

REB

GRAY

London

Dated October 11, 1938

Rec'd 3:45 p. m.

Secretary of State,
Washington.

1160, October 11, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The dollar has continued bid today and British security markets uncertain. First effective business was at 4.75-3/4 the rate later going to 1/8. The British authorities gave support and pushed the rate to 4.75-1/2 prior to gold fixing despite considerable pressure. They supplied most of the 398 bars at fixing at 146 shillings 1-1/2 pence. Inasmuch as during the fixing period it appeared that the price would be at 146 shillings 2 1/2 pence, it can be assumed that the British authorities made available somewhat more gold than the market required in the hope of checking if not changing the immediate trend. The dollar did move to 4.75-15/16 and later, upon the opening of New York, to 4.75-1/4 but the demand then increased and the rate moved back to 4.75 bid with British authorities again supplying dollars.

In

REB

GRAY

Berlin

Dated October 11, 1938

Rec'd 4:10 p. m.

Secretary of State,

Washington.

540, October 11, 7 p. m.

NO. 20 FOR TREASURY FROM HEATH.

Marshal Goering in his capacity as chief of the four-year plan this afternoon decreed that Czech currency in Sudeten hands could be exchanged for reichmarks at the rate of 12 pfennigs for one Czech crown. The recently prevailing official rate of exchange has been one Czech crown equals 8.6 pfennigs of a reichmark. Thus there has been an overvaluation of Czech currency in circulation in the Sudeten area of approximately 40% presumably to bring Sudeten wages in line with wages in the Reich.

WILSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 11, 1938, 5 p.m.

No.: 539.

No. 19 FROM HEATH FOR THE TREASURY.

I have been making an attempt during the past week to try to find out whether, along with the acquisition of the Sudeten area, the German Government would try to arrange with Czechoslovakia for something in the nature of a customs union. There was a story in yesterday's NEUEZÜRCHER ZEITUNG to the effect that this was the Federal State plan. I therefore had a talk with Bergeman who ~~has~~ ^{has been} prominent in the present economic negotiations with the Czechoslovaks; Bergeman is chief assistant to Dr. Brinkmann in the Ministry of Economics. According to Bergeman no definite decision had been reached in the matter. However, he admitted that in certain quarters, among them he mentioned ^{is} the Reichsbank, the idea was being promoted. His only concern at present, he insisted, was to arrange some temporary customs arrangement with Czechoslovakia to permit for "some weeks longer" the continuance of "the arrangement" existing between Czechoslovakia and the Sudeten industries. Certain Sudeten industries do export ~~export~~ the greater part of their production,

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production, he said, but on the average, he thought they depended on the internal market in Czechoslovakia for forty or even fifty percent of their sales. The Sudeten region, on the other hand, was highly dependent on foodstuffs and raw materials from Czechoslovakia.

The assertion has been made ~~that~~ by a British delegate on the subcommittee set up by the conference here to deal with economic and financial questions arising from the cession of the Sudeten region, that the Czechs, in direct negotiation with Germany, have already offered for a period of nine months or even longer free trade or a modified customs arrangement. Naturally, however, the stipulation had been made by the Czechs that products of Germany would not receive the privilege of custom or preferential tariffs which would be granted to Sudeten products going into Czechoslovakia. It is reported that the Germans peremptorily refused this offer. The Germans it is said replied that a customs barrier between the Sudeten district and Germany could not be considered.

In the opinion of the British delegate^{and the committee}, this refusal by the Germans was an attempt on the part of Germany to make Czechoslovakia take the initiative in asking Germany for a customs union. The British delegate further understood that there was insistence in certain German quarters

that

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that a currency union or special monetary arrangement would have to go with a customs union.

Should there be no currency union, it is obvious that if free trade between Germany and Czechoslovakia were established, Czech industry would enjoy greater advantage thereby than German industry, since in Germany prices are higher and there are higher tariffs and quantitative protection in the German market, and Czechoslovakia would offer to Germany a market which is smaller and less protected.

It may be interesting to note that Bergeman insists that no prior plans or studies for the economic administration or absorption of the Sudeten region had been made in the Ministry of Economics.

According to the British delegate mentioned above, negotiations have been most unpleasant in the economic subcommittee. The Czechs, he declares, have shown readiness to make every concession and have in fact gone back from their original stand and said they were willing to return to the ceded territory a proportionate amount of railway rolling stock. The British delegate states that Ritter, the German representative on the committee, has received these concessions most grudgingly.

THE FOLLOWING IS STRICTLY CONFIDENTIAL -

It has just been reported that Ritter, who was German Ambassador to Rio de Janeiro and is in Germany on leave,

has

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has been declared persona non grata by the Brazilian Government. It is said that the Czech delegates are inclined to believe that Ritter's demands in the committee have been so firm because he wants to rehabilitate himself by "winning" the negotiations in the committee - thus compensating for the personal defeat suffered by the request for his recall on the part of the Brazilian Government.

Information has also come to me that the Czech and the British and French representatives on the subcommittee hope that they can win compensation for concessions made heretofore by the Czechs by persuading the Germans to agree to some payment for real property of the Czechoslovak Government taken over with the ceded area by the Germans.

WILSON.

SOCIAL SECURITY BOARD
WASHINGTON, D. C.

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October 11, 1938

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

Dear Mr. Secretary:

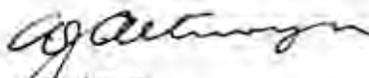
I thank you for the letter of October 3, 1938, from the Honorable Wayne C. Taylor, Acting Secretary of the Treasury, stating that the Treasury is willing, under certain conditions to maintain balances of Treasury funds in banks handling benefit payment accounts of State unemployment compensation agencies, as a means of compensating the banks for their services in connection with these accounts.

The Board considered the Treasury's letter of October 3 at its meeting of October 7, and approved of the arrangement and conditions stated therein. The Board directed (1) that its Bureau of Unemployment Compensation cooperate with the Division of Deposits, Office of the Commissioner of Accounts and Deposits, Treasury Department, in all matters relating to the procedure to be set up for the proper administration of this arrangement; and (2) that all State unemployment compensation agencies be informed of the arrangement by a letter supplementing former instructions to these agencies concerning the Board's policy in the matter of compensating balances.

The Treasury's action in this matter is greatly appreciated by the Board. The arrangement which has been agreed upon not only largely eliminates a difficult problem concerning bank service charges in connection with benefit payment accounts, but is considered by the Board as a real aid in the Social Security program.

The Board desires to cooperate with the Treasury to the fullest extent possible in putting this arrangement into effect, and in the study of other questions concerning the handling of unemployment compensation funds, which may justify the Treasury's consideration.

Respectfully,


Chairman

GROUP MEETING

October 11, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Hanes
Mr. White
Mr. Gibbons
Mr. Upham
Mr. Bell
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Who's - Taylor and Bell - one or the other has the details on this R. F. C. thing - three hundred million dollar note- the two of you take it and carry it - fix it up.

Bell: Is it all fixed? I didn't know anything about it.

H.M.Jr: All we did was say there'd be - while shaving, it seems to me that Mr. Eccles is just a little bit twisted, if I understood corectly, but you told me he said he didn't want - he wanted the thing paid off in cash?

Taylor: Just the other way.

H.M.Jr: I think that is what I understood you to say; I couldn't understand you.

Taylor: He said there should be an exchange.

H.M.Jr: To pay off in cash, there would be rights; then, there is a new issue. Pay the maturing ones off and pay them off in cash. That closes that one and there is a new issue.

Gaston: The holders would only get their quota then, on the issue.

H.M.Jr: I mean, that is what you told me what he said.

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Taylor: I said he recommended an exchange.

H.M.Jr: No. Well anyway, the thing to do is not to pay off in cash.

Taylor: That's right.

H.M.Jr: And offer an exchange.

Taylor: That's right.

H.M.Jr: I don't know who's here

Gaston: Mr. Taylor said an exchange.

Taylor: I was raising my hand while you were talking to Jesse and saying "exchange."

H.M.Jr: The thing is exchange; not pay off.

Taylor: That's right.

Bell: Any cash?

H.M.Jr: No.

Bell: Have we any letter?

H.M.Jr: There's a letter which Mrs. Klotz will get, which he wrote me before, which is in the safe.

Bell: Coming from Jesse?

H.M.Jr: Yes; there's a letter from Jesse which will be answered, but you will need an additional letter. The story is he wanted cash. He says - he doesn't say it in so many words - "I won't play unless you reduce my interest rate," so he agreed that he wouldn't have any cash; then he goes home and writes me a letter - "The Board of Directors want to borrow five hundred million." So I didn't want to be in a position to have his Board say --- and so forth, so in order to do what's good for the Government, I am going to go part of the way; I'll reduce his interest to one per cent. Does he pay it semi-annually or quarterly?

Bell: Semi-annually.

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- H.M.Jr: Well, then, this period it will be one per cent.
- Bell: From July 1? We never did settle that; remember, we brought it up in May?
- H.M.Jr: Three hundred million, and then you fellows could discuss whether there will be an adjustment on the interest or what.
- Bell: Is this a different date?
- H.M.Jr: They mature on the fifteenth of December.
- Bell: You want to advance
- H.M.Jr: I think this thing - pay them their interest till the fifteenth, and they can cash it just
- Bell: That will depend on what rate you give on the new.
- H.M.Jr: Also can you still make it three years and stay within the legal limits of the R. F. C.? All I'd like to have to do is to consult with you fellows as to - I think it ought to be a three, and then the rate, and all the rest, if you fellows would carry the ball, so I could forget it.
- Bell: All right.
- H.M.Jr: O. K.?
- Olyphant: Better take another look at that three year thing, Dan.
- Bell: Yep.
- Taylor: April, '42, isn't it?
- Bell: I think it's January, thirty- - '42 that it expires.
- H.M.Jr: Dan, Aubrey Williams is coming in to talk to me about this Self-Help thing. Read these two letters, and you'll understand. I thought that we might meet five minutes ahead of his coming, if you and McReynolds would meet with me.
- (Speaks aside to Mrs. Klotz.)
- Will you tell Miss Lonigan to be here at ten thirty-five, so she can post me.

(Speaking very low) What Hopkins told ... his organization responsibility he didn't want to have anything to do with it. Lonigan tied it up. Hopkins said, "No strings attached." designated some one person over there as their agent - disburser - and let it go at that.

She may be seeing an unnecessary barrier, but

McReynolds: (Speaks too low.)

H.M.Jr: So if you have her come in at ten thirty-five, and then after that we'll talk to him, about where he's supposed to go after it, see?

Bell: Yes sir.

H.M.Jr: You, Mac, Lonigan, and me. Anything else, Dan?

Bell: No, nothing particular. If you've got any time there's a letter you might want to read, sometime - an interesting document.

H.M.Jr: O. K. Is that the Maguire that used to be so active - Advisor - Economic Advisor to people - delegates?

Gaston: Dr. Constantine.

Bell: That's the man. He was interfering a few years ago in the Department of Commerce. He isn't an economic advisor.

Gibbons: to everybody?

Bell: It's interesting.

H.M.Jr: What else?

Bell: That's all.

H.M.Jr: Cy, you want to appoint a new bank examiner?

Upham: That's on its way through to Mr. McReynolds; you have to approve.

H.M.Jr: Who is the person?

Upham: His name is Bailey - one of the men in this District.

H.M.Jr: Is he a good man?

Upham: He's one of Mr. Folger's recommendations. I think that he is.

H.M.Jr: You think he's a good man?

Upham: Yes.

H.M.Jr: All right, get Mac together and I'll sign it.

Upham: Thank you.

H.M.Jr: What else?

Upham: That's all.

H.M.Jr: Everything all right?

Upham: Yes sir.

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: I saw the Matthew Wold letter on this.

H.M.Jr: What?

Gibbons: The Matthew Wold letter.

H.M.Jr: Yeah.

Gibbons: It's in Herman's office now.

Gaston: It's a new letter that arrived yesterday.

H.M.Jr: Well, I want time to go into that whole thing.

Gaston: You want to see this memorandum I have in course of preparation before it goes

H.M.Jr: to the White House?

Gaston: over?

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H.M.Jr: Yes.

Oliphant: Wouldn't it be possible to postpone the President's recommendation today? (Some words jumbled.)

H.M.Jr: It's postponed.

Gibbons: Did you get the copy of the speech I sent in to you by Senator Guffey? Moe Annenberg is suing him for libel. I just put a memo on it and sent it in.

H.M.Jr: (Low to Mrs. Klotz.)

Gibbons: He asked me to give it to you personally. It accuses Moe of being in charge of the Republican Party.

H.M.Jr: Is that libel?

Gibbons: It's the other things said about him being a murderer and tax dodger, and everything else.

H.M.Jr: I guess Miss Chauncey has it.

Upham: I hope you didn't see what Mr. Vandenberg said about the Treasury last night.

Gibbons: On the radio?

Upham: (Nods "Yes.")

H.M.Jr: I'd like to have heard it.

Upham: He said, "The insolvent Treasury, in the hands of spendthrifts who use jitterbug arithmetic."

Gaston: He gave a good imitation of Hitler; his tone of voice and everything was an excellent imitation of Hitler.

H.M.Jr: Really?

Gaston: Yes. That is, it didn't purport to be, but that's what it was.

Taylor: Same ups and downs?

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Oliphant: I couldn't understand it.

H.M.Jr: Harry?

White: Here's a memo here I received from the National Resources Committee, from Mr. Ruml; it's of interest merely if you want to know Mr. Ruml's view on the Budget. I can make an original copy if you like. Is that all right for you to read?

H.M.Jr: I'll tell you in a minute. (Looks at memo.) I can't read that.

White: I'll have a copy made. Here is (hands H.M.Jr. another memo) - there's one or two interesting items on there, that's probably already come to your attention.

The purchase of securities, as reported by the S. E. C. is the largest since, I think the spring of '37, for the week.

H.M.Jr: You mean from abroad?

White: Foreign purchases of American securities; and the other items are there.

H.M.Jr: I want to see you and Oliphant today at three o'clock. You - all right, Herman?

Oliphant: What time?

H.M.Jr: Three o'clock.

Oliphant: Three o'clock - O. K.

H.M.Jr: (Aside to Mrs. Klotz.)

You'd better be here too, Herbert.

Gaston: At two?

H.M.Jr: At three.

Gaston: Three. Thank you.

Hanes: You want to discuss the possibility of the Export-Import Bank making the loan directly to American companies, instead of to the Chinese?

- H.M.Jr: Yes. In talking yesterday with Sumner Welles, about if and when we get down to buying any products of the Chinese, I made this suggestion that for instance, if it was tung oil, that the Export-Import Bank help finance, let's say Archer Daniels, or Sherwin-Williams to do a two- or three-year purchase of tung oil. He said on that basis the State Department wouldn't be interested. They wouldn't care, so I think that is that. In other words, if the Export-Import finance the American manufacturers who use that, and they in turn want to make a three-year contract with China, where they were concerned, they wouldn't possibly object because they wouldn't have any interest. So I think if you people working on that, keep that in mind.. It certainly would be perfectly legal.
- Oliphant: The Johnson Act is involved, isn't it?
- White: That's another agency of the Government.
- Taylor: The Johnson Act doesn't apply to China anyhow.
- H.M.Jr: Well, we can finance Sherwin-Williams, or Archer Daniels, or W. R. Graves, or whoever they are. You got a clean copy of that?
- Hanes: Yes sir.
- H.M.Jr: I'm sorry, but old age is creeping on. I'll give it back to you by one o'clock.
- Hanes: All right.
- H.M.Jr: You and Taylor want to lunch with me today? Eccles is coming to lunch.
- Hanes: Sure.
- Taylor: (Nods "Yes.")
- H.M.Jr: Cy, you want to come?
- Upham: It's just if you want me.
- H.M.Jr: Well, you come; I haven't got you straightened out yet. In the mean time

Upham: You can omit me

H.M.Jr: So there will be one, two, three, four, five.

Upham: You're going to have to straighten me out pretty soon.

H.M.Jr: Yeah. Have they got you down the hall?

Upham: I haven't had time to resign yet; they're pressing me for my resignation.

Bell: On two salaries?

Upham: Oh, no.

Oliphant: That's what Kip said yesterday.

H.M.Jr: Who?

Oliphant: Kip.

H.M.Jr: Kip who?

Oliphant: Kiplinger.

H.M.Jr: What does he say about it.

Upham: He wasn't very accurate, I thought.

Gibbons: We ought to do something - he isn't going to have any Sunday morning breakfasts.

Upham: Mr. Gibbons is in the habit of being entertained with a Sunday morning breakfast.

Gibbons: What about that, Herbert?

Gaston: I think it's about time for the Acting Comptroller to give a Sunday morning breakfast.

H.M.Jr: Wayne?

Taylor: Here's that memo I told you about on preferred stock bonds by R. F. C.

H.M.Jr: Oh, thanks. Anything else?

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Taylor: (Nods "No.")

H.M.Jr: George?

Haas: I have nothing except this sheet from Tapp's organization on butter; that is a surplus commodity.

H.M.Jr: Good. I didn't get your business review Monday, did I?

Haas: It was sent in yesterday.

H.M.Jr: Huh?

Haas: It was sent in yesterday.

H.M.Jr: I haven't seen Miss Chauncey, so I guess that's the reason why.

Klotz: (Low - to H.M.Jr.)

H.M.Jr: I'd like to have that Monday noon. It just goes to Miss Chauncey; I haven't been doing my mail --

Haas: I thought that was the best way. I think she's been bringing it in to Mr. Kieley and said, "Bring it right in."

H.M.Jr: It would be terrible if it was on my desk. I think it should go to Mrs. Klotz.

I congratulate you, Herbert.

Gaston: You read the story in the Times?

H.M.Jr: The funniest thing I ever read. If everybody hasn't read the New York Times, be sure to do so.

Oliphant: Where is it; I looked for it?

Gaston: The story starts on the front page - all about the purge.

H.M.Jr: Everything in the heading is about the purge, but in the body it's all about our letter.

Gibbons: What did Herbert do? Did he take it up with Krock?

H.M.Jr: Herbert will tell you about it. Krock let him write it. Krock said, "You write what you want me to say," and Herbert wrote it. Fair enough!

Gibbons: Yes. I saw the headline but I didn't recognize it.

H.M.Jr: It's on the front page. I hope Mr. Sulzberger reads his paper; I don't know whether he does or not.

"Treasury officials stated today that a dispatch in the New York Times of Saturday morning, quoting Senator Sheppard's letter to Mr. Morgenthau, contained certain inaccuracies. The dispatch attributed to Senator Sheppard the conclusion that Treasury regulations 'were not consistent with the laws dealing with primary elections and with the Corrupt Practices Act.'"

I don't think the paper enjoys doing that. Well, that's that.

Gibbons: It's a swell job.

Gaston: I got from Irey, a very fine list of all these political investigations and resultant action; it's a very impressive list we can use, cautiously, because in many cases after the heat was put on they just resigned and as far as the record goes it is just a straight resignation.

McReynolds: (Inaudible) ... start at the time when Treasury officials were instructed to either get out of the Treasury or get off the National Committee, and from there on, the record of every investigation that we had made (speaking low)

Oliphant: It could be thrown into totals without names, and avoid the danger of libel.

Gaston: We can handle it.

H.M.Jr: Anything else?

Gaston: No.

Oliphant: Nothing. I'd like to speak to you about the silver thing just a minute.

H.M.Jr: O. K.

- (1) Washington Self-Help
(2) Status of funds for WPA for balance of year

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October 11, 1938

10:30 a. m.

Present:

Miss Lonigan (for part of meeting)
Mr. Bell
Mr. McReynolds
Mr. Aubrey Williams
Mr. Emerson Ross

HM, Jr.: What do you (Mr. Bell) know about this?

Mr. Bell: I know this: that under the Relief Act of last year, you remember, that all direct relief was under the Farm Security Administration and the allocation that was made last year was to the Farm Security Administration which, in turn, turned the money over to the District Welfare Association and then it was administered by the Self-Help organization.

This year, the Self-Help provision in the Relief Act is under WPA and also a provision that the WPA can prescribe rules and regulations in respect to administering any funds allocated by it to another department.

Now, they have always administered the funds of the Richmond organization, as I understand it, and now they want to bring this one into the same category as the Richmond one, making it a WPA organization and requiring it to be administered under rules and regulations of WPA. There is no department of the Federal Government which is sponsoring this project, so they want to control it rather than putting it in the hands of the District Welfare Association. Is that the story?

Miss Lonigan: I had one thing, if I may, and that is they control the Richmond project by inattention. They made no regulations for it.

Mr. Bell: But they are, this year, under the New Act. That is required under the Act.

Miss Lonigan: Yes.

HM, Jr.: This does not check with the orders Hopkins

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gave from this desk to his people, in which he said he did not want anything to do with it, give them the money, designate whoever the superintendent is, and let him spend it, but he did not want to make rules and regulations; that it was an entirely different philosophy and he did not want to have anything to do with it.

Mr. Bell: That was the attitude last year. They did not want any Self Helps.

Mr. Hopkins: That's the attitude he took a month ago. Talked about five people from this office. Took half an hour to do it. He said, 'I don't want anything to do with the Washington Self Help. That does not go with the one outside Washington, but as far as the Washington Self Help, I don't want anything to do with it.'

Mr. Bell: I don't see any reason why Williams can't allocate \$100,000 to the District Welfare Association. I think it can be done, just the same way Farm Security did last year.

HM, Jr: Who is head of the District Welfare Association?

Mr. Bell: The three Commissioners. Street is also on the Board.

HM, Jr: Is that the way they did it last year?

Mr. Bell: That's right. They don't administer it. It's administered by the Self Help.

HM, Jr: Would that be agreeable?

Miss Lonigan: Very good. Mr. Street has been very good.

Mr. McReynolds: Of course, Aubrey has a check for \$100,000 already cleared by the General Accounting Office, payable to the Washington Self-Help Exchange.

Mr. Bell: He's holding it up for the regulation.

Mr. McReynolds: Yes.

HM, Jr: But Hopkins said he did not want any regulations.

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Miss Lonigan: Mr. Williams has made it clear to a large number of people that he's opposed and it's a matter of internal struggle in WPA.

HM, Jr.: That was quite evident when Hopkins talked to his people, but if it is agreeable to Bell and this thing is all cleared through the Comptroller's auditing office, then why not carry out Hopkins' instructions that that check be handed over to one man in this office who will be designated as a representative of the WPA?

Mr. Bell: I suppose that's all right. They ought to know. I think that would be all right.

HM, Jr.: And then Hopkins said, 'I don't want anything to do with the administration. At the end of the year, we will take another look. If it's a success, all right. But I don't want the responsibility.'

Mr. Bell: What they are doing is putting it through as a WPA project without approval of the President. He has an allocation from the President putting it through as a WPA project out of their own funds, so we would not see it in the Budget at all.

HM, Jr.: Well, Dan, let me try it this way, the way Hopkins laid it down and evidently the way they have it now. What's the name of your superintendent?

Miss Lonigan: Hugh Cobb.

HM, Jr.: That they give this check to Cobb and designate Cobb as their agent.

Mr. Bell: I suppose that's all right.

HM, Jr.: Have you any objections?

Mr. Bell: I have no objections. They must have other projects somewhat similar.

HM, Jr.: I don't know whether they have or haven't.

(At this point, Mr. Aubrey Williams and Mr. Ross joined the meeting.)

Mr. Williams: Looks like a reunion.

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HM, Jr: Yes. Smells as though somebody was running out of money.

Mr. Williams: This is the right place to come.

HM, Jr: Has been so far.

Mr. Williams: I see Danny has a nice bright smile.

Mr. Bell: Yes. Just looking at excess of obligations. \$90,000,000 over their quota. That makes me smile.

Mr. Williams: The truth is he is probably very happy it's not more than that.

HM, Jr: Well, I will let him answer for himself. Pretty good at it.

Mr. Williams: Did you have a good trip?

HM, Jr: I forgot I ever had one.

Mr. Williams: You want to talk about Self-Help a little?

HM, Jr: Yes; would like to very much.

Mr. Williams: Mr. Bell is in on this to sign it.

HM, Jr: Yes. And Mr. McReynolds.

Mr. Williams: Well, you know the money is available.

HM, Jr: You got the check with you?

Mr. Williams: No. Dan has the check.

The question of our relationship with the people who are going to spend the money -- that's what I want to talk about.

HM, Jr: Sure! And I would like to listen.

Mr. Williams: All right.

We feel that we have a very definite and continuing responsibility for what happens to this money inasmuch as

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we are the public agency to which Congress has made it available and, on the other hand, we don't want to be attempting to tell the Board how it shall spend the money, but we feel very definitely that there ought to be a very clear-cut understanding and it ought to be in writing as to what the agreement is.

Now, there are three main things in there that I think we ought to present. The first is that the Washington Self-Help Exchange be required to make regular financial and statistical reports to us, reports on what they spend the money for, and the matter of the number of people assisted, and anything else that pertains to and is related to their money, so in giving an account of it we will know what's done. And we are prepared to give any help at all that you want in working up and assisting in those reports and so on.

The second, that we retain the right and that we regard it as our responsibility to audit the books of the Self-Help Exchange, just as we would do if it was the one in Richmond or the one in Los Angeles, and

Third, that the funds be made available on some agreed arrangement with you of either all at one or in installments or in such amounts as you all want at any given period. If you want so much each month, it's our feeling that it would fit in with our procedure better, the way we handle it in other cases of this kind -- to allow the money to go out in monthly installments, so much each month.

HM, Jr: You like that, don't you?

Mr. Williams: I don't know whether I like it or not, but I think some definite arrangement ought to be agreed upon.

Those are the main three things -- reports, financial and statistical; second, auditing of the books, and, third, an agreement on how the money is to go out.

HM, Jr: Now, when Hopkins took this matter up, about a month ago, and phoned five or six people in his office, he happened to be sitting at my desk and the phone here. And finally he talked to two women -- who is his assistant?

Mr. Williams: Mrs. Woodward.

HM, Jr: Yes. And her principal assistant?

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Mr. Williams: Miss Cronin.

HM, Jr: And he finally talked to Miss Cronin and this is what he said. He said, 'I don't want any responsibility for the Washington Self-Help.' He said, 'It's a different philosophy. I want to give them the money. I am telling you to give it to them.' And then he said, 'After the year is past, we will take a look at it and then decide whether we want to do it again.' And he said, 'I don't want any of the responsibility. I don't want them mixed up in our organization at all.' Then she asked some questions which I gathered had to do with other Self Helps and Harry said, 'Just Washington. I am not talking about any other. I want them to have that money provided the Comptroller General will say it's legal.'

But he was very emphatic. And he finally talked to his lawyer -- five or six people. Miss Cronin was quite argumentative about it. And I could tell. Finally Hopkins said, 'Well, I want this. I don't want any of the responsibility.' And he said, 'Give it to some one person over there and designate him as our agent and give them the grant and then let them go ahead.'

Now, I never discussed it with anybody since then and inasmuch as he finally, after being very patient and talked to at least six people over there, then he finally told Miss Cronin definitely what he wanted.

This man, Cobb, is the superintendent. As I understand it, that's the question that was raised, that he be designated as your agent; that you hand him this check, lump sum, and that then the books should be audited by your organization. I think that's proper.

Mr. Williams: That's right. Then he could make financial reports.

HM, Jr: He should make, I should say, monthly reports, number of people employed, so forth and so on.

Mr. Williams: That's all right.

HM, Jr: We have been, I think, running a set of books for them.

Mr. Bell: I don't think so. We went up there and

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set up a set of books.

HM, Jr: I think you are entitled to any reports you want.

Mr. Williams: We designate somebody over there.

HM, Jr: The person is Cobb.

Mr. Williams: Is there a Board?

HM, Jr: Yes. Who is the Chairman?

Miss Lonigan: Mr. Kaiser is Chairman of the Board of Directors. Hugh Kaiser.

Mr. Williams: Yes. Would you think it preferable to designate him, because the other fellow is more or less under the Board, isn't he?

Miss Lonigan: If there is any element of this having to become a WPA project, it might be impossible for him, for his business connections, for him to do that.

HM, Jr: Let's designate somebody as your agent.

Mr. Williams: Or designate the Board.

Miss Lonigan: Designate the whole Board?

Mr. Williams: Simply send the check to the Board and then we could work out with Miss Lonigan the matter of reporting and this matter of number of people assisted and the matter of how they want the money.

HM, Jr: Hopkins said give it all at once. By now I am very careful when I quote anybody. Hopkins said, 'Give it to them and I don't want anything to do with it.'

Mr. Williams: All at once.

HM, Jr: He said, 'Different Philosophy'. At the end of the year, we will take a look at it. If it is good work, all right; and if it isn't, let the record speak for itself.' But he was very definite: 'Give it all at once.'

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Mr. Williams: All right. And this other stuff can take place right within our stride with regard to financial and statistical reports.

Miss Lonigan: We publish reports.

HM, Jr: WPA is entitled to a monthly report.

Mr. McReynolds: Also entitled to audit the books. No question.

Miss Lonigan: It is all set up now.

HM, Jr: And if the reports they want are as complicated as some of the Treasury reports, you can ask them to give you a couple of people to run the books.

Mr. Williams: Give employment.

HM, Jr: Now, Miss Lonigan, I want peace at home. Is this all right?

Miss Lonigan: I think that if the reports are as described by Mr. Williams on expenditure and number of persons, they are available.

HM, Jr: And audit of the books.

Mr. Williams: All I want is, if they ask up at Congress 'what did you do', this is what we did.

HM, Jr: Sure. You are entitled to it.

Mr. Bell: How does that tie in with Treasury accounting reports? You say report to Congress. You haven't reported yet.

Mr. Williams: Not yet. The Treasury has done it. You haven't been there when we made all those long speeches.

HM, Jr: What about this, Dan?

Mr. Bell: Oh, I think it's all right!

HM, Jr: Did you mean you want to audit it?

Mr. Bell: No, I think it's all right. They will

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have to work it out with the Treasury Accounting Section.

Mr. Williams: If you want to take the responsibility, it's all right with me.

Mr. Bell: I just wondered what other books in the country you audit on this kind of grant.

Mr. Williams: We have a constant source of people going to audit this self-help, everywhere, but we don't audit State and Federal projects.

Mr. Bell: I think it's a good idea to audit.

Mr. Williams: And we audited all books on States on ERA.

HM, Jr: I think the books ought to be audited. Never occurred to me it had not been done.

Miss Lonigan: They have been by the District Government. I assume that an audit is an analysis of past expenditures.

Mr. Williams: That's right.

HM, Jr: Do you think this could be cleaned up this week?

Mr. Williams: Oh, just as soon as I go back to the office it will be finished. Today. If you will give me the name of the President of the Board we will have the check drawn to them and send with a letter of transmission.

HM, Jr: There's your own letter (copy attached.) It can be done today?

Mr. Williams: I can see no reason why not. How does he get the check? Do I send it to you?

Mr. Bell: I take it you have to make out a voucher. This is the same as a grant.

HM, Jr: All right, Dan -- what I have suggested?

Mr. Bell: It's all right with me if it can be

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done and I assume from Aubrey it can be done. I am talking about the check. You draw the check to

Mr. Williams: It is cleared by the Comptroller General and that's all I know.

Mr. Bell: Then that's all right. I thought you had to draw it to a local relief organization.

Mr. Williams: No, this money is being given to the Self Help.

HM, Jr: Harry called up his auditor from here. What's his name. If you mention it I would remember.

Mr. Williams: Holmes. The money is given to this Board. It's just a matter of our telling Holmes that this check is drawn.

Mr. Bell: You have to give us a voucher. That's all.

HM, Jr: Any other questions, Miss Lonigan?

Miss Lonigan: No, sir.

HM, Jr: All right, then. We will excuse you. When you get the check and it's good, we will celebrate.

Mr. Williams: Will we be invited?

HM, Jr: (To Miss Lonigan) But make sure the check is good.

(At this point Miss Lonigan left the Secretary's office, the others remaining.)

HM, Jr: Now, you fellows want to take us a little bit on the inside and do a little forecasting just for the balance of this calendar year?

Mr. Williams: We will be mighty glad to talk about our business.

HM, Jr: That's what I would like to know.

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Mr. Williams: The picture is about like this: with regards to money -- we got an appropriation of 1 billion 425 million; balances from prior Acts, 30 millions, making a total of 1 billion 455 million. From that there was deducted 98 millions -- 18 millions to Corps of Engineers, 6 millions to other Federal agencies and 20 millions for direct relief (clothing, etc.) up to now, making a total of 98 millions. That left 1 billion 357 millions. Of that, obligations have been 201 millions for July, 201 millions for August, 191 millions for September, making a total obliged to October 1 of 593 millions, leaving an estimated balance as of October 1 of 764 millions. Now, we have employed at the present time about 3 million 125.

Mr. Ross: Almost 3 million 130.

Mr. Williams: Costing us \$61.00 per month per man.

HM, Jr: Including everything? Overhead?

Mr. Williams: That's right. Labor \$52.50, Non-labor \$6.50 and administrative \$2.50, per month per man.

HM, Jr: Isn't that less for administration?

Mr. Ross: It has gone down to 56 - 57.

HM, Jr: It's 61 now?

Mr. Williams: 61.

HM, Jr: Does that make a difference -- for instance, employing people in the South? Your cost in the summer is less? Does the season make any difference?

Mr. Ross: Very little. You might find it costs a little less in the winter because they use less materials in the North, but it does not seem to make any material difference.

Mr. Williams: We have put a top on it, except in the South where it is right now, for the month of October, we have been -- and what we will have to spend up in New England on this disaster -- those are the only two places that we are allowing any increases. In the Midwest,

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everything east of New York -- as a matter of fact, New York itself, and everything north of Tennessee and Texas, including Texas, we have a cover on today that they are not to increase it during October. In the South we are still putting 100,000 to work -- the 200,000. We have about 100,000 at work and we are in process of putting the other 100,000 at work.

In New England there has been an increase in the last ten days and I think there will be a further increase during the next month. How much that will be, I don't know. We got a set of projects through which ran up to about \$15,000,000. How much of the \$15,000,000 will be spent, it's hard to say. That lumber situation up there, with all those billions of feet of lumber on the ground, is something that is difficult to gauge as to what it is going to mean in the way of WPA employment. We have taken the lid off in the last three or four days and allowed Silcox to move with complete freedom on fire control. Fires broke out in some States Saturday afternoon, but I don't think anything like the whole 13 millions is going to be used up there. I think what will happen is that our State Administrators will transfer men now employed on some things over to his end and actually increase in men put on and new money spent won't be anything like as great as some people thought would be.

Mr. McReynolds: Did Silcox give you any idea what utilization could be made of that down timber. It blew down almost equivalent to a natural year's cut of timber.

Mr. Williams: It's ten years' cutting of that country and estimated up as high as 5 billion feet and a minimum of 3 billion feet, 150 million feet of the finest kind of white pine in Federal forests. It's unthinkable that that lumber would be allowed to rot. It's got to be salvaged.

Mr. McReynolds: And it's a fire hazard as it is now.

Mr. Williams: But Silcox is right on top of it and plans are being worked out for such portions of it as belong to State and Federal Government. The other is being worked out in conjunction with Jesse Jones in developing cooperatives among owners and small land owners

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and mills, in attempting to establish some kind of arrangement to keep it out of the labor market and keep it off the lumber market.

The significant thing from the standpoint of our total situation is in that while employment is increasing, with a very excellent upturn in September

Mr. Ross: Estimated somewhere around 400,000 in September. We estimated on the basis of preliminary figures.

Mr. Williams: ... while that's true, and we are getting our share of those jobs, I am glad to say that we had a turnover, in September, of 190,000. 130,000 of those we know went into private industry.

HM, Jr: That's wonderful.

Mr. Williams: It has been going on that way for 7 or 8 months. We dropped 50,000 for reasons they were not doing a good day's work or for other reasons, and about 12 or 15 other thousand there that we think went into private industry, but we don't know that definitely. We know definitely about 130,000. And 12,000 went into other Government work, so we are having a great turnover. At the same time, the pressure on us is, well, I would say, Mr. Secretary, it's just as great as it has been any time, except in the most desperate period last winter. While there are some hopeful signs in the picture, such as waiting load is going down faster than it is increasing -- that part is fine -- we are hopeful that this is the first time in a year now that the waiting load has not been going up. It's going down and there is a diminishing of the number who are waiting, but the number who are waiting is still so great that any relief -- the fact that it is decreasing, when you still see 500,000 or 600,000 people, not to include the South or Northeastern States at all, but just in the industrial structure here in the Midwest and Northeastern, North Central States -- it does not give you much hope.

HM, Jr: You mean 500,000 or 600,000 who want jobs and can't get them?

Mr. Williams: Certified to us and we have nothing

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to give them. In the South, I don't need to tell you that this whole cotton control and farm restriction thing has resulted in thousands and thousands of people having absolutely no way of making a living and even conservative chaps and people like Bankhead are wiring us 'You have got to find some way to employ these people because you can't maintain the peace in Alabama and let this thing go on.' While I sum this up -- the figures come in; you just don't look at them. You know you can't do anything about it. For instance, on the basis of having a cash income upwards of \$180.00 a year, taking that as the base of your contending that those people would be entitled to some work during the year, two or three or four months, on the basis of that as your criterion, you get an intake of about 18,000 families who are immediately eligible under that plan of aid to people.

HM, Jr: Wallace has stopped feeding them. All that stuff I did last summer, that Surplus Commodities set aside \$70,000,000 to feed 3,000,000, is all stopped. Did you know that?

Mr. Williams: He is still buying commodities.

HM, Jr: Do you want to see what he buys? I get a report every week.

Mr. Williams: I certainly would be interested. If he stopped

HM, Jr: He stopped it the minute I left town. One of the most upsetting things that happened. I thought everything was fine.

Mr. Williams: That's news to us.

HM, Jr: They were going in a buying -- instead of buying cabbage and a few things like that, they were buying milk and flour

Mr. Williams: ... and butter.

HM, Jr: ... and butter. But the whole thing for three months has just stopped. That all throws more on you.

Mr. Williams: Their whole program is doing it.

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Isn't any doubt about it. I told him at the White House, I said, 'You have thrown on us 400,000 or 500,000 people.'

HM, Jr: There. You can see what they are doing. (Showed Mr. Williams last week's report of commodities purchased for relief purposes by Federal Surplus Commodities Corporation.)

You see where they changed -- they decided that they would dump on the world market 100 million bushels of wheat and that comes out of the same money. Thought they would export 100 millions and give an export subsidy and they are doing that instead of this.

Mr. Williams: That's the old Hoover stuff.

HM, Jr: We are right back. Sure.

Mr. Williams: I am glad you see that too. A lot of people are saying it.

HM, Jr: And the other answer is, if you take what's happening in the world cotton market through curtailing our crop, we have just handed the world cotton market to other countries. They are taking the market and we are causing unemployment here and getting 7 or 8 cents for our cotton. The damn thing just does not make sense.

Mr. Williams: All I know is we have these people on our door steps and for the first time in five years we have people storming our gates by the thousands. Now, we have got enough money left to go at the present rate, or at the rate of about 3,100,000 -- 3,130,000 to the first of February.

Mr. Bell: Using all your reserves? Using the \$175 million which was set up for an emergency? The President has to declare an emergency.

Mr. Williams: He has to declare an emergency, but I think

Mr. Bell: When does the emergency exist? You are eating into the emergency right now. Now, is the President going to be in a hole for declaring the emergency in December or January when the emergency was in

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July or August?

Mr. Williams: Well, as a matter of fact, I think it is brighter ahead than it has been behind. I think we would have less trouble by reducing between now and, say, February, if we can reduce at all-- I am not saying we can -- than we would have if we had tried to do it September and October. You see, 400,000 -- that doubted the thing. The increase in employment has been coming along since July. It is accelerating each month and it was Harry's position and hope that as FWA advanced and got its money going and as the effect of the money we were spending had its effect, that you would have a less difficult situation. I think the facts are bearing out his position right along, but the point is you have so damn many still there that you haven't done anything for.

HM, Jr: How long is this appropriation supposed to last them?

Mr. Bell: Supposed to last until February 28, but the President has authority to use \$175,000,000 for emergency purposes. The whole thing is set up on an average of \$175,000,000 a month.

HM, Jr: But the way they are going, including the \$175,000,000 emergency, when will it all be gone?

Mr. Bell: The first of February.

Mr. Ross: There is nothing involved about the \$175,000,000, except we are using it in seven months instead of eight.

HM, Jr: But boiling it down, you will use it in seven months instead of eight.

Mr. Bell: If the President declares an emergency.

Mr. Williams: If he declares an emergency and if we were to go on at the rate we are going. And another thing to remember about the \$201,000,000 figures, we purchased all that clothing during August. We were spending less than \$190,000,000 during those months.

Mr. Ross: A lot of advance purchasing done in

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June that had to be charged against July and clothing came to about \$10,000,000 on the August figures.

HM, JR: But I take it your roll-over on men is about 195,000 men.

Mr. Williams: Yes.

Mr. Bell: We put into the Budget summation an additional \$500,000,000 for WPA after March 1, or February 1, whatever it happens to be. That's still carrying an average of \$175,000,000 through the entire twelve months. Are we going to have to ask for more money on the five months?

Mr. Ross: Yes, it's running \$191,000,000, see?

Mr. Williams: To do that would mean a reduction in your rolls. We figured out this morning some things to show you what it would mean to get along even on \$800,000,000 or \$925,000,000.

Mr. Bell: You mean more?

Mr. Williams: Yes; new money. To get along on that, this is what you will have to do. You will have to cut

Mr. Bell: \$925,000,000 more instead of \$500,000,000 after February 1?

Mr. Williams: Even to do that, you have to begin reducing the rolls March 1. You have to start the machinery working the 10th or 12th of February, so you get down to 200,000 by the first of March. Then you drop 230,000 from March to the first of April. Then you drop 300,000 in that month, April. Then you drop 300,000 more.

Mr. Bell: What does that get you?

Mr. Williams: Gets you down to -- that would be 400,000 in May you would have to drop.

Mr. Ross: This is on the basis of the \$900,000,000.

Mr. Williams: Then it would be only 300,000 in May you would have to drop. Gets down to 2,300,000 to

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June 1. These are all first of the month. First of April 2,900,000; first of May, 2,800,000, first of June 2,300,000.

Mr. Bell: What does that contemplate living in? What sum of money?

Mr. Williams: Living within the sum of \$858,000,000.

Mr. Bell: In addition to what you have?

Mr. Williams: In addition to what we have. That does not include the \$50,000,000 that we are probably going to be asked to spend for Federal agencies instead of the \$60,000,000 we have been doing. That's \$50,000,000 to finish out the stuff they are doing, but brings you up to \$858,000,000 to get you through from February to July 1, even taking such drastic reductions as I have indicated.

Now, to reduce it any further, you would have to begin with the month of January, which is the dead of winter and which I just don't believe is in the cards to even attempt to do, or to slice it much heavier in March so that you, say, cut 500,000 out of the month which becomes a fairly arbitrary thing throwing people off projects. That's what that means. Whereas you might be able to do this in paralleling the industrial advance or somewhat paralleling it.

HM, Jr: Of course, since May the Federal Reserve index went down to 76. It's up now to about 80 and there is no reflection of what you people do at all in the production or the employment figures because I have studied it. You people are just going on your own. No relation.

Mr. Williams: That is not altogether true, but there is such an excess of need that you are right fundamentally.

HM, Jr: Just statistically.

Mr. Bell: How many people on the waiting list?

Mr. Williams: Outside of the South?

Mr. Bell: No. Why should you say outside?

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Mr. Williams: If you put 200,000 in the South as a minimum, then there is 800,000, outside of New England; taking New England, you have another story up there. It's hard to measure. Probably got 100,000 up there that are in just the most desperate kind of need. So you probably have got between 800,000 and 1,000,000 cases that are waiting for assignment right now.

HM, Jr: Let me see if I can get this picture, because I haven't got it. You haven't got something there that you have written out to show the rate of expenditure from now to February 1?

(Mr. Ross gave the Secretary the typewritten sheet attached, marked Exhibit I.)

HM, Jr: (Read the statement.) And then from February 1 on, have you got anything of what you propose to do?

Mr. Williams: Except what I discussed with you. If we were to cut the rolls by such figures as these.

(Mr. Williams gave the Secretary the typewritten sheet attached, Marked Exhibit II.)

Mr. Bell: Is that actual reduction through your own reductions or is it seasonal, that you usually get in the spring?

Mr. Williams: Depends, Dan. If you can get an upturn in business, I would think at least a percentage of those, probably 50% of those people, would find employment in private industry. Now whether a greater amount would find employment depends on the extent to what you can get an upturn in business.

HM, Jr: What I would like to do, in your presence, is this: I would like to write a letter to the President, in your presence -- don't know whether I want to sign it, but just fulfilling my obligations as fiscal officer, I say I would like to try it. I don't know whether I want to send it. Something like this:

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"My dear Mr. President:

Mr. Aubrey Williams and Mr. Bell and I had a conference today, as a result of which Mr. Williams informs us that the best estimate is that at the present rate they will spend all of their available funds, including the \$175,000,000 voted by Congress for emergency purposes, by the first of February.

He further informs us that his best estimate at this time is that WPA will need approximately \$900,000,000 to carry out their program for the rest of this fiscal year.

My purpose in writing you this letter is, first, to pass on this information and, secondly, to draw your attention to the fact that in order to spend the \$175,000,000, Congress directed that you declare a national emergency and I think you ought to give serious consideration as to the best time to make such an announcement."

Mr. Williams: What I think we ought to do, before you send that letter you had better sit down with Harry.

HM, Jr: Where is Harry?

Mr. Williams: He is here.

HM, Jr: Is he here? He is in town?

Mr. Williams: Read this letter to him. Talk this whole thing over with him.

HM, Jr: I did not know he was in town.

Mr. Williams: Because, after all, he wants you to have all the information we have.

HM, Jr: I would be delighted to sit down, wouldn't you?

Mr. Bell: Sure.

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HM, Jr: I always go back to the time when first the President put me here and I had the unpleasant duty to tell him that the people who were in the Treasury ahead of me withheld information from him and that the deficit would be 3 billions greater than he had been informed and I have always gone on the assumption that any information that I have, I should give to the President as fast as possible and he can do any damn things he wants with it. But if this thing is to be done without his declaring a national emergency and if this has not been called to his attention

Mr. Williams: I called it to his attention a month ago the rate we were spending.

HM, Jr: But does he know about this provision that he has to declare a national emergency?

Mr. Williams: Yes, it was arranged with him -- and another thing, Jimmie Byrnes -- you (Mr. Bell) remember the controversy

HM, Jr: Isn't this news to you (Mr. Bell) that they will be out of money the first of February?

Mr. Bell: Last Friday, I think it was, I asked Colonel Harrington how they were going, if they were going over the monthly expenditure. I could see the daily expenditure was. He said, 'Yes, we are going over,' and I said, 'Where are you going to get the money?' and he said, 'Out of the \$175,000,000 for February.'

HM, Jr: I saw Colonel Harrington two or three weeks ago. We went over to Herman Oliphant's birthday party at the Washington. And I asked him to come over and see me and I never heard from him.

Mr. Williams: I know Harry has told the President prior to making commitments on both the 200,000 for Southern people and also prior to a monthly quota, establishing a monthly quota, I forget which month it was, talked with the President and told the President the implications of doing it.

Mr. Bell: I don't remember the exact language of the Act, whether it says "national emergency" or

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just "declaring an emergency."

HM, Jr: It would be much better to do it in connection with the hurricane than to wait until Congress is here in January and then declare it.

Mr. Williams: Harry has asked us to get up a letter for the President's signature on the whole thing and I understood it was his intention to talk to the President this week and we have drafted the letter up for him, but I think what would be the best thing is for you to sit down with Harry.

HM, Jr: I have all the time in the world. Any time between now and Friday forenoon that he wants I am available.

Mr. Williams: And talk this out.

HM, Jr: I am available. You tell him I am available, just the way I told Harrington. And -- as always. And it's much better to keep Bell and me posted so that this thing does not come as a great shock and we understand it.

Mr. Williams: We have never been loath to tell our story, have we?

HM, Jr: No. ^{Mr. Williams:} But it isn't a very encouraging one.

Mr. Bell: No, I should think not.

HM, Jr: Not after the meeting we had with the President yesterday on the whole outlook, on the deficit, and in the story we didn't include anything like this.

Mr. Bell: No.

Mr. Williams: What you are going to do, if you are going to cut this thing 5 or 6 or 700,000 people a month, you are going to repeat the experience we had in 1936-1937 when we dropped the bottom out of the whole purchasing power.

Mr. Bell: I suppose there could be a difference of opinion on that.

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Mr. Williams: There was then.

HM, Jr: Who took the initiative on that?

Mr. Williams: As you remember, I don't want to bring up dead ghosts, I begged the President not to put in that amount of money in 1937. I told him it would wreck us and I begged him to maintain the figure up in his study that morning. He saw later. It was too late. The damage had been done. No doubt in my mind at all that the dropping of those million people and leaving them with nothing to eat and no purchasing power was immediately responsible for part of our trouble in 1937 and I think most everybody agrees to it now.

Suppose I tell Harry that we talked a little about this and that you would like to talk to him.

HM, Jr: That goes for you too, Bell, doesn't it?

Mr. Bell: Yes. I think that's fine.

HM, Jr: This is the first time -- and this thing of facing an additional request for another \$900,000,000!

Mr. Williams: I am not giving this to you as an official document.

HM, Jr: Oh, no! No! No!

Mr. Williams: I am just saying if you cut the rolls this much -- and as a matter of fact, I would rather let Harry bring you what he wants to bring you, because he might not take this position. Taking that as my estimate of the minimum figure of what you could get along on and what would happen if you didn't. That isn't his figure.

HM, Jr: I get you. This is just for my desk, that's all. As to what caused the 1936 and 1937 depression, it's a long story.

Mr. Williams: Yes, it is. And there is no one answer. I know that. But we are going to be immediately under the same kind of onslaught to fire these people wholesale and what they are going to do or where they

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are going to work -- take the 3 $\frac{1}{2}$ or 5 million people who lost their jobs last year. We have not put anywhere near as many as that number -- we probably put 1 million or $\frac{1}{2}$ million.

HM, Jr.: Let's look ahead. What are we going to do for the next two or three years?

Mr. Williams: I will tell you what I think you ought to do. I think you ought to develop a program of gradually tapering off this expenditure coupled with all the other expenditures of this character of the Government, so if you reach a peak the middle of March of a certain figure, Government deficit figure, that you gradually over, say, a period of 24 months, you bring that down to, say, zero, but that you don't allow the thing to be chopped right down as occurred before. Now here's the thing I see all the time. This is the most significant damn chart. It tells the story. Here's your Government expenditure. Here's your industrial production. Just get the parallel of that thing. Get what happens? If this expenditure up to, say, 400,000,000, if it is cut down like this, then private capital could be folded in and sustained. What we do is cut right down like that and then the bottom falls down.

Mr. Bell: Of course, that's the soldiers' bonus there. Taking out the bonus cuts expenditures.

Mr. Ross: The bonus is just this little peak.

Mr. Bell: That's what I say.

Mr. Ross: And what the trouble is, this is the net contribution. Half of it is due to increase in taxes and half to decrease in expenditures.

Mr. Bell: Net cash outgo; net cash contribution.

Mr. Ross: It seems to me that the really important thing is that the net contribution should not be cut down until you can show private capital investment coming up equivalently. Otherwise, you start out on a depression again. The danger is Federal expenditures get reduced arbitrarily without relating to what is happening to private capital expenditures.

HM, Jr.: We will spend 9 billions this fiscal year

and it looks as though we will spend another 9 billions the next fiscal year.

Mr. Bell: We have to be damned prosperous next year if you do.

Mr. Williams: If you sustain anything like -- you could even come down gradually, but if you maintain the same rate you undoubtedly would, according to people Dean Ruml, you would go up to a 78 or 80 billion dollar income.

Mr. Bell: If that theory is correct, then why don't we spend

HM,Jr: Who's they?

Mr. Williams: People like Ruml. They say your expenditures have a direct relationship -- and it's so easily proven -- to your national income and of course they go right back to 1932 and parallel it right on up and it's a damn convincing story.

HM,Jr: I would like to see some of Ruml's work. I would like to see it in writing.

Mr. Williams: Would you?

HM,Jr: Yes, I would. Ruml was over here the other day, he and Merriam, and ...

Mr. Williams: He wrote a piece the other day and I will get a copy and send it to you.

Mr. Bell: Harry White had something this morning that Ruml had on the Budget.

HM,Jr: White said 'Do you want to see something that Ruml has written. It was a fifth carbon and I asked to have it retyped.

Mr. Williams: We get a lot of stuff on this.

HM,Jr: Is Henderson still doing work for you?

Mr. Williams: No, he has stopped. He's over in Monopoly, but he's in our shop all the time.

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HM, Jr: But everything you have, I could get from him on economics?

Mr. Williams: Very much.

HM, Jr: I want to get the -- I would rather do business with Henderson.

Mr. Williams: I know Harry would 100% approve of Henderson talking to you.

HM, Jr: I would rather talk to him than those other boys.

Mr. Williams: I think Ruml has got some real stuff. He's up there with that big stuff. I find him very interesting. I think he has this thing figured out. He would give his shirt to spend a couple of hours with you.

HM, Jr: It's not worth that.

Mr. Williams: He wears good shirts.

HM, Jr: So I noticed. I don't think he gets them at Macy's.

You tell Harry that any time he can spare the time, Mr. Bell and I will welcome him with open arms.

How is he feeling?

Mr. Williams: Feeling all right.

HM, Jr: Grand!

oOo-oOo

WORKS PROGRESS ADMINISTRATION

Walker-Johnson Building
1734 New York Avenue NW.
Washington, D.C.

Harry Hopkins
Administrator

October 8, 1938

Mr. Hugh V. Keiser
President, Board of Directors
Washington Self-Help Exchange, Inc.
2529 Pennsylvania Avenue, NW
Washington, D. C.

Dear Mr. Keiser:

By letter dated September 15, 1938, you were advised that the matter of making funds available to the Washington Self-Help Exchange, pursuant to the Board of Directors' application for a grant of \$100,000.00, had been referred to the General Accounting Office.

You are now advised that the matter of the availability of funds has been cleared with the General Accounting Office and that funds will be made available as soon as this Administration can complete arrangements satisfactory to the Treasury Department as to the procedure to be followed in controlling and accounting for expenditures.

Sincerely yours,

AUBREY WILLIAMS
Deputy Administrator

October 10, 1938

My dear Mrs. Morgenthau:

Attached is a copy of the letter from Mr. Aubrey Williams, stating that our grant is being held pending approval by the Treasury of regulations for its expenditure.

It is clear now that Mr. Williams and Miss Cronin wish to establish a rigid system of procedures which will make it difficult for a self-help exchange to operate. It seemed possible that WPA might get routine approval of procedures by the Treasury, for matters concerning financing only, in a form which would make the whole set of restrictions appear to be required by the Treasury. That has been done before.

I called Mr. Keene in the Budget Bureau, and Mr. Bartelt in the Division of Accounts and Deposits, and asked them to read the procedures before any Treasury approval was given. They have "flagged" the project in their organizations, and directed that it be sent to them. This should bar the chance of routine approval of any important procedure requirements.

Very sincerely yours,

Edna Lonigan
Edna Lonigan *rl*

Mrs. Henry Morgenthau, Jr.
2211 - 30th Street, N. W.
Washington, D. C.

Exhibit I

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Status of WPA Funds
and
Estimated Employment

<u>FUNDS</u>	(Millions)
Appropriation	\$1,425
Balances from prior acts	<u>30</u>
Total	\$1,455
<u>Deductions</u>	
Corps of Engineers	\$18
Federal Agencies	60
Direct Relief, Clothing, and Other	<u>20</u> 98
Balance July 1	\$1,357

Obligations from 1939 Funds

July	\$201
Estimated August	201
September Authorized	<u>191</u>
Total Obligated to October 1	595
Estimated Balance October 1	764
Estimated cost of continuing present employment to February 1, 1939 (3,150,000 persons at \$61 per month)	764

Note: If employment remains at the present level, it would be possible to operate for a week or two into February by going into suspense.

October 10, 1938

Employment Possible with \$900,000,000
\$61 per man month

	<u>Employment</u>	<u>Costs</u> (millions)
February	3,130,000	\$ 191
March	3,130,000	191
April	2,900,000	177
May	2,600,000	159
June	2,300,000	140
		<hr/>
		\$ 858
Federal agencies		50
		<hr/>
		\$ 908

October 11, 1938

Tuesday
October 11, 1938
11:48 a.m.

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HMJr: Hello.

Operator: Mr. Moffett.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

James
Moffett: Good morning, Mr. Secretary.

HMJr: How are you, Jimmy?

M: Say ah - I had them all up here to lunch yesterday -

HMJr: Good!

M: And ah - we put the proposition up to all the
motor companies.

HMJr: Yeah.

M: Ford, General Motors and International and Chrysler;-
I overlooked one, the White Motor Company, but I'm
getting them into the picture so there'll be no
squawk. -

HMJr: Good.

M: And tomorrow being a holiday so ah - I am going
to give another luncheon and have the final thing
on Friday.

HMJr: I see.

M: Ah - we have to get some cables off to get further
information and that - ah - suited your Chinese
friends on Friday better than Thursday.

HMJr: Good!

M: So I hope by the first of week that we'll have
in your hand ah - what we think.

HMJr: Swell!

- 2 -

M: And I've asked them all to cut the price to the bone - that you didn't want them to make any profits if possible.

HMJr: Ah - how did the motor companies act?

M: They acted fine, very cooperative and all wanted to pitch in and help.

HMJr: And they've got - they've got the ah - the production - I mean they can - they can deliver?

M: Yes. Surely.

HMJr: What?

M: Sure, they can all deliver.

HMJr: Fine.

M: So that they're just working out the type - we'll need a little extra stronger rear axles and tropic radiators and a lot of those odds, but they're in normal stock.

HMJr: What kind of radiators?

M: They need an oversized radiator, what they call a tropic radiator.

HMJr: I see. But that doesn't -

M: They won't boil going over those mountains you know.

HMJr: I see. And do they need an extra low gear or not?

M: Ah - yes. They need a five gear; I can - I have a cable here from Hong Kong -

HMJr: Yes.

M: - that not more than two - not more than two and a half tons -

HMJr: Yes.

M: - equipped with the standard back axle -

HMJr: Yes.

M: - dual steel back wheels for high pressure oversize heavy duty tires -

HMJr: I see.

M: - heavy frame -

HMJr: Yes.

M: - reinforced springs - five speed gear box, low gear for mountain use -

HMJr: Yes.

M: And an oversize tropic radiator.

BMJr: I see.

M: So they're all working on it and I - we've given them word so they've been calling this and that.

HMJr: Fine.

M: And I think we'll have a good picture for you.

HMJr: Fine! Well thank you so much.

M: Thank you. I hope you're well.

HMJr: I'm fine. Goodbye.

M: Everything is pretty quiet around here.

HMJr: I see.

M: The oil people are all squawking a little bit because they cut the price of crude oil.

HMJr: Yeah.

M: Which I think was unfortunate.

HMJr: Yeah.

M: Well, all right then.

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HMJr: Thank you, Jimmy.

M: Goodbye.

HMJr: Goodbye.

October 11, 1938

Mr. Morgenthau had as luncheon guests Mr. Eccles, Mr. Hanes, Mr. Taylor and Mr. Upham.

The Secretary told Mr. Eccles that Frederic A. Delano, Chairman of the Natural Resources Committee, had mentioned to him upon two or three occasions the possibility of the appointment of a fiscal committee with representatives from the Natural Resources Committee and the Federal Reserve Board to advise with the Secretary of the Treasury and the Director of the Budget on budget matters. Mr. Morgenthau said that he had talked the matter over with the President and he was going to ask Mr. Eccles and one representative of the Natural Resources Committee to sit in with him and the Director of the Budget and make any suggestions that they wished. He described it as not a permanent arrangement but, using the President's figure, a one-season baseball pass which could be withdrawn at the end of the season. Mr. Morgenthau said that he was more than glad to have any helpful suggestions for dealing with the budget situation. Mr. Eccles said that he would be glad to contribute his bit and added that

- 2 -

his position is well known and that his interest is from the angle of Government compensatory spending to replace private spending.

Mr. Morgenthau said that he learned in a conference with Aubrey Williams this morning that at the present rate of spending, the WPA will be out of money by February 1st and will have spent by that time approximately \$150 million more than had been authorized by Congress. He said the situation was being called to the attention of the President by Harry Hopkins, thus making it unnecessary for him to advise the President.

Mr. Morgenthau asked Mr. Eccles if he had any need for a meeting of the Open Market Committee in connection with the financing that is to be done for the RFC November 1st, and Mr. Eccles thought not, that there could be informal conferences on that.

Mr. Morgenthau asked if the Federal Reserve had been kept informed on the situation with respect to the Anglo California National Bank, and Mr. Upham told Mr. Eccles that a committee of three directors had been appointed to take up the matter of making adjustments desired by the

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Comptroller's Office. He also told Mr. Eccles that a committee of nine members had been appointed by the Bank of America Board. Mr. Eccles commented that the Fleishackers had been engaged in crooked banking for twenty years and had built up their personal funds by side deals through which they profited at the expense of the bank. He said that what was needed was a man of good business experience to take charge of the bank and work out the bad situations and realize as much as possible on the poor assets that are there. He thought that preferable to taking out the assets for separate administration.

With respect to the Bank of America, he said that when he was in San Francisco recently, he had a talk with Giannini and advised him that what they ought to do is get together with the Comptroller's Office and do the things that are necessary to put the bank in proper shape. He surmised that the committee that has been appointed would be wanting to negotiate with the Comptroller's Office and thought that would have a desirable result. Mr. Upham told him that of course the Office of the Comptroller was going right ahead with the preparation of its case for action under Section 30 of the Banking Act of 1933.

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Mr. Eccles said that in the event it reached that stage, they would deputize someone to conduct a fact-finding hearing in San Francisco.

At Mr. Morgenthau's request, Mr. Upham explained to Mr. Eccles that the Office of the Comptroller is reestablishing in Richmond the office of Chief National Bank Examiner for the Fifth Federal Reserve District. Mr. Eccles seemed to think that a good idea.

Mr. Morgenthau and Mr. Eccles engaged in some discussion of the farm program, Mr. Morgenthau being of the opinion that it made the relief and budget situation very difficult to have a crop reduction program under way. Mr. Morgenthau pointed out for instance that the current relief load is heavier than anticipated because many more agricultural workers are being carried than ever before. The reduced acreage program in the South, particularly, has thrown many farm workers out of employment. The Agricultural Department program has also resulted in lower exports for wheat and cotton, further intensifying the difficulties. Mr. Eccles commented that of course an acreage program was ineffective because better farming on fewer acres resulted and produced as large or larger crops. In his opinion what must be controlled is the total quantity produced.

ooOoo

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P.S. Following Mr. Eccles' comments about the Fleish-hackers being engaged in crooked practices for twenty years, Mr. Taylor remarked "Then you think they are out on borrowed time now?" To which Mr. Eccles replied that he definitely thought so.

Upm

Tuesday
October 11, 1938
2:30 p.m.

HMJr: Hello.

Operator: Secretary Ickes is out of the city until November first.

HMJr: Well, ah - give me Mr. Burlew.

O: All right.

Ebert K. Burlew: Yes.

HMJr: How are you?

B: All right. I hope you are.

HMJr: I'm O. K. Ah - Burlew, I'm calling up about this garage that I was trying to get under the Treasury -

B: Yes.

HMJr: And McReynolds tells me that ah - it was passed, as I understand it, by Mr. Ickes but maybe the White House didn't like it - something like that?

B: Well now, (Laughs) you know, (Laughs) -

HMJr: Not to quote you, but just -

B: No. I know. Well, that's pretty much what I gave him to understand, yes.

HMJr: Yeah, for my guidance.

B: Yes, that's right. I told him we'd get something very - he - he judged that was it and that's a correct ah -

HMJr: Well, ah -

B: - interpretation of it.

HMJr: You don't know what the President's objection was?

B: No, I don't. But the Secretary told me that he had put it up to him.

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HMJr: Yeah. Well -

B: And now, we've done a lot of plugging on the thing here.

HMJr: Yeah. I wonder - just how I could - well, I'll - I don't need any papers to show the President, do I?

B: No. Oh, no.

HMJr: But you've got it, haven't you? And you've still got the money?

B: No - well, no - we've got - Oh, yes, yes - ah - unless it has been rescinded since then and I don't think it has; it was old money you know.

HMJr: Well I'll try to get the President to see it.

B: Yeah - you won't need anything - I'm sure he - I mean any papers because I'm sure he'll recall it; the Secretary talked to him about it.

HMJr: All right. Thank you.

B: All right, sir, you're quite welcome.

HMJr: Goodbye.

B: Goodbye.

13K 145
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Be sure to read
Oct. 17, final draft.

October 11, 1938.
3:00 p.m.

RE PROPOSED LETTER TO THE PRESIDENT
ON FOREIGN POLICY

Present: Mr. Oliphant
Mrs Klotz
Mr. White
Mr. Gaston

H.W.Jr: The first thing I want to talk about is the question of dumping on the part of Germany. And in reading what you (White) gave me very hastily, I couldn't see that the next move was up to the President. And that's what I wanted to discuss.

I have not read the Matthew Woll correspondence. I'm not familiar with it.

White: That's something else.

H.W.Jr: What?

White: That's something else.

H.W.Jr: But as I remember it, you made a statement - I may be wrong - that the next move was up to the President and had been so, and in reading the thing just very hastily, I did not get that impression. Maybe I'm wrong.

Oliphant: There's two matters pending.

H.W.Jr: All right.

Oliphant: One is the thing we took over to the President and he said, "Well, I'll put it in the middle drawer."

H.W.Jr: What's that?

Oliphant: That's the possible increase of 50 percent on the duties.

H.W.Jr: Yes.

Oliphant: That's under his power to increase by 50 percent the duties when he finds as a fact that any foreign country discriminates against the commerce of the United States.

-2-

H.A.Jr: Yes.

Opponent: Now, he has already found that as a fact - I don't know, 11 or 13 times or something, when he refused to give Germany the benefit of the various trade agreement rates as each one of these trade agreements came around. So that under present conditions it would be competent for the President to determine that it is in the public interest, in view of the already ascertained fact, to impose the additional duties provided in Section 338 of the tariff.

H.A.Jr: All right. Why should he do it? Why should he do it? I mean I'm going to take - I mean why should the President increase any duties anywhere where our great problem is to somehow or other increase the import of trade, unless we want to take all the gold in the world. If we're not - the only way I know to take less gold would be to take more goods or services.

Opponent: I think the only answer to that is a possible distinction

H.A.Jr: Possible what?

Opponent:distinction between trade from Japan and Germany on the one hand and trade with the rest of the world on the other hand.

H.A.Jr: Well, I still - I mean leaving out any likes or dislikes for the present German regime - I mean what argument have I got to go to the President and say, "You should increase all duties on German goods by 50 percent"? That's what I can't - I don't get it. I mean you can say the next move is up to the President, but - and so why?

White: Well, the law specifically stated that when he deems it in the public interest to do so, he should impose this duty. Now, apparently they felt that there were occasions in which it might be in the public interest to do so, since the facts are ascertained. Now you are raising the question, is it in the public interest to impose the duty? If you take the position that the more we import from Germany the more we export to Germany, which is a reasonable

H.A.Jr: I said from a world

-3-

- White: Well, if you take it from the world, the case is not so clear, because it is not at all clear that if you import more from Germany you will sell more to the world, because the German situation is peculiar
- H.A.Jr: Excuse me again. I'm talking about - I'm talking about looking at our picture of imports and exports. I mean to talk about raising our tariffs at this time to any country - I greatly question it.
- White: Unless there are special reasons for it.
- H.A.Jr: Yes. Now, why is it in the public interest to do it - that's what I'm asking - to do it in the case of Germany?
- White: The only reason would be entirely in the realm of the broader considerations, which you might well wish to set aside. The moment you say - if we don't wish to do anything against Germany as distinct from the rest of the world, then I think you have to continue the practice. That's why we didn't
- H.A.Jr: No, no, no, you don't - you're not - you're evading my question. I want you to argue with me why is it in the public interest for the President to increase tariffs by 50 percent in the case of Germany?
- White: Because they're discriminating against our trade and possibly by the imposition of that additional duty they - it may help them to abandon that practice and thereby in the long run increase our trade. That's the reason why the law was imposed.
- Wilmington: Now let's get it out in the open.
- H.A.Jr: Harry, he can't get the - go to the country on a statement like that.
- White: That's why it was put in the law.
- H.A.Jr: But you're fencing with me.
- White: I don't mean to.
- H.A.Jr: But you are.

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- Oliphant: Supposing I come in here tomorrow - I'll get it out in the open - I come in here tomorrow with a paper like this that's applicable to Japan.
- H.A.Jr: What?
- Oliphant: Supposing I come in here tomorrow with a paper like this applying to Japan and saying the President has authority and has already proclaimed it a number of times.
- H.A.Jr: In the case of Japan.
- Oliphant: In the case of Japan. Ask me why to do it. Because it would be decisive in the war of China against Japan. And I would do it in the case of Germany because it might very well be decisive in the struggle between that grisly thing in Europe and the sort of institutions we know about.
- H.A.Jr: If you're going to put it on that basis
- White: Remember, that's the basis you put it to the President on, because on every other basis he has not deemed it sufficient to do other than to deny them the privilege of sharing in the most-favored-nation privilege. He has not seen fit to apply this additional 50 percent duty, even though he has the power to do so.
- H.A.Jr: It's a waste of my time to walk across the street to tell the President of the United States to do this in the case of Germany or Japan because we don't like their type of government. Now if that's the only argument you got
- White: That plus the other argument, which is the argument for the reason incorporated in the law. Why was the law passed in the first place? It was passed in order to give the President a weapon with which to bring pressure against those countries that were discriminating against American trade, and the law says that when you find it in the interests of the community to do so, and when you find it as a fact that they are discriminating against you, then you can put a 50 percent duty on or even prohibit their trade. Now why did they say that? Because they didn't object to an increase in

trade, but they did feel that if he had a weapon of that kind he might be successful in subsequently increasing our trade by forcing them to abandon those practices. Now if you say there never is such a case

H. A. Jr: I didn't say ...

White: ... you're questioning the law.

H. A. Jr: No, no, I'm merely saying - no, I'm begging you people to give me a line of argument, and so far

Whipant: Well, this is the line ...

H. A. Jr: ... so far you haven't given me anything.

Whipant: I want to get back

H. A. Jr: You haven't given me anything - I read your memorandum and I've got nothing to go across the street and sell it to him. That's what I want. I go over and say, "Mr. President, I think the Japanese method of warfare and their conduct and their government are the most outrageous thing in history, and here you've got an excuse." He says, "All right, go over and see Mr. Hull." Mr. Hull says, "It's unneutral, I won't do it." There I am. I mean it's just

White: True.

H. A. Jr: I mean it's a waste of energy. I've been all - I mean unless you people... What I had hoped you'd say, what I'm begging you to say, is that it's illegal for the President not to act. See? Now if it's just a question of judgment, of mind, I can't get anywhere. But if you say to me that as Secretary of the Treasury the law directs me - if Germany or Japan do so and so, the burden is on the President to act, then I've got something to work with. But if it's a question of just - we don't - we don't want to see these two countries continue to grow, I've got nothing.

Whipant: Let me try marching up that from a different side. Now suppose you had a statute like this, that says that whenever the President shall find it is in the public interest to do so, then he shall advance a

credit of a hundred million dollars to China. Would there be any doubt about our advancing the credit?

H.A.Jr: What's that got to do with it?

Silpant: Well, that's what this is on the other side: if we're interested in not having to build a Pacific fleet, and all the rest of it.

H.A.Jr: Wait a minute. Let's get down to - what I'm finding out is that - is that there is no mandate from Congress. The President has the privilege

White: That's right.

H.A.Jr: He has the privilege of doing so.

White: That's definitely so - when he deems it in the public interest.

H.A.Jr: Yes, but it isn't - to use the example: if I refuse to buy silver tomorrow, I would be breaking the spirit of the Silver Purchase Act.

White: Or if you refuse to put a countervailing duty where a case of subsidy was found. That's mandatory. This is not.

H.A.Jr: Well, that's what I was trying to - that's what I thought.

White: Yes, but remember, when you went over with this document to the President, it was something else.

H.A.Jr: Now listen - and that was before the President made his statement at Hyde Park, in which he inferred that we weren't interested in doing anything about Europe. I mean everything was leading up - everything he asked us to do was to check the German empire and everything he asked us to do was to give him weapons, which we did. Then suddenly he makes this statement a week or two ago at Hyde Park - I can't - giving the world to know that as far as the United States is concerned, it's hands off. Now we've been all over that, and Czechoslovakia is gone, and for me to walk over there now with not only the horse gone but the barn gone

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White: I didn't know you were contemplating that.

W.S.Jr: This thing has been around here now - I get these different memoranda, and what I wanted to - what I wanted to satisfy myself was, first, as Secretary of the Treasury, is there any mandate on me to act under certain conditions, or is there any mandate on the President to act under certain conditions, see? One thing is to have the private, and the other thing is a mandate of Congress that he "shall" - just the difference of the Purchase Act, where we said "you may buy" or "you are directed to buy." Now what we got is "you are directed to buy."

Gaston: There's another

Oilman: I think there's an implied mandate on you.

W.S.Jr: All right.

Gaston: There's another line ...

W.S.Jr: I'm begging for it if you'll give it to me.

Oilman: I'll tell you what I think it is. I think it is your duty as officer in charge of the enforcement of the Tariff Act fully to apprise the President that under these circumstances he is authorized to act and that these are the reasons for his acting.

Gaston: There's another line - there's another line that's mandatory, and it depends on the judgment as to what are the facts in the case, and the facts are rather difficult, and that's that thing brought up by Mr. Woll; where you find that an effective - in effect a subsidy is being paid, you have to apply the countervailing duty. Now our people have said that in these indirect barter transactions there is no subsidy, but others think there is, and you can make a pretty good case for the statement that there is a subsidy being paid in these indirect barter transactions. Standard Oil sells petroleum in Germany and they get a price for it which is substantially above - the price that they get at Bremerhaven is a price that is substantially above the price they get at Antwerp. They get that paid to them in blocked marks which they can use for buying German goods. A good case can be made for the

assertion that that price that's paid to them - that extra price for petroleum is in effect a German export subsidy, although we have chosen to take the other side and say it isn't.

White: That's very true, but it's got nothing to do with what we're discussing.

Oliphant: That's quite a different thing.

H.M.Jr: That's a different thing.

Gaston: That's wholly different, but I say here's a line of action which

H.M.Jr: I mean I'll come to that at the end. I want to take up the Matthew Woll thing at the end. But what I'm doing is perfectly obvious. I'm trying to see, is there any good reason other than that you

Gaston: Political, sentimental.

H.M.Jr: Why you thought of the word sentimental - emotional.....

Oliphant: No. Highest considerations of statesmanship. Now, I mean that.

H.M.Jr: (Laughs)

Oliphant: I mean that. We're proposing - let me say that we're going to - we're proposing - we're working on a document the purpose of which is to state in terms of really high considerations of statesmanship why we should advance a credit to China. We're proposing to do that, aren't we? Now on that the statute is silent. Here you have a statute which speaks and speaks to a situation which the President has himself already found as a matter of fact to exist; on thirteen different occasions he has publicly proclaimed that Germany is discriminating against our commerce. Now that situation exists, and where the statute specifically authorizes him to act in the public good in that situation there is much greater reason for doing it than for marching up to the proposition that we're going to have a credit advanced to China. It's just a question of whether or not we're going to take issue with this thing and go

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down with our colors flying or

H.M.Jr: Well, the answer is, Herman, that we didn't.

Oliphant: Didn't what?

H.M.Jr: That we didn't take issue on this.

Oliphant: I mean "we" are the Treasury.

H.M.Jr: What good is the Treasury? We're not in foreign affairs.

White: Can't

H.M.Jr: I mean I've only got so much influence with the President. I can only influence him on so many things; it's a very limited number of things. And I go over and I know just exactly what would happen. He'd say, "Why, Henry, just don't be silly about this thing. This thing is ..." - he'd say, "I can't explain it to the man on the street."

White: I think you're right.

H.M.Jr: Or he'd say, "Go over and get Mr. Hull and Mr. Bayre to agree to this," when they're undoubtedly beginning now to think of a trade treaty with Germany. Listen....

White: I think the Secretary is right. He won't get to first base on it.

H.M.Jr: I agree with you a hundred percent, but it doesn't give me anything to sell to the President or Secretary Hull.

White: You would not get to first base.

H.M.Jr: In this room, I agree with you.

White: You might get somewhere on Japan, but on Germany you wouldn't get to first base.

H.M.Jr: Harry, why did I invite you people in? I invited you in to see if there isn't something to this, hoping that you'd tell me - that Mr. Oliphant would bring out a statute and say that every day I don't do this

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I'm breaking the law, or I'm breaking the spirit in which Congress passed this thing, or there was such and such a debate when this thing was passed which said so and so. But just to go on an emotional, spiritual basis over there, after what has happened and after the two notes they sent, plus the President's Hyde Park statement - it's just - it's just a waste of my time and it just - I lose my influence, because I like to go over

Witte: I'm afraid you're right.

Mr. Jp: What?

Witte: I'm afraid you're right.

Wilmington: You say you're not in foreign affairs. That's true....

Witte: I mean the whole situation...

Wilmington: The Secretary says he's not in foreign affairs. That's true. But you are the officer, it happens, in charge of the administration of the tariff law. That's very much your business.

Mr. Jp: What we're talking about - what Mr. Hull pleases to call the neutrality policy of this government. And he would immediately say that this flies in the face of that policy.

Witte: Of the neutrality policy? He would have a difficult time supporting that position. But I think the position that he might support is that the interests of this country demand that every effort be made to increase our trade with Germany, and that this would decrease our trade with Germany and the interests of the country are definitely opposed to any decrease of our trade with Germany. I mean he could take that position, and though I think a stronger case could be made on the other side, I think you're bucking too much at this particular time.

Witte: I don't think

Wilmington: I think if you let that leak out to Congress - the facts on which the President has on these 13 occasions proclaimed that Germany is discriminating against our

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commerce - let that leak out to Congress and Congress will slap the 50 percent duty on.

Winton: That would be a way to do it.

White: That's possible. It may come from another source.

H. Jr: That's all right.

Now may I just go on a little exploration - I'm educating myself as I go along -: in the case of Japan, as they take the territory, their policy has been to completely exclude American business men.

White: Not completely, Mr. Secretary.

H. Jr: Well, in Manchoukuo.

White: When you get down to cases, we know for a fact that there is a tremendous amount of discrimination. We have cleaned - gone all through all the State Department files, and it boils down to a batch of stuff that's just going to be on your desk in fifteen minutes. Some cases would make a satisfactory de jure case, but not many. There's a good deal of discrimination, de facto discrimination, but it's very difficult to get the evidence. But there's enough cases, I think to say ...

Winton: ...assume there is.

White: ...assume there is.

H. Jr: Just let's assume there is, or let's say we can get - send Customs agents over there to get enough. But what I'm thinking of is establishing a precedent. While we have put on these countervailing duties, I don't know that the President in any case has used this 50 percent increase of tariff against any country.

White: I don't know of any instance.

H. Jr: Make awfully sure, Harry. For Gosh sakes, make - make sure.

White: Yes. I never heard of it.

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- H.S.Jr: But if we could establish the precedent in the case of Japan, then it would be that much easier to do it in the other.
- White: That's possible.
- H.S.Jr: And if we haven't got the evidence, let's take a dozen Customs agents and send them over there.
- White: That is, once having made the case in Japan, by virtue of the realities of the political situation, in which the opposition would not be great - once having established that as a precedent, consistency might demand the same action in the case of Germany, which might arise from - demand of which may arise from any number of sources.
- H.S.Jr: and all you'd have to do is let it leak out that the facts are the same in the case of Germany and let the pressure be brought to bear on us to do it.
- White: Facts are much more obvious in case of Germany.
- H.S.Jr: But if we haven't got it, let's send a half dozen or dozen Customs agents over to - what is it - what do you call them, Customs agents?
- White: Treasury agents.
- H.S.Jr: Customs agents.
- H.S.Jr: Yes.
- Oliphant: It seems to me we're not giving enough weight to this fact: that the President has officially, repeatedly, publicly proclaimed that they are discriminating against our commerce.
- White: And why didn't he take that 50 percent - the privilege of imposing the 50 percent duty on the fifteen separate occasions. Clearly his answer would be that - "Because I don't deem it in the public interest, and I didn't deem it in the public interest."
- Oliphant: Because on none of those occasions....
- H.S.Jr: I'll ask you another one. Why didn't he do it as a deterrent when these people were thinking of doing - going to war, which is a much more difficult one to

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answer.

Walter: Of course, that was the logical time to have done it.

H.A.Jr: Yes. I mean that's what we gave to him, and he had it.

Walter: Well, I disagree that that was the logical time to do it. If he did it then, it was a very good reason for saying that you're trying to get into the European war situation. If he did it now, on the basis of these prior proclamations, the way it sits in the public mind is that you're trying to protect American commerce.

Walter: Well, there's another way of approaching this, Mr. Secretary, that would be just as effective. This particular thing doesn't have to come from the Treasury. Why can't it be - if there's some other channel to get to the President on this, to try it out, without taking the rap yourself... Let it come from private industry; let it come from - there are a number of sources from which it can be brought to the President's attention directly - that fact of discrimination.

H.A.Jr: Well, the Tariff Commission.

Walter: They might do it. I don't know whether they would or not; they might. But certainly it would come appropriately from them too. Or if you can't get them to do it - I'll find out. That's Fox.

H.A.Jr: Fox.

Walter: I'll find out whether ...

H.A.Jr: The Tariff Commission would do it.

Walter: If they would do it, it would be appropriate. If they can't do it, if they don't feel they can do it, it might come from importers.

H.A.Jr: Why don't you do this? Don't tell them at all how I feel or how I argue in this room. "What do you think of this situation? What do you think could be done?"

Walter: I'll see what their view is on the tariff question. I know them well enough.

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- H. M. Jr: You don't have to say what I think at all. "Here's a situation. What do you think you can do?"
- White: I'll give you their view on the problem, independent of anything that's going on here, within a day.
- H. M. Jr: Yes.
What's this, Herman?
- Oliphant: That's the thing he said we'd keep in the middle drawer. That's what we're talking about.
- H. M. Jr: What do I do with this? Give it back to you?
- Oliphant: Give it back to me.
- H. M. Jr: What's the story about Matthew Woll and his accusations against me?
- White: Shall I - do you want to
- Oliphant: The whole matter is subject to study.
- H. M. Jr: Which means what?
- Boston: Just what I said a few minutes ago, that the high prices they pay for American products they import are in effect a subsidy on the barter products that are later shipped out of Germany with those blocked marks.
- Oliphant: I think I could state it pretty briefly this way. After we decided that they couldn't use these depreciated marks in buying goods in Germany without it being a bounty, the question came up as to whether or not if they bartered or traded American goods for German goods - whether or not that would be a prohibited transaction, and the cases before us were these sorts of cases. Standard Oil Company shipped a lot of oil to Germany and exchanged the oil for harmonicas. And where the exporter in this country already owned the product and they sent it to Germany and really traded it for that commodity - now, we ruled at that time, and in the light of - and with those cases before us, that that did not amount to a bounty.
- Now, since then the practices have been extended in this sort of case. Here's a dealer in cameras in New

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York. He never had a pound of cotton, never saw a cotton field. And he wants to buy some cameras in Germany. He buys some cotton - goes through the motion of buying some cotton, and that cotton is sold to Germany; and with that money - sold to Germany above the world price, and with that money he buys the cameras. So that he really gets his cameras - a \$40 camera, we'll say, he gets for \$30.

Now, what the Department of - what my office now has under study is the question as to whether or not going through the form of a barter, which this latter thing is, as opposed to real barter, which the former thing is - whether or not that

H.L.Jr: That's pretty delicate - I mean isn't it? The decision?

Whipant: Huh?

H.L.Jr: That's a pretty fine thing.

Whipant: No more difficult than other questions that are regularly before the Department.

Gaston: I don't think those transactions, Herman - let me ask you, are they direct barter? I think in all the typical cases they sell their oil or their cotton, for instance, for marks and they get blocked marks for them at excessive prices, and then they are permitted to use those marks in buying goods in Germany at market prices and bring them to this country.

White: I think, Herman, Gaston has given the case clearly.

Gaston: So long as only one trader is involved

Whipant: Our conclusion may be that our original ruling with reference to barter was limited to real cases of barter, so that a man who - a cotton planter could send cotton to Germany and buy harmonicas.

White: Which he could use himself.

Whipant: Which he could play himself.

H.L.Jr: As far as that's concerned, you gentlemen aren't ready with your study.

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White: I don't know whether you can dispose of it satisfactorily in that way, unless you get a conclusion to your study pretty quickly, because I think the case a pretty weak one.

H.M.Jr: Which way?

White: The way we stand.....

H.M.Jr: For the cameraman?

White: ... unless ...

H.M.Jr: Or for us?

White: For us.

Oliphant: That's the typical pressure they put on the legal division to decide the cases that way.

H.M.Jr: Will you take it?

White: He's taken it all morning.

H.M.Jr: Well, the answer is, as soon as the legal department has consulted the oracle, they let me know.

Oliphant: As soon as we get through pulling down books and looking up law, we'll let you know, - uninfluenced by the economists.

H.M.Jr: O.K. Well, anyway, the thing isn't being held up by H.M.Jr.

Oliphant: No indeed. Nor by H.O.

White: Well, the second

H.M.Jr: Well, I just wanted to know, so I could tell Matthew Woll, if he calls me up on the phone, "As soon as the legal division advises me, I'm ready to act."

White: And that you expect a decision not too far distant.

H.M.Jr: By two o'clock tomorrow?

White: No.

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H.M.Jr: By two o'clock tomorrow?

White: Could give you one.

Oliphant: When you translate that into Greek, it's called "putting on the heat."

H.M.Jr: All right.

Now have you all seen this letter of Mr. White's?

All have not.

Gaston: I have a copy of it.

White: And Herman has.

H.M.Jr: I'll read it out loud.

"Dear Mr. President:

"I have found myself in the last few days continuously reviewing the past weeks of tension. I am greatly troubled, Mr. President. I have been troubled for a long time. I feel that now I must speak out.

"The events of the past weeks have with a shock brought home to me, as to all of us, the increasing explosiveness of the forces of aggression."

This is the letter which I've asked him to write on China.

"Since 1931 we have seen, succeeding each other with briefer and briefer intervals between, the fall of Manchuria and the military invasion of China, the conquest of Ethiopia, armed intervention in Spain, the annexation of Austria, the dismemberment of Czechoslovakia, and fomented unrest in the Near East and in Latin America."

Aren't there any other cases?

White: I think we included them all.

H.M.Jr: "All this has happened in seven years.

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"Seven years are not long even in our own lives. In the life of a nation they are terrifyingly short. Is there any reason, Mr. President, to expect that aggression will end there? Is there any reason to expect that the explosiveness of the aggressor powers will not be redoubled in the next seven years? These forces will not stop of their own momentum. The appetite grows on what it feeds upon. 'Fascism's demands' - I quote Thomas Mann - 'cannot be satisfied and quieted with concessions, but are thoroughly vague, indefinable, and boundless.' Japan at first wanted only Manchuria; then North China; now she will not be content with less than the whole of China. Italy wanted only Ethiopia; now she wants control of Spain and North Africa. Germany wanted only equality in armaments, then the Saar, then Austria, then Czechoslovakia, now colonies. The current claim of an aggressor power is always its last - until the next one. After China, the Asiatic mainland; after Spain, the Mediterranean basin; after Czechoslovakia, the Balkans, colonies, the Ukraine. Before it conquered Manchuria, the Japanese Government time and again publicly announced that it had no territorial designs on Manchuria. It said the same thing about North China before it entered North China, and repeated it for China as a whole before it entered the Yangtze Valley. On the other hand, innumerable unofficial and semi-official statements exist making clear that Japan's objective is not less than the domination of eastern Asia.

Similarly with Germany. Before it remilitarized the Rhineland it officially announced that it stood by the Locarno Pact. Before it took over Austria it had publicly recognized its independence. Before it dismembered Czechoslovakia, Germany had announced it had no territorial designs on Czechoslovakia."

This is swell, Harry; it's grand stuff.

"Now Hitler says he has no further territorial designs in Europe. Yet a reading of 'Mein Kampf' will demonstrate clearly that the steps he has taken up to now are all part of a wider program which involves further aggression and further expansion of Germany's area of control.

"And so too, Italy has proclaimed time and again that

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her intentions in Ethiopia were peaceful. Mussolini after his military victory in Ethiopia announced that Italy could henceforth be recognized among the 'satisfied powers,' yet within a few months we find Italy involved in Spain and North Africa, seeking to increase by force her sphere of influence.

"Is there anything that can stop the aggressors? You and I had hoped that the democratic powers of Europe and their allies would erect barriers to aggressive expansion. Recent events compel us drastically to revise this expectation. France is no longer a first rate power. England has resigned herself to a policy of further concessions to the aggressor. Democracy in Europe seems to have surrendered before the onslaught.

"We cannot lull ourselves into believing that the trend of events in Europe and in Asia will not affect us. What has taken place in Europe and in Asia has already begun to impinge upon every aspect of our national life.

"Our international trade is being forced into ever-narrowing channels. More and more areas of trade are being dominated by clearing agreements, barter practices, blocked balances, multiple currencies, and other devices which run counter to the trade policy the United States has been pursuing.

"The sphere of our trade agreements is contracting as the area of political and economic domination of Germany and Japan expands. We have seen what Japan has done with our trade in Manchuria and what she is doing with our trade in North China and the Yangtze Valley. We have seen that gainful trade agreements with Chile, Turkey, Greece, have not yet been possible because of practices imposed by Germany on trade with those countries. The value of existing trade agreements has been diminished by Germany's trade tactics. Our agreement with Czechoslovakia is now of little value. Our agreement with Brazil has worked badly. The possibility of future gainful trade agreements with the countries of Central and Southeastern Europe - Poland, Roumania, Bulgaria, Yugoslavia, Hungary, Greece, and Turkey - has now become negligible.

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"Likewise our trade with third countries suffers. The expansion of the aggressor nations strikes at our trade with countries who buy from us. Germany's resort to clearing agreements and barter devices is cutting heavily into Britain's exports in Latin America and elsewhere. England sells less and is therefore able to buy less, and so we find our business with third countries less than it otherwise would be."

Did you see that cable of Keynes' statement?

White: I did. I made a note to send it around. A very interesting idea. First case of a very able economist who has come out in favor of bilateral trade agreements. Very interesting.

H.M.Jr: Right in line with this.

White: It's forcing Britain's hand.

H.M.Jr: You might make a note - might even quote Keynes in here, see, because that's so fresh. What?

White: Very unusual statement for a first-rate economist to make.

H.M.Jr: Yes.

"Furthermore, third countries are driven to adopt trade practices which still further will reduce the area in which our exporters can freely operate. The behavior of the aggressor nations may far more than offset the gains to our trade resulting from our trade agreements program. I do not mean to imply that our trade agreements program has not achieved results. I merely wish to point out that these results are being vitiated by the policy of aggressor nations and that the continuation of the present trend may well see a complete disruption of the program.

"In the field of international monetary affairs likewise aggression has brought trouble. The weakness of the European currencies is enhanced by Germany's economic and political tactics. The value of the tripartite accord will be greatly impaired in the event of another serious decline in the franc. It is even doubtful whether the accord could survive such a decline.

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Nothing is calculated more to weaken the franc than the growing power of Germany. British opinion appears to be already crystallizing in favor of a lower sterling rate. Any further substantial depreciation of foreign currencies may serve to wipe out the gains from the concessions we have obtained in numerous trade agreements.

"Japan's invasion of China has caused China to abandon silver as a medium of exchange and thereby increased the incentive of other countries to give up silver in their monetary stock, with obvious repercussions on our own silver policy. On the other hand, continued world tensions are tending to cause the concentration of the world's gold in the United States. Should war break out, it is quite possible that we would get so much of the world's gold as to make impossible any subsequent redistribution of the world's gold holdings.

"But our loss in trade is only a part, and a small part, of the losses we will sustain as a consequence of the present trend in world events. The armament race, despite well wishes to the contrary, will go on at an increasing tempo, and to the ordinary expenditures of armies and navies will be added the costly burden of preparing defenses against air raids. America cannot hope to escape the need for joining in this race. In a world in which international anarchy is but a step removed, it would be suicidal, I know you feel and I feel, not to maintain adequate military power to defend ourselves against aggressions. The stronger the aggression powers grow, the greater will be our need for armaments. It is probably not an understatement to say that Hitler's recent diplomatic victory in Czechoslovakia will cost the people of the United States hundreds of millions in war preparedness. Of the cost of our involvement in war I will not speak. But can we say that such an involvement is impossible or even unlikely if the aggressor powers continue to expand?

"But all these economic losses, great though they are, are of secondary importance. Far more destructive are the effects on our social, political, and cultural life. With every stride forward of the aggressor nations, political security in the United States recedes, political tensions increase, antagonisms

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between various minority, racial, and religious groups, are sharpened. Foreign propaganda daily becomes more rampant, and the free exercise of our civil liberties more difficult. I am deeply concerned about the influence of the effects on our own democracy of the retreat of democracies abroad.

"With ever-increasing revulsion you and I have watched the long tradition of culture and civilization, so painfully acquired throughout thousands of years, being swept brutally and boastfully away, and in their place intolerance, cruelty, persecution, and spiritual degradation being entroned. The bully's threat, oppressive power, becomes the arbiter of nations. Strong nations are made weak and weak nations crushed. The rules of gangsterdom become the laws of civilization. International anarchy looms.

"Mr. President, let us learn well the lesson which the history of the last seven years has to teach us. Let us not repeat the myopic mistakes of Britain and France. The impact of the aggressor nations upon American life and American interests is more insidious than overt. But we cannot afford to wait until the effects are spectacular. Who in France as late as 1930 could have dreamed that in less than a decade that great democratic nation was to become a second-rate power, shorn of influence in Central Europe, dependent upon a grudging and demanding ally for security, and condemned the world over by people who regard as sacred a nation's given word? Who would have expected that Great Britain's might would be challenged in the Mediterranean, that its economic interests would be lightly brushed aside in China, and that the Premier of England would hurry to Hitler to plead that he be not too demanding or impatient, and to plead, moreover, in humble tones lest the dictator take umbrage and demand more? Who would have suspected a small nation could disappear from the map over-night, that the horrors of Nanking and Guernica.."
Guernica, what's that?

White:

Guernica, Spain. That's the town they wiped out with their new bombs. No military value at all. Just wiped it out.

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- H.M.Jr: ".... that the horrors of Nanking and Guernica could be perpetrated, much less that their perpetration would awaken neither official censure nor meaningful public condemnation; who would have thought that defenseless civilians in Nanking, Canton, Barcelona, and a hundred other places could be repeatedly and mercilessly bombed with no more than feeble protest by the civilized nations; or that a single government could threaten to plunge the whole world into war if it didn't get what it wanted, when it wanted it? Yet these things have come to pass and many more such will come to pass, I fear, while the possibility of stopping them by peaceful means grows less and less. In March of this year Winston Churchill called upon England to act, saying, 'If we do not stand up to the dictators now, we shall only prepare the day..' " - "we shall only prepare? the day..."
- White: "...delay..."
- H.M.Jr: "...prepare the day..." I'll put a question mark.
- White: I don't know.
- H.M.Jr: Incidentally, I've sent for his papers - they've been published - since '30 or '31. I saw that Dorothy Thompson referred to them. They're all together - his papers.
- White: His book. It's just a book.
- Klotz: That's it.
- H.M.Jr: Just ask Miss Diamond.
- "....'we shall only delay the day when we shall have to stand up to them under far more adverse conditions. Two years ago it was safe, three years ago it was easy, and four years ago a mere dispatch might have rectified the position. Now the victors are the vanquished, and those who have threw down their arms in the field and sued for an armistice are striding on to world mastery, '
- "Mr. President, let us not join in the retreat of Great Britain and France. Let us, while we can peacefully do so, stop the aggression which it is yet in our power to stop. Let us not be placed in the

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position of having to compound with the aggressor. Let it not be necessary for the President of the United States to fly to Tokio and in humble manner plead with the Mikado that he be content with half the Philippines rather than wage war for the whole. Such a possibility may seem ridiculous now, but no more ridiculous than Chamberlain's flight to Berlin would have seemed seven years ago. The basis for the present humiliation of England was laid in 1931, when England failed to join the United States in disapproval of Japanese aggression in Manchuria."

That's swell.

"The basis of the humiliation of the United States of America is being laid today by a foreign policy that aids the aggressor in Spain, shuts its eyes to German aggression in Europe, and fails to offer moral and economic support to the victim of aggression in Asia."

Oliphant: That's awfully good.

H.M.Jr: The whole thing is good. It's better than

"I do not mean, Mr. President, that we should take armed measures in defense of the victims of aggression. On the contrary, it is just because I wish to avoid the necessity of resorting to arms in the future in defense of our own interests that I feel we are making a terrible mistake by pursuing a policy of not helping the victims of aggression through economic measures which are easily open to us and which cannot possibly lead us into serious international complications.

"As so often has been stressed, a policy of inaction on the part of the United States is not a program of neutrality."

Klotz: Perfect.

H.M.Jr: What?

Klotz: Perfect.

H.M.Jr: "When aggression is rampant a 'neutrality' policy such as we have been pursuing does not retard and may even facilitate that aggression. As I review our policy in

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the last few years, I feel that in our foreign policy, characterized chiefly by failure to take a positive stand against aggression, we have step by step been following the lead of the present British Government. The events of the past few weeks convince me that we must break with this lead and resume our exercise of the initiative and again play an independent role. Let England follow us, as she will if we take the lead.

"Where can we move most effectively first? The sphere in which the situation is not yet hopeless and in which peaceful action on our part would be attended by the least complications, is undoubtedly in the Far East.

"I repeat, it is because I wish so much to avoid international conflict, as I know you do too, that I urge so earnestly the extension of credit to China now, before it is too late. It is yet possible for our financial and moral aid to be of decisive help to China. China cannot last much longer without that aid. For the price of a little more than one battleship we can give a renewed vitality to Chinese morale and Chinese effectiveness and deal a powerful blow to aggression throughout the world. To weaken aggression in any part of the world is to strike at aggression everywhere; to help democracy in our part of the world is"

White: "...in any part of the world," it should be.

H.W.Jr: "... to help democracy in any part of the world is to help it everywhere. Must we wait until Japan has completed her conquest before we see what we should have done?

"Mr. President, I am taking the liberty of pleading China's cause so earnestly because I know you see the matter as I do and because you have three times told me to proceed with proposals for assistance to China. All my efforts have proved of no avail against Secretary Hull's adamant policy of doing nothing which could possibly be objected to by an aggressor nation. I need not tell you I respect Secretary Hull's integrity and sincerity of belief that his course is the right one, but the issues at stake go beyond any one of us and do not permit me to remain silent."

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I was amazed to find out yesterday from Sumner Welles that Mr. Hull has discussed my visit to him with the President.

Quinn-Tamm: He has?

H. V. White: He has, and the President has never said anything to me about it. Welles took it for granted that I knew that.

"It is the future peace and present honor of the United States that are in question. It is the future of democracy, the future of civilization, that are at stake. The trade agreements program, so dear to the heart of Secretary Hull, is indeed a force for peace, but I trust you will not think me ungenerous when I say that its potency against the forces of aggression is slight. A substantial aid to China will have infinitely more effect in striking a blow for democracy than trade agreements with half a dozen more countries. What could be so effective a check to aggression, Mr. President, as a successful defense by China? What could strengthen democracy more than the emergence of a unified and victorious China? I do not say that our financial aid will bring this about; I say only that without such assistance quickly given, China's chances of defeat are greatly increased.

"Mr. President, I beg that you will not let pass this historic opportunity of a first effective economic measure against aggression, this great moral gesture so sorely needed in a world in which 'appeasement' has superseded morality. I have never felt more sure of the wisdom of an investment; I have never felt more sure of its urgency.

"Mr. President, forgive me if I appear to have learned too well the message you gave in your speech at Chicago on October 5, 1937."

I think it's a - it's a magnificent job, Harry. There are things that I'd want to discuss, I'd want to But taking the thing first as a whole, it's swell. There are certain things I'd want to weigh.

White: Well, it's just something to begin with.

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H.M., Jr: Well, it's more than that. It's a - it's a swell job. I just

Walter: I think I included every one of the points that you wanted to make.

H.M., Jr: It's just this

Walter: With the exception of one.

H.M., Jr: Go ahead.

Walter: One which Herman called to my attention, in addition to two other criticisms which he had, was that there isn't enough made of the expenditure that would be caused by building up the Pacific fleet in the event Japan wins. More might be made of that, and I think you made more of it in your statement.

H.M., Jr: Well, it's just - I got another thought. I'm not advertising it - no secret - but we had at the house, Mrs. Morgenthau and I, last night Mr. Corcoran and Mr. Cohen, knowing that they were smart and took the attitude I wanted, to get over three points to them. And he said, why did I think we could do it now as before? I said I felt that one of these days the President would wake up and realize the fact that the tactics he's followed will not get him or his choice for candidate in 1940 the delegates that he wants. So I suggested three things to them which I thought if the President will do, would attract to him - would cement a large group that he already has, but attract a lot of other people.

And I said one - in the first place, a - how did I put it? - well, a drive for moral reform within the Government and without, a clean-up of the alliances with the crooked politicians that the party has, a half a dozen Jimmy walker trials. A new Department of Justice.

And then I said my other suggestion was that we take our gold and lend it liberally; as I said, use five hundred million of it in Central and South America and one or two hundred million of it in the Far East. Well, they were just crazy about that, see? Couldn't get them away.

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Ollphant: (Laughs)

H.M.Jr: Particularly on the moral end.

White: What was the third?

H.M.Jr: And I'm just - the point that I'm getting - I'm wondering if this thing wouldn't be a little stronger if we could tie in Central and South America in this appeal and not just make it China. Because there isn't the question of offending Japan, you see. Harry?

White: I think you might well work up something - world policy rather than Japan policy.

Ollphant: World policy rather than pro-China policy.

White: Did you give the third, or did you mean to give the third?

Gaston: Department of Justice was the second.

White: Oh, I beg your pardon.

H.M.Jr: Let me put it a little simpler, maybe oversimplify it. What I want to say to the President is, "All of this is so," and of course he says, "Well, you needn't tell me."

"But at least we're telling the - laying the foundation for what is happening. What can we do looking forward to peace and prosperity and mental freedom - moral freedom for the population of the United States? Well, the only place that we can look for it is on the American continents and in the Far East."

And I think that if we talked in terms of using our financial resources generously to check Germany in Chile and Brazil, that these countries - when they lack foreign exchange, they're driven into the hands of the countries that barter; I mean, and not just make it China - I think my case would be stronger. Because let's say the chances are he'll send this letter to Mr. Hull and ask him to prepare an answer. Well, if I include Central and South America, there's a whole group in the State Department that will be with me. Sumner Welles and his cohorts will all be with me.

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And I'll divide that group. Some of them will be for me on that, and Dr. Hornbeck and Herbert Feis will be with me on the Chinese thing. I think it's a stronger thing if I would put it up on that basis.

In other words, what I'm trying to lay down - I'm thinking out loud - is for the next seven years an international financial program for this country; and I think that my plea on China might fall

White: An international financial program for peace.

H.M.Jr: As opposed to trade policy.

Now, the President has told me - when I'm with him alone he says, "Henry," to use his own language, "these trade treaties are just too god-damn slow. The world is marching too fast. They're just too slow." Now, he's told me that.

White: Too slow and too ineffective.

H.M.Jr: Right. All right. Don't you think that it would be a stronger document?

White: I do. I agree with you. I think you could make it ...

Oliphant: That would make our gold hoard the greatest agency of peace for the next decade of any factor.

White: Gold and silver - our metallic hoards.

Oliphant: The greatest factor for peace of any factor in the world.

White: I think you can use silver too.

H.M.Jr: You see? Now here I try it out. Why do I pick these two fellows? Because after five years in Washington I've decided that they are motivated - loyal to their country, loyal to their President, and their selfish interests are at a minimum. I've tried this out on these two men and they're just raring to go.

I mean what's-his-name said, "Well, we'll ..." - Corcoran - "well, we'll have to make you the center. We've been talking about getting fifty men...."

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* said, "Oh no, I don't want it." I mean... - you see? I mean I don't want it. But he was kind enough to say that in the Treasury I have the most loyal group of any department, and there are more loyal people here than in any other department in Washington. He said, "You've got the nucleus; you have - you're the only department that has the nucleus."

But I'm getting - I mean that's something to sell them. Now, take Oliphant's idea, which he had months ago, of a financial Monroe Doctrine.....

White: Probably the same

H.M.Jr: ...and work that in. And these people that are worrying so about our gold and what we're going to do with it - it wouldn't bother me if we would lend South America 500 million dollars in gold. The effect would be just like that (snapping fingers).

White: We wouldn't get rid of any gold, but that's all right. They'd spend it, which is all right, which is what you want to do.

May I suggest, I don't think you selected them wholly because of their disinterest only, or their sincerity. I think there's another characteristic to bear in mind. I think probably you bear in mind this too: because they have a broader perspective, a broader view of the problems, a longer-run attitude toward the interests and the future of the United States. Not only a question - there are plenty of men who probably are very sincere and unselfish, but who for one reason or another regard problems in a very narrow, very limited range.

H.M.Jr: Well, there were a lot of reasons.

White: Well, I mean I didn't like to put it purely on that basis, because I think this program is something more than that.

H.M.Jr: I wanted to get over what Henry Morgenthau, Junior, is thinking about, let them get it first-hand.

White: Yes.

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- H.W.Jr: And I succeeded in doing that in three and a half hours last night. But I still think that the program - it's nothing new as far as the Treasury We've talked about North and South America, we've talked about China - we've talked about that for four years.
- Oliphant: We tried to do it with Russia too.
- H.W.Jr: Well
- White: I think you could rally all the force there is in the United States of a certain character, and I think it's pretty powerful, around a program of that nature, and the effectiveness would be in the fact that it would be sort of a single shot. As it is now, that group is all dispersive; they're hitting here, they're hitting there. This might give them a program which they could - in addition to whatever else their interests are, which they could fight for, and they'd be far more powerful than their numbers indicate.
- H.W.Jr: You take this thing, and, as I say, we spread over 12 months loans to South and Central America - 500 million dollars - way, the results would be ...
- White: Oh! - ...
- H.W.Jr: You just can't - I can't envisage the results.
- White: If you loaned them, and even if you start with the assumption that they would never pay a nickel back, which is an absurd assumption - but even if you started with that, what you'd get in return would be so enormous, it would be the best investment
- H.W.Jr: Let Mr. Hitler have from the Baltic to the Black Sea. But if you freeze them there and don't let them come over into Central America, don't let them come into Asia, and keep them out of Russia, what's he got? He hasn't got enough to conquer the world, has he? Huh? He hasn't. There are not enough natural resources there to conquer the world. But let him inch into Mexico, into these different countries, and he'll get what he needs. But you just stop to think of it as a plain military thing; give him all of that, and he still isn't powerful enough to lick the world. But

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give him Mexico and give him Brazil and the Philippines and a few other things and he might be. And we've still got time.

Oliphant: Particularly if you gave him a militarized China.

H.M.Jr: And we've still got time. Don't you think that if you

White: I think so.

H.M.Jr: What?

White: I think you can make a much stronger case.

H.M.Jr: Huh? What do you think, Mrs. Klotz?

Klotz: Oh, absolutely.

H.M.Jr: Herbert?

Gaston: Yes, I agree with that. I think that's very good strategy; good principle, too.

H.M.Jr: Today is Wednesday. Would it be asking too much to have something maybe by Friday noon? I'd rather wait and

White: No, I'd rather work on this than anything else I have.

H.M.Jr: All right. I'd like to take this home with me.

White: I have a copy.

H.M.Jr: I think it's swell. And if there is anybody back there that particularly helped you

White: Just my wife and I. Just so happened it was over a week-end and we

H.M.Jr: Thank her.

White: I will.

H.M.Jr: Now, two things, Herbert, will you get for me ⁱⁿ Monday's Times Hitler's speech. I didn't read it, you see. Send it up to the house for me - the one he made Sunday.

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Oliphant: Sunday night.

Gaston: Yes.

H.M.Jr: Send it to the house, please.
And where's Chen?

White: Chen will be back - said he would be back Wednesday.
Today is Tuesday; Wednesday is tomorrow. Today's
only Tuesday.

H.M.Jr: Will you find out?

White: He'll be back tomorrow morning unless he lets us know
to the contrary.

H.M.Jr: I think the President will have him either for Wednesday
or Thursday.

White: And you want to know when he's coming.

H.M.Jr: I didn't want to tell him that, but I want to make sure
he'll be here Wednesday. Want to know tonight ...

White: All right.

H.M.Jr: ... because Jimmy Moffett called me up and said he's
having Chen come back Friday.

White: Chen said he would be back tomorrow.

H.M.Jr: The automobile companies are ready to go, and they wanted
time and they're meeting again with him Friday. And
they had cabled and they decided that they needed
tropical radiators, special axles, steel wheels, and ...

Oliphant: How many trucks are they selling them?

H.M.Jr: A thousand. But they got - I think they have the
information and they gave it, but it takes these
companies until Friday to give them prices, and by
Friday they'll have prices.

Gaston: Export-Import to underwrite the credit.

H.M.Jr: Pardon?

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- Gaston: Export-Import Bank to underwrite it?
- H.M.Jr: No.
- Gaston: No.
- H.M.Jr: No.
- White: It's going to be a little difficult to work out directly. Not impossible, but it will be more difficult. But it will still be possible to work it out directly.
- H.M.Jr: They must have a few million dollars of silver. We're giving them ...
- White: Oh, you mean the expenditure on these trucks. Well, I'm wondering if they'll buy the trucks unless they make some kind of a deal, because they might anticipate their expenditures on the trucks
- Oliphant: He said he'd have to develop a transportation system when Hankow falls.
- H.M.Jr: You see, I've seen the cables, and he's got thousands of tons of stuff bought and delivered at the seaport which he can't move.
- Incidentally, now, to show you the President has given me his verbal approval, I am - I can get a couple of new military attaches assigned to China who will happen to be the best transport experts that the Army's got.
- White: To help them.
- H.M.Jr: Sure.
- (On phone) General Craig, please.
- I mean I can get places with the President if Mr. Hull will leave me alone.
- Oliphant: Did you make a second note there?
- H.M.Jr: Just about Chen, and I wanted Hitler's speech.
- White: There are several comments that - I haven't heard Herbert yet, but he may have some - I know that Herman has some.

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Don't know whether you want to take up those details now or want to wait until I try to make ...

H.M.Jr:

I want to read this and make notes myself, then I'll be glad to hear other people's comments. But I find that by four - these days by four o'clock I'm not worth much.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 12, 1936

TO Secretary Morgenthau
FROM Mr. White *W.P.W.*

Appended are the significant material relating to the imposition of countervailing duties against German exports to the United States:

1. Copy of memorandum submitted by me to Mr. Haas on May 16, 1936, explaining in brief the opinions of Messrs. Oliphant, Taylor, Viner, and myself with respect to the contemplated imposition of countervailing duties.
2. The Treasury Decision of June 6, 1936, imposing countervailing duties against certain German products.
3. Treasury Decision of August 4, 1936, withdrawing countervailing duties on certain German products on the grounds that the German Government had notified this Government they would not authorize the use of scrip, etc., on the German exports in question to the United States.
4. Treasury press release of December 23, 1936, indicating the procedures under which German barter transactions could be permitted. (This is the important document, based presumably on specific cases decided by Customs prior to the date of the release. No order or regulation was issued on this matter; it took the form of a press release.)
5. Copy of a statement from Mr. Glasser to myself, dated April 26, 1937, indicating that the new procedures permitted appeared to be a violation of the Treasury Decision of June 6, 1936.

C O P Y

May 16, 1936.

To: Mr. Haas
From: Mr. White
Subject: Applicability of Section 303 of the Tariff Act to certain German exports.

I.

Section 303 of the Tariff Act of 1930 provides that:

"Whenever any country shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country and such article or merchandise is dutiable under the provisions of this Act there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant however the same be paid or bestowed. The Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant and shall declare the net amount so determined or estimated"

II.

The issue is whether or not the German Government does "pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article" exported to the United States.

There appears to be a difference of opinion among Taylor, Cliphant and Viner. Mr. Taylor is of the opinion that inasmuch as there is at least a reasonable doubt that multiple currency procedures fall within the bounty or grant provisions of Section 303 no action should be taken. Mr. Cliphant believes that the use of multiple exchange rates which include discriminatory devices do constitute a bounty or grant subject to countervailing duties. Mr. Viner is of the opinion that only under certain conditions, much narrower in scope than those included by Mr. Cliphant, can it be held that a bounty or grant is paid to the German exporter or manufacturer on goods imported into the United States.

Mr. Taylor's reasoning is that the customary monetary standards which prevailed when the Tariff Act of 1930 was passed have ceased to exist in many countries and that, therefore, the criteria upon which it is possible to base a decision are no longer present. The use of multiple currency devices introduce, in his opinion, factors which supply sufficient doubt as to the applicability of the Section in question. Such Court decisions as have been made apply to the interpretation of the Section under other circumstances and do not warrant taking an action which, in effect, serves to increase barriers to trade. Mr. Taylor would seem to be taking the position that so long as a country uses multiple exchange rates none of its exports should be subject to a countervailing duty under Section 303, irrespective of the particular variations in the use of those multiple exchanges.

Mr. Viner agrees only partly with Mr. Taylor. Viner's position is that under certain circumstances multiple currency devices do constitute a direct bounty or grant as those terms have been interpreted by the Court. In certain of the scrip and special marks, Viner believes there is a clear case which falls under Section 303. Aside from those special cases, however, he believes with Mr. Taylor that there is sufficient doubt as to the applicability of Section 303 so that the Secretary in making his decision is justified in taking into consideration the broader questions of national policy. He believes that use of multiple exchange rates, other than the special cases referred to above, resembles uniform exchange depreciation closely enough to make Section 303 not applicable.

Mr. Cliphant disagrees with both Taylor and Viner. Even aside from the use of scrip and bond market devices — which in Viner's opinion justify the application of countervailing duties — the methods used by the German Government involve discriminatory currency devices which, in Cliphant's opinion, fall under bounty or grant as interpreted by the Courts.

I find myself in closer agreement with Cliphant's position than with either that of Taylor or Viner.

I believe Taylor's position is not easy to sustain. It is quite true that the use of multiple exchange rates as a device for promoting exports was not envisaged by Congress when Section 303 was included in the Tariff Act, nor were the Court interpretations of the phrases in question made with that possibility in mind. Yet it does not follow that the Court would or should declare certain of the German currency devices as not being a bounty or grant within the meaning of Section 303.

If the Courts, in the absence of a clear precedent, were to fall back on the purpose of the Section, they might well hold that the use

Mr. Haas - 5/16/36, 3.

of the special devices described under Section 6 of Viner's memorandum constituted a bounty or grant against which the Secretary was required to impose a countervailing duty.

The Courts might also hold with Oliphant that any multiple exchange device which is discriminatory in nature constitutes a bounty or grant. Where at least the following two conditions together prevail, there is, I believe, a strong case for interpreting the practice as a bounty:

(1) When different categories of marks sell at different prices, and

(2) When American importers of German goods do not all pay the same prices for the marks they use to purchase imports inasmuch as certain imports can be paid for only with certain of special marks which sell for a price lower than those used for other imports.

If special marks all sold at the same price in this country, and if all German imports could be paid for with these special marks, and if, further, no German exporter of goods to the United States received any special advantage other exporters did not receive in equal amounts, Mr. Taylor's position would on economic grounds be much stronger. Yet even under those conditions it is very doubtful if the Courts could consistently adopt the view implied in Mr. Taylor's position as a justification for holding that the German practice did not constitute a bounty under Section 303. The Courts could not consistently take the position that multiple currencies do not constitute a bounty because in the case of Germany they serve merely to compensate for the devaluation of the dollar. For the Courts to rest their decision on that criterion would be to open the door to the claim that imports of all countries should be examined to determine whether or not the depreciation of the respective currencies had or had not compensated for the depreciation of the dollar. The Court could hardly make a special case of Germany by adopting a criterion which it is not in a position to apply or attempt to apply to imports from other countries. Should the Court render a decision based on a deduction of under- or over-devaluation, it would seem that it would then become incumbent upon the Treasury Department to determine whether or not imports from other countries may not be subject to countervailing duties with the same criterion applied.

If the Court finds a bounty in German practice it will be, I believe, on grounds similar to those set forth by Mr. Oliphant in support of his position - namely, the existence of discriminatory exchange devices. The Courts thereby would completely avoid the question of over- or under-devaluation of German currency, and would also avoid a decision which might serve to seriously disrupt our trade.

Mr. Haas - 5/16/36, 4.

Conclusion:

(1) If countervailing duties are applied to the German case on the grounds of the special cases enumerated under group 2 of Oliphant's memorandum (or section 6 of Viner's), it may be necessary to take similar action in the case of some trade of a few more countries. No significant interruption in trade would result because the number of similar incidents is small.

(2) If countervailing duties are applied wherever cases of multiple exchange rates are employed which in effect favor some of the exports, it may be necessary to place countervailing duties on some of the exports of half dozen or a dozen countries. Interruption to trade would be greater, but still trade would not be seriously disrupted. It would take a long time to ascertain the items subject to the countervailing duties, so that the imposition of those duties would be spread over several months, and the number of items would inevitably be smaller than the total of our imports from those countries.

(3) If the mere existence of multiple currencies is made the criterion of the existence of a bounty under Section 303, disruption to trade would be considerable since countervailing duties would have to be applied to a larger proportion of trade from possibly a dozen or more countries.

Inasmuch as Oliphant's decision applies only to situations 1 and 2, I do not believe it will be serious if the findings of the Legal Division are accepted by the Secretary.

Countervailing duty on certain German products

Collectors of customs instructed to suspend liquidation of entries covering certain merchandise from Germany pending declaration of amount of countervailing duty to be collected -- Deposit of estimated countervailing duties required.

TREASURY DEPARTMENT,

OFFICE OF THE COMMISSIONER OF CUSTOMS,

Washington, D. C.

To Collectors of Customs and Others Concerned:

Official reports and other data in the files of the Department establish to its satisfaction that bounties and/or grants are paid and/or bestowed, directly or indirectly, on the export to the United States of articles of the kinds named below, which are dutiable under the provisions of the Tariff Act of 1930.

Notice is hereby given that, pursuant to the provisions of section 303 of the Tariff Act of 1930, countervailing duties equal to any bounty and/or grant found to have been paid and/or bestowed will be collected on articles of the kinds named below when imported directly or indirectly from Germany after thirty days following publication of this notice in a weekly issue of the TREASURY DECISIONS.

The liquidation of all entries covering merchandise of the kinds named below imported directly or indirectly from Germany after thirty days following publication of this notice in the weekly TREASURY DECISIONS, shall be suspended pending the declaration of the net total amount of the bounty and/or grant determined or estimated to have been paid and/or bestowed, and the net amount of countervailing duties to be collected. A deposit of estimated countervailing duties shall be required at the time of entry in an amount equal to the percentage of invoice value stated below in connection with the name of the article.

The articles subject to this notice are as follows:

Article	Percentage of invoice value	Article	Percentage of invoice value
Cameras -----	45	: Calf and kid leather -----	25
China tableware -----	22½	: Glass tree ornaments -----	52
Cotton and rayon gloves -----	39	: Metal-covered paper -----	48
Leather gloves -----	47	: Thumb tacks -----	31
Surgical instruments -----	56	: Toys, dolls, and toy figures --	45

The facts in regard to each importation within the purview of this notice shall be reported promptly and in full to the Bureau of Customs.

James H. Moyle,
Commissioner of Customs.

Approved June 4, 1936:
H. MORGENTHAU, JR.,
Secretary of the Treasury.

(Filed with the Division of the Federal Register June 6, 1936, 10:56 a.m.)

(3)

(T. D. 48463)

Countervailing Duties -- German Products

Treasury Decision 48360 not applicable to certain importations of cameras, calf and kid leather, and surgical instruments.

TREASURY DEPARTMENT
OFFICE OF THE COMMISSIONER OF CUSTOMS
WASHINGTON, D. C. August 4, 1936

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Reference is made to Treasury Decision 48360, approved June 4, 1936, in which it was announced that countervailing duties would be imposed upon certain German products.

The Department is now in receipt of official advice to the effect that for any transactions concluded after July 25, 1936, which cover the indirect or direct exportation of the following goods to the United States, viz.: photographic apparatus, calf and goat leather, and surgical instruments, the German Government will neither authorize the use of the scrip and bond procedure nor permit the payment of a public or private premium or subsidy, nor the employment of other German means of payment than reichsmarks freely convertible into foreign currencies or free reichsmarks usable within the country.

In view of the foregoing, the provisions of Treasury Decision 48360 shall not apply to direct or indirect imports from Germany of the following commodities named in that decision:

cameras
calf and kid leather
surgical instruments

if the collector of customs concerned shall be satisfied by documentary evidence that the contract of purchase or other agreement pursuant to which they were exported from Germany was entered into after July 25, 1936.

Frank J. Miller
Acting Commissioner of Customs.

APPROVED: Aug. 4, 1936

(Signed) WAYNE C. TAYLOR

Acting Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 23, 1936.

Press Service
No. 9-25

The Treasury Department announced today that, under the circumstances stated below, the following procedures in connection with imports from Germany would not involve the payment of bestowal of any bounty or grant within the purview of section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303).

1. Payment of the purchase price, in whole or in part, with the use of controlled mark credits, provided that the credits so used have been, from the time they became subject to German governmental control, continuously owned by the person for whose actual account the merchandise is purchased for direct or indirect shipment to the United States.
2. Payment of the purchase price, in whole or in part, with the proceeds of the sale in Germany of merchandise exported from the United States, provided that such proceeds, until so used, have been continuously owned by the person for whose actual account the American merchandise is sold in Germany and the German goods are purchased in that country.
3. Combinations of the foregoing two procedures.
4. Exchange of merchandise between single German and American parties without any monetary transaction actually taking place.

The foregoing contemplates that the purchase of German goods will be made for the actual account of the original and continuous owner of the controlled mark credits used, or of the American vendor of the American exports sold in Germany, and that in no case will the German funds of such owner or vendor be used to purchase German products for the account of any other person or organization; and likewise that the German products exchanged for American goods in any permitted barter transaction will be received for the actual account of the person or organization for whose actual account the American exports were shipped to Germany.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 26, 1937

COPY

TO Mr. White
FROM Mr. Glasser

Subject: Is the Treasury justified in exempting certain procedures of private barter arrangements with Germany from the application of countervailing duties?

1. The Treasury decision of June 11, 1936 ruled that a bounty or grant was involved when importers paid for imports from Germany in whole or in part with restricted marks which they had purchased at a discount below the free or official mark exchange rate.

2. The press release of December 23, 1936 listed four procedures of private barter trade with Germany which would exempt the imports from the application of countervailing duties. These procedures are:

(1) When the purchase price of the imports is paid for with "controlled marks", provided that the marks so used have been owned by the person for whose actual account the merchandise is purchased for direct or indirect shipment to the United States.

(2) When the purchase price of the imports is paid for with the proceeds of the sale in Germany of merchandise exported from the United States, provided that such proceeds have been continuously owned by the person for whose actual account the American merchandise is sold in Germany, and the German goods are purchased in that country.

(3) Combinations of the foregoing procedures.

(4) Exchange of merchandise between single German and American parties without any monetary transaction actually taking place.

3. An analysis of the procedures permitted under the above press release indicates that the bounty which is bestowed upon German exporters through the operation of the German multiple currency system is likewise bestowed on transactions carried out under the terms of these procedures. If countervailing duties are applicable to imports under the procedure stated in the Treasury decision of June 11, 1936, countervailing duties are also applicable to the procedures exempted in the press release of December 23, 1936.

Mr. White - 2

4. The principle which will consistently embrace all transactions which are similar to those transactions subject to the Treasury decision of June 11, 1936, is the principle that applies countervailing duties on every product Germany permits to be purchased by restricted marks. The bounty which the German Government bestows upon German exporters is the permission to accept restricted marks in payment for German goods and the bounty is present irrespective of the fact that the restricted marks do not change hands.

My dear Mr. Secretary:

I am sending to you, as a member of the Committee designated by the President to study the subject of taxation of Federal real estate, a memorandum to the President transmitting the Committee report, as amended and approved by Acting Secretary Magill of your office, by Acting Assistant Solicitor General Townsend of the Department of Justice, and by myself. If you will be good enough to affix your signature to this memorandum and return it to me, I will then, after securing the signature of the Attorney General, forward the memorandum and report to the President.

I am also enclosing for your files, a copy of the memorandum and report.

Very truly yours,

Acting Director.

The Honorable,

The Secretary of the Treasury.

Enclosures:

Memorandum to the President.
Copy of Federal real estate
report, and memorandum.

FJB/MLF/abp 10-4-36

October 3, 1938.

MEMORANDUM FOR THE PRESIDENT:

At a meeting of the National Emergency Council held December 17, 1935, you designated the Secretary of the Treasury, the Attorney General, and the Acting Director of the Bureau of the Budget to serve as a committee to make a study of Federal ownership of real estate and of its bearing on State and local taxation. This study has been completed and the report of the committee is presented herewith.

This report discloses that the Government owns more than 20% of all land in the United States. The extent of Government holdings is approximately identical with the area of all States east of the Mississippi River, excepting Alabama, Florida, Georgia, and Mississippi. The present assessed value of all taxable real estate in the continental United States is \$113,479,208,000, whereas the Government holdings, if assessed for tax purposes on the same basis, would be valued at only \$3,282,914,000, or less than 3% of the whole.

The report also tabulates the amount of money which the Government has contributed to the States in the form of Federal aid through the span of a ten-year period, 1928-1937, and shows that these payments are largely in excess of the amounts that would represent State taxation of Federal property.

Your committee recommends:

- (1) That all branches of the Federal Service be directed to declare completely, accurately and promptly their surplus land and improvements in order that a prudent use for such properties may be found or that they may be offered for sale.
- (2) That the Procurement Division of the Treasury Department continue to maintain a current permanent record of all Federal real estate in order that there may be constantly on file available and dependable information with respect thereto.
- (3) That there should be constituted a Federal Real Estate Board composed of a representative from each of the governmental agencies in charge of considerable holdings of Federal

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income-producing property, a representative from the Procurement Division, and a representative from the Bureau of the Budget. The duty of this Board should be to study and make recommendations regarding the situation existing in individual communities adversely affected by the purchase of substantial amounts of land and their consequent removal from the regular tax rolls of the county or other taxing district; to advise with Federal agencies contemplating the acquisition of additional real estate; and to submit recommendations regarding the disposition of lands that are essentially in the nature of surplus property.

In view of the fact that this is the first comprehensive inventory that has been taken of the Federal Government's investment in real estate and improvements, and that quite general public interest in the information may therefore be expected to result, you may wish to consider the advisability of presenting it to the Congress for its information and, if it should so desire, for printing as a public document.

Secretary of the Treasury.

Attorney General.

(SIGNED) D. W. BELL

Acting Director of the
Bureau of the Budget.

MLF:mia 10/3/38

H. W. Bell

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A STUDY OF FEDERAL OWNERSHIP OF REAL ESTATE AND
OF ITS BEARING ON STATE AND LOCAL TAXATION

CHAPTER I - INTRODUCTION

Occasion for this Study

The National Emergency Council at a meeting held April 23, 1935, considered the question of what the policy of the Government should be, when, by virtue of its taking over a substantial acreage in a particular county, the remaining taxable lands therein are materially diminished. Three aspects of the problem were discussed:

- (1) The effect of such governmental purchases on the ability of the remaining taxpayers to meet the funded debt obligations of the county.
- (2) The right or the duty of the Government to assume a part of such funded debt.
- (3) The various provisions of law under which the Federal Government now makes payments to States and counties of sums in lieu of taxes.

At that meeting the President asked Mr. D. W. Bell, Acting Director of the Bureau of the Budget, to serve "as chairman of a very informal committee" to prepare a memorandum covering the last mentioned of these three topics.

At the December, 1935 meeting of the National Emergency Council, after Mr. Bell presented such a memorandum, the President designated the Secretary of the Treasury, the Attorney General, and the Acting Director of the Budget as a committee to continue the study of this matter.

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At the February, 1936 meeting of the National Emergency Council the above-mentioned committee submitted a brief report wherein it pointed out the necessity of obtaining detailed answers to a large number of questions relative to the different types of Federal real estate and their uses before it could proceed further with the study which it had been authorized to make. It recommended that some appropriate governmental organization should obtain such data as expeditiously as possible.

The Questionnaire

As a result of the approval of that recommendation a questionnaire and a set of instructions were prepared, copies of which were sent to custodians of all Federal real estate. They were directed to submit to the Procurement Division, Treasury Department, on specially prepared schedules the appropriate data, as of June 30, 1936, for the properties under their charge. The information called for, concerning each piece of Federal real estate, related to -

- (1) Date of its acquisition.
- (2) Manner of its acquisition.
- (3) Its area.
- (4) Its location.
- (5) Its cost
- (6) Its use and improvements.
- (7) Estimate of what its assessed valuation would be, if the property were taxable.
- (8) Rates of tax that would apply, if the property were taxable.

- (9) The total tax that would be due if the property were taxable.
- (10) Its fair market value as of June 30, 1936.
- (11) The extent to which it was in excess of needs of the Government.
- (12) The number of persons located on such property, whether as employees or otherwise.

The tabulation of data originally secured and presented as of June 30, 1936 was subsequently revised, so that the tabular statements accompanying this report present the inventory of Federal real estate as of June 30, 1937.

Scope of the Study

This inquiry falls naturally into two parts. The first is largely statistical, while the second treats of legislation bearing on the subject of payments by the Federal Government to States and their political subdivisions in lieu of taxes on real estate owned by the United States. Because of the terms of reference there are intentionally excluded from consideration herein matters which relate either to the effect of substantial Governmental purchases of real estate within one county on the ability of the remaining taxpayers to meet the funded debt obligations of such county or to the right or duty of the Government to assume a part of such funded debt.

CHAPTER II - STATISTICAL STUDY

Field of Inquiry

Questionnaires were sent to the custodians of all Federal real estate and buildings, with the exception of certain credit agencies. There is likewise excluded from the tabulations statistics relative to certain surplus property of but slight significance now under the control of the Procurement Division of the Treasury Department. Concerning each of these two excepted classes of property a brief explanation follows.

Credit Agencies

Certain government credit corporations and credit administrations have had to take title to real estate formerly belonging to individuals, because such individuals were unable to repay sums advanced by those credit agencies. In the first place, Federal ownership of such properties is intended to be only temporary. Secondly, by virtue of special provisions of Acts of Congress, such properties have never been taken from the tax rolls of the States and their political subdivisions. In other words, the government continues to pay State and local taxes on such properties which it acquires as a result of foreclosure after default in the payment of the loan or mortgage secured by such property.

Certain Surplus Properties

As a result of the initiation of this study, the Procurement Division ascertained that the Federal Government has evidence of its title to miscellaneous properties acquired in many cases long ago, usually for non-payment of debts to the United States. The total number of such properties may be roughly estimated at 200. The exact number is not known.

Illustration of Surplus Property

The following described set of circumstances is illustrative of those that surround similar properties which are excluded from consideration in this study.

One John McFaddon owned 2,240 acres of land located in eight different counties in Arkansas. He was, however, indebted to the United States and was unable to discharge his obligation by cash settlement. In 1839 he deeded the above-mentioned property to the United States in settlement of the debt. The deed was recorded, however, in only two of the eight counties in which the property was situated. There is no record to show that the State was advised to exempt that property from taxes subsequent to its acquisition by the Federal Government. Arkansas levied taxes on the property for a period of years. These taxes being unpaid, the State sold the property at tax sale in 1847 and gave title to the persons who purchased it from the State at that time. All persons at present occupying the above-mentioned property are now paying taxes to the State of Arkansas and claim title by virtue of the tax deed issued in 1847.

In somewhat similar ways the Federal Government now has claims to certain other parcels of real estate located throughout the United States, and for reasons above mentioned, these properties are all excluded from the tabulations hereinafter referred to.

Assembling of Data

Custodians of Federal real estate were directed to prepare their questionnaires so as to show the information by States and counties, by Departments, by bureaus and divisions under each Department, and by independent establishments.

The Procurement Division has compiled the following material which is attached herewith except as noted:

Appendix A - Table - "Recapitulation of Federal Real Estate and Improvements by States"

Appendix B - Table and Chart - "Federal Ownership of Real Estate in the Various States"

Appendix C - Table and Chart - "Federal Aid to the States and the Estimated Annual Tax Levy, if applied, on all Federal Real Estate"

Appendix D - Table - "Recapitulation of Federal Real Estate - by Agencies"

Appendix E - Tables - "Acreage and Cost of Real Estate and Improvements in the Various States under the Custody of Federal Departments and Agencies"

Appendix F - Table and Chart - "Fair Market Value and Acreage of Real Estate under the Custody of Federal Agencies"

Appendix G - Table and Chart - "Estimated Tax Levy, in Dollars, that would be Paid by the Agencies, if Applied, at Local Rates, on Federal Real Estate and Improvements"

Appendix H - Table - "Estimated Tax Levy, in Dollars, that would be Paid by the Federal Agencies, if Applied, at Local Rates on Federal Real Estate and Improvements in the Various States"

Appendix I - Letter of the Acting Director of the Bureau of the Budget to the Heads of All Executive Departments, instructing them to submit a Report on their Real Estate Holdings to the Procurement Division of the Treasury Department.

Appendix J - Form for Submitting Report on Federal Real Estate.

Appendix K - Tables - "Report of Federal Real Estate by Projects Grouped into States and Counties" - (This is a bound volume and is being retained in the files of the Procurement Division)

Appendix L - Tables - "Reappraisal of Federal Real Estate by States and Counties" - (This is a bound volume and is being retained in the files of the Procurement Division)

Appendix M - Tables - "Report of Federal Real Estate by Projects, Grouped into Departments and Agencies" - (This is a bound volume and is being retained in the files of the Procurement Division)

Nowhere in any government fiscal record is an account kept wherein is reflected the nation's holdings of land and improvements. Until this study was made, there was no comprehensive inventory of federal real estate.

These tables and charts embrace a vast amount of statistical information with reference to the government's investment in real estate and improvements. Only a very careful and thorough examination of this material brings to light the various factors of the government's possessions. It is helpful, however, briefly to describe the tables and charts and draw out some of the more important features.

Appendix A

This display is a matter chart of various items of federal real estate and improvements. The total number of projects is 15,206, which does not necessarily represent separate and distinct enterprises as, where these are located in more than one State, county, or city, the portions lying within these jurisdictions are counted as projects.

It will be noted that the government owns more than twenty per cent of all land in the United States. The extent of its holdings is approximately identical with the area of all the States east of the Mississippi River, except Florida, Georgia, Alabama and Mississippi. These are located in all States of the union, in 2,658 of the 3,073 counties, and in 2,965 cities.

The present assessed value of all real estate in the continental United States now being taxed is \$13,479,208,000. If the government's holdings were assessed for tax purposes on the same basis as other property, their value would be \$3,282,914,000. If the Federal property in the District of Columbia is excluded from consideration, the balance of the government's real estate would have an assessed valuation for tax purposes of \$2,579,299,000.

The present fair market value of all Federal real estate with improvements is \$4,696,062,000. In arriving at this fair market value, \$1.25 per acre has been estimated to be the value of lands in the public domain. In some cases, it is known that these are worth much more than that amount, while in others, \$1.25 is too high. It is believed, however, that such value is on the whole reasonable.

Property has been construed as urban if it is located within the limits of a community for which city delivery has been provided by the Post Office Department. The area of all Federal urban property as thus defined is 47,444 acres. If the government's holdings in the District of Columbia are omitted from consideration, the remainder of its urban property would occupy an area of 56 square miles.

Appendix B

This table and chart record the land owned by the United States in each of the various States, listing separately the original public domain now in the possession of the government and land acquired by purchase, donation or otherwise. There is also indicated the percentage of Federal lands in each of the States, this ranging from over 82 per cent in the State of Nevada to one-tenth per cent in the State of Iowa. It will also be observed that in the eleven western States the Federal ownership is dominated by public land.

Particular reference may appropriately be made to the situation that exists in four counties of the State of Nevada wherein the Federal Government owns approximately 100 per cent of all lands, and to one county in South Dakota where the value of the government's property is in excess of 800 per cent of the assessed value of all other property.

Appendix C

This table and chart are exhibited for the purpose of showing the various forms of investments which the government has made in the States. The columns showing the total cost of Federal real estate and improvements, as well as the estimated fair market value of such, indicate that while the States have received a very sizeable benefit from these expenditures, it also follows that year after year the government must of necessity contribute other amounts to keep these undertakings in condition for occupancy or use, continually make betterments and also meet the expense of employees necessary to maintain the properties in operation, as well as those performing functions for which the structures were erected.

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There is also given the amount of money which the government has contributed to the States in the form of Federal aid through the span of the ten-year period 1928-1937. It is interesting to note that if Federal property had been subject to State and local taxation, the average annual amount of such taxation during that ten-year period would have been far less than the average annual amount of Federal aid. In other words, if Federal real estate and improvements were taxed, the States in the aggregate would receive from such taxation only about 11 percent of the amount of Federal aid they have been receiving. This, moreover, does not take into account the further benefits which accrue to the States from the location of Federal undertakings within their boundaries.

Appendix D

This table gives the relevant items of Federal real estate and improvements grouped under departments and agencies.

From this it can readily be seen that the agencies having custody of the largest areas of Federal real estate are as follows:

Forest Service	151,897,489 Acres	38.49 percent
Grazing Division	109,823,489 "	27.83 "
General Land Office	54,699,873 "	13.85 "
Bureau of Indian Affairs	52,188,320 "	13.22 "
National Park Service	12,888,257 "	3.26 "
Farm Security Administration	6,389,695 "	1.62 "
Biological Survey	1,588,981 "	.40 "
Quartermaster Corps	1,904,992 "	.08 "
Bureau of Reclamation	1,443,726 "	.07 "
Corps of Engineers	1,079,471 "	.06 "
All others	1,193,468 "	1.12 "
Total	394,657,721	100.00

In number of projects under their custody, the agencies rank as follows:

Corps of Engineers	2,602
Post Office Department	2,446
Bureau of Air Commerce	2,106
Forest Service	1,210
National Park Service	1,014
Bureau of Lighthouses	907
Bureau of Indian Affairs	851
General Land Office	675
Farm Security Administration	600
Procurement Division	562
Quartermaster Corps	526
Coast Guard	326
Grazing Division	176
Navy Yards and Docks	165
Reclamation Service	134
Biological Survey	123
All Others	<u>805</u>
Total	15,208

Appendix E

These tables are appended to indicate the acreage and cost of real estate and improvements of each of the Federal agencies in each of the various States.

Appendix F

This table and chart give the fair market value and the acreage of the various Federal agencies having custody of land. A diagram permits a more ready visualization of the vast holdings of these units ranging in area from over one hundred million acres each, down to a few acres.

The composite chart indicates that the Departments of Interior and Agriculture have by far the largest areas in their custody.

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Appendix G

This table and chart display in tabular and diagrammatic form the amounts which, it is estimated, would be spent by the Federal agencies if their holdings were taxed as is the practice in the case of lands and improvements held in private ownership. Since no Federal property is taxed, it is necessary to stress that these figures are estimates largely supplied by the authorities of local taxing jurisdictions. In many instances, no property such as the government possesses has ever been taxed and no precedent exists for the establishment of proper fair market values and other factors affecting taxation.

Appendix H

This table gives more detail on the subject of taxation in that it displays the estimated tax that would be levied against the Federal departments in the various States if such were taxed.

CHAPTER III - LEGAL AND LEGISLATIVE STUDY

Tax Defined

"A tax is a demand of sovereignty", Case of the State Freight Tax, 15 Wall, 232, 278; and the sovereign, from its nature, can enforce the demand. Strictly speaking, therefore, there can be no taxation of a sovereign. A sovereign can consent to pay, but cannot be compelled to do so.

"All subjects over which the sovereign power of a state extends are objects of taxation; but those over which it does not extend, are . . . exempt from taxation." McCulloch v. Maryland, 4 Wheat. 315, 429. In First National Bank v. Anderson, 269 U.S. 341, 347, the Supreme Court said:

"National banks are . . . agencies of the United States created under its laws to promote its fiscal policies; and hence the banks, their property and their shares cannot be taxed under state authority except as Congress consents and then only in conformity with the restrictions attached to its consent."

Power of Congress to Permit Taxation of Property of the United States and Its Agencies

Two questions arise:

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1. Whether the Congress can surrender its exclusive authority over Federal property to the extent of permitting its taxation by the States.

2. If so, whether the States can seize property thus permitted to be taxed if the United States becomes a tax delinquent with respect thereto.

It would seem that the first, and probably both, of the above questions should be answered in the affirmative. It is true that in United States v. Weisz, 2 Wall. Jr. 72, 75, the Court said:

"Whatever, therefore, may be the power and right of a State to tax all land within her territory and make it contribute to the burdens of the State, it cannot enforce the payment of them from the United States by seizing the personal property or means used by the general government in performance of the duties and in execution of the powers intrusted to it."

Also in Van Allen v. The Assessors, 3 Wall. 573, 585, the Supreme Court said:

"* * * It [the Congress] cannot confer upon a State the sovereign right of taxation; nor is a State competent to receive a grant of any such power from Congress."

However, in Van Brocklin v. State of Tennessee, 117 U. S. 151, 175, the Supreme Court said:

"* * * whether the property of the United States shall be taxed under the laws of a State depends upon the will of its owner, the United States, and no State can tax the property of the United States without their consent." (Underlining supplied.)

See also First National Bank v. Anderson, ~~100~~.

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It is difficult to see how consent to be taxed can be given by the United States more completely than in an act of the Congress, approved by the President, and in harmony with the interpretation of the Constitution handed down by the Supreme Court.

The Constitution provides (Article IV, section 3, clause 2):

"The Congress shall have power to * * *
make all needful rules and regulations respect-
ing * * * property belonging to the United States
* * *."

If the Congress in enacting legislation determines that a needful rule respecting certain property belonging to the United States is to permit such property to be subject to State taxation, so long as it is not taxed at a higher rate than other similar property, and enacts a statute to that effect, its action in so doing would seem to be in accord with the Constitution.

Taxation of Real Estate Belonging to Federal Agencies

The real property of certain Federal agencies (Governmental corporations) is now by Federal statute subject to State, territorial, county, municipal or local taxation to the same extent, according to its value, as other real property is taxed. These agencies and the statutory authority under which their real property is taxed are as follows:

Reconstruction Finance Corporation ...	U.S.C., title 15, sec.	610
Home owners' Loan Corporation	" " 12, "	1463(e)
Federal Savings & Loan Ins. Corp.	" " 12, "	1725(e)
Federal Deposit Insurance Corporation.	" " 12, "	264(p)
Federal Farm Mortgage Corporation.....	" " 12, "	1020(f)
Production Credit Corporations.....	" " 12, "	1136c
Central Bank for Cooperatives.....	" " 12, "	1136c
Regional Agricultural Credit Corp. ...	" " 12, "	931
Federal Intermediate Credit Banks.....	" " 12, "	1111

Special Legislation Enacted Prior to 1935 and Still in Force
Relating to Payments in Lieu of Taxes

There are certain statutes now in force which authorize payments to States because of what may be termed Federal business activities. Federal ownership of tax-exempt land was undoubtedly a factor in influencing the Congress to authorize such payments, but while it might be proper to consider, in a certain sense, that such contributions are "in lieu of taxes", they are not in any sense land taxes. These statutes are administered by the Department of the Interior, the Department of Agriculture, the Federal Power Commission and the Tennessee Valley Authority. They are as follows:

Statutes administered by the Department of the Interior:

Oregon and California Land Grant Act of July 13, 1926, (44 Stat. 915), which authorizes and directs payments each year to counties in the States of Oregon and Washington of amounts equal to taxes that would have accrued against certain lands (previously granted to the Oregon & California Railroad Co. and reacquired by United States) if they had remained in private ownership and taxable.

Note: This is the only act of Congress basing Federal payments on what the taxes would have been on real estate if it had not been acquired by the United States.

The Five Percent Public Land Funds Act (U.S.C., title 31, sec. 711), which provides that 5 per centum of the net proceeds of sales of public lands lying in the States of Missouri, Michigan, Florida, Iowa, Wisconsin, Minnesota, Oregon and Nevada shall be paid each year to said States, for the purpose of education or of making public roads or improvements.

Geas Bay Road Gravel Act of February 26, 1919 (40 Stat. 1179), which provides that 25 per centum of the proceeds from sales of Geas Bay Road Gravel lands and sliver within the counties of Geas and Douglas, State of Oregon, shall be paid each year to said counties, for public schools, roads, highways, bridges and port districts.

Haystack Indian Reservation Act of March 1, 1935 (47 Stat. 2418), which provides that 57-1/2 per centum of the net royalties accruing from gas and oil produced in paying quantities within lands added by the Act to the Harajo Reservation, shall be paid each year to the State of Utah, to be expended in tuition of Indian children in white schools, and/or in the building or maintenance of certain roads or for the benefit of certain Indians.

Note: No such payments have been made since oil and gas have not been produced on said lands.

Graveling Act of June 28, 1934 (48 Stat. 1269), section 10 of which authorizes the payment, subject to appropriation by the Congress, of 50 per centum of the money received from each graveling district during any fiscal year to the State in which the graveling district is situated to be expended for the benefit of the County or Counties in which the graveling districts are situated, and section 11 of which authorizes the payment, subject to appropriation by the Congress, of 25 per centum of all moneys received from graveling districts on Indian lands ceded to the United States for disposition under the Public Land Laws to the State in which the lands are situated, to be expended for the benefit of public schools and public roads of the county, or counties, in which the lands are located.

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Mineral Leasing Act of February 25, 1920 (U.S.C., title 30, sec. 191), which provides that 37-1/2 percent of the amounts derived from bonuses, royalties and rentals under the provisions of the Act shall be paid each year to the States within the boundaries of which the leased lands or deposits are located, to be expended for the maintenance of public roads, or for the support of public schools or other educational institutions as the States may direct.

Act of March 3, 1921 (41 Stat. 1249), under section 5 of which, taken in connection with the Oklahoma statutes, annual payments to the State of Oklahoma and to Osage County, Oklahoma, of 5 percent and 1 percent, respectively, of the amounts received by the Osage Tribe of Indians for royalties from the production of oil and gas from lands located in said county, are authorized and directed.

Statutes Administered by the Department of Agriculture:

National Forest Fund Act (U.S.C., title 16, sec. 500), which provides that 25 percent of all moneys received from each forest reserve during any fiscal year shall be paid at the end thereof to the State of territory in which the reserve is situated for the benefit of public schools and public roads of the County or Counties in which the forest reserve is situated.

Note: The Secretary of Agriculture is authorized to expend an additional 10 percent of all moneys so received for the construction and maintenance of roads and trails within the National Forest from which the moneys are received.

Act of June 20, 1910 (36 Stat. 562, 573), which provides for the payment, at the close of each fiscal year, to the States of Arkansas and New Mexico, for the benefit of the common schools, such proportion of the gross receipts of all the National forests within said States as the area of lands granted to the States for school purposes and included within National Forest Reserves bears to the total area of all National Forest Reserves within said States.

Statutes Administered by the Federal Power Commission:

Section 17 of the Federal Power Act (41 Stat. 1072), which provides that, each year, 37-1/2 percent of the charges arising from licenses issued under the Act for the occupancy and use of national forests, national parks, public lands, and national monuments, from development within any State shall be paid to such State.

Statutes Administered by the Tennessee Valley Authority:

Section 13 of the Tennessee Valley Authority Act (48 Stat. 66), which provides that, each year, 5 percent of the gross proceeds received from the sale of power generated at Dam No. 2, or from any other hydro-power plant constructed in the State of Alabama, shall be paid to the State of Alabama, and that 5 percent of the gross proceeds from the sale of power generated at Cove Creek Dam, or any other dam located in the State of Tennessee, shall be paid to the State of Tennessee.

1935-1936 Legislation Relative to Taxation of Federal Property:

Section 401 of the Act of June 15, 1935 (49 Stat. 383), amending the Migratory Bird Hunting Stamp Act of March 16, 1934, and other statutes relating to game and wild life, which provides that 25 percent

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of all moneys received during any year from the sale or disposition of surplus wild life or timber, hay, grass, or other spontaneous products of the soil, shell, sand or gravel, or from other privilege as refuges established under the Migratory Bird Conservation Act, or any other law, proclamation or executive order administered by the Bureau of Biological Survey of the Department of Agriculture, shall be paid to the county in which such refuge is situated, to be expended for the benefit of the public schools and roads in the county. Administered by the Department of Agriculture.

The Act of June 20, 1916, for Relief of Certain Indian Lands (49 Stat. 1542), which authorizes the payment of taxes, including penalties and interest, assessed on individually owned Indian Lands, the title of which is held subject to restrictions against alienation. Administered by the Department of the Interior.

Note: The Act appropriates \$25,000 for this purpose and declares that such lands shall hereafter be non-taxable.

The Act of June 23, 1916 (49 Stat. 2025), relating to slum clearances and low-cost housing projects, which authorizes the Public Works Administrator to enter into agreements with States and subdivisions thereof for payments in lieu of taxes, the amounts to be based upon the cost of the public or municipal service to be supplied for the benefit of the projects, or persons residing on or occupying the premises of such projects, and taking into consideration the benefits to be derived by the State or subdivision from the project. Administered by the Public Works Administration.

Act of June 29, 1936 (49 Stat. 2035), relating to resettlement or rehabilitation projects, which provides for payments in connection with resettlement and rural rehabilitation projects similar to the payments in connection with slum clearance and low-cost housing projects provided for in the act last above-mentioned. Administered by Department of Agriculture.

Note: In connection with this Act, the Attorney General on June 23, 1936, in reporting to the Acting Director of the Bureau of the Budget that he found no objection to approval of the bill, said, in part:

"Real property owned by the United States may be divided into two classes. In the first group may be placed tracts of land, which are ordinarily known as Federal reservations, and over which the Federal Government has sovereignty and the Congress has exclusive power to legislate, under Article I, Section 8, clause 17, of the Constitution. In the second category may be placed lands to which the Federal Government has only a proprietary title, and over which the State retains sovereignty and jurisdiction.

"The evident purpose of the provisions of Section 1 of the bill is to place lands heretofore or hereafter acquired for resettlement or rural rehabilitation projects into the second class of properties. The object sought to be attained is to enable persons living in such localities to be accorded police and other protection by the local authorities, and to retain their right of suffrage and other privileges. This result would not be reached if the properties became Federal reservations in the constitutional sense."

Act of September 1, 1937 (50 Stat. 895), providing for financial assistance to the states and political subdivisions thereof, for the elimination of unsafe and insanitary housing conditions, for the eradication of slums, etc., which authorizes agreements to pay annual sums in lieu of taxes with respect to real property owned by the United States Housing Authority, subject to the limitation that the amount so paid for any one year "shall not exceed the taxes that would be paid to the state or subdivision, as the case may be, upon such property if it were not exempt from taxation thereby." Administered by United States Housing Authority under the Department of the Interior.

CHAPTER IV - ENCUMBRANCES

Surplus Property

Until this inventory of Federal real estate was taken there was no adequate record of the extent to which the Government was in possession of landed property and buildings which are definitely surplus to its present needs or to such needs as may reasonably be anticipated. It is likely, however, that a more detailed investigation would reveal that other unneeded projects in whole or in part have not been reported as surplus property, although such designation should probably be given to them. It is recommended that in order to ascertain just what properties are surplus an order be issued which will compel all branches of the service to declare their surplus land and improvements completely, accurately, and promptly. Only in this way will it be possible to find a prudent use for such properties or to offer them for sale.

Federal Real Estate Inventory

We recommend that the Procurement Division of the Treasury Department continue to maintain a current record of all Federal real estate, to the end that there may be constantly on file information as to the status thereof, and as to the changes that have occurred in the ownership of Federal lands since the inventory of June 30, 1934.

Federal Real Estate Board

We believe that there should be constituted a Federal Real Estate Board composed of a representative from each of the governmental agencies in charge of considerable holdings of Federal income-producing property, a representative from the Procurement Division, and a representative from the Bureau of the Budget. The duty of this Board should be to study

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and make recommendations regarding the situation which exists in individual communities adversely affected by the purchase of substantial amounts of land and the consequent removal of such land from the regular tax rolls of the county or other taxing district; to advise with Federal agencies contemplating the acquisition of additional real estate; and to submit recommendations regarding the disposition of lands that are essentially in the nature of surplus property.

TREASURY DEPARTMENT

331

INTER OFFICE COMMUNICATION

DATE October 12, 1938

TO Secretary Morgenthau

FROM Mr. White *HOW*

Subject: Recent conferences with Mr. Chen.

1. I am appending for your possible interest a list of the names of the men who attended the conference in New York with Mr. Chen, and a copy of the questions which Mr. Chen left with the group in New York.

2. Mr. Chen reported that one of China's own traffic technical experts (Mr. T. S. Shueh) is leaving by Clipper for the United States to help complete arrangements here.

3. Mr. Chen is eager to proceed with the preliminary arrangements and establish the "Chin-Co" (I am afraid that title reads better than it sounds) and there has been a preliminary discussion in Mr. Oliphant's office this morning as to steps necessary to take for its formation. Mr. Chen asked Mr. Oliphant to suggest legal counsel that they (the Chinese) might use if Mr. Oliphant felt such counsel was desirable. Mr. Oliphant said he would think it over and let Mr. Chen know his opinion soon.

4. Mr. Chen told me he was eager to have you suggest some person or persons in the United States whom you could recommend that they consider to place on the contemplated Board of Directors of the new company. (He gave me the impression that they would be glad to put anybody on the Board whom you would name.) I told him I would transmit his request to you.

5. Mr. Chen said they expect to buy the trucks (about 1000) as soon as final arrangements are made (and he added as soon as "they have the money". "Well", I asked, "will not the proceeds from the last sale of silver be more than adequate to pay for the trucks?" He responded "That money is already as good as spent, I believe. That money is needed for purchases being made now." I didn't get the impression that he was at all certain of it.

TO MR. K. P. CHEN:

The following gentlemen attended the luncheon today.

- Mr. Philo Parker, ~~was~~ President, Standard Vacuum Oil Company
New York
- Mr. H. Dundas, Vice President, Standard Vacuum Oil Company
New York
- Mr. Shultz, Managing Director, Standard Vacuum Oil Company
Hong Kong, China
- Mr. James A. Moffett, Chairman of the Board, California Texas
Oil Company, Ltd., New York
- Mr. Howard M. Harron, President, California Texas Oil Company, Ltd.
New York
- Mr. Philip LeFevre, Managing Director, California Texas Oil Company, Ltd.
Shanghai, China
- Mr. F. J. Harmon, International Harvester Co., New York
- Mr. Hoyt, International Harvester Co., New York
- Mr. F. L. Hopkinson, General Motors Corporation, New York
- Mr. William J. Baxter, Chrysler Motor Company, New York
- Mr. Driscoll, Ford Motor Company, New York.

The purpose of this meeting is to seek expert advice from you gentlemen on the following problem:-

1. Supposing that Canton-Hankow Railway is eventually involved in war operations and transportation of military supplies and export cargo have to depend upon motor transport;
2. Supposing that the following 2 motor routes are used:-
 - a. Chungking-Kweiyang-Liuchow route connecting with river service via Wuchow to Hongkong; in case West River traffic is also interfered with these^{se} connecting with Liuchow-Nanning road to Kwangchowwan on one side and to Cheng-nan-kwan on the other;
 - b. Chungking-Kweiyang-Kunming route connecting with Kunming-Haiphong Railway to Haiphong.
3. Supposing that it is necessary to ship 100 tons of woodoil per day minimum from Chungking to seaboard and a given quantity of gasolene and other oils from seaboard to the interior;

We desire to know:--

1. How many motor trucks of 2½ ton capacity are required to maintain a continuous flow of oils in and out at an average rate of 100 tons a day for woodoil;
2. Could tank wagons be more economically and more conveniently employed; if so, what number;
3. Would it be more economical and convenient to use other kind of vehicle such as diesel engine trucks, etc. than motor trucks;
4. What sort of equipments and organization such as repair shops, service stations, supervision mechanics, etc. are required to maintain an efficient service;
5. What would be the estimated costs of the trucks, equipment and installations;
6. What would be the cost of operating a determined number of trucks and a service organization; normal costs, as well as costs contingent upon war conditions;

NOTE:	Chungking - Kunming (Yunnanfu)	1,148	Kilometers	7	days
	Chungking - Liuchow	1,120	"	7	"
	Chungking - Chengnankwan	1,624	"	11	"
	Chungking - Kwangchowwan	1,665	"	11	"



MJD

GRAY

Berlin

Dated October 12, 1938.

Rec'd. 9 a. m.

Secretary of State,

Washington.

541, October 12, 10 a. m.

Number 21. FOR TREASURY FROM HEATH.

The German controlled press features the great reduction in currency circulation and Reichsbank credits shown in the Reichsbank statement for the first week of October.

Thus, currency circulation which had increased 1,219 million reichsmarks during September decreased 5,600 million reichsmarks during the week to a total 9,648 million reichsmarks on October 7 as compared with the 7,019 million reichsmarks on October 7, 1937.

Total Reichs loans and credits decreased from 8,223 million reichsmarks on September 30 to 7,357 million reichsmarks on October 7. On September 9, 1938, total credits were 6,407 million reichsmarks and on October 7, 1937, 5,321 million reichsmarks.

There were repaid during the first week of October some 52% of the fresh Reichsbank credits granted in September. For the first week in September the repayment of

fresh

MJD -2- No. 541, October 12, 10 a. m. from Berlin

fresh credits was 32%; during the first week of October 1937, 38% of fresh credits were repaid.

The decrease in currency circulation during the first week in October was 41.5% of the increase during the calendar month of September. However, during the first week of September 1938 and the first week of October 1937 the decrease in currency circulation practically equaled the increase in circulation during the preceding month.

From April through May of this year the Treasury has monthly been issuing around 500 million reichsmarks worth of short term Treasury certificates. August set a new record in this respect with a total issuance of 610 million reichsmarks. There was also an increase of the government credit with the Reichsbank of 17.6 million reichsmarks. There was an offset, however, through the retirement of 103 million reichsmarks of old Treasury certificates during the month so that the total increase in the disclosed floating debt of the Reich during August was only 526 million reichsmarks to a total of 4,513 million reichsmarks. Of the 610 million Treasury certificates issued in August some 258 million reichsmarks were sold to investors, the remainder being presumably issued direct to contractors in payment for Government work.

It is to be noted that the stock market index for the first

MJD -3- No. 541, October 12, 10 a. m. from Berlin

first week in October increased to 106.9 (1924-26 equal 100). This is a recovery of nearly five points from August when the index had fallen to 102.16. The high of this year was 114.83 in April.

WILSON

WVC
CSB

RAW

PLAIN

London

Dated October 12, 1938.

Rec'd 9:25 a.m.

Secretary of State,
Washington.

1163, October 12, 11 a.m.

FOR TREASURY FROM BUTTERWORTH.

The following comment by the City Editor in today's
TIMES is worthy of note.

"The renewed weakness of sterling since its sharp post crisis recovery has been widely viewed in the city with a complacency not wholly distinguishable from veiled pleasure. It has not escaped notice that no great effort has been made by the authorities to check the movement and that despite the fact that sterling has now depreciated by some 10 1/2c since the rate crossed the old parity at the end of August Washington appears to have taken no serious exception to what has occurred. Much of the decline in sterling during the past week has no doubt been due to factors which may in varying degrees be temporary - the continuance of Continental distrust in the European situation, seasonable commercial demand for dollars and the rise in Wall Street. But those who are convinced by the evidence that sterling has been and is overvalued - and they are in a majority - see in this movement a possible adjustment

-2- 1163, October 12, 11 a.m., from London.

adjustment of the exchange value of sterling in accordance with our real commercial needs. It is also thought that some at least of the adverse factors affecting the exchange will be more than temporary and that some permanent relief will be found in the maintenance of a lower rate for sterling against the dollar. It certainly seems probable enough that the demands of expanded rearmament will tend to increase rather than lower the costs and prices of British goods relatively to those of our competitors. And the desirability of a lower rate for sterling is thus likely to increase rather than diminish during the next year or two. It is also necessary to reckon with the possibility of the loss of some of our trade with Southeastern Europe in favour of Germany although admittedly the total volume of such trade has in recent years been small.

Unfortunately however it is unduly optimistic to feel that a fall in sterling against the dollar constitutes an easy cure for any existing overvaluation of the pound. The relief provided by a decline in the dollar rate is economically more apparent than real for the United States together with other areas whose currency is based on the dollar is of only limited importance as a market for or competitor of British exports. So far as it goes the relief provided is welcome and valuable. But it must be remembered that the great

bulk

-3- 1163, October 12, 11 a.m., from London.

bulk of British overseas trade is in relation to competitors and markets whose currencies are either within the sterling bloc or can for practical purposes be aligned with it. The belge remains for the time being linked to gold and the dollar and both the Swiss franc and the guilder have during the past week or so pursued a midway course between sterling and the dollar whereas they had come to be more or less definitely linked to sterling during the period immediately before the crisis. But even the Swiss franc and the guilder tend now to follow any decline in sterling at least to some extent while the remaining European currencies are either linked to sterling or are controlled - as in Germany - in such a way that the effective exchange rate can be made to follow any movement in sterling at will. Our extra European trade again is largely concerned with countries (the dominions first and foremost) whose currencies are either wholly or to some extent linked to sterling. Comment has been made before in these columns on the fact that this country is no longer in a position to use depreciation of its currency as a deliberate act of policy. The only currency against which even passive depreciation is possible is the dollar and only a very limited and partial corrective for any overvaluation can be obtained in that way. The absence of any natural corrective in the sphere of the exchange rates is indeed a very real problem and

-4- 1163, October 12, 11 a.m., from London.

and one which could not find any practical solution if solution proved necessary except by negotiation between members of the sterling bloc. Whether the problem will become pressing or not at an early date may depend very largely on the domestic effects of the anticipated expansion of the armament programme."

The dollar opened strongly bid at 4.75 with the British control checking the appreciation as it went to 4.74 1/8 the pressure has been extraordinarily heavy. Gold fixing was also unusually large 570 bars at 146s 5d which is about parity. Since 239 bars were married it is obvious that the British authorities had to put into the fixing over 300 bars. With the weakening of sterling the franc has strengthened a little and moved away from the level of recent days of 178.93 to 178.83-86.

KENNEDY

HPD

(Figs 239 300 178 point 93 178 point 83 - 86)

RECEIVED
 OCT 12 1951
 THE OFFICE OF THE SECRETARY
 OF DEFENSE
 WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: October 12, 1938, 11 a.m.

NO.: 858.

The Commercial Attaché of the Embassy has just received information from the Bank of Japan that on the SS KUNIKAWA MARU which sailed October 10 for the United States there was a shipment of gold in the amount of 20,000,000 yen.

GREW.

07913048
OCT 12 1938
RECEIVED
EA:LWW
Regraded Unclassified

RAW

PLAIN

London

Dated October 12, 1938

Rec'd 3:38 p.m.

Secretary of State,
Washington.

1165. October 12, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The city's post-crisis mood of appraisal referred to in previous telegrams was today enveloped by another wave of pessimism. The immediate cause is the prominence given in today's London press to the manner in which Germany intends to exploit her advantages in the Danubian and Balkan areas. This in turn has led to further evaluation of the international situation as well as of the economic and financial difficulties facing Great Britain. But on all these matters opinion is floundering about. In the absence of clarifying facts the city's general conclusion is that "the outlook is uncertain and probably bad".

After the early morning (my 1163 October 12, 11 a.m.) the demand for dollars abated and during the rest of the day the volume of trading has not been large due mainly to the fact that New York was closed. The rate has fluctuated around 4.74 1/4-3/4. In the afternoon the franc weakened again and the rate moved to 178 3/4.

CSE

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 12, 1938, 4 p.m.

NO.: 1740

FROM COCHRAN.

At twelve noon today I visited at the Bank of France. There had been a slight improvement in the franc this morning, and there was no intervention on the market by the French stabilization fund. 150,000 pounds were lost by the French stabilization fund yesterday, and 800,000 pounds on Monday.

The British control had lost about 3,000,000 pounds in gold and dollars by noon today. The British fund lost 3 1/2 million pounds on Tuesday, and 4 1/2 millions on Monday.

As for the progress being made in the preparation of French financial decree laws, the Bank of France had no information.

END SECTION ONE.

WILSON.

PARAPHRASE OF TELEGRAM RECEIVED - SECTION TWO,
No. 1740 of October 12 from Paris.

Today the Bank of France invoiced for shipment on the SS QUEEN MARY 565 million francs gold bars, to go to the Federal Reserve Bank of New York for account of the Bank of England.

This afternoon there has been further improvement in the franc, both spot and forward. French rentes have gone up. Sterling is receiving entire pressure from all sides, and it is reported that forward as well as spot rates are being supported by British control. Great Britain, according to continental opinion, must bear the brunt of present international difficulties, with the resultant strain on sterling.

END MESSAGE.

WILSON.

6571030
EA:LWW
FEB 11 1918
RECEIVED
U.S. DEPARTMENT OF STATE

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 12, 1938, 5 p.m.

NO.: 543

No. 22 FOR TREASURY FROM HEATH.

While the Sudeten inhabitants now have the privilege of converting their crowns into marks at the rate of one crown equals reichsmarks 0.12 (see my No. 20) the official rate for transfers between Germany and Czechoslovakia remains constant around one crown equals reichsmarks 0.086.

Today's financial press points out that the overvaluation of "Sudeten crowns" for conversion purposes by 39.5 percent over the official crown-mark rate almost exactly corresponds to the 40 percent difference in the wholesale price indices of Czechoslovakia in Germany measured in gold (on the basis 1929 equal 100 the German wholesale index is 77 and the Czech 55).

It is somewhat amusing to note that despite the difference in wholesale indices the German official index shows living costs to be only 21 percent higher measured in gold than the Czech index. (82 as compared with 68.)

The usually well informed FRANKFURTER ZEITUNG indicates that consideration was given to assigning an even higher conversion value for "Sudeten crowns". It is pointed out that the German average industrial hourly wage is reichsmarks 0.78 whereas the average hourly wage in thirty-two Czech

- 2 -

industries in 1936 was reichsmarks 0.37. On this basis it is stated that a conversion rate of the mark for the crown of 16 pfennigs was indicated.

With reference to the rumors of Czech-German customs and currency union (reported in my telegram No. 19) the Czech Legation insists that no such offer has been made by Czechoslovakia nor has Germany made such a request. Should such a move be receiving serious consideration by Czechoslovakia, it would seem that they would delay it as long as there was any possibility that England would grant them a loan. The remark was made by a member of the British delegation to the conference here that he assumed in London, Peroutka of the Czech National Bank (who is there now presumably with regard to the loan) was probably being severely questioned as to the customs union rumor. This British representative stated it would be "unusual" for England to make a large loan to a country which was making plans to incorporate itself economically with Germany. In essence such a loan would be equivalent to giving it to Germany to complete the four-year plan launched for military and self-sufficiency in raw materials.

WILSON.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

October 13, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a copy of a letter sent to the Vice President of the Federal Reserve Bank of New York, regard a proposed transaction involving the importation of gold from Brazil.

There is also enclosed a copy of despatch No. 922, September 26, 1938, from the American Embassy at Rio de Janeiro.

Enclosures:
As stated.

JK

In reply refer to
EA

October 13, 1938.

My dear Mr. Knoke:

The American Ambassador at Rio telegraphed on October 10 the following translation of a letter to him dated October 10, signed by the President and Director of Exchange of the Bank of Brazil:

"With reference to our letter of August 24, 1938 concerning the understandings reached between this Bank and the Federal Reserve Bank through your intermediary, we have the honor to enclose the draft for the final agreement for the establishment of a gold fund of the Government of Brazil with the Federal Reserve Bank which we are authorized to sign on behalf of the Government of Brazil, the authority for which will in time be exhibited.

"Requesting of Your Excellency the kindness of transmitting the text of the enclosed draft to the fiscal agents of the Government of the United States, we would appreciate their opinion in order that we may conclude the contract in question."

The Ambassador states that the plan received with the letter is identical with the plan transmitted with the Embassy's despatch No. 922 of September 26, 1938,

with

Mr. L. W. Knoke,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

-2-

with the exception of Article 1 of "Agreement" which now commences as follows: "In conformity with the agreement signed between the Secretary of the Treasury of the United States, Mr. Morgenthau and the Minister of Finance of Brazil, Mr. Arthur de Souza Costa by letter of July 15, 1937 the Bank of Brazil in its capacity as official agent, et cetera." A copy of despatch No. 922 and its enclosures is enclosed. The Embassy's telegram added a request of the Bank of Brazil that you be informed that the shipment of gold bars forwarded on September 29 on the Steamship WESTERN PRINCE would be turned over to the Federal Reserve Bank in New York in accordance with telegraphic instructions being sent to the Guaranty Trust Company October 10. The Bank of Brazil desire the Federal Reserve Bank of New York to accept this gold as the first deposit in connection with the new plan. This procedure was stated to be a change from the procedure reported in the Embassy's telegram No. 222, dated September 12, as the Bank of Brazil now wishes to avoid selling the gold.

The Department has now received a telegram dated October 13 from the Embassy requesting a cable reply from the Federal Reserve Bank of New York at the earliest possible moment to the Embassy's telegram No. 222. The Director added that so great is the need of the Bank for dollar

dollar exchange that the Bank will be forced to sell the gold which has already arrived in New York unless the plan set out in telegram 236 is put into effect at once.

Sincerely yours,

Frederick Livesey,
Assistant Adviser on International
Economic Affairs.

Enclosure:

Copy of despatch No. 922,
September 26, 1938, from
Rio de Janeiro, with
enclosures.

Rio de Janeiro, September 26, 1938.

No. 922.

SUBJECT: Shipment of Gold to the United States.

ORIGINAL AND THREE COPIES BY AIRMAIL---CONFIRMATION COPY
BY STRAMER.

STRICTLY CONFIDENTIAL.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to refer to my despatch No. 920 of September 25, transmitting the reply of the Bank of Brazil to the strictly confidential communication from the Federal Reserve Bank of New York dated September 3, 1938, regarding the establishment by the Bank of Brazil of a gold reserve in the United States.

I have today received from the Director of Exchange of
the/

-2-

1-2/ the Bank of Brazil, in confidence, a draft plan, drawn up by the Director of Exchange, for the shipment of this gold to the Federal Reserve Bank. Copy and translation are enclosed. The Director of Exchange emphasizes that this plan is purely tentative, and that it must be passed upon by the Minister of Finance. He adds that it is his expectation that the Minister of Finance will act upon the plan this week.

The Department will note that the plan is drawn up in conformity with the secret decree-law of July 11th, reported in my No. 165, July 9, 12 noon and No. 171, July 16, 1 p.m.

Respectfully yours,
For the Ambassador:

R. M. Satten,
Counselor of Embassy.

Enclosures:

1. Draft Plan, in Portuguese.
2. English translation of above.

RMS/MVJ

File No. 851.51

Project for the Formation of a Gold Fund Abroad.

- 1 - As provided for in Decree No. 23,535 of December 4, 1933, gold specie acquired by the Bank of Brazil for the account of the Federal Government constitutes a fund for the National Defense and can only be applied for this purpose.
- 2 - In accordance with confidential Decree No. 549 of July 11, 1938, the minister of Finance was authorized to remit abroad the metallic gold already acquired or which will be acquired during a period of one year counting from the date of that decree, in excess of 28 tons. These resources are to be utilized for payments of obligations assumed by the Treasury for building up the National Defense.
- 3 - In conformity with the agreement signed between the Secretary of Treasury of the United States, Mr. Morgenthau and the Minister of Finance of Brazil, Mr. Arthur de Souza Costa, by letter of July 10, 1937, it is possible for this fund to be deposited with the Federal Reserve Bank of New York in its capacity as fiscal agents of the Government of the United States.
- 4 - Still in accord with the same provisions and considering the difficulties of transfers in the exchange market, on the one hand, and the urgent necessity of satisfying obligations already assumed by the Government in building up the National Defense, on the other hand, this metallic reserve can be used as collateral with the Federal Reserve Bank for the opening of an equivalent credit which not only avoids the immediate alienation of the gold sent, taking advantage of the opportunity for the future conservation of a stock outside of the country, but also facilitates the execution of the provisions mentioned in Decree No. 549.
- 5 - For this purpose the following instructions are set out:

a) The Bank of Brazil is authorized, as official agent of the Brazilian Government, to sign the necessary agreement with the Federal Reserve Bank under the conditions set out below, the Government of the United States being so advised.

b) In these circumstances all operations resulting from the deposit of this gold collateral as well as the credits in New York and their countervalue in Brazil will be made in the name of the Bank of Brazil in its capacity as official representative of the Brazilian Government and which is responsible for the obligations assumed as well as being entitled to the rights resulting from those operations.

AGREEMENT

- 1 - The Bank of Brazil, in its capacity as official agent of the Brazilian Government, will send to the Federal

Reserve Bank

- 2 -

Reserve Bank of New York, in its capacity as fiscal agent of the Government of the United States of America, metallic gold in bars or coins, stamped (afenido) or examined by that bank, up to the amount of \$60,000,000.

- 1 - This gold will be safeguarded in custody against certificates issued in duplicate in the name of the Bank of Brazil, as agent of the Brazilian Government, its utilization being dependent on the execution of the clauses of the present contract.
- 2 - The Federal Reserve Bank guarantees furthermore, the sale of this metallic gold at any time, against dollars, at the price of the market in New York.
- 3 - The Federal Reserve Bank will grant to the Bank of Brazil, credits equivalent to the gold deposited with it for telegraphic utilization and under the conditions mentioned below.
- 4 - For that purpose the Federal Reserve Bank will be authorized to use as surety (cauçonar) the quantity of gold equivalent to the credits mentioned.
- 5 - Against these credits the Bank of Brazil will sell to the Federal Reserve Bank the equivalent sums in Brazilian currency for liquidation in the same period as the credits and which will be held at the disposition of the Bank of Brazil, subject to (vinculada) liquidation by the Bank's representative in New York.

The Conditions of Credit in New York.

- a) The credits will correspond to the value of the gold deposited at the rate of the day in New York.
- b) The period will be for one year from the date of its establishment and the renewal will depend upon previous consultation of 30 days.
- c) The interest will be computed at the rate of $1/2\%$ above the average of the rediscount rate of the Federal Reserve Bank during the previous month, payable semi-annually upon advice of the Federal Reserve Bank.
- d) If at any time the Bank of Brazil is not able to cover the unliquidated balance of any of these credits, the Federal Reserve Bank is authorized to utilize the gold set aside as surety (cauçonado) for that purpose independent of any previous notice.

The Conditions of the Federal Reserve Bank's Account in Rio de Janeiro.

- e) The credits opened in New York will correspond to the sale by the Bank of Brazil to the Federal Reserve Bank of Brazilian currency in its equivalent at the daily selling rate for the dollar.

f) These

f) These credits will correspond to those mentioned above; inclusive for purposes of liquidation, it being understood that there will be included in them the interest due up to the moment of their redemption.

g) Once the Federal Reserve Bank utilizes the gold on deposit with it to cover any credit which has matured, this act will automatically result in the cancellation of its credit in Milreis in Brazil.

NO EXTERIOR

- 1 - Na forma do decreto no. 23.535, de 4 de Dezembro de 1933, o ouro em espécie adquirido pelo Banco do Brasil, por conta do Governo Federal constitui o fundo da defesa nacional, só nesse caso podendo ser aplicado.
- 2 - De acordo com o decreto reservado no. 349, de 11 de Julho de 1933, ficou o Ministro da Fazenda autorizado a resgatar para o exterior, do ouro metálico já adquirido e a adquirir, no período de um ano, e contar da data do mesmo decreto, a parte que exceder a 25 toneladas, utilizando-se esses recursos nos pagamentos de compromissos assumidos pelo Tesouro para o aparelhamento da defesa nacional.
- 3 - Na conformidade do acordo firmado entre o Secretário do Governo dos Estados Unidos da América do Norte, Sr.... Morgenthau e o Ministro da Fazenda do Governo do Brasil, Sr. Arthur de Souza Costa, por carta de 15 de Julho de 1937, torna-se possível esse lastro em depósito no Federal Reserve Bank, de New York, na qualidade de agentes fiscais do Governo dos Estados Unidos da América do Norte;
- 4 - Ainda de acordo com as mesmas disposições, e considerando-se as dificuldades de transferências no mercado cambial, por um lado, e a necessidade urgente da satisfação de compromissos já assumidos pelo Governo no aparelhamento da defesa nacional, por outro, pode esse lastro metálico ser caucionado ao Federal Reserve Bank contra a abertura de um crédito equivalente, o que evita não só a imediata alienação do ouro enviado, aproveitada a oportunidade de sua futura conservação em estoque fora do País, como facilita a execução do determinado pelo citado decreto No. 349.
- 5 - Para tais efeitos, ficam estabelecidas as seguintes instruções: -
 - a) - Fica o Banco do Brasil autorizado, como agente oficial do Governo Brasileiro, a firmar o necessário acordo com o Federal Reserve Bank dentro das condições estabelecidas e que abaixo se transcrevem, do que será notificado o Governo dos Estados Unidos da América do Norte.
 - b) - Nessas condições, todas as operações decorrentes do depósito e caução desse ouro, como dos créditos em New York e seu contra-valor no Brasil, serão feitas em nome do Banco do Brasil na qualidade de representante oficial do Governo Brasileiro que responde pelos compromissos assumidos assim como se arroga os direitos delas decorrentes.

A C O R D O

- 1 - O Banco do Brasil, na qualidade de agente oficial do Governo dos Estados Unidos do Brasil, enviará ao Federal Reserve Bank, New York, também na qualidade de agentes fiscais do Governo dos Estados Unidos da América do Norte, ouro metálico em barras ou moedas, sferidos ou examinados pelo mesmo Banco, até a quantia de \$80,000,000.

- 2 - Esse ouro será guardado em custódia, mediante certificados expedidos em duas vias, em nome do Banco do Brasil como agente do Governo Brasileiro, dependendo o seu emprego da execução das cláusulas do presente contrato.
- 3 - Fica, contudo, assegurada pelo Federal Reserve Bank a venda desse ouro metálico a qualquer tempo, contra dolares e ao preço do mercado em New York.
- 4 - O Federal Reserve Bank concederá ao Banco do Brasil os créditos equivalentes ao ouro que fôr depositado, para utilização telegráfica e sob as condições adiante mencionadas.
- 5 - Para tal efeito ficará o Federal Reserve Bank autorizado a caucionar a quantidade de ouro equivalente a ditos créditos.
- 6 - Contra esses créditos, o Banco do Brasil venderá ao Federal Reserve Bank a importância equivalente em moeda brasileira, para liquidação no mesmo prazo dos créditos - que será mantida à disposição do mesmo Banco no Brasil, vinculada à liquidação de seu correspondente em New York.

DAS CONDIÇÕES DO CRÉDITO EM NEW YORK

- a) - Os créditos serão correspondentes ao valor do ouro depositado, a taxa do dia em New York.
- b) - O prazo será de um ano a partir da data de sua concessão, e a sua renovação dependerá de consulta prévia de 30 dias.
- c) - Os juros serão contados a taxa de 1/2% acima da média de redescontos do Banco de Reserva no mês anterior, pagos semestralmente, sob aviso do Federal Reserve Bank.
- d) - Desde que no vencimento o Banco do Brasil não cubra o saldo remanescente de qualquer desses créditos, fica o Federal Reserve Bank autorizado a se utilizar do ouro caucionado para tal efeito, independente de qualquer aviso prévio.

DAS CONDIÇÕES DA CORTA DO FEDERAL RESERVE BANK

NO RIO DE JANEIRO

- e) Aos créditos concedidos em New York corresponderá a venda do Banco do Brasil ao Federal Reserve Bank em moeda brasileira, por seu equivalente à taxa de venda do dia do dolar.
- f) - Esses créditos corresponderão aqueles, inclusive para os efeitos de liquidação, ficando entendido que neles se incluirão os juros devidos até o momento de seu resgate.
- g) - Desde que o Federal Reserve Bank se utilize do depósito em ouro para cobertura de qualquer crédito vencido, a mesma utilização corresponderá a anulação de seu crédito em réis no Brasil.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: October 13, noon

NO.: 238

Please refer to my 236, October 10, 1 p.m.

A reply from the Federal Reserve Bank of New York would be greatly appreciated by the Director of Exchange of the Bank of Brazil at the earliest possible moment.

In addition, the Director says that the need of the Bank for dollar credits is so urgent that unless the plan set out in my telegram under reference is put into effect immediately, the bank will be forced to sell the gold which has arrived in New York already.

CAFFERY

EA:DJW

EDA

PLAIN

LONDON

Dated October 13, 1938

Received 10 a.m.

Secretary of State

Washington

1174, October 13, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened strongly bid at 4#74 1/4. The British authorities pushed the rate to 1/2 but after a few minutes went out of the market and the rate immediately moved to 4#73 1/2. The British authorities, however, held it steady at this point although the demand has been exceedingly heavy at times. Gold fixing was at parity 550 bars at 146S 9D. 218 were married and the remainder were supplied by the British fund. For the first time in weeks the Bank of France bought sterling, the franc with other continental currencies being bid against the pound. The articles in today's financial press are of little interest except for a common query as to whether the British authorities made a sufficiently strong stand yesterday. In this connection the following excerpt from the city column of today's TIMES is of interest.

"The dollar rate has fallen by not much short of 4 cents since the beginning of the week and apart from brief intervals

EDA - 2 - #1174, October 13, 1 p.m. from London

intervals in which some selling of dollars to cover arbitrage shipments has been in evidence it has been a completely one way market. The problem must no doubt have presented itself to the authorities whether in view of the persistence with which a large scale demand for dollars has reasserted itself after only the briefest of respites, some revision of the policy of the control is indicated. Hitherto the authorities have not deviated in any way from their usual practice of retreating before the major movement and fighting a sort of mild rearguard action at intervals of a cent or so. The decline in sterling which has thus been permitted has not, however, diminished the demand for dollars in fact quite the reverse. And if the westward flow of funds proves as persistent as at present seems likely the policy of gradual retreat might naturally prove somewhat expensive in terms of the loss of gold involved. The market is inclined to feel that it can take advantage of the authorities policy of gradual recession - an attitude which has found its reflection in an appreciable amount of speculative bear selling of sterling during the past few days. It is difficult to see, however, what new policy the control could logically pursue. It would appear on the face of it that the flight into dollars

is

EDA - 3 - #1174, October 13, 1 p.m. from London

is of a kind which would not be easily checked either by a determined effort to peg the rate or by allowing sterling to fall rapidly to a materially lower level. The latter policy has certain obvious attractions, especially as at the present time Washington seems inclined to view a fall in sterling with equanimity. But there are serious objections to adopting such a line, partly because there is no real guide as to what sort of level if any would check the demand for dollars, and partly because it is very conceivable that a rapid decline might in any circumstances merely aggravate a flight which is based on apprehensions of an essentially vague kind. In view of the rapidity with which the flight to the dollar was renewed after the Munich Agreement it may well be thought that it is impossible to calculate any particular point at which it can be checked or exhausted without some new favourable development in the European political sphere. If that should prove to be so a policy aiming at an orderly decline in sterling - if decline should be necessary - may for the time being be the most reassuring and effective."

KENNEDY

WVC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 13, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

Mr. Bolton called at 11 o'clock this morning. Pressure against sterling was apparently increasing daily now. So far he had sold about \$45,000,000 today, a great deal of which was due to transfer of sterling balances to New York principally for account of the Swiss, the Dutch, the Belgians and also some French. There also appeared to be a great deal of speculation. There were large orders in the market to buy dollars, a good many of them coming from New York. Dollars for three months delivery were now up to 2% and he had done between \$7,000,000 and \$8,000,000; this helped to get the rate down.

Was there any talk over here about the sterling rate? Was Washington showing any interest in the present sterling situation? Were there evidences of purchases by London of American securities? I replied that as far as I could make out discussion of the sterling rate had been entirely abroad and that I hadn't seen or heard of any claim in recent weeks that sterling was being deliberately depreciated. Washington was, of course, following the sterling situation. Unless the figures for the week ending last night would show a different picture, our information showed moderate buying of domestic securities for British account of about \$5,000,000 for the week ending October 5, small selling for the week ending September 28 and \$2,000,000 purchases for the week prior.

Bolton stated that they had been experimenting with the

FEDERAL RESERVE BANK
OF NEW YORK

364

OFFICE CORRESPONDENCE

DATE October 15, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokaBANK OF ENGLAND.

2

rate recently and found that if they stuck to one rate they lost a great deal more than by moving it up and down. He would like to give me a different gold price, he continued, which would help us to get into the market right away and accordingly reduced his selling price from 148s 11 1/2d to 148s 9 1/2d. From this I concluded, I said, that he would be willing that we should step into the market promptly. This Bolton confirmed.

LWK:EM

REB

PLAIN

London

Dated October 13, 1938

Rec'd 3:28 p. m.

Secretary of State,
Washington.

1179, October 13, 8 p. m.

FOR TREASURY FROM BUTTERNORTH.

Morhange, a French banker of some sagacity, expressed the opinion that the delay of the French authorities in using their financial powers was due either to the fact (a) that they could not make up their mind what to do or (b) that they were awaiting the outcome of the Senate elections; if these showed a conservative swing they might be tempted to hold an election for the Chamber of Deputies. Morhange emphasized that at the moment anything and everything was possible in France but he had grave fears lest course (b) be pursued which would mean that the Left parties would be execrated for bringing France to the present state of disrepair and consequently the country divided against itself. Morhange considered that the next two weeks in France would constitute a decisive turning point: The French people, as opposed to French politicians, were prepared

REB

2-1179, From London, Oct. 13, 8p.m.

prepared to pull themselves together and bear almost any sacrifices that would give them a sense of confidence that the financial problem would be taken in hand and dealt with effectively and the mass production of efficient aircraft would be successfully undertaken. Morhange felt that this was the time for France to help herself or she was lost, and that her friends would do well not to make it easy for her. He was also convinced that the French people were prepared to face a suitable modification of the 40-hour week, a conversion of rentes which, if not actually forced, could be induced by methods similar to those employed by Belgium, and sufficient increased taxation to balance the ordinary budget. If these measures were undertaken a considerable amount of French capital might return to France despite the unbalanced extraordinary budget, and patriotism would play an important part in any such a movement.

However, Morhange concluded by saying that if on the other hand the situation was not well and courageously handled "anything could happen".

KENNEDY

CSB

REB

GRAY

London

Dated October 13, 1938

Rec'd 3:42 p. m.

Secretary of State,
Washington.

RUSH

1178, October 13, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The movement out of sterling into the dollar is gaining hazardous momentum. It is no longer confined to the continent and the city but is becoming universal and today there were substantial sterling sales from the Far East, India and South America as well. In fact confidence in sterling is being called into question.

The recent tactics of the British monetary authorities of retreating under pressure in the hope that as the pound depreciated the selling pressure would lessen have merely resulted in an increase in the selling pressure as the pound depreciated. Consequently this afternoon they have continued the policy of this morning (my 1174, October 13, 1 p. m.) of holding the rate firm at 4.73 1/2 despite tremendous pressure. Competent dealers

estimate

REB

2-#1178, From London, Oct.13,7p.m.

estimate estimate that the British authorities had to supply not less than 40 million dollars today.

My own feeling is that they have let the situation get somewhat out of hand and that the trial balloons in the TIMES of yesterday and today (No. 1163, October 12, 11 a.m. and No. 1174, October 13, 1 p. m.) have been anything but helpful.

Incidentally British Government securities have weakened today, due mainly to sales by foreign holders desiring to transfer the proceeds to the United States.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 13, 1938, 5 p.m.

NO.: 546.

FOR TREASURY FROM HEATH. No. 23.

Today I had a talk with Blessing of the Reichsbank. Blessing told me that it was his personal opinion that a customs union would not eventuate, although there was a possibility that consideration was being given to such an arrangement in other governmental quarters. He did not think it possible that the economic sovereignty of Czechoslovakia would be surrendered to that extent, even though agricultural interests of Czechoslovakia would in particular be benefited thereby, because prices for farm products in Germany are higher; he remarked that strong political influence could be exerted by the Czech farmers. He expressed the view that present negotiations would, however, evolve a preferential tariff relationship between Czechoslovakia and Germany, under which, according to a report, large amounts of Czech agricultural products would be taken by Germany in return for coal and other products. Blessing said that he believed the report of Runciman indicated the British would have no objection to such a preferential arrangement, and he felt sure that there would be no objection on the part of the French.

The Reichsbank within the next few days, Blessing said, would establish several branch banks in the Sudeten area.

He

- 2 -

He told me that the Deutsche Kredit-Anstalt, whose main bank is in Praha but the majority of whose business is in the Sudeten region, had already resumed banking operations. I asked Blessing whether the Reichsbank would be able to use the Czech crowns which are being accepted in exchange from inhabitants of the Sudeten area. Two billion crowns are now in circulation in that area, according to a Czech estimate. Blessing replied that the Sudeten area was heavily indebted to banks in Praha, and that a considerable portion of this currency would have to be taken by those banks in satisfaction of these credits. After payment of these bank credits, he thought that the Reichsbank would be able to make a deal with the Czech National Bank for whatever amount of crowns was left over.

Blessing showed me the statement of the Reichsbank of yesterday. This statement sets forth that during the first 12 days of the month currency circulation declined by 700 million reichsmarks. It also showed that repayment had been made of 67 percent of the fresh Reichsbank credits granted in September.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 13, 1938, 5 p.m.

NO.: 1749

FROM COCHRAN.

Yesterday a decree was signed by the French Premier authorizing the War Department to contract during 1938 expenditures to the amount of 1,420,000,000 francs over and above those for national defense which have already been authorized. The Navy Department was authorized in another decree to contract during 1938 expenditures to the amount of 887 1/2 million francs over and above those already authorized for that Department.

Since the finance law for 1938 was approved, this is the second important increase in national defense credits. Reference is made to despatch No. 2238 of May 6, 1938, page 11 - under the first series of decree laws which the Daladier Government issued, an additional amount of 4,712,000,000 francs was authorized.

Coordination of rail and road traffic which has been considered for several months was also authorized in a decree signed yesterday. This reorganization, it is hoped, will lead to a substantial reduction in the annual railway deficit which for the past 20 years has been a heavy burden on the Treasury.

Sterling

- 2 -

Sterling has continued to receive pressure from all sides today. Today the Belgian and Dutch currencies followed the dollar in its strength, but apparently the Swiss did not. The French franc improved to 178.74 during the morning, but this afternoon, despite the French stabilization fund's sales of sterling, the rate moved back to 178.85. There is improvement in French rentes. As far as the banks are concerned, there is a letting up of subscriptions to short-term Treasury paper. There is a moderate return of franc deposits from hoarding into all banks, savings banks included. The possibility of a French loan with exchange guarantee or of a conversion loan is rumored again. The United States banknotes premium is now down to around 1 percent; during the crisis it had reached 4 to 5 percent. Partly as a result of war risk insurance, there is a slight discount of between one and two per mil(cent?) on sterling notes.

END SECTIONS ONE, TWO AND THREE.

WILSON.

EA:LWW

PARAPHRASE OF
SECTION FOUR OF TELEGRAM NO. OCTOBER 13, 1938, FROM THE
AMERICAN EMBASSY, PARIS

The October 6 statement of the Bank of France showed that discounts were down 2,520,000,000 francs. There was no change in advances to the State. The statement showed that circulation was down 6,138,000,000 and an increase in deposits of 2,290,000,000, with resultant coverage 39.30 versus 38.27. Gold bars in the amount of 372,000,000 francs were invoiced today for shipment on the SS BRITANNIC by the Bank of France to the Federal Reserve Bank, New York.

At 5:30 this evening, I had a talk with the Bank of France. A little foreign exchange was gained by the French stabilization fund yesterday; today the fund had a quiet morning. Despite moving the rate back to 178.85 this afternoon, it lost 400,000 pounds. 40,000,000 dollars were lost by the British control by three o'clock this afternoon, in addition to gold in the amount of 1 1/2 million pounds. The British control lost more today than any day this week, and my friend at the Bank of France is beginning to look on the sterling situation as being critical.

END MESSAGE.

WILSON.

EA:LWW



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

October 13, 1938

CONFIDENTIAL

Memorandum

Re: Meeting of Temporary National
Economic Committee this Date

A confidential meeting of the full committee was held in Room 224,
Senate Office Building at 2:15 P. M. today, adjourning at 4:40 P. M.

Present:

Senator J. C. O'Mahoney, Chairman	Congressman E. E. Heece
Senator W. H. King	Congressman E. C. Eicher
Senator W. E. Borah	Congressman H. W. Summers (Absent)

Department or Agency:

Justice	Thurman W. Arnold and William Burch
Commerce	R. C. Patterson
Labor	I. Lubin
Federal Trade Commission	G. S. Ferguson and E. L. Davis
Treasury	H. Oliphant and C. J. Peoples
SEC	W. O. Douglas

Executive Secretary - Leon Handerson

Minutes of Meeting of July 7, 1938

The minutes of the previous full committee meeting held on July 7, 1938
were approved subject to such omissions therein as any member would find.

Reports

The Executive Secretary reviewed the work and contacts of his office since
the last meeting, referring briefly to the cooperation existing between sub-committees,
the effort to avoid overlapping or duplication of work, and pointed out for illus-
tration that the Federal Communications Commission, which has general hearings set
for October 28th, would not go into the matter of patents, which had been assigned to
a sub-committee of the Economic Committee.

The Executive Secretary also pointed out that the life insurance inquiry
was about complete and ready for general hearings; also as to the advisability

of the various sub-committees keeping in contact with the Central Statistical Board and the service along various lines which the Board is in position to render.

Witness Fees and Travel Expenses

It was the consensus of opinion that such items of expense should be borne by the Agency concerned when such expenses involved inquiries made by it, but that in the case of hearings before the main committee such items of expense should be chargeable to its portion of the appropriation.

General Hearings

The Chairman thought they should begin about November 15th and be continuous; and that some method should be agreed upon by which representatives of business or others could be heard without taking up too much time of the hearings. It was expected that the hearings when begun will continue for the first period of about five weeks, allowing four days per week of about four hours each.

Reports of Progress

The Executive Secretary mentioned briefly the work being carried on by SEC in the matter of life insurance inquiries and organization; by Commerce with respect to its studies on exporting prices, trade associations, foreign prices and experience, patent law studies, burden of taxation, business research and organization; by the Federal Trade Commission on trade practices in certain commodities, such as rubber, steel, milk, etc., causes of concentration and concentration of corporations; by Labor on price mechanisms in twelve or fifteen industries, employment and wages, competitive vs. non-competitive practices, stability of employment; by Treasury a scope of the legal studies and of the work being done by Procurement; by Justice distinct bottlenecks in the matter of fair trade practices, and those growing out of violations of anti-trust law.


Director of Procurement

TREASURY DEPARTMENT ORDER

On October 16, 1934, we approved an Order setting up a "Painting and Sculpture Section" in the Procurement Division. The general objectives of the Order were defined as follows:

- (1) To secure suitable art of the best quality available for the embellishment of public buildings.
- (2) To carry out this work in such a way as will assist in stimulating, as far as practicable, development of art in this country and reward what is regarded as the outstanding talent which develops.
- (3) So far as consistent with a high standard of art, to employ local talent.
- (4) To endeavor to secure the cooperation of people throughout the country interested in the arts and whose judgment in connection with art has the respect of the Section in selecting artists for the work to be done and criticism and advice as to their production.
- (5) In carrying out this work, to make every effort to afford an opportunity to all artists on the sole test of their qualifications as artists and, accordingly, to encourage competitions wherever practicable recognizing the fact, however, that certain artists in the country, because of their recognized talent, are entitled to receive work without competition.

Attached hereto is a summary in figures of the work of the Section of Painting and Sculpture during the past four years. The figures, however, while they furnish an idea of the amount of work done and the number of artists benefited by the Section of Painting and Sculpture, only remotely indicate the importance of the work.

The general objectives of my Order of October 16, 1934 have been realized beyond our most optimistic expectations. A series of mural paintings and of sculptures in the round and in relief have been installed in Federal buildings in more than three hundred different communities. The

average quality of this work is high, the cost low. (1% of the building).

Setting out to stimulate the development of art in this country and to reward outstanding talent on the basis of quality alone, the results achieved are remarkable. Painters and sculptors of established position have out-done themselves in this work and many distinguished talents hitherto unknown to the public have been brought out by our system of anonymous competitions.

It was our purpose as stated "to secure the cooperation of people throughout the country interested in the arts." Looking back over the accomplishments of the Section of Painting and Sculpture we are able to say that in the hundreds of communities in which our work is set up we have received wise and enthusiastic cooperation.

To the principle that the decoration of Federal buildings should be given to artists "on the sole test of their qualifications as artists" we have held strictly and successfully.

Therefore, in consideration of the verdict of the leading authorities in painting and sculpture that the objectives stated in my original Order establishing the Section of Painting and Sculpture have been attained and that the work accomplished in the past four years has proved to be a great material and spiritual enrichment to this country, the name "Section of Painting and Sculpture" is hereby changed to the name "Section of Fine Arts."

The Section of Fine Arts shall be a permanent Section of the Treasury Department and will continue and further extend the activities of its predecessor the Section of Painting and Sculpture.

SUMMARY OF WORK OF SECTION OF PAINTING AND SCULPTURE

OCTOBER 16, 1934 to OCTOBER 12, 1938.

Number of competitions being conducted at present time	17		
Number of competitions held	79		
Number of artists competing	4,824		
Number of sketches submitted	10,334		
Number of issues of Bulletin	17		
Number of artists contracts completed	375	Amount expended	\$537,154.93
Number of artists under contract	192	Amount obligated	364,135.00
Number of artists designing	134	Amount obligated	185,980.00

October 12, 1938

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

October 13, 1938

For your information

I attended today the first meeting of the monopoly committee since July 7. All members were present (except Congressman Summers, who has been ill) as were some of the alternates, including Admiral Peoples.

The Executive Secretary, Leon Henderson, reported satisfactory contacts with other departments and agencies to secure consultation and cooperation on problems being studied. He reported that seventy subpoenas to secure data had been issued in cases being worked on by SEC and Justice with no troubles reported concerning the use of such subpoenas. He reported that two questionnaires had gone out — one sent by SEC to the insurance companies and the other sent by the Department of Commerce to the trade associations. These cleared through the Central Statistical Board as per the President's request to all the Departments to that effect, and satisfactory cooperation was reported.

The committee decided to employ someone to answer requests for information coming from newspapers and magazines.

It was agreed that there should be no public hearings until after election, at which time Justice will present its investigation of the glass and bottle industry, and SEC will present the results of its study of the G. & O. proxy fight. How the hearings should be handled occupied more of the discussion than any other one question, the specific problem being how to head off cranks and prevent the hearings from going on indefinitely on the one hand, and on the other to give everybody the feeling that the hearings were altogether fair. This matter was referred to the executive committee for further study and report in writing with recommendations to the full committee.

After Henderson presented a very hasty summary of the work the various departments are doing, the meeting adjourned subject to the call of the Chairman.

The general atmosphere of the meeting was quite friendly and the importance of avoiding any spectacular or disturbing moves was repeatedly stressed and generally agreed to. I sense no contrary undercurrent.



Thursday
October 13, 1938
9:39 a.m.

HMJr: Hello, George.

George
Harrison: Oh, good morning, Henry. I didn't mean to
bother you.

HMJr: That's all right. No bother.

H: Ah - I was - yesterday being a holiday I was
down in the country and was going back on the
eleven o'clock train. I just wanted to call
you and say hello first and see whether there's
anything up or anything that I - you might want
to see me about.

HMJr: Well, I would if you'd given me a little more
notice but I - I'm a little bit jammed this
morning.

H: Yes. Well, in the meantime I have talked to
Eccles and I think that from the light of the
conversation I had with him I'm going to stay
over today anyway.

HMJr: Oh. Well then, if that's so - ah - will you be
here today and tomorrow or not?

H: Well, I - that's what I've got to find out.
I'm going to try not to be here tomorrow, if I
can.

HMJr: Well, I'm putting you down and I'll see you.
It's unfortunate - I've got an awfully tight
day but I would like to see you even for - if
it works in with the rest of your schedule.

H: Yes.

HMJr: The only thing I've got is ah - sometime next
week we want to put a price on these H.F.C. notes.

H: Yes.

HMJr: And outside of that I don't - and ah -

H: Well, we've been giving some thought to that up
there in New York. I've talked to people about it -

- 2 -

HMJr: Yes.

H: Well, now don't let me crowd you today at all.

HMJr: No. Well I mean - ah - it's - I always want to - but it's just that I'm waiting to hear from the White House. Let's see how it works out.

H: All right. Well, I may just call later on to see what your program is.

HMJr: I'd appreciate that.

H: All right.

HMJr: Goodbye.

Thursday
October 13, 1938
10:05 a.m.

HMJr: In view of this publicity of Wallace's on handling the surplus crops for the poor -

George Haas: Yeah.

HMJr: - why don't you and Parran and Miss Lonigan get together and talk to Jesse Tapp and find out what it's all about?

H: Fine.

HMJr: And bring me up to date on the thing -

H: Fine.

HMJr: - as to what they're doing on their research and what we're doing, you see?

H: Yeah.

HMJr: Have a meeting and then I'll meet with you.

H: Fine. Say -

HMJr: I think that'll be a good thing to turn Miss Lonigan loose on.

H: Fine. Ah - Right. I was just reading over some of the notes you know, on these other meetings -

HMJr: Yes.

H: - in your diary. It's very interesting how they switched over this way, at the half.

BMJr: Yes. Well I - I think we ought to find out - find out what they've done in the last three months.

H: Yeah. Yeah.

HMJr: Did they stop on us? -

H: Uh huh. I'll have a meeting on it.

HMJr: Thank you.

HMJr: (That was George Haas)

Thursday
October 13, 1938
10:09 a.m.

Operator: Operator.

HMJr: Hello.

Aubrey
Williams: Yeah.

HMJr: Aubrey?

W: Yeah.

HMJr: I got a message you called me last night? -
Is this Aubrey Williams?

W: Well, it was the night before.

HMJr: Oh.

W: All I wanted to tell you was that I wanted to
read that letter before I sent it.

HMJr: Oh.

W: But then that I couldn't get a hold of you I
just put in - did you see a copy of the letter?

HMJr: No.

W: Well, I put in the letter that we would expect to
be - to receive financial and statistical reports
in - at some regular interval -

HMJr: No.

W: - concerning the work.

HMJr: Uh huh.

W: And also ah - we wished it understood that they
should furnish us an audit or that we ourselves
be allowed to make one.

HMJr: O. K.

W: And I put those two conditions in and sent the
check for a hundred thousand.

HMJr: Swell.

W: Uh huh.

HMJr: Ah - what - ah - that's fine. Thank you. Now, what about the letter that we were talking about - to inform the President - you said you had in the works?

W: Well, that's all right with me. And didn't you and Harry talk the other night over there at the party?

HMJr: Not - he never mentioned it.

W: I thought you and he agreed to see each other this next week?

HMJr: No. No. Ah - I - I didn't talk any business that evening and ah -

W: Oh yes.

HMJr: And ah -

W: Well, it's all right. I - I think it's all right to send it.

HMJr: For me to send it?

W: Sure.

HMJr: I thought you folks were going to send it.

W: Well, I - either way. I've asked to see the President this morning.-

HMJr: Uh huh.

W: And I've al- I told him our condition back - ah - let's see, when Harry was out West - that's about a month ago - and I intended again to give him a statement like I gave you this morning. But it's all right. I'd - it would be all right for you to send the letter to him and -

HMJr: I thought you had the letter all written over there, or something.

W: No. I've got a letter written here that has to do with him - ah - declaring an emergency -

HMJr: Yes.

- 3 -

W: - and sitting in too as President of the Senate and the Speaker of the House of Representatives.

HMJr: Yes.

W: Is that what you mean?

HMJr: Yeah.

W: Oh yes. Well I got that letter written and I was going to discuss that with him this morning.

HMJr: Oh.

W: And tell him where we are on our finances, the same as I gave you.

HMJr: Uh huh. Well, would you mind after you've seen him - when you - what you decide - to let me know.

W: I will. I'll be glad to.

HMJr: All right. Thank you so much.

W: All right, Henry. Goodbye.

- (1) Chen and HM, Jr saw President who suggested American advisers
- (2) HM, Jr and Bell on President's announcement re relief funds
- (3) HM, Jr and Bell on wheat for strategic war materials

October 13, 1938

12:30 p.m.

Present:

Mr. Chen
 Mr. Bell
 Mr. Oliphant
 Mr. Lockheed
 Dr. White
 Mrs. Klotz

HM, Jr: The President said he told Aubrey Williams that under no circumstances could be use the \$175,000,000 for emergency and he had to keep it until the 10th of March and the President would not declare an emergency and there was no reason to declare an emergency because employment was increasing in private industry. I told the President what I had done a couple of days ago and he was very much interested.

Mr. Chen and I saw the President and on Mr. Chen's behalf and request I asked the President if he had any names to suggest who might go on as members of the Board of Directors of Mr. Chen's company and the President suggested the following names and you people will have to help him.

He suggested, first, the person who was associated with him as Assistant Secretary of the Navy, John Hancock of Lehman Brothers, who was assistant to Admiral McGowan during the war and bought all the supplies. The next fellow he suggested is Dick Fuller. He bought all the cotton and he was associated with Captain Fuller and Captain Lehman. The two of them bought the things. The next person was Lessing Rosenwald, and the next one, Roger S. Green, who used to represent the Rockefeller Foundation. Then he said, 'Find out who is the United States representative of Yale in China. Those are the people he suggested.

The other suggestion I made to Mr. Chen, inasmuch as Dr. Kung had asked me for suggestions, was that they earmark \$200,000,000 of the 19,300,000 ounces of silver

-2-

and set it aside for the purchase of trucks. I had not said anything to the President. When we went to see him, he said, 'The most important thing is to get your transportation organized,' so I think if you would pass that word along to Dr. Kung.

Mr. Chen: Yes.

HM, Jr: And then would you show him (Mr. Chen), let him see those cables we got from Buck which shows the amount of merchandise, already bought, in those ports south of Hong Kong and Canton and the way they are piling up there. He told me about it in these cables and it's all very nice to buy new ammunition, but when you have thousands of tons of merchandise lying in these various ports in a very precarious condition, the sooner you get them inland, the better.

Then the other suggestion I made: give them 50 to 100 trucks right away. It will be very helpful.

And the last thing, people, that you don't know yet, very secret, nothing in writing except for myself, the President approved my asking General Craig to appoint a new Military Attache to China who will happen to be the best expert on transportation that we have in the Army. He will be put at the disposal of Mr. Chen. What I thought we would do, we would have him start over here and let him work right from the beginning and then he could go back. But I don't know yet who that man is. There may be two, but we will give him the best.

Mr. Chen: How soon will this gentleman come?

HM, Jr: Just as soon as I can telephone.

Mr. Chen: How soon could he leave for China?

HM, Jr: He could leave any time. With the first shipment of trucks. Would that be quick enough. Huh?

Mr. Chen: Yes; help us to organize.

HM, Jr: I can guarantee he will leave with the first shipment of trucks.

-3-

Mr. Oliphant: As you say, he will be very useful here for a while.

HM, Jr.: Yes. Yes. I just haven't had time to do it. But I want to let you people know what I am going. (To Mr. Chen) We had a nice interview.

Mr. Chen: Very! Very!

Mr. Oliphant: Mr. Morse is here and they may be exchanging views.

HM, Jr.: Fine! Fine!

(At this point, the group left with the exception of Mr. Bell and Mrs. Klotz, who remained with the Secretary.)

HM, Jr.: (To Mr. Bell) Does that (United Press ticker, attached) make sense?

Mr. Bell: I take it that what Aubrey has done is submit to the President a statement somewhat similar to what he gave you the other day showing he had, I think he said \$758,000,000 and that \$700,000,000 referred to here is that same figure. What he intended to do, when he talked to you, was spend that money in four months and the President has said he has to spend it in five months.

HM, Jr.: Mr. Director of the Budget.

Mr. Bell: Yes, sir, Mr. Secretary of the Treasury.

HM, Jr.: Would you please formulize this and send for Mr. Aubrey Williams and get this thing down in black and white now that he has seen the President. This is too important.

Mr. Bell: I will ask him to give me something on it; what does it mean.

HM, Jr.: And in view of this thing let's have a "redistribution of wealth".

Mr. Bell: The distribution is already there. I

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have this \$175,000,000 in reserve.

HM, Jr: What the President has told them, if I can understand English, that you have got to make this money last through March 1 exclusive of the \$175,000,000.

Mr. Bell: Oh, really?

HM, Jr: Oh, yes!

Mr. Bell: Then that means that he has to start in immediately at least not having any turn over in his rolls -- what I mean is replacing.

HM, Jr: This is what the President said: the \$175,000,000 has to be intact on the 10th of March.

Mr. Bell: That's a little different.

HM, Jr: Do you think they could run out of money on the first of February? Let's find out.

Mr. Bell: Oh, yes! If they go at the present rate, they will run out in January.

HM, Jr: Well, certainly this is as important as anything from a budget standpoint or from the standpoint of your morale or mine. Isn't it?

Mr. Bell: Yes. It is certainly a decided change in the President's attitude. I can't understand it.

HM, Jr: What I am trying to do is I am trying to help the President and help you and in order to do this thing -- I came away, I did not know what happened. Well, evidently the shock that we gave him of the \$4,000,000,000 deficit was more than we thought.

Mr. Bell: It was a shock, no doubt.

HM, Jr: What I am doing is my level best, as Secretary of the Treasury, to keep this country solvent and I want to know from Aubrey Williams, via the Director of the Budget, what did the President tell him.

Mr. Bell: O.K. I will find out.

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HM, Jr: Then what I would do, after he tells us I would submit it to the President to see if that is what the President did tell him. Haven't you got the right to distribute? If the President said to make this money last to the first of March, haven't you got the right to distribute it or something?

Mr. Bell: Oh, yes! We have distributed on the basis of the Act up to February 1 and we put \$175,000,000 plus other items in reserve. We have about \$300,000,000 in reserve.

HM, Jr: But at the rate he is spending

Mr. Bell: ... he would spend the reserve.

HM, Jr: Please give me something as quickly as it is humanly possible.

Mr. Bell: May I ask you a question on strategic war materials. How interested are you in that? Have you followed it?

HM, Jr: Yes. I have a whole lot of reports. Admiral Peoples has sat on it representing me. Is he going to be before you?

Mr. Bell: No, he is not scheduled. But I just got a memo on it this minute and I see where they are proposing to put Admiral Peoples in charge of the materials after they are purchased and I thought he ought to be in on it.

HM, Jr: He ought to be in on it. Give you a little back-stairs gossip: when we thought there was going to be a world war, the President got all kinds of memoranda from everybody and I am reliably informed he sent for Leon Henderson and Mr. Hopkins and he took all these things and said, 'Leon, take all these things; digest them and let me know what it is all about.'

Mr. Bell: That gives me the background.

HM, Jr: But inasmuch as Peoples has been representing

-6-

the Secretary of the Treasury, I think he ought to be in on it. Whole lot of stuff coming in. Is this the \$25,000,000 bill they want?

Mr. Bell: This is the purchase, or sale of 25,000,000 bushels of wheat and in turn take \$25,000,000 in strategic war materials.

HM, Jr: Do you mind, if it is wheat, do you also mind having George Haas, because he happens to know wheat. He has been representing my particularly on the wheat bill.

Mr. Bell: This is the hearing of Jesse Tapp on Export-Import.

HM, Jr: But George has been particularly representing me on the wheat deal and if you don't mind....

Mr. Bell: O. K.

HM, Jr: And he knows it. George knows the wheat business.

Mr. Bell: Well, it seems to me it is a matter of policy as to whether we are going to permit certain departments to pile up war materials without authority from Congress.

HM, Jr: And if you would have the hearing and discuss it with me after, I would love it.

Mr. Bell: You have not given approval to any authority -- that's what I wanted to know, if you had approved any policy.

HM, Jr: No, sir.

Mr. Bell: If I approve or disapprove, I am not going contrary

HM, Jr: No, and George Haas knows just what has been my interest. George has been meeting with these people and has not been able to get anywhere.

Mr. Bell: I submitted a memorandum, day before

-7-

yesterday, on this legislation that has been pending a number of years and is again coming up about the War Department buying strategic war materials. It's something different but along the same lines.

HM,Jr: That's something different.

Mr. Bell: I asked the President's attitude and he held 'in conflict with my program'.

HM,Jr: It's in conflict?

Mr. Bell: Yes. 'I am not going to sponsor this bill.' That's what he has held every time I have put it up to him.

HM,Jr: You know who said he wants it more than anything else in the Administration?

Mr. Bell: Henry Wallace, I suppose.

HM,Jr: No, I mean buy \$25,000,000 strategic war materials. Herbert Feis. That's the apple of his eye. He's the father of that baby.

I would like very much -- because Wallace is like a crazy man and the gun is going off in his hand any minute and he just can't stop it and I don't know whether he's going to shoot you or me or Mrs. Klotz. He's a crazy man right now.

Mr. Bell: I expect he is.

HM,Jr: I did approve this publicly today -- they asked me would I change my position on subsidies. I said, No; I was opposed to all subsidies. 'What about taking care of feeding the hungry?' I said, 'Well, if Agriculture is going to spend money, I would rather see them spend it on the hungry in the United States than any other way.' Certainly it's the most useful thing they can do. I am highly in favor of that.

Mr. Bell: I agree.

HM,Jr: You will underwrite that?

Mr. Bell: Yes, sir.

oOo-oOo

John Hancock
Wick Fuller
Lesing Ranwald
Roger S. Green
U.S. Representative
of Yalu in China

PRESIDENT ROOSEVELT TODAY INSTRUCTED DEPUTY ADMINISTRATOR WILLIAMS
TO HOLD EXPENDITURES WITHIN THE \$700,000,000 BALANCE OF EMERGENCY FUNDS
UNTIL NEXT MARCH 1.

10/13--R1133A

ADD RELIEF FUNDS

MR. ROOSEVELT ISSUED THE INSTRUCTIONS DURING A WHITE HOUSE CONFERENCE WITH WILLIAMS.

DURING THE CONFERENCE, WILLIAMS PRESENTED A BREAKDOWN OF THE RELIEF AGENCY'S EXPENDITURES SINCE JULY 1, WHEN CONGRESS MADE AVAILABLE \$1,459,000,000 FOR ITS USES. THE BREAKDOWN SHOWED THE FOLLOWING OUT-LAYS BY MONTHS:

JULY -- \$201,000,000.
AUGUST -- \$201,000,000.
SEPTEMBER -- \$191,000,000.

10/13--R1137A

Thursday
October 13, 1938
12:29 p.m.

HMJr: I just left the President. -

Dan
Bell: Yeah.

HMJr: And I said "What does this mean - this statement Aubrey Williams put on the Ticker, which reads as follows: 'The President told Deputy Administrator Williams to hold expenditures within a seven hundred million balance of emergency funds until next March one.'" Hello?

B: Yes.

HMJr: The President said, "Tell Dan that that means that I will not declare an emergency and that the hundred and seventy-five million dollars cannot be used and I want them to keep it until at least March 10th." And he was very emphatic.

B: Really?

HMJr: Oh yes.

B: My gosh, they've got to do something over there pretty quick then -

HMJr: I'll tell you what I'll do, I'll - what does it mean, seven hundred million balance?

B: What does it mean?

HMJr: Yeah. Well let me send you this thing -

B: Well, it means - it means that ah - that they've got - let's see, four -

HMJr: Well, let me - let me send it to you, see?

B: All right.

HMJr: Where are you?

B: In the budget. Well, I'm coming around that way right away - I'm going out - I'm going over there at 2 o'clock with Miss Perkins for something - I don't know what it -

- 2 -

HMJr: Well, stop by and I'll hand it to you.

B: All right. I want to talk to you anyhow - just a moment.

HMJr: And - ah - ah - but he was very emphatic. He said he will not declare an emergency and the hundred and seventy-five million has to last until at least March 10th.

B: Well that's pretty good news.

HMJr: Well, I'd say -

B: From your standpoint and mine.

HMJr: And then I told him of the work that you and I had done behind the scenes - and he was delighted.

B: Really?

HMJr: Now I talked to Aubrey Williams before he went over there -

B: Yeah.

HMJr: And I asked him to let me know what happened afterwards.

B: Yeah.

HMJr: And when I questioned him about that letter he was very vague about the letter.

B: Sure. Sure. (Laughingly)

HMJr: But the President was very much pleased with what you and I had done and he said, "Tell Dan that that hundred and seventy-five million dollars will not be touched until the tenth of March."

B: Fine. And that she stays in reserve then?

HMJr: Yeah. But this thing isn't clear.

B: All right. Well I'll take a look at it and I'll be right around.

HMJr: All right.

Thursday
October 13, 1938
3:40 p.m.

HMJr: Hello.

Operator: Mr. Hogate.

HMJr: Hello.

Kenneth
Hogate: Hello, Mr. Secretary.

HMJr: How are you?

H: All right. It's nice to hear your voice.

HMJr: Good. Well we went through a tough month in
September.

H: (Laughs) Well, I should say so.

HMJr: I tried to spread a little oil on the troubled
waters by telling them we'd keep the exchanges
open. -

H: Ah - well, ah - how right you were.

HMJr: I think so.

H: Ah - and you spread oil at the right time and
ah - I think it's fine. I think the whole thing
worked out marvelous.

HMJr: I'm calling you up - I'd like to borrow one of
your men for a while.

H: Well I had a letter from - from Jean

HMJr: Yes.

H: - about that. I've been out of town - just got -

HMJr: Yeah.

H: - back today and I find this letter here and ah -
ah - of course, any thing that you want to do I -
I want to help to the best of my ability.

HMJr: Well, here's the point ah - he's been frank and
I've tried to be frank and I - ah - naturally

- 2 -

he can see from now for two years, but he doesn't want to get out on the end of a limb and then feel that - ah - ah - he wouldn't have a chance to get back with you.

H: Yes.

HMJr: And ah - he'd like to satisfy himself along those lines. I don't think he wants a written guarantee but he just likes to know that if things were about the way they are that he'd have a welcome there.

H: Well, that is certainly true. That's - I - I have just this question of wording that thing in the right way.

HMJr: I see.

H: I mean ah - ah - as you know the of the newspaper -

HMJr: I know.

H: - so far as a written guarantee is concerned -

HMJr: Yes.

H: I just couldn't give it though I'd like to.

HMJr: No, I don't think he wants that but he'd just like -

H: But certainly, so far as intention and desire - ah - I can be unqualified on that.

HMJr: Well - ah - I think he'd be very helpful to me and ah - without being immodest I think a year or two with the Treasury wouldn't do him any harm.

H: I think it would do him good.

HMJr: When he went back to you if - ah - things were still as they are now.

H: I think it would do him good. And ah - I think a year or two under your supervision would be excellent training.

- 3 -

HMJr: Fine. Well, I'll - I imagine you'll communicate with him and then I'll hear from him again.

H: Yes. I'll - I'll communicate with him today so you should hear from him tomorrow.

HMJr: Thank you so much.

H: How are you and your family?

HMJr: We're getting along all right. And you?

H: Fine, thank you.

HMJr: All right.

H: I hope you're going to get a little time in Dutchess County the next two weeks.

HMJr: Yeah.

H: I've never seen it more beautiful.

HMJr: I'm going up Friday night and I'm going to try to stay there until Tuesday or Wednesday.

H: Well, I hope you can. I - that's what I did the - from Monday and Tuesday of this week and - ah -

HMJr: Yes.

H: It was just superb.

HMJr: Fine. Hope to see you soon.

H: Thank you, sir.

HMJr: Goodbye.

H: Goodbye.

October 15, 1938.

Dear Randolph:

It was of great assistance to me to have the confidential letter that I received from you Tuesday morning, in response to my request of last week. I would much appreciate it if you would write me again in the same way and about the same topic at the end of this week so that I might have it next Monday morning.

With all good wishes,

Sincerely,



Dr. Randolph Burgess,
National City Bank of New York,
55 Wall Street,
New York, New York.

envelope marked "PERSONAL"

GTF/dbs

The National City Bank
of New York
ESTABLISHED 1819

New York October 10, 1958.

CABLE ADDRESS 'CITIBANK'

IN REPLYING PLEASE QUOTE INITIALS

CONFIDENTIAL

Dear Henry:

Sorry not to be on hand at the end of last week to reply to your note. I spent the week-end in Providence attending a Brown University trustees' meeting, and visiting with some of the people I know there.

The new issues market seems just now to be in good condition, with very little undigested material about. There were three important corporate issues last week, as follows:

- \$37,500,000 Virginia Electric & Power Co. 1st & Ref. Mtge.
 $3\frac{1}{2}$ s, 1968.
- \$54,000,000 Michigan Consolidated Gas Co. 1st Mtge. 4s, 1965.
- \$ 8,000,000 Michigan Consolidated Gas Co. 4% Serial Notes,
 1939-1948.

The Virginia Electric & Power Co. $3\frac{1}{2}$ s of 1968 were eagerly sought after and met with an excellent reception. The bonds were taken by practically all of the large insurance companies and the banks through the country were also buyers. The issue price was 105 $\frac{1}{2}$, to yield 5.51%, and they are currently quoted 104 $\frac{3}{4}$ -5.

The Michigan Consolidated Gas issues were somewhat slow but the account is in good shape at the present time. All of the bonds have been sold by the syndicate but there is evidence that a number of the dealers participating have unsold balances on hand. We are informed that the Metropolitan, the Prudential, the Travelers, and the Aetna were buyers, but, in some cases, the amounts taken were substantially less than is their usual

practice.

As you may know, there have been two issues in recent weeks which did not go particularly well.

The first of these was \$10,000,000 Crucible Steel Company of America Ten Year Sinking Fund 4 1/2% Debentures due August 1, 1948, originally offered at 99 1/4 on August 24. The bonds subsequently sold as low as 89 1/2 but, on fairly good buying, have recovered a good part of their loss and currently are quoted 94 1/4 - 95. The syndicate has closed so that the bonds are in a free market.

The other issue was \$30,000,000 Youngstown Sheet and Tube Company Convertible 4% Debentures due September 1, 1948, which were offered at par on September 8. This issue sold down to 95 3/4, but, on heavy buying, has moved back almost to the original price of par. The market is quoted at this time at 99 1/2 - 99 3/4. This syndicate is also closed and the bonds, therefore, are in a free market.

Certainly, these two issues no longer constitute any possible threat to the market.

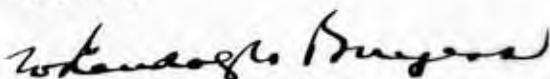
In the municipal market, there were no issues of any importance. Prices showed strength in sympathy with the rest of the market, many issues equaling the previous 1958 high prices.

During the last week there was very heavy buying of all classes of securities. The top-grade corporate securities, where available, were purchased in volume by the larger financial institutions. Second grade bonds also moved forward on a very wide front, with prices running up from three to nine points and with buying scattered all over the country. The big wire houses reported particularly active business from all their

branch offices, especially throughout the mid-western section of the country.

The principal danger at the moment seems to be that the market may go too fast and too far.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Robert H. Anderson".

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

WRB.H