots of space too, didn't they?

H.M.Jr: Yes, and I must have a file on that. Tell them to get Mexico City papers on it too, all kinds, weeklies - I mean ...

Upham: Go back about a month, shall we?

H.M.Jr: No, if they'll just start this - well, go back a week ago yesterday.

Upham: All right.

H.M.Jr: But I mean it's very interesting.

Let me just ask you people - just horseback opinion, see? In getting into this thing with Mexico, I think I told you people that the position I took was that if they wanted to call us in - that Mexico is very sick and that - I didn't tell them that, but I told them that we're willing to do a real reorganization

-13-

job for them. I mean the President has asked me, do they need 30, 40 million? Well, 30, 40 or a hundred million won't do it. Same condition as France. What they need is sound finance with which to finance their New Deal, and some time, some day, they're going to realize that this New Deal has been financed soundly and therefore Mr. Roosevelt can go ahead, whereas other countries had New Deals going busted.

Now, this is the point I want to ask, just to get you people here - how you people feel. In a rash moment I made this suggestion, that either President Cardenas come here with a commission or that Sumner Welles and myself go to Mexico City; and ever since I made that suggestion I've been kind of sorry I ever made it.

Olipnant: You mean the second half of it.

H.W.Jr: Yes.

Olipnant: The first half is all right. The second half is - would look like domination.

Upham: Swell town, nice climate.

H.W.Jr: I wasn't thinking of that.

Upham: No, I know you weren't.

H.W.Jr: I take the position that when I'm dealing with these things I never get more than a hundred yards away from Mr. Roosevelt. Huh? Let's put it, does anybody think it would be wise for me to go down there?

Hass: After it's all done.

H.W.Jr: Well, I think ....

Lochneed: The dangers of being misquoted, etc., when you get down to a foreign country.

H.W.Jr: Let this fellow stay here; and the whole - and the people in the State Department - I mean where you going to get shot at from?

-14-

(On phone) Just inquire whether Mr. Gruening is in - head of the Insular Affairs, Department of Interior. If he is, I'd like to talk to him.

They seem to regard him so highly. He seems to know. Certainly we know where his feelings would be.

Oliphant: Well, if they came up here it would be awfully hard to convince anybody that the giant of the North was trying to impose something on the weak sister of the South.

H.W.Jr: If they came here - you think that looks ~~better~~ than our going down there.

Oliphant: I think so from that standpoint, and I think that's the most critical angle of the whole thing - this background of a hundred years of little countries being sensitive about American domination.

H.W.Jr: I don't know which looks better, but I guess I'd better say it looks better to have them come up here. They're here, anyway.

Well, you fix this up.

Lockwood: Yes.

H.W.Jr: (On phone) Hello. - Hello, Mr. Gruening. Morgenthau talking. How are you? - - Pretty well. - Oh, grand. - Oh, did you? - Oh, that was nice. I'd like to hear about it. - What I'm calling for, Mr. Gruening, is this. I may be interjected into this Mexican situation; question of - this is very confidential - possibly really a reorganization, you see, for them at their request. And from the remarks that they have dropped, they seem to think of you very highly. Do you suppose if I got into it I could borrow you for a while? - Oh. - Oh. - Fine. - Well, I meant ... - Well, I meant borrow you in the sense that it might be intense, say, for two or three weeks. - Well, thank you. Well now, you know what their program is, don't you? I mean you're entirely familiar with it. What? - Well, of course, I'm not; and I guess you also know who's trying to fight it, don't you? - Well, if I get

-15-

into it, I'll ask the President to see that you're loaned to me while I'm doing it. - Thank you. - Thank you. - Oh, just - I mean just drop in here, say, for half a day; I mean there won't be any formal letters or anything. I mean just have him tell Mr. Ickes that you should help me as much as you can, that's all. How's that? - I mean just the way, say, Herbert Feis drops over here. See what I mean? - - Thank you. (Conversation finished)

Don't you think that's a good move? No question - they say that he knows this Central American thing better than anybody else. And I'd want somebody who would be on the progressive side. He's a very intelligent person.

McR: I've always heard him very highly spoken of.

H.W.Jr: He's a very intelligent person.

McR: I've had considerable dealings with him. Very satisfactory man.

H.W.Jr: I guess - he seems to know this Central American thing - nobody could accuse him of being mixed up with the oil crowd.

Oliphant: You might be interested in my telling you that Jack Laylin, who is now with Dean Acheson, has spent lots of time down there.

H.W.Jr: You know what for, don't you? He's on the other side.

Oliphant: Well, is he?

H.W.Jr: Oh, very much. He's down there trying to collect these things. Sure. I mean they're fighting this thing tooth and nail.

Oliphant: That firm is represented?

H.W.Jr: Oh, that firm, as I understand it, represents the American bondholders.

Oliphant: I didn't know that.

-16-

H.M.Jr: Oh sure, that's what they got him for. I mean this whole question of a - the whole bond business - that's his job.

Oliphant: Interesting.

H.M.Jr: What?

Oliphant: Interesting, and useful.

H.M.Jr: You (Upham)?

Upham: Nothing.

H.M.Jr: Mac?

McR: No, nothing.

H.M.Jr: I got something here. (Looks through some papers). All right.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

12-28-37

TO Secretary Morgenthau  
FROM Mr. Haas

Subject: Preliminary notes for Mexican program.

A. THE OBSTACLES IN THE PATH OF ECONOMIC RECONSTRUCTION OF MEXICO.

1. Mexico is greatly in need of capital to develop her industries and natural resources.

The domestic supply of savings is not nearly sufficient for her needs because:

(a) Mexico's most profitable enterprises are owned by foreigners who particularly in recent years are not reinvesting their profits in Mexico but are sending and keeping them out of the country. Most of her oil production, the largest part of her silver and mineral mines are under foreign ownership. Even a large part of the extensive plantations are owned by foreigners. Thus a substantial portion of the earnings of Mexico leave the country never to return.

(b) There is no large middle class of Mexicans who can be expected to save large amounts for investment purposes.

(c) The small number of wealthy Mexicans are hesitant to invest their funds in Mexico. The bad record of Federal and State government defaults and the lack of confidence in the future of property rights in Mexico leads them to send and keep a substantial portion of their savings in foreign lands. Many of them live abroad on earnings currently obtained from Mexico and most of them send their children abroad for their education.

(d) The credit facilities provided in Mexico are very small in proportion to the need. Most of the banking and insurance companies have been in the hands of foreigners. In recent years they have been withdrawing their capital from Mexico as rapidly as their assets could be liquidated.

Secretary Morgenthau - 2

Mexico must for the next few years at least, depend largely upon foreign capital for its economic development but foreign capital will not go to Mexico because of:

(1) Failure to attract foreign capital due to:

- (a) Long history of defaults on outstanding debt.
- (b) Failure to adjust service on foreign debt.
- (c) Uncertainty of property rights of foreign owners of Mexican silver, oil, land and other real assets.
- (d) Uncertainty with respect to attitude of Mexican government toward future acquisition by foreigners of Mexican property and natural resources.
- (e) Lack of political stability and possibility of civil disturbance.
- (f) Mexican Government's attempt to increase wages in foreign owned enterprises and increasing strength of labor unions fostered by government policy.

(2) Mexico lacks adequate metallic reserves.

(a) Relative increase in imports over exports with resulting pressure on the exchanges.

- (b) Flight of capital from Mexico.                     )
  - (c) Failure to attract foreign capital.                 )
- For reasons listed above.

(3) Unsatisfactory budgetary position.

(The exact budget status is not known. Published figures show a surplus but it is known that there is a substantial deficit arising from extraordinary expenses.)

(4) Backwardness of agriculture.

(a) Grave lack of agricultural credit facilities notwithstanding farm credit program of present administration.

Secretary Morgenthau - 3

(b) Lack of transportation facilities.

(c) Almost complete absence of scientific agriculture. A beginning has been made but little progress to date.

(d) Though power resources are abundant, rural communities are completely without electricity.

(5) Widespread illiteracy.

Government expenditure on education cannot be curtailed. As it is their educational facilities are woefully inadequate.

B. WHAT STEPS CAN MEXICO BE REASONABLY EXPECTED TO TAKE TO REDUCE THESE OBSTACLES?

(Preliminary thoughts)

1. To attract foreign capital.

The possibilities that the Mexican Government can effectuate steps which will cause a resurgence of foreign investments in Mexico appear to be from a superficial survey slim. The record of defaults is too discouraging; the amount that they would have to pay in order to create an impression favorable enough for renewed borrowings at reasonable rates is probably considerably in excess of the amount they could borrow in the near future if a resumption of debt service were undertaken.

It may prove that the objective should be a settlement of the foreign and domestic debt structure which would make it easily possible for the Mexicans to meet the payments determined upon in the hope that in the course of years their credit would be restored to an extent which would slowly encourage new loans to Mexico.

2. Determination of the exact status of foreign producers in Mexico.

It is essential that foreigners be assured a sufficiently reasonable return on their investment in Mexico so that they would not only continue to operate their properties but would be eager to expand their capital equipment.

The foreign companies will unquestionably claim that any increase in costs of production (either through increased wage rates forced upon them by Government edict or union activities, or increase in taxes, or in royalties) will operate to curtail their activities.

secretary Morgenthau - 4

There doubtless is, however, a compromise which is possible between their views and that of the Mexican government--a compromise which will permit adequate return to the owners and yet secure for the Mexican people a larger income out of their natural resources than they could obtain if they attempted to exploit their own natural resources. Mexico lacks capital and technical skill to warrant attempting to exploit her natural resources without the aid of foreign capital and foreign administration.

3. Political stability.

The promise of internal peace possibly can be strengthened through the adoption of a more gradual policy with respect to social reform program.

4. Labor policy of government as applied to foreign companies should be reexamined.

The policy of the Mexican Government in increasing wages in foreign owned enterprises as a device to acquire a larger share of the output should probably be modified if politically possible.

If the foreign owned companies can continue to produce at a lower level of profit the difference should for the most part go direct into the Mexican treasury rather than into the hands of favored groups of labor.

5. Tourist trade an important source of revenue.

The Mexican Government can increase the possibilities of obtaining foreign exchange by embarking upon a large scale program of attracting tourist trade; the rapid development of at least one favorably located highway system, the promotion of fairs, et cetera, should be investigated.

C. WHAT CAN THE UNITED STATES DO TO ASSIST MEXICO IN ITS PROGRAM OF RECONSTRUCTION?

1. Promote a trade agreement with Mexico in which the concessions granted will be more generous than the concessions asked for.

2. Insure a market for Mexican silver at stable prices.

3. Reorganization of the outstanding foreign debt.

Secretary Morgenthau - 5

4. Encourage Mexico to adopt a more reasonable attitude toward foreign enterprise in Mexico.

More information and study needed on following matters:

1. How much revenue can Mexico allocate to debt services?
  - (a) How can Mexico increase her federal revenue?
  - (b) To what extent can the federal government curtail expenditures?
2. How much of a "favorable" balance of payments can Mexico develop during the next few years?
  - (a) Increase in exports over imports.
  - (b) Increase in tourist exports in Mexico.
  - (c) Reduction in "flight of capital".
  - (d) Increase in silver output.
3. What arrangement can Mexico make and keep with respect to her domestic and foreign obligations that would satisfy her creditors and which would not prove too burdensome to Mexico?
  - (a) What are the details of past negotiations with foreign creditors?
  - (b) How much of the original loans actually were received by Mexicans?
  - (c) Who actually owns the Mexican dollar bonds now? Were they the original owners?
  - (d) What groups own the sterling and franc bonds?
  - (e) What are the lows and highs of outstanding securities?
  - (f) What proportion of the original loan do the present securities represent?
4. What kind of property in Mexico do Americans own? Is most of the ownership concentrated in the hands of a relatively few persons, or corporations?

Secretary Morgenthau - 6

5. To what extent does foreign ownership of Mexican property represent producing mines, producing farms and factories as compared with title to properties being exploited to a small extent of their reasonable capacity?
6. To what extent do the very numerous American small merchants spend their earnings in Mexico? How many Americans live in Mexico and obtain their chief source of their income from the United States?
7. What is the exact status of American claims for American property expropriated by the government of Mexico and in whose hands do the claims now rest?
8. How large a source of income in terms of foreign exchange does the migration of Mexican labor into United States provide?
9. What are the domestic political requirements with respect to slackening or expediting the expropriation of foreign owned land and property? What success has been achieved in the exploitation of lands and property already taken over?
10. What improvements can be made in their monetary and banking system:
  - (a) To what extent can the silver certificates be replaced by Bank of Mexico notes thus liberating some silver?
  - (b) How can the Bank of Mexico add to its metallic holdings?
  - (c) What prospects are there for obtaining loans from foreign owners of Mexican mines and industry?

December 28, 1937.  
12:20 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess is in Atlantic City, attending a convention, until Friday.

H.M.Jr: Well, is -

O: Mr. Sproul is there.

H.M.Jr: I'll talk to Sproul.

O: All right. Mr. Sproul.

H.M.Jr: Hello.

O: Go ahead.

Sproul: Hello.

H.M.Jr: Mr. Sproul?

S: Good morning, Mr. Secretary.

H.M.Jr: How are you?

S: Fine, thank you.

H.M.Jr: Mr. Sproul. I don't know whether on Sunday's financial page of the New York Times you saw an article by Elliott Bell.

S: Yes, I did.

H.M.Jr: And I just wondered, if by any chance, he could have gotten any such impression from the Federal Reserve of New York.

S: I don't think so, although he's one of the people who comes here every day.

H.M.Jr: Yes. You see there was that little discussion about releasing the figures as between Lochhead and Knoke and a fellow by the name of Roche -

S: Roelse.

H.M.Jr: Yes, and I just wondered if anybody had been talking down there at the Fed.

-2-

- S: I would think it very unlikely. I doubt very much if anyone here would have given him any information or impressions about the subject of gold figures.
- H.M.Jr: I don't know whether you saw the story today they ran - the Times ran out at Washington on that.
- S: No, I didn't see that.
- H.M.Jr: Well, that's in the financial page. If you see Elliott Bell, or could see him, and could sort of straighten him out, I would appreciate it.
- S: Well, I'll make an effort, Henry, to do that, because I do see him from time to time, when he comes in.
- H.M.Jr: Because, as far as I know, nobody's worrying about how the Treasury's handling gold.
- S: No.
- H.M.Jr: Except the New York Times, and because they keep running these stories that somebody's worrying, soon they will begin to worry and we'll have another set of gold rumors again.
- S: Yes.
- H.M.Jr: And I'd like to stop it, nip it in the bud.
- S: Yes.
- H.M.Jr: And -
- S: Well, he's quite an intelligent fellow, and -
- H.M.Jr: Well, the - the article was far from intelligent.
- S: And - well, what I was going to say was, I don't think he'd go on with just a campaign of rumor and surmise and distortions.
- H.M.Jr: Well, the article, I thought, was a very stupid, unintelligent article, and I was surprised to see that the Times would even run such an article.
- S: Yes.
- H.M.Jr: But - I mean there's nothing we can do, other than - down here, and on account of all this difference I

- 3 -

was just going to call you up frankly, because if there is any difference between the Fed. and ourselves, I think we ought to keep it a family matter.

S: Well, I didn't know there was any difference.

H.M.Jr: Oh, yes. Oh, yes, very definitely and it's quite along the lines, and it's - it's just along the line of what Mr. Bell was writing about.

S: I see.

H.M.Jr: You might make some inquiries from Roelse, whatever his name is.

S: ~~Yes~~ Yes, I will.

H.M.Jr: No, the inquiry - the differences are just along the line, exactly along the line on which Bell wrote.

S: I see.

H.M.Jr: So that's - that's why I called you up.

S: Well I'll inquire into that first, and then I'll talk to Bell when a good opportunity presents itself.

H.M.Jr: Yes, and thank you.

S: All right.

December 28, 1937 - 12:45

I asked the President whether there was any change in what he was doing on silver as between what he and I wrote on a piece of paper and he said, "No". I told him I was doing everything possible to keep up the world price of silver because we thought it was so important here to keep up the world price of all commodities. The President said, "That is right".

The President referred to The New York Times editorial and said that they do not know what they are talking about - that we saved China instead of wrecking her. I then told him about my correspondence with Julius Adler and said that I would show it to him sometime.

(New York Times editorial attached herewith - also correspondence with Mr. Julius Adler, of the New York Times.)

THE SILVER FOLLY

At a time when there are plenty of other problems to engage its attention, events have forced upon the Government the necessity of reconsidering its silver policy. This is because two of the principal commitments which it has made in this field are due to expire at the end of the month. One of these is the London Silver Agreement of 1933, by which the Government obliged itself to purchase a fixed amount of silver every year for a period of four years. The other is the President's proclamation providing for the purchase of newly mined domestic silver at prices far above the prevailing world market price. In carrying out the obligations incurred, and in fulfilling the terms laid down in a subsequent measure known as the Silver Purchase Act of 1934, the United States has acquired during the last four years no less than 1,400,000,000 ounces of silver. That is equivalent to more than eight times the entire world's mine production in the year the Treasury's purchases began, and to more than sixty times our own domestic mine production in the same year. What have we achieved by piling up this huge reserve of an artificially valued metal?

DEC 28 1937

The silver purchase policy was put forward on the basis of three claims: First, that it would lead to the re-monetization of silver in other countries; second, that it would "revive the purchasing power of the Orient" for American goods, and third, that it would "broaden the base" of our own currency. What has actually occurred, under each of these three heads, may be summarized briefly as follows:

(1) The first clear effect of the American silver purchase program was to drive off the silver standard the only important country—China—which had previously been on it. This was because forcing up the price of silver had a strongly deflationary effect upon the level of other prices in China, and because silver coin became more valuable as export bullion than as currency. So China left the silver standard and introduced a managed currency. In this respect our purchase program has succeeded in accomplishing the all but complete demonetization of silver, instead of its "remonetization."

(2) The purchase program has indeed helped to "revive purchasing power" in China for foreign goods, but not in the manner anticipated by the authors of the proposal: that is to say, not through the process of raising the value of Chinese currency but rather through the process of transferring purchasing power from the people of the United States to the people of China. For China, having left the silver standard, has become an exporter of the metal. And what the present arrangement amounts to, in effect, is this: that we offer to trade American motor cars and American machinery and other American goods for Chinese silver, purchased at an artificial price, for which we have no use. Even on the basis of this unprofitable exchange, however, we sold less American goods in China last year than we did in 1932, the year before our silver purchases began.

(3) Finally, so far as "broadening the base" of our own currency is concerned, it must be noted that when the Silver Purchase Act was passed the monetary gold stocks of the United States amounted to \$1,700,000,000, far more than was needed as an adequate reserve behind all our currency in circulation. Subsequently we have acquired so much additional gold—and have had so little need of additional silver—that the Treasury has actually sought to "sterilize" gold imports in order to prevent them from having an inflationary effect upon bank credit.

The silver purchase program has been a folly from the start. Its chief effects have been to produce confusion abroad and uncertainty at home. The sooner the Government can get out of its present position the better.

Received in New York 12/23/37

The New York Times  
Times Square

JULIUS OCHS ADLER  
GENERAL MANAGER

December 23, 1937

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

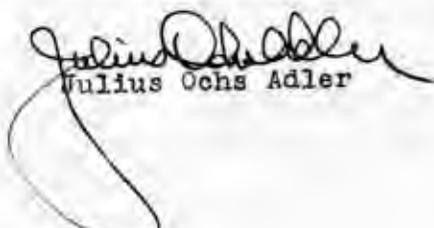
Dear Henry:

Your letter of December 22nd "surprised and shocked" me as much as mine of the 20th did you. You surely must know The New York Times well enough to be certain that we would not associate ourselves with any "pressure approach to solicitation of advertising". Nor, do I understand how you could read into my letter any implication that "Treasury advertising ought to be regarded as patronage". The Times neither seeks nor accepts patronage.

All I meant to convey was the belief that it is just as easy for the Treasury to select certain newspapers on their advertising merits as to choose certain magazines; and that newspapers are the better media for financial announcements.

I still believe both of these propositions.

Yours sincerely,

  
Julius Ochs Adler

man

Miss Small 1/3/38

155

HSR

MRS. FORBUSH  
ROOM 470

December 22, 1937.

My dear Julius:

I agree with you that the phrasing of the editorial from Editor and Publisher is not in good taste; I would go further and apply it to the whole editorial. I am surprised also, and I might even say shocked, that the New York Times should seem to participate in the pressure approach to solicitation of advertising. Your use of the expression "an apparently unfair situation in regard to newspapers" seems to me to contain the implication that in paying out the Government's funds for Savings Bond advertising I ought to consider primarily "fair" treatment for various classes of publishers; in other words, that Treasury advertising ought to be regarded as patronage.

The Savings Bond Division operates on a strict budget and chooses the media and the type of copy which it believes will produce the best business results. While it is possible that sales might be materially increased by an intensive newspaper advertising campaign, I have not felt that the budget for Savings Bond promotion should be increased to include newspaper advertising nor have I felt that sporadic experiments in this known field would be particularly useful.

There have been very few attempts to obtain Savings Bond advertising on a pressure or patronage basis and we have been able to meet them without great difficulty because we have shown no favoritism whatever. We have paid no attention to political considerations; we have watched the returns very carefully and we have made results the sole test.

I should be very sorry indeed to have to abandon this policy. I should prefer to abandon the whole campaign if we had to do it on a patronage basis. Apparently some group of newspapers is now engaged in an effort to force us to do just that by bringing pressure to bear through Congress.

Sincerely yours,

Secretary of the Treasury.

Mr. Julius Ochs Adler,  
General Manager, The New York Times,  
Times Square,  
New York, N.Y.

From Mrs. Small 12/30/37

Use first paragraph of other draft.

Then use first sentence of second paragraph. You have perhaps unintentionally given me the impression that newspapers prefer to approach this question through a Congressman and by editorial pressure to straight forward solicitation of advertising on the merits of newspapers as media and their ability to get results in this particular campaign.

The purpose of the Treasury Department's Savings Bond magazine advertising campaign is to sell bonds by informing the public at regular intervals of ~~certains~~ features of these bonds which in my opinion can be presented most effectively and most economically by the type of campaign which has been utilized. As you probably know the Treasury merely supplements its rather intensive direct-by-mail presentation of the advantages of Savings Bonds by a limited amount of magazine advertising.

The Savings Bond Division operates on a strict budget and chooses the media and the type of copy which it believes will produce the best business results. While it is possible that ~~the sales of Savings Bonds~~ might be materially increased by an intensive newspaper advertising campaign, I have not felt that the budget for Savings Bond ~~sales~~ promotion should be increased to include newspaper advertising nor have I felt that sporadic experiments in this known field would be particularly useful.

Frankly I would have appreciated your own candid opinion of the feasibility of newspaper advertising of Savings Bonds and the possibility of justifying the expense of a comprehensive newspaper program, not on the basis of fair or unfair treatment of newspapers, but on the sole basis of results to be expected in the increased sale of Bonds at minimum expense.

My dear Julius:

I agree with you that the phrasing of the editorial from Editor and Publisher is not in good taste; I would go further and apply it to the whole editorial. I am ~~surprised~~ <sup>surprised also,</sup> and I might even say shocked, that the New York Times should ~~seem~~ seem to participate in the pressure approach to solicitation of advertising. Your use of the expression "an apparently unfair situation in regard to newspapers" seems to me to contain the implication that in paying out the Government's funds for Savings Bond advertising I ought to consider ~~what~~ primarily "fair" treatment for various classes of publishers; in other words, that Treasury advertising ought to be regarded as patronage.

~~Perhaps this view is unjust to you, but all the circumstances of this episode seem to justify it. It is not a case of straight-forward solicitation of advertising by a newspaper or a group of newspapers on ~~the basis of~~ their merits as media and their ability to get results in this particular campaign, but an approach through a Congressman and then an editorial pressure ~~movement~~ ~~apparently through a lack of understanding with the Congressman.~~~~

Frankly, I would give much more weight to ~~direct~~ direct solicitation by you for advertising in the New York Times. I should also have appreciated your own candid opinion of the feasibility of newspaper advertising of Savings Bonds and the possibility of justifying the expense of a comprehensive newspaper ~~of~~ <sup>of</sup> ~~press~~, not on the basis of reward or patronage or exemption from newspaper editorial attack, but on the sole basis of results to be expected in the sale of bonds at minimum expense.

~~We have had experienced only a very few instances.~~

There have been very few attempts to obtain Savings Bond advertising on a pressure or patronage basis and we have been able to meet them without

great difficulty because we have shown no favoritism whatever. We have paid no attention to political considerations; ~~and we have not~~ we have watched the returns very carefully and we have made results the sole test.

I should be ~~very~~ very sorry indeed to have to abandon this policy. I should prefer to abandon the whole campaign if we had to do it on a patronage basis. Apparently some group of newspapers is now engaged in <sup>an</sup> effort to force us to do just that by bringing pressure to bear through Congress. ~~I should be sorry indeed to learn that the Times is a party to it.~~

Sincerely,

The New York Times  
Times Square

December 20, 1937

JULIUS OCHS ADLER  
GENERAL MANAGER

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

Dear Henry:

Phrasing of part of this editorial is, of course, not in good taste, but it does present an apparently unfair situation in regard to newspapers which you may wish to consider.

With best wishes,

Yours sincerely,

  
Julius Ochs Adler

mam  
enclosure

December 18, 1937

EDITOR &amp; PUBLISHER

**I A L****FALLACY—OR ALIBI**

WHEN HE NOTICED the advertising of the Treasury Department for United States Savings Bonds in several popular magazines, Rep. Fred L. Crawford, of Michigan, asked Secretary Morgenthau why newspapers had not been included.

The Treasury's reply, signed by Herbert E. Gaston, a former newspaperman who is now assistant to the Secretary, was that "it would be most difficult for us to advertise in any newspapers without advertising in all. To do this would call for far greater expenditures than have been made or would be appropriate in the premises."

Mr. Gaston's reply is the usual one. It ignores the obvious fact that the advertisements appear in some, not all, magazines. It assumes and asserts that an advertiser cannot use any newspaper without using all, thereby ignoring the experience of hundreds of advertisers who obtain the coverage they want with a selected list of newspapers.

If advertising of the Treasury Department is regarded by the Treasury as a piece of political patronage, then, to be sure, it must be parcelled out without regard to business objectives. If, as it seems, the object is to sell bonds, there is no reason why the U. S. Treasury, any more than the American Tobacco Co. should use any media it does not choose to use.

If the Secretary of the Treasury decides to overlook the great market for his securities afforded by newspaper readers, we believe that his expenditure of public funds for the purpose should be respectfully challenged. The Treasury should not be allowed to hide behind the fallacy or alibi that a special and an asinine principle applies to Uncle Sam when he has a business proposition to offer his investing family through advertising channels.

Mrs. Small  
Room 285

162

FILE RETURNED TO ROOM 285 for filing  
as per NMC's instructions. 1/8/38 -  
mas

*[Handwritten signature]*

December 28, 1937

11:30 am

Present:

Ambassador Najera  
Minister Suarez  
Mr. Sumner Welles  
Dr. Feis  
Mr. Lochhead  
Dr. White

HM, Jr: Did you find a way to spend Christmas away from your family? Not so good?

Mr. Suarez: Not so good.

HM, Jr: What has happened since I saw you at dinner at my house? Has anything happened?

Mr. Suarez: Nothing.

Ambassador: I talked to Under-secretary Welles and we told Mr. Suarez what we have done, on general lines.

HM, Jr: What do you think would be the next move, Mr. Ambassador?

Ambassador: Well, Mr. Welles promised me that you were going to make some suggestions on general lines; that you were going to present the draft of a general plan and then we will discuss it.

Mr. Welles: It is not quite that, Mr. Ambassador. What I said was we would have an opportunity, in view of the understanding that we had reached, for general discussion of the problems involved and that in view of the authorization you have received, and the Secretary of the Treasury, from the President of Mexico that we would then be happy to make some suggestions that we see possible and feasible. It seems to me that it might facilitate the discussion, make it easier to get down to essentials and fundamentals, if it were possible for the picture to be put before the Secretary of the Treasury as clearly

-2-

as Minister Suarez wants to do.

HM, Jr: You see, naturally you know your own financial picture better than anybody else and we are not entirely familiar with that picture. Now, if you could put down how you see your budget for 1938, I mean what you expect the revenues to be and what you expect the expenses to be, how much money it will take to carry out the Government's program, then it would be easier for us doctors to get together after we knew what the symptoms were, because I am not familiar with the symptoms. And I go back to four years ago, when Mr. Roosevelt put me here, and certainly our Government had difficulties in borrowing money -- unbalanced budget; we had a lot of unemployment, hungry people, and we had a program we wanted to carry out, and the question was just how fast we could move and how much could we afford, and we had the old Liberty Loan of the war coming due of \$8,000,000,000. We had to meet that. And it was just a question of how fast we could go ahead and at the same time take care of our every-day needs, and we have been able to work it out with moderate success. Now, we have four years behind us and I think we have a lot of problems which are the same for both Governments and, you see, I don't know what your revenue picture will look like for the next year. I don't know what your expenses are. I don't even know -- when do you put in your budget for 1938?

Mr. Suarez: At the beginning of the year. That has been done.

HM, Jr: That has not been done?

Mr. Suarez: It has been sent to Congress.

HM, Jr: I don't think we have seen it.

Dr. White: We have a tentative copy.

HM, Jr: I don't know the total figures of what your expenditures will be and how much revenue. That whole picture. I mean, if it is agreeable to you. This is something, naturally, as I explained to the Ambassador, it's just a question of whether you want to call in a consultant and if you do, we are more than willing to be helpful.

Mr. Suarez: Thanks, Mr. Secretary.

-3-

HM, Jr: But just what the symptoms are or what your problems are, I don't know, but if they could be put down we could look at them and give us a chance to possibly make some suggestions and you could tell which would be workable and which would be impossible.

Mr. Suarez: Thanks, Mr. Secretary.

HM, Jr: But just -- if I may say so, you need money the way every Government does to pay for your expenses and as long as we are on this kind of a system, why we have to borrow money and we have to pay interest and the people who have the money will lend it if they feel there is a reasonable chance of paying it back and I think that if the Mexican Government could present, not only to your own people, but to the world, a strong budget picture, that you are going to get your revenue and your expenditures -- are going to come closer, when you have a balanced budget, I think that you would be surprised how quickly the financial people would begin to have confidence and would leave their money in Mexico. That's your problem. You want the money you need for oil, land, silver and gold, to stay in Mexico. Isn't that right?

Mr. Suarez: Yes, Mr. Secretary.

HM, Jr: And if you could present an encouraging picture to the world, I think you would be surprised how that thing could change, but people are frightened, just the way they were here, and our bankers don't love us now; I don't expect that they ever will, but we are strong enough that they can't refuse us. And the program, we have just had to decide what we were going to do for the next year, whether we were going to tax the people more or cut our expenditures, and we have decided that we would not increase our taxes but that we would decrease our expenditures. It took us three months to decide that. We decided the thing for us to do was to cut down our expenditures and leave our taxes where they are because we think they are high enough. That's the decision which the Government has to make for itself, but here that's what the President decided in consultation, calling in the Treasury, that for the next year -- you see, he is talking about building less roads, reducing the Civilian Conservation Corps for boys, cutting down his agricultural program. He wrote a letter to Congress that we would not spend more

-4-

than \$500,000,000 unless there were more taxes, and the whole program here is to cut down expenditures and if business does not get any worse or gets a little bit better we will have about enough money, but that's our problem and it's the problem of every other Government and I think if I could know more about which way you are looking, just the way we are looking from our Treasury, for more taxes? or more expenditures? or less expenditures? Can you convince the public that you are going to have a reducing deficit. And I think if you could convince the public, your credit would be all right. Does that sound like horse sense?

Mr. Suarez: Certainly, Mr. Secretary. I will explain to you what is our situation from a budgetary viewpoint and then I will explain to you also what is our situation on the credit side of the picture. As far as the budget is concerned, I think we have no great troubles for the time being. We started in 1935, which was the first year the President was in office, we started with a budget of 275,000,000 pesos. That's originally. And this year we got a revenue of 328,000,000 pesos. So we had at the end of the year we increased the budget during the year, but we have a surplus at the end of the year of about 30,000,000 pesos.

HM, Jr.: This year?

Mr. Suarez: 1935. In 1936 we had a revenue of 380,000,000 pesos and we made a budget of 410,000,000 so we practically expended our normal revenue of this year and the surplus that we had in the previous year. However, our revenue was increased by about 50,000,000. That was in 1936.

Now, in 1937, that is this year, we had a Government budget of 450,000,000 pesos. I am speaking in round figures. And I expect to have revenue of more than 440,000,000 pesos. Perhaps we will be quite near 450,000,000. So we will have a deficit in a very small way at the end of the year.

For the next year we have a budget of 415,000,000. That is, we have a deduction in our expenses, and that is because we expect to see a decline in revenue next year. This year was the highest in the history of Mexico -- that is, 440,000,000. This year we don't expect to have such

-5-

a high revenue because there are some factors that we consider adverse to our situation. These factors lead us to believe that we will have to reduce our import duties and our export duties will also diminish and the taxation on metals, due to the decline of prices of metals, particularly industrial metals -- zinc, copper and lead -- and some other export products will diminish because of the severe deduction in the world market, so we expect to have a deduction in our income, revenue derived from export and imports of metal production.

In addition we have made a budget of 415 million pesos, in round figures. Since I left Mexico there were some amendments in Congress, but I feel Congress will approve the budget just around 415,000,000 pesos. That covers our expenses in the regular expense of the Government. That is for the regular salaries of the Government with some important reductions in certain fields that we have considered very important; for instance, in the Foreign Relations Department they made some severe deductions. We have maintained practically the same budget for Education next year. We have made deduction in the War Department and we have made provisions for workings and developments of the country -- road building, dam building; we are building now three large irrigation projects and we will continue to build ....

HM, Jr: Where are those? In the regular budget?

Mr. Suarez: Regular budget. Railroad building; preservation of our ports; and we are also going to build a hydro-electrical plant. There is bad need for that in Mexico City and that District and private capital does not feel warranted to make any and we have decided to build that very fine project for developing 8,000 h.p. plant in Mexico City. And we put credit so that the banks -- increase the capital of the banks who lend money to the Bank of Agriculture.

So this is our whole picture, so that I don't expect that we have a very important deficit as far as next year as far as our budget is concerned. Our difficulties come from another side. That is from the credit side. Of course we need money. We would like to have it, not for the regular budget, but we have some important oil reserves in proven fields and if there is any way to get the money we would like to invest it in the development

-6-

of these oil reserves. We think that we could get only from one of our oil fields for the next year a production of 40,000 barrels a day at least. We have a royalty of 13,000 barrels a day in the deal we made with the Aguila Company. We are already trading with another company. We have purchased a third one. We will have, by the beginning of the year, three equipments and in this field the regular production is 5,000 to 10,000 barrels a day. The fields have been proven. So our needs for money, as far as the Government is concerned, is for investment, which we consider a sound one, to bring out wells, extending pipes to the pipe lines, stations, pumping stations and refineries. That is our trouble, Mr. Secretary. It comes from the credit side; the credit structure.

This year we had to make -- the President made provision for loans in the Laguna District and we were able to find financing for this field, which is very extensive, so the Bank of Agriculture, which has to finance this, found itself with a difficult problem and could not go ahead with its financing and borrowed money from the Bank of Mexico. We have to have 70,000,000 pesos to finance this field. Of course, we did not have great success as far as crops are concerned. Crops were not so good. We had no opportune rain. We had it when we did not need it. 130,000 bales was the estimate of the cotton crop. We got only about 80,000 bales of cotton. That cotton has not been sold yet. We have been trying to keep a high price for that cotton. We have that cotton in storage. So the Bank of Agricultural Credit with the guarantee by the Government has borrowed from the Bank of Mexico and that has created certain distrust in the Bank of Mexico. It has a high balance for the Government. The 70,000,000 pesos, that has not been repaid, because we have the cotton in storage and most people have seen the credits of the Government, the 70,000,000 pesos, they have considered that the Bank was making heavy loans to the Government. There is distrust of the people in the Bank of Mexico due to other factors such as maladjustment in prices. We have been able to keep a high level of prices and have been bringing them down in the last few months, but not to a basis that world prices have come so we have had maladjustment in prices. Prices in Mexico are very high. World prices are low. So it has diminished the price and volume of our exports and increased the volume of the imports. These two factors add to the distress of the people in the soundness of the

-7-

Bank of Mexico due to credits made to the Government and the fact that there has been maladjustment in price level in Mexico has determined that. Our reserves in the Bank of Mexico have been dwindling, coming down and down, and people have seen the reports of the Bank of Mexico that are published every week, so the people have seen that these reserves are coming down and the credits of the Bank with the Government have been increased and there has been distrust in the Bank of Mexico to keep the rate of exchange and people have been purchasing foreign exchange in futures or spot and our surplus has been going down and down. So our troubles come not so much from Budget, which I believe has thus far been on a sound basis -- deficit this year will be a very small one -- but from the credit side of the picture.

HM, Jr: How much is this 80,000 bales of cotton worth today? Can you sell it?

Mr. Suarez: In Mexico we kept the price up to 14 American cents.

HM, Jr: But what could you liquidate the 80,000 bales for? How much could you get if you had to sell it?

Mr. Suarez: We expect from the cotton and seed about 30,000,000 pesos.

HM, Jr: There is a loss of about 40,000,000 pesos to the Bank of Mexico.

Mr. Suarez: Which would represent the advance to the Bank of Agriculture.

Mr. Welles: The advances have been solely for the Laguna District?

Mr. Suarez: Mostly for the Laguna District. I think some in the North.

HM, Jr: You think the main troubles are that this Agricultural Bank borrowed this money from the Bank of Mexico and they feel this is not a good asset and, therefore, it has hurt the credit of the Bank of Mexico?

Mr. Suarez: Yes.

-8-

HM, Jr: And also the Bank of Agriculture has the 80,000 bales of cotton?

Mr. Suarez: 80,000 bales and cotton seed.

HM, Jr: That has not been pledged?

Mr. Suarez: Not yet. We have been negotiating with the National City Bank to take a pledge on this cotton.

HM, Jr: How much do you expect to get?

Mr. Suarez: Ten million, which will be used to pledge cotton, pledge sugar and pledge hennequin.

HM, Jr: All from the Laguna District?

Mr. Suarez: No, from different parts. Sugar from the Government and hennequin is private.

HM, Jr: Well, would you care to put some of this on paper, just as you see the problem?

Mr. Suarez: Certainly, Sir.

HM, Jr: And then we could take a look at it and study it.

Mr. Suarez: Yes, Sir.

HM, Jr: We will move just as fast as we can in the sense that we realize that you don't want to stay here any longer than necessary, but, as I say, if you could put the symptoms of the patient down and then when you are ready let Mr. Welles know, we could have another meeting here.

Mr. Suarez: Certainly, Mr. Secretary.

HM, Jr: But if we could get those things here and our people and the State Department people could take a look at them. What do you think of that?

Mr. Welles: I think it's a very good suggestion. I told the Secretary of the Treasury that it was very necessary that you return to Mexico City; that they

-9-

were anxious to have you back, and I think anything that could be done to expedite the situation would be helpful. I presume it would not take Secretary Suarez very long.

Mr. Suarez: I could do it this afternoon.

Dr. Feis: Mr. Secretary, may I suggest that in that same memorandum if certain of the main factors regarding oil production and oil export be included so that there is an element we can work with. Would that be agreeable?

Mr. Suarez: All production, from private sources.....

HM, Jr: Everything.

Dr. White: Mexican statistics are a little bit delayed and possible there is some other information that ...

HM, Jr: You might prepare a list of the things that we have been unable to get answers to and submit them to Dr. Suarez.

Dr. Suarez: If you are prepared to submit me some questions, if you could telephone...

HM, Jr: It would take you 24 hours?

Dr. White: Yes.

HM, Jr: You would have your questions ready tomorrow morning?

Dr. White: We can have it ready tomorrow.

HM, Jr: And before you do it, show it to Dr. Feis; might just as well submit a joint memorandum. Show Dr. Feis what we have and what is lacking. Just give Dr. Suarez one paper from the Government. Is that all right?

Dr. Feis: Perfectly.

Dr. White: It would be helpful if we could draw that list up after we have seen the document the Minister

-10-

has submitted, because there might be additional information on the points he raises.

Mr. Suarez: I will send the memorandum at 3 o'clock.

Mr. Welles: If it is convenient, the Ambassador could send it to me and I could send it to the Secretary of the Treasury.

HM, Jr.: (To Dr. White) Can you have your memorandum by twelve o'clock tomorrow? Is that rushing you too much?

Dr. White: We may be able to get it done. By one o'clock.

Mr. Welles: If we could have your memorandum by 3 o'clock this afternoon, you will have the Government's series of questions before one o'clock tomorrow at the Embassy.

Dr. White: Our questions will be of a technical nature, just things that we think will fill out some of the things you are interested in.

HM, Jr.: Thank you very much for coming down.

We sent the formal notice through today to the Federal Reserve Bank of New York continuing through January on exactly the same arrangement for the month of January -- that's 5,000,000 ounces for the month.

Mr. Suarez: Thank you very much.

Mr. Welles: How about the press?

HM, Jr.: I think I will have Gaston in and we will simply say that we are <sup>continuing</sup> taking in January exactly the same arrangement with the Mexican Treasury that we have had for this year.

(Mr. Gaston came in and Mr. Morgenthau explained what should be told the press. The Mexican Ambassador and the Mexican Minister of Finance left with Mr. Gaston.)

HM, Jr.: (To the group which remained) I always let my enthusiasm kind of carry me on, but I think, after we get

-11-

everything through it's going to be -- I don't know! You see, he does not touch on this thing that you (Welles) talk about at all. This land and everything else.

Mr. Welles: There are two factors that he does not touch. And the things that are really undermining things in addition to the Bank of Mexico are the labor situation and continued expropriation of land without promise to pay other than paper promise.

Dr. White: One might add the question that they are not attempting to make any arrangement to settle their debt on their 1934 arrangement. That not, I think, a major factor but it would be a positive factor.

Mr. Welles: Mr. Suarez told me himself that he is convinced that they have got to put through the agreement they signed with the Bondholders Committee in order to try to get their credit a little more clear in this country.

HM, Jr: If you could only call a spade a spade, but you can't. If it was a matter of 7 million pesos you could fix them up.

Mr. Lochhead: Technically their budget is balanced; there should not be any outflow of capital, but there is flight of capital from Mexico and anything that we do just give some else funds to take out.

Dr. White: I am not sure that he is including all the extraordinary expenditures in his budget.

Dr. Feis: Despite that fact, I don't think you will find their budget picture is too bad.

HM, Jr: Which one can you talk more frankly to?

Mr. Welles: Ambassador Najera.

HM, Jr: Well, we will wait not.

Mr. Welles: Anything you want me to say to the Ambassador?

HM, Jr: Not until we see this stuff. Here is the combined memorandum. This is the way we see it. Much easier to put cold turkey on a piece of paper. This is the way the

-12-

Treasury sees it. And you heard the Minister of Finance. He has left off two-thirds of the picture. Much easier for us.

Mr. Welles: Quite.

HM, Jr: Is Morgenthau too blue about your picture? So we will wait. Harry, work with Herbert Feis and let me see it before it goes up. But don't buy any Mexican bonds!

BUDGETARY SITUATION

Budgetary conditions in Mexico are in general satisfactory, having permitted the development of a rather important plan of highway construction, dams -three very important ones- railways, seaport works and industrial plants.

	(Pesos)
In 1935 the receipts amounted to	332,000,000
Budgetary expenditures " "	<u>301,436,000</u>
And there was a surplus of.....	30,564,000

In 1936 the receipts amounted to	380,000,000
Budgetary expenditures " "	<u>406,098,000</u>
Leaving a net surplus (from 1935), of 4,466,000.	

1937 receipts were estimated at	445,000,000
The 1937 Budget as approved was	457,000,000

The 1938 Budget will amount to 418,555,000 which will be distributed as follows:

Legislative - - - - -	5,500,000
Presidency - - - - -	1,500,000
Judiciary - - - - -	4,075,000
Gobernación (Interior Dept.) - -	6,920,000
Foreign Relations - - - - -	4,350,000
Department of the Treasury - - -	29,000,000
" of National Defense - - -	84,400,000
Agriculture and Development - -	37,935,000
Communications and Public Works -	73,100,000
National Economy - - - - -	8,360,000
Public Education - - - - -	67,260,000
Public Health - - - - -	13,900,000
Labor - - - - -	1,960,000
Agrarian Department - - - - -	9,705,000
Forestry - - - - -	3,200,000
Indian Affairs - - - - -	2,500,000
Physical Education - - - - -	1,100,000
Press and Publicity - - - - -	2,400,000
Social assistance to children - -	5,530,000
Attorney's office - - - - -	1,260,000
Investments - - - - -	23,000,000
Public Debt - - - - -	<u>31,600,000</u>
Total, - - - - -	418,555,000.

In the budget for Gobernación (Department of the Interior), 3,000,000 Pesos are appropriated for works in the Territories of Lower California and of Quintana Roo, and there is a larger appropriation to develop tourist travel into Mexico.

In the budget for Agriculture, 30,000,000 Pesos have been appropriated for important irrigation works.

In the budget for Communications and Public Works, 20,000,000 Pesos have been appropriated to build railroads, and 12,000,000 Pesos to build highways.

In the budget for National Economy, 2,000,000 Pesos have been appropriated to erect hydroelectric plants.

In the budget for Indian Affairs, 2,500,000 Pesos have been appropriated to educate the Indians.

In the budget for Investments, 20,000,000 Pesos have been appropriated to increase the capital of the National Bank of Agricultural Credit (Ejidal), and 3,000,000 Pesos to increase the capital of the Bank of Industrial Development.

As to other branches, important economies were effected by eliminating all superfluous expenditures.

-3-

From the preceding data it may be seen that conditions, from a budgetary standpoint, are in general quite satisfactory. A conservative budget has been formulated for 1938, having taken into consideration a possible reduction in receipts due to the drop of international prices of our export products, which probably will result in a lower volume and value of our exports, imports and taxes on metal production, particularly industrial metals (lead, zinc, copper).

#### THE SITUATION OF OUR CREDIT SYSTEM

1 - As the Bank of Agricultural Credit (Ejidal) had to finance small farmers who received land of La Laguna and in Lower California, that Bank had to obtain heavy loans from the Bank of Mexico, with the guarantee of the Government.

2 - The above resulted in a large credit to the Government, by the Bank of Mexico, for over 70,000,000 Pesos.

3 - Crops in La Laguna section were unsatisfactory, and the Bank of Agricultural Credit (Ejidal) has been unable to liquidate its credit with the Bank of Mexico. However, 80,000 bales of cotton

and cotton seed worth approximately 30,000,000 Pesos (estimated at 14½ U.S. Currency per lb., price in Mexico) -strict middling 1"- are in possession of the Bank. The balance is represented either by crop losses or by loans, payable within 4 years, for farming equipment.

4 - Arrangements with the National City Bank of New York are under way, to pledge this cotton and thus reduce the credit extended by the Bank of Mexico to the Bank of Agricultural Credit. The loan will be for \$10,000,000 (U. S. Currency). Cotton, sugar and henequén will be pledged.

5 - The credits extended by the Bank of Mexico to the Government have resulted in:

- a) Higher prices due to an increase in currency in circulation; and
- b) Less public confidence in the soundness of the Bank.

6 - Higher prices in Mexico, and lower prices abroad, have brought about a reduction in the volume and value of our exports, and an increase in our imports, all of which has resulted in lower metal reserves of the Bank of Mexico.

7 - This shrinkage of reserves, added to less public confidence, resulted in excessive demand of foreign exchange by speculators, thus creating a

-5-

difficult situation for the Bank of Mexico as regards its reserves.

### OIL

The Mexican Government owns valuable oil reserves. At the proven section of Poza Rica, it has minimum royalties of 13,000 barrels a day, to be received by the Government beginning September, 1938, as per agreement signed by the Aguila Oil Company. Besides this, the Government also owns oil wells being drilled by the Government itself. At the present time it has under production an oil well yielding approximately 4,000 barrels a day, and it is drilling two other wells. Early next year 3 or 4 more wells will be drilled, and it is estimated that by the end of 1938 the Government will have in that section a production of at least 40,000 barrels a day.

To develop its oil reserves in Poza Rica and the Pánuco section, as well as in the Isthmus of Tehuantepec, the Government needs:

For drilling work,.....\$ 5,607,000.

For two refineries with a  
capacity of 20,000  
barrels a day,..... 6,785,000.

-6-

The Mexican Government is also interested in acquiring a small Merchant Marine for coasting-trade, with 10 ships (5 of 1,000 tons, and 5 of 300 tons). These 10 ships, it is estimated, will cost \$3,475,000 (U. S. Currency).

British firms have offered the Government, with the guarantee of the oil from its reserves, a loan of \$10,000,000 (U.S.Cy.); \$6,785,000 for oil refineries; \$5,607,000 for drilling work, and \$3,475,000 to purchase the ships, i.e., a total of \$25,867,000.00.

- - - - - \* - - - - -

To solve the acute problem of the Bank of Mexico, it is believed that by means of:

a) The Department of the Treasury of the United States obtaining 35,805,000 ounces of silver at 45¢ an ounce;

b) An advance of \$10,000,000 U. S. Cy., as per previous memorandum; and

c) The certainty that in 1938 the Department of the Treasury will continue to purchase silver produced in Mexico,

the Bank will be able to maintain exchange at the present rate of 3.60 Pesos per Dollar, if tariffs are raised temporarily, just to what may be strictly indispensable.

-7-

The Government of Mexico would be desirous of concluding arrangements in the United States, of a similar nature to those proposed by British firms.

ES:EA.

(Preliminary draft)

Information we would like to obtain with respect to the  
Mexican economic situation

Budget

Does the 1937 budget include extraordinary expenditures or only regular expenditures?

Could we obtain an itemized statement of the 1936 and 1937 budget and itemized revenue estimate for 1938?

In the explanation of the 1938 budget it is stated that the Interior Department is appropriating more than 30 million pesos for various purposes, yet in the budget this item includes only 7 million pesos. Is the remainder included in some other item that is listed in the budget?

On the item for Agriculture, 30 million pesos are stated as having been appropriated for important irrigation works. Is the remaining 7 million indicated all that is going to be expended on other agricultural appropriations?

In the budget for National Economy 20 million pesos have been stated as having been appropriated to erect hydro-electric plants, whereas in the item National Economy only 8 million is provided for. Is the remainder to be expended over later years?

There is an item in the 1938 proposed budget of 31.6 million pesos for public debt (similar items of varying amounts were in 1935 and 1934 budgets). Is that sum all to be used for servicing only recent highway bonds?

What has been the total of bonds issued by the Federal Government during the past three years? What is the nominal interest rate and the present selling price of these bonds?

Are the funds which are obtained from the issuance of highway bonds, and are the expenditure of these funds included in the 1936 and 1937 budgets?

- 2 -

Is the contemplated \$10 million loan from British oil interests and the \$10 million loan from National City Bank (on cotton, coffee and hanequin collateral) included in the anticipated receipts of revenue for 1938?

Statement submitted states that proven section of Poza Rica will yield minimum royalties of 13,000 barrels a day. Does that refer to royalties of 13,000 barrels or on 13,000 barrels?

Doesn't contemplated production from the Aguila Company during 1938 (which presumably will yield a royalty of 13,000 barrels a day) depend upon a settlement of the court question with respect to the Sabao-Davis claims?

Reported that the Aguila owes back taxes of 60 million pesos. What proportion of this is included in the anticipated revenue of 1938?

What portion of the outstanding debt of the Federal and Local Governments is not in complete default? In partial default?

Are these highway bonds given in payment for road building, or do the contractors have a choice of taking cash? What proportion, if any, of the highway bonds issued were issued to foreign contractors? What is the present market value of the highway bonds?

It has been reported that 35 million pesos will be needed to finance the sugar industry next spring. If so, where are the funds expected to come from?

Are any official estimates available of the total revenue yielded by taxation of foreign owned corporations and foreign owned property?

- 3 -

Foreign Trade

What is the total of Mexico's imports and exports for the months of July, August, September, October, November 1937?

Does the government have available data of foreign trade by leading commodities and by countries for 1936 and first nine months of 1937?

What proportion of the import duties and special import tax does the Mexican Government permit foreign exporters to pay in foreign currencies valued at less than the official rate?

The official publication Revista de Economica Y Estadistica which contains various statistical series we are interested in has not been received by us since September 1936. We have written for them several times but have not yet received later issues.

Banking - Gold - Silver

What is the amount of Mexican Government bonds in portfolios of banks in Mexico? Are any long-term or government obligations included in the assets of Bank of Mexico?

What proportion of the deposits and sight obligations of the Bank of Mexico represent required reserves of other banks?

What is the composition of the "Stabilization" fund which appears in Bank of Mexico statement?

Is there an estimate available of the amount of foreign deposits in Mexican-owned banks?

What is the "special provision" item in the Bank of Mexico?

What are prevailing rates of interest on various categories of loans?

What is the volume of deposits - demand deposits and time deposits - of all banks in Mexico?

How much foreign ownership is there of Mexican banks?

Roughly what proportion of the business transactions in Mexico are conducted by check? Are there any data on check clearance?

- 4 -

How much of the silver output and of the gold output is produced by foreign-owned mines?

Are there any official estimates of the proportion of the foreign-owned production which is produced by American capital and what proportion by British capital?

Have any studies been made of the silver resources in Mexico?

Are any estimates available of the total national income of Mexico?

#### Foreign exchange

Are there any restrictions on the purchase of spot dollars or spot sterling aside from the capital export tax?

What is the volume of transactions on the "black" market for dollar exchange and what premium is paid for dollars?

How effective is the tax on capital exports, and how much has it yielded in 1937?

What is the estimate of the amount of capital withdrawn during the past three months?

Has the Government any large foreign commitments it must meet during the next few months on account of goods already purchased?

How much blocked marks do firms in Mexico own? At what discount are they being offered?

#### Balance of international payments

Is there available a summary analysis of the balance of international payments for the year 1936, and a preliminary estimate for 1937?

What is the estimate of dividends and interest (or withdrawals of earnings) payments payable to foreigners in 1938 from Mexican enterprises or Mexican holdings?

It has been estimated that the net revenue from tourist expenditures in 1935 was 35 million dollars (including border transactions). What is the estimate for 1936 and 1937?

- 5 -

Agrarian bonds

What is the total of agrarian bonds paid by Mexican Government for expropriated lands and how much has been paid to foreigners? What is the total now outstanding? Are these bonds being serviced now?

How many of these bonds are now in the hands of original owners? What is present market value of these bonds?

If the foreign companies decide to greatly curtail operations, will the Mexican Government be able to produce and market the quantities of oil which foreign companies now handle?

December 29, 1937.  
9:14 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Cochran: Hello.

H.M.Jr: Cochran?

C: Yes, Mr. Secretary.

H.M.Jr: Where are you?

C: I'm at home.

H.M.Jr: Well, that's why I called you. I thought you'd be at home.

C: Yes.

H.M.Jr: Now, first. Win Riefler is back and he asked me about Professor Rist.

C: Yes.

H.M.Jr: Now, what's the answer on that?

C: I saw Professor Rist at one o'clock.

H.M.Jr: When?

C: Yesterday.

H.M.Jr: Yes.

C: He had promised to come in before, but he has been in London, and did not see Bonnet until just a few days ago.

H.M.Jr: I see.

C: Rist is very nervous about the whole thing.

H.M.Jr: Yes.

C: Said that Bonnet is afraid that if he goes over on an official invitation -

H.M.Jr: Yes.

-2-

C: - that everyone will think foreign debts are up.

H.M.Jr: That what?

C: That foreign debt question is coming up.

H.M.Jr: I see.

C: And Rist would like to be able to go over and say that he had business for one of his banks - he's on the boards of these different French banks.

H.M.Jr: Yes.

C: And then, he said that the French are considering a new Ambassador.

H.M.Jr: Yes.

C: see? And Rist thinks that this may be announced in a very few days.

H.M.Jr: Well, it's been announced over here.

C: Well, I know the thing is out, but there's been nothing official on it so far.

H.M.Jr: I see.

C: And Rist said that it might cause conversation that he was going on anything like an official trip just when a new Ambassador is going over.

H.M.Jr: Oh! Well, boiling it all down, what's the answer?

C: Willingness on his part, and asked me if I wouldn't see Bonnet.

H.M.Jr: Yes.

C: And I said, "Well, we've put it up to you directly; we don't want to do it unless ..."

H.M.Jr: Yes.

C: ... you can come over freely and enjoy yourself."

H.M.Jr: That's right.

C: And he said, "Well, won't you see Bonnet?" But

Bonnet, in talking to him, said, well, he, Bonnet, would like to go over for a couple of weeks himself, if he had time.

H.M.Jr: I see.

C: And really I got the - that is, there's just a little bit - you could almost call it jealousy.

H.M.Jr: I see. Well, I don't - it's not important enough, as I told you, to press it. I don't want you to press it.

C: That was - that's the way I explained it yesterday. I said, "Well, I can go see Bonnet for a call, because I haven't seen him since I've been back from Washington."

H.M.Jr: Yes.

C: And he said, "Well, he told me that he wanted to see you."

H.M.Jr: Well ....

C: So I put in a request yesterday to see him when it's convenient.

H.M.Jr: I see.

C: I can just make that a New Year's call, and he can figure it out.

H.M.Jr: Fine.

C: But another thing he said was that "hadn't we better talk it over with the Ambassador?"

H.M.Jr: Yes.

C: And I said, "Well, we haven't taken it up officially yet." I said, "It's better not to have an official invitation until we get this thing decided as to whether it's wise for you to go."

H.M.Jr: That's right.

C: And so it was left that way. And he said, "Well, wouldn't it be best to postpone it?" I said, "Well, considering the way you feel, I think I should just tell that to Mr. Morgenthau."

H.M.Jr: To - to have it postponed.

C: Postponed indefinitely.

-4-

H.M.Jr: All right, that's ...

C: Until conditions are a little better.

H.M.Jr: All right, let's do it that way.

C: Fine. Today things are not good at all here.

H.M.Jr: Uh-huh.

C: I mean there's a general strike which involves the motor buses, the garbage trucks, and it seems like it's spreading to light and in water.

H.M.Jr: I see.

C: They're having a special cabinet today at 3:30 this afternoon.

H.M.Jr: Uh-huh.

C: And today everything is upside down. The franc suffered quite a slump this morning, and by twelve o'clock had lost a million three hundred thousand pounds.

H.M.Jr: Yes.

C:

H.M.Jr: Now Cochran, I want to ask you a question.

C: Yes, sir.

H.M.Jr: Do you want the title of Financial Counselor?

C: I think it would fit me very nicely.

H.M.Jr: It - it would what?

C: Especially when I've been back there. Of course the only thing I had talked about was the title of Counselor.

H.M.Jr: Well, I mean, would you like the title of Financial Counselor?

C: I should prefer it, if it's all right.

H.M.Jr: You should prefer it.

- 5 -

- C: Honestly, I would. If it's agreeable to you.
- H.M.Jr: Well, it's all right as far as I'm concerned, because it's what will make your work the most effective.
- C: That's what I think. It would be more effective that way than the other, but I don't - I like it better.
- H.M.Jr: Well, you're - that's, - well that's what they want to give you anyway.
- C: Well, if it's agreeable to you, it's certainly agreeable to me.
- H.M.Jr: Well, I mean it's - suggestion comes from your superior.
- C: Yes, it came from him because the other man doesn't want me as a counselor.
- H.M.Jr: Well, but your superior does. That's -
- C: It's agreeable to him as long as I don't have exactly the same title as Wilson.
- H.M.Jr: No, your title will be Financial Counselor.
- C: Yes. Well, if that's agreeable to you, it's quite all right. You know I don't want to embarrass you any way at all.
- H.M.Jr: You can't embarrass me.
- C: I hope.
- H.M.Jr: Well, I -
- C: It would be a more useful title.
- H.M.Jr: Well, then now I'll try to have - I'll see whether I can sell it across the street or not, you see.
- C: Yes.
- H.M.Jr: Hello.
- C: Yes.
- H.M.Jr: I'll try and sell it across to your Department.
- C: Thank you.

-6-

H.M.Jr: I don't know - I don't know how they feel.

C: My question was whether they would require legislation.

H.M.Jr: Well, they've got plenty of lawyers over there.

C: And here in France sometimes they say Counselor and then in parentheses "Assigned to financial duties," something of that sort.

H.M.Jr: Well, all I wanted to find out is whether this would be pleasing to you.

C: Entirely so. Very much so.

H.M.Jr: Well then, leave the rest to me.

C: Good. Fine.

H.M.Jr: Don't worry about the lawyers.

C: All right, sir.

H.M.Jr: Well, I wish you a happy New Year.

C: Thank you so much. There's nothing else, sir?

H.M.Jr: No, I really called up just about this title business.

C: Well, I had planned to go to a get in touch with Mr. Bonnet about this other thing.

H.M.Jr: All right.

C: All right. Fine. Well, happy New Year to you and your family.

H.M.Jr: Thank you. Good-bye.

C: Good-bye, sir.

December 29, 1937

HM, Jr telephoned James Roosevelt at 3:30 today and the following is a report of their conversation:

HM, Jr: Do you look after Rural Electrification?

J. R.: Very indirectly.

HM, Jr: Somebody from the White House ought to take a look at it. I was talking to Carmody and he is an awfully wild fellow. He is a big money spender. When Morris Cooke was there, he would always see the President and check everything he did with him. I gather now that Rural Electrification is on a very competitive basis and is going to be one of our big spending agencies.

J. R.: It is under Agriculture and I will talk to Wilson about it.

HM, Jr: It used to be an independent agency, responsible to the President. I did not know it was under Agriculture.

J. R.: Just a minute. I will look it up. Oh! Yes! It is an independent agency!

HM, Jr: As far as I know, no one is supervising it. I think you will find that Carmody is riding pretty high, wide and handsome.

December 29, 1937.  
3:02 p.m.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Altmeyer: Hello, this is Altmeyer.

H.M.Jr: Yes. This is Morgenthau.

A: Yes.

H.M.Jr: The reason I'm calling you is this. I'd like to talk very frankly and straight from the shoulder, if you don't mind.

A: All right.

H.M.Jr: Mr. Bartelt was in today with a letter of further instructions to his men, and I said I wouldn't approve it. It seems to be a lot of trouble about our men in the field being called in to assist on this unemployment insurance, and the trouble is with your man - the man you brought over here, what's his name?

A: Wagenet.

H.M.Jr: Wagenet. And I told Bartelt this. If you don't mind, I'd like to tell it just the same to you. That the understanding that I had with you, I thought, was agreeable to both you and myself. Now I don't know what's happened since then, but if you care to write me a letter inviting us to send these men to contact whoever your number one man is in the States, and not to pocket him down in one corner with the accounts, we'll do it. Now, if you don't want to do it, we'll forget it, see. And as far as I'm concerned there won't be any hard feeling. But I'm not going to run this show as though this was a foreign embassy and who should call on who first, and that our men have to sit there until we receive a call from your state representative, which is just nonsense, and we couldn't do a job for you. And then, that wasn't the way I understood it and if you feel you don't need the Treasury people, we've got plenty to do, and we'll just call it all off, see?

A: No, I think - I think - I think you're wrong, Mr. Morgenthau. Here's the situation as I understand it.

H.M.Jr: No -

-2-

- A: I talked with Wagenet before I left to be sure -
- H.M.Jr: Yes.
- A: - that he and Bartelt were in agreement.
- H.M.Jr: Well, they're not.
- A: And he told me that he met with Bartelt, Friday, last week.
- H.M.Jr: Yes.
- A: And worked up a plan of procedure.
- H.M.Jr: Yes.
- A: And I spoke to him again, just yesterday, to be doubly sure, and he said he thought it was all satisfactory and would work out well. His thought was this, that he's got his people already out to these twenty-two states and that he would arrange with them to have the Treasury people come in when needed, and I said, "Well now, does that mean you are actually going to call upon these Treasury people, or just going to forget about it?" because I had pretty near the same fear that you have, that he was pocketing them, and he said, "No, by no means; that doesn't mean that." "Because," he said, "I think there will be many places where they will be needed and urgently needed." But he said he thought that they could get a better focus on the thing in that way and have it less obtrusive to the states, if it were worked that way.
- H.M.Jr: Well, both Bartelt and Bell feel it's entirely unsatisfactory. Bartelt explained it to me. I didn't know anything about it. He came in this morning - that you people have three divisions in the field representing Social Security, one of which is accounts, and that had to do with keeping the accounts, and that if your man in the field thought there was something the matter with the accounts and nothing else, he'd call on their head. Now, they gave me, for example, the situation - as it was last week in Massachusetts, that your people there have got two million cards to run - to run through a punching machine.
- A: Yes.

- 3 -

H.M.Jr: And that they have - they're two million cards behind, see?

A: Yes.

H.M.Jr: I'm ~~not~~ just using that as an example.

A: Yes.

H.M.Jr: And Bartelt said that he wouldn't - ~~had~~ feel - that he couldn't do the job that I demanded of him that he do, if - not demanded, but expected of him - if the arrangement was as Wagenet wanted it.

A: Uh-huh.

H.M.Jr: Now the responsibility is - the offer we made is too big a one, and if you don't mind my saying it, too generous a one, for us to go in the field and only see one-third of the operation.

A: Yes.

H.M.Jr: And for my man to wait there until your state representative calls on him, makes a formal call on him, which is just nonsense, after all we're not in the diplomatic service, going to wait until somebody drops a card at your house, and so I told Bartelt to call it all off until I'd spoken to you, and not let the men do anything unless, as long as there's this trouble with Wagenet, unless you decide that you will or will not write me a letter asking for the Treasury to assist. Now, if you don't want to do it, I'm perfectly serious, we've got more than we can attend to.

A: No, I want you to, and I'll be glad to write you a letter.

H.M.Jr: Yes.

A: But I think the whole proposition is how to get the men to focus on the job in the particular state, first, so that the states won't get on their high horse, second, that they won't undertake to pass the buck to the Federal Government for any breakdowns that occur.

H.M.Jr: Well, it's your - look, old man, it's your responsibility, and I want to repeat again, whatever you decide is all right with me.

-4-

- A: Yes.
- H.M.Jr: But Wagenet looked - impressed me the day he was over here - I mean I don't think he got what I was trying to do at all.
- A: Uh-huh.
- H.M.Jr: He evidently hasn't, and I don't want the Treasury to take on a job on which they're licked before they start.
- A: Yes.
- H.M.Jr: So, if ...
- A: Let me do this.
- H.M.Jr: What's that?
- A: Let me do this. Let me get a hold of Wagenet right away and have him go over and talk with Bartelt and then call me back, and see if then - if they can't come to a working arrangement. I think it's just a matter of straightening out the technique, rather than - rather than the purpose. I think we're in agreement on the purpose entirely.
- H.M.Jr: I think you and I are, but I don't think Wagenet will ever agree to it.
- A: Well, I think he will. Now, here's the only thing, and I thought your people were in agreement on that - that they can, in a short time, get all the fine points of benefit payment procedure, and I mean the fine points of the state laws, in their mind. They would have to know enough about the state laws in order to help out on bottlenecks that develop in the procedure.
- H.M.Jr: Yes.
- A: And therefore my understanding was that they were going to acquire a general knowledge of the benefit provisions of the state laws, but not undertake to operate the - the benefit or claims procedures because they wouldn't have the fine points sufficiently in mind to be able to advise the states on how to pay a particular claim, for example. But they would understand it sufficiently so that they could

-5-

help straighten out procedure and bottlenecks in the procedure as they occur. Now, wasn't that your understanding?

H.M.Jr: Well, you - you're getting too technical for me, now. All I know is that Bartelt said he can't do a job for you under the rules laid down by Wagenet.

A: Well then, the thing for me to do is to get a hold of Wagenet right away and have him get in touch with Bartelt and straighten it out, and then call me back, because -

H.M.Jr: Well, I think you'd better - I think it would be helpful if you'd talk to Bartelt directly.

A: All right. I'll do that too.

H.M.Jr: I think that that would be helpful.

A: Well, I tell you, why not - I'll get the two of them together and we'll have a three way conversation. I'm sorry I'm not back there now. If I had known that they weren't in agreement I would have stayed - hello.

H.M.Jr: Hello.

A: If I had thought that there was any possibility of disagreement between them, I certainly would have gone into the thing, but Wagenet assured me just yesterday -

H.M.Jr: Yes.

A: - that there was complete agreement.

H.M.Jr: Well, I guess - well, all I know is that Bartelt was in this morning, and told me what I'm repeating to you.

A: Yes. Well now, I'll - I'll get a hold of Wagenet and I'll get a hold of Bartelt, and I'll arrange for a three way talk, after they've talked with each other, and see if we can't straighten it out.

H.M.Jr: Thank you.

A: I appreciate very much the spirit which you're taking with it.

-6-

H.M.Jr: Well, it's just - and as I say, if you decide you don't want it, there won't be any feeling here at all. Just chuck it.

A: Well, I think it's grand of you to really be concerned about it, and I do appreciate it.

H.M.Jr: Well thank you.

A: All right.

H.M.Jr: Good-bye.

December 29, 1937.  
4:35 p.m.

H.M.Jr:

Herman  
Oliphant: Yes.

H.M.Jr: One other thing I'd like to clean up tomorrow.

O: Yes, sir.

H.M.Jr: The old Post Office in New York.

O: Yes. Well, I can give you the latest news on that.

H.M.Jr: Yes.

O: Want it now?

H.M.Jr: No, I'd like to have it tomorrow.

O: See you tomorrow, and I'll tell you.

H.M.Jr: Do you think we can clean it up?

O: Yes, I think we can. The time's - working it out just on the plan that you - I've just gone ahead on your plans.

H.M.Jr: Yes. Because Eddie wrote me and sent me a copy of the letter he wrote to you, and I asked to get the proper stipulations from

O: Yes. That's what we're working on, and I talked to Eddie the other - yesterday, and he asked me what he could tell LaGuardia, and I told him, "Just tell him that we're working on it."

H.M.Jr: Do you want to know what the President wrote LaGuardia about it?

O: No. Did he write him?

H.M.Jr: Yes, he said, "I - you fellows are too serious, though; I drafted a funny one."

O: Yes.

H.M.Jr: "I wrote: 'Dear Fiorello: - '"

O: Yes.

-2-

H.M.Jr: "I have your telegram of December 14th before me; I gather from the same that the Secretary of the Treasury is out-saving me."

O: Yes.

H.M.Jr: "If you insist on being teacher, I wish to warn you that teacher can be tougher than the Secretary of the Treasury."

Then he puts down: "Notation by the President: Bring the five million dollars with you."

I'll see that you get a copy of this.

Olipphant: That's good. O.K.

December 29, 1937

4:45 pm

I have about made up my mind that all these long negotiations with Mexico are the bunk. I have come to this conclusion after reading Dr. Suarez' memorandum. It seems to me that the thing we ought to do is to buy whatever silver the Mexican Government has for sale and help them out now, and let the State Department do their own horse-trading. There are too many angles to this situation that I do not understand and they do not smell good, and, therefore, I would rather confine myself to the strictly confidential end of the deal and let the State Department do its own negotiating.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: December 29, noon

NO.: 1781

FROM COCHRAN.

Strike effective this morning stopped Paris subways, motor buses and garbage trucks. Cabinet meeting at 3:30 this afternoon to consider situation and to prevent spreading of strikes.

There has been immediate sharp reaction on franc. French control had lost 1,300,000 pounds by twelve noon, but pressure which had been heavy earlier in the morning slackened between the hours of eleven and twelve.

BULLITT

EA:DJW

RECEIVED  
DEC 29 1941  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

EG

GRAY

London

Dated DECEMBER 29, 1937

Rec'd 1:55 p.m.

Secretary of State,  
Washington.

808, DECEMBER 29, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

Activity in the city is at low ebb due to the absence until the New Year of the majority of responsible officials.

The strikes in Paris created a demand for sterling; the Bank of France held the rate fairly rigidly with the result that although they lost something over one million pounds in the morning, the pressure lessened in the afternoon. Incidentally the Japanese were sellers of dollars.

Yesterday's announcement regarding Mexican silver continued today to stimulate the demand.

JOHNSON

WVC :HPD

LMS

GRAY

Paris

Dated December 29, 1937

Rec'd 5:50 p. m.

Secretary of State,  
Washington.

1782, December 29, 5 p. m.  
FROM COCHRAN.

Following an inter-ministerial conference this forenoon official communique announced that government would maintain order and operation of public services and had refused to receive a delegation from striking public utility workers until they shall have resumed their positions. Above announcement helped exchange market slightly and French control apparently yielded no spot exchange this afternoon although it did intervene in the forward market particularly three months sterling. Rentes and shares heavy.

Rumor in regard to prospective French credit for approximately 50,000,000 pounds on London market continues to grow.

BULLITT

NPL:EMB

CA

Gray

PARIS

Dated Dec. 29, 1937

Recd 6:22 p.m.

Secretary of State,  
Washington.

1765, December 29, 8 p.m.

There has been a renewal of the strike movement in the Paris region in the past few days, affecting particularly food stores and warehouse, and truck transport services. The strikes in these two fields originated out of differences concerning salary increases to meet higher living costs, as well as differences concerning the renewal of collective labor contracts. After active efforts during several days by Chautemps and the Ministers of the Interior and Labor to mediate these difficulties, the situation appears to be that the employers are willing to leave to decision by the Prime Minister questions relating to salary increases, but insist upon their right to take sanctions against the strikers by refusing to reemploy a certain number of the latter. The representatives of the labor unions refuse to accept this latter point.

As soon as the strike of the truck drivers had become effective, the Government took steps to assure the delivery of foodstuffs, newspapers, et cetera, by the employment of military trucks.

END OF SECTION ONE

NPL EMB

BULLITT

LMS

GRAY

Paris

Dated DECEMBER 29, 1937

Rec'd 6:16 p. m.

Secretary of State,  
Washington.

1785, December 29, 8 p. m. (SECTION TWO)

The strike movement has now been extended through a sudden decision last night by the trade unions of the Municipal Public Service Workers calling out the employees of the Municipality of Paris and the Department of the Seine engaged in the operation of the subway and autobus services, and of the water, gas and electric companies. The strike in these services appears to have had two causes (one) the grievance that, whereas civilian employees of the National Government in the City of Paris have received an additional allowance of approximately 100 francs a month on account of higher living costs, the Municipal Council has granted an allowance for this purpose to Municipal employees of only fifty francs a month; (two) the desire to protest against the employment by the Government of military trucks in connection with the strike of transport service drivers, and thereby to  
manifest

LMS 2-No. 1785, December 29, 8 p. m., Sec. 2, from Paris.

manifest solidarity with these strikers.

Today the strike has been completely effective as regards the operation of the subway and motor buses and although taxis are in circulation the population of Paris for the most part has walked to work. Skeleton staffs have been on duty in the electric light, gas and water companies and there seems to have been no cessation of these services.

(END SECTION TWO)

BULLITT

NPL:EMB

CA

Gray

PARIS

Dated Dec. 29, 1937

Recd 5:56 p.m.

Secretary of State,  
Washington.

1785, December 29, 8 p.m. (SECTION THREE)

There was a meeting this morning of interested Government ministers, at the close of which Chautemps issued a strong statement, condemning the leaders of the strike in the public services and stating that the Government was resolved to deal with the situation "with the greatest energy" and that it "could not admit an interruption of services indispensable to the life of the nation". He added that the Government "will assure in spite of all resistance the functioning of the services and the maintenance of public order". A cabinet meeting is taking place this afternoon to consider measures to deal with the situation.

It is reported that Chautemps declined to receive representatives of the municipal employees on strike until after the latter had resumed work, and that the municipality is taking the same position. It is also reported that orders have been issued to the commanding officers of the Paris garrison to be prepared to take over if necessary the operation of the municipal public services.

(END SECTION THREE)

BULLITT

NPL EMB

CA

This telegram must be closely paraphrased before being communicated to anyone (A)

PARIS

Dated Dec. 29, 1937

Recd 6:05 p.m.

Secretary of State,  
Washington.

1785, December 29, 8 p.m. (SECTION FOUR)

As matters look at present, the best judgment we can form is that, with the strong attitude taken by the Government, the chances are that the employees of the public services will back down and resume work. It is likely that the Government will take the necessary steps to see that the municipal workers get the same allowance on the high cost of living as is received by Government employees but that it will do nothing to this end until after work is resumed. The point which may give some cause for concern is the tendency, principally on the part of Communist elements of the labor unions, to continue the strike as a protest against the Government's action in using military trucks to move foodstuffs, and against the announced intention of the Government to take over the operation of the public services if the employees do not go back to work.

Paris is calm and there are no disturbances.

(END OF MESSAGE)

DU LITT

NPL EHS

EG

GRAY

London

Dated December 30, 1937

Rec'd 3:34 p.m.

Secretary of State,  
Washington.

813, December 30, 5 p.m.

STRICTLY CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH

Waley of the British Treasury telephoned to say that an announcement is to be made tomorrow by the Committee of British holders of German bonds to the effect that the prevailing service arrangements which formally expire tomorrow will be extended by mutual agreement for a further period. Waley said that in reality discussions had been proceeding with the German authorities in an attempt to reach a more satisfactory arrangement and that both the German authorities and the British committee had come to agree in principle that it was not desirable to continue piling up the four per cent funding bonds. In order to effect a change an arrangement involving cash payments would have to be arrived at and thus far the gap between the British and German figures precluded agreement. Therefore the present funding bond scheme was being continued but in Waley's estimate it would probably be supplanted

-2- No. 813, DECEMBER 30, 5 p.m. from London

supplanted by a new cash arrangement in the ensuing month or two. Questioned about the Dawes and Young loans Waley admitted that they had also come up for discussion and stated that it was possible that some arrangement might in due course be reached whereby the interest remittances on these bonds would be reduced in return for the resumption of amortization payments on an agreed basis. Waley asked that the above information be treated in the strictest confidence; he particularly emphasized the confidential nature of the information respecting the Dawes and Young loans which, I may add, he gave me with some reluctance.

Because of the careful wording and the defensive tone adopted by the Prime Minister the following excerpts from his New Year message in the HOME AND EMPIRE, Conservative Party publication, may be of interest:

"With full knowledge of the facts and tendencies I am satisfied that there is no evidence to justify forebodings of an early end to the present prosperity followed by a sudden collapse into a state of industrial depression which will be worse than the last." HOWEVER, Mr. Chamberlain goes on to say "If there should be a temporary decline in world trade we are in an infinitely better position

-3- No. 813, December 30, 5 p.m. from London

position to meet it than we were in 1931. As I have pointed out before our capital position is much stronger, our major industries have been reorganized on a more efficient footing, and our home markets, previously the gap in our economic defenses, are safeguarded by tariffs. So while we may discount all the exaggerated talk about the coming slump we may at the same time feel reassured as to the future in our capacity to meet any general fluctuation in trade. Constant talk about a slump must necessarily have an unsettling effect on our people. It creates an atmosphere of doubt and uncertainty and tends to undermine the confidence on which above all prosperity depends. Our Socialist opponents have recently talked a great deal about what they term 'the coming slump'. They put so much zest into their gloomy prophecies of a bad time just round the corner that one is almost forced to the conclusion that the wish is father to the thought".

The franc strengthened during the morning on news of the Paris strike settlement but in the afternoon the Bank of France again had to give support. The announcement regarding the Canadian silver arrangement tending as it did to confirm the impression made by the Mexican arrangement created a speculative demand for silver which rose 11/16 pence above the fixing price of 18-9/16 pence.

JOHNSON

LMS

PLAIN

London

Dated December 30, 1937

Rec'd 5 p. m.

Secretary of State,  
Washington.

RUSH.

814, December 30, 9 p. m.

FOR TREASURY FROM BUTTERWORTH.

With reference to my telegram No. 412, June 28, 7 p. m., British Treasury announced this afternoon that the gold holding of the British equalization fund as of September 30 totaled <sup>(£1,394,970,000)</sup> 39,854,000 fine ounces and that of the <sup>(£12,687,505,000)</sup> issue department of the Bank of England amounted to 76,843,000 fine ounces on the same date making a grand total of <sup>(£4,084,395,000)</sup> 116,697,000. As compared with the figures given in my telegram referred to above there is indicated a gain of <sup>(£461,300,000)</sup> 13,180,000 ounces in the equalization fund, <sup>(£105,035,000)</sup> 3,001,000 in the Bank of England together totaling <sup>(£566,335,000)</sup> 16,181,000 for the six months period.

Through its operations here the Treasury is of course in a position to make a calculation as to the gold losses which have occurred during the past three months.

JOHNSON

NPL:EMB

EDA

GRAY

PARIS

Dated December 30, 1937

Received 6:22 p.m.

Secretary of State

Washington

1790, December 30, 5 p.m.

FROM COCHRAN.

Although striking municipal workers resumed jobs this morning, Paris Exchange traders are not satisfied with general outlook. French control appeared to be giving sterling steadiness throughout the day even after letting rate slip from 147.20 to 30. Forward franc offered; rentes weaker; shares better, particularly internationals, with French again investing in gold mines. Renewed continental hoarding of gold is bringing to London more sovereigns from Canada and Nicaragua's shipment of two million one hundred thousand dollars of eagles from Venezuela. Bank of France statement today showed reduction of Treasury deposit to low figure of 32,000,000 francs, but no evidence of new advances to state by the Bank. On the contrary there was a slight reduction evidently due to some technical readjustment. Banks open but no official Bourse.

BULLITT

EMB:NPL

## GROUP MEETING

December 30, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Lochhead  
Mr. Upham  
Mr. Bell

Oliphant: Collection of those clippings during that period would be very interesting, wouldn't they?

H.M.Jr: Yes. Will you (Gaston) spend a little time on that?

Gaston: Yes, yes.

H.M.Jr: Who do you think ought to sign it, you or I?

Gaston: Well, I think offhand that probably I'd better sign it.

H.M.Jr: Well, I'm perfectly willing to do what you think about it.

All right.

Upham: (Nods nothing)

Lochhead: Nothing.

H.M.Jr: Oh, Welles is coming at 10:45.

(On phone) Tell Harry White to be here at 10:45.

Gaston: Of course, this statement about what the President said is contrary to fact too. Said the President announced that the prices of raw materials were too high. He didn't say anything like that.

H.M.Jr: No. Well, I'd take a little - I'd take 24 hours on it. I think it's very nice when we can find Mr. Krock off on the wrong foot.

Oliphant: David Lawrence had a very accurate report of what the President said. I don't know whether the White House keeps it.

H.M.Jr: Oh yes, they keep a stenographic report.

-2-

Oliphant: Well, it was a pretty discriminating statement he made.

H.M.Jr: Well, we have it too - his statement on April 2. He made a statement. I mean in the argument I wouldn't draw in Eccles, but just for my own information I'd look up in the Fortune article just what Eccles did say about the price of gold.

Gaston: Yes.

Lochhead: Haven't got the silver price yet.

Magill: (Nods nothing)

H.M.Jr: I don't want to play poker with you. (Laughs)

Magill: (Laughs)

H.M.Jr: All right.

I read Kintner and Alsop today. They're all right.

Gaston: Yes, that's all right. I thought they handled it pretty well.

H.M.Jr: Yes, particularly - they drag Mr. Ogden Mills in on this 48 percent wrong.

I like the way the Times is running the thing, taking Alsop - the things they like and that's all.

Gaston: That's put out as a column. They have no regular columns and don't run syndicate columns. If they find a news story they want, they pick it up.

H.M.Jr: All right, what else?

Gaston: I have nothing. We have the conference at 10:30.

H.M.Jr: Yes. You better be in - you and I better have a little dress rehearsal, because I think I'll have to say "No" about ten times today.

Gaston: Yes.

H.M.Jr: Certainly, on when the silver statement is coming, you can answer it, "Well, the President answered all of that."

Gaston: Yes, yes.

(Bell comes in)

H.M.Jr: Hello, Mr. Bell.

Bell: Good morning.

H.M.Jr: Taking care of the State of Pennsylvania?

Bell: ~~Not~~ Not yet. That will survive, maybe.

H.M.Jr: You too.

Bell: Yes.

Oliphant: We have issued a deficiency letter against Mr. Dwight, the lawyer.

H.M.Jr: What firm is he connected with?

Oliphant: Hughes firm.

H.M.Jr: What Hughes is that?

Oliphant: I don't know which Hughes. The name is ....

H.M.Jr: Oh, Hughes. Oh, former Assistant Secretary of the Treasury?

Oliphant: No, he's from Wisconsin.

Gaston: No, former Assistant to the Attorney General.

H.M.Jr: Solicitor.

Gaston: Solicitor, yes.

Oliphant: Yes, and their time to answer that is about to expire. Mr. Dwight's lawyer is in town and waiting for a response to this proposal. He has submitted a statement showing Mr. Dwight's insolvency as of now, and he proposes to pay all the tax and the

-4-

interest and half the penalty.

H.M.Jr: All the tax, ...

Oliphant: ... interest ..

H.M.Jr: All the interest, ...

Oliphant: ... and half the penalty. And we are of the opinion that it is a very good offer. Of course, it would be accepted subject to a field audit of his statement of insolvency. And I might point out, the statement of his insolvency is insolvency prior to the payment of this sum; that is, he has a statement showing his present insolvency.

H.M.Jr: You mean he is insolvent before or after he makes his payment?

Oliphant: Before he makes it.

H.M.Jr: Then how can he make it?

Oliphant: Borrowing from friends.

H.M.Jr: Why do you think it's a good settlement?

Oliphant: Well, that being the state of his accounts.

H.M.Jr: I see.

Oliphant: A very good settlement, that is, assuming our field audit, which we always make, and would make in this case, bore out the ....

H.M.Jr: Well, how long does the field audit take?

Oliphant: I don't know. Two or three weeks.

H.M.Jr: Well now, how does - what's the routine now? How does that come? Comes from the Bureau to Magill to me? Is that the way it goes?

Magill: Well, I don't know. If this is - has a deficiency been determined against him?

-5-

- Oliphant: The letter has been issued - 90-day letter issued, and his time to answer expires on the 6th.
- Magill: To file his petition. Well then, I presume it would; that is, this is technically in the hands of the technical staff, I presume, isn't it?
- Oliphant: Yes, it is.
- Magill: So that it would come up formally on an offer of compromise which would be signed by the Commissioner, initialled by the Assistant General Counsel, and come over here for signature. Is that right?
- Oliphant: (Nods yes)
- H.M.Jr: Well, how far has it come? Has it cleared the Commissioner?
- Oliphant: Yes, it's been - they've sent it over to our shop, the Commissioner has, for our preliminary examination of it.
- H.M.Jr: It goes back from you to the Commissioner, then it comes over this way?
- Oliphant: Then it really starts formally. It's been going the rounds informally to see what we think of it. Then it will clear the Commissioner, just as Ros says - initialled by the Commissioner, come to Magill for signature.
- H.M.Jr: To Magill for signature?
- Oliphant: Or for you.
- H.M.Jr: Well, the - anyway, all the point I'm making of this thing is, I don't know what practice you (Magill) follow, but you'd certainly want to look at a thing like this, wouldn't you, yourself?
- Magill: Yes. The technical course, I presume, in a case of this character, would be that normally your field examination would be made first, wouldn't it, and then they would submit their offer, and then we'd go over it.

-6-

Oliphant: No, there's nothing unusual about accepting it subject to ...

Magill: There isn't? The only thing offhand that bothers me about this - just very much offhand, because I just heard about it this morning - is that we have met the situation fairly frequently where taxpayers have come in and have said, "Now, we think we'd like to offer so much. If we offer so much, will you take it?" And as you know, we have gotten into trouble in the past because somebody down in the Commissioner's office said, "Yes, we'll take it." Then it comes over here and your hands are more or less tied on the thing; you've got the choice either of throwing down the Commissioner or of accepting something which you may not like. So I've never liked that practice of giving informal assurances in advance of an actual offer that if so much is offered, then we'll do it. Remember, we have just recently had that same kind of a situation ....

H.M.Jr: Yes.

Magill: .. in another case.

H.M.Jr: Well, I go a step further. I mean I would say, just as a matter of good business practice, that we should make the audit first, see whether the man is solvent or insolvent, if it is only a matter of two or three weeks, and then talk to him, not say, "We'll accept it if." I mean I should think the man would have an audit of his affairs made, and then see. I mean it seems to me that that would be the normal business way of going about it. I don't see ... How long has he been claiming insolvency?

Oliphant: Well, I - I don't know that.

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

Magill: The only difficulty from his point of view is that he is - if that course were followed, he'd have to file his petition with the Board.

H.M.Jr: What's the petition?

-7-

- Magill: That, I presume, he doesn't want to do.
- Oliphant: That's the point, - his friends cooperating and raising the money.
- H.M.Jr: What's the petition to the Board?
- Magill: For a redetermination of this deficiency.
- H.M.Jr: If you don't mind, both of you, I think it's too early to bring it to me. I think it's too soon. If it's going to go to Magill, then Magill ought to have plenty of time to look at it. Then the two of you bring it to me. I think it's too early to bring it to me, if you don't mind my saying it. I mean you (Magill) ought to have ample time to see it if you're going to initial it or sign it. And then if you're in agreement it may not be necessary to bring it to me at all. In fact, I'd say if you and the Commissioner and General Counsel are all in agreement, then there is no need to bring it to me. What?
- Magill: I think so.
- H.M.Jr: Huh? I mean if the three of you are in accord, in agreement, there is no sense of bringing it to me. But there's one peg to the stool, and you're the third peg; it hasn't reached you yet.
- What else, Mr. Oliphant?
- Oliphant: That's all.
- H.M.Jr: What?
- Oliphant: That's all.
- H.M.Jr: Well now, this has nothing to do, this kind of case, with this idea of advising a taxpayer in advance whether we'll take a settlement. That's something else, isn't it?
- Oliphant: (Nods yes)
- H.M.Jr: Incidentally, that proclamation - that reads for twelve months, doesn't it?

-8-

Oliphant: No, I left ... - Extension? I left the date blank.

H.M.Jr: Oh.

I am for the moment in a beautiful position, having invited Key Pittman ten days ago to come down and consult me, and he's never come. So I'll have my grievance, I hope, Monday.

Oliphant: Did I tell you that yesterday I had the first telephone call I ever had from - oh, what's his name - from McCarran?

H.M.Jr: No. What about? Silver?

Oliphant: Yes.

H.M.Jr: Well, the President seems to be enjoying it very much. I'm not. He says he thinks it... - didn't he?

Bell: Uh-huh.

H.M.Jr: Says he thinks it's lots of fun. What?

Bell: Yes.

H.M.Jr: Dan, how much money have you got on deposit with the Federal Reserve banks? Do you know how much?

Bell: 145 million, I think it is.

H.M.Jr: It's going down.

Bell: Yes. It will go up a little, but not much. Go down again in January, first ten days.

H.M.Jr: You look as though you'd had a good night's sleep.

Bell: Fairly good.

H.M.Jr: You and I just waiting until we hear from the President?

Bell: Yes, sir.

H.M.Jr: Anything on your mind?

Bell: No, sir, not a thing.

H.M.Jr: Just a complete blank?

Bell: Just a complete blank this morning.

H.M.Jr: All right.

12/30/37

Ribbon copies of attached memo  
were mailed to the following on December  
30. (Letters of transmittal were dated  
12/30/37,) and were signed by Secretary  
Morgenthau)

The President

The Secretary of State

The Secretary of War -  
Attention: Col. Strong  
(G-2)

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 30, 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 three weeks  
 of December 1937. 1/

(1) United States exports to Japan during the first three weeks of December were lower than during the first three weeks of November of this year.

United States exports to Japan

	First three weeks of <u>December 1937</u>	November 1937	<u>October 1937</u>
1st Week	\$1,704,000	\$1,180,000	\$1,727,000
2nd Week	5,305,000	4,813,000	5,746,000
3rd Week	2,394,000	4,745,000	4,492,000
Total 3 weeks	\$9,403,000	\$10,738,000	\$11,965,000

(2) United States imports from Japan during the first three weeks of December were sharply lower than the imports during the first three weeks of November 1937.

United States imports from Japan

	First three weeks of <u>December 1937</u>	November 1937	<u>October 1937</u>
1st Week	\$2,159,000	\$3,245,000	\$3,328,000
2nd Week	3,406,000	3,654,000	3,984,000
3rd Week	2,672,000	4,356,000	3,419,000
Total 3 weeks	\$8,237,000	\$11,255,000	\$10,731,000

1/ Our trade with Japan for the three weeks must be interpreted extra cautiously because of the holiday interference with the filing of import and export declarations. Nonetheless, the continued lower level of imports is not without significance, for past data show no seasonal decline during December.

## Secretary Morgenthau - 2

(3) The following items show large increases in our exports to Japan during the first three weeks of December as compared with the first three weeks of November 1937:

	First three weeks of		
	<u>December 1937</u>	<u>November 1937</u>	<u>October 1937</u>
Paper base stock	\$1,389,000	\$841,000	\$623,000
Industrial machinery	939,000	745,000	565,000
Cotton, raw	854,000	512,000	490,000
Tobacco	257,000	Nil	10,000
Wood, unmanufactured	100,000	71,000	90,000
Chemical specialties	51,000	13,000	22,000

The following items show sharp decreases in our exports to Japan during the first three weeks of December as compared with our exports of these items during the first three weeks of November 1937:

	First three weeks of		
	<u>December 1937</u>	<u>November 1937</u>	<u>October 1937</u>
Petroleum products	\$2,186,000	\$3,262,000	\$2,651,000
Copper	417,000	1,091,000	833,000
Brass & scrap brass	304,000	440,000	29,000
Fertilizer & fertilizer material	134,000	178,000	119,000
Coal tar products	102,000	139,000	137,000
Hides and skins	79,000	345,000	545,000
Ferro-alloys	51,000	342,000	224,000
Industrial chemicals	31,000	207,000	87,000
Naval stores, gums and rosins	15,000	88,000	5,000

(4) The imports of raw silk were over \$1,500,000 less in the first three weeks of December than in the first three weeks of November 1937. The relative composition of the imports other than silk was approximately the same, although the total was lower.

	Imports during the first three weeks of		
	<u>December 1937</u>	<u>November 1937</u>	<u>October 1937</u>
Raw silk	\$4,487,000	\$6,169,000	\$6,223,000
Imports other than raw silk	3,750,000	5,086,000	4,508,000
Total	\$8,237,000	\$11,255,000	\$10,731,000

## Secretary Morgenthau - 3

(5) Of the total of \$9,403,000 of exports to Japan during the first three weeks of December 1937, the following items account for almost all:

Petroleum products	\$2,186,000
Paper base stocks	1,389,000
Industrial machinery	939,000
Cotton, raw	854,000
Iron and steel semi-manufactures	712,000
Vehicles, parts and accessories	690,000
Scrap iron and steel	448,000
Copper	417,000
Scrap brass and brass	304,000
Tobacco and manufactures	257,000
Fertilizers	134,000
Coal-tar products	102,000
Wood, unmanufactured	100,000
Hides and skins	79,000
Pig lead	75,000
Edible vegetable products	55,000
Chemical specialties	51,000
Ferro-alloys	51,000
Industrial chemicals	31,000
All other	529,000
Total	\$9,403,000

(6) Of the total of \$8,237,000 of our imports from Japan during the first three weeks of December 1937, the following items account for almost all:

Raw silk	\$4,487,000
Cotton manufactures	605,000
Tea	345,000
Porcelain and chinaware	219,000
Pyrethrum flowers	206,000
Paper and manufactures	197,000
Fish	190,000
Silk manufactures	170,000
Chemicals and related products	144,000
Vegetable food products, except tea	136,000
Flax, hemp and ramie and manufactures	125,000
Metals and manufactures	123,000
Earthenware	96,000
Wool and manufactures	81,000
Wood and manufactures	80,000
Glass and glassware	76,000
Rayon and manufactures	74,000
Bristles	60,000
All other	823,000
Total	\$8,237,000

Secretary Morgenthau - 4

United States trade with China during the first three weeks of December 1937.

(1) United States exports to China and Manchuria during the first three weeks of December increased over the first three weeks of November 1937, the increase going wholly to Shanghai, South China ports and Hong Kong.

United States exports to:

	<u>North China &amp; Manchuria</u>	<u>Shanghai, South China &amp; Hong Kong</u>	<u>Total</u>
1st 3 weeks of Dec. 1937	\$2,003,000	\$4,093,000	\$6,096,000
1st 3 weeks of Nov. 1937	2,083,000	2,386,000	4,469,000
Whole month of December 1936			\$5,255,000

(2) United States imports from China and Manchuria during the first three weeks of December were approximately the same as in the first three weeks of November of this year.

United States imports from:

	<u>North China &amp; Manchuria</u>	<u>Shanghai, South China &amp; Hong Kong</u>	<u>Total</u>
1st 3 weeks of Dec. 1937	\$ 864,000	\$2,926,000	\$3,790,000
1st 3 weeks of Nov. 1937	1,193,000	2,619,000	3,812,000
Whole month of December 1936			\$5,365,000

(3) Leading export items to China:

(a) To North China and Manchuria

	<u>First three weeks of December 1937</u>	<u>November 1937</u>
Iron and steel semi-manufactures	\$1,091,000	\$1,126,000
Vehicles, parts and accessories	439,000	276,000
Petroleum products	174,000	263,000
Tobacco	24,000	166,000
Other	<u>275,000</u>	<u>252,000</u>
Total	\$2,003,000	\$2,083,000

Secretary Morgenthau - 5

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

	First three weeks of	
	<u>December 1937</u>	<u>November 1937</u>
Petroleum products	\$1,055,000	\$ 750,000
Vehicles, parts & accessories	848,000	189,000
Tobacco and manufactures	502,000	131,000
Iron and steel semi-manufactures	461,000	504,000
Edible vegetable products	247,000	106,000
Printed matter	108,000	107,000
Firearms and ammunition	99,000	Nil
Paper and manufactures	95,000	59,000
Wood, unmanufactured	83,000	28,000
Industrial machinery	63,000	129,000
Electrical machinery and appliances	61,000	50,000
Other	<u>471,000</u>	<u>333,000</u>
Total	\$4,093,000	\$2,386,000

(4) Leading import items during the first three weeks of December 1937:

(a) From North China and Manchuria

	First three weeks of	
	<u>December 1937</u>	<u>November 1937</u>
Bristles	\$342,000	\$ 391,000
Wool and manufactures	137,000	417,000
Furs, leather and manufactures	78,000	94,000
Perilla oil	57,000	63,000
Cotton manufactures	49,000	47,000
Edible animal products	31,000	19,000
Other	<u>170,000</u>	<u>163,000</u>
Total	\$864,000	\$1,194,000

Secretary Morgenthau - 6

## (b) From Shanghai, South China ports and Hong Kong

First three weeks of  
December 1937      November 1937

Tin	\$ 528,000	\$ 482,000
Flax, hemp & ramie & manufactures	455,000	305,000
Tung (wood) oil	372,000	305,000
Bristles	251,000	113,000
Edible vegetable products	221,000	171,000
Wool and manufactures	141,000	90,000
Furs, leather and manufactures	140,000	52,000
Edible animal products	136,000	38,000
Raw silk	125,000	335,000
Cotton manufactures	102,000	67,000
Tungsten ore	60,000	Nil
Other	<u>395,000</u>	<u>661,000</u>
Total	\$2,926,000	\$2,619,000

DEC 27 1937

230-A

Secretary's

copy



# TREASURY DEPARTMENT

## PROCUREMENT DIVISION

WASHINGTON December 30, 1937

OFFICE OF THE DIRECTOR

### MEMORANDUM FOR THE SECRETARY:

Re: Purchase of Mexican oil

The "Buy-American" Act approved March 3, 1933 applicable to all departments provides in part that:

"Notwithstanding any other provision of law, and unless the head of the department or independent establishment concerned shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, only such unmanufactured articles, materials and supplies as have been mined or produced in the United States, and only such manufactured articles, materials and supplies as have been manufactured in the United States substantially all from articles, materials or supplies mined, produced or manufactured, as the case may be in the United States, shall be acquired for public use - - -."

The current Naval Appropriation Act approved April 27, 1937 is much more restrictive in providing in part that:

"No part of this appropriation shall be available, any provision in this act to the contrary notwithstanding, for the purchase of any kind of fuel oil of foreign production for issue, delivery, or sale to ships at points either in the United States or its possessions where oil of the production of the United States or its possessions may be procurable, notwithstanding that oil of the production of the United States or its possessions may cost more than oil of foreign production, if such excess of cost, in the opinion of the Secretary of the Navy, which shall be conclusive, be not unreasonable."

Therefore, this act is operative just so long as the Navy Department is able to obtain, after competition, oil of domestic production at prices regarded as reasonable by the Secretary of the Navy whose judgment is final.

A direct comparison of the costs of domestic oil versus Mexican oil as of December 15, 1937 is indicated by the quotations on ships Bunker "C" oil at Port Arthur 95¢ per barrel; at Tampico 95¢ per barrel. The Navy Department informs me that bid prices on domestic oil so far received are regarded as not unreasonable under the provisions of the law; but that the Appropriations Committee has now before it as a part of the Naval Appropriation Act for 1939 a proposal from the Navy Department to repeal the restrictive provision with respect to Navy fuel. If that passes at this session of Congress it would seem that the Buy Domestic law could be held to be "in the public interest" to buy foreign oil. Otherwise, there would have to be specific legislation authorizing acceptance of bids on foreign oil for Naval or other government purposes.

*[Signature]*  
Director of Procurement

(First typed draft for  
inclusion in President's  
message of 1-3-38)

12-30-37

232

In my message of April 20, 1937, I advised the Congress that the Treasury Department was engaged in a comprehensive study of the Federal tax system as a whole, and would be prepared in November to report its findings. The Treasury regularly collects and publishes statistics upon the detailed operation of the Federal tax system. In this instance its work was given broader scope, in order that full information might be given to the Congress not only of the productivity of the various taxes, but of the actual burden imposed upon individuals and upon corporations with incomes of varying sizes; and of inequities and of loopholes found by experience to prevent the just and equal imposition of taxes upon persons similarly situated. In addition, the Treasury has considered what taxes should be retained as permanent parts of the revenue structure, and what imposts may be gradually repealed, as budgetary conditions permit. Finally, detailed studies have been made of the present undesirable overlapping of Federal and state taxes, and of the procedure which might be followed to bring about a solution of the problem.

A subcommittee of the Committee on Ways and Means met on November 4, 1937, to undertake the preparation of a new revenue bill. Pressure was immediately exerted on the subcommittee to induce it to abandon its announced program of general revenue revision, and to substitute the repeal or drastic modification of only two items on its docket, the undistributed profits tax, and the tax on gains from sales of property. It was even urged that the proposed repeal or modification should be made retroactive to January 1, 1937, notwithstanding the very serious effects which the

- 2 -

repeal of one series of taxes and the substitution of others at different rates would have had upon the Federal budget, and upon business men who had properly made their plans on the basis of existing tax laws. The subcommittee wisely concluded, however, to proceed with its original program; and to take the necessary time to prepare a carefully drawn tax bill. I am informed that the report of the subcommittee and the accompanying bill will be ready in ample time for the consideration and passage of the legislation early in this session.

The present budget has been framed upon the basis that the revenue laws, as revised, will yield a total amount equal to that which would be produced by the present laws. Inequities and hardships can be and should be relieved; but the total volume of revenue must be maintained. It may not be possible or desirable to adopt at this time all the modifications of the tax system which the Treasury's studies suggest. I wish to make the duplication of state and Federal taxes, in particular, the subject of a later message. But it is my confident hope that the present revision will correct many of the defects in the revenue laws, while fully maintaining the present flow of receipts.

Prepared by President

Third draft # 234  
12-30-37

**BUDGET MESSAGE OF THE PRESIDENT**

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1939, together with this message, which is a part thereof. The estimates have been developed after analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

**Introduction:**

In simple fairness to the Treasury of the United States I am confident that the citizens will bear in mind certain fundamentals relating to the making of the National budget.

The first step calls for the presentation, before the first of October, by every Department and Agency head, of estimated proposed expenditures for the fiscal year beginning the first day of the following July—in other words at least nine months before the opening of the new year. These estimates, carefully prepared by the Budget

- 2 -

officers and other officials of each Department and Agency, are intended to represent on their part what they consider the minimum needs of the work assigned to them by law.

Thereupon the Director of the Budget presents these totals to the President who without taking up the thousands of separate items asks the Secretary of the Treasury for estimates of the total amount of tax receipts which the Government may obtain during the twelve months beginning nine months later. This estimate by the Secretary of the Treasury is furnished him by Civil Service experts who have long-standing experience with the whole subject of forecasting economic conditions in what may well be called, the remote future. These experts properly call attention to the fact that they are asked to guess what the economic status--and therefore the tax receipts--will be during the fiscal year beginning the first of the following July.

If the forecast of tax receipts made by these experts, who are at least of equal competence with the experts of the largest banks and industrial corporations of the United States, show that the departmental

- 3 -

estimates of expenditures will exceed the estimated tax receipts, the President directs the Director of the Budget in his hearings to make every possible effort to pare the departmental estimates in order that the total of them may be reduced.

During the months of November and December and after the hearings have been held by the Director of the Budget, he presents to the President the total estimates of the Departments and Agencies as approved by him.

Again the President obtains from the Treasury Department another estimate of tax revenue during the year beginning the following first of July and if the new report shows a probable falling off of revenue, he makes every effort with the assistance of the Director of the Budget to make further reductions before approving the final Department and Agency Budgets.

It should be remembered that the laws provide that the departments and agencies carry out certain duties. By these laws, the President and the Director of the Budget are, in effect, prohibited from disturbing government functions or curtailing them to the point of ineffectiveness.

- 4 -

The result, so far as the estimates for expenditures goes, is that the President and the Director of the Budget arrive at a figure for each department and agency which they believe to be the minimum figure under which the functions required by law can be carried out with reasonable efficiency.

During the final two weeks of the calendar year, the President obtains once more from the Treasury Department their final estimate of tax revenue under existing law during the fiscal year which begins more than six months later.

Since the tax revenues from practically every major source depend on business conditions during that fiscal year, beginning more than six months later, the Treasury's figures of necessity are based on a prophecy of business conditions beginning six months later and ending eighteen months later.

Business concerns are more fortunate. They also lay out programs months and even a year and a half in advance. But their programs are flexible. They are controlled currently by the condition of business,

- 5 -

which permits the making of necessary changes from month to month and even from week to week.

The affairs of the Government are not so flexible. The Budget reports are the Administration's fiscal plan; and in the form adopted by the Congress. During the winter and spring it becomes practically a fixed program of expenditures which cannot be changed for many months and our economic conditions radically change the receipt side of the ledger. It follows that once the expenditure program is adopted and put into operation it cannot, to any great extent be brought into line with a decrease in tax receipts.

I re-emphasize the difficulty of estimating the revenue of the Federal Government from six to eighteen months before that revenue flows in. I do, emphasize, however, the fact that during the past five years the estimates of tax receipts thus made far in advance, have been infinitely more accurate as proven by the final result than in the preceding four or five years. These estimates remain a prophecy but it is some satisfaction to know that our prophecies during recent years

- 6 -

have been far better borne out by later events than the prophecies of earlier years.

In regard to the estimates for expenditures, it is also worthwhile to call the attention of the Congress and the public to the fact that a very large proportion of the total represents certain fixed charges which cannot be reduced by executive action. These charges are obligatory on the President and the Treasury--such as interest on the public debt, military and naval pensions, contributions to retirement funds and to the old age reserve accounts and many grants in aid to states.

Another class of expenditures, which, though subject to some measure of administrative control, do not afford opportunity for large reductions, is made up of those which carry on the normal, everyday operations of the Government. For example, the major part of the appropriations for the State Department are required to pay the rather conservative salaries of consuls, diplomatic agents, secretarial staffs and ministers who represent American interests in every part of the world.

The third type of expenditure is represented by the major effort of

- 7 -

the Government to help the economic security of large groups of citizens in every part of the country who, for economic or social reasons, definitely require some form of government assistance. This includes various types of aid to save farms and homes from foreclosure, to provide work relief for able-bodied, needy unemployed and to provide old age pensions, unemployment insurance and other assistance under the Social Security program. Obligations such as these, though large in amount, can be reduced only by depriving a very large proportion of our population of benefits which modern civilization insists on.

The final category includes items of public expenditure which might be called capital improvements--new highways, new river and harbor projects, new flood control, new public buildings, new reclamation projects and other new public works. All of these items can be contracted or expanded to conform with the contraction or expansion of government income.

This year I recommend that these items be curtailed. First, because expected government income will be less and second, because it has been amply demonstrated that they do not provide as much work for the unemployed

- 3 -

as other methods of taking care of the unemployed. For example, we have appropriated as federal aid to new permanent state highways almost \$1,500,000,000 during the past five years; and an equal sum has been spent during the same period for constructing, repairing and improving roads and streets by Federal agencies administering unemployment relief. These vast expenditures have put our highway systems far in advance of what would have been normal expansion. I do not propose eliminating Federal aid to highways but I do ask that such aid be restored to approximately the pre-depression figures.

It is true that we have a great accumulation of unliquidated authorizations for aid to states running into the year 1940. The states also should be encouraged to bring their highway budgets back to a more normal figure and I hope that Congress will start at this session to cut down the actual appropriations used to match state funds.

For the ten years up to June 30, 1933, the Federal Government spent an average of \$40,000,000 a year for river and harbor improvements. During the past five years we have spent an average of over \$100,000,000 a

- 9 -

year. Meanwhile, a justified demand for greater protection against floods has developed. Flood protection is necessary and in this Budget I am curtailing the estimates for new river and harbor improvements in order to provide more money for flood emergencies.

The Congress in previous years has authorized reclamation projects calling further appropriations of nearly \$600,000,000. It seems obvious to me and I hope it will be to the Congress, that no further projects should be authorized until projects already authorized or now under construction have reached a substantial stage of completion.

During the past five years, we have built more than 1,100 new Federal buildings--almost doubling the number of such buildings throughout the country. It is ~~now~~ that this saves the renting of buildings owned by private owners ~~and~~ to effect that saving we are paying far more for maintenance of these new buildings than we formerly paid for leasing private quarters. Outside of meeting the problem of adequate housing for government departments and agencies in the District of Columbia, I am strongly of the opinion that the public building program should be

- 10 -

restricted to the comparatively small number of projects where the capital investment will be returned through savings in annual operating costs.

---

#### Expenditures:

The most important fact of this Budget is that the estimated expenditures for the fiscal year 1939 amount to the sum of \$6,899,000,000--a reduction from the current fiscal year of more than \$510,000,000.

It is hoped that this fact will not be overlooked. It is fair to say that this estimated reduction may, by force of circumstances, become smaller because of future events which today cannot definitely be foretold. I refer specifically to the possibility that due to world conditions over which this Nation has no control, I may find it necessary to request additional appropriations for national defense. Furthermore, the economic situation may not improve--and if the improvement does not take place, I expect the approval of Congress and the public for additional appropriations which <sup>may</sup> become necessary to save thousands of American families from dire need.

- 11 -

**Revenues**

During the first nine months of the calendar year 1937, business conditions improved materially and it was the consensus of opinion in government and in business circles that the improvement would be maintained in 1938. There was every reason to expect that the revenues for the fiscal year 1939 would be greater than the expected revenues for 1938 and that with the reduction in the cost of relief, the total expenditures for 1939 would greatly decline. That was the basis for our expectation of a definitely balanced budget for the fiscal year 1939.

The recent recession in business has changed that outlook. Today it is necessary to revise the estimates of revenues. They will be less than we had anticipated. They will, as far as we can tell, remain below our estimated necessary expenditures.

We hope that the calendar year 1938 will bring an improvement in business conditions and, therefore, in tax receipts. The Treasury, leaning to the conservative side, predicts some improvement but does

- 12 -

not assume in its figures that the tax receipts in the calendar year 1938 will reach as high a level as in the calendar year 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000 compared with the present estimate of tax receipts for the fiscal year 1938 of \$6,320,500,000--or, in other words, a falling off of \$401,500.

#### Balance:

The net result of these estimates of expenditures and receipts shows for the fiscal year 1939 a net deficit of \$980,000--but it is fair in stating at the same time that this deficit will be \$110,000,000 less than the expected deficit in the current fiscal year--in other words, a continuation of the decrease in deficits which have occurred regularly during the past three years.

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January, 1937, of the changes in the fiscal picture that have occurred in the last twelve months:

(In millions of dollars)

	Budget January 1937	President's Message April 30, 1937	Budget Revision October 19, 1937	Budget January 1938
Receipts-				
Income taxes	3,365.3	32,993	32,791.5	32,892.9
Misc. Int. Rev.	2,908.3	3,288	2,386.3	2,279.5
Other Int. Rev.	774.8		768.7	726.3
Customs	463	463	493.9	485.3
All other	182.2	200	210	206.5
<b>Total</b>	<b>7,293.6</b>	<b>6,906</b>	<b>6,690.4</b>	<b>6,320.5</b>
Expenditures-				
Regular	5,430.3	5,494	5,469.6	5,429.2
Recovery & relief	1,826.2	1,830	1,876	1,979.7
<b>Total</b>	<b>7,256.5</b>	<b>7,324</b>	<b>7,345.6</b>	<b>7,408.9</b>
Surplus	37.1	- -	- -	- -
Deficit (net)	- -	418	655.2	1,088.4

For the Secretary

Third draft  
12-30-37

247

**BUDGET MESSAGE OF THE PRESIDENT**

Meeting at  
White House  
12:15 Dec 30, 1937

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1938, together with this message, which is a part thereof. The estimates have been developed after analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

**Introduction:**

In simple fairness to the Treasury of the United States I am confident that the citizens will bear in mind certain fundamentals relating to the making of the National budget.

The first step calls for the presentation, before the first of October, by every Department and Agency head, of estimated proposed expenditures for the fiscal year beginning the first day of the following July—in other words at least nine months before the opening of the money can begin. These estimates, carefully prepared by the Budget

- 2 -

officers and other officials of each Department and Agency, are intended to represent on their part what they consider the minimum needs of the work assigned to them by law.

Thereupon the Director of the Budget presents these totals to the President who without taking up the thousands of separate items asks the Secretary of the Treasury for estimates of the total amount of tax receipts which the Government may obtain during the twelve months beginning nine months later. This estimate by the Secretary of the Treasury is furnished him by Civil Service experts who have long-standing experience with the whole subject of forecasting economic conditions in what may well be called, the remote future. These experts properly call attention to the fact that they are asked to guess what the economic status--and therefore the tax receipts--will be during the fiscal year beginning the first of the following July.

If the forecast of tax receipts made by these experts, who are at least of equal competence with the experts of the largest banks and industrial corporations of the United States, show that the departmental

estimates of expenditures will exceed the estimated tax receipts, the President directs the Director of the Budget in his hearings to make every possible effort to pare the departmental estimates in order that the total of them may be reduced.

During the months of November and December and after the hearings have been held by the Director of the Budget, he presents to the President the total estimates of the Departments and Agencies as approved by him.

Again the President obtains from the Treasury Department another estimate of tax revenue during the year beginning the following first of July and if the new report shows a probable falling off of revenues, he makes every effort with the assistance of the Director of the Budget to make further reductions before approving the final Department and Agency Budgets.

It should be remembered that the laws provide that the departments and agencies carry out certain duties. By these laws, the President and the Director of the Budget are, in effect, prohibited from eliminating government functions or curtailing them to the point of ineffectiveness.

- 4 -

The result, so far as the estimates for expenditures goes, is that the President and the Director of the Budget arrive at a figure for each department and agency which they believe to be the minimum figure under which the functions required by law can be carried out with reasonable efficiency.

During the final two weeks of the calendar year, the President obtains once more from the Treasury Department their final estimate of tax revenue under existing law during the fiscal year which begins more than six months later.

Since the tax revenues from practically every major source depend on business conditions during that fiscal year, beginning more than six months later, the Treasury's figures of necessity are based on a prophecy of business conditions beginning six months later and ending eighteen months later.

Business concerns are more fortunate. They also lay out programs months and even a year and a half in advance. But their programs are flexible. They are controlled currently by the condition of business,

- 5 -

which permits the making of necessary changes from month to month and even from week to week.

The affairs of the Government are not so flexible. The Budget reports are the Administration's fiscal plan; and in the form adopted by the Congress. During the winter and spring it becomes practically a fixed program of expenditures which cannot be changed for many months and our economic conditions radically change the receipt side of the ledger. It follows that once the expenditure program is adopted and put into operation it cannot, to any great extent be brought into line with a decrease in tax receipts.

I re-emphasize the difficulty of estimating the revenue of the Federal Government from six to eighteen months before that revenue flows in. I do, emphasize, however, the fact that during the past five years the estimates of tax receipts thus made far in advance, have been infinitely more accurate as proven by the final result than in the preceding four or five years. These estimates remain a prophecy but it is some satisfaction to know that our prophecies during recent years

- 6 -

have been far better borne out by later events than the prognoses of earlier years.

In regard to the estimates for expenditures, it is also worthwhile to call the attention of the Congress and the public to the fact that a very large proportion of the total represents certain fixed charges which cannot be reduced by executive action. These charges are obligatory on the President and the Treasury—such as interest on the public debt, military and naval pensions, contributions to retirement funds and to the old age reserve accounts and many grants in aid to states.

Another class of expenditures, which, though subject to some measure of administrative control, do not afford opportunity for large reductions, is made up of those which carry on the normal, everyday operations of the Government. For example, the major part of the appropriations for the State Department are required to pay the rather conservative salaries of consuls, diplomatic agents, secretarial staffs and ministers who represent American interests in every part of the world.

The third type of expenditure is represented by the major effort of

- 7 -

the Government to help the economic security of large groups of citizens in every part of the country who, for economic or social reasons, definitely require some form of government assistance. This includes various types of aid to save farms and homes from foreclosure, to provide work relief for able-bodied, needy unemployed and to provide old age pensions, unemployment insurance and other assistance under the Social Security program. Obligations such as these, though large in amount, can be reduced only by depriving a very large proportion of our population of benefits which modern civilization insists on.

The final category includes items of public expenditure which might be called capital improvements--new highways, new river and harbor projects, new flood control, new public buildings, new reclamation projects and other new public works. All of these items can be contracted or expanded to conform with the contraction or expansion of government income.

This year I recommend that these items be curtailed. First, because expected government income will be less and second, because it has been amply demonstrated that they do not provide as much work for the unemployed

- 5 -

as other methods of taking care of the unemployed. For example, we have appropriated as federal aid to new permanent state highways almost \$1,500,000,000 during the past five years; and an equal sum has been spent during the same period for constructing, repairing and improving roads and streets by Federal agencies administering unemployment relief. These vast expenditures have put our highway systems far in advance of what would have been normal expansion. I do not propose eliminating Federal aid to highways but I do ask that such aid be restored to approximately the pre-depression figures.

It is true that we have a great accumulation of unliquidated authorizations for aid to states running into the year 1940. The states also should be encouraged to bring their highway budgets back to a more normal figure and I hope that Congress will start at this session to cut down the actual appropriations used to match state funds.

For the ten years up to June 30, 1933, the Federal Government spent an average of \$40,000,000 a year for river and harbor improvements. During the past five years we have spent an average of over \$100,000,000 a

- 9 -

year. Meanwhile, a justified demand for greater protection against floods has developed. Flood protection is necessary and in this Budget I am curtailing the estimates for new river and harbor improvements in order to provide more money for flood emergencies.

The Congress in previous years has authorized reclamation projects calling further appropriations of nearly \$600,000,000. It seems obvious to me and I hope it will be to the Congress, that no further projects should be authorized until projects already authorized or now under construction have reached a substantial stage of completion.

During the past five years, we have built more than 1,100 new Federal buildings--almost doubling the number of such buildings throughout the country. It is ~~then~~ that this saves the renting of buildings owned by private owners but to effect that saving we are paying far more for maintenance of these new buildings than we formerly paid for leasing private quarters. Outside of meeting the problem of adequate housing for government departments and agencies in the District of Columbia, I am strongly of the opinion that the public building program should be

- 10 -

restricted to the comparatively small number of projects where the capital investment will be returned through savings in annual operating costs.

---

**Expenditures:**

The most important fact of this Budget is that the estimated expenditures for the fiscal year 1959 amount to the sum of \$6,899,000,000—a reduction from the current fiscal year of more than \$510,000,000.

It is hoped that this fact will not be overlooked. It is fair to say that this estimated reduction may, by force of circumstances, become smaller because of future events which today cannot definitely be foretold. I refer specifically to the possibility that due to world conditions over which this Nation has no control, I may find it necessary to request additional appropriations for national defense. Furthermore, the economic situation may not improve—and if the improvement does not take place, I expect the approval of Congress and the public for additional appropriations which <sup>may</sup> become necessary to save thousands of American families from dire need.

- 11 -

**Revenues:**

During the first nine months of the calendar year 1937, business conditions improved materially and it was the consensus of opinion in government and in business circles that the improvement would be maintained in 1938. There was every reason to expect that the revenues for the fiscal year 1939 would be greater than the expected revenues for 1938 and that with the reduction in the cost of relief, the total expenditures for 1939 would greatly decline. That was the basis for our expectation of a definitely balanced budget for the fiscal year 1939.

The recent recession in business has changed that outlook. Today it is necessary to revise the estimates of revenues. They will be less than we had anticipated. They will, as far as we can tell, remain below our estimated necessary expenditures.

We hope that the calendar year 1938 will bring an improvement in business conditions and, therefore, in tax receipts. The treasury, leaning to the conservative side, predicts some improvement but does

- 22 -

not assume in its figures that the tax receipts in the calendar year 1938 will reach as high a level as in the calendar year 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000 compared with the present estimate of tax receipts for the fiscal year 1938 of \$6,320,500,000--or, in other words, a falling off of \$401,500.

#### Balance:

The net result of these estimates of expenditures and receipts shows for the fiscal year 1939 a net deficit of \$980,000--but it is fair in stating at the same time that this deficit will be \$110,000,000 less than the expected deficit in the current fiscal year--in other words, a continuation of the decrease in deficits which have occurred regularly during the past three years.

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January, 1937, of the changes in the fiscal picture that have occurred in the last twelve months:

- 13 -

(In millions of dollars)

	Budget January, 1957	President's Message April 20, 1957	Budget Summation October 19, 1957	Budget January 1958
Receipts-				
Income taxes	\$3,365.3	\$2,955	\$2,791.5	\$2,692.9
Misc. Int. Rev.	2,508.3	3,288	2,386.3	2,279.5
Other Int. Rev.	774.8		768.7	726.3
Customs	463	463	493.9	415.3
All other	182.2	200	210	206.5
<b>Total</b>	<b>7,293.6</b>	<b>6,906</b>	<b>6,650.4</b>	<b>6,320.5</b>
Expenditures-				
Regular	5,430.3	5,494	5,469.6	5,429.2
Recovery & relief	1,826.2	1,830	1,876	1,979.7
<b>Total</b>	<b>7,256.5</b>	<b>7,324</b>	<b>7,345.6</b>	<b>7,408.9</b>
Surplus	37.1	- -	- -	- -
Deficit (net)	- -	418	695.2	1,088.4

*Prepared by Belle*  
BUDGET MESSAGE OF THE PRESIDENT

12-30-37  
Fourth Draft

260

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1939, together with this message, which is a part thereof. The estimates have been developed after analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

In presenting the estimates of appropriation for the fiscal year 1939 I am confident that there will be borne in mind certain fundamentals relating to the making of the National Budget.

The first step calls for the presentation, on or before the fifteenth of September, by every department and agency head, of estimates of appropriations for the fiscal year beginning the first day of the following July — in other words at least nine months before the spending of the money can begin. These estimates, carefully prepared by the budget officers and other officials of each department and agency, are intended to represent what they consider

-2-

the minimum needs of the work assigned to them by law.

Thereupon the Director of the Budget presents these totals to the President together with an estimate by the Secretary of the Treasury of the total amount of tax receipts which the Government may obtain during the twelve months beginning nine months later. This estimate by the Secretary of the Treasury is furnished him by civil service experts of long-standing experience with the whole subject of forecasting economic conditions. These experts properly call attention to the fact that they are asked to guess what the economic status -- and therefore the tax receipts -- for the fiscal year beginning the first of the following July.

If the forecast of tax receipts made by these experts, who are at least of equal competence with the experts of the largest banks and industrial corporations of the United States, show that the departmental estimates of expenditures will exceed the estimated tax receipts, the President instructs the Director of the Budget to make every possible effort to reduce the departmental estimates.

-3-

During the months of November and December and after the detailed hearings on the estimates have been held by the Director of the Budget, he presents them, with his recommendations, to the President.

It should be remembered that the laws provide that the departments and agencies shall carry out certain duties. The President and the Director of the Budget may not, therefore, eliminate government functions or curtail them to the point of ineffectiveness.

The result is that the President and the Director of the Budget arrive at an amount for each department and agency which they believe to be the proper amount under which the functions required by law can be carried out with reasonable efficiency.

During the final two weeks of the calendar year, the President obtains once more from the Treasury Department its final estimate of tax revenues, and if the new report shows a probable falling off of revenues, he makes every effort with

-4-

the assistance of the Director of the Budget to effect further reductions before approving the final estimates.

Once the expenditure program is adopted and put into operation it cannot, to any great extent, be brought into line with a decrease in tax receipts.

Business concerns are more fortunate. They also lay out programs months and even a year and a half in advance. But their programs are flexible. They are controlled currently by the condition of business, which permits the making of necessary changes from month to month and even from week to week.

The affairs of the Government are not so flexible. The Budget represents the administration's fiscal plan; and in the form adopted by the Congress during the winter and spring, becomes practically a fixed program of expenditure which cannot be changed for many months even though economic conditions radically change the receipt side of the ledger.

While I re-emphasize the difficulty of estimating the revenues of the Federal Government from six to eighteen months before that

revenue flows in, there is some satisfaction in knowing that our prophecies for the last three years have been more accurate as shown by the final result than the prophecies for the three preceding years.

It is worth while to call the attention of the Congress and the public to the fact that a very large proportion of our total expenditures represents fixed charges which cannot be reduced by executive action. These obligatory charges include such items as interest on the public debt, military and naval pensions, contributions to retirement funds and to the old age reserve account, and many grants in aid to States.

Another class of expenditures, which, though subject to some measure of administrative control, does not afford opportunity for large reductions, is made up of expenditures incurred in carrying on the normal, everyday operations of the Government. For example, the major part of the appropriations for the State Department is required to pay the salaries of consuls, diplomatic

-6-

agents, secretarial staffs and ministers who represent American interests in every part of the world.

The third class of expenditures is represented by the major effort of the Government to help large groups of citizens in every part of the country who, for economic or social reasons, definitely require some form of Government assistance. This class includes various types of aid to save farms and homes from foreclosure, to furnish work relief for able-bodied and needy unemployed, and to provide old age pensions, unemployment insurance and other assistance under the social security program. Obligations such as these, though large in amount, can be reduced only by depriving a very large proportion of our population of benefits which modern civilization demands.

The final category includes items of public expenditure for capital improvements, -- such as new highways, new river and harbor projects, new flood control projects, new public buildings, new reclamation projects and other new public works.

-7-

All of these items can be contracted or expanded to conform with the contraction or expansion of government income.

This year I recommend that these capital improvement items be curtailed. First, because government income will be less than expected, and second, because it has been amply demonstrated that they do not provide as much work for the unemployed as do other provisions for the relief of unemployment.

For example, we have appropriated as federal aid to new permanent state highways almost \$1,500,000,000 during the past five years] and an equal sum has been spent during the same period for constructing, repairing and improving roads and streets by Federal agencies administering unemployment relief. These vast expenditures have put our highway systems far in advance of what would have been normal expansion. I do not propose eliminating Federal aid to highways but I do ask that such aid be restored to approximately the pre-depression figures. The States also should be encouraged to bring their highway

-4-

budgets back to a more normal figure.

For the ten years up to June 30, 1933, the Federal Government spent an average of \$40,000,000 a year for river and harbor improvements. During the past five years we have spent an average of over \$100,000,000 a year. Meanwhile, a justified demand for greater protection against floods has developed. Flood protection is necessary and in this Budget I am curtailing the estimates for new river and harbor improvements in order to provide more money for flood emergencies.

Reclamation projects have been started which will call for future appropriations of nearly \$600,000,000. It seems obvious to me, and I hope it will be to the Congress, that no further projects should be authorized until projects now under construction have reached a substantial stage of completion.

During the past five years, we have built more than 1,100 new Federal buildings -- almost doubling the number of such buildings throughout the country. It is true that this saves the

-3-

renting of buildings but to effect that saving we are paying in many cases far more for maintenance of these new buildings than we formerly paid for leasing private quarters. Except for the necessity of meeting the problem of adequate housing for Government departments and agencies in the District of Columbia, I am strongly of the opinion that the public building program should be restricted to the comparatively small number of projects where the capital investment will be returned through savings in annual operating costs.

---

The most important fact in this Budget is the reduction of more than <sup>539</sup>\$516,000,000 in the estimated expenditures for the fiscal year 1939.

This fact should not be overlooked. It is fair to say that this estimated reduction may, by force of circumstances, become smaller because of future events which today cannot definitely be foretold. I refer specifically to the possibility

that due to world conditions over which this Nation has no control, I may find it necessary to request additional appropriations for national defense. Furthermore, the economic situation may not improve, and if it does not, I may have to request additional appropriations in order to save thousands of American families from dire need.

During the first nine months of the calendar year 1937, business conditions improved materially and it was the consensus of opinion in Government and in business circles that the improvement would be maintained in 1938. There was every reason to expect that the revenues for the fiscal year 1939 would be greater than the expected revenues for 1938 and that with a reduction in the cost of relief, the total expenditures for 1939 would greatly decline. That was the basis for our expectation of a balanced budget for the fiscal year 1939.

The recent recession in business has changed that outlook. Today it is necessary to revise the estimates of revenues. They

-11-

will be less than we had anticipated. They will, as far as we can tell, remain below our estimated necessary expenditures.

We hope that the calendar year 1938 will bring an improvement in business conditions and, therefore, in tax receipts. The Treasury, leaning to the conservative side, predicts some improvement but does not assume that business in the calendar year 1938 will reach as high a level as in the calendar year 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000 compared with the present estimate of tax receipts for the fiscal year 1938 of \$6,320,000,000, a falling off of \$401,000,000.

The present estimate of expenditure for the fiscal year 1939 is \$6,869,000,000 compared with the present estimate of expenditures for the fiscal year 1938 of \$7,408,000,000, a reduction of \$539,000,000.

The net result of these estimates of expenditures and receipts shows for the fiscal year 1939 a net deficit of

-12-

\$950,000,000. This deficit will be \$138,000,000 less than the expected deficit for the current fiscal year. Thus the deficits continue to decrease.

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January, 1937, of the changes in the fiscal picture that have occurred in the last twelve months:

(In millions of dollars)

	Budget January 1937	President's Message April 20, 1937	Budget Summation October 19, 1937	Budget January 1938
Receipts-				
Income taxes	\$3,365.3	\$2,955	\$2,791.5	\$2,692.9
Misc. Int. Rev.	2,508.3	3,288	2,386.3	2,279.5
Other Int. Rev.	774.8		768.7	726.3
Customs	463	463	493.9	415.3
All other	182.2	200	210	206.5
Total	7,293.6	6,906	6,650.4	6,320.5
Expenditures-				
Regular	5,430.3	5,494	5,469.6	5,428.9
Recovery and relief	1,826.2	1,830	1,876	1,979.7
Total	7,256.5	7,324	7,345.6	7,408.6
Surplus	37.1	--	--	--
Deficit (net)	--	418	695.2	1,088.1

RELATING TO NEWLY-MINED DOMESTIC SILVER

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, by Proclamation of the twenty-first day of December, 1933, as modified by Proclamations of the ninth day of August, 1934, and the tenth and twenty-fourth days of April, 1935, the United States coinage mints are directed to receive for coinage and addition to the monetary stocks of the United States silver mined subsequent to December 21, 1933, from natural deposits in the United States or any place subject to the jurisdiction thereof; and

WHEREAS, such Proclamation as so modified states in part that:

"This proclamation shall remain in force and effect until the thirty-first day of December, 1937, unless repealed or modified by Act of Congress or by subsequent proclamation." and that

"Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this proclamation as the interest of the United States may seem to require."

NOW, THEREFORE, finding that the interests of the United States require further modification of said Proclamation of the twenty-first day of December, 1933, as so modified; by virtue of the power in me vested by the Act of Congress cited

in said Proclamation, and other legislation designated for national recovery, and by virtue of all other authority in me vested;

I, FRANKLIN D. ROOSEVELT, President of the United States of America, do hereby further modify the said Proclamation of the twenty-first day of December, 1933, so that the same shall remain in force and effect until the 31<sup>st</sup> day of December, 1938, and so that the amount of deduction for seigniorage, brassage, coinage and other mint charges from the monetary value of silver delivered thereunder which has been mined on or after January 1, 1938, shall be 5% of such monetary value; and I do proclaim and direct that, with respect to all silver received by a United States coinage mint under the provisions of the said Proclamation of the twenty-first day of December, 1933, which such mint, subject to regulations prescribed hereunder by the Secretary of the Treasury, is satisfied has been mined on or after January 1, 1938, from natural deposits in the United States or any place subject to the jurisdiction thereof, the deduction for seigniorage and services performed by the Government shall be 5% and there shall be returned therefor, in standard silver dollars, silver certificates, or any other coin or currency of the United States, the monetary value of the silver so received (that is, \$1.2929<sup>4</sup>/<sub>100</sub> per fine ounce), less such deduction of 5%, and that the said Proclamation of the twenty-first day of December, 1933, as heretofore and

hereby modified shall remain in force and effect until the  
31<sup>st</sup> day of ~~December~~ 1938 unless repealed or further modified by Act of Congress or by subsequent Proclamation.

Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this Proclamation as the interests of the United States may seem to require.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the United States to be affixed.

at the City of Washington this 30<sup>th</sup> day of December,

in the year of our Lord  
nineteen hundred and  
thirty-seven, and  
of the Independence  
of the United  
States of America  
the one hundred and  
sixty-second.

*Wm. H. Russell*

By the President:

*George H. ...*  
Secretary of State.

Subject: Meeting in the Secretary's Office, December 30, 1937, at 10:45 A.M. (Gist of discussion as noted by Lochhead and White.)

Present: Secretary Morgenthau, Under Secretary of State Sumner Welles, Dr. Herbert Feis, Lochhead, and White.)

The Secretary began by telling Mr. Welles that in the press interview just ended he had been subjected to pressing questions with regard to the Mexican situation. He stated he told the press that the Treasury Department was no more interested in the oil and wage question in Mexico than it was in the strike situation in Paris.

Mr. Welles asked the Secretary whether he had decided what to do about Mexico.

The Secretary replied that in his opinion there were two separate aspects to the question: one, the immediate and acute situation in which the Mexican Treasury found itself, and, secondly, the broader and long-run problem of Mexican economic reconstruction. He stated that so far as the immediate situation was concerned he would like to help the Mexicans at once. He asked Mr. Welles whether it was not also his opinion that some assistance given now might alleviate the pressure the Mexicans were under to impose exchange restrictions and heighten import duties.

Mr. Welles stated that that was his opinion also.

The Secretary said he thought that the Treasury should purchase the 35 million ounces of silver that the Mexicans were offering for sale. He stated that he did not see why it was appropriate for him to question the banking or accounting practice used by the Mexican Minister of Finance in disposing of the silver. He thought their method of handling the transaction on their books was an internal matter which was the Mexican Government's affair and not ours. He added that he was putting the matter in its most unfavorable light since he wanted to give no misleading impression to the State Department with reference to the transaction. The Secretary went on to say that he, of course, realized that the purchase, if made, would be undertaken at Mexico's request to meet an emergency situation which confronted them. It would require at least a month, he added, to examine the Mexican financial and monetary situation before any

- 2 -

intelligent suggestions with respect to improvement or alteration in the Mexican monetary and banking practice could be offered by the Treasury.

Lochhead stated that our decision must take cognizance of the fact that if the Mexicans wished they could offer the silver on the market and the Treasury would be then confronted with the choice of either taking the silver or permitting the additional offering to have its full depressing effect on silver prices. The merits of the question were therefore not those exclusively of doing something for Mexico.

The Secretary commented that this was a good point but that he had not wished to mention it because he wanted the discussion to be set forth in its most unfavorable light so that Mr. Welles would be able to evaluate it in that light.

The Secretary asked Mr. Welles what he thought of the proposal to purchase the 35 million ounces of silver from Mexico.

Mr. Welles replied that he was in thorough accord with the idea but he thought it was important that it be stressed in the Secretary's proffer to buy Mexico's silver that the step being taken was to meet an emergency measure, and that the comprehensive program of suggestions with regard to the broader problem of Mexico's finance and economy requested by President Cardenas would be forthcoming after a longer interval of study of the Mexican monetary and financial situation.

The Secretary also asked Mr. Welles if Mr. Welles preferred that the Treasury buy the silver immediately or wait a day or two. If we waited, the Mexicans might get a cent or two less per ounce on the silver.

Mr. Welles said he preferred that the Secretary not wait but he would like to have the Secretary wait before telling Dr. Suarez of his intentions to purchase until he (Welles) had had an opportunity to talk with the Mexicans today (December 30th) and see what he could do with respect to other matters. Mr. Welles also stated that at the end of his conversation with the Mexicans, which he intended to have that day, he would indicate that the Secretary had something for Mexico.

The Secretary asked Mr. Welles if he understood that if the President and Secretary of State did not wish him to take such action he would, of course, accede to their wishes.

Mr. Welles replied that he understood. Mr. Welles indicated that in his opinion Mr. Hull would be favorably inclined.

The Secretary also asked if Mr. Welles understood that Mr. Welles was not to say anything to Dr. Suarez until after the Secretary had

- 3 -

spoken to the President and received the President's approval of the intended purchase.

Mr. Welles said he clearly understood that.

Mr. Feis drew attention to the fact that Mr. Welles would be confronted with the difficulty of having the announcement with respect to the silver purchase appear simultaneously with the decision of the oil companies relating to the new wage rates imposed by the Mexican Government.

Mr. Welles replied that he had been thinking of that very point seriously since last evening.

The Secretary said that that was one of the reasons why he had told him last evening about the proposal to purchase silver from Mexico. The Secretary had wished to give Mr. Welles as much time as possible in which to consider the proposal.

Mr. Welles said that he appreciated that and felt that he could handle the situation.

MWA

MEMORANDUM OF THE DAYS ACTIVITY

December 30, 1937

To: Secretary Morgenthau

From: Mr. Magill

Re: Vice President's proposal to reduce the number of  
Federal taxes to five

The five taxes designated by the Vice President produced the following revenues for the fiscal year, 1937:

Estate Tax	\$	282,000,000
Liquor Taxes		594,000,000
Tobacco Taxes		552,000,000
Individual and Corporate Income Taxes		2,156,000,000
Gasoline Tax		<u>197,000,000</u>
Total	\$	<u>3,783,000,000</u>

I assume, although he did not say so, that the Vice President would not repeal the social security taxes and the railroad retirement taxes. If they were left in effect, but the other miscellaneous Internal Revenue taxes not mentioned by the Vice President were repealed, the net loss of revenue for 1937 would have been \$564 millions. Presumably this loss would have to be made up by increases in the rates of the group of taxes mentioned by the Vice President.

- 2 -

The taxes which would be repealed under the Vice President's proposal may be grouped as follows:

1. Admissions, dues, and initiation fees	\$ 26,000,000
2. Capital stock tax	137,000,000
3. Documentary stamp taxes	70,000,000
4. Gift taxes	24,000,000
5. Regulatory taxes (oleomargarine, etc.)	3,000,000
6. Sales of automobiles, tires and tubes	167,000,000
7. Sales of sundry commodities	123,000,000
8. Sundry import taxes	<u>14,000,000</u>
Total	\$ 564,000,000

The Ways and Means Subcommittee has agreed to the repeal of ten taxes producing about \$25 millions, mainly in group #7 above.

*Rm*

December 30, 1937  
12:00 Noon

Operator: Mr. Messersmith.

H.M.Jr: Hello.

Operator: Messersmith. Go ahead.

H.M.Jr: Hello.

George S.  
Messersmith: Good morning, sir.

H.M.Jr: Mr. Messersmith, good morning to you.

M'smith: How are you? I hope you had a good - good time when you were away.

H.M.Jr: Yes. I was only away two days.

M'smith: Uh-huh. That's what I was.

H.M.Jr: Mr. Messersmith, in regard to Mr. Cochran of Paris.

M: Yes.

H.M.Jr: I have a personal and confidential letter from Bullitt.

M: Oh yes, he wrote me too, and he said he might be writing you.

H.M.Jr: In which he suggests that we make Mr. Cochran Conseiller Financier.

M: Yes, Conseiller Financier.

H.M.Jr: Well now, that's all right with me if it is with your Department.

M: Well, I think the - I just spoke with Mr. Welles about it this morning, because I wanted to - I told you, you remember, I'd get in touch with you, you suggested about the first of the year.

H.M.Jr: Yes.

M: And I think we can arrange that locally over there, to give him that status in the French diplomatic list.

-2-

H.M.Jr: Right.

M: And that would be satisfactory to you, wouldn't it?

H.M.Jr: Entirely.

M: I'm awfully sorry - Cochran is a good man, you know, and I'm very fond of him, but I noticed while he was here, Mr. Morgenthau, he - he seems to find it so difficult to get along with people.

H.M.Jr: Uh-huh.

M: And - ah - I think Bullitt is right about what he says about upsetting his organization there.

H.M.Jr: Well, that's Bullitt's problem.

M: Yes.

H.M.Jr: And far be it from me to tell him how to run his own shop.

M: Yes.

H.M.Jr: All I want is that - when the State Department designates somebody to work for me, I think it's important that they be left so that they can work for the Treasury.

M: Well, quite, and we want to do that.

H.M.Jr: Yes. And that's been so up till now.

M: The - well, I'll try to work out something with Bullitt on that basis, then.

H.M.Jr: All right.

M: And that'll be satisfactory to you, Mr. Morgenthau.

H.M.Jr: Yes. Thank you.

M: All right. Good-bye.

H.M.Jr: Good-bye.

## GROUP MEETING

December 31, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Lochhead  
Mr. Upham

H.M.Jr: Now, I was talking to Sumner Welles on the White House phone, and he's coming over at 11 o'clock. And he's had a very successful talk, late last night, with the Mexicans, and they're coming over here at 11. And I want Archie here, I want you (Oliphant) here, and let Harry White know. And Herbert, I want you here.

Gaston: At 11.

H.M.Jr: At 11.

Gaston: Yes, yes.

H.M.Jr: And I'm to get from him two things, a message from President Cardenas inviting this cooperation and then a memorandum on his conversation last night, you see, where he went over everything. He says he doesn't want to be too much encouraged. And this oil question of the Mexicans - they're letting it go to the Mexican Supreme Court for a decision, whatever the oil question is. And he said he had a satisfactory talk on the water rights. And they're simply overwhelmed with appreciation of what we're going to do, which is to take that 35 million ounces.

Then they said they wanted the other thing, which was the right to renew that agreement of before, that they took part gold or silver and borrowed foreign exchange. I said, "Well, when it comes to our laws and rules and regulations, I wouldn't bend our law one one-thousandth of an inch, and what the Mexicans did to their law was their concern." I mean this brings up this question we've been arguing; they've got 35 million ounces - is it pledged, is it silver, is it paper money? Well, I say that that is their business. I mean if they want to deliver to the United States Treasury 35 million ounces of silver,

-2-

and as long as it isn't stolen, why, I say that it is their business.

Oliphant: It is their business if they want to leave their currency up in the air.

H.M.Jr: Yes. Now, Archie was shocked at the way I take it; but I didn't want to have anybody say anything worse about it than I did. You (Lochhead) think it may be all right. But that's their business.

Now, as the alternative against this - I want to give you the background - you've got exchange control, further depreciation of their currency, plus rapid increase of tariffs, duties. Now, this is going to tide them over.

And then the main thing that they want - Sumner Welles stresses this - this is what I want Gaston for - they want a joint statement from us which President Cardenas can use Monday in his address to the Mexican Congress, about what we're doing for them - two Treasuries, you see. And I want you to get this background, see?

Gaston: Yes.

H.M.Jr: That's why I want you here. Because Sumner Welles said he was impressed with what I said, that this was a question of confidence in their government, and if they can assure their people that they are going to have a little financial sanity down there, why, maybe they can regain confidence and stop the flight of capital, you see.

Gaston: Yes.

H.M.Jr: But they have been talking on the telephone, and I gather that President Cardenas is listening to Dr. Suarez.

And much to my surprise, in talking with Mr. Gruening, who the Mexicans think such a friend, he feels that they have gone far too much to the left and that they are not paying for the land and that - so forth and so on; and he questions the whole program. I was very

-3-

much surprised. And he seems to have very little confidence in their word. He says that the Mexicans are very good in dealing with you up to the time that they get what they want, and then they are not so good.

But anyway, we'll go through with this. We've got to buy silver anyway. As Archie, who acts as my conscience, says, if we didn't buy it as a noble gesture, they could sell it anyway.

Lochhead: As long as we could keep up the price on silver.

H.M.Jr: So we're really not doing so much for them. So I thought we might do it - nobly.

But I think this - this happens to be entirely my idea, that instead of sitting around and trying to examine the Mexican finances and Mexican internal affairs, and in the meantime have them crack up, why, let's do this thing fast, do it today, do it with brotherly love, and then give the State Department a chance to look after the American citizens' rights down there.

And evidently they're going to come across. Sumner Welles said he can't believe it, said he got everything last night he was entitled to. He said he got assurances of everything he was entitled to. Huh?

Gaston: They might be human, they might go further after they get something voluntarily than on the basis of a bargain.

H.M.Jr: The thing that surprised me about Gruening was, he said when Ambassador Morrow was down there, when he got through he was such a disillusioned man. Well, I wondered if the Mexicans ever were treated right under the Republican regime. I doubt it.

So that's what's been happening around here. And I personally feel - I think we've done something, because I think with any kind of sympathetic treatment, intelligent treatment, we may be able to help them pull through and have a friendly neighbor to the south of us. And I think it's terribly important to keep the continents of North and South America from

-4-

going Fascist. I don't know anything more important politically.

Oliphant: More important to us than France, isn't it?

H.M.Jr: Oh, sure. Well, I mean - I'll put it this way. I think Mexico is the key to the situation of North and South America right now, and I think France is the key to the situation in Europe. Then I say, but I think the American continent is more important to us than the European continent.

I feel very happy about it.

All right, Dr. Magill.

Magill: Well, I have an interim report. The drafting boys are working on the report on the tax bill. Mr. Oliphant informs me the papers say there aint going to be no tax bill, so perhaps our work will be in vain.

H.M.Jr: What paper?

Oliphant: I was referring to the end of that article in the Times this morning.

H.M.Jr: Whose article?

Oliphant: That (pointing out on front page of the Times).

Magill: Well, anyhow, we're getting the legislation report.

Oliphant: I was saying it to cheer him up.

Magill: Secondly, Mr. Dwight has been sitting on everybody's door step, and I've given instructions to the Commissioner and Mr. Russell, Acting Deputy - Acting Commissioner, who has the case now, to proceed with it in the usual way, but to expedite it.

H.M.Jr: Well, that wouldn't be the usual way.

Magill: Well, I think the expediting is all right.

H.M.Jr: I mean by that ....

-5-

- Magill: It would be, really, because a taxpayer making an offer in compromise can say if he wants to that "you can take this or leave it by such a date," and that's what Dwight has done. And further, he has perfectly reasonable grounds for doing it.
- Oliphant: We do adjust our procedure to the necessity of the other person in filing his appeals.
- Magill: We'd make an expedite examination.
- H.M.Jr: I still say if you two gentlemen, plus the Commissioner's office, are in accord, settle it. I mean on any basis that the three of you can agree on cheerfully. If there is any doubt in anybody's mind, come and see papa. How's that?
- Magill: Well, I've said ...
- H.M.Jr: I said if the three of you can agree on it cheerfully.
- Magill: I've told them to make a careful examination and make sure that they handle it in the same regular way that they handle any other kind of a claim. And we've got Andrew Mellon sitting on the other side of the doorstep.
- H.M.Jr: His ghost?
- Magill: His ghost. Gave me a stomach ache last night which I hope to get over in due course.
- H.M.Jr: Who did?
- Magill: Andrew, or his ghost.
- H.M.Jr: Who's talking for him?
- Magill: Nobody was talking for him. On the other side.
- H.M.Jr: You're too subtle this morning.
- Magill: I'm not; that's the ... No, they had - Herman got me down in a conference with Wenchel and a couple of boys so they could explain why they should file a

-6-

hatful of motions and appeals and God knows what, and these gentlemen were of the ilk ....

H.M.Jr: Of the what?

Magill: Of the ilk - i-l-k - ilk that explained the necessity for these motions in the terms of distinctions between Section 112-C-1 and 112-G, which takes one half hour, and then - and so forth.

H.M.Jr: Well, when you get over your stomach ache ....

Magill: That will be shortly after the New Year.

Oliphant: We began the study of it, but report no progress.

Magill: Absolutely none. In fact, I think we are further back than we were when we started.

H.M.Jr: Well, God help the man on the street if he wants to understand things.

Say, I took that home - give me another one of those things on taxes - particular taxes. Will you give it to Kieley and he'll give it to me. You know what I'm talking about.

Magill: You mean that V.P. business.

H.M.Jr: That V.P. business; that was a little more than you thought. What?

Magill: No, less. He said a loss of a billion and I said it's a loss of between five and six hundred million.

H.M.Jr: I'm seeing the President at 12. Could you give me a little memorandum on what that five hundred million - how many items go into that five hundred million?

Magill: Yes, I suppose so. It's quite a large number. And furthermore, as you look at it a little, it is quite clear that the V.P. didn't mean what he said; in other words, that if you cross-examined him, he'd say, "Well, you'd better leave this in and leave that in."

H.M.Jr: Well, he said something about a gift tax.

-7-

Magill: Well, that's one I have in mind. Then you've got a whole batch of these import duties which are levied under the guise of taxes - coconut oil and all that category.

I think the best thing for me to give you is the same chart that I have given the Committee showing what items comprise the total.

H.M.Jr: All right.

Magill: That's a pretty good sized thing. There are 65 different types of those taxes, you know.

H.M.Jr: Well, I'd like to take it over to the President when I go over. Bring it in this way. O.K.?

Magill: (Nods yes)

Oliphant: If Archie and I come in at 3 o'clock, when can I send a man over to the Federal Register?

H.M.Jr: What's the Federal Register?

Oliphant: What's the official publication in which everything has to be published in order to be effective.

H.M.Jr: How long does that take?

Oliphant: But it merely has to be stamped. I can keep a man over there till six o'clock. That be all right?

H.M.Jr: Any time after 3 o'clock.

Oliphant: After 3.

H.M.Jr: I suppose the President will announce at his press conference when it's going to be given and all that?

Gaston: I should think so, yes.

H.M.Jr: Did Mr. Hull sign it yesterday?

Oliphant: Not last night. First thing this morning. But I haven't seen it.

H.M.Jr: What?

Oliphant: I haven't had a report yet from Opper; he's handling it. (Hands Secretary one-page document)

Is that about what you wanted?

H.M.Jr: Yes.

Now, you let me know next year about LaGuardia and his post office.

Oliphant: Next year?

H.M.Jr: Yes. Right?

Oliphant: Well, I'm telling Eddie orally; he's to tell LaGuardia along the line you decided. Letter went over to the A.G. yesterday to be signed.

You're going to be pretty busy today, aren't you?

H.M.Jr: Yes, why?

Oliphant: That personnel thing I'd like to discuss with you.

H.M.Jr: Well, we'll see how it works out.

Gaston: One letter came over here for acknowledgment from the White House on the subject of the silver proclamation which was from a union, and there was one of the boys showed me a dispatch yesterday from some other union. They are asking that labor requirements be included in the proclamation for subsidy on silver. Did you (Oliphant) see one of those? I sent a copy of one of those in to you, but I don't know whether anybody has noticed it or not. I thought it ought to be called to your (H.M.Jr) attention. Several miners' unions in the West are asking that some labor requirements be included in it.

H.M.Jr: I think when we pay what we do for silver we're doing our bit for the nation.

Gaston: They assert that the miners are sweated and poorly paid.

H.M.Jr: Well, what are Senators and Congressmen here for? That's their job.

Gaston: On the annual report, I find that they won't have press copies ready of the annual report until Tuesday. Well, the budget message will be ready on Tuesday,

-9-

and I thought instead of following precisely the instructions that we leave out estimates of receipts and expenditures from the press copies, we should just hold the press copies until the budget message is delivered to the press. I think that carries out the spirit of what the President wants and then it gives the boys something that isn't just empty waste of motion.

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

Gaston: Did you have a chance to look at those draft letters that I did on that thing that you handed me yesterday, on the Arthur Krock column?

H.M.Jr: No.

Gaston: Mrs. Klotz has them.

Magill: I see Arthur this morning has been damning Robert Jackson for a little misquotation.

H.M.Jr: I thought that was a perfect thing, because ....

Gaston: I think so too.

H.M.Jr: No, Herbert, I didn't see ....

(On phone) Ask Mrs. Klotz to send in Mr. Gaston's - let me talk to her a minute.

I mean it's misquoting or quoting misstatements, which is worse.

(On phone) Would you send in Mr. Gaston's draft of Arthur Krock's letter, please.

Oliphant: Living in glass houses, yes.

H.M.Jr: Yes. And in view of this, would you still write the same way you have?

Gaston: I haven't read this, but I think I would. But I do want to make one or two changes that occur to me, that I do want to make in that letter.

(Mrs. Klotz brings in letter)

-10-

H.M.Jr: I'd lead off the letter and say, "Your column this morning, saying 'The Gentle Art of Misleading Quotation,' leads me to write you as follows."

Gaston: Yes, you might do that.

H.M.Jr: What?

Gaston: You might do that.

H.M.Jr: Entitled "The Gentle Art of Misleading Quotation," see?

Gaston: I think that's a good starting point.

(Secretary reads letter)

H.M.Jr: I like it all except the last - I don't like the last paragraph.

Gaston: Well, I want to change it.

H.M.Jr: About the lapse of memory. Huh?

Gaston: I thought we ought to take a little shot at him.

H.M.Jr: You think so? Well, that's all right.

Gaston: But I wanted to change that a little bit.

H.M.Jr: You've done it for my signature.

Gaston: Yes. I did. I thought they ought to print the letter, because ....

H.M.Jr: What?

Gaston: Of course, he might do it either way. If I send it, he might print it anyway.

Olyphant: I wouldn't want the Secretary of the Treasury in a newspaper - quarreling with a correspondent of a newspaper.

H.M.Jr: I don't either. I think you're giving Arthur Krock entirely too much dignity.

-11-

Gaston: No, I don't think so.

H.M.Jr: And if you have any personal feelings ...

Gaston: Not in the slightest. No, I'd be glad to sign it. I just didn't want to ....

H.M.Jr: No, I don't want to dignify Arthur Krock.

Gaston: All right, I'd be very glad to sign it.

H.M.Jr: But I do think - otherwise, he could say, "Why wait all this time?" But this gives the timing of it right now, and you say, "Your column today leads ....

Oliphant: "...reminds..."

H.M.Jr: "... reminds me to write you as follows."

Gaston: After all, it's only a week ago, and you had to dig up a copy of the London Times to find what the man actually said. But I'll change it for my signature, and I want to make another change.

H.M.Jr: If you have any feeling about it yourself ....

Gaston: Oh no, not in the least. Just a question of whether I wanted to take credit.

H.M.Jr: On the other hand, the Washington Herald, which ends up its editorial: "And then they'll find out that nobody is more ruthless in the game of tricks and propaganda than Mr. Harold L. Ickes himself."

Did you see that?

Gaston: No.

H.M.Jr: George?

Haas: Those are some new construction figures. I'd like to have a few minutes to explain those to you. I think some background is necessary. You asked for it, and it's absolutely necessary for interpretation of those.

H.M.Jr: You mean they're too good?

-12-

Haas: No, those are - they represent the actual situation. The residential has come up just a bit, but it is not significant yet. But under non-residential and that classification, Dodge Brothers puts in that commercial buildings and factories; in addition to that, they include many items which are commonly known as public works, but they don't call them public works - hospitals, post offices, park improvements, and all items of - municipal, state items of that sort - Federal items, if it's a post office.

There's been no outstanding increase. I've looked over the figures by regions; it's been even all over. The Journal of Commerce says that this sudden increase there is the result of contracts being let on the last batch of P.W.A. allocations made some months back, and it will just "peter" out.

Another thing, the seasonal factor we used there, you notice, tends to shoot it up very sharply, because it's coming at a time of year when usually the contracts aren't let. That's probably the explanation of it. And on January the 9th I'll know positively, because then I'll get the breakdown for the month.

That's all I have.

H.M.Jr: Thank you, George.

Lochhead: Notice the British equalization fund printed September 30 figures - Butterworth covered it also - and I thought one interesting thing was they showed a total increase of about 500 million dollars of gold in that six months period. I just looked over our figures, and we just about double that figure.

H.M.Jr: Took how many? .

Lochhead: Took about a billion 186 million.

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

Lochhead: Shows we're both gaining. Real heavy in that period.

Upham: (Nods nothing)

H.M.Jr: All right.

THE UNDER SECRETARY OF STATE  
WASHINGTON

December 31, 1937.

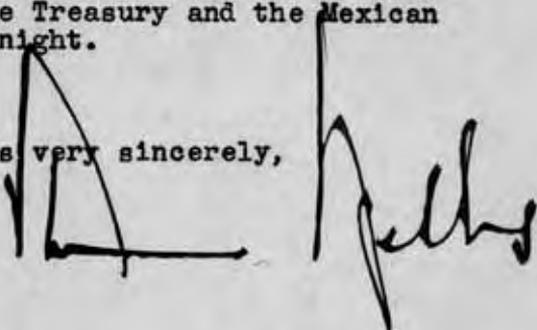
Personal and  
Confidential

My dear Mr. Secretary:

I am transmitting herewith a translation of a letter addressed to me by the Ambassador of Mexico on December 25, as well as a copy of a memorandum of my conversation with the Mexican Secretary of the Treasury and the Mexican Ambassador of last night.

Believe me

Yours very sincerely,



The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

receipted  
Jan 14 1938  
(Bx 105 p. 38)

me to White  
to read Jan 4.

TRANSLATION

Washington, D. C.

December 25, 1937.

My dear Mr. Under Secretary and valued friend:

In accordance with our recent conversations, I am very glad to inform you that General Lázaro Cárdenas, President of Mexico, has authorized Dr. Eduardo R. Suárez, Secretary of the Treasury, and the undersigned in order that we may jointly or separately discuss a possible plan of economic and financial cooperation between the two countries.

Consequently, Dr. Suárez and I are enabled to exchange views with the members of your Government and to discuss any suggestions which we hope you will be good enough to make to us for the purpose of formulating any project which can be submitted to the consideration of our Government.

I renew to you my highest consideration and personal esteem.

F. CASTILLO NÁJERA

U:SW:MW

## DEPARTMENT OF STATE

*Memorandum of Conversation*

DATE: December 31, 1937.

SUBJECT: Economic and financial situation in Mexico; oil controversy; agrarian policy.

PARTICIPANTS: The Secretary of the Treasury of Mexico, Dr. Eduardo R. Suarez; the Mexican Ambassador, Señor Dr. Don Francisco Castillo Najera; the Under Secretary.

COPIES TO:

... 1-1403

At my request, Dr. Suárez, the Secretary of the Treasury of Mexico, and the Mexican Ambassador came to see me late last night.

I stated to them at the outset of our interview that the President, the Secretary of the Treasury, and ourselves here in the Department of State all fully appreciated the urgent nature of the difficulties through which the Mexican Government was passing and were desirous, as sincere friends and as good neighbors, to do whatever it might be possible for this Government to do to assist the Government of Mexico in getting safely through the difficult situation with which it was confronted. I said, however,

-2-

that certain questions which had been tentatively discussed at the meeting in the office of the Secretary of the Treasury the other day would require prolonged consideration as, for example, the possibility of the purchase of oil reserves by the United States Government. I further said that I had been advised by the Secretary of the Treasury that any constructive suggestions which might be formulated by the United States Treasury Department and transmitted to the Mexican Secretary of the Treasury, in accordance with the desire of the Mexican Government based upon the present situation and the information which Dr. Suárez had transmitted to us in writing, would require the better part of a month. I took occasion at this stage to ask once more whether Dr. Suárez and the Mexican Government desired that these suggestions be transmitted with full frankness when they were prepared, and both he and the Ambassador most emphatically said "Yes".

I then asked if the Ambassador and Dr. Suárez had been able to receive any definite information from their Government with regard to the pending controversy between the Government and the American oil companies, which was a matter they had told me in the morning they would be glad to take up by telephone with Mexico City. Dr. Suárez said that he had spoken personally on the telephone to

-3-

President Cárdenas, as had Ambassador Castillo Nájera. Dr. Suárez declared that he had impressed upon President Cárdenas the great desirability of having some satisfactory arrangement concluded between the oil companies and the Government as a very essential prerequisite towards the reestablishment of business confidence in Mexico. He told me that General Cárdenas had made a statement to him along the following general lines: that the President thoroughly shared the feeling expressed that a satisfactory arrangement was highly desirable; that it was his intention to permit the companies to appeal the case to the Supreme Court of Mexico and to have recourse to the Amparo, which would enable them, pending the decision of the Court, to obtain a suspension of the operation of the decision of the Labor Board except insofar as the payment of back wages was concerned; that the President of Mexico would see to it that the companies would not have to put up any bond inordinate in amount and beyond the ability of the companies under present conditions to meet and that he fully realized that because of their lack of confidence in the general situation and because of their fear that their deposits in the Bank of Mexico would be embargoed by the Labor Union, the companies had withdrawn the deposits they had previously had with the Bank of Mexico;

that, on the other hand, if the President fixed a bond which was too low, it would make it possible under the terms of the law for the labor unions to put up a bond smaller in amount and thereby prevent the suspension of the provisions of the verdict of the Labor Board. In conclusion the President had stated that he believed direct negotiations between the Government and the representatives of the oil companies would bring about a satisfactory compromise and that that very afternoon such conversations had commenced. Dr. Suárez told me that he was returning to Mexico in the immediate future and that he himself would exert every possible effort to bring about a satisfactory compromise.

I then reminded the Ambassador and the Mexican Secretary of the Treasury of the previous friendly understanding we had reached that this was an opportune moment to bring up all the questions which might threaten friction or misunderstanding between our two Governments in future years; and that for that reason I wished to say that in my judgment the question of the utilization of the waters from the Rio Grande and the Colorado Rivers was a matter of supreme importance to the peoples of both our countries; that if the two Governments did not in the near future reach an agreement upon this very important question, there was certain to be created a highly

controversial situation between the two Governments seven or eight years from now, when so many additional water rights along the Colorado River would have been created in the United States as to make it difficult, if not impossible, for this Government to permit the Mexicans along the Lower Colorado to obtain the water which they would want and that at the same time so much water of the tributaries within Mexico of the Rio Grande River would be utilized by Mexican nationals as to make it difficult, if not impossible, for the Mexican Government to permit our own nationals in southern Texas to use the water which they were now enjoying on their irrigated plantations. I said that it seemed to me that it was the course of wise statesmanship on the part of both countries to settle this matter while it could still be settled in a fair and friendly manner and that, for that reason, I wished to know whether the Mexican Government would be prepared when the United States Government considered the moment opportune, which I thought would be within the next year, to appoint a joint commission to undertake a survey and agreement upon the water rights actually in existence in both countries as of the date so to be set. The Mexican Secretary of the Treasury immediately gave me assurances that the President of Mexico regarded this matter in exactly the same light; that a

-6-

friendly settlement on this question in the immediate future was entirely in accordance with General Cárdenas' own policy, and that General Cárdenas would give me, he thought, complete assurance that the Mexican Government would agree to the step proposed. I asked the Secretary of the Treasury if he would be kind enough to confirm this after his return to Mexico, and he assured me that he would do so, both personally and officially through the Mexican Ambassador.

I then said that we had already discussed at length the difficulties occasioned our nationals by the Mexican Government's agrarian policy, and that I merely wished at this moment to express my gratification at the assurances already given me by the Secretary of the Treasury of Mexico that the Mexican Government to find in each case where expropriation of American properties took place some practical arrangement whereby the American owners of these properties would receive fair treatment and that in all probability such fair treatment would consist of ceding other lands to them in the place of the lands which had been expropriated. Both the Ambassador and the Secretary of the Treasury stated that this was the intention of their Government, and that they felt I could rest assured that every effort would be made along the lines indicated.

-7-

I then stated that I had had the opportunity of speaking with the President and the Secretary of the Treasury a few hours before, and Secretary Morgenthau had authorized me to say to the Secretary of the Treasury of Mexico that he would be glad to receive him and the Ambassador at eleven o'clock on December 31 in order to advise them that this Government was prepared to purchase immediately twenty-four million ounces of silver belonging to the Mexican Government and on deposit in the Federal Reserve banks of California. Dr. Suárez immediately expressed his particular appreciation and gratitude and said that this would alleviate greatly the difficult situation of his Government. He then inquired whether the Secretary of the Treasury had reached any decision with regard to a further suggestion he had made to him, namely, whether a temporary advance would be made by the United States Treasury to the Mexican Treasury along the lines of the transaction which had taken place some two years before. I said that on that matter I had no information to give him, and that only Secretary Morgenthau himself could answer that question. I said, however, that I knew he could rest assured that every favorable consideration would be given to any request he might make, but that, of course, the Secretary of the Treasury of the United States could act only in

-8-

accordance with existing legislation and that I was not informed either of the legal powers of the Treasury Department in this case nor of the precise facts involved.

At the conclusion of the interview both the Secretary of the Treasury of Mexico and the Ambassador expressed their deep gratitude for the friendly reception which their representations to this Government in connection with the serious situation of the Mexican Treasury had received and their hope that it might be possible for some joint communiqué to be issued by Secretary Morgenthau and Secretary Suárez, before the departure of the latter, setting forth that friendly cooperation between the two Treasury Departments existed and would continue. Dr. Suárez said that if such a statement could be issued, it would be referred to by President Cárdenas in his annual message to the Mexican Congress on January 3 and that this undoubtedly would have a very valuable and beneficial psychological effect in re-establishing confidence in Mexico. I said that I was sure that Secretary Morgenthau would be glad to give consideration to this suggestion, but that, of course, the exact text would have to be worked out between Dr. Suárez and Secretary Morgenthau.

December 31, 1937

## Re: Japanese Balances

The Far Eastern deposits as reported by the New York agencies of Japanese banks as of December 29 are as follows:

Bank of Chosen	-	\$	440,000
Bank of Taiwan	-		1,724,000
Mitsubishi Bank	-		414,000
Mitsui Bank	-		355,000
Sumitomo Bank	-		4,760,000
Yokohama Specie	-		<u>35,353,000</u>
TOTAL	-		\$43,046,000

December 31, 1937

Present:

Ambassador Najera  
Minister of Finance Suarez  
Dr. Feis  
Mr. Oliphant  
Mr. Lochhead  
Dr. White  
Mr. Gaston

HM, Jr.: You know Mr. Gaston. I think you look better today.

Dr. S.: Yes, sir.

Ambassador: He is hoping you are going to have him leave feeling fine, better.

HM, Jr.: Which one of you gentlemen want to talk first, because you saw Mr. Welles last night. Where do we go from here?

Dr. S.: We had a conference with Mr. Welles last night and he told us that you wanted to see us.

HM, Jr.: The way I feel about it is this: I appreciate your memorandum very much. It gave us a great deal of information, but for you and me to sit down here and go into these details and do a good job would take too long. Now, we don't want to play the fiddle while Rome burns. I simply felt, after talking the matter over with the President, that we have to the South of us a good neighbor and a friend temporarily financially embarrassed. I still would be more than pleased to consult with you, going into this thing in greater detail, but after reading your report the thing I felt is that what you need is help now and until we get back and forth it may be a month or two months. So what you said in your report was that you wanted to sell 35,000,000 ounces of silver. Right?

Dr. S.: Yes, sir.

HM, Jr.: And I recommended to the President that

-2-

he accept my recommendation that we buy that silver as of today at 45 cents.

Dr. S: Yes, sir.

HM, Jr: It is up to you to deliver as rapidly as you wish to.

Dr. S: Yes, sir.

HM, Jr: But we are ready to say to you today we will buy 35,000,000 ounces at 45 cents delivered at either New York or San Francisco.

Dr. S: Yes, sir.

HM, Jr: And we are not -- it's just a straight monetary transaction and I am not going into what use you make of it. There are no strings to it.

Dr. S: Yes, sir. We appreciate that very much, Mr. Secretary. That will help us a great deal.

HM, Jr: Isn't that enough to help you so that you don't have to put on these exchange controls? That's enough to take care of your currency at your present -- to maintain your currency at the present level?

Dr. S: That will help us a great deal, Mr. Secretary. The only thing that was worrying me is this: according to our regulations -- our reserve at present is 104 million pesos and according to the regulations, the law of the Bank of Mexico, when the reserve becomes below 100 we have to withdraw the demand from the exchange market. The Bank has to withdraw and that is why the advance of \$10,000,000 will give us some time to see what we can do.

HM, Jr: But this is not \$10,000,000.

Mr. Lochhead: This will be about \$15,000,000.

HM, Jr: If that is what you want. In this memorandum you said you wanted to sell 35,000,000 ounces of silver. Well, roughly, at 45 cents, that's over \$15,000,000.

Dr. S: Yes. That will take care of the reserves and the amount that we have to meet for future sales of exchange,

-3-

but as far as requirements of the Reserve Act is concerned, we will still be below.

Mr. Lochhead: Wouldn't that immediately go into your reserve?

Dr. S: That will increase a little our reserve; increase our reserve about 8,000,000 pesos.

Mr. Lochhead: Only 8,000,000 pesos?

Dr. S: Because we have this silver in the reserves at the price .....

Mr. Lochhead: In the published reserves, you only have about -- a very small percentage of silver. This other silver we purchased is not at present shown on your reserve statement of the Bank of Mexico.

Dr. S: Because that silver, as I explained the other day, is to take care of future sales of exchange. Our bank customers demand for future sales of exchange. We have to put in similar amount, either in gold or in silver, to take care of these future sales.

Dr. White: A portion of that 35,000,000 is already allocated to the future sales.

Mr. Lochhead: But it does not show up on the statement.

Dr. White: Because they are trading this silver to take care of future sales.

Mr. Lochhead: Will you put your future sales on the Bank of Mexico statement?

Dr. S: We will have to. Future sales is a liability of the Bank and we have to put on the other side of the sheet a similar amount of gold or silver.

HM, Jr: You boys get it?

Dr. White: So far as future sales is concerned, there is no addition; it is merely conversion.

-4-

HM, Jr: What they are trading is they have sold futures and now they will have to use cash to meet a future commitment when it comes due. What you are doing is converting a slow asset into a quick one.

Dr. S: Yes. Yes. That is right.

Dr. White: Silver especially into gold; foreign exchange.

HM, Jr: That still holds true, what I said.

Dr. White: That's right.

HM, Jr: Now, ~~what else~~ is there? This is something that you want to do?

Dr. S: Yes, sir.

HM, Jr: Now, as I take it, there is nothing necessary as far as our agreement is concerned except I say I will buy today and he says he will sell.

Mr. Lochhead: We will send out a bid in the regular way through the Federal Reserve to the Bank of Mexico today.

HM, Jr: That goes out today. But as far as I am concerned, I don't have to do anything else. Now, what else?

Dr. S: We have the other points, whether next year you will purchase silver.

HM, Jr: Well, you see, if you don't mind my saying, your press in Mexico, what I read in the New York Times coming out of Mexico City, seems to misunderstand what we have been talking about. I don't know whether you have seen those dispatches or not, but they are quite unfriendly to us. It made it look as though we were -- they kept referring all the time that I was trying to dictate what you were going to do in Mexico and using this as a wedge, but there were several newspaper dispatches in the New York Times several times. Now as far as you have got now, you have exactly the same agreement as before.

DR. S: That's true.

-5-

HM, Jr: All I can tell you at this time is as far as I can tell, I can't give you my word, but as far as I can tell, this is good for 1938, but I can't give you my word.

Dr. S: Oh, yes, I know.

HM, Jr: But you have got -- and that's up to you to explain when you get back -- exactly the same agreement for 1938 as for 1937, but with the world so upset how can I tell what's going to happen in October 1938?

Dr. S: Yes.

HM, Jr: I look in a crystal glass and I hope to get an answer, but it isn't very good so barring some unforeseen incident of some kind or other-- anyway you have got the same agreement for 1938 that you had in 1937 -- 5 million ounces a month, barring some unforeseen incident.

Dr. S: Yes, I see.

HM, Jr: All we are saying to you is you can put 5 million ounces a month to me. You don't have to do it. I am not saying to you you have got to sell us 5 million ounces. You have the choice. You are entirely free. Your hands are not tied. My hands are tied to this extent: each month you can offer me 5 million ounces. I give you a price. If the price is acceptable, you can accept. It leaves you entirely free. So it is the same arrangement for 1938 barring some unforeseen incident some place, either in this country or in some other country, including your own.

Dr. S: That's right, Sir.

HM, Jr: Something may come up in England or Russia or China or India. After all, we have no London silver agreement. That is finished. But I will say that we sincerely hope that nothing will happen.

Dr. S: Yes.

HM, Jr: And we will do everything that we can to keep anything from happening, you see, and we are not looking for any trouble. We would like to have this arrangement continue, if possible. Do I make myself perfectly clear?

-6-

Dr. S: Perfectly clear.

Ambassador: Perfectly clear.

Dr. Feis: Quite clear.

HM, Jr: There could be no possible misunderstanding, could there?

Dr. Feis: No.

HM, Jr: That's the second point.

Dr. S: And the third one, whether it would be possible to make a loan from the Stabilization Fund for a temporary period, two months.

HM, Jr: As to that, in gold or silver? Would it be gold or silver? Which would it be?

Dr. S: Gold.

HM, Jr: Gold. Well, we are willing to enter into the same agreement with you as before, but it has to be just the same, Dr. Suarez. Exactly the same arrangement as we had before.

Dr. Suarez: That is, put collateral for the same amount.

Mr. Lochhead: With the exception they could use gold when before it was only silver and the Secretary, as I understand, will be willing to have it either gold or silver.

HM, Jr: Either gold or silver, but the document will be exactly the same except we would add the word 'gold'.

Dr. S: That's right.

HM, Jr: And the only other difference would be we would charge them one-half of one percent above the discount rate.

Dr. White: They have reduced it. It's one percent now so it would be  $1\frac{1}{2}\%$ .

-7-

HM, Jr: Is it down to 1%? Do they do any discounting?

Dr. White: Very little.

HM, Jr: My technical statement is correct. It's one-half of one percent above the discount rate of the Federal Reserve, which would make it  $1\frac{1}{2}$  as opposed to 3 percent. Is that right?

Dr. White: That's right.

HM, Jr: But everything else will be just the same. Herman, check?

Mr. Oliphant: Yes.

HM, Jr: But you understand, Dr. Suarez. Is that clear to you?

Dr. S: Certainly.

HM, Jr: We can't do it the way you asked us to, but we can do it the same way we did before and I am willing to give you that arrangement for twelve months. But we are willing to say we will prepare that document and give you that privilege for the calendar year 1938.

Dr. S: Thank you very much.

HM, Jr: Am I going too fast, Mr. Ambassador?

Ambassador: No; that's all right.

HM, Jr: We can't do it the way he asked us, but we can exactly the way before with two differences: only charge  $1\frac{1}{2}$ % instead of 3% and gold added to the silver.

Dr. White: As long as the New York bank rate is 1%. It will be  $\frac{1}{2}$ % above that.

HM, Jr:  $\frac{1}{2}$ % over and above what the discount rate is in New York or whatever the San Francisco rate is.

Dr. S: We have still another point -- two points more.

HM, Jr: How many fingers have you got?

-8-

Dr. S: First, what kind of announcement will we make?

HM, Jr: That's entirely up to you. Anything that you would like I will be more than pleased to join you.

Dr. S: Then we will have some announcement so the people will know in Mexico that we have some support; make people feel a little better.

HM, Jr: How would you like to word it? That's what Mr. Gaston is here for. Do you want to sit down and write it or have you got it here (pointing to forehead)?

Dr. S: I think we can say we have made mutually satisfactory agreement between the Secretary of Treasury and Minister of Finance of Mexico with view to strengthening the position of the Bank of Mexico and upholding the value of the peso.

HM, Jr: Say it again for Mr. Gaston.

Mr. Gaston: I think I have it.

HM, Jr: What have you got?

Mr. Gaston: "It will be a mutually satisfactory arrangement or understanding with the Secretary of the Treasury with a view to strengthening the Bank of Mexico and the exchange value...."

Dr. White: And stabilizing the exchange value of the peso.

HM, Jr: Stabilizing the dollar-peso exchange. If you don't mind my saying, that's the effect you want to have on the public, but I wondered if you just want to say it, from your standpoint. That's the effect you want, but I question, from your standpoint, the standpoint of the Mexican Government, if you want to say that because what you are saying is the position of the Bank of Mexico was weak. I don't think you want to say that. As far as I am concerned, fine! But I question if it is good business for you. Do you see what I mean, Mr. Ambassador?

Ambassador: Absolutely.

-9-

Dr. White: Couldn't we try working out something with Mr. Suarez?

HM, Jr: All right. But here's my schedule. I have to leave here at five minutes of twelve to go to the White House to see the President on the budget. Now, I have saved this hour. Let's do it right now.

Why don't you, Mr. Ambassador, go over to the table with Mr. Suarez and write something in Spanish and translate it in English.

(After conference the following was dictated.)

"Secretary Morgenthau and Minister of Finance Suarez announce that they have reached a mutually satisfactory understanding on common problems before the two Treasuries.

"Arrangements have been made further assuring the continued stability of peso-dollar exchange, thereby facilitating orderly exchange transactions.

"Likewise, mutually satisfactory arrangements have been made with Mexican silver."

While Miss Chauncey was absent, typing the proposed release, the Secretary conversed with Ambassador Najera, Mr. Suarez and Dr. Feis. Mr. Lochhead dictated the following report of the conversation:

HM, Jr: Of course you understand that what we have done today only takes care of your pressing needs to save the immediate situation, but does not solve your real problem. The weakness in your exchange is caused by the flight of capital, both foreign and domestic, because of uncertainty or fears as to your future action in the treatment of capital invested in Mexico. We had the same situation here in 1932, but the actions we have taken have inspired confidence.

(At this point Miss Chauncey returned and while the group were studying the draft, the Secretary continued his remarks, as follows:)

Therefore, money that went out in 1932 from this country, left the country, hundreds of millions of dollars, has all come back, not only our own money but money from

-10-

fears as to your future action in the treatment of capital invested in Mexico. We had the same situation here in 1932, but the actions we have taken have inspired confidence.

(Following is stenographic reports of HM, Jr's remarks.)

Therefore, money that went out in 1932 from this country, left the country, hundreds of millions of dollars, has all come back, not only our own money but money from all over the world. No matter what they say, they think they have a better chance for safe keeping and, second, for profit. Not only has all the money that left the country come back, but we have attracted hundreds of millions of dollars from people who think this is a good place to keep that money. You can do the same.

You have all the raw materials the world needs, but nobody can help you but your own Government. It's like our own country. You want people to have a decent living, land, good roads, good schools and you want just what we want, but there is the thing of going too fast, quicker than you can afford it on a capitalistic system. It's a question -- you have to have sound finance if you want to attract capital so they will invest in Mexico, keep their money there and put it to work. And you have got to tell them. As the President always says when I talk to him, "Do you want me to keep repeating once a week?" but we have to keep repeating and we have to demonstrate. What we say is that we want people to make a reasonable profit on their investment and with all the wealth you have in your country -- look what's happening in the Argentine. They have 600,000,000 or 700,000,000 in gold. They are just rich with money and still they are a progressive form of Government. They were doing a lot of things in the Argentine before we did, progressively. But the people are sending their money there because they think it's safe and they can make a profit.

Dr. Feis: Denmark has probably gone further in a progressive way than any other country in land distribution.

HM, Jr: You don't mind my saying it?

Dr. S: Oh, no; Mr. Secretary.

-11-

all over the world. No matter what they say, they think they have a better chance for safe keeping and, second, for profit. Not only has all the money that left the country come back, but we have attracted hundreds of millions of dollars from people who think this is a good place to keep that money. You can do the same.

You have all the raw materials the world needs, but nobody can help you but your own Government. It's like our own country. You want people to have a decent living, land, good roads, good schools and you want just what we want, but there is the thing of going too fast, quicker than you can afford it on a capitalistic system. It's a question -- you have to have sound finance if you want to attract capital so they will invest in Mexico, keep their money there and put it to work. And you have got to tell them. As the President always says when I talk to him, "Do you want me to keep repeating once a week?". But we have to keep repeating and we have to demonstrate. What we say is that we want people to make a reasonable profit on their investment and with all the wealth you have in your country -- look what's happening in the Argentine. They have 600,000,000 or 700,000,000 in gold. They are just rich with money and still they are a progressive form of Government. They were doing a lot of things in the Argentine before we did, progressively. But the people are sending their money there because they think it's safe and they can make a profit.

Dr. Feis: Denmark has probably gone further in a progressive way than any other country in land distribution.

HM, Jr: You don't mind my saying it?

Dr. S: Oh, no; Mr. Secretary.

Ambassador: You are right, Mr. Secretary.

(At this point the proposed statement was submitted to the Ambassador, Dr. Suarez, HM, Jr and Dr. Feis.)

HM, Jr: Herbert, that word 'arrangements.'

Dr. Feis: I am afraid of the word 'assuring'.

-12-

HM, Jr: I don't like 'arrangements have been made further assuring'.

Mr. Gaston: How about 'to promote'?

Mr. Oliphant: 'Looking to the continued stability'.

Dr. Feis: 'Arrangements have been made whereby the Mexican Government may carry forth'. Of course, as you have just said to the Minister, this is their problem. We are not in position to carry any large measure of solution.

Mr. Gaston: This is a mutual question -- the peso-dollar exchange, which is a 50/50 operation. 'Looking to the future stability', I think that covers it. That's all right.

Ambassador: That's all right.

Dr. S: Yes. That's all right.

HM, Jr: Would you like to see the newspaper men here; give it out here?

Dr. S.: They are not here.

HM, Jr: We can get them up here in five minutes. Is that too fast? Do you want to think it over? Why not let them come up.

Dr. Suarez: Yes.

(Miss Chauncey left to have typed copies of the press release for the newspaper men. Transcript of press conference is attached.)

Secretary Morgenthau and Minister of Finance Suarez announce that they have reached a mutually satisfactory understanding on common problems before the two Treasuries.

Arrangements have been made <sup>looking to</sup> ~~further assuring~~ the continued stability of peso-dollar exchange, thereby facilitating orderly exchange transactions.

Likewise, mutually satisfactory arrangements have been made with regard to Mexican silver.

December 31, 1937

Secretary Morgenthau and Minister of Finance Suarez announce that they have reached a mutually satisfactory understanding on common problems before the two Treasuries.

Arrangements have been made looking to the continued stability of peso-dollar exchange, thereby facilitating orderly exchange transactions.

Likewise, mutually satisfactory arrangements have been made with regard to Mexican silver.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Friday, December 31, 1937.

Press Service  
No. 12-5

Secretary Morgenthau and Minister of Finance Suarez announce that they have reached a mutually satisfactory understanding on common problems before the two Treasuries.

Arrangements have been made looking to the continued stability of peso-dollar exchange, thereby facilitating orderly exchange transactions.

Likewise, mutually satisfactory arrangements have been made with regard to Mexican silver.

--00--

December 31, 1937  
Press Conference.

10:50 am

Ambassador Najera  
Minister of Finance Suarez  
Mr. Oliphant  
Mr. Lochhead

HM, Jr.: The Minister of Finance of Mexico and I have this very brief statement to make.

Q. Are there any new arrangements?

A. Yes, there are.

Q. Could you give us a little more detail?

A. I can't, unless Dr. Suarez wants to go into it. It's simply that we have been working together for several weeks and we have been able to work out just what this says. I really have nothing to add to this unless Dr. Suarez wants to.

Dr. S.: No, sir.

Q.: Mr. Secretary, could you give us some idea of the mechanics of it?

A.: No. I think you gentlemen will just have to take it on good faith.

Q.: Will you tell us what the present exchange ratio is?

Dr. S.: 3.60

Ambassador: 3.60 pesos to a dollar.

Q.: Might we ask, Mr. Suarez, if the Mexican Government has a stabilization fund?

Dr. S.: Yes; Bank of Mexico.

Q.: How large? Could you tell us?

-2-

A.: No.

Q.: Is that a new fund?

A.: No.

Q.: You have always had it?

A.: Yes.

Q.: May we assume, Sir, that by "continued stability" refers to keeping exchange at this ratio?

Ambassador: That's right.

HM,Jr: Yes.

Q.: Mr. Secretary, regarding the last paragraph, on silver, does that refer to a longer term than January?

A.: This refers to a particular transaction which is taking place today; a particular purchase; we have just concluded a purchase today.

Q.: Could you give us the size of that?

A.: No, I am sorry; I can't.

Q.: Was that made necessary in connection with the solution of the stabilization arrangement? The purchase of silver today was not in line with the general purchase proposals, but in line with the stabilization settlement that you reached today?

A.: Maybe Dr. Suarez wants to answer that.

Dr. S.: That's true.

Q.: You could not give us the amount.

HM,Jr: Not this year.

Ambassador: Next year.

HM,Jr: Manana; manana.

Q. Can you tell us if an arrangement has been made beyond January?

-3-

A.: I touched on that with both Canada and Mexico. We have extended exactly the same arrangement for 1938 -- no exception; no change; simply an extension in 1938 of the agreement as it existed in 1937, for both the Republic of Mexico and Canada; an extension of exactly the same agreement.

Q.: Month to month basis?

A.: It always was. Exactly the same. It always was on a month to month basis for both Mexico and Canada and ourselves. It has always been on a month to month basis.

Q.: But this peso-dollar exchange agreement today is something entirely new. You have not had a similar agreement.

A.: Yes, we have.

Q.: Identical?

A.: With the exception that the previous one was silver. This includes gold.

Dr. S.: Do you want to say we have had such an agreement before and this is an extension.

HM, Jr: I would rather not. I would appreciate (speaking to the press) if you would not say anything on that. They won't (speaking to Dr. Suarez); they are nice men.

Dr. S.: I am very happy about this.

Ambassador: This is good.

oOo-oOo

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Friday, December 31, 1937.

Press Service  
No. 12-5

Secretary Morgenthau and Minister of Finance Suarez announce that they have reached a mutually satisfactory understanding on common problems before the two Treasuries.

Arrangements have been made looking to the continued stability of peso-dollar exchange, thereby facilitating orderly exchange transactions.

Likewise, mutually satisfactory arrangements have been made with regard to Mexican silver.

---00---

CAUTION - FUTURE RELEASE - The following PROCLAMATION BY THE PRESIDENT is for publication in newspapers appearing on the street NOT EARLIER than 9:00 P.M., Eastern Standard Time, Friday, December 31, 1937. Until that hour has arrived it must be held COMPLETELY CONFIDENTIAL; that is, no intimation of its contents may be given to anyone not connected with the working staffs of newspapers or press associations. This advance copy is made available only on that understanding and with the further stipulation that it MUST NOT BE TRANSMITTED by telegraph or telephone to newspaper offices or to press association clients before 8:00 P.M., Eastern Standard Time.

RELATING TO NEWLY-MINED DOMESTIC SILVER

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, by Proclamation of the twenty-first day of December, 1933, as modified by Proclamations of the ninth day of August, 1934, and the tenth and twenty-fourth days of April, 1935, the United States coinage mints are directed to receive for coinage and addition to the monetary stocks of the United States silver mined subsequent to December 21, 1933, from natural deposits in the United States or any place subject to the jurisdiction thereof; and

WHEREAS, such Proclamation as so modified states in part that:

"This proclamation shall remain in force and effect until the thirty-first day of December, 1937, unless repealed or modified by Act of Congress or by subsequent proclamation." and that

"Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this proclamation as the interest of the United States may seem to require."

NOW, THEREFORE, finding that the interests of the United States require further modification of said Proclamation of the twenty-first day of December, 1933, as so modified; by virtue of the power in me vested by the Act of Congress cited in said Proclamation, and other legislation designated for

- 2 -

national recovery, and by virtue of all other authority in me vested:

I, FRANKLIN D. ROOSEVELT, President of the United States of America, do hereby further modify the said Proclamation of the twenty-first day of December, 1933, so that the same shall remain in force and effect until the 31st day of December, 1938, and so that the amount of deduction for seigniorage, brassage, coinage and other mint charges from the monetary value of silver delivered thereunder which has been mined on or after January 1, 1938, shall be 50% of such monetary value; and I do proclaim and direct that, with respect to all silver received by a United States coinage mint under the provisions of the said Proclamation of the twenty-first day of December, 1933, which such mint, subject to regulations prescribed hereunder by the Secretary of the Treasury, is satisfied has been mined on or after January 1, 1938, from natural deposits in the United States or any place subject to the jurisdiction thereof, the deduction for seigniorage and services performed by the Government shall be 50% and there shall be returned therefor, in standard silver dollars, silver certificates, or any other coin or currency of the United States, the monetary value of the silver so received (that is, \$1.2929 $\frac{1}{2}$ , per fine ounce), less such deduction of 50%, and that the said Proclamation of the twenty-first day of December, 1933, as heretofore and hereby modified shall remain in force and effect until the 31st day of December, 1938, unless repealed or further modified by Act of Congress or by subsequent Proclamation.

Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this Proclamation as the interests

- 3 -

of the United States may seem to require.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done at the City of Washington this 30th day of December, in the year of our Lord nineteen hundred and thirty-seven, and of the Independence of the United States of America the one hundred and sixty-second.

(SEAL)

(Signed) FRANKLIN D. ROOSEVELT

By the President:

(Signed) CORDELL HULL

Secretary of State.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 31, 1937, 5 p.m.

NO.: 1794

FROM COCHRAN.

By 527 votes against 85 Chamber early this morning voted 1938 budget on second reading following approval by Senate yesterday. Finance bill contains requirement for taxpayers to declare location and numbers of their and their families' bank accounts. Final action by both Chamber and Senate on budget and financial law expected during tonight's sessions.

Over-counter exchange trading by banks was light today. French control had to continue to give sterling to hold rate to 147.30.

Pessimism felt in banking circles over outlook in view of necessity for heavy borrowing on the part of the Government, the unsettled labor situation, and the possibility that attempts to solve labor problems will bring out political differences.

BULLITT.

EA:LWW