

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1938.

TO Secretary Morgenthau  
FROM Mr. Taylor

I am enclosing copy of the memorandum left with me by Bewley. In connection with the second paragraph, he gave me a figure which was only for you and the President, therefore I will not include it in the memorandum, but will tell you in the morning. As you suggested, I thanked him for the memorandum and said that we appreciated receiving it and that after you had had an opportunity of studying it you might wish to talk to him. He wanted to know if there was anything that we wished to tell him about developments in other parts of the world, such as the Far East and I said no, that there was nothing at this time. He said that they had been giving the Chinese a little help, but not very much, through the Export Credits Guaranty Fund.

Earlier in the day I had a meeting with Alexander of F.A.A. and Messrs. Buck and Manning about a proposed regulation which had been bothering. After about an hour they got it into shape so that I think it will meet the objections, which were quite apparent.

I also had a call from Irogoyen, the Argentine Financial Councillor, who discussed general conditions and advanced the information that his country was going to have good crops, that prices were not satisfactory, that the budget for the year just closing would come within 3% of being balanced, but the prospects for 1939 were probably not quite as good and that it might be necessary for them to borrow additional funds in this

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market in order to tide them over.

I attended Secretary Hull's luncheon for the trade delegations and sat next to the British Ambassador. He did not, however, mention the position of the pound but told me that Bewley had been laid up for a day, which probably explains why we did not receive the enclosed message yesterday.

*W.S.*

REB

PLAIN

London

Dated November 17, 1938

Rec'd 3:40 p. m.

Secretary of State,  
Washington.

FOR TREASURY FROM BUTTERWORTH:

1327, November 17, 6 p. m.

Both the dollar-sterling and the franc-sterling markets were very thin today. The dollar fluctuated between an opening rate of 4.69  $\frac{5}{8}$  and a closing rate of 4.71  $\frac{1}{8}$ . There have been some natural offerings of dollars as a result of a few positions being closed out and just before fixing the British authorities sold dollars to push the rate to 4.70  $\frac{1}{8}$  for the fixing. 123 bars were sold at gold fixing at 147S. 10  $\frac{1}{2}$ D. the British fund supplying all.

Despite all denials the exchange market still awaits the publication of the Anglo-American Trade Agreement to be assured that it contains no new exchange provisions.

KENNEDY

HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 17, 1938, 5 p.m.

NO.: 1949

FROM COCHRAN.

At five o'clock I talked with the Bank of France. Today there was rather light trading. The control pushed the rate down to 178.50, yielding sterling intermittently through two Paris banks. The control had a slight gain on foreign exchange for the day, through counterbalancing operations of the market.

The November 10 statement of the Bank of France covered the period before the new Reynaud arrangement with the Bank, so there were recorded no important changes. Coverage rose from 40.71 to 41.11, with discounts and circulation both lower. Conditions of the market as evidenced by continuing high total of 30-day discount portfolio did not evidence any change in the official bank rate.

December 6 is the date that Parliament is likely to convene. There is all manner of speculation as to the possible courses and developments, but no clear indications are apparent so far.

The banks in Paris - including the Bank of France - will be open for business Saturday morning, November 19.

Today better market for French rentes and shares in anticipation of speeches tonight by Reynaud, Lebrun and Daladier.

November 17, 1938

The President said to me today, "I am getting sick and tired of the French and I certainly will not bother with them any more." This is the second time this week that the President has told this to me.

Nov. 17, 1938

ESTIMATE OF CASH POSITION

NOVEMBER, 1938 - JUNE, 1939

124

(In millions of dollars)

	1938 NOVEMBER	DECEMBER	1939 JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
ances at beginning of periods:	1,894	1,593	2,177	1,860	1,680	1,948	1,437	1,147	1,894
<b>INPTS:</b>									
General revenue .....	325	685	850	350	580	235	310	485	3,820
Unemployment Trust Fund .....	59	2	- 12	53	- 7	- 10	55	4	142
U. S. Savings Bonds .....	40	50	100	50	45	35	30	30	380
Treasury bonds and notes .....	--	700 800	--	--	500	--	--	500	1,700
Treasury bills .....	--	--	--	--	--	--	--	--	--
<b>Total available .....</b>	<b>2,318</b>	<b>3,030</b>	<b>2,515</b>	<b>2,313</b>	<b>2,798</b>	<b>2,808</b>	<b>1,830</b>	<b>2,166</b>	<b>7,536</b>
<b>OUTGOES:</b>									
General .....	360	350	355	335	385	400	375	550	2,920
Emergency .....	770	270	260	240	245	245	245	245	2,030
Interest on public debt .....	10	175	15	20	155	70	10	200	655
Special transactions .....	70	28	10	25	15	41	38	10	235
Debt redemptions .....	15	30	15	15	50	15	15	60	215
<b>Total expenditures .....</b>	<b>725</b>	<b>833</b>	<b>685</b>	<b>635</b>	<b>850</b>	<b>771</b>	<b>685</b>	<b>875</b>	<b>6,045</b>
ances at end of periods:	1,593	2,177	1,860	1,680	1,948	1,437	1,147	1,291	1,291
<b>Operating operations:</b>									
Treasury bills:									
Regular .....	500	400	400	400	500	400	500	400	3,500
Treasury notes .....	--	--	--	--	942	--	--	1,294	2,236
<b>Total .....</b>	<b>500</b>	<b>400</b>	<b>400</b>	<b>400</b>	<b>1,442</b>	<b>400</b>	<b>500</b>	<b>1,694</b>	<b>5,736</b>

NOTE: Does not include Series F-1939, 1-1/2%, in amount of \$325M due June 1, 1939, which will probably be refunded.

CASH AND DEPOSITS

NOV 16, 1938.

*11/18*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 17, 1938

TO Secretary Morgenthau

FROM M. A. Harris  
W. Hadley

Most of the long term bonds established an all-time high during the last week in October. Since that time Treasury bonds have been moving irregularly lower, with the longer issues suffering the larger losses. However, day-to-day changes have been confined to small fractions. Since November 1st, the average price of the five longest Treasury bonds has declined about  $5/8$ ths of a point and the average price of all Treasury bonds has declined about  $14/32$ nds.

In the Treasury note market, the longer issues have been declining ever since the middle of October, with the average price of those issues due within three to five years dropping  $14/32$ nds.

Despite the lower tendency of the market it has been free from any heavy selling pressure. The lower prices appear to be the result of a reluctance to enter the market on the part of investors, who apparently are awaiting the announcement of the terms of the December financing. The market seems to be expecting a five-year note and a long term bond, which is also indicated by the price decline of the various issues.

It appears to us that, as a result of this downward movement, the market is less vulnerable and it is our recommendation at the present time that, if the December financing is to consist of the refunding of the \$942,000,000 of Treasury notes due in March 1939 and the raising of \$500,000,000 or more in cash, a five-year Treasury note and a long term Treasury bond, preferably a  $2\ 3/4\%$  bond due 1963-68 (25-30 years) or

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due 1958-68 (20-30 years) be offered both for cash and exchange.

On the attached sheet we have listed a number of possible bond and note issues that might be offered for cash and exchange, also the estimated market basis and premium for each of these issues are given.

<u>Suggested Issues</u>	<u>Current Market Basis</u>	<u>Estimated Premium</u>	<u>Outstanding Issues in Millions of Dollars that are either callable or due in the years suggested for new issues</u>
<u>NOTES</u>			
1-1/8% 9/15/43 (4-3/4 yrs.)	0.95	3/4 point	
1-1/8% 12/15/43 (5 yrs.)	0.98	3/4 point	
1-1/4% 12/15/43 (5 yrs.)	0.98	1 pt. 10/32nds	
<u>BONDS</u>			
2-1/2% 12/15/51-54 (13-16 yrs.)	2.43	3/4 point	2-3/4s 6/15/51-54 - \$1,627
			3s 9/15/51-55 - 755
2-1/2% 12/15/51-53 (13-15 yrs.)	2.39	1 pt. 7/32nds	2-1/2s 12/15/49-53 - 1,786
2-5/8% 12/15/53-58 (15-20 yrs.)	2.52	1 pt. 10/32nds	2-1/2s 12/15/49-53 - 1,786
			2-3/4s 6/15/58-63 - 919
2-5/8% 12/15/54-57 (16-19 yrs.)	2.55	1 1/8 points	2-3/4s 6/15/51-54 - 1,627
	2.54	1 1/4 points	4s 12/15/44-54 - 1,037
2-3/4% 12/15/63-68 (25-30 yrs.)	2.67 *	1 1/2 points	2-3/4s 6/15/58-63 - 919
	2.64	2 points	
2-3/4% 12/15/68-68 (20-30 yrs.)	2.63	1 7/8 points	2-3/4s 6/15/58-63 - 919

\*Rights\*

	<u>Current Bid Price</u>	<u>Premium</u>
1-1/2% Treasury notes due 3/15/39	101.18	1 point 14/32nds

\* Due to this issue reaching beyond any of the outstanding issues, the exact market basis is difficult to estimate. Therefore, we have given two bases. The first we consider as quite conservative.



RE 1940 BUDGET

November 17, 1938.  
11:05 a.m.Present: Mr. Hanes  
Mr. Bell  
Mr. Gaston

Bell: This hasn't been checked, so you may find some ....

H.M.Jr: Starting to apologize already.

Bell: well, they kind of had me on the go this morning.

(Group reads memorandum\*)

H.M.Jr: I'm not trying to check these figures. I don't know whether this five billion three is right or wrong.

Hanes: We ought to check all these figures.

H.M.Jr: Have you had a chance?

Bell: No.

Hanes: Because we were talking from memory, and I haven't checked with my boys.

H.M.Jr: Well, I'm going to leave it to these two fellows. I've got no organization.

Hanes: I think we ought to check that. We said to the President all along we're getting it from memory; let's get it accurately according to our estimates. I don't think it's far wrong; nevertheless, I want to get it accurately.

H.M.Jr: Shouldn't be wrong at all.

Bell: Herbert's beginning to sweat under the collar.

H.M.Jr: Yes, what's the matter?

Bell: You're thinking of excuses.

Gaston: It's awful easy to put down on paper: \$2,000,000,000 more revenue.

Bell: You're thinking of what might go in the budget

\* Memo entitled "Conference with the President on November 16, 1938, Regarding Tax Program To Be Submitted to the Next Congress" - Copy in Mr. Hanes' files.

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message, Herbert; I don't think we've gotten to that point.

Hanes: Your figures should have been over here.

Bell: I'm just giving them from memory.

H.M.Jr: I don't - you couldn't remember those, but he finally got up a six billion seven, he compromised with you on six billion seven.

Bell: I showed that in the next paragraph, but I think the record ought to show how much we've got to cut in order to come down to the six billion seven he indicated.

H.M.Jr: "... the battleship and a bomb exploding" - I didn't say "a bomb."

Bell: Oh, didn't you?

H.M.Jr: "... a battleship and a bomber."

Hanes: B-o-m-b-e-r.

Bell: Oh, excuse me, I didn't get it.

H.M.Jr: "... a battleship and a ..."

Bell: "... a battleship and airplane bomber."

H.M.Jr: Airplane bomber.

Bell: O.K.

H.M.Jr: Airplane bomber. Huh?

Bell: Yes.

(Group reads further)

Bell: It says what group would be hit. That's what he wanted.

H.M.Jr: You didn't say whether that would exempt apples.

Bell: No, I didn't put that in. I didn't say up here that his billion was dishonest either.

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Gaston: What billion?

Bell: For WPA. The President said, "Let's be thoroughly dishonest, put down a billion dollars for WPA."

H.M.Jr: This thing on the bottom of page 4 - that isn't quite clear - "stamps to show that the taxes paid were for the purpose of financing the additional national defense expenditures and the expenditures to take care of relief." No, what I said ....

Bell: It's a little awkward, yes.

H.M.Jr: "... for the purpose of financing the additional national defense expenditures."

Hanes: Period.

H.M.Jr: Period. And I said, "And another special tax to take care of the expenditures for relief." That's what I said.

Bell: But not a stamp.

H.M.Jr: No.

Bell: Strike out "stamps" above - plural.

Hanes: Why not say "other taxes to take care of relief - extra taxes."

Bell: "Should have a specially designed stamp to show that the taxes paid are for the purpose of financing the additional national defense expenditures and other taxes" - I take it - "for relief expenditures."

H.M.Jr: (Writing) "...other special taxes..."

Bell: "... for relief purposes..."

H.M.Jr: Earmarked?

Bell: Well, they wouldn't be earmarked in the sense that the revenue would be earmarked, but they'd be earmarked in the recommendation.

H.M.Jr: "...other special taxes..." - would you say "exclusively..."?

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Bell: "... specifically levied for relief expenditures."

H.M.Jr: Will you fix that up?

Bell: Uh-huh.

H.M.Jr: That's the way I had it in mind.

Hanes: That's what you said too.

H.M.Jr: John - and that's what I said. What?

Bell: Well, it wasn't clear to me whether you wanted stamps for both of them.

H.M.Jr: No, a stamp for national defense. And then a special tax, not a stamp, for relief.

Bell: Probably have a stamp that would ....

H.M.Jr: A shovel?

Bell: No, something to take care of human needs.

H.M.Jr: Well, I hadn't thought of that. I didn't say that, did I?

Hanes: No, you didn't. As for your other special tax, your other increased taxes would take care of relief.

H.M.Jr: Now, I lay great stress on that, Dan - to have that right. Please.

Bell: All right, I see your point.

H.M.Jr: It's quite different, you see.

I suggest that you take Haas's chart which shows - that one which was prepared showing income of different levels and taxes you produce, and attach that to this thing. You know the chart I mean? Don't you think so, John?

Hanes: We could get that photostated in just this size - letter size.

Bell: Can't take the colors and photostat them.

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Hanes: Well, we could color them.

H.M.Jr: I'd give him a color chart; he'd like it. I'd give him a color chart of the right size, showing the national income running from 60 to 100.

Hanes: Yes, 60 to 100.

Bell: Hope he doesn't release it.

H.M.Jr: Other than the details and just that one principle, it's all right. If you fellows will do the figures - I know your time is rushed - if you want to go to Hanes's room...

Bell: I'll just attach that to your copy.

H.M.Jr: Yes, if you will.

All right, gents? I mean if you want to go ahead....

Hanes: It's all right to get hold of Blough and get him to work on it.

H.M.Jr: Anything - oh, sure.

Hanes: And check these figures.

H.M.Jr: Yes.

Bell: Does this have to go over today?

H.M.Jr: No.

Bell: Johnny can take it, if he wants to, and work on the figures and give it to me tomorrow morning, and I'll give it to you.

Paris, November 17, 1938.

Dear Mr. Secretary:

On November 10 I received your letter of November 1, requesting "by mail a timetable and details of what happened, beginning with the receipt of my cable to you of October 29th". For this purpose I have pleasure in attaching two memoranda, of November 2 and 11, respectively, the dates on which I dictated from the penciled notes which I had currently kept.

Your initial instruction in regard to secrecy has been strictly followed. I have not mentioned this matter to Wilson or to any of my other colleagues. The Naval Attaché knew of our exchange of cables, but nothing subsequent thereto. My secretary has done the typing of the notes, but has not seen Monnet's memoranda. Monnet kept a copy of the memorandum which Rueff read to us. I have given him no other documents and have not mentioned my notes or this letter.

Until last night, I had not seen Monnet since our  
conversations . . .

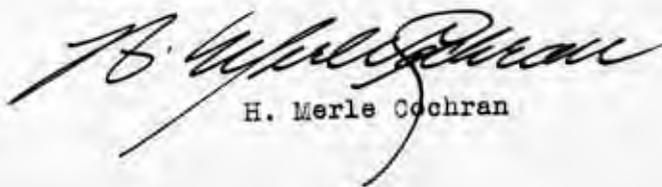
The Honorable Henry Morgenthau, Junior,  
Secretary of the Treasury,  
Washington, D. C.

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conversations ended on November 10. Yesterday evening we arranged to meet, at his request. He told me that he had telephoned the Ambassador in Bermuda as to this matter, and showed me the draft of a cable which he was sending George Murnane to get to Mr. Bullit when the latter reaches New York en route to Washington. This briefly summarized the situation. Monnet told me that he had spoken further with Daladier in regard to the plan. I have done nothing more. The Government made its choice. I feel that nothing should be done by us that might hurt the chances for success of the Reynaud program. If it should fail, then let the French think up their next move.

With very kindest regards, I am,

Faithfully yours,

A handwritten signature in cursive script, appearing to read 'H. Merle Cochran', written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

H. Merle Cochran

Paris, France,

November 2, 1938.

M E M O R A N D U M

At 11 a.m. October 31, Lieutenant Commander Hillenkoetter, Assistant Naval Attaché in our Embassy, delivered to me personally the following message which he had himself decoded and had written out in his own hand:

"To: Alusna, Paris.

Following instructions Merle H. Cochran only from Secretary Morgenthau.

Please ask Mr. Daladier to see you alone at his home without letting any French or American official know about it and then inform him in strictest confidence that you have the following message for him QUOTE Mr. Jean Monnet who is sailing on the Bremen today has seen the President and myself and is carrying a very important and secret message for Mr. Daladier relating to the French financial situation UNQUOTE Please impress on Mr. Daladier that this message is for him exclusively. Advise me through same channels of communication whether or not you have been able

to . . .

to carry out this mission successfully."

In answer to my inquiry, Hillenkoetter said the message was dated October 29, but had not been received by his office until late on Sunday, October 30, and had been decoded by him just before delivery to me. When I insisted on the extremely confidential character of this message, he said that no one was aware of it except his chief, Captain Cogswell. Since there had thus been some delay in receiving the message, I thought it urgent to act at once. I could not telephone Daladier without risking a leak either at the Embassy or at the Ministry, since it is impossible to get a call through to the Prime Minister without it going by at least one "buffer" assistant. So I went unannounced to Daladier's office where I am practically unknown.

At 11:45 I arrived at the Ministry of War, 14 rue St. Dominique. I saw M. Léonard of Prime Minister Daladier's staff. He told me that Daladier was meeting with his various Ministers preparatory to the assembling of the Cabinet in the afternoon. I asked for a personal interview with Daladier, at his home if at all possible, to communicate to him an oral message "from the other side". I stressed that this message was highly confidential and had not been received through the Embassy channels. I said this was the first time I had been instructed to see Daladier. Léonard promised to keep the matter absolutely secret and to call me back, using

his . . .

his own name and without making any reference to the name of his principal. He assured me that he would fix an appointment within the next few hours.

I walked back to the Embassy and at 12:25 Léonard telephoned me that an appointment had been fixed for 2:50 the same afternoon. I accepted this since it was to be the first appointment after lunch and there should be few people around. Incidentally, when I have visited Blum's home when he was Premier I have had to go past all sorts of press men, guards and assistants.

I went directly to the Ministry of War from my home after luncheon. I was received by Daladier alone at 3 p.m. I told him that I was Secretary Morgenthau's personal representative and explained that I had received a message outside of the usual Embassy channels which I was to communicate to him alone and exclusively, orally and secretly. I then gave him the above quoted message in French. He made a brief note without taking it down verbatim.

Daladier told me that he desired at once the information from Washington which was being conveyed by special messenger, without waiting Monnet's arrival. He stressed to me the urgency of a decision on his part since there was to be a Cabinet meeting at 5 p.m., to be followed by other meetings until the series of decree-laws was completed. He was most appreciative of the initiative of Mr. Morgenthau in sending some

message . . .

message to him and he stated that he was most anxious to cooperate with the United States and to do nothing through his decree-laws which would displease my Government. At the same time, he stated that to await Mr. Morgenthau's message would involve a delay in his entire program until Monnet arrived on the Bremen late Friday or Saturday. If, on the other hand, he proceeded at once with the work of drawing up the decree-laws, Secretary Morgenthau's message coming at the end of the week might contain suggestions which would require a reversal of decisions already taken in the week, if France was to meet the American ideas. Daladier could not understand why a message apparently originating with my Government and intended for his Government should be despatched by a non-governmental messenger, and why it could not be communicated through the usual channels, particularly in view of his own situation. He asked me, therefore, to endeavor to procure from Secretary Morgenthau at once, either by telephone or by secret code, the message which the Secretary had for him, or at least the basic essentials thereof.

I told the Prime Minister that I would return immediately to my office and send by the same code in which I had received word from Washington, a cablegram confirming that the notice had been delivered and indicating the Prime Minister's keen desire to receive the substance of the message in question at the very earliest possible moment. I left my home and office

telephone

telephone numbers with Daladier and requested that he ask for me personally if any necessity arose to communicate with me. I told him that no one on the straight Embassy staff in Paris knew anything of my visit to him.

After returning to the Embassy I wrote out in long hand and filed with Lieutenant Commander Hillenkoetter personally at 3:40 p.m. the following message:

"Paris, October 31,

"URGENT

3:30 p.m.

For Secretary Morgenthau from Merle Cochran. Quote. Received your message eleven o'clock this morning. I delivered it orally and secretly to Daladier alone at three o'clock this afternoon. He said he would be happy to have any message from Secretary Morgenthau. He said he was anxious to cooperate with the United States and does not want to do anything through the decree laws upon which he is now working that would not please the United States. Consequently he said he would like to have Mr. Morgenthau's message or the basic essentials thereof at the earliest moment. He asked me to try to get at once from Secretary Morgenthau by cable or telephone the information in question. He reminded me that he has a Cabinet meeting at five o'clock this afternoon to be followed by others in rapid order until

his . . .

his program is completed. If he must await the special messenger late Friday or Saturday this may involve delay or even reversal of policy which would be embarrassing Unquote."

At 8:35 on the night of October 31, Daladier telephoned me at my apartment. He asked if I had carried out the communication which we had discussed. I said that I had sent the cablegram between 3 and 4 p.m. He told me that he had held his Cabinet meeting at 5 p.m. but had postponed a decision until a meeting to be held on Tuesday evening since he was so much interested in learning what Secretary Morgenthau had to say to him. He said he would be laying a wreath on Tuesday morning, but would be at the Ministry after 11 o'clock. He said he was going to dinner with some friends and could be reached at Trocadéro 13-85 until 10:15 that night, after which his number would be Etoile 13-57. He asked urgently if I could not telephone to Secretary Morgenthau and try to have the desired information for him yet that night or the following morning. I promised to make this attempt. He assured me that he had not mentioned my visit or my message to any one.

At 8:45 p.m. October 31, I put in a call for Secretary Morgenthau at Washington from my home and I got connection with him at 9 p.m. I told the Secretary that I had received his message at 11 o'clock

Monday morning, October 31. He told me to be careful what I said. I asked if he had received my reply and he said that he had not. I explained that I had delivered his message at 3 p.m. and that the recipient had asked me to seek information as to the general lines of what was to be expected. Otherwise he might have to risk reversing decisions or holding up his plans until the messenger arrived toward the end of the week. The Secretary said that the latter was the idea of his message. I insisted upon the urgency of the problem here and the complications that might result from the delay in communicating the message. The Secretary said the message was too important to divulge. I told him that the gentleman had telephoned me at 8:35 to let me know that he was so interested in the matter that he had carried over his Cabinet meeting until the following, Tuesday, evening hoping that he might have the message by that time. I said that I had consequently telephoned to let the Secretary know about this. The Secretary said that we would just have to wait; that I would hear all about it in due course; that he was sorry but the matter was too important to telephone or cable. I said all right; I had done my part in cabling and telephoning the situation. The Secretary said he would await my cable. I asked if there was any hope that I could hold out to our friend that there would be any communication for him after the Secretary had received

my wire. The Secretary replied negatively. He was sorry. He terminated the conversation by hanging up.

I telephoned Daladier's home, Etoile 13-57, at 10:20 p.m. He had not yet arrived. I left my telephone number for him to call me as soon as he came in. M. Daladier called me back at 10:35 p.m. I said I had talked with my friend on the other side, between 9 and 10 o'clock, that I had indicated to him the Premier's interest in the communication and had let the Secretary know that the Premier had postponed the decision of that evening's Cabinet meeting until the following afternoon. I told Premier Daladier that the Secretary had said that the message was too important to telephone or cable. M. Daladier expressed his astonishment. He thought this was unusual since he knew that there had been frequent and easy communications through me in the past between Secretary Morgenthau and French Ministers, either by telephone or cable. I told him that the Secretary had not yet received my cablegram of the afternoon when I spoke with him by telephone. I stated that if I had any reply to this message on the next morning or later, I would get in touch with the Premier at once wherever he might be, since I realized the complications he faced, but I insisted that I could not guarantee that any sort of an answer would be received. He understood this and thanked me cordially.

I should record at this point that after receiving the message at 11 o'clock, October 31, through Lieutenant Commander Hillenkoetter, I did not speak with one single individual about it, except as indicated hereinabove. I did not even see any of my fellow officers in the Embassy on Monday afternoon. The memoranda which I made of my conversations have been written out by me in long hand and are only now being dictated to my confidential secretary.

November 1. At 10 o'clock on the morning of November 1,

I came to the Embassy to look over the incoming cablegrams and mail, the office being closed on account of a religious holiday. I saw no one here except the Code Clerk. I was just ready to leave my office at 11 o'clock after reading a few papers, when Mr. Cariguel reached me by telephone. He asked if I knew the latest developments. I replied that I did not. He said it was difficult to speak over the telephone. I volunteered to come to his house, and immediately proceeded by taxi to his home, 83-bis rue de Courcelles, where I was received by him at 11:15. When he answered the door he told me that he was quite alone. I told him that I had understood from my last conversation with him on the preceding Friday that he was going to the country, to be absent from Saturday morning until Wednesday morning. He replied that this had been his plan and that he had

sent his family to the country and let his servants off. I told him that since I had thought that he was absent I had not endeavored to keep in touch with him.

Cariguel told me that the Governor of the Bank of France had told him that they had been requested to come to the Ministry of Finance for a conference of technical experts working on Marchandean's part of the program of decree-laws. The two of them had gone to the Ministry and Cariguel had to work there until late in the evening. To the assembled group Marchandean had intimated his definite conviction that some sort of exchange control was imperative. He tried to put the various officials present in the position of admitting the inevitability of and recommending such measures. Cariguel said this did not succeed in so far as Governor Fournier and he were concerned. When the afternoon's discussion terminated Fournier thought Cariguel would be free to go to the country for the holiday. Because of the crowded roads out of Paris on Saturday night and his poor vision for night driving, Cariguel chose to remain in town until early Sunday morning when he motored out to join his family. Late on Sunday evening he received a telephone call from the Governor of the Bank of France stating that his presence was required at 9:30 on Monday morning. Consequently Cariguel had driven in from the Country on Monday morning.

Cariguel had gone to the Ministry of Finance again

where . . .

where he participated in the work of the experts and he remained there steadily until 3 p.m. Monday when the documents were passed on to Marchandean, who was to attend a Cabinet meeting at 5 p.m. Cariguel stated that the measures which were discussed and drafted involved seizing of gold and exchange holdings abroad, and various other schemes which would at once lead to two rates for the franc. Cariguel, as well as Fournier, has consistently opposed exchange control. In this instance, Cariguel pointed out the difficulties which would arise, and stated that half measures would have no chance of being effective. With the view to making the proposition more difficult to accept, Cariguel in his drafting task outlined a vigorous scheme of exchange control along the lines employed by the totalitarian states. During the day word got to the Governor of the Bank that Marchandean was saying that the experts of the Bank of France were favoring exchange control. Incensed at this, Fournier at once got in touch with the Chief of Daladier's staff and told him very explicitly that the Bank of France Governor and techniciens were not in favor of exchange control; that they had been called in by the Minister of Finance to draft on exchange control and were simply rendering the best service in this technical field that they could, without commitment on their part as to the merits of exchange control in the present situation. Cariguel told me that the

chief . . .

chief proponent of exchange control in the Ministry of Finance was the Assistant Director of the Movement of Funds, Mr. Sault. Cariguel told me that that I had "heard nothing from him" and should be very cautious in anything that I might say, lest I reveal that he had talked with me over the inside work. He was very much of the opinion that Daladier would not accept Marchandean's program and that Marchandean would resign during the evening. The Bank of France had, through the Under-Governor, M. de Boissanger, let Bonnet know how much they were opposed to exchange control, and were sure that they could count on the Minister of Foreign Affairs to fight Marchandean's program. While Cariguel was still talking, Governor Fournier telephoned him and requested that he come at once to the Bank of France. Cariguel and I left the apartment and I took him in a taxi within a couple of blocks of the Bank, but he preferred to get out and arrive at the Bank without having been seen in my company.

I returned to my apartment shortly after 12 noon, without seeing or talking with any one else. Governor Rooth of the Swedish Central Bank and his wife were guests at our home for luncheon and remained with us until after 5 o'clock. This was purely a social visit. Only for perhaps one-half hour when Governor Rooth and I were in one of the rooms alone did we discuss financial matters, and this conversation was fully

reported . . .

Regraded Unclassified

reported in my cablegram No. 1484, November 2, 10 a.m.

At 6 p.m. Cariguel 'phoned me at my home. He wanted to let me know that during the day he had sold 21 million francs through London. Three months discount on the franc against sterling had been reduced from 6 1/2 to 5 3/4. He said Daladier had refused Marchandean's exchange control plan and that Marchandean would resign later in the night. The rumor in London was that Reynaud and Mandel would quit with him.

Cariguel called me again at 8:20 p.m., but I was out at the corner buying the evening papers. When I came back I called Cariguel and spoke with him at 8:30 p.m. He told me that Marchandean was leaving the Ministry of Finance, changing places with Paul Reynaud. This was all Cariguel knew. He was not sure whether the information had been given to the press, as he had just received it by telephone from Governor Fournier. At 8:40 Rowe-Dutton, Financial Counselor of the British Embassy, telephoned me to give me the above news, that Marchandean had resigned and Reynaud had taken his place. I asked him if this was public. He said yes, it had been given out through Havas. I told Rowe-Dutton that I had not been in touch with the Ministry of Finance since a brief telephone call on the preceding Friday and knew nothing of the developments since then. Rowe-Dutton told me that he had an appointment to see one of the officials at the Ministry of Finance on Tuesday and he would let me know if he obtained any

interesting information.

As soon as I had finished talking with Rowe-Dutton, I put in a telephone call for Secretary Morgenthau at 8:45 p.m. (Tuesday November 1). I got connection at 8:55 p.m., but the communication was not very good. When Secretary Morgenthau came on the 'phone he said he was glad I had called since he was just ready to call me. He asked what I knew. I said Marchandean had resigned and Paul Reynaud had changed places with him. The Secretary said he had just gotten this over the ticker. I said I understood confidentially that Marchandean's plan for exchange control had not met with Daladier's approval. The Secretary had me repeat this. That is, that Marchandean had been working toward exchange control and that Daladier as Premier did not accept the idea. I stated that there had been meetings of technical bodies Saturday afternoon and Monday and that a plan envisaging exchange control had been drawn up under Marchandean's direction, although the Bank of France people had objected thereto. I reported that the experts had worked on this drafting until 3 p.m. Monday and that Marchandean had then presented his plan to the Cabinet for discussion and that it had again been discussed at the Cabinet meeting on Tuesday evening.

Secretary Morgenthau told me that at 5:51, Washington time, Monday afternoon, the United Press had carried a story in Washington that the French

were . . .

were consulting us on exchange control. The same story had come through the United Press again on Tuesday. The Secretary stated that he would cable the press story to me through the State Department. He said there had been no consultations in Washington. I stated that for my part I had not been in touch with the French Ministry of Finance, or the press, or any of my Embassy colleagues. I had not heard such a story on this side. I stated that Governor Rooth and his wife from Stockholm had been at my home most of the day. I asked if I should cable yet on Tuesday night the information which I had given over the telephone. The Secretary said to do this the following morning. I said I would see what information I could get the next day and would wire this also.

November 2. When I came to the Embassy at 8:50 November 2, I found the following telegram in the Code Room.

WB25 First For Cochran

From the Secretary of the Treasury Following dispatches appeared here on United Press News Service QUOTE October 31, 526 PM Paris Stop The Government decided tonight to ask Washingtons advice and approval of the monetary aspects of its recovery program before its final adoption An authoritative source said the Cabinet decided to hold up further discussion until 5 p.m.

tomorrow pending Washington reply One group of Cabinet Ministers who consider the monetary question the crux of the recovery program proposed decree regulations similar to the prohibition by the United States in 1933 of private gold holdings regulating foreign exchange transfers credit transfers and currency exports abroad This group contended that such regulations will not contravene the Tripartite Monetary Agreement among France Great Britain and the United States inasmuch as it was employed by the United States and is not intended to control exchanges but to prevent further capital flights and force hoarders to disgorge their gold UNQUOTE QUOTE October 31, 551 PM Paris STOP The Government decided to ask Washington whether the United States would consider such regulations on Frances part as incompatible with the Tripartite Agreement If such measures are held by Washington to be incompatible with the three power accord the United States was asked to consider modification of the agreement to permit the regulations The Government was understood to have decided to make clear in its communication to Washington that France has no intention of imposing foreign exchange control but urgently requires some means to force hoarders to surrender about twenty billion or thirty

billion francs in gold prevent further exports of capital and gain firm control of the francs party  
UNQUOTE QUOTE November 1, 227 PM Paris STOP The Cabinet held an important meeting tonight so consider stern economic and financial measures which it plans for recovery Washington was consulted on how the measures would fit in with the Paris London Washington Monetary Equalization Agreement Before the Cabinet met Premier Edouard Daladier conferred at length with Paul Marchandean Finance Minister and Georges Bonnet Foreign Minister indicating that Washingtons reply probably had been received The meeting was considered so important that Bonnet left his sick bed to attend it UNQUOTE QUOTE November 1 336 PM Paris STOP After the Cabinet meeting Reynaud announced SUBQUOTE I am assuming direction of the Finance Ministry I will proceed to study the situation All the projects which are ready must thus be reviewed SUBQUOTE I expect to be ready in about five days and therefore early next week a new Cabinet meeting will discuss my projects END SUBQUOTE END QUOTE QUOTE November 1 426 PM Paris STOP Reynaud said that he would not resort to devaluation of the franc He said he hoped to have his financial proposals ready for a Cabinet meeting next Monday SUBQUOTE The confidence of the Premier brought me to the Finance Ministry END SUBQUOTE He said

Subquote . . .

SUBQUOTE I accepted in the spirit of all Frenchmen of today Everyone must serve My first task will be to establish a balance sheet of the economic and financial situation SUBQUOTE There was a time when the question of devaluation was posed because our prices were too high in relation to foreign prices Today I say that time no longer exists SUBQUOTE The recovery problem is not monetary but economic and financial END SUBQUOTE END QUOTE

HULL"

In this morning's press there is no suggestion of any story along the above lines, that is, of France asking our advice, except the brief denial thereof cabled from the United States to the Agence Economique. I asked our Press Room to watch particularly for such a story but was informed this evening that nothing of the sort had appeared.

In my cablegram No. 1846 sent at 9 o'clock this morning I confirmed my conversation by telephone with Secretary Morgenthau last night at 9 o'clock. Chargé d'Affaires Wilson came into my office while I was preparing this message and he approved it. I told him of my conversation with the Secretary on the preceding evening and gave him my opinion of Reynaud's appointment. At 10 o'clock, I sent a second message, No. 1848, reporting my conversation with Governor Rooth. At 11:45 a.m. I visited Cariguel at the Bank of France

and reported this conversation in my 1849, 12 noon, November 2. While I was with Cariguel, I referred to our conversation of the previous day and asked whether Marchandean had really thought that he could put on exchange control through decrees or whether my understanding was correct that some of the measures had been drafted by the technical experts with a view to their submission to Parliament. Cariguel said that some of the drafting officers had worked with the idea that the measures could only be adopted as a parliamentary bill and could not be put through as decree laws. He said that some of them had been concerned, however, lest Marchandean should press for their adoption as decree laws, irrespective of the pledge that had been given by Daladier when he came into office and when he received special powers. No one, except perhaps Marchandean himself, could definitely state just what the procedure would have been if the ideas of Marchandean on exchange control had been found acceptable by the Government. Cariguel insisted that Marchandean's plan of control of exchange was being built up simply as a smoke screen for inflation that would have reached 50 billion francs. The development of two rates for the franc would not have helped France since she has no great amount of finished materials on hand for export but would have led to complete economic despoliation of the country. Cariguel would not venture a forecast as to what Reynaud would do as Minister of

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Finance.

When I returned from the Bank of France I went into Mr. Wilson's office and gave him the information which I incorporated in my 1849. I told him, as I had earlier in the morning, that I had not been in touch with the Ministry of Finance since my brief telephone conversation with Rueff on October 28, as reported in my cablegram No. 1834, of 5 p.m. that day, and that I did not intend to inquire or call at the Ministry of Finance in present circumstances.

My cablegram No. 1853 sent at 6 p.m. this evening reported the day's market developments. After sending this message I dictated the first part of the foregoing notes, which were concluded on the following morning, November 3.



Paris, November 11, 1938.

M E M O R A N D U M

November 3. On this date I completed the preparation of the notes dated November 2, 1938. There were no particular developments in the French financial situation. My cablegram No. 1861 sent at 6 p.m. this day recalled the principal points in a confidential conversation which I had with Reynaud on June 1, when he talked quite frankly about what he thought should be done to remedy the French situation.

November 4. On this date I received the Department's cablegram No. 831, November 3, 6 p.m. concerning the extent to which the Bank of England was still short on dollars for forward deliveries. I cabled this promptly to Butterworth at London, but made no other use thereof.

At 12:15 noon, Pierre Denis, representative in Paris of Jean Monnet, telephoned me. I met Denis two or three years ago and know him to be a close friend of the Ambassador. Over the telephone he told me that Monnet was arriving in Paris about 2:30 and wanted to see me at once. I told Denis that I would await further word at my home and gave him my telephone number. About 3 o'clock Monnet telephoned me at my

home. It was arranged that I should come to his apartment, rue Fabert, at once. Upon my arrival at his apartment, Monnet told me that he had a letter of introduction from the Secretary of the Treasury to me, which he would give me when he got it out of his baggage. He subsequently handed me this letter which reads as follows:

"Washington

October 26, 1938

My dear Cochran:

This will serve to introduce Mr. Jean Monnet, who has been over here on a very secret mission.

The occasion may arise when Mr. Monnet may wish to communicate with me. I hereby authorize you to extend to him every courtesy and, furthermore, I wish that you would cooperate with him fully if and when the occasion arises.

With kind regards,

Sincerely yours,

(signed) H. MORGENTHAU, JR."

I summarized to Monnet the action which I had taken after receiving Secretary Morgenthau's confidential cablegram of instructions. At Monnet's request, I telephoned Daladier's office. The Premier was not in and it was 4 o'clock before I was able to get him on

the . . .

the telephone. I then simply identified myself and told him that a friend of mine had arrived from the other side who desired to speak with him. Monnet then took the telephone and made an appointment for that evening to go personally to see the Premier. While we were awaiting connection with the Premier, Monnet showed me various memoranda which collectively constituted the plan which was under reference. He said he had not extra copies, but he subsequently gave me in his own hand writing the following documents:

" (1) Monnet's Confidential Note - General Conditions";

" (3) Jean Monnet's Draft".

He also provided me with a typed copy each of:

" (2) American Power to Act - Confidential - Monnet's Notes";

" 2 French Capital Abroad".

I in turn gave Monnet such information as I thought would be of interest to him on developments in the local situation.

At 5:30 p.m. Rueff telephoned me from the Ministry of Finance. He told me that Reynaud wanted to speak by telephone with Secretary Morgenthau but had learned that he was not at the Treasury. Rueff requested that I come to the Ministry of Finance at 12 noon on Saturday, November 5, to see Reynaud and asked that I be able to tell him at that time where he could reach Secretary Morgenthau for a personal talk by telephone.

Monnet came to my apartment late on the night

of . . .

of November 4, after having seen Daladier. At 12 midnight I put in a call from my apartment for the Secretary at Washington. When the call came through at 1 a.m. Mr. Lochhead was on the 'phone. He told me that the Secretary was in the country, Beacon 211. Mr. Lochhead took this opportunity to tell me that Reynaud had telephoned the Secretary during the day and that a message was being sent to me through the State Department reporting this conversation. Mr. Lochhead explained that this was a very brief talk wherein the new French Minister of Finance asserted his loyalty to the Tripartite Agreement. The Secretary had told him that he was glad to hear this, wished him complete success and offered to be of any assistance. Lochhead said that Reynaud did not go any further in his conversation, evidently expecting some lead from the Secretary, which was not forthcoming. (The message from the Treasury Department reporting this conversation was received by me through the State Department's cablegram 836 of November 4, 5 p.m.) I told Lochhead that Monnet was with me and had seen the Premier, and that we wanted to report the interview to Secretary Morgenthau. Lochhead had the call transferred to Beacon 211 while we waited.

When the Secretary got on the line between 1 and 1:30 a.m., I started the conversation by reporting that Monnet and I had communicated with each other

upon his arrival and that I had placed him in touch with the Premier, whom he had seen that evening. Monnet then took the 'phone and reported his interview. Monnet spoke from notes and promised me a copy, but I have not yet received it. The substance was that he had found Daladier keenly interested in the idea, and apparently determined to adopt it for France if the other two countries could agree thereon. The Premier regretted exceedingly that he had not received this message earlier or had not been advised as to the nature thereof when I had told him that a message was on the way. He told Monnet that Marchandean had gone out because the policy of control which he envisaged had not been found acceptable. If the message now received had been on hand the situation might have been different. Monnet let the Secretary know that Daladier anticipated some difficulty with Reynaud, since the latter had come into office succeeding a Minister whose policies for control had been rejected, and was expected to follow an orthodox policy. Monnet had the impression, however, that Daladier would push the matter through, even if Reynaud had to be thrown out and Daladier himself take over the portfolio of Minister of Finance. It was understood that Daladier himself would broach the matter to Reynaud and then Monnet would be called in

to . . .

to a meeting of the two of them, or be asked to explain the matter separately to Reynaud. Monnet told the Secretary that it was probable that the two French officials would want to speak to him, the Secretary, by telephone the following day. This was agreeable to the Secretary, who congratulated Monnet upon the considerable progress that he had so quickly made. Monnet explained that he had requested that Daladier speak to no one other than Reynaud about this matter and had obtained a promise of absolute secrecy. I took the 'phone after Monnet finished. It was understood that I would not be present when Monnet discussed the plan with Daladier and Reynaud together, but the Secretary preferred, if the French found it agreeable, to have me present whenever they might talk by telephone with him. Monnet agreed to attend to this.

November 5. At 11:15 a.m. I telephoned to Rueff, but he was not in his office. I asked that he call me back as soon as he came in. When he had spoken with me the previous evening in regard to calling on Reynaud at 12 noon today, he had said they would make no effort to get in touch with Secretary Morgenthau by telephone until I had seen them. Since I had learned during the night from Lochhead that they had gone ahead with the conversation, I felt that they probably would not want to see me at the Ministry, but I did want to

check with Rueff rather than fail to appear without some understanding. On the other hand, I desired to avoid seeing Reynaud, if possible, before I was sure that Daladier and Monnet had both spoken with him in regard to the plan. Rueff did not call me back until 12:25 noon. He said that the Minister expected me at the Ministry at noon. I told him that I had been trying to get in touch with him, Rueff, but since I had learned that Reynaud had already spoken with the Secretary, and since I had not been able to find Rueff to check with him before 12 o'clock, I had presumed that they did not desire that the appointment be kept. It was agreed that it was then too late to see Reynaud. Rueff asked if I could come in the afternoon. I told him that I would be very glad to if he would only indicate an hour which Reynaud would find convenient. At 12:30, only a few minutes after our conversation ended, Rueff called me back to let me know that Reynaud would expect me at 6:30 that evening, and I agreed thereto, knowing but not mentioning to Rueff that Daladier was to see Reynaud shortly before 1 o'clock.

At 12 noon Monnet had telephoned me to let me know that there was nothing new, but to give me his opinion that our conversation of last night with Secretary Morgenthau should not be divulged to Daladier and Reynaud when we saw them in the afternoon. I agreed to this, except that it might be necessary for

me . . .

me to mention that the Treasury had informed me of Reynaud's conversation with the Secretary on November 4. I told Monnet that I would await word as to whether and when I should be available to witness the telephone conversation between Daladier and Reynaud and Secretary Morgenthau.

At 12:35 my secretary telephoned me that Chargé d'Affaires Wilson had wanted me to know that he was going to Versailles for the week-end and that I could reach him at the Trianon Palace.

At about 2:30 p.m. Lochhead telephoned me at the request of the Secretary to let me know that he had received about one-half hour previously from Daladier and Reynaud a telephone call in which they had stated that they were both interested in the message. In answer to their question as to how they were to communicate with Secretary Morgenthau, they were informed that this should be through me. Lochhead said the conversation was short and a little confused since Daladier spoke no English, but that it was sufficient to indicate the interest of the two French officials and to establish initial contact and to determine the method of communication. Monnet telephoned me at 3 o'clock to tell me that Daladier and Reynaud had talked over the matter by themselves, and that he had then been called in to the conversation. In his presence they had then telephoned Secretary Morgenthau, following in their talk a memorandum which Monnet had prepared for them.

It . . .

It was agreed that he would come to see me at 5:30 and explain why I had not been called in for the telephone conversation.

At 5:30 Monnet came to my apartment and reported the conversation which he had at noon with Daladier and Reynaud at the Presidency. ( He has not yet given me the promised notes on this talk.) He let me know, however, that he had sensed a certain degree of frigidity when he met Reynaud, whom he had not known before. He explained that I had not been called to the Presidency to be there when the telephone conversation was had with Secretary Morgenthau because the French officials desired to raise the point at that time as to whether they were authorized by the Secretary to communicate through me.

Monnet said that if opposition to the plan developed in bureaucratic circles, it might be necessary for Daladier to get rid of such men as Fournier and Rueff, to be replaced by Auboin and Derooy. Auboin, now General Manager of the B.I.S., has been a close friend of Monnet for many years and Derooy, who is the head of the Caisse des Dépôts et Consignations, is, I believe, a member of the rather international group of Frenchmen who constituted a close association for several years. This included the late Pierre Quesnay, and others who had served with the League of Nations. It will be recalled that Monnet spent some time with the League and later negotiated stabilization loans for Austria, under the auspices of

the League, and also for Poland and Rumania. In subsequent conversations of the past few days, Monnet has recounted to me incidents of these negotiations, including the task he had of obtaining the approval of the Governor of the Bank of France, as well as of other officials, to such loans. Monnet recalled to me that he had been a partner in Blair and Company. He is now associated with George Murnane, whom I have known slightly since he was active in the foreign lending and Kreuger transactions of the now defunct Lee Higginson firm. Monnet also let me know in strict confidence that the secret mission on which he had gone to Washington was in regard to financing construction of airplanes in Canada, I believe, for the French Government. Although I did not mention this to him I recalled in my own mind that Ambassador Bullitt had questioned me in detail some days before his own departure for the United States as to how French aviation could most speedily be developed, through American building in France, in the United States, or in Canada.

I went to the Ministry of Finance to keep my appointment with Reynaud. At 6:30 I was greeted there by Rueff who came out from a meeting which he was attending and told me that the Minister would see me shortly. At 6:45 Reynaud received me alone. He was very gracious. I extended my tardy congratulations and excused my not coming earlier. Since I had

delivered . . .

delivered the first secret message to Premier Daladier, I said I had thought it advisable for me not to be in direct contact with the Ministry of Finance before the final message was received by the Premier and discussed by him with the Minister of Finance.

Reynaud said the he understood from his conversation by telephone with Secretary Morgenthau earlier in the afternoon that any communication which he wished to make with the Secretary of the Treasury should be through me. I said I was glad to be of any service. I explained that no one in the Embassy proper knew of this matter. He wanted me to reiterate to Secretary Morgenthau his gratitude for and interest in the message. I assured him that we wanted to do anything we could to help France and particularly to aid them achieve success in the financial and monetary field. He asked me very directly what I thought of the plan in question. I said that this envisaged cooperation on our side to a much greater degree than I had ever conceived as possible.

Reynaud said he had been sworn to such secrecy that he could not even consult his technical assistants on this plan. He said that Daladier "was hot for it" but that it was up to him, Reynaud, to study its technique. He said he was in the midst of preparing the financial decree laws. He asked if we would approve his consulting his two leading experts, Rueff and Fournier, or at least one of them. I thought this

entirely . . .

entirely reasonable and promised to seek Secretary Morgenthau's approval by telephone tonight. Reynaud said that if I got this approval to let him know the first thing the following morning. He would call one or both assistants to put them to thinking on it. He said that at best he could not give us any word on Sunday, and thought this would really not matter since there would be no chance for us to talk with the British over the week-end. He wanted a little delay to think the matter over. If he could consult his experts he should be able to talk concretely with us in a couple of days; if not, the delay would be longer. Reynaud expected to have the decrees finished for issuance by next Saturday. He had the draft of a rather general reaffirmation of Tripartite principles on his desk which some one had drawn up and recommended to him that day for issuance before the decree laws. He asked me to read this and give him my opinion on the wisdom of such a Tripartite communication. I read it over and saw little merit in it, it being in part too nebulous and in part containing promises with respect to managed economy and money to which it would have been impossible for us to adhere under our present policy. I told Reynaud that France had a real problem to solve and that the French people awaited action shortly by him and the Government. Reynaud said he had been constantly thinking over the ideas advanced by Monnet. He wondered whether this plan might not lead to hoarding

in France, if they succeeded in getting such funds now abroad back into this country through the scheme now envisaged.

Reynaud said the decree laws in course of drafting are along entirely orthodox lines. Furthermore, he had given out a denial yesterday that any measures of restraint would be imposed. He looked upon Monnet's ideas as involving restraint. He wondered whether it might not be better for him to go ahead and issue the orthodox decrees next Saturday. The Tripartite declaration along Monnet's lines might be desirable a few days afterwards. He said he would thus continue to be orthodox and the Tripartite could take the responsibility for being unorthodox. He obviously wants to see if he can get capital started back into France without measures of force.

Reynaud assured me that he had taken no final decision but was thinking of the Tripartite idea. He hoped we might approve his consulting with his advisers in confidence. I am 'phoning him early Sunday morning.

I left the Ministry with the definite feeling that I should regret to see Reynaud forced out of the Government on this present matter, irrespective of such merits as the plan may present. He is the most intelligent man who has been in the Ministry of Finance during my stay in Paris. If anyone now in French public life has a chance to succeed with an orthodox policy, it is he. If Daladier, who has no financial sense

whatever, should force Reynaud out, possibly along with some of the career assistants such as Rueff and Fournier, personally take over the portfolio of Finance, and call on some new assistants in this critical time to replace men who are entirely familiar with the situation, chaos would probably result. If Reynaud and some of the permanent people were forced out in such circumstances, I am convinced that the present conversations would be revealed and the Secretary's most sincere efforts to be of genuine assistance and cooperation would be twisted into appearing as disastrous meddling.

Since Lochhead had told me that I could not get the Secretary until late at night, Paris time, I had not yet put in a call for Beacon when the Secretary got me at 11:15 p.m. I gave him the foregoing account of my conversation with Reynaud which had taken place between 6:45 and 7:15 p.m. I told him that after my talk with Reynaud I was not nearly as convinced that the plan would be put into effect as Monnet had indicated after his talk with Daladier. The Secretary did not object to the idea of the two experts being called in by Reynaud, feeling that he really had no veto power in the circumstances and realizing that in a similar situation he would want to consult his own assistants, particularly Lochhead. The Secretary reiterated the necessity for complete secrecy. He said he had no faith in playing for a return of confidence in France.

He . . .

He did not like the idea of the Tripartite declaration following the French decrees, but, in answer to my question, stated that I was not to indicate his position on this for the present. He did not want to have to plead Daladier's case with Reynaud over the telephone. He was willing to make the effort with the British if the French wanted it.

The Secretary wanted me to learn on Sunday and cable through the State Department what Marchandean's plan had actually been when the break in the Cabinet occurred. I said I had purposely refrained from visiting the Ministry subsequent to my receiving his cablegram on Monday and prior to my visit with Reynaud today. He asked what I thought of the outlook on the present matter. I said I had not had but this one conversation, had not been present when Daladier and Reynaud had talked with Monnet, and consequently was not able to give much more of an indication than that herein above-mentioned, that is, to the effect that I had not found as much enthusiasm on the part of Reynaud for the plan as Monnet had found with the two of them, and particularly with Daladier.

The Secretary again ridiculed the "confidence" idea saying that they had been talking this for five years and money was still leaving France. He said the "messenger" (Monnet) was a realist. He said that if France does not take this idea he will just be disappointed.

November 6. At 9:30 this morning I succeeded in reaching Reynaud personally by telephone at the Ministry. I told him that I had talked with the Secretary of the Treasury last night and had communicated his message as requested. The Secretary told me it was entirely agreeable as far as he was concerned to consult the two technical advisers. At the same time he again urged secrecy. Reynaud thanked me for this message.

At 11 a.m. I telephoned Monnet and let him know that I had received the Secretary's approval above-mentioned and had communicated it to Reynaud.

I was absent from my apartment when the Secretary tried to get me at 10:05 p.m. I put in a call when I returned and reached him at 10:40. I told him that I had not endeavored to see Rueff earlier in the day principally because I did not want to risk talking with him before the Minister of Finance had had time to consult with him on the proposition, but that I was ready to get in touch with him yet tonight to see what I could learn from him about the plan on which Marchandean had left office. The Secretary told me not to do this since it was not so urgent that he have the information and he was afraid Rueff might attach too much significance to my question. I told the Secretary that I had given Reynaud earlier this morning the message in regard to consultation

with . . .

with his two assistants. Furthermore, I had given Reynaud my home telephone number and had asked him to call at any time he wanted me. I told the Secretary I would try to see Rueff casually tomorrow.

Monnet telephoned me at 11 p.m. I told him of my talk with the Secretary. He said he would send me copies of the confidential memoranda which he had brought from Washington at 8:30 the next morning. He told me that he had seen Daladier again today. It was arranged that I should get in touch with Monnet sometime tomorrow.

November 7. I requested an appointment with Rueff this morning and was received by him at 11 a.m. He immediately let me know that Reynaud had told him of the matter under consideration. He asked me for details. I told him that I had notified Daladier that a messenger was coming. Monnet had arrived and had presented the idea. I had received no intimation as to what the message was and had only this morning at 8:30 received from Monnet by messenger the envelope containing copies which he had made of the memoranda setting forth the plan. Rueff was very curious about the source of the idea, asking if I had not also received some official message containing it. In his presence I opened the envelope from Monnet which I had received this morning and had not yet touched, but had in my brief case. When he saw the

envelope . . .

envelope corresponded with the brown envelope on his desk, in which the originals had been left by Monnet with the Minister of Finance, he seemed convinced of the channel of communication but still asked me to read the first sentence of three different memos to see that they were identical with his.

Rueff asked if I had known Monnet before. I said that I had met him at a dinner given by Ambassador Bullitt when the Chinese Minister of Finance Kung was in Paris seeking a loan, but had not known him previously and had not seen him since. I did not mention that he had offered in 1933 a friend of mine a big salaried job in China, but my friend had declined because of the speculative character of the undertaking. I asked Rueff if he knew Monnet. He said yes, that he had known him for several years, particularly when Monnet was with the League of Nations. He asked me if it was true that Monnet was now a private banker living in New York. I said it was my understanding that he was in some business that kept him in New York at least part of the time. Rueff made the point that Monnet had never been a French official. He mentioned Monnet's friendship for Monick, the French Financial Attaché in London, and asked if this idea might not have originated with Monick. I told him that I surely had no reason to believe this. Quite to the contrary, Monnet had told me that the Secretary had not wanted any negotiations through Monick at London if this

matter . . .

matter should develop to the point of triangular conversations. Rueff said that the British apparently felt the same way about Monick that Secretary Morgenthau did, since the British had not wanted Monick in on the conversations regarding British and French financial help for Czechoslovakia. I remarked in turn that Monnet was obviously an admirer of Monick and was under the impression that Monick had been the inventor of the Tripartite Monetary plan.

After this exchange of gossip, I said that, irrespective of the source of the ideas, I was struck by the limit to which my people were apparently willing to go if the French found these ideas of interest and indicated that they were disposed to act thereon. I told him that this was much wider cooperation than they would ever have ventured to ask from us. Rueff said he was lunching with Reynaud today to discuss the matter further. Rueff then asked what they were to do. I said that both Deladier and Reynaud had already indicated directly to Secretary Morgenthau their interest in this matter. The next step would be for them to tell us whether they were going ahead and on what specific lines. Then I could communicate this word to the Secretary of the Treasury and see if the American and French officials might find a common ground and come to an understanding. If and when such an understanding was reached and sufficiently concrete ideas established

to . . .

to warrant it, Secretary Morgenthau would then, if the French desired it, make an effort with the British. It was understood that the French would not approach the British before then. Rueff asked me to call him at 4 p.m. today to see if they might have any message for us.

I asked Rueff about Marchandean's fatal program. He said it consisted of several pieces of individual drafting which envisaged a sort of control, without calling it such, which would have been entirely unworkable. He said he had been consulted on it only two days before Marchandean submitted his ideas to the Cabinet and had them turned down. He did not want to say any more without Reynaud's permission, or be quoted in the premises. He said that Marchandean really wanted something on which to get out of the Ministry of Finance. I told Rueff not to bother about any further information in the premises for me, but that I was naturally curious to know what had happened.

At 12 noon I dropped in on Cariguel at the Bank of France without an appointment in advance. I told him I had not seen him for several days and wanted to talk over the market situation. In our conversation Cariguel indicated no knowledge whatever that some conversations were taking place at the Ministry of Finance. After reviewing the market, I asked Cariguel just what were the main points in Marchandean's program. He said briefly that they were: (1) requisition of

gold . . .

gold and foreign bank balances, but not securities; (2) inflation by 50 billion francs; (3) no Government economies. As to the market, Cariguel said it was entirely quiet with everyone awaiting the decrees on Saturday.

At 1 o'clock I saw Monnet. He had seen Daladier at 9 o'clock last night at his own request. He found the latter still enthusiastic and a little vexed because Reynaud was taking so much time to reflect and had sought approval from us to consult with his assistants. Monnet thought Daladier seemed disposed to push the plan at any cost. Monnet said he urged him to have a little patience with Reynaud and recommended letting the idea develop in such a fashion as to give the appearance that it was Reynaud's. I told Monnet of my visit with Rueff. Monnet was particularly curious as to whether Rueff asked anything about him, and I did not give the entire conversation, although I did mention Rueff's suspicion that Monick had something to do with the plan.

At 1:50 p.m. I put in a telephone call from my home for Secretary Morgenthau at Beacon 211. I got through to him at 2:50 p.m. and gave him the high points in the developments since we had last spoken. He told me to call him back before 6 o'clock his time, that is, 11 p.m., my time.

At 4:30 p.m. I telephoned Rueff as had been

agreed . . .

agreed upon during the forenoon. I told Rueff that I had spoken with the Secretary of the Treasury and that the latter had used a simile in his remarks to me about France. That is, he was only the consulting doctor. The surgeon was on this side, and it was up to the latter to operate if anything was to be done. We knew what the consultant's advice was. I gave this in guarded language, but Rueff got the point. He asked me to come to see him again at 12:30 tomorrow. I offered to come yet this evening, but he insisted on tomorrow.

I telephoned Monnet at 9 p.m. It was agreed that I should meet with him at 11:45 tomorrow morning before seeing Rueff.

At 9:30 p.m. I put in a telephone call from my home for Secretary Morgenthau and got him at 10:10 p.m. In a brief conversation I told him of my conversation of the afternoon with Rueff and of the appointment for tomorrow noon. I read to him a press communiqué from the Ministry of Finance. I told him that it was thought that when Reynaud came in there would be a Council meeting on Tuesday, the 8th, to receive the draft measures, but that the communiqué said no date was fixed. I surmised that the French officials were giving some thought to certain matters. It was agreed that I should call the Secretary at 9 a.m., his time, tomorrow morning (2 p.m., my time).

November . . .

November 8.        Shortly before noon I met with Monnet and we talked over the situation before I went to the Ministry to see Rueff.

Rueff received me at 12:45 noon. He said there was nothing definite to report. They welcomed the message brought by Monnet. Rueff personally appreciated the magnitude of the plan. He said they would be interested in an arrangement with us involving exchange of fiscal information. Reynaud's plans included efforts to prosecute fiscal fraud perpetrated through holdings abroad. I said that the plan which Monnet had put before them would do the necessary in this respect in a really great way. Rueff admitted this and said it would really offer more than Marchandean and his predecessors in office had been after us to grant. On the other hand, this would involve a monetary control which would not be compatible with Reynaud's program.

I said it was necessary for them to give us something definite about their intentions at once if, as they said, they were interested in the ideas brought by Monnet. It would soon be too late to take this matter up with the British, even if the Americans and French could find themselves in agreement to go ahead. Rueff said he would have to see Reynaud and perhaps the latter would have to speak to Daladier. He promised to endeavor to obtain a definite memorandum in writing from Reynaud this afternoon which he could give me or

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at least read to me, following the practice we have sometimes adopted in the past. He said it would be best for me to come to the Ministry between 7 and 8 o'clock this evening, subject to confirmation. I reminded Rueff that my first interview in the Ministry on this subject had been directly with Reynaud and that it would seem natural that any reply should come directly from him. Rueff insisted that for his own part he desired very much that I see Reynaud himself.

Rueff said Reynaud really had a good and courageous set of decrees. To my inquiry, he replied that they were entirely orthodox. I asked if Reynaud had mentioned to him the possibility of using Monnet's ideas after the decrees came out, if it is found that he cannot use them prior thereto or fit them in with the general scheme of decrees. Rueff said the two plans were incompatible, since one envisaged exchange control. He said Marchandean had been chased out of office on this point. Furthermore, he said this was a fine set of decrees and should have a good reaction. He mentioned the improvement on the French exchange and security market yesterday, and the strong franc this morning, which he attributed to the belief that Reynaud would bring forth an orthodox set of decrees. At the end of our conversation, Rueff brought up again the idea of just using the fiscal control features of the plan in a bilateral agreement. I said that would

leave . . .

- 25 -

leave Great Britain and the other adhering Tripartite countries on the outside, and lack the effectiveness of the plan under consideration. I thought an addendum to our double taxation treaty could be negotiated at leisure, as has been talked of in the past.

In my 1878, 10 a.m. today, I gave the text of the communiqué which I had read to Secretary Morgenthau last evening. In my 1879 sent at 11 a.m. today, I reported that the French Stabilization Fund had gained 1 million pounds sterling by that hour. My 1881 of 6 p.m. gave further developments of the day.

I put in a call for Secretary Morgenthau at Beacon 211 from my home and got connection around 2 p.m. as scheduled. I gave the Secretary a summary of the above-reported interview with Rueff. The Secretary did not find this either final or specific. I agreed, but thought it showed very definitely the sentiment of the Ministry of Finance toward the idea. He said that if I got anything definite tonight I should cable it through the special channel. There was no use calling him further during the day since he was leaving for Washington. Whether I obtained a definite communication or not, I should 'phone him at the Treasury tomorrow morning at 9 o'clock, his time, to report.

At 3:40 p.m. I called on Monnet and told him of

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my noontime conversations with Rueff and Secretary Morgenthau. He indicated to me the lines along which he thought it would be best to proceed. For my part, I indicated my willingness to insist upon as definite a statement as possible which should be clearly indicated as coming from Daladier as well as from Reynaud, since I had made the original arrangement for the message to be received by Daladier. Monnet emphasized how simply a Governmental crisis could be precipitated over the present issue. If this came to pass he said Auboin should head the Bank of France and Derooy the Movement of Funds Section at the Ministry of Finance. He regretted that Quesnay was not still alive to be Minister of Finance. Monnet thought that the plan being drawn up for and by Reynaud, with the immediate assistance of Rueff, was destined to fail.

I was to call Rueff before going to the Ministry this evening. I tried but could not get him between 7 and 7:20 so I told his assistant, Couve de Murville, who said Rueff was with the Minister, that I was on the way to see him.

Rueff received me at 7:50 p.m. He said he had talked with the Minister and the latter was prepared to give me a message. He did not indicate to me what the message was, and I waited in the room of one of his assistants until the Minister called for and received us at 8:30. Reynaud told me that he and Rueff had prepared a message for Secretary Morgenthau

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in regard to the ideas which Jean Monnet had discussed with President Roosevelt and the Secretary of the Treasury. He read this to me from a penciled draft. The message was to the effect that the Premier and the Minister of Finance had noted with much interest and had studied carefully the ideas which Monnet had discussed with President Roosevelt and Secretary Morgenthau and that they appreciated the spirit of American cooperation et cetera. The memorandum continued that the Minister of Finance was working out a program which he felt was within the letter and spirit of the Tripartite Agreement. It contained no measures in the direction of exchange control. He felt that the idea presented by Monnet would not be in accord with his plan.

Reynaud indicated his interest in the fiscal fraud detection features of the Monnet plan, which would fit in with his own efforts, and he would welcome the immediate opening of negotiations to conclude an addendum to the double taxation agreement of 1932. This draft memorandum, therefore, dismissed the idea of any action now toward a Tripartite statement and any complete adoption of the Monnet plan. It indicated the desire of Reynaud only to undertake negotiations toward obtaining the fiscal features of the plan, and this through a treaty.

Reynaud asked me what I thought of his draft. I told him I had two questions: (1) Was I to be given

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a copy of this, or was it to be read to me so I could take it down in English and then check it back with Rueff as the two of us have frequently done on past occasions. (2) Ordinarily I had no contact with the Premier. This exceptional time I had instructions to see Daladier personally and secretly to prepare the way for a message which interested both President Roosevelt and Secretary Morgenthau. I had been chosen as the channel for communicating back to Washington any reaction to the message presented by Monnet. In the circumstances I thought that the French reply should be a message constituting the views of both the Premier and the Finance Minister, and so I took the liberty of asking whether I could say that this was a reply from both. Reynaud said he had seen Daladier this morning and had discussed the matter. He said he would see Daladier again tomorrow and would give me their joint reply in writing.

Again Reynaud asked me what I thought of the plan. I followed the practice, as I had consistently done since my first meeting with Reynaud in this matter, of stating that this was a question in which the decision and choice must rest entirely with the French officials. My only observation was that we had indicated that if the French wished to act on the plan under discussion, they could expect my people to go to a remarkable distance in extending them cooperation, of a character of which I personally had never dreamed.

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I mentioned the manifest and profound desire of the President and the Secretary of the Treasury to do anything within their power which would really be helpful to France. Rueff said that this plan would offer more than any of the French Ministers of Finance had ever asked of us. He referred to a letter written in October when, I believe, Marchandean had sought from us cooperation in detecting fiscal fraud and "reinforcing the Tripartite Agreement". Rueff showed a copy of this communication to Reynaud in my presence but it was not read aloud and I am not sure in what form it or the substance thereof may have been transmitted to Secretary Morgenthau. I added that Vincent Auriol had sought assistance from us along the same lines from the very day he took office. Rueff said that if the Monnet plan had arrived 3 or 4 days earlier, that is before Marchandean had left office, France would most likely have had exchange control by today.

I told Reynaud and Rueff that I would await their message tomorrow. Rueff is to call me late tomorrow evening. I had not taken down the draft memorandum which had been read to me and was not given a copy. It was understood that I would not cable any report of this draft, in the meantime, but would await a definite message from Reynaud.

Rueff and Reynaud referred to Monnet and agreed that they should, as a matter of courtesy, call him in tomorrow, since he had submitted the plan, but no time

for this interview was fixed. As I departed I said to Reynaud and Rueff that I hoped they found reasonable my request for some word from Daladier, and they cordially agreed that it was a proper suggestion. I left the Ministry of Finance at 8:30 and asked Monnet to come to my home at 9:15 p.m.

I went over the story with him. It was agreed that neither of us should approach Daladier before a French decision was definitely given. It looked to us as if we might expect as a result of the discussion between the three French officials, perhaps a more conciliatory message than the draft which I had heard. Monnet agreed with me that we did not want to see a Government crisis over the matter. It was understood that I would let Monnet know as soon as I was informed as to the exact hour when I was to see Reynaud and Rueff. Monnet stayed with me until mid-night.

November 9. This morning Monnet let me know that he was being called to the Ministry to talk with Rueff. I let him know that Rueff had also telephoned me asking that I meet with the two of them at 12:30. I later met Monnet, who had already had a talk with Rueff, and we went part way to the Ministry of Finance together. We later met in Rueff's room and the three of us talked until two o'clock. Nothing definite was settled. Rueff was manifestly still trying to get some message drafted which would show acceptance, in whole or in part, of  
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the Monnet plan, subject to approval by the British, or at the very least a gracious acknowledgment. I was to telephone him back at 4:30 with the idea of being summoned later in the evening, perhaps between 7 and 8 o'clock.

At 2 p.m. I put in a call for Secretary Morgenthau at Washington. At 2:35 the Central told me that the Secretary would not be available until 4:15. In answer to her inquiry, I said I would speak with Mr. Lochhead and I got communication with him at 2:40. I told Lochhead of my visit to the Ministry of Finance last night and gave him a summary of the draft message, that is, that the French were anxious to get a tax agreement but found the monetary part of the Monnet idea incompatible with Reynaud's program. Lochhead agreed that the official reply should represent the views of Daladier as well as Reynaud.

I told Lochhead confidentially that while I expected something more conciliatory than had been read to me last evening, my real opinion was that the French Minister of Finance, having a definite program of his own, was so clearly opposed to the Monnet plan that such a reply as we received this evening would probably constitute an endeavor to temporize.

It was agreed that I would not 'phone again until I had something after the evening meeting. Furthermore, Washington would not try to get me in the meantime since I would likely be moving about.

At . . .

At 3:40 Butterworth telephoned me from London to know whether there was any plan about getting out an American or Tripartite message approving the French decrees when they were issued, and if so whether I thought he should remain in town since he was tired and wanted to take advantage of the long week-end. I told him that I knew of no plan of a message of adulation, but that I would call him if such a question seemed likely to arise.

I telephoned Rueff at 4:30 from the Embassy. He said for me to come to his office at 7:30. Monnet had told me earlier in the day that when he spoke with Rueff alone in the forenoon, Rueff had asked him what I thought of the draft reply read to me last night. Monnet had said I did not think the French were letting us down on a bed of roses. I did not mention this remark to Rueff, but only told him that he understood my position in this matter and that any expression of my views should come only from me. He said he understood that "but you see this other fellow wants to get something out of it here". I said I was not trying to convince him, Rueff, or his people, one way or the other, or to make any difficulties for them. He understood this and said he would talk over everything when he saw me at 7:30 tonight. He said the reply would be an improvement over last night's draft.

I called Monnet at 4:35 and told him I was to

see . . .

see Rueff at 7:30 with the view to getting a message from Reynaud. I called Hillenkoetter at 4:40 to stand by tonight for a possible message. I had gotten Rueff's approval to Monnet being present for the evening session if a reply was to be given us, and had informed Monnet of such a plan.

At 8 p.m. Rueff received Monnet and me in his office and read to us a memorandum in French. Rueff then handed this message to Monnet in compliance with our request that we be permitted to take down an English translation thereof, since the document was not to be delivered to us, and since I was so anxious to convey the exact text of the message to Washington. Monnet and I went into an adjoining office. Rueff attended to other visitors. Monnet and I working alone prepared a translation of the message which I took down in long hand. We joined Rueff when this was completed. I read back the English translation to him while he followed and checked on the French text which had been handed back to him by Monnet. The following is our English translation of the message:

"November 9, 1938.

(1) The President of the Council of Ministers and the Minister of Finance express their hearty thanks to President Roosevelt and to the Secretary of the Treasury for the message

which . . .

which had been transmitted to them by Mr. Jean Monnet. They had taken cognizance of it with the greatest interest and they wish to express their appreciation and their gratitude for the efforts made by the President and the Secretary to reinforce the efficacy of the Tripartite Agreement, to which the French Government remains very deeply attached, and also to increase the already existing solidarity between the three democracies parties thereto.

"(2) The French Government is entirely favorable to an exchange of information which would in the monetary field facilitate the action of the responsible authorities and in the fiscal field improve effectively the means at the disposal of its Administration to detect and to repress fraud.

"(3) The French Government understands that the American Government already has at its disposal, by virtue of the legislation already in force in the United States, the necessary means of investigation enabling it to know the movements of foreign assets and the means to communicate such information to the States of which owners of such assets are nationals. The French legislation does not provide the same facilities and in particular does not discriminate between the rights of the Administration towards French nationals and its rights towards foreigners. Special legislative measures would therefore be necessary.

(4) . . .

"(4) Before pursuing further the setting up of the details (mise au point) of the procedure which would be made necessary for the application of the measures envisaged in Mr. Jean Monnet's message the President of the Council and the Minister of Finance believe it desirable to know the opinion of the British Government. Since the French market is, as a matter of fact, in direct contact with the British market even more so than with the American market by reason of the proximity of Paris and London, the measures envisaged in the communication of Mr. Jean Monnet would not only be inoperative, but dangerous for the French currency if the British Government did not endorse them unreservedly. The French Government suggests therefore that the British Government be consulted without delay and since it possesses the power to legislate by decree only until the fifteenth of November it would like to know its opinion as promptly as possible."

We did not discuss the message, except on one or two points such as the translation of "mise au point". I promised Rueff that I would telephone the message to Secretary Morgenthau yet tonight, and would give the American reaction thereto as soon as possible.

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I then went home where I typed out our English translation. Monnet joined me at my home, as had been agreed, at 10:20 p.m. and we put in a telephone call for the Secretary at Washington, District 2626. While waiting connection Monnet and I discussed the day's developments and particularly the French message. Monnet asked that I stress to the Secretary the activity that had taken place and the importance of the reply, particularly considering that it represented so much effort at reconciling official views. When I got Washington, Lochhead talked with me, first on the London line for a moment and then on the direct French line which had not been open until a few minutes after 11 o'clock. He said Secretary Morgenthau would not be available until 7:30 p.m. (12:30 a.m. Paris time). I told him that we had an important message and used the words that Monnet had requested "after a hot day with discussions in the highest circles". Lochhead agreed to have the message taken down verbatim so that it could be studied and made available to the Secretary in typed form when he could be reached. I read the message to Lochhead and we carefully checked it. Lochhead suggested that the Secretary might not be enthusiastic for any message which showed hesitation on the part of the French. It was agreed that the Treasury should call us back at 12:30 or as soon thereafter as the

Secretary . . .

Secretary found it convenient.

Monnet then arranged for the French long distance people to keep the direct line open an hour longer than usual, in order that the Secretary's message could be received without passing over London. At 12:55 a.m. Secretary Morgenthau called us back. I answered the phone and the Secretary asked to speak with Monnet. I have only one telephone but there is an apparatus for the second person to listen in. The Secretary told Monnet that he had read the message but that it did not make sense. He felt that it provided no basis for him to put any proposition to the British. Part of the time Monnet spoke directly with the Secretary and at other times I conveyed Monnet's impressions, since the Secretary had difficulty in understanding Monnet. Monnet stressed that the message represented a lot of effort and really a great interest on the part of the French. He thought it provided for an exchange of information in both the monetary and fiscal fields, an extension of the Tripartite Agreement, and envisaged immediate steps toward arranging for the procuring of information in France. The Secretary strongly felt, however, that the message failed to indicate any will on the part of the French to take the measures necessary to force capital back into France. He said he did not want to be "kidded" and did not want to go ahead with the British on something that was entirely intangible

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and hypothetical. Monnet thought that the message offered a basis to go ahead.

The Secretary finally told me to get out of my rôle as messenger and return to that of his representative and tell him what I thought of the matter. I repeated what I had said to Lochhead, when the latter had taken the 'phone for a while, that is, to the effect that the French were determined on carrying out a policy with which they found the Monnet plan incompatible. Since the Secretary felt that the Monnet plan could not succeed unless adopted in its entirety, which would envisage exchange control, the matter should be dropped. Monnet thought that the French would be willing to take steps which would virtually be exchange control, without giving it the name. I disagreed, feeling that the French would do nothing along these lines which might hint at possible measures of restraint before the orthodox series of decrees on which they are working is given out and tried. It was finally decided that we should tell the French that unless they indicated to us a desire on their part to go all the way on the Monnet plan the matter should be dropped and our conversations of the past few days be kept entirely secret. The Secretary was as anxious to cooperate with France as he had been during the past five years. But any move at present must be made only with the full desire and request of the French for us to take this matter up with the idea of the French going the whole way. It

was . . .

was understood that I should not see Daladier, but that Monnet should if anyone did. The Secretary left to us the manner of replying to the message which had been received through Rueff. Monnet agreed with me that since the message had been delivered through Rueff to me, our answer should go back the same way.

In this last conversation the Secretary expressed his warm appreciation for the efforts which Monnet, as a "realist", had made.

November 10. I telephoned Rueff at 9:15 a.m., but did not succeed in reaching him until 9:45. I arranged to meet him at 11 o'clock. I told him that I had a message for him, and it was agreed that Monnet should accompany me. When Rueff received the two of us, I told him that we had had a long session last night getting in touch with Washington. I told him that I had read the English translation of the French message to Mr. Lochhead and that both Monnet and I had subsequently discussed it with Secretary Morgenthau. I told Rueff that I thought the following expressed Secretary Morgenthau's feelings in the premises: (1) He appreciates the consideration the French officials have given the message delivered by Monnet; (2) The Secretary thinks the plan would be effective only if taken in its entirety; the question of negotiating an addendum to our double taxation treaty could be undertaken any time; (3) The Secretary understands

the . . .

the position of Messrs. Daladier and Reynaud. (4) The Secretary sends his warmest greetings and best wishes for success to Messrs. Daladier and Reynaud; his only desire is to be of help and to continue to cooperate.

After this oral statement on my part, Rueff said this was a diplomatic reply but did not meet the French request as set forth in their message that British opinion be solicited. I said that when this matter first came up it was clearly specified that we would see whether the French and Americans could find themselves sufficiently in accord on any proposition before putting it up to the British. I said that the Secretary felt that the French had not submitted a sufficiently definite or tangible proposition to warrant his approaching the British. Any proposition must be French and if we have no more idea as to what the French are going to do than is indicated in the note which was read to us last night, we do not feel justified in going ahead with negotiations limited to principles or based upon hypothetical conditions.

Monnet then intervened, saying that I had given the reply, but that he wished to add his own remarks toward clarification of the situation, which he did at length. I told Rueff that I would not ask to see Reynaud or Daladier. The message from them having been communicated through Rueff to me for further transmission, the Secretary's reaction was being made known by me through

the same channel. Monnet said he would telephone Rueff before asking to see either Daladier or Reynaud but that he thought he should see both of them.

Monnet went out one door and I waited with Rueff a moment before going out the other door. He said Monnet did not at all understand the political complications and difficulties this matter was causing. I later joined Monnet in the Tuileries Gardens and we reviewed our conversation. Monnet was not convinced that the matter should be entirely dropped. He thought his plan could have been fitted in in some way with the Reynaud plan. I told Monnet that I had stayed in the background as much as possible in this matter and had refrained from expressing any personal opinion. I told him very frankly, however, that after hearing the first draft reply which Reynaud and Rueff had prepared, I was convinced that this represented the honest sentiment of the Ministry of Finance toward the Monnet proposition. That is, that it was irreconcilable with the Reynaud plan. The only feature that the Ministry of Finance would take out of the Monnet plan was the idea of a bilateral treaty for the purpose of detecting fiscal frauds. I insisted that the second draft which had been officially communicated represented only a compromise, drawn up to meet Daladier's feelings. Furthermore, I was convinced that if the Americans had gone ahead and acted on this draft in taking up the matter with the British, there would have been no

Tripartite Agreement before the French special powers expire on November 15. The French officials doubted very much our ability to get British adherence to the plan. Even if we had been successful in getting the British to endorse the plan, I was absolutely certain that the French would delay the matter so as not to have an actual Tripartite Agreement by November 15. Consequently, they would pursue their original orthodox Reynaud plan. I felt that the Secretary suspected something of this sort when he examined the French declaration which we had transmitted, and I said that my own suspicions were so strong that I was unwilling to take any further steps whatever toward drawing the Secretary into negotiations with the British. If the French failed in the Reynaud plan, they might eventually come back to us, but let such move come entirely from their part, now that they know how we stand. We could then determine anew how we felt in the premises.

At 3 p.m. Monnet telephoned me to say that Rueff had asked him to come to see Minister Reynaud at 3:30. I said, in answer to his inquiry, that I had no new ideas on the subject.

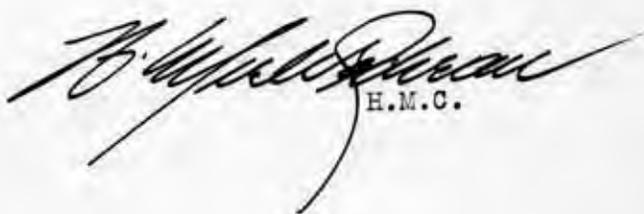
Monnet telephoned me again at 8:20 p.m. at my apartment. He said that he had gone to see Reynaud at 3:30 this afternoon as arranged through Rueff. He had recounted the American message of last night. He found Reynaud determined to "ride an entirely liberal

horse . . .

horse". Reynaud seemed quite confident. At the same time, he admitted that he did not know how the situation would be 15 days after the decree laws were issued. In answer to my question, Monnet said he felt that Reynaud was not disappointed in our reply, but rather relieved to be free to go ahead on the strictly liberal plan which he had drawn up. Monnet said he had to wait sometime before seeing Daladier and found the Premier deeply appreciative of the American efforts and somewhat disappointed about the outcome. He said he regretted very much that Secretary Morgenthau had not seen fit to let him have through me an indication as to what to expect in the message which Monnet was conveying. Monnet said he recommended to Daladier that he should support Reynaud completely now, and come back to this plan if Reynaud's policy should fail. Daladier, according to Monnet, intimated dissatisfaction with the permanent officials in the Ministries and said it might be necessary sooner or later to get rid of some of them. In this conversation and one previously, Monnet expressed his own regret that he had not been informed before leaving Washington of Marchandean's request for assistance on our part toward working in the direction of exchange control. The French officials had mentioned to him the letter which Rueff had shown Reynaud, and which I cited hereinabove. I told him this letter probably was received at Washington only after his own departure.

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After the foregoing conversation Monnet asked if I was agreeable to telephoning Secretary Morgenthau again to let him know of our delivery of the message and to see how the matter stood. I disagreed with this idea, stating that the matter seemed closed as far as the Secretary was concerned, judging from his conversation of the preceding evening by telephone. I thought it best to follow the Reynaud decrees and experience and keep the Secretary informed thereon. Monnet definitely expected the Reynaud program to fail. I told him that I thought Reynaud would bring out the best orthodox program that could be conceived and that Reynaud was the best available Minister of Finance to put it through. I was not pessimistic. We would just have to see.



H.M.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1938

*BT*

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Importance of Non-Market Absorption of Public Debt in 1937 and 1938

1. An important element in the underlying strength of the market for Government securities since the spring of 1937 has been the fact that the open market has been called upon to absorb only a small amount of the increase in the public debt. There was actually a decrease of \$64 millions in the volume of Governments available in the open market during the first ten months of 1938, despite an increase of \$1,189 millions in the total interest-bearing public debt.

The accompanying chart brings into sharp focus the great importance during 1937 and 1938 of the non-market outlets for Government securities.

2. The sharp break in the Government bond market that occurred in the winter and spring of 1936-1937 took place after a rapid and large increase in the open market supply of Government securities. During the 18 months ended December 31, 1936, the open market supply of direct Governments increased by \$4,749 millions, and the total direct interest-bearing public debt by \$6,055 millions.

In very decided contrast are the figures for the 22 months between January 1, 1937 and October 31, 1938\*. During this period, the interest-bearing public debt rose by \$4,197 millions, but the supply of Governments in the open market increased by only \$727 millions. The remainder was absorbed as follows:

(Millions of dollars)

Social Security trust funds	1,743
United States Savings bonds	892
Government Life Insurance Fund	608
Civil Service Retirement Fund	154
Postal Savings System	62
Other governmental trust funds and agencies	161
Adjusted Service bonds held by individuals and Postal Savings bonds (reduction)	- 150
Net non-market absorption	3,470

\* Some of the figures for October 1938, included in the totals, are preliminary.

Secretary Morgenthau - 2

3. The volume of Government-guaranteed obligations increased by \$350 millions during the past 22 months, all of which, together with a reduction of \$53 millions in such holdings by Government agencies and trust funds, was added to the open market supply. Of the aggregate increase of \$4,547 millions in direct and guaranteed Government obligations during the past 22 months, only \$1,130 millions was added to the open market supply.

4. As of October 31, 1938, governmental agencies and trust funds held direct and guaranteed Government obligations aggregating \$5,133 millions. In addition, the Federal Reserve banks owned \$2,564 millions of direct obligations; and some \$1,367 millions of the public debt was in the form of United States Savings bonds, \$303 millions in the form of Adjusted Service bonds issued to veterans, and \$92 millions in the form of privately held Postal Savings bonds. These figures are presented in greater detail in the table below\*:

	: Direct :	: Guarant- : : eed :	: Total :
(Millions of dollars)			
Social Security trust funds	1,807	--	1,807
Postal Savings System	944	167	1,111
Government Life Insurance Fund	772	--	772
Civil Service Retirement Fund	463	--	463
Federal Deposit Insurance Corp.	369	--	369
Other governmental agencies and trust funds	<u>450</u>	<u>161</u>	<u>611</u>
<b>Total - Government agencies and trust funds</b>	<b>4,805</b>	<b>328</b>	<b>5,133</b>
Federal Reserve banks	2,564	--	2,564
United States Savings bonds	1,367	--	1,367
Adjusted Service bonds held by individuals	303	--	303
Privately held Postal Savings bonds	<u>92</u>	<u>--</u>	<u>92</u>
<b>Total non-market holdings</b>	<b>9,131</b>	<b>328</b>	<b>9,459</b>

\* Some of the figures for October 1938, included in the totals, are preliminary.

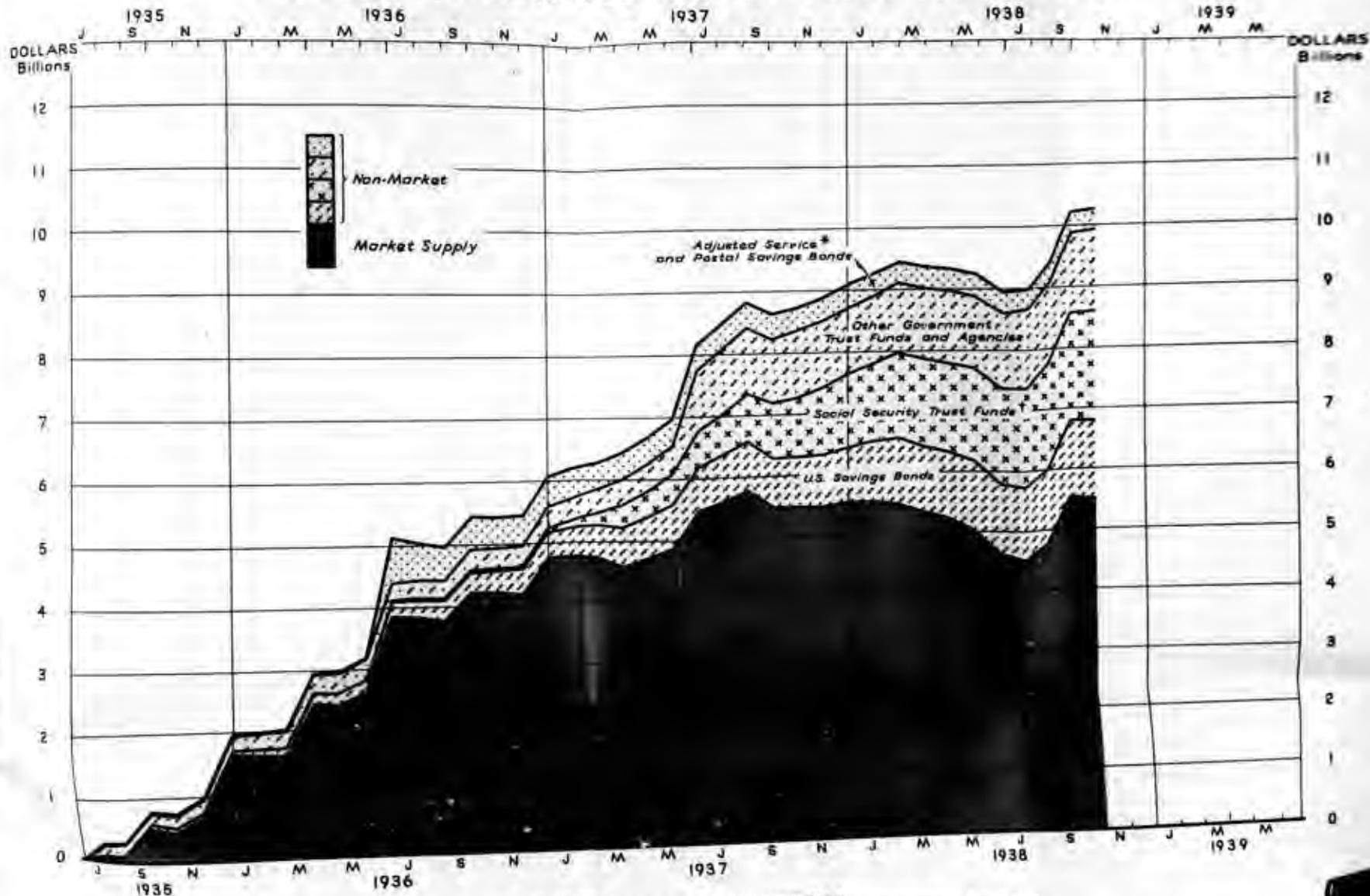
Attachment

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Prepared by: Lawrence H. Seltzer,  
Assistant Director of  
Research and Statistics;  
Assisted by: Sidney G. Tickton.

Regraded Unclassified

# MARKET vs. NON-MARKET ABSORPTION OF INCREASE IN INTEREST-BEARING PUBLIC DEBT SINCE JUNE 30, 1935



\* Excludes series held by Government Life Insurance Fund  
 † Old Age Reserve Account, Railroad Retirement Account, and Unemployment Trust fund

November 17, 1938

The Banking Group - Messrs. Hanes, Taylor, Gaston, Oliphant, Upham, Foley and Daffield - met in Mr. Hanes office to consider preferred stock cut-back, a reply to the Giannini letter of Nov. 10, a reply to the Bank of America directors' letter of Oct. 15, and the "Wilcox Letters".

Cut-back: Members of the group unanimously agreed the memorandum to the Secretary dated Nov. 3 on cut-backs of preferred stock still expressed the opinion of the group. Therefore, the group asks for an opportunity to discuss the problem with the Secretary. The question needs to be settled so that the Comptroller of the Currency can reply to the directors of Anglo-California on a cut-back procedure. (Messrs. Oliphant and Gaston were absent during this discussion, but Mr. Gaston subsequently indicated his assent to the decision.)

Giannini letter: A reply to the Giannini letter of Nov. 10 was agreed to and prepared for the Secretary's signature.

Bank of America letter: Mr. Upham reported that he had a 30-page draft of a reply to the Bank's directors but that he was dissatisfied with it and had another group working on another draft which would be completed by the end of the week. He asked the opinion of the group on whether the letter should be a broad rebuttal of the directors' letter or a point-by-point refutation of each statement made by the directors. He also asked whether the reply should be made the formal letter of warning under section 30.

Consensus of the group was that the reply to the directors should <sup>be</sup> one stressing the few fundamental points in the Comptroller's position and that a separate, more detailed letter of warning should

2.

be prepared and sent as soon as possible after the reply to the directors. This letter of warning, it was pointed out, should reach the Bank before the end of the year so that the regular examination of the Bank, which will begin early in 1939, can be used to determine whether the letter of warning has been heeded.

Ellen Latham: Portions of the letters referring to the Bank of America case are to be photostated.

ESD

Att 205

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1936.

TO SECRETARY MORGENTHAU  
FROM HERMAN OLIPHANT

For your information

In re: Associated Gas & Electric Company  
Howard C. Hopson.

The Canadian Inspector of Income Tax advised this office by telephone on November 7 that his agents had failed to locate the books of Hopson's four Newfoundland companies. Daley, the lawyer for the Canadian Liquidator of the companies, radioed from his ship that he had no recollection of the matter but that his secretary (who was also his sister-in-law) might have. The secretary expressed complete ignorance of their whereabouts, and there were no office records which showed their disposition. She stated that she had a hazy recollection of a package being mailed to a Mr. Randall in Newfoundland, and possibly it contained the books and records, but of that she was not sure.

The Liquidator (a female clerk) was next interviewed, and stated that although she once had the books, she turned them over to Daley, and they were probably now in Newfoundland.

This office informally suggested to the Canadian Inspector that most probably the books could be reconstructed through the records in the Royal Bank of Canada and the Bank of Montreal, through which banks the very large transactions cleared. The Inspector said it would be helpful if our auditors, who were familiar with the situation could confer with his agents, prior to examining the banks' records. Accordingly, our two best auditors arrived in Montreal the next morning and are still there.

*Herman Oliphant*

## GROUP MEETING

November 18, 1938.  
4:30 P. M.

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

H.M.Jr: What I want to say - there's a lot happened at - .....  
I want to - is Bell here?

Bell: Yes.

H.M.Jr: Yes. I can't say - what I am saying now, I can't emphasize too much, is confidential; there's a number of people interested in this and I can't take the time to tell you separately - ..... at Cabinet.

The President said, "Harry, what have you got to say.....?"

Klotz: (Nods to H.M.Jr., indicating reporter not hearing what he was saying.)

H.M.Jr: Well, if he isn't getting it, it's his own hard - are you getting it?

Hickman: Yes sir; that's all right.

Klotz: I'm sorry. I'm sorry.

H.M.Jr: He said, "How are you getting along this week?" And Harry said, "This is the first week we've showed a reduction." And the President said, "Harry, I wrote you a very snotty note last night; I haven't signed it yet, but I am telling you once and for all, I will not declare a national emergency."

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(Mr. Hanes comes in.)

H.M.Jr: I'll repeat this for Hanes. The President told Harry, once and for all, he would not declare a national emergency, so he said, "I spoke to Aubrey Williams about this thing on the twentieth of October, and," he said, "Aubrey Williams swore by all that's holy he'd get along till the first of March." You weren't here then. "Now," he said, "it's up to you, and I will not declare a national emergency." Harry said, "That's easy, Mr. President; we'll just lay them off."

I want you men to know what happened. And I made no comment and said nothing - but, so to keep you men up to date, see?

Bell: Did you see the memorandum I sent to the President?

H.M.Jr: I don't know; you said you were going to show it to me; I haven't seen it.

Bell: Yes, late Thursday I tried to get Harry, but Harry was out of town, so I did not call Harry.

H.M.Jr: I haven't seen it.

Bell: I sent the memorandum to the President, showing they had exceeded their apportionment by about two hundred million dollars, as I recall the figure, and the apportionment I received on November 12 was, in effect, dishonest, and that I certainly couldn't approve it, and that I had just received another revised apportionment that showed, on the present basis, they would be out of money practically by the first of January; they had about seven hundred million dollars left. I showed the figures - what he'd have to do to run through January, and what he'd have to do to run through February, and asked for his instructions before I replied to Harry's letter. He asked me to prepare a reply to Harry's letter.

H.M.Jr: Well, sometime .....

Bell: I'll give you a copy of it.

H.M.Jr: Will you?

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The purpose - as I say, I can't emphasize too strongly that this mustn't be mentioned to anybody else outside this room.

I didn't know what to say. The President looked over at me and smiled at me, as much as to say, "You know all about this," and I didn't know; I didn't know what he was referring to as the 'snotty' note.

Bell: Well, I didn't write the note; he must have written the note.

H.M.Jr: In view of what he said to Hanes and me, I didn't know which way - I, frankly, just don't know what to do, because I don't know that - I mean, it bothers me - not the Secretary of the Treasury - but I don't know what Harry's going to do.

Bell: I - I really think it's unfortunate to handle it that way.

H.M.Jr: I think it's a tragedy.

Bell: It should have been done thirty days ago, or more. He should have stopped right there, taking on people, and he would have been down now a hundred thousand or more, because the turn-over is almost five per cent.

H.M.Jr: I mean, I am - the reason I am upset here is because this - this thing - I mean, there's so many things happening, but I wouldn't be surprised now to see Harry lay off a million people just like that (snaps fingers).

Bell: You and I will get the blame.

H.M.Jr: Pardon.

Bell: You and I will get the blame.

H.M.Jr: Now I'll tell you something. If we do, I'll - I am going to publish the stenographic notes of the meetings that took place here in this office. (To Mrs. Klotz:) You get the meetings from Miss Chauncey of the meetings that took place here, and my conversations that I had when Aubrey Williams

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called me up here, and said "there's no use coming to see me; I haven't heard anything from Hopkins, and Hopkins is with the President."

If they start any dirty business against you and me, I am going to take my stenographic notes; I am going to give them to Gaston; I am going to have them mimeographed, and I'm going to give them out to the papers, and I don't mean maybe. Any dirty work, or any of this columnist work, the meetings that took place here - Miss Chauncey took down that meeting - are going to be given out to the press, and all the subsequent meetings. I am not going to take it. And the first dirty crack that any columnist makes, that Harry - I'll give them any meetings that took place here, and subsequent meetings are going to be given to the press.

20 You know you said that anybody that's got any idea, after they listen .....

H.M.Jr: An attack on me is an attack on all of us. You admit you did it.

Bell: No, I didn't.

H.M.Jr: And the amazing thing was, he did it in front of

Bell: Yes. He's .....

H.M.Jr: And - ah - just for fun, get one of your people - the man that does the estimating on these things, to make a rough estimate for Hopkins, in order to stay within the limits; I mean, until the orders can get out, and everything else, figuring sixty-four dollars per man, per month; isn't it?

Bell: About that. Sixty-five, I think.

H.M.Jr: Whatever it is, sixty-four or sixty-five dollars per man, a month, and with the dollars he's got left, how many people can he carry until the first of March, including the hundred seventy-five million. Those - if you don't understand it, they asked for money for eight months; they gave them seven months and added a hundred seventy-five million which could be used in case of national

emergency. In order for the President to use that hundred seventy-five million, they've got to declare a national emergency; that hasn't been done, and - and in this office, with a stenographer present, we put them on record. Two days later Aubrey Williams went over on the doorstep of the White House and said, "This money will last till the first of March." And from then on they have put thirty thousand more people on.

I made rough estimates, and in order to make the money last, they've got to lay off so many people, and my estimate is a million.

Bell: That's about right.

Oliphant: I have a suggestion, and I'd like to make a suggestion. If you intend, as I think you should, to give this out, then I'd like to urge you now to have Gaston to take these stenographic notes and go through them and write a letter to Harry - "In the interest of keeping the record straight, I want to give you the following, in the words as discussed at our meeting and at Cabinet.

H.M.Jr: No. The reason I didn't say anything is, - I don't know my French well enough, but there is a French saying, "He who is accused, excuses." I don't know my French, but that is a literal translation. I have a clear conscience, and I haven't said some things which happened, which you (Hanes) were there, and you (Mr. Bell) were there - you remember the "green eyes" (green I.S.), which I don't want to even mention here, but there were subsequent times when these two people were there when I brought this to the President's attention, and I don't want to say what he told me, but these two men heard it. I do this to Harry, Herman, and it's as much as to say I'm guilty.

Oliphant: That wasn't my thought.

H.M.Jr: Here, Harry will come back and say, "What makes you think I am going to undermine you?" I know where I am at this time; nothing will happen between now and Monday, and if anybody's got any ideas between now and Monday .....

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I had a terrible day - a regular Treasury day. One of these days Wayne will be coaxed, but I wanted to put everybody on notice, in the sense that no one could do more, humanly, than I have, to warn the President, warn Harry, warn Aubrey Williams, and I am not going to be the goat, because I have done everything that's humanly possible, and there's some things I don't want even to say that these two men heard, and I brought it to the President's attention. You were there.

Hanes: Yes.

H.M.Jr: I am just - I am just saying that; is my estimate about right?

Bell: Yes, that's about right. I don't think you should say anything or write Harry until he indicates he's going to say something.

H.M.Jr: It isn't the question of on the record - I told you when you first spoke about this thing, this is between Hopkins and himself, and nobody else.

White: Does the President know how much he'd have to cut down in order to remain within the law?

H.M.Jr: No, but he has a good .....

Olipphant: (Interposes) My thought was to prevent Harry doing something foolish, not to keep the record straight; letting him know in advance what you're going to do. I agree with you though, I wouldn't take it this time.

H.M.Jr: I am not doing it. For those that don't know, both December '37, and December '36, Bell and I were the people that got increases on the relief rolls Christmas Eve; in one case we sent a telegram to the President; in both Christmas Eves Dan and I got them to increase the rolls. To do this thing, it is just - it's just - well - but, again, everybody's on his honor to keep his peace; discuss it with anybody in the room, but don't go out of the room.

Now, Mr. Upham, again, between now and Monday, are you waiting on me for anything?

Upham: No sir.

H.M.Jr: Thank God for that. And for the rest of you, I had a chance to tell the President about the S. E. C. was going to move on Trans-America, and he said, "O. K." so now, where is that?

Oliphant: I am working on it.

H.M.Jr: I mean, are you waiting on me?

Oliphant: No indeed, but I've got to have time; I've got to be sure, because personal liability is involved, and lots of personal liability.

H.M.Jr: When will you clear this?

Oliphant: I'll take over the week-end.

H.M.Jr: They have waited eight months, so I guess...

Oliphant: (Interposes.) That's what Bill said today; he said, "Well, we've waited eight months."

H.M.Jr: Well, I - I don't think I'd let it go beyond Tuesday.

Oliphant: That - it will be in.

H.M.Jr: It might be personal liability for me, or Cy?

Oliphant: You and Cy. There would be .....

Taylor: Joint account.

H.M.Jr: It's an independent agency; under the chart Taylor's responsible for Cy.

Oliphant: We probably could fix up a little personal liability for Wayne.

H.M.Jr: So remember, it flows from the Comptroller to Taylor, Taylor to me.

Oliphant: Like endorsers, huh? Well, I mean .....

Taylor: You know that story about the rabbit, still, don't you?

H.M.Jr: Fifty per cent horse and fifty per cent rabbit.

Taylor: You're the horse.

H.M.Jr: I'm the rabbit.

Now, does anybody want - oh, this thing (a clipping); Mr. Hanes, Mr. Wallace puts you on notice on the processing tax.

Now, has anybody got anything really important?

McReynolds: (Nods "No.")

Bell: (Nods "No.")

H.M.Jr: Would you (Mr. Lochhead) have Mr. K. P. Chen, yourself, and Miss Chauncey at my house at nine o'clock tomorrow morning, plus the engineer that's just arrived?

Lochhead: They were around this afternoon, K. P. Chen, and the engineer and assistant engineer; I took them into Mac's office and introduced them to Captain Collins.

H.M.Jr: The President wants certain information before they leave; I want to tell him about it; he wants the maps. If they come to the house with you and Miss Chauncey, I'll tell him what they want. He wants it before he leaves town.

McReynolds: I'll tell Harry.

H.M.Jr: Why not let's just have Chen; no use having the engineer.

Lochhead: If you want a man, it is probably better to have the engineer.

H.M.Jr: The President wants to know about this Burma route.

White: This engineer is in control of all the traffic in China.

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Lochhead: He just arrived this morning.

H.M.Jr: The President wants to know about the traffic.

Lochhead: I think we'd better bring him along.

H.M.Jr: Who else's got something important.

Gibbons: I see the trade agreement was signed, notwithstanding the bank's .....

H.M.Jr: I don't know - the smuggling?

Gibbons: You got a call from (name not heard).

H.M.Jr: I want to let it take the regular route.

Gibbons: Yes.

White: (Nods "Nothing.")

Upham: (Nods "Nothing.")

H.M.Jr: Wayne?

Taylor: I think I can identify that memorandum that came over from Mr. Hull.

H.M.Jr: Yes?

Taylor: I think that's a doll of Berle's.

H.M.Jr: Smells "Berlish?"

Taylor: I ran into him, oh, I guess it was a couple weeks ago, and he said that he had been talking to the President about something that he was going to talk to the Treasury about; he didn't tell me what it was.

H.M.Jr: All right.

Taylor: I think that adds up.

H.M.Jr: Well. -

Haas: I have nothing.

Taylor: That's all. We'll try to forget it.

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H.M.Jr: No.

Oliphant: We're going to study it on its merits.

H.M.Jr: All right. Anything else, Wayne?

Taylor: (Nods "No.")

Haas: I have nothing.

Gaston: This isn't anything of any importance; this is an alternative telegram, and letter, one of which you might do, what they ask, and the other, which I'd write and say it wasn't brought to your attention.

H.M.Jr: Just sign it. You are coming to the house at four tomorrow - Dan and you; will you do a little work on Sunday? Will you?

Gaston: I'd as soon spend this on Dan's time entirely.

Bell: Try to do it tomorrow afternoon.

H.M.Jr: I mean, I don't need you at the house Sunday if you make the correction; will that spoil your golf Sunday? Is that a bad time?

Bell: No. Sunday's a bad day any time. But I don't know if there is much in there that concerns me.

Gaston: I think, mainly the points concern George Haas, but there are some figures in there to be checked.

Bell: I had the figures checked; I noticed my name.

H.M.Jr: If you think Danny should be there, and he thinks he should be there, all right; but if he doesn't, I don't want to bother him. Will George be there?

Gaston: I think perhaps, yes.

H.M.Jr: Will you decide? I'll read it before, but I want the arguments before they come.

Taylor: I think that is a good job.

Gaston: On the whole it's a good job; some things I don't like.

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- Taylor: I read it very quickly.
- H.M.Jr: Did you give your comments to .....
- Taylor: (Interposes.) I didn't have any.
- Gaston: The only thing particularly I noticed, he'd talked about the deflationary affect of the Social Security funds, which I don't think is correct.
- H.M.Jr: I want the Fiscal Committee to give a ruling.
- Gaston: Yes; right. The National Resources Fiscal Committee.
- Oliphant: Is this the name of it? Aint it?
- White: Fiscal and Monetary. It left Fiscal and Monetary; I don't know what it was when it emerged. Was there an announcement made today?
- Gaston: He didn't name the committee but he said their duties would be fiscal and monetary policies.
- H.M.Jr: You are not going to disown your child? It was just born this morning.
- White: I haven't had a chance to see it; they don't let the close relatives look at it.
- H.M.Jr: All right.
- Gaston: Yes. All right.
- Duffield: You either have, or will get, a memorandum saying that the banking group wants to meet with you at your convenience on your preferred stock cutback. It can go over to next week, however.
- H.M.Jr: Are you fellows all together?
- Hanes: I think we are all against you now.
- H.M.Jr: O. K. Let her go. (Laughter) Closed; let her go.
- Klotz: Nothing I can do about it.
- H.M.Jr: O. K. Let her go. We'll call this child Johnny Hanes'. (Laughter) All right - or was it Wayne Taylor's?

Bell: ... And shall never again speak of the Treasury's dishonest bookkeeping.

H.M.Jr: On your or on my side?

Bell: I am not in the group, but I am on your side.

H.M.Jr: We're like Gianinni; you know, he never signed the directors' letters. You and I - I am glad its Mrs. Klotz, you and me.

Bell: Pretty hard to swallow that.

Hanes: I think we can get you over on our side.

Bell: Not the balance sheet I saw.

Hanes: No, no, no.

Oliphant: No, no.

Hanes: Not on that; we wouldn't do it on a hundred eighty.

Gibbons: Is this the capital stock?

Oliphant: It tells the truth, the whole truth, and nothing but the truth.

H.M.Jr: To show you how good my sense of humor is, to see whether you fellows can take it, is Tommy Corcoran O. K.?  
(Laughter)

(Several speaking at one time.)

Gaston: Harry is O. K.

H.M.Jr: I'll read about it later on.

Duffield: That is all.

Oliphant: I just had a call from Joe Keenan about the man's sentence in the tax case; I'll handle it in the usual way by referring it to Guy and Irey.

H.M.Jr: The fellow is sentenced?

Oliphant: The judge wants to, and will remit the probate if the Treasury will permit.

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H.M.Jr: Let the chips fall where they may. Okie doke. What else?

Oliphant: The Monopoly Committee met this afternoon, and nothing happened but a lot of talk; and I am sending you a copy of it.

H.M.Jr: Is it funny?

Oliphant: No, it isn't, because King's in it, and he's serious, and eloquent, always.

H.M.Jr: Anything else?

Oliphant: No, that's all.

H.M.Jr: John?

Hanes: I've just been up to see Congressman Doughton, and Mr. Stam. There's nothing new to them; they've got no ideas; and they want to know, as soon as we can give it to them, what our progress is.

H.M.Jr: Did he tell you what I told them at lunch? He wanted to know if we were going to raise any new money; I said, "Sure." He said, "How?" I said, "On the check tax."

Hanes: He didn't tell me that.

Oliphant: Did he laugh, or turn red?

H.M.Jr: He said, "What are you going to do, put all the banks out of business?"

(Laughter)

Well .....

THE MOUNTAIN FROM THE MOLE-HILL POINT OF VIEW

There follows a list of the statements in the three Alsop-Kintner articles which name, or seem indirectly to involve, me. After each is set down the facts as I know them:

The First Article

1. That my name was on a list which Rosenman and Moley prepared in response to Rosenman's suggestion that Roosevelt try the universities for the professional experts needed on national problems. Truth unknown. After I had taken over Moley's direction of the New York Law Reform Commission in the summer of 1932, Rosenman called a meeting in his chambers. It was attended by Moley, Berle, Robert Straus and myself. Berle did most of the talking, and the meeting ended with the decision that Rosenman and Moley would take Berle to Albany to meet Roosevelt and tell him his story.
2. As stated, the work for the Commission, added to that for Johns Hopkins, was more than enough for all of my time. I saw no one later connected with Washington until I lunched at the Mayflower on Friday, March 3, 1933.
3. The statement that the struggle over changing the price of gold was a struggle over legal methods misses the point. That struggle was basic, since it involved breaking the century-old hold of the central bankers over Government finance and was a necessary first step of the New Deal.

- 2 -

4. Except for flights of imagination indulged in for reader interest, the account of my gold opinion and Corcoran's returning to R.F.C. (whose pay roll he was then on) is substantially accurate.
5. The reference to the Treasury's part in drafting the Stock Exchange Bill may be an indirect reference to the work which Eddie Greenbaum and I did, under the general direction of Tom Smith, largely in cooperating with the Federal Reserve Board in working out the part of the control which that Board was to have. I recall nothing to indicate that anyone in the Treasury was suspicious of Corcoran and Cohen's drafting work and was set to watch them. The whole discussion on our side was on intellectual problems, and our arguments thereon were with members of the Federal Reserve Board's staff.
6. Final reference to me in the first article is in its last paragraph, to the effect that Corcoran remained at dagger's point with me and that brain trusters continued quarreling angrily among themselves. True, Corcoran and I never saw each other, and that, I suppose, was well known. The authors may know of meetings at which men quarreled angrily among themselves—I do not—but it may be because I rarely saw the men most frequently referred to in these articles, with the exception of Bob Jackson, who was on my staff.

THE MOUNTAIN FROM THE MOLE-HILL POINT OF VIEW

The Second Article

1. The statement that the Treasury had a bill absolutely destroying holding companies by severe, intercorporate dividend taxes, drafted by Bob Jackson, is false.
2. That the Secretary, Jackson and I were at the White House in a struggle to get the President to accept the utility bill in preference to the one which Corcoran and Cohen had drafted, as far as I am concerned, is also false. If there was such a conference at the White House, I doubt if anyone from the Treasury was present.
3. It is stated that, toward March of 1936, Cohen, Lubin, Oliphant, Henderson and Currie, disturbed about the economic future, began a series of meetings on price policies and Government spending. I attended no such meetings, formal or informal.
4. At a later time, when Jackson was planning to ask Congress for a revision of the anti-trust laws, I attended two or three meetings at his office, with Milton Handler of Columbia University, where anti-trust cases and legislation were discussed.
5. That I was called on, along with Lubin and Currie, for useable statistics during the 1936 campaign, is pure invention.

6. It is stated that the New Dealers had been drawn together by the Court fight, and at its close became the well-defined group they are today. "Oliphant at the Treasury, Jackson at Justice, and Douglas at the SEC were all important members \* \* \*". This statement seems to be too general to permit a comment. It apparently refers to nothing that happened, but is merely the authors' view of the general scene.
7. That Henderson, Lubin and Currie, while working with Merriam through the summer of 1937 on the business outlook, got advice from me, among others, and formulated a pessimistic forecast, leaves me at a loss to know what is referred to.
8. That there was "a council of war \* \* \* called in Bob Jackson's handsome office", attended by Corcoran, Cohen, Oliphant, Henderson, and Lubin, where a plan was evolved to "Blame the depression on the monopolies, and go after them" is, from my standpoint, pure imagination. My interest in Washington in the subject of monopolies, and the basis for that interest, starts with 1934, and what that interest and basis are is fully disclosed in my draft of the Monopoly Message, which was rejected in its entirety. Moreover, a later reference to myself in connection with "the sixty families" speeches properly reaches the point farthest north in imagination. I, of course, had nothing to do with the conception or preparation of those speeches.

THE MOUNTAIN FROM THE MOLE-HILL POINT OF VIEWThe Third Article

1. That the "antimonopoly crusade" was a "flanking movement" in the alleged struggle over balancing the budget is, I believe, a pure inference and an erroneous one. To strengthen and enforce the antimonopoly laws in order to secure a better price balance as between raw materials and manufactured articles (speaking generally), and this in turn in order to secure increased consumption, increased production and, hence, increased employment, complements, rather than opposes, a budget-balancing program. It involves neither pump priming nor spending and, hence, cannot be, as stated, inter-dependent with spending.
2. The implication, under the subtitle "After The Battle", that I was a part of a group fighting for spending versus budget-balancing, is false, as is also the statement that I helped mature the coup of the "sixty families" speeches.

\* \* \* \*

So much for the references in these three articles to myself. And now for two general observations. I hope these two writers will have an opportunity to correct the grave fault of their third article, which failed to disclose that the Secretary of the Treasury was not opposed to needed spending, but merely opposed to it unless it was a part of a program, which program he had.

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Concerning all three articles, and with the exceptions above-noted, they are remarkably inaccurate as to incidents, but, in my judgment, they are, in general, quite good from the standpoint of the inferences they draw as to the history of the development of thought on national problems in Washington, particularly in view of the imperfect access to information which these articles disclose these authors to have had.



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV. 18, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

The fourth full meeting of the Temporary National Economic Committee was held today in the Senate Office Building at 2 o'clock and was in session for something less than two hours. I attach a copy of the memorandum which was adopted to govern the proceedings of the public hearings which are to begin December 1. There will be a general statement of the purpose of the study by the Chairman, followed by a more detailed description of the structure and functioning of our modern, industrial and commercial organizations. Then will come a general statement on patents and the part they play in industry and business organizations, to be followed by the public hearings on patents in relation to the glass industry. The Committee adopted, for publication, a general resolution stating its purpose to approach the problem in an objective and impartial manner.

The Executive Secretary announced arrangements for reporting the hearings and for editing the official record changes to eventuate, and the meeting then adjourned.



Attachment

November 18, 1938

Suggestions with Respect to Hearings  
before Temporary National Economic  
Committee under Section 3 (b)

I. Hearings on Reports

It is the view of the Executive Committee that as a general practice, it will not be necessary or desirable to have public hearings on reports submitted to the Temporary National Economic Committee by the various agencies and departments. Certainly as respects reports based on material deduced at public hearings, a public hearing on such a report would be wholly unnecessary. As respects statistical and general economic reports, the same conclusion seems obvious. There may be, however, some types of reports on which there should be public hearings. In case of that type of report, it is recommended that the procedure for presentation of the report at a public hearing be worked out case by case. Hence we have no recommendations at this time to make beyond those above indicated.

II. Hearings on Investigations

It is our conclusion that hearings based on data and evidence, collected as a result of investigations and assembled by the various departments and commissions represented on the Committee, be conducted in the following manner:

A. These hearings will be before the full Committee, or a subcommittee, as the case may be, and presented by the representatives of the department or commission which has conducted the investigation.

-2-

- B. The list of witnesses to be called will be prepared and submitted by the department or commission which has conducted the investigation.
- C. Each witness will appear under subpoena and testify under oath.
- D. In all examination of witnesses, the rules of evidence shall be observed but liberally construed.
- E. Witnesses will not be allowed to substitute prepared statements for testimony; nor will prepared statements dealing with facts be allowed to be introduced at the hearings except with the consent of the department or commission making the presentation, unless the Committee in a particular instance otherwise directs.
- F. At a later stage in the hearings, opportunity will be afforded interested persons to present to the Committee their views as to what solution or solutions of particular problems would be desirable or necessary. The agenda for presentation of such suggestions should be prepared in the first instance by the respective departments and commissions and presented to the Committee for approval before such hearings are held.

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE November 18, 1938

TO Secretary Morgenthau  
FROM Mr. Lubin and Mr. Haas *MLH HC*  
Subject: Relationship between regular employment and WPA rolls

We have investigated the relationship between changes in the level of regular employment and changes in the number of persons on WPA rolls. The attached chart throws considerable light on the situation. (In the chart and in this memorandum, WPA employment includes persons certified as in need of relief who were employed on work-relief projects of other Federal agencies.)

The chart shows, by months beginning with January 1929, the total available labor supply, classified by regular employment, emergency employment, and the residual unemployment. The figures for total labor supply and regular employment are estimates taken from the National Industrial Conference Board Bulletin, and although subject to a wide degree of error are believed to be fairly indicative of the actual facts. The conclusions which may be drawn from the chart may be summarized as follows:

1. The total labor supply has increased by 6 million persons since the beginning of 1929, or an average of about 600,000 persons a year. Thus, the number of persons employed on regular jobs would have had to increase by approximately 600,000 a year for unemployment to be held to no increase. In other words, even if the high level of regular employment achieved in 1929 had been maintained, there would now be 6 million persons unemployed.

2. Regular employment, which consists of private employment plus non-emergency governmental employment, reached a post-depression high of 47.8 millions in September 1937. In September 1938, the latest month for which the figures are available, regular employment aggregated 44.2 millions, or 3.6 millions less than the peak in September 1937. WPA

Secretary Morgenthau - 2

employment in September 1938 amounted to 3.2 millions which means that regular employment plus WPA employment totaled less than regular employment alone a year previously.

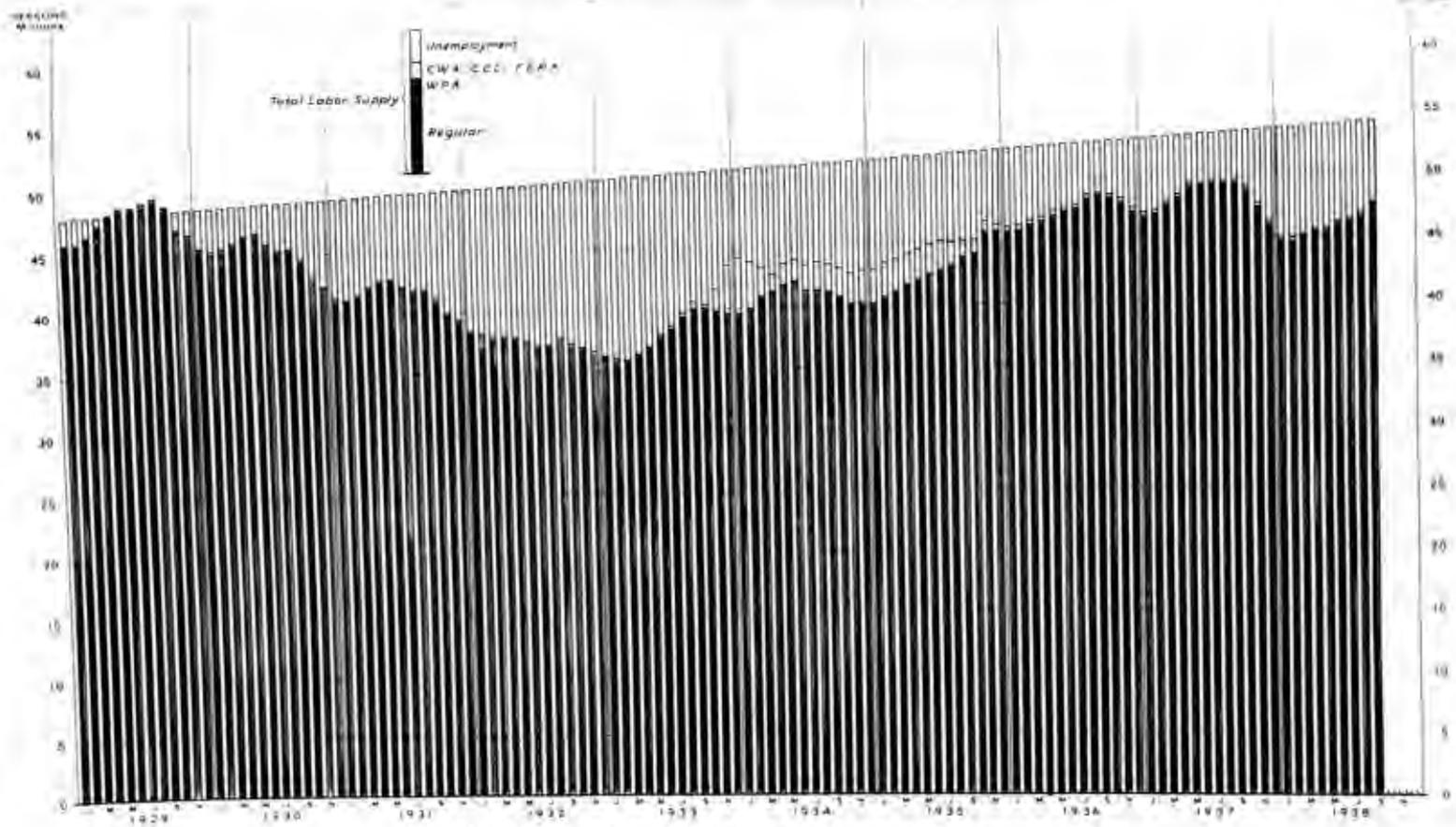
In addition to the increase in unemployment of 3.6 millions brought about by the decrease in regular employment during the year ended September 1938, the approximately 600,000 increase in the available labor supply must be added, making a total increase in unemployment of 4.2 millions. During the same period, WPA employment increased by 1.6 millions, or by 2.6 millions less than the total increase in unemployment. In other words, WPA rolls in September 1938 would have had to have been increased from 3.2 millions to 5.8 millions if unemployment not absorbed by WPA was to show no increase over September 1937.

3. The fact that the total labor supply has not been fully absorbed by regular employment plus emergency employment in any month since WPA began operations makes the conclusion inescapable that the size of WPA rolls is determined largely by factors other than the numerical amount of unemployment. The probability is that the amount of funds available for expenditure has been the most important element in determining the size of WPA rolls.

Attachment

# TOTAL LABOR SUPPLY

Classified by Regular Employment, Emergency Employment, and Unemployment



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Charts Maintained by the First Boston Corporation

In accordance with your request, Mr. Murphy went to New York and looked over the charts on the Government bond market, of which Colonel Pope of the First Boston Corporation spoke to you on his recent visit to Washington.

The 400 or so charts making up the bulk of the whole number are "arbitrage" charts. Each shows the spread between two selected issues of United States securities, expressed in points and thirty-seconds of points in the case of spreads between bond issues, and in hundreds of a percent in yield in the case of comparisons between note issues.

The charts are brought up to date daily, and most of them include back figures for a period of from two to three years, or to the original issuance of the newer of the securities compared, whichever is earlier, the curves for successive years being superimposed upon the same grid. The comparisons between bond issues include Home Owners' Loan Corporation and Federal Farm Mortgage Corporation, as well as Treasury bonds, every issue being compared (one comparison to a chart) with every other issue reasonably similar to it with respect to final maturity and optional call date. Comparisons between notes extend as far as notes with a maturity three years apart.

The principle of the charts is not new, and the extraordinarily large number of them in the present case is accounted for chiefly by the length to which the comparisons are carried — i.e., the toleration of dissimilarities in the maturities and optional call periods of the securities compared. There is, of course, no objective rule by which it may be determined how much dissimilarity renders a given comparison of no value, and Mr. Lanston of First Boston told Mr. Murphy that the comparisons between notes with wide spreads of yield and maturity are used principally as measures of the dispersion of yields between long and short maturities of notes, rather than as the basis for actual arbitrages.

Secretary Morgenthau - 2

The principal problem arising in connection with the use of such charts is to determine whether the changes in spreads which they show reflect real alterations in the relative values of the securities being compared, or whether they are mere temporary deviations and so suitable as bases for "arbitrage" operations. The correctness of decisions on this point will generally mean the difference between profit and loss, and depends principally upon judgment which it is very difficult to reduce to a mechanical basis. The First Boston people have tried, as far as possible, however, to take account mechanically of all of the factors which can be mechanically allowed for -- notably the projection of the probable future selling prices of the various issues of Treasury bonds upon the supposition that the present relationship between the maturities and yields of such securities will be maintained or will shift in an assumed manner.

The position of each issue of Treasury bonds relative to every other comparable issue is shown on a master chart on the wall, available for ready reference in giving telephone counsel to clients. This position is determined upon the basis of (1) changes in spreads between different Treasury bond issues, as shown by the "arbitrage" charts, (2) quasi-mechanical projections of probable future changes in these spreads, based upon differences in coupon and maturity of the securities compared, and (3) arbitrary adjustments based upon judgments with respect to trends or with respect to definite future events, such as anticipated Treasury financing. (It is of interest to note in passing that the principal element of judgment now entering these comparisons is First Boston's expectation of a long-term issue in December.)

The chart set-up of the First Boston Corporation is, of course, especially designed for the character of their own business, and is of value principally to persons engaged in short-term trading in and out of the Government bond market.

Finally, it may be of interest to recount two points which Colonel Pope emphasized to Mr. Murphy in the course of his visit.

First, Colonel Pope believes that the custom of granting full preferential allotment for new issues to holders of maturing Treasury obligations has proved very unfortunate and ought to be abandoned as soon as possible. In this connection, he suggested that the Secretary state publicly that from one

Secretary Morgenthau - 3

year after the date of his announcement such allotments would be made on a fractional basis only, so depriving maturing securities of most of their "rights". The one-year interval would give persons who had paid substantial premiums to secure such rights a chance to get out from under.

Second, Colonel Pope felt that the Government ought to do something to increase the net margins of Government security dealers, which he stated were now too low for the good of the market. He did not think that the Treasury could or should do much about it, but thought that the Federal Reserve System could do quite a bit by using its influence to get the dealers together. He suggested that it might be sufficient if sellers could be made to pay shipping charges, but that this would require a "basing-point" system, so that the geographical location of the buyer would be a matter of indifference to the seller, which is, of course, necessary for the maintenance of a nationwide one-price market.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 18, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Report of meeting on business outlook held Tuesday, November 15, 1938.

Summary

The six economists from business and banking institutions who attended a meeting to discuss the business outlook at the invitation of the Treasury were in accord on the prospect for further business gains during the remainder of 1938. All but one expected a continuation of this improvement through the first half of 1939.

As to the outlook after the middle of 1939 there was a divergence of opinion, with three of the group favoring a continued improvement to an average of 110 for the FRB index during the second half of 1939 and 105-114 during the first half of 1940. The other three looked for a more or less pronounced setback during 1939 or early 1940, due to (1) uncertainty over the ability of private business to carry the recovery forward when Government spending is reduced; (2) unsatisfactory world conditions; (3) the possibility that the stimulative effects of Government spending may be less evident in 1939 than expected; (4) pre-election uncertainties.

In regard to the outlook for commodity prices, the group was in accord in expecting little improvement through 1939 and early 1940, largely because of the unsatisfactory situation with respect to agricultural prices and the belief that not much speculative buying was likely.

A summary of the business expectations of the individual members of the group, in terms of average levels for the FRB index of industrial production, is given in the following table.

Secretary Morgenthau - 2

## Average estimates of FRB index

	1938		1939		1940
	Nov.	Dec.	First half	Second half	First half
Naess	--	102	102	110	114
Roberts	102	104-5	105	110	112-13
Hayford	97-8	100	98	110	105-10
Lichtenstein	98	100	95	85	83
Crum	Av. 98		103	105	103
Andrew	Av. 100		105-10	<u>1/</u>	<u>1/</u>
Approximate average	99	101	102	103	103

1/ Expects recession either in second half of 1939 or first half of 1940, with average for fiscal 1940 around 95 to 105.

Details of business outlook meeting

A meeting was held in Room 296 of the Treasury Building on Tuesday, November 15, attended by the following:

- Mr. Walter Lichtenstein, Vice President, First National Bank of Chicago.
- Mr. Ragnar Naess, Vice President, Tri-Continental Corp.
- Mr. Seymour L. Andrew, Chief Statistician, American Telephone and Telegraph.
- Mr. F. Leslie Hayford, Economist, General Motors Corporation.
- Dr. W. L. Crum, Professor of Economics, Harvard University.
- Mr. George B. Roberts, Vice President, National City Bank of New York.

The following were invited but unable to attend:

- Col. Leonard P. Ayres, Vice President, Cleveland Trust Co.
- Mr. Lionel Edie, 20 Exchange Place, New York City.

Attending from the Treasury were Messrs. White, Seltzer, O'Donnell, Daggit and Haas.

Secretary Morgenthau - 3

The comments of the individual economists are given below in condensed form, in the order in which they were presented.

Mr. Neess:

The situation continues very favorable for business. So far the upturn has been due largely to consumer goods production catching up with the higher rate of consumption. This has brought them approximately to the current level of consumption. So far capital goods have shown relatively modest improvement but there are signs that capital goods are beginning to improve, and it seems that they will later give business an additional lift which is very necessary to carry improvement further. There are no serious maladjustments in sight that might indicate that improvement would die out and be followed by decline.

I expect that business in 1939 will be better than in 1938 and that the improvement will continue to 1940. Certain capital goods industries which did not improve in the last recovery will show substantial improvement in this recovery. Construction and utilities are the outstanding ones in this category. Business will be helped to some extent by armament. Shipbuilding is already at a high level.

The foreign situation continues a very disturbing element but I do not think it will be sufficient to prevent a further recovery. Farm income is lagging but should be higher next year.

My estimate of the average FRB index for 1938 is 85. I expect December to average 102, making the average for the second six months of the year about 93. For 1939 a figure of around 102 to 103 for the first six months and 110 for the second six months seems probable, making an average for the year of about 106. A rough guess would suggest an average of about 114 for the first six months of 1940.

In later comments Mr. Neess mentioned that he expected very little rise in prices with the BLS index averaging perhaps 82 in 1939. While he expected a considerable further rise in prices of industrial products, mentioning rubber and copper in particular, he thought this would be counteracted by continued weakness in agricultural prices. He could see no material decline in business unless it were preceded by first, an accumulation of inventories, or second, a high and rising level of capital goods production.

Mr. Roberts:

I estimate the Federal Reserve index for November at 102, for December at 104 to 105, and for the first half of 1939 I expect a sidewise movement averaging about 105.

After December of this year, there may be some dip due to high motor car production in the last quarter and perhaps some moderate inventory accumulation. In the past, whenever a strong upward movement of six months or more has occurred, some minor correction has practically always followed. I am not sure how rapidly specifications against Government contracts may come through. In regard to inventory accumulation, the situation may be such that businessmen will be satisfied to carry inventories rather than to liquidate them as they did in 1937 and 1938.

Beyond the first half of 1939 I am reluctant to forecast. Much will depend on the rate of Government expenditures. If these are tapered off, it may leave a large gap for private expenditures to fill. Tentatively I might forecast an index of around 110 for the second half of 1939. For the first half of 1940 we might as well assume that the recovery will continue, making a higher index, though it is only under pressure that I would attempt to guess what the index would be. Perhaps 112 to 113 would be my best guess.

I rather expect that commodity prices will not move up. There will not be so much inflation psychology since so many people were hurt on inflation buying in 1937. Forward buying will, therefore, not follow the business improvement very rapidly though I expect some forward buying to follow the recent elections. The pressure of low agricultural prices will operate against any material rise in the general index. Stock prices will rise rapidly in the first half of 1939 under the influence of increasing corporate profits and low interest rate.

Mr. Roberts later added that if business turns down in the second half of 1939 it will not be due to speculative accumulation but to a decline in Government expenditures and failure of private expenditures to take up the slack.

Mr. Hayford:

I am somewhat less optimistic than the others on the outlook for November and December. I look for a November FRB index around 97 or 98 with December about 100. The second half of 1938 should, therefore, average around 92 to 93.

Secretary Morgenthau - 8

Mr. Andrew:

I look for the FRB index to average 100 during November and December and 105 to 110 during the first half of 1939. I am taking into account a somewhat better psychology among the business fraternity and a consequent tendency to make longer commitments. I have a vague fear, however, that this increased optimism may die out. At any rate, it ought to show up more strongly in the first part of 1939 than later. It is possible that too much has been expected of Government expenditures in stimulating business during 1939. The stimulating effect may have been anticipated in the present business upturn.

I expect a dip of measurable proportions during the 12-month period after the first half of 1939, which may extend to 15 to 20 points in the FRB index. I am not sure whether this dip is likely to come in the second half of 1939 or the first half of 1940, which would make a decided difference in the yearly averages. I should put the average for the fiscal year 1940 at between 95 and 105.

Secretary Morgenthau - 7

A third consideration is the election results. Following the recent elections some business improvement may come about through increased forward buying and planning by those who, rightly or wrongly, feel that the outlook for profitable employment of private capital had been improved by the conservative election trend. We are, therefore, facing a new situation with respect to business policy in which a larger number of businessmen will be willing to make a larger number of long-time commitments, thus indicating a substantial revival in business initiative. Even if government expenditures should taper off, the revival in private expenditures by that time may be sufficient to offset government contraction. The early half of 1940 will be affected by uncertainty and hesitation previous to the 1940 political struggle.

A striking feature of the present situation is a strong revival in residential building. We may at last be embarked upon the long-expected expansion of building activity, especially if we can dodge an increase in material prices and labor costs.

I expect the FRB index during November and December to average 98, giving an average of 92 for the second half of 1938. The first half of 1939 may be around 103 and the second half around 105. The slowness of the new agricultural program in getting under way is a factor in my expectation of a leveling out tendency during 1939. For the first half of 1940 I would guess about 103.

As to commodity prices, I expect a very slight increase in the whole of 1939 with the BLS price average for the year about 81. I look for some further increase, perhaps 1 to 2 points, during the first half of 1940.

Mr. Crum added in later discussion that if we cannot anticipate some specific reason for a decided slump, there is no reason for departing from the flat trend shown by the composite estimate of the group, which holds approximately to 103 for an 18-month period. He would not be surprised if the actual trend follows very closely this composite pattern. There is no real reason, in his opinion, for anticipating a continuation of the saw-toothed movements which have characterized business activity during the recovery since 1932.

I expect some recession after the end of this year and would put the first half of 1939 at about 95. This recession may begin about in May, bringing the average for the second half of the year to about 85. I see no hope of the world situation getting better, and tendencies in the Far East and Central Europe toward cutting off our foreign trade will operate against business in this country. For the first half of 1940 I look for an average FRB index of around 83.

In regard to prices, I do not expect much movement. In the first half of 1939, the BLS price index may average around 81, and during the second half around 83. I do not expect any real inflation, but think that the general price tendency will be in that direction rather than in the other direction. The agricultural price situation does not appear very hopeful either in the short- or long-time outlook. This is one reason for my relatively moderate expectation for prices.

Mr. Crum:

Many people believe that the bulk of business improvement has resulted from the spending and lending program, and that curtailment of government spending would have an unfavorable reaction on business. For this reason I have given some thought to the outlook for government spending during the next year or more.

It seems we are faced with the prospect of a postponement of action looking toward a real solution of our agricultural difficulties, and that pressure will result more and more in public expenditures of the "hand out" type. The inevitable consequence of pressure on the Treasury seems likely to be irresistible, resulting in a change in the structure of Federal expenditures in two important respects: first, an increase in the hand out to agriculture; second, a diversion of part of relief expenditures toward financing the armament program. The pressure to reduce relief expenditures is likely to be offset, or more than offset, by these tendencies. Therefore, I look for no reduction in government expenditures in 1939, with their consequences to business.

A second consideration in the business outlook is the fact that the world situation has a bearing, not only on the price level, but also on our own productive activity. Germany's recent action must result inevitably in a stimulation of preparedness programs in other countries. The result will be that certain commodities will reflect this both in prices and in production.

In getting up to a level of 95 in October, the rise in production has been principally in steel and automobiles. The present indications are that steel production is outrunning consumption. With steel and automobile production at high levels, I can see little further improvement in the first quarter of 1939. Steel production seems likely to show less than a seasonal rise and automobile production no more than seasonal. Textile production is not likely to advance much above present levels. These are the largest components in the FRB index.

Some recession early in 1939 seems likely, with a probable resumption of the rise in the second quarter and through the balance of the year. I should put the average for the first half of 1939 at 98 and for the second half at 110, making the year's average around 104 to 105.

Business during the first half of 1940 will be somewhat under pressure because of the approaching elections, but I do not expect the pressure to be great enough to result in any substantial decline and would, therefore, put the first half of 1940 at an average of 105 to 110.

In regard to prices, I doubt the probability of an early rise and would put the average of the BLS price index for the first half of 1939 around 80; the second half slightly higher but not much. There is a possibility of a moderate further rise, perhaps 2 to 3 points, in the first half of 1940. Until the production index gets higher than here pictured (above 110) or unless it rises rapidly, I see not much likelihood of a strong upward price movement. There will be much reluctance to accumulate inventories and much skepticism about rising prices.

Mr. Hayford later mentioned that he expects automobile sales during the 1939 model year to total about  $3\frac{1}{2}$  to  $3\frac{3}{4}$  million units, including both cars and trucks and both domestic and foreign sales.

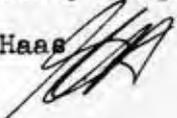
Mr. Lichtenstein:

I lay perhaps more stress on the world situation and on the probability of more labor troubles. Also with continued low interest rates, I am not confident you can have a boom going beyond certain lengths. At least this has apparently never occurred in the past. For November I look for an FRB index around 98 and for December around 100.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

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DATE November 18, 1938.

TO Secretary Morgenthau  
FROM Mr. Haas 

At the last meeting of the Fiscal Committee on the Budget, held in your office on November 14, 1938, you asked me to bring to your attention the attached two memoranda which were prepared in this Division:

"Effect on National Income of Principal Budget Classifications"

"Possibilities of Increased Flexibility in Expenditures and Receipts"

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11-18'38

Ph. Seay.  
Will go right  
to work on this  
with White.

NO

245

*Filed*  
11-17-38  
date of

NOV 18 1938

*incoming  
from State*

My dear Mr. Secretary:

This will acknowledge receipt of your letter of November 17 transmitting a memorandum dated November 3 and a draft of a possible bill which might be presented to the next session of Congress in order more adequately to implement the Executive in dealing with payments by Americans to creditors abroad in the light of current discriminatory control of payments to Americans.

I shall be glad to respond, as early as the importance of the problem permits, to your request for an expression of my judgment on the policy and form of this legislation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable  
The Secretary of State  
Washington, D. C.

HO:z Typed 11/18/38

cc: *Roll Chamney*



DEPARTMENT OF STATE  
WASHINGTON

November 17, 1938

URGENT AND CONFIDENTIAL.

My dear Mr. Secretary:

The Treasury is of course fully acquainted with the fact that many governments are now subjecting the payments due to Americans for purchases of goods, yield on investment, proceeds of inheritances, et cetera, to strict and often discriminatory control. In considering some of these situations it seems to me that we might well be in a more effective position to protect the American interests if there were legislation specifically giving the Executive the authority to control payments by Americans. I am told that under certain sections of the Trading with the Enemy Act the Executive already possesses some such authority in general terms, but believe that it would be preferable to have this authority explicitly conveyed for an explicit objective and with public understanding.

I have had prepared the draft of a possible bill which might be presented the next session of Congress.

This

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

This bill on such action is receiving the tentative consideration of the Department. I know that this is a matter of great interest to the Treasury Department and furthermore surmise that the application of policy in this field would have to be carried out largely if not primarily under the administrative direction of the Treasury.

I therefore request consideration of the policy embodied in this piece of legislation and of the precise terms of this legislation, and would appreciate an expression of your judgment on both as promptly as may be convenient.

I am also attaching a copy of a short memorandum setting forth the skeleton ideas that were in mind in preparing this draft.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned to the right of the typed name "Cordell Hull".

Enclosures:

1. Draft of bill.
2. Memorandum, November 3.

COPY

STRICTLY CONFIDENTIAL.

November 3, 1938.

Suggested Draft of the Substance of Legislation Empowering  
the President to Control Payments to Foreign Countries

The purpose of the draft suggested below is to sketch the framework of provisions in the broadest terms possible which would give the President authority, in case it were desirable to use it, to control payments to foreign countries pursuing policies in the exchange field detrimental to American interests. There has been no attempt to throw it into the legal language of final draft legislation nor is there any consideration whatever of possible constitutional questions that might be raised.

I

Whenever the President shall find as a fact that any foreign nation is directly or indirectly prohibiting, restricting or regulating payments or transfers of any kind from that country to residents of the United States, he may, if in his opinion the public interest will be served thereby, direct that payment of all sums of any designated class or classes of payment due to residents of the other country shall be made by paying the dollar amount, if the debt be expressed in dollars, or, if the debt be expressed

in

in a foreign currency, the amount in dollars equivalent thereto at the buying rate in the New York market at noon on the day the payment is due as determined by the Federal Reserve Bank of New York and certified daily to the Secretary of the Treasury pursuant to Section 522 of the Tariff Act of 1930, into such funds or institutions as the President may establish or designate for that purpose.

This leaves open the widest possible latitude for action on the grounds of exchange treatment abroad. It does not permit of any action on the grounds of general discrimination outside of the exchange field, nor for venting spleen on political policies we may not like. Alternatively, and again only within the exchange field, the President might be required to find one or more of the following conditions precedent to acting:

(a) That the exchange policies and practices of another country result, in any given class of payments, in less favorable treatment of American creditors than that available to like creditors of a third country. This might also be worded so as to reserve to the President the right to judge whether

categories

categories established in the other country were in fact equitable (I.e., whether the United States would acquiesce in Brazil's paying cash for armaments, most of which are acquired in third countries, while delaying payment for commercial imports; or whether Chile or Honduras could establish luxury categories with less favorable exchange treatment than that accorded to essentials, and then include radios in the luxury group while leaving out wines or laces which might be supplied by a clearing country).

(b) That the other country is failing to fulfill an international obligation to which the United States is a party in the matter of payment and exchange treatment accorded to residents of the United States. At the moment this would chiefly and perhaps solely mean Brazil. It should not include war debt defaults; this is probably taken care of by speaking of exchange treatment and payments accorded to residents of the United States. By limiting it to obligations to which the United States is a party,

it

it would exclude defaulted bonds, etc., which can be included if desired under (c) below.

(c) That the other government is in default on payments due to residents of the United States.

(d) That the action of the other government in its clearing agreements, blocked currencies, etc., is causing some third country to accord discriminatory treatment in exchange matters to residents of the United States.

## II

Payment from the amounts paid into any fund or institution in accordance with the provisions of the preceding section shall be subject to such regulations as the President may establish.

This blanket provision makes no attempt to establish priorities of classes of payments, no means of determining individual priorities within any given class, and no attempt to reserve these funds for the payment of domestic claims exclusively or in preference to permitting payment abroad from the established funds. In the absence of any very detailed

detailed section I, it would be almost impossible to draft a satisfactory section II except in the broadest terms.

### III

Payment into a fund or institution established as provided in section I shall relieve the debtor from all further responsibility with regard to such payment, including responsibility arising out of fluctuation in exchange rates between the time such payment is made and the time at which the foreign creditor receives his payment.

### IV

Penalties for failure to comply with the provisions of section I and with any rules or regulations established thereunder shall render a resident of the United States liable to civil penalties, not to exceed (25 percent) of the value of the payment which should have been made.

### V

This section to be appropriation of necessary funds.

### VI

Authorization to the President to delegate this to the appropriate agency.

- 6 -

VII

Definitions of terms used in the act.

DRAFT

[Public No.     ]

AN ACT

To regulate, restrict or prohibit payments or transfers from the United States to residents of certain foreign countries, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title I, Section 2 of the Act approved March 9, 1933, entitled "An Act To provide relief in the existing national emergency in banking, and for other purposes", as amended, is hereby amended by adding thereto subdivision (c), reading as follows:

"(c) Whenever the President shall find as a fact that any foreign nation is directly or indirectly prohibiting, restricting or regulating payments or transfers of any kind from that country to residents of the United States, he may, if in his opinion the public interest will be served thereby, and directly or through any agency that he may designate, prohibit, restrict or regulate, under such rules and regulations as

he

he may prescribe, by means of licenses or otherwise, any payments or transfers of any kind from the United States to residents of such foreign country, and he may direct that payment of all sums of any designated class or classes due from residents of the United States to residents of that other country shall be made by paying, into such funds or institutions as he may establish or designate for that purpose, the dollar amount of the debt, if the debt be expressed in dollars, or, if the debt be expressed in a foreign currency, the amount in dollars equivalent thereto at the buying rate in the New York market at noon on the day the payment is due as determined by the Federal Reserve Bank of New York and certified daily to the Secretary of the Treasury pursuant to Section 522 of the Tariff Act of 1930. Payments so made shall relieve the payer from all further responsibility, <sup>with regard to such payment</sup> including responsibility arising out of fluctuation in exchange rates between the time such payment is made and the time at which the foreign creditor receives his payment. Disposition of the amount of payment so made shall be governed by such regulations as the President may promulgate. Whoever wilfully violates any of the provisions of this subdivision or of any license, or, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000; and any officer, director, or agent of any corporation who knowingly participates

in

in such violation may be punished by a like fine. As used in this subdivision the term 'residents of the United States' means persons, including individuals, partnerships, associations, or corporations having their abode in the United States."

DEDICATION, BUREAU OF ENGRAVING AND PRINTING  
ANNEX, Friday, November 18, 1938

HM, Jr's notes made while he was on the platform

Dedication - President + Congress

1. 15% for night  
Skilled trades
  2. 5 days a week  
on 6 day pay
  3. sick leave all  
employees
  4. Auditorium for recreational purposes  
\$ 700,000. <sup>00</sup>
- 
- Healthy conditions. Efficient
- 
- Peoples | Hall  
Simon supervisor  
contractor | Mc Shane



DEDICATION CEREMONIES  
THE BUREAU OF ENGRAVING AND PRINTING  
ANNEX BUILDING



NOVEMBER 18, 1938

10:00 A. M.



THE BUREAU OF ENGRAVING AND PRINTING ANNEX BUILDING

## PROGRAM

MUSIC - 9:30 TO 10 A. M.  
 UNITED STATES MARINE BAND ORCHESTRA  
 CAPTAIN TAYLOR BRANSON, CONDUCTING

- INTRODUCTION - - - - - "THE BUILDING"  
 REAR ADMIRAL CHRISTIAN J. PEOPLES  
 DIRECTOR, PROCUREMENT DIVISION
- REMARKS - - - - - "THE BUREAU OF ENGRAVING AND PRINTING"  
 ALVIN W. HALL  
 DIRECTOR, BUREAU OF ENGRAVING AND PRINTING
- MUSIC - - - - - UNITED STATES MARINE BAND ORCHESTRA
- ADDRESS - - - - - "DEDICATION"  
 HONORABLE HENRY MORGENTHAU, JR.  
 SECRETARY OF THE TREASURY
- MUSIC - - - - - UNITED STATES MARINE BAND ORCHESTRA
- INSPECTION OF BUILDING

Remarks prepared for delivery  
by HM, Jr at dedication of Bureau of  
Engraving and Printing Annex, 11/18/38,  
but not use. Secretary spoke ex-  
temporaneously.

Admiral Peoples, Director Hall, Ladies and Gentlemen:

I am here today only to join with you in the pleasant and agreeable ceremony of dedicating this fine building to the uses of the Government of the United States, which means -- as I am always conscious that it means -- the people of the United States.

It is an occasion that is unique for me.

Admiral Peoples has told you that during the last four years we have built for the Federal Government some 1200 buildings at a cost in the neighborhood of two hundred million dollars. The plans for all these buildings have been made by or under the direction of the Procurement Division of the Treasury Department and their construction has been supervised at every

- 2 -

stage by this Department.

Not only because of my responsibility for the whole program, but because of a special interest in architecture and in building I have followed the whole building enterprise and the progress of a great many individual buildings with close attention. Admiral Peoples and Mr. Reynolds and Mr. Simon and Mr. Barton have frequently brought me drawings and photographs, and even models, which I have found much more interesting than the statistics and reports and memoranda that I have to study so much of my time. I envy you who work with pencil and ruler over the drawing-boards and you who watch the pouring of the concrete and the laying of the brick and tile as the

- 3 -

building rises to a completed structure.

Next to being able actually to participate in their construction I should like to have been present at the inspection and dedication of all these fine structures. But before today I have never been present at a dedication and have laid but one corner-stone, that of one of the buildings of the new group of the Institute of Health of the Public Health Service near Bethesda. That also, as you know, is a Treasury building, and it had an added importance to me because the research work in health problems to be carried on there means so much to human welfare in this country.

I am happy to take part in this dedication for another reason, which is that I am very proud of

- 4 -

the work we have done in the public building program. I ask you to inspect this building as representative of that work, considering its fitness for the purposes for which it was designed. It is of course primarily an industrial building and in general plan and arrangement differs very greatly from such structures as large post offices, court houses and office buildings. But I think you will find in it the dignified character and functional usefulness of design and the integrity of honest building which is characteristic of all the buildings we have been erecting in recent years.

These attributes of our new buildings reflect the very highest credit on all those who have been

- 5 -

connected with our building program. I want to pay especial tribute to Admiral Peoples, the Director of Procurement, to Mr. Reynolds, the Assistant Director in charge of the Public Buildings branch, to the Supervising Architect, Mr. Simon, to Mr. Barton, architectural adviser, and to all of those -- draftsmen, architects, engineers, builders -- who are and have been associated with them. I can not name them all, because the list would be too long. I pay them tribute for talented, able, industrious, intelligent and honest work and for the very fine results that have been the fruit of their labors, results that reflect credit on our Government and our people. I include in this commendation the

- 6 -

eminent architects who at my invitation and at considerable personal sacrifice in the public interest have served as an advisory committee on Federal architecture. I include also the other architects in private practice who have responded to our call for service and have cooperated with architects of the Procurement Division in the preparation of plans for public buildings. I include also the contractors under whose direction the finished work was done and the competent American craftsmen who executed it.

None of these men has been much concerned about building a monument to himself in any building which they have designed or helped to construct. They have been concerned in building structures that were in

- 7 -

every way suitable for the purposes they were to serve and in getting a full dollar's worth for every dollar of the people's money they spent. Perhaps for that very reason the buildings are monuments to all of them and to the ability of servants of the people to do a good job for the people who employ them.

In this building, for instance, the prime consideration has been to provide surroundings and facilities under which a very important branch of the Government's activities can be carried on with the maximum of convenience and comfort. I think the builders have succeeded well in attaining that objective.

It is true, as Admiral Peoples has said, that we have built only buildings that were needed. A

- 8 -

part of my responsibility has been to have a voice in determining what buildings should be built and which should be built first. Certainly this building which we are dedicating today fulfills a real and urgent need.

One of the most significant, probably the most significant, part of the program of this Administration has been the steady and unremitting effort to improve the conditions under which men work in our country. The President under whom I am proud to serve has earned and has won the gratitude of American workers of this and future generations.

It is his position, as it is mine, that if we in government are to be critical of the conditions

- 9 -

under which men and women work in private industry -- as we must be -- then we should look with at least as critical an eye on the conditions under which men and women work for the Government of the United States. As Secretary of the Treasury I have found myself a very large employer of labor. I shall have to confess that in many places I have found conditions that distressed me -- conditions of overwork, of work in cramped space with inadequate lighting and inadequate ventilation. I couldn't myself work under conditions like that and I don't like to ask other people to do it.

For that reason I have considered the provision of decent and fitting working surroundings and working conditions for Treasury employees to be one of the

- 10 -

first of my responsibilities and one of the first of my duties.

Because the Bureau of Engraving and Printing is a great factory operation -- just about the greatest such enterprise of this Government, I have been much interested in seeing just how it was operated and just what were the conditions under which its great body of workers labored. Director Hall can tell you that he didn't always know in advance of my visits. I found efficiency of operation and a most remarkable system of meticulous care for the Government's property. But I found also that there was much to be desired in improvement of physical conditions, especially the need for more room and better quarters for the highly exacting work that has to be done here.

- 11 -

I very willingly and emphatically approved therefore the project of building this new structure and have done everything I could to push it to realization.

Now it fills me with great satisfaction to see the building complete and already nearly fully occupied. I wish all of those who are to work here joy in their surroundings and the great satisfaction of knowing that they are doing well an essential and important work for their Government.

Since we have paid tribute to the builders let me add a word of tribute to those who work in the Bureau of Engraving and Printing of the Treasury Department. It is a tribute that should go not only

- 12 -

to Director Hall and his immediate assistants, but to all who work under them.

We have an elaborate system here for the protection of the Government against theft and fraud. But there is no system of checks or accounting that can be devised that is absolutely secure against dishonesty; yet we have had no scandal here. There is security in having only honest and loyal workers who willingly cooperate in the operation of systems of protection that are a protection to them as well as to the Government. I praise all of them for the loyalty and faithfulness and enthusiasm and scrupulous care with which they carry out their work.

By authority of our President we dedicate this building to the service of the people of the United

- 13 -

States. In so doing we honor its builders and we show our respect and appreciation for the fine and loyal service of the skilled workers who are to occupy it.

--oOo--

November 18, 1938

This was handed to the President at Cabinet today to keep the President informed.

Cabinet Nov. 18, 1938

Confidential  
 THE WHITE HOUSE  
 WASHINGTON

S. E. C. with the help of the Treasury is sewing a show cause order on Transamerica why they should not be delisted from the N. Y. stock exchange.  
 H. M. J.

274 RECEIVED

THE WHITE HOUSE  
WASHINGTON

NOV 19 1938

BUREAU OF THE BUDGET

November 18, 1938.

MEMORANDUM FOR

MR. HARRY L. HOPKINS

Please read enclosed from the Director of the Budget. It is absolutely definite that I told Mr. Williams about the middle of October that no emergency could be declared and that he would have to get on without such a declaration. In other words, the money must last until March first.

That is that!

F. D. R.

In re Mr. Bell's memorandum of 11/16/38, returning Mr. Hopkins' letter of 11/12/38 requesting the release of all reserves set up against funds provided for the WPA under the Emergency Relief Appropriation Act of 1938.

275  
November 16, 1938

MEMORANDUM FOR THE PRESIDENT:

The attached letter from Mr. Hopkins requests the release of all reserves set up against funds provided for the Works Progress Administration under the Emergency Relief Appropriation Act of 1938.

The Treasury reports that obligations incurred by the W.P.A., exclusive of the N.Y.A., during October aggregated \$202.6 million. As a result, obligations for the first four months of the fiscal year have been \$795.3 million, or at the rate of \$198.8 million per month. This leaves only \$356.9 million available for November, December and January, or \$119.6 million per month, after deducting the reserves, of which reserves of \$209.0 million you set aside \$175.0 million for the month of February or for an emergency. Even if the entire unobligated balance of \$565.9 million, which includes all reserves, is distributed over the four months, November through February, obligations must be reduced so that they will not average more than \$141.5 million per month.

Assuming that the present estimate of W.P.A. obligations of \$189.0 million for November is correct, obligations by that Administration will average \$195.5 million for the first five months of this fiscal year. Even if you declare that an emergency exists and release all reserves for obligation during December and January, it will be necessary to reduce the average rate of obligation for these two months to \$183.4 million, or by 9.4% to make the funds last until February 1st. If, however, no emergency is declared and the funds are to carry the W.P.A. to March 1st, it will be necessary to reduce the average monthly rate of obligation to \$129.0 million, or by 34.0%, compared with the first five months.

I am greatly disturbed by this and by the increase in the numbers being furnished employment. In fact, since you advised Mr. Aubrey Williams early in October that you were unwilling to declare that an emergency exists, and that he should rearrange his program so as to make the funds last until March 1st, there has continued to be an increase in W.P.A. employment. At that time the latest report available indicated that employment of relief and non-relief personnel was 3,136,116, and total employment furnished by funds appropriated to the W.P.A. was 3,232,691. By October 29, 1938, the figures were 3,244,752 and 3,345,235 respectively, an increase of 108,634 in the case of the W.P.A. projects and 117,635 in total employment, the latter including the Supply Fund and Federal Agency projects. This increase in employment will make it difficult to keep obligations within the limits established by Congress.

Apparently, there has been no real effort on the part of the W.P.A. to hold obligations to the amounts shown on its apportionment sheets. Under date of November 12, 1938, I received revised apportionment sheets. The following table shows, exclusive of reserves, the original apportionment, the revised apportionment and actual obligations for the period ending October 31, 1938 as reported by the W.P.A., which differs slightly from the Treasury reports.

- 2 -

Month	Apportionment		Obligations	Excess Over Original Apportionment
	Original	Revised		
July, 1938	\$ 156.7M	\$ 201.4M	\$ 201.4M	\$ 44.7M
August	156.7	201.3	201.3	44.6
September	156.7	190.0	190.0	33.3
October	149.3	195.9	195.9	46.6
November	149.3	189.0		
December	149.3	116.8		
January, 1939	149.3	6.7		
February	—	—	—	—
Total	\$1,067.3M	\$1,101.1M	\$ 788.5M	\$169.2M

The foregoing figures are exclusive of reserves. The difference between the original and the revised total is due to releases of part of the amounts reserved and the transfer of unobligated balances on June 30, 1938 to the new appropriation. It will be noted that actual obligations for the first four months were \$169.2 million in excess of the original apportionment and only \$116.8 million will be available for December with practically nothing for January. Unless there is a material reduction in W.P.A. obligations immediately, it will be necessary to release all of the remaining reserves.

From time to time you have endeavored to reduce the per man-year cost of projects. On June 13, 1938 the W.P.A. proposed to limit payments to persons certified as in need to \$100 per month. In your letter of June 23, 1938, you stated that no persons paid from Federal funds for the prosecution of such projects should be paid at a rate in excess of \$1200 per year. This would have enabled persons who lost time in one month to make it up in the next month. Instead of adhering to the terms of your letter or the spirit of its own letter of June 13, 1938, on July 11, 1938, the Administration issued an order (No. 65) directing that "Persons certified as in need, including 'project supervisory employees', who are authorized to work on projects at monthly earnings which are in excess of one hundred dollars (\$100) per month shall have their certification of need cancelled and shall be considered as non-certified persons, provided that this requirement shall not be construed as prohibiting certified workers from receiving monthly earnings in excess of one hundred dollars (\$100) per month when making up lost time or in an emergency". Under the administrative order, therefore, there is in reality no reduction in operating costs of the projects, notwithstanding your evident desires.

I am attaching tables to show obligations incurred through October by the Works Progress Administration, the National Youth Administration, Farm Security Administration, Puerto Rico Reconstruction Administration and Federal agencies to which funds have been transferred by the Works Progress Administration.

I should be glad to receive your instructions before drafting a reply to Mr. Hopkins' letter of November 12, 1938. (Signed) D. W. BELL

Acting Director.

Enclosure:

Five tables.  
Letter from Mr. Hopkins,  
dated 11/12/38

FJB/abp 11-16-38

## WORKS PROGRESS ADMINISTRATION

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November 12, 1938

The President  
The White House

My dear Mr. President:

It is apparent, as the result of the accumulated need of unemployed workers during the summer months, the hurricane and flood in New England, and the emergency situation in the cotton-producing areas of the South, that all of the funds appropriated to the WPA in the ERA Act of 1938, as well as such balances as can be recovered from funds allocated to the WPA under ERA of 1937, will be necessary to carry the program into February.

Your letter of June 20th, 1938 established certain reserves aggregating \$380,000,000. If this entire amount is withheld from the funds now available, we will not have adequate cash to operate the program through the month of December.

Accordingly, I request that the unused funds in these reserves be released and made available for current operations during December, January and February.

To date, \$15,950,000 have been allocated under the provision authorizing expenditures for the relief of needy persons, and I request that the balance of \$9,050,000 from the \$25,000,000 reserve for this purpose be released, together with the \$5,000,000 reserved for water conservation projects and the \$175,000,000 reserved for emergency situations or operations during February.

I do not believe that non-labor expenditures on WPA projects will exceed \$7.00 per worker in any state under this act, and in any case, the \$25,000,000 set aside to cover excess non-labor costs in emergency situations is not necessary and can be released.

I estimate that our administrative costs through February will aggregate \$52,000,000 rather than the \$72,000,000 reserved for this purpose, and I request that the balance of this reserve be released for project operations.

Sincerely yours,

Harry L. Hopkins  
Administrator



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON November 18, 1938

OFFICE OF THE DIRECTOR

CONFIDENTIAL

Memo. to Mr. McReynolds:

Re: Meeting of Temporary National Economic  
Committee this date

An Executive meeting of the full committee was held in room 224 Senate Office Building at 2:20 P.M. today, adjourning at 3:40 P.M.

Present:

Senator J. C. O'Mahoney, Chairman	Congressman B. E. Reece
Senator W. H. King	Congressman E. C. Eicher
Senator W. E. Borah (absent)	Congressman H. W. Summers

Department or Agency:

Justice	Thurman W. Arnold
Commerce	R. C. Patterson (absent)
Labor	I. Lubin
Federal Trade Commission	E. L. Davis
Treasury H	H. Oliphant and C. J. Peoples
SEC	W. O. Douglas and J. N. Frank

Executive Secretary - Leon Henderson

Minutes of Meeting of October 15, 1938

The minutes of the previous full committee meeting held on October 15, 1938 were approved subject to such omissions therein that any member would find.

Reports

The report of the Executive Committee meeting held on November 16 was approved and adopted with certain modifications. This report has to do with suggestions with respect to the procedure to be followed at hearings before the Temporary National Economic Committee under Section 3 (b). This section covers reports, and the presentation of evidence in the examination of witnesses by the departments represented on the main committee.

Hearings

The Committee will begin formal hearings commencing December 1, the announcement containing a statement to the effect that the hearings will be thorough, and form an unprejudiced point of view. Three presentations are proposed to cover the first hearings:

- (a) A picture of our economic system; its structure; and the nature of the problems with which the committee would have to deal.
- (b) A presentation, by Justice, of the patent situation with particular reference to the automobile industry.

- (c) A presentation, by Justice, of the patent situation with particular reference to the glass industry.

Official Reporting

The Chairman and the Executive Secretary reported that after having canvassed the situation the David Lawrence Service presented the best offer for the official reporting of each hearing and agreed to furnish a number of additional printed copies, without cost, to be ready on the morning of the next succeeding day.

Clerical Help

There was some discussion as to the committee making use of certain employees now available who had been connected with the Nys Investigation, and the Wheeler Railroad investigation. The objection was raised as to some of these people receiving the lowest security wage as compared with others at usual average rates. Mr. Oliphant suggested that going rates be paid to the clerical personnel, and the matter was left in the hands of the Chairman and the Executive Secretary to see to it that the average rates be paid.

  
Director of Procurement

18 November, 1938.

## Memorandum

From: Commandant  
To: Secretary of the Treasury

1. In accordance with your instructions the following data on twin engine long range patrol flying boats (of the PH-2 type as built by the Hall Aluminum Aircraft Corporation) with attached chart and photographs are submitted.

There are ten air stations and two air patrol detachments located on the chart. Eight air stations are in commission and two air stations have been authorized. For efficient operations and the proper conduct of our duties each air station and the air patrol detachment at Cape May, N.J., should be equipped with two long range patrol planes suitable for offshore landings in rough seas. In addition to the above 22 planes there should be four spare airplanes of this type furnished to provide replacements in crashes and during major overhauls.

Six planes of this type are now in commission and operating at aviation units. Seven planes of this type are now under construction and will be delivered early in 1940, making a total of 13. Thirteen additional airplanes are required to fill the recommended quota of 26. Two additional airplanes of this type have been requested in the Coast Guard appropriations estimate for the fiscal year 1940. The cost of one airplane of this type will be approximately \$195,000 including all spares and equipment, or a total for 13 planes of \$2,535,000. This price is estimated from current contracts but it is believed that this amount would be materially reduced on a single order for a quantity of 13 airplanes.

Long range patrol flying boats required by the Coast Guard have the following performance characteristics:

Cruising speed.....	85 mph
Maximum speed .....	167 mph
Cruising range .....	2000 statute miles
	(2000 statute miles for planes now in service)
Landing speed.....	60 mph
Time of takeoff (calm) ..	13 seconds
Useful load.....	9631 pounds

AV-350  
Secretary of the Treasury  
18 November, 1958.

These airplanes are designed and constructed especially to withstand the loads imposed during landings and takeoffs at sea.

Planes of this type now in operation have been landed in the open ocean in rough seas eight and ten feet in height while on rescue missions. Takeoffs have actually been accomplished in eight seconds in a light wind. One report is on file describing an emergency takeoff on one engine of one of these planes from a rough sea.

This type of airplane has fully demonstrated to date its suitability for offshore rescue work.

R. R. WAKSCHE.

inclosures

AY-250

18 November, 1938.

## Memorandum

From: Commandant  
To: Secretary of the Treasury

1. In accordance with your instructions the following data on twin engine long range patrol flying boats (of the PB-2 type as built by the Hall Aluminum Aircraft Corporation) with attached chart and photographs are submitted.

There are ten air stations and two air patrol detachments located on the chart. Eight air stations are in commission and two air stations have been authorized. For efficient operations and the proper conduct of our duties each air station and the air patrol detachment at Cape May, N.J., should be equipped with two long range patrol planes suitable for offshore landings in rough seas. In addition to the above 22 planes there should be four spare airplanes of this type furnished to provide replacements in crashes and during major overhauls.

Six planes of this type are now in commission and operating at aviation units. Seven planes of this type are now under construction and will be delivered early in 1940, making a total of 13. Thirteen additional airplanes are required to fill the recommended quota of 26. Two additional airplanes of this type have been requested in the Coast Guard appropriations estimate for the fiscal year 1940. The cost of one airplane of this type will be approximately \$198,000 including all spares and equipment, or a total for 13 planes of \$2,536,000. This price is estimated from current contracts but it is believed that this amount would be materially reduced on a single order for a quantity of 13 airplanes.

Long range patrol flying boats required by the Coast Guard have the following performance characteristics:

Cruising speed.....	95 mph
Maximum speed .....	167 mph
Cruising range .....	2000 statute miles
	(2000 statute miles for planes now in service)
Landing speed.....	50 mph
Time of takeoff (calm)	15 seconds
Useful load.....	9631 pounds

AV-280  
Secretary of the Treasury  
18 November, 1956.

These airplanes are designed and constructed especially to withstand the loads imposed during landings and takeoffs at sea.

Planes of this type now in operation have been landed in the open ocean in rough seas eight and ten feet in height while on rescue missions. Takeoffs have actually been accomplished in eight seconds in a light wind. One report is on file describing an emergency takeoff on one engine of one of these planes from a rough sea.

This type of airplane has fully demonstrated to date its suitability for offshore rescue work.

R. R. WARSCHÉ.

inclosures

PARAPHRASE OF SECTIONS THREE AND FOUR,  
No. 1953 of November 18, 1938, from Paris

President Lebrun gave an address last night, which was broadcast, in which he exceptionally plead the cause of the present Government. Another address given by Reynaud answered complaints against his plan. Daladier also broadcast an address, strongly affirming his intention that the program will be carried through despite the threats of the opposition.

According to the press Daladier said in defending his tax scheme: "All recovery plans applied or proposed up to the present have included tax measures. And even the partisans of exchange control while presenting this to us today as a miraculous solution call for taxes. Should I add further that to offer exchange control as a remedy for tax evasion is a dupery since the expatriated capital would remain beyond our borders".

JOURNAL OFFICIAL today announced reduction of interest on ordinary six months Treasury bonds from  $3 \frac{1}{2}$  to  $3 \frac{1}{4}$  % and on ordinary 75 to 100 days Treasury bonds from 3 to (omission)  $7/8$  %. Subscriptions to ordinary three months Treasury bonds are suspended.

At five o'clock this evening I had a talk with the Bank of France. Today was a day of fairly light trading both in Paris and London, and on balance for the day the French stabilization fund lost about 300,000 pounds. The outlook  
for

- 2 -

for the market is still uncertain, being overshadowed by French political and labor uncertainties and by problems in the international field.

Lower quotations for French rentes and shares.

END MESSAGE.

WILSON.

RECEIVED

NOV 19 1933

TREASURY DEPARTMENT  
Office of the Director  
Foreign Affairs of the Treasury

EA:LWW

A member of the London office of Guaranty, Mr. Grant, said that the technique of Reynaud's plan was approved by the British. However, they remain to be convinced that the French Government will be strong enough to carry the program through in the face of obstacles in the field of politics and from labor. Deflation must be gone through in France, says Chadenet. He regrets that the elections put an end to the recovery which had begun under Laval, and which brought about the profligate years of Premier Blum and the Popular Front Government.

Reynaud is moving in the proper direction, says Loree. He does not have any more confidence in reflation for the French than for the Americans. Loree is not as pessimistic about the outlook for sterling as is Grant. According to Grant the British economy is in such a state that it is inevitable that there will be a lower pound. The consummation of the Anglo-American Trade Agreement has pleased everybody. However, they realize that the internal situation in the United States must be improved before the United States can greatly increase its purchases abroad, and thereby assist the recovery of other areas.

END SECTION TWO.

WILSON.

EA:LWW

REB

PLAIN

London

Dated November 18, 1938

Rec'd 3 p. m.

Secretary of State,  
Washington.

1331, November 18, 7 p. m.

FOR TREASURY FROM BUTTERWORTHS.

(1) The heavy support for sterling called for in the early part of the week is reflected in the Bank of England's return which showed a contraction in bankers' deposits of £20 million and an expansion in public deposits of £19 million. With a war loan dividend payment in the offing and the increase in public deposits due in part to the uneven incidence of Treasury bill maturities and repayments the British authorities apparently took no steps to ease the situation and money has been comparatively tight with the Treasury bill rate up today to 14S. 11D as compared with 10S. 6D. per cent last week. A further return of £4 million of notes from circulation is also recorded in the bank return with the Reserve at over £49 million.

(2) In view of the recent influence on the exchanges of rumors regarding an exchange clause in the Trade Agreement the following comment from today's city column of the TIMES on the escape clause is of interest: "What

REB

2-1331, From London, Nov. 18, 7p.m.

"What rate one might ask is the yard-stick for this purpose? Is it this week's rate of around 4.70 or does the ineradicable memory of 4.86 still stand for something? Is a depreciation in the dollar to 4.86 to be regarded as seriously as a depreciation in sterling to 4.54? Obviously the negotiators could hardly have had any precisely formulated ideas on the matter. The sanctification of 4.86 grows less bright with the passage of time and if for example the rate were to be held steady in the vicinity of a round figure like 4.70 for a period it might tend to find psychological acceptance as the basic rate for purposes of the agreement."

A similar comment in Einzig's Lombard Street column in FINANCIAL NEWS may also be of interest:

"While from the legal point of view the status of the pound remains unaffected by the Trade Agreement its de facto status will inevitably be affected however in the direction of greater stability. Henceforth it is to be presumed that sterling will be officially supported -- at some sacrifice if need be -- in order to prevent a breakdown of the Trade Agreement as well as the Tripartite Agreement. There is thus an even stronger inducement than

REB

3-1331, From London, Nov. 18, 7p.m.

than before for the exchange equalisation account to check a decline in the sterling-dollar rate.

Nevertheless the level at which the United States authorities expect the exchange equalisation account to maintain sterling has not been determined -- presumably because the United States authorities themselves are not in a position to foresee the degree of depreciation which is likely to cause inconvenience to American trade. Much depends upon changes in the ratio between the British and American price levels. While in normal conditions the Washington authorities probably expect sterling to be maintained at a level not much below the present one they would presumably waive their objection to a further depreciation if there were another international crisis."

(3) The exchange market was relatively quiet with the dollar opening at 4.71 offered and going to 4.71-1/2, but dropping to 4.70 3/4 when New York opened a seller. The British authorities intervened at 4.70 3/4 but withdrew in the late afternoon and the rate dropped to 4.70 3/8.

The franc was steady all day around 178 9/16 with the Bank of France selling sterling at one time at 178.56 and later buying at 178.32.

I sail tonight.

KENNEDY

LPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 18, 1938, 5 p.m.

NO.: 1953

FROM COCHRAN.

Today a luncheon was given by the General Manager (Ardant) and the manager (Chadenet) of Société Générale for Vice President Loree of New York in charge of the foreign business of Guaranty Trust Company. The luncheon was attended by the managers of Guaranty Trust in London and Paris, the Under Governor of the Bank of France, Bizot, and myself.

It was the opinion of the two private French bankers that the Reynaud plan is intelligent and necessary, and if France is to avoid a worse fate, such a plan must be followed. The Bank of France Under Governor recalled that for some time after Poincare's reform measures were introduced in 1926 they met with opposition. Bizot believes that Daladier will win out over the opposition aroused by his decrees provided he will act as strongly as he has indicated is his intention in recent speeches he has made. Bizot said that he would rather see a slow development of confidence than a rapid development which would only be temporary. END SECTION ONE.

WILSON.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: November 19, noon, 1938

NO.: 266

Reference my 261, November 12, 1 p.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange during the week of November 21 for daily quotas and maturities from October 9 to October 16, inclusive.

Please inform Commerce.

SCOTTEN

EA:DJW

NOV 21 1938  
RECEIVED  
COMMERCIAL ATTACHE  
AMERICAN EMBASSY  
RIO DE JANEIRO

November 19, 1938.  
11:30 a.m.

W.O.  
Douglas: Good morning, Mr. Secretary.

HMJr: How are you?

D: Fine.

HMJr: I just wanted to tell you personally, that I appreciate the cooperation between SEC and the Treasury on this transamerica.

D: Well thank you very much.

HMJr: And I signed the letter this morning.

D: Fine.

HMJr: And I meant everything that I said here yesterday.

D: Thank you very much.

HMJr: And if there's any time there's anything that you need in additional, call me personally and you'll get it.

D: Thanks. Thanks very very much.

HMJr: I'll bend the law for you, because I - this is what I call new deal policy.

D: That's right.

HMJr: And we've waited five years too long to put this fellow out of business.

D: That's right.

HMJr: And I just want to let you know anything that you want you call me personally and you'll get it.

D: Thank you. Thank you Mr. Secretary. We want to go to town on this thing.

HMJr: All right. Well, we'll go together.

D: Swell.

HMJr: All right.

D: Thanks very much.

TREASURY DEPARTMENT

293

INTER OFFICE COMMUNICATION

DATE November 21, 1938.

TO Secretary Morgenthau

FROM

Mr. Haas *HAAS*

Attached is a memorandum from Miss Lonigan.

November 19, 1938

To: The Secretary  
From: Miss Lonigan *e.l.*

May I ask that you consider the following position, in connection with your study of government spending and its relation to the business cycle:

That government spending should be not fluctuating, but constant, over the next two years.

That the amount to be spent should be determined at the amount necessary for governmental operations, and that the curve of expected spending month by month be computed and published, and strictly adhered to. If possible an agreement on the course of spending for two fiscal years should be established, and adhered to.

November 10, 1938.  
12:23 p.m.

Operator: Go ahead.

HMJr: Hello.

Louis  
Johnson: Hello.

HMJr: Hello.

J: Good morning Mr. Secretary.

HMJr: How are you?

J: Fine.

HMJr: Good.

J: I'm having this conference with these manufacturers  
just got the last of the fourteen telegrams of  
acceptance a few minutes ago.

HMJr: Yes.

J: At nine o'clock Monday morning.

HMJr: Uh-huh.

J: I wish you'd come over and sit in a while even if you  
have to leave.

HMJr: I don't think I will. I've got - ah - my own job is  
more than big enough for me, and I appreciate your  
invitation and all that, but you see what you can do  
with them.

J: Well you see, one reason I won't be here is the President  
hasn't made this change yet, however he may still do it  
today, and there's more of the kind of stuff I told you  
about the other night going on.

HMJr: Yes.

J: And if you have tried to let him know - let him know  
without saying anything against the fellow over here,  
that this was Presidential stuff. Of course well, I  
can do that -

HMJr: But frankly I/<sup>mean</sup> - I don't want to spread myself any  
thinner than I am, and I - I can't - I just can't  
get around any more.

- 2 -

- J: I see. I know that they're overworking you and you've got a lot of things that aren't yours that you've got to keep a finger on, Mr. Secretary, or they're going to go haywire.
- HMJr: Well now, there's nothing that's more important than to get the country the right aeroplanes and get them promptly, and after you've seen these fellows -
- J: I don't hear you.
- HMJr: After you've seen them and had a talk.
- J: Then I may come over and talk with you.
- HMJr: Absolutely.
- J: Fine.
- HMJr: Absolutely.
- J: And if you're with the Chief and can get him to move today on what he has decided to move on, it will certainly be a great help.
- HMJr: Well I haven't had anything to do for or against any Cabinet change.
- J: (laughter)
- HMJr: No, I want you to know that.
- J: I get your point.
- HMJr: And he has -
- J: And I think it's swell
- HMJr: Now wait a minute, I want you to know that he hasn't asked my advice and I haven't offered it, because there's a lot of gossip around town, and I've refrained from offering my advice and he hasn't asked it.
- J: I think you're right.
- HMJr: So no matter what you may hear one way or the other, he has not asked my advice about any Cabinet changes.
- J: I see.
- HMJr: And I haven't offered it, so -

- 3 -

Well, I agree with that.

HMJr: No, but I want to make it plain because several people have asked me to get in other than the President.

No, I would never have done that.

HMJr: No, not you. Not you. Now wait a minute.

I didn't mean that now.

HMJr: No, no, you misunderstand me Louis.

Yes.

HMJr: Other people.

Oh!

HMJr: Have asked me to get in, who have other candidates.

I see.

HMJr: Who have other candidates for that.

Yes.

HMJr: Now, I have refused them.

I see.

HMJr: That's what I want to make clear.

I get you.

HMJr: See.

Thank you very much.

HMJr: I've refused to get it on either side.

Yes. Well I'll get in touch with you after the meeting.

HMJr: But after the meeting I - if you would care to see me I'd be more than pleased to sit down and get the benefit of what you've heard.

Fine. Thank you very much.

HMJr: You're welcome.

Goodbye.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: November 19, 1938, 3 p.m.

NO.: 870



Cochran is requested by the Secretary of the Treasury to come to Washington for a short consultation. Secretary Morgenthau suggests that he sail on November 28 on the SS QUEEN MARY. The Department approves this if it is agreeable to the Chargé.

HULL.

EA:LWW

November 19, 1938

9 a. m. at the Secretary's home.

Present:

Secretary Morgenthau  
Mr. Chen  
Mr. Chao  
Mr. Lochhead

HM, Jr.: Good morning, Mr. Chen. You are looking better than when I last saw you.

Mr. Chen: Yes. Feeling better. Mr. Chao just arrived last Tuesday and he's Director of National Railways under Minister of Communications.

HM, Jr.: He's the Director?

Mr. Chen: Yes. And he has been working on this road for quite a while.

HM, Jr.: The reason that I asked you to come was, in the first place, for your own very, very confidential information, I want you to know that on Armistice Day, November 11th, at two o'clock, I gave the President those papers, signed, with a recommendation for the loan. So I kept my end of the bargain.

Mr. Chen: Yes.

HM, Jr.: And the trouble is not at the White House, so you can guess where I am having trouble.

Mr. Chen: Yes.

HM, Jr.: But you came in on the night of the 10th and at two o'clock on the 11th I had signed them with my recommendation that the loan be made, but we are having a little trouble somewhere else. So I am doing all I can.

Mr. Chen: Thank you very much.

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HM, Jr: But it's not easy.

Mr. Chen: Yes. I understand.

HM, Jr: And, therefore, when I told the President, that this gentleman, Mr. Chao, was here, he said, "Well, I am so interested in the Burma Road." And then, you see, he had asked me how the trucks were coming along. This was several weeks ago and I said you were not buying any.

Mr. Chen: Yes.

HM, Jr: That you were postponing it.

Mr. Chen: Yes.

HM, Jr: I understood now you wanted to buy some and he seemed much pleased.

Mr. Chen: We were waiting for Mr. Chao.

HM, Jr: I did not know that.

Mr. Chen: To come to this country, because all these motor trucks is under his management. And on the Burma road, he told me, requires about 1200 trucks and we are going to proceed, with your assistance and Capt. Collins to help us, to proceed right away to ask for tender of 1000 trucks. We will spend \$2,000,000 receipts of the sale of silver. We are going to spend that right away and it will equip the Burma road right away with 1000 trucks.

HM, Jr: Mr. Chen, where are you going to land those trucks?

Mr. Chen: Rangoon. Go to Burma.

Mr. Chao: By railway and by Mandalay.

HM, Jr: But they will be landed at ....

Mr. Chao: At Rangoon.

HM, Jr: Will they go from New York?

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Mr. Chao: New York or San Francisco.

HM, Jr: I see. So you will ship them from either New York or San Francisco to Rangoon and then they will go up by railway to Burma?

Mr. Chen: Go to the border.

We have had a very brief memorandum prepared for you on the Burma road.

HM, Jr: Well, that's fine. You see, anything that I can get is helpful to the President, because some of the people are asking "Well, what's the use of landing them this money? They can't get the oil out." You see what I mean?

Mr. Chen: Yes.

HM, Jr: If he has this, it shows yes, they can get the oil out and that's why when I heard Mr. Chao was here, I wanted to see him at once.

Mr. Chen: Yes.

HM, Jr: Who is Collins going to give them?

Mr. Lochhead: Collins is in charge of the automobile -- he's going to take care of them himself.

HM, Jr: Is he going to do it himself?

Mr. Lochhead: Yes. He was over here yesterday. Mr. McReynolds brought him over.

HM, Jr: Collins is going to take care of it?

Mr. Lochhead: Collins will do it himself.

(HM, Jr) Reading map.

All this construction is under you?

Mr. Chao: Yes. This is being done by department of the Government and we send engineers to them.

HM, Jr: Might I ask, are you an engineer?

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Mr. Chao: Yes. I studied in Cornell and was delegate to the 6th International Road Congress in Atlantic City. I know Mr. Thomas MacDonald, chief of Roads, very well. He's friend of mine.

HM, Jr.: Well, you have been all over this road yourself? Have you been down yourself?

Mr. Chao: Not by myself, but all reports have been given to me on the road.

HM, Jr.: You have all the roads and all the engineers. And the railroads too?

Mr. Chao: Railroads, that's another department. I am in charge of Highway Department, Bureau of Highways.

HM, Jr.: I see.

Did you come by air?

Mr. Chao: Yes, by clipper.

HM, Jr.: Had you left Hengkong before Hankow fell?

Mr. Chao: After that.

HM, Jr.: But you were able to get down all right?

Mr. Chao: Yes. We flew without stopping. We came to ~~Wang~~ in night time.

HM, Jr.: This is the best map we have had yet.

Mr. Chao: So far I bring you only the map I have here. I have several engineer maps with me. I want to show you this. This one I worked on last night.

HM, Jr.: The road is through to Lashio?

Mr. Chao: Yes. It is passable.

HM, Jr.: Then how much farther is the road passable?

Mr. Chao: From there to there (pointing at map)

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is railroad from Rangoon.

HM, Jr: So far, nobody has raised the question of munitions going over that road?

Mr. Chen: Not yet. Haven't heard anything about it.

HM, Jr: But this road will be from Siakwan Rangoon?

Mr. Chen: That's right.

HM, Jr: And how many miles is it?

Mr. Chao: 1200 kilometers. 700 miles.

HM, Jr: That is still open?

Mr. Chen: That's still open.

HM, Jr: I saw the French Ambassador last night and I said I understand you are still having commercial traffic and he said, "Oh, yes."

Mr. Chen: For export, no question.

HM, Jr: For export. Now about coming in, import?

Mr. Chen: Commercial, all right. Trucks, I have doubt.

HM, Jr: But of course that road is a very small road anyway.

Mr. Chao: One meter gauge. The capacity for freight carrying is only 140 tons a day.

HM, Jr: Yes, it's a very small.

Now, this is the road to Russia that we have never been able to find out about, huh?

Mr. Loothead: Do you realize that the distance between those two is the same as from New York to San Francisco, up to Russia? Over 5,000 miles.

HM, Jr: Is that so?

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Mr. Lochhead: Yes.

HM, Jr.: How about in the winter time?

Mr. Chao: For winter time, this is not very good.

HM, Jr.: Will you have to be using that this winter?

Mr. Chao: It depends. If it is frozen, it's all right. Rainy weather, some trouble because road bed is mostly of sandy gravel.

HM, Jr.: I see.

Mr. Chao: Yes. Sometimes stops in heavy rains.

HM, Jr.: Have you a memorandum on that?

Mr. Chao: Yes, sir.

HM, Jr.: Well, now, you have 214 on that road, but on this road you have nothing; no trucks?

Mr. Chao: Not, not the whole Burma route. We have more than 400 on this system, the Southwestern.

HM, Jr.: Are all these divisions under you? Or somebody else.

Mr. Chao: We have separate organizations under the Minister of Communications.

HM, Jr.: What you might do, Mr. Chen, for me is, Monday, give me an explanation of just how this system is set up. Whose responsibility? If you could give me a memorandum on that.

Mr. Chen: Yes.

HM, Jr.: I take it that the Minister of Communications is on top and under him are the different departments. Is that right?

Mr. Chao: Yes.

HM, Jr.: If that could be explained in a memorandum. Who is responsible for what.

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Mr. Chao: The organization we are responsible for mostly is engineering work. I am entirely responsible.

HM, Jr: If I could have that, I would like to have that.

Mr. Chen: This is map in Chinese showing profile of Burma road.

HM, Jr: Oh, yes!

Mr. Chen: A part of it.

Mr. Chao: There are 164 big bridges in that section.

HM, Jr: Couldn't one of our engineers copy that into English?

Mr. Chen: We can translate it.

HM, Jr: And give me a copy. I would like to have that if I could. You have people with you?

Mr. Chao: Yes. I have a man with me.

HM, Jr: Now, Mr. Chen, you are going ahead and buy these trucks? You are going to use this new corporation for that or how ....

Mr. Chen: That's what I want to talk with you and, as I understand it, all this purchase in this country should be centralized in this new corporation. That's my understanding.

HM, Jr: Yes.

Mr. Chen: And I would like very much to follow that procedure because probably in future this question of trucks there might be much more, and also some machinery for the repair shops.

HM, Jr: Yes.

Mr. Chen: And also we want to make contact with some technical man too, probably in the future, so it would be good beginning to start ...

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HM, Jr.: I think it would be a good beginning if you could say 'This is the corporation which is doing business here. We have all these trucks and we have bought this through the corporation' and let it be known that that is the central purchasing agency for the Chinese Government.

Mr. Chen: Yes.

HM, Jr.: That all purchases would go through that corporation. Is that your idea?

Mr. Chen: Yes. What I would like to get from you is name of some persons so that we could have a meeting. Then we can elect a general manager. I would like very much to have American manager. Experienced business man who understands purchases so that the Chinese members will help him to make specifications. We would like very much to have American manager head of it so that he can see everything will be carried out properly.

HM, Jr.: I don't know whether they could do it, but if they could get some retired American naval officer who had been in the purchasing department in the Navy and who is retired and who had seen service in China. Somebody like that, you see? A retired naval officer.

Mr. Chen: Yes.

HM, Jr.: I mean retired, but who had known the purchasing end -- or a retired Army officer who had been in the purchasing.

Mr. Lochhead: They need a pretty high caliber man, but at the same time there won't be an awful lot of work.

HM, Jr.: Take a retired naval officer. In the first place, they can get him for much less money, who has had this experience; somebody who has seen service in China, but who had been in the purchasing. Peoples would know some friend of his who had been with him, but who is retired, because they don't want to pay a very big salary and they shouldn't, but they can get

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as good a man for as little money in that way. You know, he has his pension and if you give him a little more than his pension you most likely could get him. You take a retired naval officer -- you have his history for 30 years; his record is all there; somebody you would know all about.

Mr. Chen: Yes.

HM, Jr: You would know all about him and I don't think anybody would object. I should think if Peoples had some friend who is on the retired list who could get a little more than his pension to do this work.

Mr. Chen: This new company will be very important to us in future as work increases so would like to have a good organization here so all purchases would be centralized.

HM, Jr: You will ask for bids on these trucks?

Mr. Chen: Yes.

Mr. Chao: We will send out specifications and compare bids.

Mr. Chen: Suppose we go ahead with these bids just now.

Mr. Lockheed: I don't think they should hold up bids waiting for the set-up of the company.

HM, Jr: No. No. And did I understand you were going to buy some gasoline in this country?

Mr. Chao: Not quite certain yet.

Mr. Chen: We will spend this \$2,000,000.

HM, Jr: You remember, one suggestion the President made -- if you hire any foreign engineers, that it would be very pleasing to him if you would hire American engineers on your roads. If you could get that word to your Minister of Communications that if you are going to hire any foreign engineers for your railroads or highways, we just make the suggestion that you engage

-10-

American engineers.

Mr. Chen: I think we should do that.

HM, Jr: That was the suggestion -- I wouldn't make it -- that came from the President.

Mr. Chen: It came from us.

HM, Jr: But if the Minister of Communications if he is going to hire any foreign engineers, it would be pleasing to us if they were Americans.

Mr. Chen: Yes. Yes. I am sure they will accept this suggestion. Don't you think so, Mr. Chao?

Mr. Chao: Yes.

HM, Jr: We are not saying you need any, but if you need any couldn't they be American engineers? And the other thing, which I am giving to you also in confidence, is that yesterday the President asked me -- to my surprise, he said, Why doesn't the Chinese Government buy some American airplanes?

Mr. Chen: We have received a list for American airplanes, but we are waiting to have the money to do that.

HM, Jr: I see.

Mr. Chen: And we have list calling for over \$100,000,000 worth of ammunitions and airplanes and other things.

HM, Jr: You have such a list?

Mr. Chen: Yes.

HM, Jr: Of things that you need?

Mr. Chen: Yes.

HM, Jr: Those go up over the Burma road?

Mr. Chen: This is what we expect. And the Minister of Foreign Affairs is in Rangoon now to nego-

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tiate with this Rangoon-Burma Government and from the telegram we received it seems there is no question.

HM, Jr: No argument?

Mr. Chen: No argument.

HM, Jr: That's an independent State?

Mr. Chen: Under the protection of the British.

HM, Jr: But under the British?

Mr. Chen: British Government.

HM, Jr: You have such a list?

Mr. Chen: Oh, yes.

HM, Jr: I don't know -- he's leaving Monday night. I am going to see if he will see you before he goes. You are going to be in Washington between now and Monday? I will see. It's very difficult because he is leaving, but I will see if he will see you before he leaves and we will show him this material and then if you had that list as to what you need.

Mr. Chen: Yes.

HM, Jr: In other words, I want to do everything I can to bring it to his attention and give you a chance to bring it to his attention.

Mr. Chen: Thank you.

HM, Jr: I don't make any promises, but I am doing everything I can, Mr. Chen.

Mr. Chen: I know that. I appreciate it very much.

HM, Jr: I am doing everything I can, but I am being blocked. It's very difficult.

Mr. Chen: I hope for China's sake this assistance from American Government, now matter how difficult, will try to make effort to keep this port open, no matter how difficult to try to keep it open.

(Mr. Morgenthau left the room for a few minutes.)

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HM, Jr.: (upon his return to the room) I spoke to the President. I did not know he was leaving tomorrow afternoon instead of Monday, so he says he's very sorry, but I should get everything together and send it to him down to Warm Springs. So Monday we can get all of this together and I will forward the whole thing about the roads, because he asked everybody to explain what is the road to Russa; what's this; what season it is closed, and nobody has been able to tell him until you arrived and we have asked again and again and we have never been able to get this information. So I think by Monday, if we get it altogether, we will send it down.

Mr. Lochhead: And you also wanted to get a list of their needs in this country.

HM, Jr.: That's separate. Let's get it, but we will send it all down. We will send it all down. So you arrange sometime late Monday afternoon to see Mr. Chen and I will go over it with him.

Mr. Chen: Thank you. Thank you.

Federal Surplus Commodities Corporation  
 Summary of Commodities Procured -  
 Fiscal Year 1938 and Fiscal Year 1939 to Date

(Figures in thousands)

Commodity	Unit	Total Fiscal Year ended 6/30/38	7/1/38:7/1/38		7/14/38:7/21/38		7/28/38:8/4/38		8/11/38:8/18/38		8/25/38:9/1/38		9/8/38:9/15/38		9/22/38:9/29/38		10/6/38:10/13/38		10/20/38:10/27/38		10/31/38:11/7/38		11/14/38:11/21/38		11/28/38:12/5/38		Total Fiscal Year ended 12/31/39
			to 7/1/38	to 7/14/38	to 7/21/38	to 7/28/38	to 8/4/38	to 8/11/38	to 8/18/38	to 8/25/38	to 9/1/38	to 9/8/38	to 9/15/38	to 9/22/38	to 9/29/38	to 10/6/38	to 10/13/38	to 10/20/38	to 10/27/38	to 10/31/38	to 11/7/38	to 11/14/38	to 11/21/38	to 11/28/38	to 12/5/38		
Apples (dried)	Pounds	16,557																									16,557
Apples (fresh)	Bushels	5,655																									5,655
Artichoke (dried)	Pounds	2,950																									2,950
Beans (dried)	Pounds	56,800																									56,800
Beans (canned)	Bushels	33																									33
Berries (fresh)	Bushels	11																									11
Blackberries (canned)	Cases	7																									7
Butter	Pounds	15,035																									15,035
Butter	Pounds	290																									290
Case Apples	Gallons	257																									257
Corn	Bushels																										
Corn	Dries																										
Corn	Bushels	1,174																									1,174
Corn (whole wheat)	Sacks	400																									400
Corn	Pounds	3,446																									3,446
Corn	Sacks																										
Corn	Bales																										
Cotton	Bales	1,131																									1,131
Cotton	Bales	9,760																									9,760
Cotton	Cases	270																									270
Corn	Pounds	3,677																									3,677
Corn	Barrels	2,099																									2,099
Corn	Boxes	401																									401
Corn	Cases	552																									552
Corn	Tons	8																									8
Corn	Labels																										
Corn	Yards																										
Corn	Pounds	21,520																									21,520
Corn	Quarts	12,497																									12,497
Corn	Pounds	3,000																									3,000
Corn	Boxes	1,212																									1,212
Corn	Bags	21,825																									21,825
Corn	Pounds	2,534																									2,534
Corn	Bushels	5																									5
Corn	Boxes	318																									318
Corn	Cases	662																									662
Corn	Pounds	8,000																									8,000
Corn	Bushels																										
Corn	Bushels	440																									440
Corn	Bushels	4,315																									4,315
Corn	Pounds	2,562																									2,562
Corn	Tons	55																									55
Corn	Bushels	19																									19
Corn	Tons	73,190																									73,190
Corn	Pounds	3,500																									3,500
Corn	Cases	50																									50
Corn	Bushels	282																									282

Source: Department, Division of Research and Statistics.

November 19, 1938

\* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unverified.  
 Fiscal year 1938 totals have been revised to include all contract cancellations and other adjustments.

TREASURY DEPARTMENT  
Office of the Secretary  
Secret Service Division

312

MEMORANDUM

November 19, 1938

To: Mrs. Klotz  
From: Chief Wilson

We are informed that the  
Presidential party will leave  
Washington, D. C., at 5 p.m.  
Sunday, November 20, as pre-  
viously scheduled.

November 19, 1938

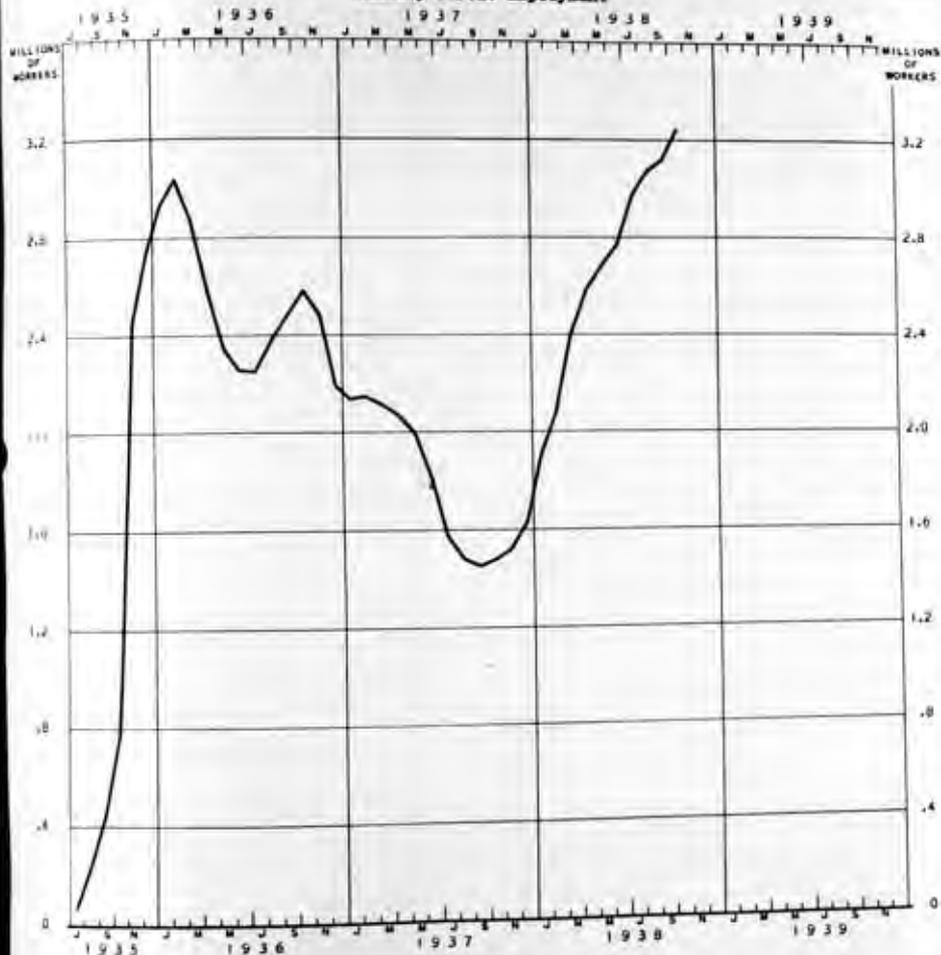
To: The Secretary  
From: Miss Lonigan *et al.*

*ML*  
The total number of WPA workers on November 12, 1938 is 3,257,437.

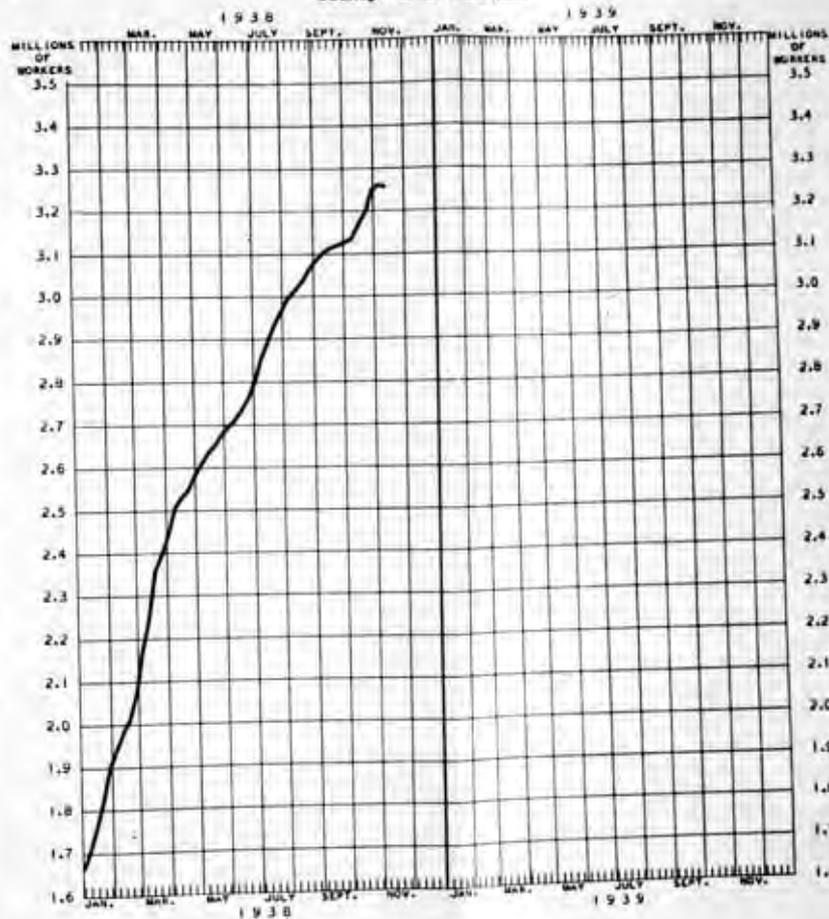
The first decrease since October 2, 1937 appeared this week and amounted to 5,189 workers from November 5 to November 12.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

## WORKS PROGRESS ADMINISTRATION

315

## Number of Workers Employed - Weekly

## United States

Week ending 1938	Number of Workers (In thousands)
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,445
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,582
May 7	2,608
May 14	2,626
May 21	2,652
May 28	2,678
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,257 <sup>a/</sup>

Source: Works Progress Administration  
a/ Confidential

## WORKS PROGRESS ADMINISTRATION

316

Number of Workers Employed - Monthly  
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,376
September	2,482
October	2,581
November	2,482
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245 <sup>a/</sup>

Source: Works Progress Administration  
<sup>a/</sup> Confidential  
 Monthly figures are weekly figures for the  
 latest week of the month.  
 They include certified and non-certified  
 workers.

Secretary Morgenthau:

317

As per your instructions, one copy has been sent to Mr. Hanes, Mr. Taylor and Mr. Oliphant. They were marked "Confidential".

MCH

Nov. 21/38



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 611.6231/1070

November 19, 1938

My dear Mr. Secretary:

I refer to your letter of October 31, 1938 stating that recent information coming to the Treasury Department, indicating that practices in connection with exports from Germany to the United States involve subsidies that require action under section 303 of the Tariff Act of 1930, has led the Treasury Department to inquire into current procedures and reexamine the whole matter and inviting such comment as I may care to make upon the memorandum enclosed with your letter.

This question has been given the most careful consideration in the Department and was laid before the Executive Committee on Commercial Policy at its meeting on November 9. The question which is presented involves two major aspects: (1) whether, under the facts, action under section 303 is required as a result of the procedures in question and (2) questions of commercial policy.

Whether

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

-2-

Whether the procedures described in the memorandum attached to your letter constitute a bounty or grant within the meaning of section 303 of the Tariff Act of 1930 is, of course, a question for determination by the appropriate legal authorities. It will be recalled that in 1938 when countervailing duty action was taken in connection with certain imports from Germany, the Treasury Department decided to request the opinion of the Attorney General as well as that of its own legal staff before taking action.

With regard to questions of policy I believe you will recognize that countervailing duty action affecting a considerable part of imports into the United States from Germany cannot fail to have important reactions upon German - American relations. In this connection there may be cited the probable further reduction of the already reduced exports of cotton to Germany and the possible intensification of German competition with American products in third markets. In view of recent and current events it is also to be anticipated that political interpretations would be placed upon action under section 303. I might also point out that this action at this time might possibly affect the prospective

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- 3 -

tive attempt of the Intergovernmental Committee on Political Refugees to secure German cooperation looking towards the facilitation of the emigration of refugees from Germany - though I may say that the prospects of such facilitation at the present moment are distinctly uncertain.

These questions of policy are being further examined by a subcommittee of the Executive Committee on Commercial Policy and as soon as their study is completed I should like to transmit to you more detailed comment thereon.

You will also recall that in 1936 the German Government was advised by this Government, upon approval by the Treasury Department, that the Treasury Department was inclined to the view that trade procedures like or similar to those now in question would not be in violation of section 303 of the Tariff Act of 1930 and therefore would not require the imposition of countervailing duties. In view of this fact I am sure you will agree that, if it is determined that it is necessary now to take action under section 303, advance information should be given to the German Government and that Government should be given an opportunity to abandon the procedures under discussion.

Sincerely yours,



TREASURY DEPARTMENT

321

INTER OFFICE COMMUNICATION

DATE NOV 23 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

Countervailing Duties on German Imports

There is attached hereto the following:

1. Proposed letter to the Secretary of State. Attached to this is your letter of October 31, 1938, addressed to the Secretary of State, together with the memorandum of law referred to therein.
2. Proposed letter to the President. Attached to this letter are the memorandum of law above referred to and a copy of Secretary Hull's letter to you dated November 19, 1938.
3. Proposed Treasury Decision. You will note that the proposed Treasury Decision allows 30 days notice. This is provided for in this class of cases by legislation enacted last session. Such 30 days runs from the date the proposed decision is published in the Treasury Decisions. Therefore, by giving it out, but delaying such publication, the period of grace could be extended.

*Herman Oliphant*



THE SECRETARY OF THE TREASURY  
WASHINGTON

My dear Mr. Secretary:

I have your reply of November 19, 1938, to my letter of October 31, 1938, with respect to practices in connection with exports from Germany to the United States involving subsidies that seem to require the application of countervailing duties under Section 303 of the Tariff Act of 1930.

As you state, the question whether the procedures described in the memorandum attached to my letter of October 31, 1938, constitute a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930 is a question for determination by the appropriate legal authorities. In line with your suggestion and as I did in 1936, I shall, before acting, bring the matter to the President's attention and suggest he consider whether he desires to place the legal questions involved before the Attorney General.

I am aware of the importance of the considerations of policy referred to in your letter, but, I know you will agree with me that, the legal duties of the Secretary of the Treasury in this matter having been determined, I am not at liberty to disregard them for reasons of policy or convenience. The results of your Department's further study of the questions of policy you outline will, I am sure, be most useful in other connections, and I appreciate your purpose to make them available to me.

- 2 -

If action under Section 303 is determined to be necessary, I perceive no objection to your suggestion that advance information be given to the German Government, in order to afford that Government an opportunity to abandon the procedures in question.

Sincerely yours,

Secretary

The Honorable

The Secretary of the Department of State

October 31, 1938

My dear Mr. Secretary:

Recent information coming to the Treasury Department from responsible quarters, indicating that practices in connection with exports from Germany to the United States involve subsidies that require the application of countervailing duties under section 303 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1303) has led the Treasury Department to inquire into current procedures and reexamine the whole matter.

The present stage of this examination is set forth in the enclosed memorandum, which is submitted to you at this time for any comment you may care to make.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

The Honorable

The Secretary of State

Enclosure

Typed in final form 10/29/38 s

(COPY)

MEMORANDUM

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Under current regulations of German governmental authorities, the importation of substantial amounts of many German products into the United States has come to be financed through the medium of so-called "barter" arrangements. The essential features of all these arrangements as set forth in Special Circular No. 425, issued by the United States Department of Commerce on July 15, 1938, and other reliable information before the Treasury Department, are:

(1) The prospective American importer of German goods "buys" one of a limited number of kinds of merchandise (cotton or copper in most, if not all, cases) for dollars at the world price. The kind of merchandise to be admitted into Germany for the purpose of the "barter" must be approved by the German import control authorities, and such approval is strictly limited to a very few kinds of goods.

(2) The merchandise is shipped into Germany, having theretofore been sold to a German purchaser for free marks (which, as appears below, are immediately blocked) at a price substantially higher than the mark equivalent of the total cost to the vendor, if such cost is calculated at the current official rate of exchange. This spread or "uberpreis" (over-price) is uniformly 33-1/3% in the case of cotton. It has been less uniform but usually greater in amount in the case of copper. In every case the price to be paid by the German vendee must receive

prior approval by the German import control authorities.

(5) The marks paid by the German vendee are required to be paid into special accounts in German banks, where, as mentioned above, they are held as "blocked" or controlled funds for the account of the prospective American importer mentioned above.

(4) Whatever the formal limitations upon the use of such controlled funds by their American owner may be, their only practical use is in payment for German goods to be shipped to the United States. The kinds of goods for which such payment may be made are restricted to those set forth in detail in a list published by the German exchange control authorities on July 19, 1938. Excluded from this list are, in general:

(a) Articles and commodities in which Germany has a virtual international monopoly to such extent that their export at the current high German prices requires no assistance.

(b) Goods of which there is a shortage in Germany so that their export is not favored by the German Government.

(c) Goods composed of foreign materials to such a large extent that their export is objectionable to the German Government because of the drain on

Germany's foreign balances which would result from the purchase of the materials used in their manufacture.

The net result of the above described system would seem to be that, to those who avail themselves of it, the grant of a valuable privilege is being bestowed by the German Government in connection with the exportation from Germany to the United States of the selected kinds of merchandise enumerated in the above mentioned list. It appears that, by restricting imports, fixing import prices, regulating the method of paying for imports, and controlling the disposition of the proceeds of payment, the regulatory system of the German Government has provided a means whereby commodities (cotton and copper) suitable for the purpose may be used as a special medium of exchange for converting dollars into marks on the basis of an assured premium of marks, on condition that the total marks received, including the premium, be used for the purchase of the listed goods to be exported from Germany to the United States.

The purposes and underlying causes of the regulatory system appear to be immaterial. If the result of the system is to benefit exports in an amount which may be determined or estimated and in such manner that the goods may be sold to the United States for less than would otherwise be possible, it seems clear that there is a bounty or grant within the meaning of our countervailing duty law. The features of the system which give to the American importer certainty as to the premium rate at which his dollars will be converted into marks by the use of cotton or copper as an intermediate and special medium of

exchange, and those features which restrict the use of the enhanced mark proceeds of the exchange transaction, would seem to preclude a conclusion that the premium created in the form of marks to be used for promoting exports is a profit on the sale of the cotton or copper in Germany by the American importer, rather than a subsidy on the export of German goods.

Since the usual and ordinary result of the system in its current operation seems to be the payment or bestowal of a bounty or grant upon the export of German merchandise in the form of an assured sum in marks for the German exporter in addition to the equivalent of the investment made by the American importer in transactions directed solely to payment for the German goods, it would seem clear that such goods which are dutiable under the Tariff Act of 1930 are subject to countervailing duties under section 303 of that Act (U.S.C., title 19, sec. 1303) in the amount of the premium. Downs v. United States, (1903) 187 U.S. 496; Nicholas v. United States, (1919) 249 U.S. 34; (1936) 38 Op. Atty. Gen. 489



THE SECRETARY OF THE TREASURY  
WASHINGTON

329

My dear Mr. President:

By letter dated April 16, 1936, I advised you that I had before me a Treasury Decision giving notice of the imposition of countervailing duties on certain imports from Germany under Section 303 of the Tariff Act of 1930. You will recall that you referred the matter to the Attorney General for an opinion, and that on June 2, 1936, he concurred in the ruling of the General Counsel for the Treasury Department that the Treasury Decision proposed to be issued was dictated by the requirements of Section 303 of the Tariff Act of 1930, and that its form was appropriate to carry out the mandate of that statute.

I now have before me for my signature a new Treasury Decision giving notice of the imposition of countervailing duties on certain imports from Germany under Section 303 of the Tariff Act of 1930. The General Counsel for the Treasury Department has approved this decision. I am attaching a copy of the proposed Treasury Decision, together with a memorandum of the General Counsel concluding that dutiable German merchandise imported into the United States in accordance with the practices therein described are subject to countervailing duties under Section 303.

This Section, you will recall, vests no discretion in anyone. In view of its requirements and of the facts now before me, I am

satisfied that there is no alternative to the imposition of the counter-vailing duties. However, I conceive it my duty, as on the previous occasion, to bring the matter to your attention before acting, particularly since Secretary Hull, in a letter dated November 19, 1938, copy of which is enclosed, has mentioned several considerations of policy and observes that the opinion of the Attorney General was requested before action was taken in the 1936 case.

Faithfully,

The President

The White House

COPY

331 (2)

DEPARTMENT OF STATE

Washington

In reply refer to  
EA 611.6231/1070

November 19, 1938.

My dear Mr. Secretary:

I refer to your letter of October 31, 1938 stating that recent information coming to the Treasury Department, indicating that practices in connection with exports from Germany to the United States involve subsidies that require action under section 303 of the Tariff Act of 1930, has led the Treasury Department to inquire into current procedures and reexamine the whole matter and inviting such comment as I may care to make upon the memorandum enclosed with your letter.

This question has been given the most careful consideration in the Department and was laid before the Executive Committee on Commercial Policy at its meeting on November 9. The question which is presented involves two major aspects: (1) whether, under the facts, action under section 303 is required as a result of the procedures in question and (2) questions of commercial policy.

Whether

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury.

Whether the procedures described in the memorandum attached to your letter constitute a bounty or grant within the meaning of section 303 of the Tariff Act of 1930 is, of course, a question for determination by the appropriate legal authorities. It will be recalled that in 1936 when countervailing duty action was taken in connection with certain imports from Germany, the Treasury Department decided to request the opinion of the Attorney General as well as that of its own legal staff before taking action.

With regard to questions of policy I believe you will recognize that countervailing duty action affecting a considerable part of imports into the United States from Germany cannot fail to have important reactions upon German - American relations. In this connection there may be cited the probable further reduction of the already reduced exports of cotton to Germany and the possible intensification of German competition with American products in third markets. In view of recent and current events it is also to be anticipated that political interpretations would be placed upon action under section 303. I might also point out that this action at this time might possibly affect the prospective

tive attempt of the Intergovernmental Committee on Political Refugees to secure German cooperation looking towards the facilitation of the emigration of refugees from Germany - though I may say that the prospects of such facilitation at the present moment are distinctly uncertain.

These questions of policy are being further examined by a subcommittee of the Executive Committee on Commercial Policy and as soon as their study is completed I should like to transmit to you more detailed comment thereon.

You will also recall that in 1936 the German Government was advised by this Government, upon approval by the Treasury Department, that the Treasury Department was inclined to the view that trade procedures like or similar to those now in question would not be in violation of section 303 of the Tariff Act of 1930 and therefore would not require the imposition of countervailing duties. In view of this fact I am sure you will agree that, if it is determined that it is necessary now to take action under section 303, advance information should be given to the German Government and that Government should be given an opportunity to abandon the procedures under discussion.

Sincerely yours,

(Signed) Cordell Hull

COUNTERVAILING DUTIES ON IMPORTS FROM GERMANY

Notice of countervailing duties to be imposed under Section 303, Tariff Act of 1930, by reason of the payment or bestowal of a bounty or grant upon the exportation of certain goods from Germany. Collectors of Customs instructed to suspend liquidation of entries covering dutiable imports from Germany and to collect estimated additional duties in certain cases.

Treasury Department  
Office of the Commissioner of Customs  
Washington, D. C.

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

The Bureau is in receipt of information concerning the operation of so-called "barter" transactions through which the importation into the United States of merchandise from Germany is financed by means of premium prices for certain products, particularly cotton and copper, which satisfies the Bureau that such transactions involve the payment or bestowal of bounties or grants within the meaning of Section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303).

Accordingly, notice is hereby given that dutiable merchandise imported directly or indirectly from Germany, which has been or shall be acquired by or through the disposal of other <sup>merchandise</sup> goods on a premium basis (regardless of the character of such other <sup>merchandise</sup> goods or of the method or means of such disposal), if entered for consumption or withdrawn from warehouse for consumption after the expiration of thirty days after the publication of this decision in a weekly issue of TREASURY DECISIONS, will be subject to the payment of countervailing duties equal to the net amount of any bounty or grant determined or estimated

to have been paid or bestowed upon its exportation from Germany.

Upon the entry for consumption or withdrawal from warehouse for consumption, on or after the effective date of this notice of dutiable merchandise imported directly or indirectly from Germany, there shall be collected in addition to any other duties estimated or determined to be due, estimated countervailing duties at the rate of 25 per centum of the invoice value. The liquidation of entries covering such merchandise shall be suspended and the facts concerning the manner of payment for the goods shall be reported promptly and in full to the Bureau.

Commissioner of Customs

APPROVED:

Secretary of the Treasury