

NEWS LETTER ON PARAGUAY
 Charles A. Thomson
 Foreign Policy Association

Confidential
 Not for Publication.

Buenos Aires
 October 10, 1938

Thanks to the kindness of Ambassador Spruille Braden, I have just witnessed the signing of the Chaco arbitral award, which definitely fixes the boundary between Bolivia and Paraguay. The ceremony was held under the white and gold magnificence of the "salon de honor" in the Argentine Foreign Office. Thus, the road to the long-sought peace is finally free of the last serious hurdle. In passing, I might say that informed opinion generally accords Spruille Braden major credit for the successful conclusion which has happily crowned three years of delicate and arduous negotiations.

During my recent visit to Paraguay, I found that country ready to welcome the Chaco peace. The overwhelmingly favorable majority in the plebiscite of August 10 surprised even the most experienced political observers. Geronimo Zubizarreta, the Liberal leader who had refused to sign the pact, found no support for his intransigent position. The voting in the plebiscite seems to have been essentially fair; it is reported that the government was prepared to use pressure to secure a favorable result, but found that such intervention would be superfluous. Opponents of the peace terms had criticized most the failure to give Paraguay any share in the alleged petroleum wealth along the western edge of the Chaco. Their chief complaint against the plebiscite was that its phrasing was loaded in favor of an affirmative vote. But they now appear willing to accept the popular decision, and declare that Paraguay will loyally abide by the peace terms and that no subsequent government will question their validity.

The war has made the army the dominant factor in the country. In the past, two major parties disputed control of Paraguay. At the end of the disastrous Five Year's War with Argentina, Brazil and Uruguay, a group of generals organized the Partido Nacional Republicano, known as the Colorados. This party ruled for 34 years, from 1870 to 1904. Meanwhile, civilian elements had formed the Liberal Party, and this group, although plagued at times by factional strife, dominated the political scene from 1904 to 1936. Foreign observers report that the Liberals are more blessed with able and intelligent leaders than their traditional opponents.

In February 1936 the Liberal president, Dr. Eusebio Ayala, who had served throughout the war, was overthrown by Colonel Rafael Franco. The Franco movement was backed by restive ex-service men - demobilized after fighting ended with the armistice

of June 1935 - by labor unions and by some students. These elements considered the old parties discredited and sought a new political and economic alignment. Moreover, Ayala's position had been weakened, due to fears that he sought a second term, and to the jealousy excited among military leaders by the special favors heaped on General Estigarribia. Franco's regime made some efforts at land distribution and put on the books several pieces of social legislation, including establishment of a National Department of Labor, with power to settle industrial disputes. But politically his administration was a hybrid. Juan Stefanich, the leading figure in the cabinet, was credited with semi-fascist ideas and a nationalism which would return Paraguay to the dictatorial traditions of its first half century as a nation. Labor and the students, on the other hand, had been influenced by communist and socialist ideas. Franco failed to get his dissident supporters to pull together, despite efforts to unite them in a new party. He also proved unable to hold the entire support of the army - whose war-time leader, General Estigarribia, he had imprisoned - or to enlist the backing of the more solid and conservative civilian leaders. His government was overturned in August 1937 by certain army officers, in alliance with the Liberal politicians.

A provisional regime, headed by Felix Faiva, a professor, was set up. But the civilians in the present government are described as substantially "messenger boys" for the army officers, who hold the actual reins of power. Four men particularly stand out: Colonel Ramon Paredes, a shrewd politician in uniform who occupies the ranking cabinet post of Minister of the Interior; Colonel Antola, commander-in-chief of the army; Major Arturo Bray, half-English in blood, who fought with Britain's forces during the World War, and who now is Chief of Police of Asuncion; and Major Sosa Valdes, commander of three cavalry regiments. All of these men are under 45 years of age. Their rule is in effect a military dictatorship, which justifies itself on the ground that Paraguay needs above all order and tranquillity. The press is closely censored, and offending newspapers suspended. Many of the most important opposition leaders are in exile. The relation of this reigning quartette to General Estigarribia is not entirely clear. Some observers believe that the "Four Horsemen" prefer to keep Estigarribia in his present post in Washington, fearing that if he returns to Paraguay, they will be eclipsed. Some sentiment exists in the country for establishment of a strong national government, with Estigarribia at the head. On the other hand, it is reported that Estigarribia himself would prefer not to take office during this transitional period.

Army leaders declare that Paraguay is fundamentally a democratic country, and that their rule is temporary. Congressional elections were held on September 25th. The Colorados withdrew

from the contest on August 31, charging lack of guarantees and official pressure in favor of the liberals. In consequence, the liberals had no opposition and captured all seats in both houses. Paraguay has a compulsory voting law, so the Colorados cast blank ballots at the polls, whose number was reported to approximate 30% of the total 125,000 votes cast. Despite this none too encouraging venture toward democratic "normalcy", hopes are expressed that the convening of congress will permit civilian influences gradually to reassert themselves, and that the process will be continued by presidential elections next March. On the other hand, some military leader may upset the apple-cart by another attempt at dictatorship. The army, which is believed to number around 16,000 men, still consumes from 60 to 80 percent of the government budget. The country's economic situation may decide the issue between democracy and dictatorship.

Paraguay came out of the Chaco conflict with increased economic strains; and this despite the fact that it fought the modern world's most economical war. Paraguay ended the struggle without any major increase in its foreign debt, which now stands at 600,000 pounds sterling -- for a nation of less than 1,000,000 people. Bankers estimate that the internal debt does not exceed 13,000,000 gold pesos (or about \$9,000,000.). Service on the foreign debt was suspended during the conflict, but both interest and amortization payments have since been resumed. Food was not rationed; agricultural production was markedly increased. Paraguay now imposes no quotas on imports and only partial exchange control. Government salaries are paid up to date. During the struggle the common soldier was paid at the rate of one Paraguayan peso a day, and the total per diem cost per man, including supplies and food as well as pay, did not exceed, according to the Minister of War, nine Paraguayan pesos. (The Paraguayan peso is now quoted at 70 to the Argentine peso, or approximately 280 to the dollar.)

How did Paraguay carry on its war-time financing. In addition to using its small gold reserve, it requisitioned the great bulk of foreign exchange accruing from exports, paying exporters its equivalent in paper pesos. With this exchange it purchased what supplies were imported. The paper pesos were of course the product of the printing press, and the result was serious inflation, the peso declining from 19 to the Argentine peso to a ratio of 90, before recovering to the present ratio of 70. Moreover, the Government requisitioned annually from cattle-growers some seven or eight percent of their herds, paying them in script, which subsequently has been exchanged for gold peso bonds, and was included in the figure for the internal debt just mentioned.

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Local banks and business houses also made relatively small loans, which in great part are reported to have been repaid.

Outside purchases of military supplies were out to a minimum. Paraguayan leaders declare that the country started the war with an army of 3,000 men, of whom only 1,000 were in the Chaco. (Some informed sources, however, raise the 3,000 figure to 8,000.) It had at the finish 80,000 to 100,000 men, but never any more than 26,000 in the front line. Officials state that foreign purchases were principally rifle and machine-gun ammunition, some artillery ammunition, and a few planes, with ten the maximum number in active service at any one time. They assert that Paraguay imported no artillery, no hand-grenades, no airplane bombs. Supplies of the last two items were supplied by a domestic war industry. The hand-grenade became a very important weapon, the soldier often preferring it to the rifle; production started at the rate of 30 a day and finished at the rate of 130 an hour. Truck bodies at the start were turned out at the rate of one every seven days; at the end seven per hour. But the Paraguayans assert that their best source of supplies was Bolivia, and that at the end of the war 80 percent of their armament had been captured from the enemy, including 40,000 rifles. They started the war with 44 pieces of artillery and finished with 66; yet, General Estigarribia told me that for months at a time the artillery was silent for lack of ammunition.

Paraguayan leaders are also united in denying that they received any large-scale aid from Argentina. They assert that the Buenos Aires government facilitated them no loan (although there were some short-terms transactions with Argentine banks), or supplied them with any munitions. However, when the League embargo was on, Argentine officials are reported to have shut their eyes to transit of European shipments up the Parana River. The Paraguayan army included a so-called Argentine regiment, but this was recruited in the Argentine province of Formosa, which is largely populated by Paraguayans. An Argentine military mission was stationed at Asuncion when the war broke out, but this was promptly withdrawn. The Paraguayan army had the help of a few foreign officers, including a number of White Russians, but only a handful of Argentines. These Paraguayan denials, however, have not served to convince some foreign observers of the entire absence of Argentine assistance. Proof of this cooperation is lacking, but suspicion lingers. I pass these facts and figures on to you, for what they are worth in our present state of knowledge.

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It is largely true that Paraguay is a country of no statistics and few definite facts. What you learn is always approximate, mas o menos, more or less. Written sources are few, and verbal statements need to be checked and re-checked. For example, take the rise in the cost of living which the Chaco War and inflation have brought to Paraguay. A leading lawyer told me that since 1932 it had gone up three times, reporting that he had to send his servant to market with 600 Paraguayan pesos now instead of 200. Then I came upon the manager of a foreign bank wrestling in his office with a sheet of prices; the salary of his Paraguayan employees shifts with the price level. He ventured with some caution that the cost of living had gone up between 300 and 400 percent. Then I talked with a group at the National Confederation of Labor who asserted that the rise was 600 percent. I put it down as a Paraguayan fact that the increase had been at least three-fold.

But wages have lagged behind, and consequently there is some ground for discontent. The common laborer in town makes about 150 Paraguayan pesos a day, in the country about 100 (respectively 50 and 35 cents in U.S. currency). Wage figures furnished by labor leaders indicate a general rise of from 200 to 250 percent from 1932 to the present. The labor movement claims some 25,000 members. The strongest unions are found among the port workers and in building construction, packing houses, textile and shoe factories, and on the railroads and street-cars. In 1931 the labor unions were dissolved by the Guggiari government, but with the accession of Colonel Franco in 1936, they came out again into the open; the National Confederation of Labor was formed, and some gains were made. Leaders now advocate a moderate policy and "democratic" tendencies, and play down socialist and communist ideas, which in the past had won some ground.

Nonetheless, the danger of "communism" is cited by the military as justification for the present dictatorial government. It serves equally well those Paraguayans -- chiefly army officers and war veterans -- who think of themselves as fascist, and who organized the "Frente de Guerra". One colonel told me, "The officers are fascist principally because they are opposed to communism, which is the worst type of dictatorship; and in the past communist ideas have been strong among the masses." The "Frente de Guerra" has attacked both old parties, criticizes "sloppy" democracy, and argues for nationalism and dictatorship. Opinions differ widely as to how much real influence it has. Aside from the "Frente," it does not appear that Nazi and fascist influences have made much

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dent. Some of the newspapers carry Italian and German propaganda; both nationalities run schools in Asuncion, but chiefly for their own children, rather than the Paraguayans. The Franco government ordered 36 airplanes from Italy — Caproni bombers and Fiat fighters. The first shipment recently reached Asuncion, but has been held in the customs until Paraguay was ready to make payment. But now that the Chaco war is over, the government does not need the planes, and is reported to be shopping around to find a customer for these unwanted goods.

The most interesting foreign influence in Paraguay is that of Argentina. There is no doubt that this "backwoods" republic, which has been frontier country for three centuries, falls within Argentina's economic empire. But this is not due primarily to heavy investments of Buenos Aires capital. Argentines are the largest landholders in the Chaco, but at that the worth of their vast tracts probably does not exceed \$5,000,000. Argentine capital is also reported in the railroads, and in the street-cars of the capital. It also controls the Mihanovitch line, owning the most important steamer fleet which links Asuncion with Buenos Aires. And it is through control of communications that Argentina has what some Paraguayans feel is a strangle-hold on their economic life. For most of Paraguay's foreign trade goes down the river, the greater part of it on Mihanovitch boats, and much of it is transhipped at Buenos Aires. If Argentina closes its ports, as happened a year ago when yellow fever was reported in Paraguay, this inland republic is cut off from the world. Hence, the authorities at Asuncion are playing with the idea of an outlet through Brazil, either by a road via Iguassu to open up to tourist traffic the famous falls there; or by extending the Concepcion-Horqueta railroad line to the northeast to meet a similar projected line on the Brazilian side. But appealing as these projects look on the map, their economic utility is highly dubious. I must, however, say a word for the Iguassu Falls, which the guidebook reports are higher than Niagara and half again as wide. I flew over them on my way from Sao Paulo to Asuncion, and they are worth going a long way to see.

In addition to military dominance and some economic dislocation, the war has bequeathed Paraguay a new outlook on the future. Captain Bozzano, Minister of War and graduate of M.I.T. at Boston said to me: "Now a shadow of thirty years has been lifted. In the past we have had our thoughts centered on a war which we knew we would have to fight sometime. But now we can look ahead to constructive endeavors." A professor reviewing the results of the

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war declared: "It changed our national morale from that of a defeated nation which believed it could do nothing -- the heritage of the Five Years War -- to that of a victorious people with growing assurance and self-confidence." Paraguay is talking of reconstruction. It recognized it has to start almost from scratch. In a conversation with ex-President Ayala here in Buenos Aires, he told me that a 1935 survey of Paraguay's 130,000 farmers revealed that they possessed only 5,000 steel plows. The seed commonly used is old and run down. New seed, new implements would multiply production and economic wealth. Given peace and the help of a little foreign capital, Paraguay's leaders hope that they face toward a future of growth and promise.

November 28, 1938.

Dear Mr. Duell:

It was very good of you to send me the copies of the private letters from Mr. Charles Thomson, a member of your staff. I have been most interested in reading these and appreciate your sending them.

Sincerely,

Mr. Raymond L. Duell,
President, Foreign Policy Association,
8 West 40th Street,
New York, New York.

GRF/dbs

November 28, 1938.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE: November 21, 1938

TO Secretary Morgenthau

FROM M. A. Harris
W. Hadley

Cash Position of Life Insurance Companies

As of August 31, 1938 (the latest date for which cash figures are available) the Association of Life Insurance Presidents, representing 37 companies and about 85% of life insurance company resources, reported a cash position of \$803 million. The cash position of all life insurance companies at that time was estimated to be approximately \$940 million.

At the present time, with estimates around the street ranging from \$700 million upwards as to life insurance company cash, it is reasonable to believe that the cash position is now somewhat lower than the August 31 figures. Just how much reduction has taken place is not determinable. Life insurance company purchases of government securities alone since that date have totaled about \$110 million and purchases of other securities have been over \$450 million. However, only a small part of these purchases may have been in excess of net cash receipts and maturing policies and investments.

The August 31 figures of \$803 million for the 37 companies approached the all time high of \$824 million reached in November 1936 but which dropped to \$600 million during December 1936. The lowest amount in the last few years was \$577 million in April 1937 following the severe decline of government security prices during March 1937. Large cash holdings have characterized recent years compared with the cash positions of earlier years. In December 1930 and 1931 the figures were \$99 million and \$130 million respectively.

Recent Offerings and Present Status

of the New Issue Market

The only new offering in recent weeks that has in any way been sticky is the Argentine Republic issue. Mr. Matteson tells me that it is being slowly absorbed and that according to his check-up of the market it is the only issue remaining completely unsold. He further stated that dealers are not alarmed over the reception accorded this offering.

There have been no large corporate offerings so far this month and the only two sizeable offerings were the above Argentine issue (25 millions) and the Canadian Government issue (40 millions). However, a number of companies have filed registration statements for new issues. The more important of these are listed below:

1. The United Securities Company of Missouri (an investment trust) covering \$15,000,000 of investment certificates and \$10,000,000 of United fund trust certificates.
2. The North American Company covering 775,000 shares of common stock without par value. Total offering \$23,250,000.
3. The Union Electric Company of Missouri covering \$14,300,000 issue of \$5 preferred stock.
4. The Affiliated Fund, Incorporated covering \$4,000,000 4-1/2% 10-year debentures and 1,905,000 shares of common stock. Total offering \$10,519,000.
5. The Central Illinois Public Service Company covering \$38,000,000 of 3-3/4% first mortgage bonds and \$10,000,000 of 3-1/2 to 4% serial debentures.

Also, two convertible issues are on file. These are expected to be offered before the end of the month to stockholders and if any remain unsubscribed they will not be offered publicly before the middle of December. These issues are \$25,300,000 Commonwealth Edison and \$21,071,600 Continental Oil debentures. It is quite likely that stock-

holders will take up the great bulk of both of these issues.

The Commonwealth Edison Company has also arranged to place privately in the near future \$34,000,000 of first mortgage bonds with a few insurance companies.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 21, 1938

TO Secretary Morgenthau

FROM M. A. Harris
W. Hadley

A Short Review of the U. S. GovernmentSecurity Market during the Past Week

Fair
 No changes of significance took place in the market for U. S. Government securities during the past week. For the third successive week prices of U. S. Treasury bonds drifted to slightly lower levels in quiet trading, placing the average price of all Treasury bonds about $3/8$ ths of a point below the year's high, which was established the last week in October. Some small lot buying of a selective nature continued to come into the market, with a much firmer tone noted the last two days of the week. Losses for the week ranged to $7/32$ nds, with the average loss by all issues about $4/32$ nds. However, a number of the shorter issues remained unchanged.

In the Treasury note market the "rights" met with some demand and advanced $3/32$ nds to 101.18/ 32 nds bid. Other notes were quiet and generally unchanged, with the exception of the two longest maturities, which declined $3/32$ nds and $2/32$ nds respectively.

Dealers' Portfolios

Week to week changes in holdings of U. S. Government securities and guaranteed obligations continue to be small, as well as the total amount of the holdings. Holdings of Treasury notes maturing within one year increased \$9,900,000, while holdings of Treasury bonds decreased \$9,700,000. The shorter notes are being purchased for their "rights"

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value and this figure should continue to increase during the next few weeks.

Dealers' Portfolios

(in millions of dollars)

	Holdings Nov. 12	Holdings Nov. 19	Change
Treasury bonds	14.5	4.8	- 9.7
Treasury notes (1 year)	47.0	56.9	+ 9.9
Treasury notes (1-5 years)	-4.5	1.0	+ 5.5
Treasury bills	13.6	16.8	+ 3.2
H. O. L. C. bonds	1.0	1.4	+ 0.4
F. F. M. C. bonds	4.5	4.2	- 0.3
	<u>76.1</u>	<u>85.1</u>	+ 9.0

New Security Issues

There were no corporate bond offerings last week. However, \$9,000,000 corporate notes, \$31,400,000 municipal bond awards, and \$40,000,000 Dominion of Canada refunding bonds were offered. The Canadian issue was quickly sold and has remained at a slight premium.

Corporate Bond Market

During the past week prices of best quality issues have moved within a narrow range although the general tendency has been toward lower levels. Medium and low grade issues, after reaching a new high since September, 1937 on November 12, moved lower led by the rail issues. Volume was not large and activity was confined largely to special groups such as the New York traction issues and bonds of the Lehigh Valley Railroad and the Central Railroad of New Jersey. Issues of the two railroads named were quite weak on Wednesday as a result of disappointment over a court decision upholding heavy taxes imposed upon the railroads by the State of New Jersey.

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The Federal Reserve System Account

Transactions in the market were again confined to the replacement of the weekly Treasury bill maturity. Last week's maturity amounted to \$50,860,000 and was replaced by a like par amount of the new bills due February 15, 1939.

Treasury Investment Accounts

There were no purchases or sales in the New York market.

There was, however, an investment of \$400,000 for the account of the U. S. Government Life Insurance Fund in $\frac{2}{8}$ special 5-year Treasury notes. The U. S. Government Life Insurance Fund now owns \$2,000,000 of these special notes.

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November 21, 1938, 238

*John Cane
from Currey*

A PRELIMINARY SURVEY OF EXISTING EXPENDITURE PROGRAMS
WHICH ARE BEING FINANCED WITHOUT USE OF DIRECT PUBLIC DEBT,
OR WHICH MIGHT BE SO FINANCED.

Findings

I - Over \$1 billion of guaranteed debt might be substituted at any time for public debt, if suitable administrative and legislative action were taken.

(a) the R. F. C. has \$600 million of borrowings from the Treasury which it could retire by issuing its own debentures. This requires no legislation.

(b) If new legislation were enacted, another one-half billion dollars of direct public debt might be retired by issuing guaranteed bonds against existing assets. The R. F. C. might retire part of its capital stock and the HOLC might take over shares of savings and loan associations owned by the Treasury. Assets of the emergency crop loan program, assets of the rural rehabilitation program and assets that have been transferred to the U. S. Maritime Commission might form the security for issues of newly authorized bonds or notes of Federal agencies. Any such immediate reduction of the public debt would be at the expense of a corresponding reduction in later years.

II - Expenditure programs now in existence or contemplated to the amount of some half billion dollars a year might be financed without the use of direct public debt, providing suitable administrative and legislative action were taken.

This conclusion rests on the following considerations:

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(a) A number of Federal corporate agencies, whose capital stock is owned in whole or in part by the Treasury, will automatically continue to make loans largely without further use of the direct public debt. Among these are the United States Housing Authority, the Commodity Credit Corporation, the Federal Home Loan Banks and the banks and corporations of the Farm Credit Administration. The one of these which will clearly be expanding its assets steadily is the United States Housing Authority; its loans, to be financed with guaranteed bonds, may reach a total of \$150,000,000 by next June and may increase by another \$300,000,000 in the following fiscal year.

(b) If the R. F. C. undertakes to finance all its further loans by issuing guaranteed notes, a loan expansion which might amount to anything from \$50,000,000 to \$250,000,000 could be financed without instead of with the use of direct public debt. This would include loans to municipalities in connection with the P. W. A. program, loans to railroads, loans to public utilities, and loans through the R. F. C.'s subsidiaries, the Export-Import Bank, the R. F. C. Mortgage Company and the Federal National Mortgage Association.

(c) If suitable legislation were enacted, certain other expenditure programs already in existence, which may run from \$100,000,000 to \$200,000,000 a year, might be financed without instead of with the use of direct public debt. The most promising of these programs for this purpose include Rural Electrification loans (now financed partly through the R. F. C.), F. C. A. emergency crop loans, Bankhead-Jones farm tenant loans, Farm Security Administration rural rehabilitation

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loans and U. S. Maritime Commission ship construction.

III - The possibilities of shifting any substantial part of current budgetary expenditures to self-financing agencies appear • limited. However, an extension of certain activities of the Government through self-financing corporations would lessen the necessity for other large and continuing budgetary expenditures such as work relief and public works. Thus a shift of certain existing programs to a self-financing basis plus an extension of Government activities that could be so financed would permit, either directly or indirectly, a budgetary balance to be attained more quickly, yet with no more danger, than is now possible.

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TREASURY DEPARTMENT
WASHINGTON

November 21, 1938.

OFFICE OF
TREASURER OF THE UNITED STATES
IN REPLY, THIS QUOTE INITIALS AWS-410

MEMORANDUM FOR MR. MURPHY:

This afternoon you submitted to me for examination three typewritten documents of several pages each described briefly as follows:

1. Eight typewritten pages, first page beginning "If we overhauled our present system," and the last page ending "the same technique at the same time."
2. Fourteen typewritten pages, first page beginning "As a supplement to the budget," and the last page ending "workers and their families."
3. Three typewritten pages, first page beginning "A PRELIMINARY SURVEY," and the last page ending "than is now possible."

An opinion was requested as to whether all three of the documents were prepared on the same typewriter.

I have made an examination of these papers and as a result of this study it is my opinion that the documents described under Items 1 and 2 above were prepared on the same make of machine but I have been unable to form an opinion as to whether they were prepared on the same machine. There is a difference between the color of the typewriter ribbon on the machine or machines used to prepare the document described under Item 1 and to prepare the first eight pages of the document described under Item 2. The ribbon used for the remaining six pages of Item 2 is similar to the ribbon used for Item 1. In my opinion the typewriter or typewriters used to prepare Items 1 and 2 was not used in preparing the document described under Item 3 above.

The three typewritten documents are attached.

Alvin Cole
ALVIN COLE,
Examiner of Questioned Documents.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON November 21, 1938

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE PRESIDENT:

Via the Secretary of the Treasury

Subject: Progress report on change of CCC uniforms

In accordance with telephonic orders relative change in color and design from the typical Army olive drab to a forest green, I wish to report that following a number of preliminary conferences with the Quartermaster General's Office of the Army and the representatives of the CCC, the exploratory work is rapidly approaching a conclusion. The salient points are:

- (a) A distinctive forest green uniform of 32 oz. Kersey mackinaw and 16 oz. Melton trousers, with a field cap, can be obtained at prices somewhat lower than the Army issue price. Sample uniforms have been made up and submitted to Mr. McEntee which meet with his full approval.
- (b) The Army situation is that, with certain minor exceptions, they have stocks of uniforms or cloth on hand purchased out of CCC funds during the last fiscal year sufficient to supply the needs of the CCC until December 31, 1941.
- (c) It appears that the shift from the olive drab to the forest green uniform could be made without serious economical loss by the fall of 1940; the Army could make the change, ready for the Fall outfitting period of 1939 only by placing in Army reserve stock the quantities of uniforms and cloth which they may have then on hand for outfitting the CCC.
- (d) They report themselves unable, through insufficient funds, to pay for such stocks from their current appropriations and that the money for any new forest green uniforms for the CCC would have to be supplied by that organization.
- (e) Mr. McEntee is considering a schedule which contemplates the new forest green uniform taking the place partially, or gradually of the Army olive drab.
- (f) In a conference today the two Army representatives desired a further period of ten days or two weeks to estimate their situation more accurately, and another meeting will be held December 5 in the Office of the CCC.
- (g) The policy of the War Department has been that as Army Service has equipped the CCC, it would be preferable for the latter to take the Army standard rather than a new distinctive color.

It appears that the Army stocks of their reserve clothing are low because they contemplate a change from the olive drab and khaki to a "smoky-blue" or "slate-blue" color. But the adaptation to field operations by this change is in an exploratory stage only, and together with the time required for actual service tests in the field, it will be about four years before the Army could be ready to make the shift from olive drab to slate-blue.

A further report will be submitted following the next meeting.

J. S. Taylor
Director of Procurement



DEPARTMENT OF STATE
WASHINGTON

November 21, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of despatch No. 1469 dated November 3, 1938, from the American Embassy, London, transmitting a report on British financial assistance for China.

Enclosure:

No. 1469 of November 3
from London.

RECEIVED

NOV 21 1938

RECEIVED
10:15 am
NOV 21 1938
TREASURY DEPARTMENT
Office of the Secretary
Financial Assistant to the Secretary

LONDON, November 3, 1938.

No. 1469

SUBJECT: British Financial Assistance
for China.

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

Sir:

I have the honor to refer to telegram No. 995 of September 22, 7 p.m. and previous interchanges regarding Anglo-Chinese discussions for British financial aid to China and to report, for purposes of record, the following questions asked in the House of Commons on November 2, 1938, together with the answers thereto, (Hansard, Columns 184-185):

Mr. Arthur Henderson asked the Prime Minister whether, in view of the guaranteed loan to Czechoslovakia, His Majesty's

Government will now consider the possibility of a loan being guaranteed to the Chinese Government for similar purposes?

The Under-Secretary of State for Foreign Affairs (Mr. Butler): His Majesty's Government are at the moment unable to alter their decision not to introduce the legislation which would be necessary if a loan were to be guaranteed to China, but other practicable methods of assistance to China will continue to receive consideration.

Mr. Henderson: Is it not a fact that hostilities have been taking place between China and Japan for 18 months, and is the House to understand that His Majesty's Government do not intend to give any assistance to China, although they have voted for the four resolutions at Geneva in favour of assistance to China?

Mr. Butler: The Government intend to carry out the policy as initiated, that is, to follow the spirit of the resolutions.

Mr. Dalton: Is it not true that there is a serious difference between the Foreign Office and the Treasury on this matter, and that that is why nothing has been done?

Mr. Butler: The Government are always united on every matter.

Mr. Noel-Baker: If it is possible to make a loan to Turkey, with highly problematical results, will the Government not consider whether they can make a loan in this case in order to fulfil their obligations under the Covenant?

Mr. Butler: I cannot accept the insinuation in the hon. Member's question. There is a difference between China and Turkey."

In connection with Sir Frederick Leith-Ross' remarks, reported in No. 1238 of October 21, 7 p.m., the following excerpt from a general speech made by the Prime Minister in the House of Commons on November 1, 1938, (Hansard Column 82), is worthy of note:

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"As to China, I can only say that there again the right hon. Gentleman appears to me to be taking an unnecessarily gloomy view of the future. He spoke of China as one of the largest potential markets in the world. Potential - what does that mean? China cannot be developed into a real market without the influx of a great deal of capital, and the fact that so much capital is being destroyed during this war means that even more capital will have to be put into China in the future, when the war is over. Who is going to supply the capital? It is quite certain that it cannot be supplied by Japan. Therefore, when the right hon. Gentleman appears to contemplate a future in which Japan will have the monopoly of Chinese trade, and we shall be excluded from it altogether, I say that that is flying in the face of the facts. It is quite certain that, when the war is over and the reconstruction of China begins, she cannot possibly be re-constructed without some help from this country. (Interruption). That is a matter for those who are asked to invest their money to consider at the time."

Respectfully yours,

For the Ambassador:

Rudolf E. Schoenfeld
First Secretary of Embassy.

OR/EMM

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LABORATORY DEPARTMENT
U.S. DEPARTMENT OF AGRICULTURE





TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

21 November 1938

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Subject: Peacetime Price Control Committee Meeting held 18 November 1938 in Mr. Morris' office, Office of the Attorney General.

The meeting was convened at 3:30 P.M., Mr. Morris presiding. The following also were present: Mr. Bell of the Attorney General's Office; Dr. Esakiel, Mr. Appleby and Mr. Black of the Department of Agriculture; Mr. Cox of the Treasury Department; Mr. Everett and Mr. Meehan of the Department of Commerce; and Comdr. Foster, proxy for Admiral Peoples, Director of Procurement. Admiral Peoples was unable to attend this meeting because his attendance was required at a meeting of the Temporary National Economic Committee held at the same time.

Two subcommittee reports were presented for consideration, one prepared by Admiral Peoples and the other by Dr. Esakiel, Mr. Everett and Mr. Meehan. Both were considered but discussion revolved around the second subcommittee report.

This second subcommittee report suggests three methods of price control to be exercised in time of peace, should a major war develop among European countries. They were presented not as alternate proposals, but as means to be applied concurrently, each supplementing the other. The major points raised under each proposal are set forth below:

Proposal I: Pooling of Foreign Orders:

This method proposes all foreign orders be pooled through and controlled by the Surplus Commodities Corporation, acting as broker. It was thought that voluntary compliance of foreigners with this pooling scheme in most cases could be effected through diplomatic agreement, but failing that, enforcement could be effected through the Treasury Department's control of foreign exchange, which in effect would be tantamount to the establishment of a system of licensing for all foreign shipments.

It was stated that it was believed this method could be applied without additional legislation. Mr. Golden Bell was asked to check on this point.

The question was raised as to what agency would determine the price range used as the yardstick for exercising control. It was agreed that the organization submitted in Admiral Peoples report, for the coordination of all indirect means of peacetime price control, was suitable for this purpose, and would be incorporated in the final committee report.

Proposal II: Compulsory and Voluntary Control of Rail and Ocean Traffic:

It was agreed that this method of enforcement, which closely parallels the "Transportational Priorities" used during the World War, might prove unpalatable in times of peace to U. S. business men. Even if its legality were accepted, it might be considered arbitrary and unreasonable, and cause a revulsion of public opinion which would mitigate against the objective for which we are striving, i. e., the acceptance of peacetime price control.

Incidentally, under the provisions of Title IV, Section 402, of the Transportation Act of 1920, the Interstate Commerce Commission is given authority, in an emergency, to exercise such control. This act also gives the President authority in time of war or threatened war to "certify to the Commission that it is essential to the national defense and security that certain traffic shall have preference."

Proposal III: Use of Government Owned or Controlled Reserve Supply:

This is nothing more or less than putting the Government in business, either directly by purchase or indirectly by loans against commodities, to deal in selected commodities.

The Commodities Credit Corporation, financed by the R. F. C. (which agency is authorized to sell debentures to the public), was represented as now having sufficient authority so to deal in commodities. Mr. Bell was asked to check further as to the legal phase of this matter.

It was pointed out that it might be desirable to deal in commodities that would not be required by the Armed Services, but that those commodities which would be required by the Army and Navy in case we later are drawn into war would comprise a more easily defendable list for consideration.

It was stated that this method was worked out by the economist members who thought that it would enable the realization of steady prices and employment in the initial period of declining demand - and at the same time permit an accumulation of war reserves which later would serve to cushion the rise of prices as demand approached capacity to produce.

The soundness of the economic theory involved was accepted by all present. The following practical obstacles to the realization and hence effectiveness of such a plan were presented:

1. Can Congress be induced to make available funds for such a scheme?
2. Where would the commodities acquired be stored?
3. Can the Armed Services prepare a list of requirements to fit the scheme?
4. Would the volume of purchases involved in the initial period of declining prices be sufficiently great to afford a substantial cushion to prevent subsequent rises in prices when increased demand asserts itself?

It was agreed that unless a concrete picture of the whole can be drawn, forecasting the sums of money required, and setting forth specifically the inherent advantages involved, this method of control should not be proposed.

Chairman Morris then requested Commander Foster to confer with Admiral Peoples as to the practicability of requesting the Army and Navy Munitions Board to prepare a list of commodities suitable for incorporation in the plan proposed

by the subcommittee, and if feasible to ask the Admiral to work out with Mr. Meehan a tabulation which would indicate the type of materials involved and the extent of funds required. From this the economists could then project the price control possibilities of Proposal III.

As soon as the feasibility of the approach just outlined is determined, Dr. Ezekial and Mr. Everett were requested to prepare a report setting forth the committee's recommendation. This report is to stress proposals I and III, soft-pedal Proposal II, and restrict the main body of the report to but three or four pages, with references made therein to Appendices.

The Committee adjourned at 6:05 P. M.

Respectfully,


C. J. PEOPLES
Director of Procurement

26 September 1938

PEACETIME PRICE CONTROLNecessity for Peacetime Price Control:

Control of prices in this country in times of peace has been applied only to maintain them above established minimum figures. During the recent depression the N.R.A. operated on this principle. The present A.A.A.'s control over agricultural prices and the Bituminous Coal Commission's control over the prices of bituminous coal likewise are exercised to prevent prices falling below established minimum figures.

The problem with which we are now confronted is one of a different nature, and arises by reason of the present critical European situation. Should war break out between major European powers, sooner or later this country would be flooded with large volume orders for a vast variety of our products. If this potential foreign trade were uncontrolled, demand would ultimately exceed our capacity to produce, prices would rise sharply, and our entire economic structure would be thrown out of equilibrium.

Such a situation developed prior to our entry into the World War, with resulting disastrous after effects. Analysis of the situation which then obtained and that with which we may now be confronted reveals that domestic economic conditions today are in many respects different from those of 1914-15, but that, should a major war develop in Europe, and no price control measures be imposed, the general trend of prices would be about the same as that which preceded our entrance into the World War. Disruption of international trade would first cause domestic prices to recede. Then, as increased foreign orders absorbed existing unutilized capacity, prices would rise. Finally, when production reached capacity, further increases in foreign orders would cause very sharp price increases, with resulting upheaval of our entire national economy.

It is this final phase of the trend of prices with which we are now concerned. Neither the magnitude nor the character of increased foreign demand can be definitely forecast; nor can the rapidity with which this demand will manifest itself be accurately predicted. It does seem reasonable to predict that it will take some time for economic forces to adjust themselves to the point where domestic plus foreign demand will absorb our present unutilized capacity. That this point will ultimately be reached, should a major war in Europe continue for any length of time, seems inescapable. It therefore appears mandatory, should such a war occur, to develop a mechanism of price control that will be ready to function when the necessity for its application asserts itself.

Means of Control:

There are, broadly speaking, three means of controlling prices from skyrocketing. The first is of the type now exercised by the A.A.A.

The extension of this type of control to the extent of setting the Government up in business to buy and sell industrial commodities is not recommended. It would entail most extensive federal financing, and would comprise a departure from the normal means of doing business which would be resented strongly by business in general. It would require Congressional action to do so.

The second means available is that of arbitrarily establishing maximum limits beyond which prices may not rise. Such a method not only fails to adhere to normal peacetime business methods, with the probability of ensuing resentment on the part of industry, but is superficial in that it attempts to deal with the results, rather than the causes, of possible price rises. For these reasons, this second method is not recommended.

The third means available endeavors to ascertain the causes of price skyrocketing and to apply the remedies at the source. This method of control, especially in times of peace, must be exercised largely by indirect means, supplemented by such voluntary cooperation as can be attained by various methods. Voluntary cooperation of all parties concerned is essential for the acceptance by the public of any system of control, but undirected voluntary cooperation alone will not suffice. To make control effective, a unified mechanism must be set up, say, a "Central Price Control Authority" should be created by Executive Order to study the causes of price fluctuations, to keep abreast of their effects as reflected in price levels, to know when to apply the remedies, and to coordinate all direct and indirect means available for their application.

The scheme proposed is builded upon the principle of constructing within the organization an interlocking directorate, not only between the Central Price Control Authority and existing governmental agencies through whom indirect measures of control may be applied, but also between the Central Authority and Industry, between the Central Authority and Agriculture, and between the Central Authority and the Public.

Organization:

The organization diagrammatically shown on the accompanying chart (Exhibit A) is an attempt to portray how control of prices can be exercised in times of peace. Flexible legislation empowering the President to set up a Central Price Control Authority to coordinate the efforts of existing governmental organizations may ultimately be required, but the framework of such a body, it is believed, could now be constructed by utilizing the services of existing Government personnel and by enlisting the services of a few public-spirited men now in private life.

This Central Price Control Authority is visualized as being composed of the following members:

- (a) A chairman, to be appointed by, and to act as the representative of, the President.

(b) A representative of industry - one who understands business thoroughly and has a broad background, but who has no political ambitions, and who has no direct affiliation with any particular industry.

(c) A representative of public services - one who realizes the public's stake in this problem, and one who would be empowered to coordinate the fact-finding facilities of the government and to represent those agencies which are included in the Utilities Committee, shown in Exhibit "A", in the formulation and execution of general policies.

(d) A representative of the present A.A.A., leaving to this agency the control over agricultural products now exercised.

(e) A representative of the present Bituminous Coal Control Agency, to exercise control over fuel in the same manner as specified for agricultural products in the preceding paragraph.

(f) A representative of the State Department - one who understands thoroughly reciprocal trade agreements already entered into or under consideration.

(g) A representative of the Treasury Department - one who can coordinate credit policies, and work in liaison with the S.E.C., the Federal Reserve System, the R.F.C., and the other various governmental lending agencies.

(h) A representative of Labor - one who commands the respect of labor, industry, the Government, and the public at large.

To assist the Commodity Policies Commission in collecting and consolidating the basic information required for formulating its policies, and in the execution of these policies, various committees, the membership of which may be recruited from the related activities indicated in Exhibit "A", may be required.

(a) The Financial Operations Committee - to be composed of representatives of the agencies shown in Exhibit "A". This committee would deal with such matters as monetary and credit policies and operations, bank control and regulation, tax problems, and international exchange.

(b) The Commodity Policies Committee - to be composed of representatives of the agencies shown thereunder in Exhibit "A". This committee would assist and advise the Central Authority in matters concerning requirements, imports and exports, production adjustment, etc.

(c) The institution of any or all of the following committees, which are shown in Exhibit "A", may be postponed, or regarded as a transition to a wartime organization, as the circumstances of the particular emergency may dictate.

(1) The Utilities Committee may assist the Authority in the direction of transportation, communications, electrical power, etc.

(2) The Housing and Construction Committee may work with the Central Authority in matters concerning residential building, and public and heavy construction.

(3) The Labor and Manpower Committee may assist and advise the Authority in such matters as labor supply, occupational adjustment, and wages, hours and working conditions.

To assist the Commodity Policies Commission in consolidating the basic information required for formulating its policies, the Commodity Committees shown in Exhibit "A" should be organized. These Commodity Committees have been constructed to conform to the major subdivisions into which industry has naturally subdivided itself.

It is visualized that these Commodity Committees would parallel in organization, and work in close cooperation with, the existing trade associations of industry, who represent member firms and through whom the voluntary cooperation of individual firms can best be obtained.

It would be highly desirable, and it may be found feasible, to bring pressure to bear, through diplomatic channels, upon foreign powers, to the end that their requirements may be consolidated in centralized purchasing agents. Such consolidation by the various foreign powers should prove to be to the mutual advantage of those powers and this country, in that a steady flow of commodities might be assured, at reasonable and fair prices, without unduly disturbing this nation's industry or price structure.

Liaison with these centralized foreign purchasing agents in this country may be provided by the creation of U. S. Government observers thereto. The reports of these observers direct to the Central Authority should furnish information which would prove most valuable in inaugurating policies to prevent violent price fluctuations.

It is believed that the suggested organization would be able, in peace, effectively to apply checks of an indirect nature through such mediums as the credit structure, export quota restrictions, curtailment, if possible, of foreign orders by the potential foreign belligerents themselves, and even by discreet use of the power of the purse in the distribution of public grants of money. The Government now has so much of our national economy under review, and so many indirect means of compelling the cooperation of industry, that, under unified directed control such as that pictured above, almost any necessary control measures could be made very effective.

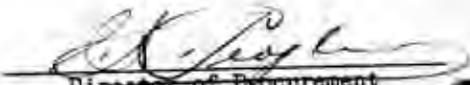
Transition to War:

If we should be drawn into war, the emphasis would be shifted from stability of price to realization of the last indispensable unit of

essential production where needed. This might entail application of a different degree of price control, but the mechanism set up would be readily adaptable not only for conversion to wartime price control, but also to the control of other most important phases of our wartime economy. For example, the Trade associations could be used as the war service committees now projected in the Industrial Mobilization Plan; the Commodity Committees could be employed in identical capacities as a part of the projected War Resources Administration; the Adviser-Observers to the foreign belligerent purchasing agents could form the nucleus of the projected War Trade Board; and the Federal Reserve System, the R.F.C. and the S.E.C. could continue to perform in wartime the identical functions they perform in times of peace. This organization would fit, in other words, into the present Industrial Mobilization Plan, which, incidentally, has been prepared not on the principle of military regimentation, but upon mature consideration of economic forces and the psychology of the American people.

Flexibility of Application:

Under no circumstances should this or any other plan be considered an approach to the problem from which we cannot deviate. We must feel our way as we go, progress by trial and error, profit from experience, and permit whatever Control Body is set up to exercise sound judgment not only in the formulation of its policies, but in the timeliness and scope of their application. Even in peacetime, direct measures of price control, based upon results of factual investigation, might be required, and authorizing legislation secured for its application. In time of war, some measures of direct maximum control would undoubtedly be required. Whenever possible, however, indirect methods should be employed in preference to direct methods, and emphasis placed upon those factors which cause price fluctuations rather than upon the prices themselves.


Director of Procurement

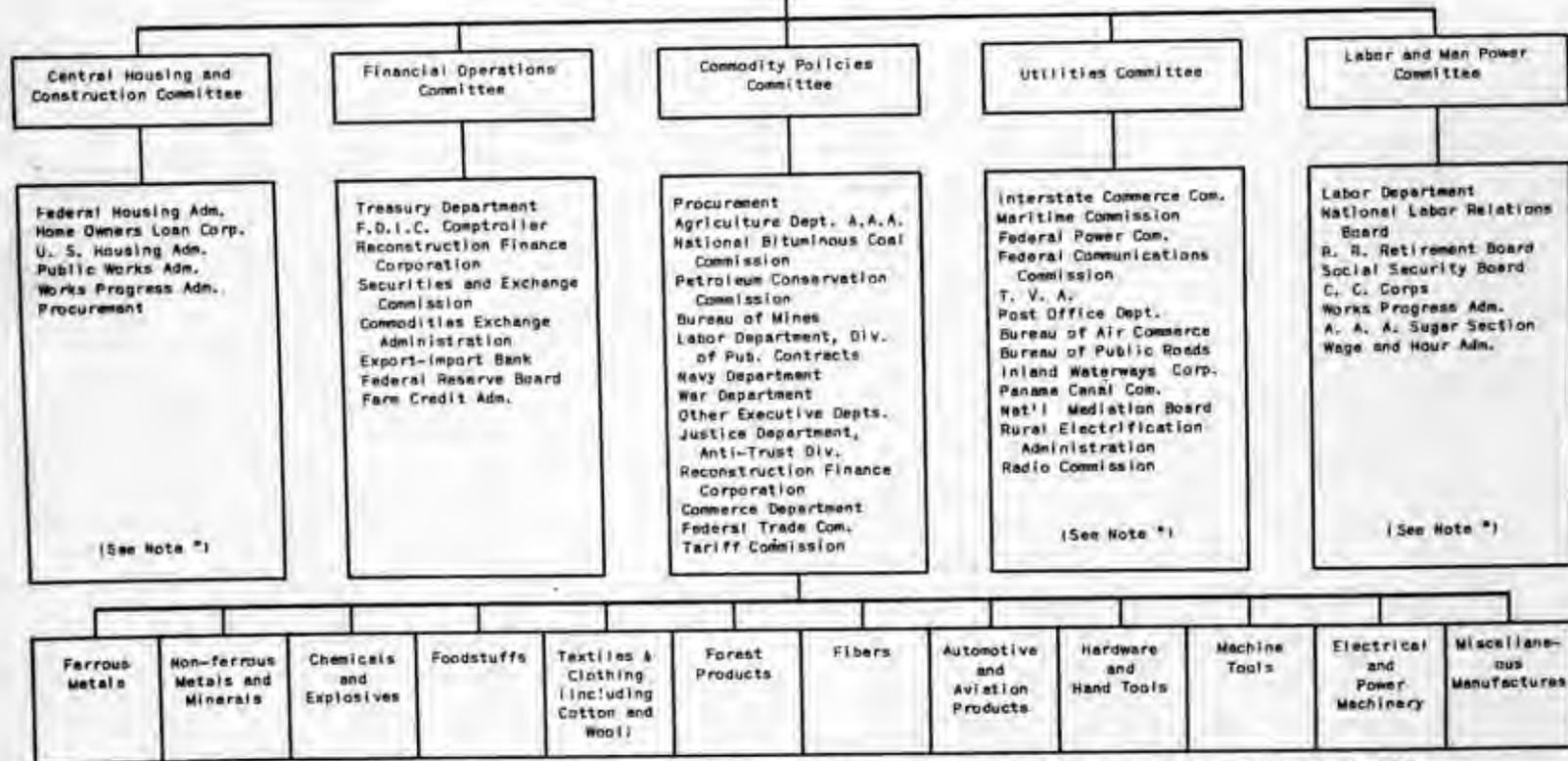
THE PRESIDENT

Central Price Control Authority

Chairman - Rep. of the President
 Rep. of Industry
 Rep. of Public Services
 Rep. of Agriculture
 Rep. of Bituminous Coal Com.
 Rep. of State Department
 Rep. of Treasury
 Rep. of Labor

ORGANIZATION

FUNCTIONAL CONTROL OF PRICES



* Note: Organization of this Committee may be postponed, or regarded only as required for transition to Wartime Organization. September 26, 1936:

DIRECTOR OF PROCUREMENT

Mr. President - 2

Though two of the three parts of the proposal can be made under existing powers, the most important part — the long term loan — does require new legislation.

Part 1. An extension of credit or of credit guarantees to develop immediately more export trade with Latin America.

The establishment by the Export-Import Bank of a three-year revolving collar fund containing a sum adequate for the purpose in hand. These dollar credits should facilitate American exports to Latin America of specified items which these countries now import from Germany, Italy and Japan.

Part 2. An extension of a long term loan for productive purposes to lay the basis for larger trade in the future by helping the Latin American countries to develop their resources on a sound basis and by helping raise the standard of living of the Latin American people.

In order to successfully achieve our objectives and to avoid "dollar diplomacy", this prong of the loan should be made subject to the following conditions:

(a) Loans must bear a low rate of interest. One of the important reasons why past private loans to Latin American countries have had such a bad record of default is that the effective rates of interest have in most cases been exorbitantly high in relation to the long-run productivity of South American industry. This part of the proposal is designed to help bring about a fundamental reorganization of the Latin American economy.

(b) The loan must be devoted to a domestic rehabilitation program including public works, the creation of new industries, and the modernization and expansion of existing industries.

(c) Any portion of the proceeds expended on foreign goods or services needed for the project must be expended in the United States.

(d) The government or private native interests must supply an equity for each project equal to 50 percent of the funds advanced from the proceeds of our loan.

(e) Projects must be ^{owned} owned and controlled by the government or by nationals of the borrowing country.

Part 3. A gold (or, and silver) loan to strengthen the currencies of Latin America and to promote exchange stability between the dollar and those currencies.

A loan of gold can be made via the Stabilization Fund for the purpose of stabilizing the exchange rate between the dollar and the currency in question. That is one of the specific objectives for which the Stabilization Fund was created.

xxx treatment - 3

Some part of the loan can be made under conditions which, while satisfying the objectives of helping to stabilize the currency, will involve little risk of loss.

The proposed loans should be supplemented by measures designed to increase the ability of Latin American countries to meet their obligations that will be involved in adoption of the above proposals. These measures could include stimulation of American tourist travel to Latin America through grants of special rates on American vessels, and by promotion of improved travel routes; by careful surveys of Latin American products with a view of promoting increased consumption in the United States of Latin American products, etc.

There are three chief objections that doubtless will be offered against the plan I am suggesting:

1. It will be claimed that we would be making loans to countries now in default on foreign obligations held by citizens of the United States.

This cannot be avoided if any substantial economic assistance is to be given. An inescapable handicap facing any attempt to give economic and financial assistance to most Latin American countries is the presence of the burden of defaulted foreign debts. These are so large that if substantial services or them were attempted any economic assistance we might wish to give would be absorbed and dissipated. Were economic assistance granted with a condition of settlement of the loans it would constitute a clear case of imposing a burden on the American people for the purpose of bailing out foreign bondholders, a burden which would have no compensatory feature for the country involved. Furthermore, if such assistance were made conditional upon prior settlement of the defaulted debts the foreign bondholders would impose terms which would probably vitiate the beneficial effects of any assistance granted by us. Therefore, if we are to grant economic aid it must be with the understanding that the aid is to be independent of any settlement to be made. However, helping to build up the Latin American countries economically will enable them eventually to service debts now totally or partially in default.

2. It will be claimed that such aid constitutes "dollar diplomacy".

I do not feel that claim would be justified for the following reasons:

(a) Dollar diplomacy meant the exploitation of a weak country by private American banking, commercial and industrial interests with the aid of the American Government. The American Government, in order to aid and protect such private investors and develop and expand the field of their activities, frequently took action or threatened to take such action which was a derogation of the "inherent sovereignty and independent rights" of such countries.

Mr. President - 4

(b) The plan I am suggesting, on the other hand, would enable not private interests, but the Government itself, to make loans to Latin American countries in order to assist them in rehabilitating themselves economically and to maintain stable governments. Instead of United States citizens maintaining control or actually operating enterprises in the Latin American countries, thus directly engendering the "dollar diplomacy" feeling; the enterprises would be in the hands of the Latin American governments or their own citizens. The making of such loans would strengthen the constituted Latin American Governments in repelling subversive social and political influences coming from without the Western Hemisphere, particularly those influences which thrive in an unhealthy economic climate. They are designed to preserve for the nationals of the borrowing country complete control and ownership of the enterprises in their country.

(c) In its economic aspects the making of such loans by the Government would have the same fundamental purposes as the trade agreements, namely, the increase of trade between this country and Latin American countries for the benefit of both parties to the agreement.

(d) The proposed type of loan would, indeed, have the effect of stifling dollar diplomacy as it has hitherto existed since it would enable Latin American countries to obtain much-needed credits without exposing themselves to unfortunate tactics of those private investors that have been active in this field for the past two generations. The proposed loans are consistent with, and will help effectuate, the President's "good neighbor" policy, since their purpose is really to help Latin American countries and thereby help this country, rather than to help this country at the expense of Latin American countries.

3. It will be claimed that the Latin American governments will surely default on some portion of the loans to us.

Admittedly that is a possibility, but the very low rates of interest, the use to which the loans are to be put, and the fact that it is the United States Government making a loan to help Latin American progress (and not a loan for private profit, foreign exploitation, or to conduct a war) are factors which make the loans unique, and less subject to default. Even were default to take place some time in the future, we would have obtained advantages which would outweigh the possible financial losses.

Sincerely,

The President,

The White House.

Proposal for Economic Assistance to Brazil

Brazil presents an excellent opportunity for the initiation of a program of economic assistance to Latin American countries in accordance with the views set forth in the accompanying letter.

1. The President of Brazil stated to Mr. Pierson of the Export-Import Bank on September 17, 1938, that "he hoped we would assist Brazil to finance their public works program". He mentioned that you had offered financial assistance to Brazil when you were there.
2. Brazil is greatly in need of economic assistance.
3. She has recently had some difficulties with Germany over clearing agreements and is probably in a position to drop her cooperation with German trade practices if she secures help from us.
4. Brazil has great productive potentialities that await only capital for development, and has the possibility of becoming as populous a country as the United States.
5. The presence of large German, Italian and Japanese minorities make Brazil especially vulnerable to anti-democratic movements.
6. If we could help Brazil to limit her cotton production and diversify her economy, we would be helping Brazil and ourselves.

The plan as adapted specifically to the Brazilian situation might take the following form.

A necessary prerequisite of extending assistance to Brazil should be an understanding with the Brazilian Government that no clearing agreements will be undertaken with any country and that Brazil will actively discourage the use of multiple currencies, blocked balances, compensation or barter trade in her import trade.

A second condition of any assistance to Brazil shall be an agreement with the United States to join our cotton program to the extent of limiting her cotton crop.

If agreement can be reached on these two conditions, the following measures may constitute the program of economic assistance, provided that appropriate powers can be obtained from Congress to grant the long term loan described below (under 3).

1. Extension by the Stabilization Fund of a \$50 million gold loan to the Government of Brazil.

(a) The gold to be kept on earmark with the Federal Reserve Bank of New York.

- 2 -

(b) The gold to be withdrawn for purchase of dollars only after Brazil's other foreign exchange assets (including her total gold holdings) are used up in the settlement of legitimate and usual commercial transactions.

(c) The loan to be extended for six months, renewable every three months, and to bear interest at $1/2$ of 1 percent above the Federal Reserve Bank of New York's rediscount rate, now 1 percent.

2. The creation of a revolving credit of \$50 million by the Export-Import Bank to finance at low rates of interest the exportation of American goods for Brazilian consumption of only those items that Brazil now imports from other areas. The Export-Import Bank to pass on the acceptability of the credit risk but to do so on a more generous basis than would be feasible or likely for the individual exporter.

3. The extension of a \$100 million loan by the Reconstruction Finance Corporation, the money to be advanced in quarterly amounts of \$12 $\frac{1}{2}$ million per quarter. The interest on the loan to be 3 percent on the unpaid balance but the annual payments are to amount to 6 percent of the total loan, the difference being applied to the reduction on the principal of the debt. The conditions of the loan to be:

(a) Brazil should invest on each project undertaken a sum equal to half of the amount provided for that project by the United States.

(b) The control and equity ownership of the projects must remain in the hands of Brazilian Government or Brazilian Nationals.

(c) Not less than 25 percent of the quarterly sums transferred shall be expended in the United States for American goods or American services, and all imports or foreign services needed for the projects are to be obtained from the United States.

(d) The proceeds of the loan to be used exclusively for the purpose of developing public works and industrial enterprises of a kind which will add to the productivity of the Brazilian people in the not too distant future.

GROUP MEETING

November 22, 1938.
9:30 A. M.

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

H.M.Jr: Here it is, November; eighteenth of June the bill was signed; it was signed on June 18 - the 21st - June, July, August, September, October, November - five months.

We were just going over - I say, five months after the Ickes bill was signed, thirty-four million dollars has gone out of the Treasury; thirty-four million, and that is - whether the cities spent that, thirty-four million dollars have gone out of the Treasury five months after the bill has been signed, and I am just saying, in the room, I am human enough that I would just like to rub somebody's nose into it a little bit. Five months. And Mr. Straus has spent three million four hundred thousand dollars.

McReynolds: What for, clerks?

H.M.Jr: And I guess ninety-five per cent of that is for administrative expenses, and no wonder that Hopkins has had to carry the brunt.

Oliphant: If he hadn't worked on that P. W. A. program, where would they have been?

H.M.Jr: They wouldn't have spent anything.

Good morning, everybody.

- 2 -

- McReynolds: Did you hear the broadcast this morning predicting that Harry Hopkins will throw everybody off the rolls.
- Gaston: The Herald-Tribune has a U. P. copyright story.
- White: It would be amusing to go back to your remarks of last spring on this point.
- H.M.Jr: Why not?
- White: I say, it will be very interesting.
- H.M.Jr: Why not; they are available. I mean, nobody fought harder than the Treasury did on this.
- White: Well, you prognosticated exactly what is happening.
- H.M.Jr: Well, why not? In view of everybody's being in such a hole, why not say so?
- Oliphant: I'd prefer your working with Berle, and getting that started.
- H.M.Jr: Berle? Who? Oh - can't. Did that in a letter.
- Gibbons: What per cent is that, a billion and a half? Boy, it's infinitesimal.
- H.M.Jr: Well, that's five months, anyway. I gave it to Hanes, and he's going to do his best.
- Herbert, this, Cy Upham sent up to the house, just to make me feel cheerful - this Washington Banking Trends. What have you done about Mr. Wilcox's status?
- Gaston: I haven't done anything about it; I've got some photostats. I thought of calling in two or three of the boys - Nick Gregory, and some of the boys down stairs, and talking over the thing with them and ask them what they think of the ethics of a thing like that.
- H.M.Jr: Will you not put it off; will you do it now?
- Gaston: Yes.

- 3 -

H.M.Jr: Will you read that sentence over there and tell me, afterwards - and tell me - I mean, who is persecuting who. I mean, just read that (clipping) over two or three times. You know, that sentence.

Duffield: I haven't seen that copy; I haven't seen the rest of them.

H.M.Jr: I read it over two or three times. I'd like to know who is being persecuted, I or them.

Gaston: Yes.

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

McReynolds: (Nods "Nothing.")

Oliphant: You got my memo on that?

H.M.Jr: On what?

Oliphant: Legislative suggestions.

H.M.Jr: No, but that doesn't mean it isn't in the outer office, and it also doesn't mean it is in the outer office.

Oliphant: We answered it - the constitution.

H.M.Jr: All right. Mac?

McReynolds: I have nothing.

H.M.Jr: Lucky man.

Lochhead: After the early morning

H.M.Jr: Excuse me. What are we going to do about that letter, nothing? Have you and Herman seen it?

McReynolds: I haven't. Don't think there is anything to do.

Gaston: I would suggest you write a note to the gentleman and say, "I am returning without comment the confidential letter and memo.

H.M.Jr: Where is that letter?

Gaston: It's on my desk.

H.M.Jr: Will you draft such a letter?

Gaston: Yeah.

H.M.Jr: Did Herman see it?

Lochhead: After the drop of $4.67\frac{1}{2}$, it recovered slightly to $4.67\frac{3}{4}$, with barely heavy activity.

H.M.Jr: All right. If Archie, White, and Taylor will be in here at eleven fifteen; I have sent for Bewley.

Gibbons: (Nods "Nothing.")

H.M.Jr: Harry?

White: (Nods "Nothing.")

Duffield: (Nods "Nothing.")

H.M.Jr: Now, ah - ...

Hanes: You looking at me?

H.M.Jr: You passed too quickly; I may want you to raise him.

(Laughter.)

H.M.Jr: You may find you have a pair in your hand.

Ah - I have had three messages that Mr. Delano and Tom Smith are here. Would you find out, John, what that means? If they want to see me, I can see them this afternoon.

Hanes: Well, we were trying to have a meeting all yesterday afternoon, but you know we had something else to do.

H.M.Jr: That's right.

Hanes: And we postponed it until it was so late we didn't get to it, and as soon as we can get this thing out of the way, I think we ought to do it.

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- H.M.Jr: If you want to see me, I can see them this afternoon. This other thing oughtn't to take very long. Why not say, tentatively, three thirty - well, four o'clock?
- Hanes: I think Tom Smith's plans are to leave sometime around noon. I am not sure.
- H.M.Jr: Well, tell Tom to be a good boy and stick around.
- Duffield: He's here because you suggested to Cy that he come in.
- H.M.Jr: I don't know what time that train leaves for St. Louis; I can say three thirty. I don't know what time that train leaves. Say three thirty. Will you get word to him and say be a good boy and stick around?
- Hanes: Yes sir. We're going to try to have a meeting this morning and get this thing out of the way. We'll have a meeting at eleven o'clock if we can.
- H.M.Jr: At two fifteen we are meeting again - Fiscal and Monetary. Right?
- Hanes: Yes.
- Oliphant: Is that Hopkins? Corry Gill called me last night and said he was coming to see me at eleven o'clock; said they had worked out two drafts of a letter, one of which was sent to the President and one to Dan. He said he'd send that over to me.
- H.M.Jr: Well, yes. Well, Hanes is quarterback on this, so
- Oliphant: That is at eleven o'clock he's coming in to talk about the law.
- H.M.Jr: All right. Well, I am not going to worry about it until two fifteen, I know. Huh?
- Hanes: Wait a minute; let me get this straight. Herman, you want all this - I think if I run this bankers meeting, while you are running that meeting - you want Nichols in that meeting with you?

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Oliphant: Corry Gill? No, it's a question of sitting down and agreeing on the formulation

Hanes: You are working on the letter of transmittal and executive order?

Oliphant: Working on a draft of a proposed letter from the President to Danny Bell.

H.M.Jr: That has nothing to do

Hanes: That has nothing to do with us in our banking meeting.

H.M.Jr: No. Wayne?

Taylor: I've got several cables and comments that I believe Cy sent over to me yesterday, but the Austrian indebtedness to our citizens. In the past, we have never made any comments about that subject, and I wonder if we want to at this time.

H.M.Jr: I have set aside from ten to ten thirty; while we are doing Brazil we can talk about that, and we can talk about pound sterling too.

Taylor: I see.

H.M.Jr: You and White and Lochhead will be in at ten o'clock.

(To Mr. McReynolds:) You might get in touch with Frederic Delano and tell him to be here at two fifteen. And I think - well, that's all right. Frederic Delano.

McReynolds: Yeah.

H.M.Jr: Anything else?

McReynolds: (Nods "No.")

H.M.Jr: I got your memorandum on Treasury Attaches; I won't do anything about it before night.

Taylor: I didn't think you would.

H.M.Jr: All right.

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Taylor: But I thought we might as well realize what we are in for, if we are going into the business.

H.M.Jr: Yes.

Gibbons: Customs Treasury Attaches?

Taylor: No.

H.M.Jr: No. Fine; fine.
(Nods to Mr. Haas.)

Haas: I have nothing this morning.

Gaston: I've got nothing.

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

Oliphant: (Nods "Nothing.") Are you going to use that Lubin-Haas chart - connected with the letter, the one you got together?

Hanes: That is right; it is what we propose to do.

Oliphant: I want to get it. Are we meeting on that Harry Hopkins today?

H.M.Jr: Two fifteen - final, polished, last word.

Oliphant: So we've got two fifteen and three thirty. I wanted to be sure.

Taylor: I've got Wallace at four oclock. I don't know whether I don't know whether I have any of these others here.

H.M.Jr: What's that? You've got Wallace at four?

Taylor: I've asked him to make it late in the afternoon.

H.M.Jr: Couldn't he make it four thirty?

Taylor: I can call him up and try. He particularly

H.M.Jr: Make the effort. We've got this banking thing; see whether he won't. If not, I wouldn't disturb him.

RE POSSIBILITIES OF BRAZILIAN
FINANCIAL AGREEMENTNovember 22, 1938.
10:25 a.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead
Mr. E. Penteado, Attache to Brazilian Embassy
(for brief period)

H.M.Jr: What I was proposing to do was this: to say, "Now look, I'm very much interested in working closer with the Minister of Finance of Brazil." What's his name?

Lochhead: Sousa Costa.

White: Same fellow that was here before.

H.M.Jr: "When he was here we got along very well, and I wish you'd send a message to him: what is there that I as Secretary of the Treasury of the United States can do to be helpful?"

Taylor: Fine, fine.

H.M.Jr: And that was all I had in mind: would he please send word to Mr. Sousa Costa, the Minister of Finance, that we have had this agreement and what is there that I can do to be helpful.

Taylor: Want to mention that you understand that there are certain things being done through the Export-Import Bank and so on? Perfectly proper to do it.

White: Here's a list of what they are considering. Just took it off the reports. All small, with the exception of a seven million dollar one.

Taylor: Well, they've got a bigger one that they're - I don't know whether they've got Central Railways of Brazil in there.

White: That's seven million dollars. That's the largest.

H.M.Jr: Would you say there's been a start made by the Export-Import Bank?

Taylor: I think it's perfectly proper to mention it.

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- White: There's some misunderstanding. Archie, when you went over to the State Department did you indicate that discussions of loans that were to be made by the Export-Import Bank in financing materials were exclusively the affair of the Treasury Department?
- Lochhead: Materials?
- White: There's been some misunderstanding about that.
- Lochhead: Not materials - the question of exchange.
- White: That's what I thought. But apparently the State Department misunderstands - or I mean Mr. Pierson misunderstands.
- H.M.Jr: Well, Mr. Pierson understands.
- Lochhead: Very much the opposite.
- H.M.Jr: Well, I don't know - I'm just thinking out loud - seeing that I haven't done my homework, why not just simply say, "Now, I'm very much interested in the common problems of our two republics, and what is there that your Finance Minister, Mr. Sousa Costa, thinks I can do to be helpful?"
- Lochhead: Want to refer to the fact that we did make arrangements with Sousa Costa.
- H.M.Jr: I'll say that he and I had a very good understanding when he left.
- Lochhead: Not only understanding; we had an arrangement made which is still open.
- H.M.Jr: All right, an arrangement. And I don't think there is much to add to that other than ...
- White: Would you want to go one slight step further, possibly, and say that you are also thinking of - you at the same time are also thinking of ways in which you might be of help; because if they just come back with a request, it might not involve the range of things that you're thinking about.
- H.M.Jr: Say "We're thinking about it also, but as of today I have no suggestions to make." I want to leave it very nebulous.

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White: Nebulous, yes.

Taylor: I think it's very important that it should be nebulous, because I just don't think we're set.

H.M.Jr: No, we're not; I'm not. Say, "The Treasury is studying the problem here and I wanted to let Mr. Sousa Costa know that, and I'd be glad to hear from him if he had any thoughts."

White: "The Treasury is studying ways and means of being of such assistance as they possibly could."

H.M.Jr: "To do both better."

Taylor: "Cooperation ... "

H.M.Jr: "... between the Treasuries."

White: I'd say a hint of a little more than that, but ...

H.M.Jr: Yes, but I don't

Taylor: That's plenty, Harry. The fact that the Secretary is calling him in here and making such a point of it - way, if this guy's a diplomat, or the equivalent, which we assume that he is, he'll know he isn't bringing him in here just to talk about the weather.

H.M.Jr: Well, last night after dinner I sat next to the Argentinian Ambassador; I said, "You know, I've never met your Financial Attache; if he's down some time, I'd like to see him."

Taylor: He's smarter than hell, too.

H.M.Jr: I said, "Yes, I feel that we've got problems such as sterling, for instance, and I'd like to talk to him about what this drop in sterling means to your country and what it means to ours." "I'll have him down next week."

I mean - so it was very funny - when they served the coffee, he said - you know how he is - he said, "No, thank you, I do not wish to take coffee."

So I said, "Golly, I didn't know that you fellows

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battled as strongly as that against any Brazilian product." He just shrieked. He said, "Coffee for wheat, wheat for coffee. Meantime, I don't drink any coffee." But it was just the way - and he's got a good

But I'm going to send for these different fellows and let them know. Now, maybe not a god-damn thing will come out of it, but at least I'm going through the role of getting the word to these different Ministers of Finance, and that's why I answer the way I answered to Mr. Sumner Welles. And if and when we get a breathing spell and we can do something and I can sit down and talk with Mr. Pierson and the rest of them - and as far as Mr. Hull is concerned, his attitude is "God bless you, go ahead and do just as much as you can." That's Sumner Welles' attitude and that's Herbert Feis's attitude. All I want to do is let these fellows know that I'm here and I'm interested. In the meantime, we've got to do a little homework; and I certainly - that's all I want to do now.

White: If you ask about what you're going to do for them, they may be thinking in terms of the previous request and offer with respect to the gold, which you agreed didn't amount to a great deal in view of the problem in hand. I wonder if you can hint in some nebulous way of something more than that between Treasuries, so they wouldn't be merely thinking in terms of the last transaction.

Taylor: It's open season. You're asking for any suggestions.

H.M.Jr: Can't we go on from there?

White: That's right.

H.M.Jr: O.K.

(Penteado comes in)

H.M.Jr: How do you do.

Dr. White - Mr. Penteado.
Do you know Mr. Taylor?

Mr. Lochhead.

Penteado: How do you do.

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H.M.Jr: Won't you sit down?

I thought it was time that we got acquainted.

Penteado: Yes, sir, I think so.

H.M.Jr: When your Minister of Finance was up here a few years ago - Sousa Costa - we had, I thought, very pleasant meetings with each other; and your country is very important to my country, and I wanted you to get a message to him.

Penteado: Yes, sir.

H.M.Jr: That if there is something more that your Treasury and the United States Treasury could do to bring the two countries closer together - we're studying here to see what we might do, and if you could get the message to Mr. Sousa Costa that if it was agreeable to him that he might study it; that we might go on from where we left off when he was here - I guess it must be pretty near two years ago.

Penteado: Two years ago, yes, sir.

H.M.Jr: And I'd be delighted to receive suggestions from him. But the - President Roosevelt knows that I'm doing this, Mr. Hull knows I'm doing this, and they're all delighted that I'm taking this step to send this message to your Minister. And it seems that there ought to be brains enough in both Treasuries to work out additional steps of closer cooperation.

Penteado: Yes, sir.

H.M.Jr: And that's the message that I wish you to convey.

Penteado: I'll be glad to send the message.

H.M.Jr: Any time that you have an answer, why, I'd be delighted to see you.

Penteado: Mr. Secretary, you wish me to get to Mr. Sousa Costa, if I understood you, the message that you would like some suggestion of what can be done in order to have closer cooperation between ... - is that what you mean?

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H.M.Jr: That's right.

Penteado: Certainly.

H.M.Jr: I mean we have this one arrangement; so let's see if we can't take additional steps to work closer together. And we're studying it here; these gentlemen are studying it for me, and if we have any suggestions, which I have not today - but if we have any, we'd like to make them. But I'd be most pleased to get suggestions from Mr. Sousa Costa.

Penteado: I'll be very glad to convey your message to Mr. Sousa Costa. As soon as I get the reply, I'll come in to you.

H.M.Jr: We think it's very important.

Penteado: We do too.

H.M.Jr: And I'd like to work with you and with Mr. Sousa Costa further.

Penteado: All right.

H.M.Jr: Thank you so much.

Penteado: Thank you very much, Mr. Secretary.

H.M.Jr: Thank you for coming down.

(Penteado leaves)

Now wait a second. Now, that's that. O.K., Wayne?

Taylor: (Nods yes)

E. PENTEADO

Attache to the Brazilian Embassy, Washington, D.C.

REPRESENTATIVE
NATIONAL COFFEE DEPARTMENT
OF BRAZIL

120 WALL STREET
NEW YORK CITY
WHITEHALL 4-1578

MEETING OF FISCAL AND MONETARY ADVISORY
BOARD (re possible WPA lay-offs)

November 22, 1938.
2:25 p.m.

Present: Mr. Eccles
Mr. Delano
Mr. Bell
Mr. Hopkins
Mr. Oliphant
Mrs Klotz
Mr. White
Mr. Taylor
Mr. Haas

Oliphant: I sent for all the other copies.

H.M.Jr: Well, this isn't for the President. Where's the thing that he's going to sign?

Oliphant: You mean from the

H.M.Jr: From Bell or the President.

Oliphant: From the President to Bell. I haven't got that written.

H.M.Jr: Oh my God! When will it be ready?

Oliphant: I can dictate it in thirty minutes. But I had to first get Corry Gill

H.M.Jr: Can you sketch it?

Oliphant: Oh yes. I can dictate it here.

H.M.Jr: What?

Oliphant: I can dictate it here. But I had to talk - just got back from Corry Gill.

H.M.Jr: Do you mind doing it here?

Oliphant: No.

H.M.Jr: Who would you like to have come in and take it? From your office?

Oliphant: The boy

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H.M.Jr: The boy - the trouble with the boy is, he won't do it so well.

You want Miss Chauncey to take it?

Oliphant: (Nods yes)

H.M.Jr: (On phone) Miss Chauncey - ask her to come in with pencil and paper.

What's this?

Bell: Copies.

(Miss Chauncey comes in)

H.M.Jr: Now, would you get this done?

What - Mr. Hopkins, you'd be particularly interested - Oliphant is going to dictate now what he thinks that the letter should be that the President should sign.

Oliphant: The purpose of this letter constitutes findings on the part of the President, Harry, under Section 2 of the Act, which findings make the money available and are necessary under the Act.

Hopkins: Uh-huh.

H.M.Jr: So this is a letter from the President to the Director of the Budget, from the President ...

Oliphant: ... to Bell.

"Reference is made to the provisions of Section 2 of the Emergency Relief Appropriation Act of 1938.

"I find that the following extraordinary emergencies and unusual circumstances have supervened since the apportionments of W. P. A. funds were made pursuant to the provisions of the Section just mentioned:

"(1) Reemployment in private industry has not kept pace with increase in industrial activities.

"(2) An unanticipated drop in the price of cotton has greatly accentuated the relief problems in a large area of the country.

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"(3) The critical foreign situation has had a detrimental effect upon recovery in this country.

"(4) The hurricane dislocated industry and trade in the Northeastern section of the country and added to the relief burden in that area.

"Because of these emergencies and circumstances, I direct that the apportionments of W. P. A. funds hitherto made on the monthly basis be, pursuant to the provisions of Section 2 of the Emergency Relief Act of 1938, modified by making such apportionments on the basis of eight months instead of seven.

"I further direct that all reserves hitherto set up against the appropriations in question be released."

That's the document.

H.M.Jr: Supposing you (Chauncey) type it, and this thing is to go down ... Well, I think Hopkins will want to take a look at that.

Oliphant: I went over that with Corry at lunch today. He and I had lunch together with Hanes.

H.M.Jr: Well, we ought to, just to get that started, just find out whether Mr. Delano or Mr. Eccles have any suggestions to make on this letter.

Delano: Eccles has the copy of that.

H.M.Jr: I find I have copies of that. There's a whole lot. Anybody want copies? I have a whole lot here.

Hanes: Are you sure you've got the last one?

H.M.Jr: This is the last one you left here.

Oliphant: This is the "skeenth" edition.

H.M.Jr: Mr. Delano, I'm sorry, this is no good.

Hanes: Let's see which one you've got.. ... - that's no good.

H.M.Jr: Well, let me give this to Mr. Delano to study.

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- Eccles: Is that the - is this it? This is the one we had.
- Hanes: You had the right one, but the Secretary didn't. They gave him another one.
- H.M.Jr: Shell game: now you see it, now you don't.
- Delano: We have the first copy between us, so you better keep that.
- H.M.Jr: I better read it myself. Has Hopkins got a correct copy?
- Hanes: Yes, he's got one. I gave it to him.
- (Gaston comes in)
- H.M.Jr: Johnny, you put in a new sentence on me. "Moreover, if present reserves are not released, the entire W. P. A. program would stop within two weeks." That's a new sentence.
- Oliphant: That was worked out at lunch.
- Hanes: That was worked out at lunch-time with Mr. Gill.
- Hopkins: I think that's a technicality. I'd strike that out.
- Bell: What Corry has in mind, Harry - he'll have to give notice.
- Hopkins: Well, it's technically true, but there would be a way of getting over that. I mean if we fired a million men, we wouldn't have to cut the whole program; there's some technicalities that make it very difficult to operate.
- H.M.Jr: But you don't want us to find it.
- Hopkins: He'd never understand it, without a lot of explanation; therefore, I don't think it adds a lot to the statement.
- Oliphant: Are you sure you want the letter from him to Danny Bell to cover both angles?

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- Hopkins: This isn't the letter from the President to Bell.
- Olliphant: I say, you want it in there?
- Hopkins: That's another matter.
- Taylor: It doesn't belong in this.
- Hopkins: I don't think it adds anything to this letter. He'd say we were crazy.
- H.M.Jr: This would be the first thing in the letter that he could say, "You're wrong."
- Now let me get - is there anything in here other - that I haven't seen before except that one sentence?
- Hanes: The only thing you haven't seen before, I think, was that last paragraph. That was worked out with Mr. Gill and Mr. Olliphant, using the language of the statute.
- H.M.Jr: "Therefore, the Fiscal and Monetary Advisory Board respectfully recommends that you both release all present reserves and also modify the apportionments by months hitherto made by reducing the period of apportionment from eight to seven months."
- Well, that's all right, but that other thing
- Hopkins: Now wait a minute, if this gives you complete protection, the eight months to seven months - as a matter of fact, what I have up to now planned is seven and a half months; now it's going to be very tough sledding on our part, but that's what we had in mind.
- Bell: Can you make this last to the 15th of February?
- Hopkins: If the President asked that, I'd say yes. I don't want anybody in this room - it isn't a vital matter; that's what I'm going to do anyway. As a matter of fact, I've already put the thing in motion.
- Bell: That would make it easier.
- Hopkins: This makes it perfectly simple.
- Bell: Makes it easier for you to defend when you go up on

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the Hill in January.

Hopkins: I think it's all right.

H.M.Jr: "ait a minute, Harry, this is the way it was when you and I -: "Therefore, the Fiscal and Monetary Advisory Board recommends that you make available the \$175 million of additional funds for work relief purposes by the authority vested in you in accordance with the provisions of the Emergency Relief Appropriation Act of 1938."

Now, this letter is to be a letter that any grade school child can understand. This thing - that last sentence - belongs in a letter from Bell to the President, and I don't think that that technical language belongs in here.

Oliphant: But there is no \$175 million in the picture anywhere. There is no \$175 million mentioned in the appropriation act at all.

H.M.Jr: There isn't?

Oliphant: No, sir.

Bell: No, the \$175 million was added by the Senate, but wasn't separately set aside.

H.M.Jr: Well, is that all right with you (Hopkins), before we ask these other people? "Therefore, the Fiscal and Monetary Advisory Board respectfully recommends that you both release all present reserves and also modify the apportionments by months hitherto made by reducing the period of apportionment from eight to seven months."

Hopkins: In effect that's what he's got to do. Simply recommending to him the thing he's really got to do.

Eccles: "All present reserves" - of course, if that's 175, it's everything that's available.

Bell: About 209 million dollars in reserves.

H.M.Jr: "Release all reserves" - which is what?

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Hopkins: Little over 200. This is correct. As a matter of fact, if you're going to say what you want to say, might as well say the whole business.

H.M.Jr: But leave out "Moreover, if present reserves are not released, the entire W. P. A. program would stop within two weeks." Leave that out.

Hopkins: I wouldn't say that.

Hanes: Leave out the "Moreover" sentence.

H.M.Jr: Leave out the sentence "Moreover.... two weeks."

Oliphant: Check. That's O.K.

H.M.Jr: What?

Oliphant: Check. That's O.K.

Taylor: On the first page - you cut out the 175 there?

Oliphant: Yes, that's been changed.

H.M.Jr: Well now, Harry, this the way it is is all right with you?

Hopkins: Fine.

H.M.Jr: Now let's go to Mr. Delano.

Delano: I think that's the - you (Eccles) give him my ...

Eccles: Well, I have a question or two on the whole thing.

H.M.Jr: Please.

Eccles: I mean I

Delano: I'd like to have you hear this before

H.M.Jr: Please.

Eccles: Looking at this thing as a letter from this Board to the President is quite a different matter than possibly looking at it from a technical Treasury point of view or from a technical point of view, as

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Harry might look at it, or the legal point of view; that we are - it seems to me we've got to look at it as a question of the economic effect on the recovery, on the economy. And yesterday in preparing the letter we did have a paragraph - in fact, we had three of them, but - and you pointed out that two of them looked like certain duplication; but it does seem to me that this committee ought to have in here a paragraph that had some relation, it seems to me, to the purpose for which we were appointed. You say nothing at all about the economic effect, about the question of timing, about anything else, and I think we've got to have that as a justification for the recommendation. We don't need to elaborate on it, but certainly we ought to say something about it.

- Delano: Mr. Eccles makes a good point. I didn't see the previous draft, but perhaps a very few words would be all that's necessary.
- Bell: Doesn't the third paragraph have some of those ideas, Marriner?
- Eccles: Yes; it touches it pretty mildly, though. The first three lines are the only part of it which seem to do that.
- (Miss Chauncey brings in draft of letter dictated by Oliphant)
- Bell: No, the whole paragraph, showing how much has been spent, how WPA shows a lag, timing hasn't been good.
- H.M.Jr: Give this to Bell.
- Delano: Mr. Secretary, this will come out in the papers, will it, I suppose?
- H.M.Jr: No, no.
- Delano: You don't think so.
- Hopkins: I don't.
- Delano: Simply a confidential letter to the President, or should it state the case which the papers will pick up or carry its own explanation?

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- H.M.Jr: Hopkins shakes his head and says he doesn't think it will.
- Hopkins: No, I don't think so.
- Bell: This or some statement equivalent to it will have to come out at the time Harry goes to Congress.
- Hopkins: That letter won't get out. The letter coming back may get out.
- Delano: Oh, that will come out.
- Eccles: It would seem to me that there won't be any occasion to release this letter now, but it may be that if the matter comes up with Congress, then it would just depend upon the circumstances as to whether this letter would be helpful before Congress. As I understand, this is an attempt to influence the President to do this, in the first place, and second, to give him support for this action if it's taken. We don't make a very strong case on the reasons for it. We touch it, but that's all, but our case isn't - yesterday we had the last paragraph, "In view of the foregoing, the Fiscal and Monetary Board feels that from the standpoint of a proper timing of Governmental expenditures with the requirements of the general economic situation, it would be exceedingly unwise to cut work relief expenditures drastically at this time." Now, something of that sort ...
- H.M.Jr: I wouldn't object to that much.
- Eccles: That's my point.
- H.M.Jr: I wouldn't object to that.
- Eccles: The question of timing and its influence on the general economic conditions make it unwise to cut this thing. That's why we're recommending it.
- H.M.Jr: I'll take that sentence.
- Eccles: See?
- H.M.Jr: I'll take that sentence.

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- Eccles: I don't know if you'd say that exactly, but that thought.
- H.M.Jr: If you keep it to that, not make it what the other - the question of consumer goods
- Eccles: Oh no, I'm perfectly willing to keep it to that; that will tie it up with the responsibility of the committee a little more than this seems to me to tie it.
- H.M.Jr: May I read it?
- Eccles: Last paragraph.
- H.M.Jr: I'll take that paragraph. I'll take it.
- Eccles: I don't know that we can fit it in verbatim to what we've got, but if the thought of it is put in
- H.M.Jr: Well, you've got enough drafters in here
- Delano: It seems to me, Mr. Secretary, Mr. Oliphant's draft of the letter from the President shows that the President knew more than we were giving him. You don't give him support for what you're asking him to write to you.
- H.M.Jr: Yes, I'll take that paragraph.
- Oliphant: The only new circumstance I mentioned here that isn't mentioned in the letter is the cotton item.
- H.M.Jr: Is the cotton necessary?
- Oliphant: I'd like to have it in on the basis of what Corry Gill says.
- Delano: One section of the country
- Bell: Involves an estimated - I don't know whether they actually put on that many people - involved putting on two hundred thousand people at one time.
- H.M.Jr: Guess that's what Gill had in mind.
- Bell: More than the hurricane.

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- H.M.Jr: Pardon?
- Bell: A great many more than the hurricane involved.
- H.M.Jr: Anything else besides that one sentence?
- Eccles: No, that's the I want the thought that's contained in that sentence. You're not - you don't insist on the sentence just as it is.
- H.M.Jr: Just the thought.
- Eccles: The thought. I suggest that White see what he can fit into it.
- H.M.Jr: I'll take that thought.
- White: I can read aloud what might be the possibility, if you want to listen to it now, beginning with the last paragraph - that is, the last suggestion is: "It would now be necessary to cut the W.P.A. rolls by almost one million workers if we are to remain within the apportionments of funds by months hitherto made pursuant to the Emergency Relief Appropriation Act of 1938." Then: "It is our opinion that such a drastic curtailment of the relief rolls at this time would be extremely unwise from the standpoint of continued recovery. In view of the foregoing, the Fiscal and Monetary Advisory Board respectfully recommends....." That's putting as little as possible; it may not be enough, but at least it does sum up the statement.
- H.M.Jr: If it satisfies Mr. Eccles ...
- Eccles: Well, it hasn't got the timing.
- Taylor: Hasn't got the timing, which is the important thing.
- White: You can say: "In view of the foregoing, the Fiscal and Monetary Advisory Board feels that, from the standpoint of a proper timing of government expenditures with requirements of the general economic situation, it is necessary - or it is desirable - that you both release all present reserves....."

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Eccles: Or "... it would be unwise to make this curtailment, and therefore"

White: "... we recommend..."

Eccles: "... we recommend that you release..." - "... feel it would be unwise...."

H.M.Jr: That sentence that Mr. Eccles showed me - I thought it was all right. I'd take that gladly.

Eccles: It's the substance of that that he's trying to fit in.

H.M.Jr: I can wait.

Eccles: We haven't checked with Ruml on this yet, have we? Said we'd get him on the phone.

H.M.Jr: I wanted to satisfy Mr. Delano first.

Delano: Yes, I would like to check with Ruml, because he's been paying some close attention

Eccles: The reason I mention it - he sat in on this tentative preparation yesterday all day and had some fairly definite views.

Delano: I understood that he had. I've been trying to get him this morning, but without success.

H.M.Jr: Got some thoughts, Harry?

Hopkins: No, I've just got a paragraph on top of all you've written here.

H.M.Jr: (On phone) Tell Miss Chauncey to come in, please. Is it all right?

White: This is a simple statement.

H.M.Jr: Go ahead and read it.

Taylor: This is reading the last paragraph.

H.M.Jr: Do you want to listen to this, Merriner?

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- Taylor: "It would now be necessary to cut the W.P.A. rolls by almost one million workers if we are to remain within the apportionments of funds by months hitherto made pursuant"
- H.W.Jr: Little louder.
- Taylor: I'm just reading that first sentence the way it is. Then you jump to this. "It is our opinion that from the standpoint of a proper timing of Government expenditures with the requirements of the general economic situation, it would be exceedingly unwise to cut relief expenditures drastically at this time. Therefore, the Fiscal and Monetary Advisory Board respectfully recommends that you both release all present reserves and also modify the apportionments by months hitherto made"
- H.W.Jr: Do you mind reading it agsin?
- Taylor: First sentence the way it was; then you say: "It is our opinion that from the standpoint of a proper timing of Government expenditures with the requirements of the general economic situation, it would be exceedingly unwise to cut relief expenditures drastically at this time. Therefore, the Fiscal and Monetary Advisory Board" - last sentence.
- H.W.Jr: All right with you, Marriner?
- Eccles: Yes, that
- H.W.Jr: Is it all right, Mr. Delano?
- Delano: (Nods yes)
- H.W.Jr: Now - Hopkins?
- Hopkins: Yes, that's all right.
- Eccles: Harry had a suggestion.
- Hopkins: Different words with the same thing.
- H.W.Jr: Is that all right with you, Hanes?
- Hanes: All right.

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H.M.Jr: Bell?

Bell: That's all right with me. I had one other suggestion, not in that paragraph.

H.M.Jr: All right, let's have it, please.

Bell: Where they talk about 34 million dollars withdrawal from the Treasury, that could be tied up with the program authorized under the Emergency Relief Act of 1938, because there was 45 million withdrawn from the Treasury under the old program which was in the picture at the time the Act was passed.

H.M.Jr: So how should it read?

Bell: I gave Harry White some ...

H.M.Jr: Got it, Harry?

Bell: ... suggestion for changing it.

Taylor: On the first page.

Eccles: It's a technical correction, isn't it, Dan? It's to make it factual.

Bell: So that P.W.A. can't come back on you and say, "We spent 80 million dollars instead of 34 in that period."

H.M.Jr: It's 34 out of the new appropriation.

Bell: That's right.

White: Shall I read the sentence?

Bell: Well, it's only that I suggest inserting right after the \$34 million "under the program authorized by the Emergency Relief Appropriation Act of 1938, excluding Federal projects."

H.M.Jr: Well, you're just making a technical correction. Now, can't we get this thing typed? Have you got a stenographer?

John, is this all right with you?

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Hanes: Yes, fine.

H.M.Jr: Do you want to add anything? Does anybody want to add anything?

Oliphant: I think that sentence ought to lean over backwards in being frank. It ought to disclose the full amount that W.P.A. and P.W.A. put out - still a very small figure.

H.M.Jr: What would you say?

Oliphant: I'd add both figures together.

Taylor: Stick it all in. Doesn't do any harm.

H.M.Jr: How would it be to do it this way - I mean roughly, Dan - that P.W.A. put out 80 million dollars, of which only 34 was of the Act

Eccles: That's better.

H.M.Jr: How's that? Out of 80 million dollars, only 34 of it was of the Act of '38.

Eccles: Well, certainly P.W.A. won't have any complaint if that's done.

H.M.Jr: How's that?

Oliphant: You're giving the President a full picture.

White: Do you want to repeat that phrase, Herman, as finally decided upon?

Oliphant: Just the way the Secretary had it.

H.M.Jr: I mean Bell

Bell: Say "about 80 million" there where you've got P.W.A.

Taylor: Instead of "less than 34," say "80."

H.M.Jr: "... of which..."

White: "... about 80 million, of which 34 ..."

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Oliphant: "... only..."

Bell: "... of which only 34 million ..."

Taylor: "... of which approximately 34 million" instead of saying "only."

H.M.Jr: "Only" lays the emphasis that it is only

Taylor: Well, I think that it's better to say "approximately" for that reason.

H.M.Jr: I think it's quite different if it's "only."

Bell: Yes, you're emphasizing ...

Oliphant: Otherwise you're not carrying your thought.

H.M.Jr: Marriner, what do you want, "only" or "approximately"?

Eccles: Well, "only" is a little more effective than if you say "approximately." I'd sooner see "only" myself.

H.M.Jr: Do you care, Mr. Delano?

Delano: No.

H.M.Jr: All right.

Bell: "... from the last appropriation act." "... from the 1938 Relief Act," if you want to make it short. There are some Federal projects in another expenditure item, but we can't separate them.

H.M.Jr: Better show it to Dan, so that it's all right.

Bell: It reads now: "We find that from July 1 to November 18 the total withdrawal from the Treasury by the United States Housing Authority was less than four million and by the Public Works Administration about 80 million dollars, of which only 34 million was from the 1938 relief appropriation."

Taylor: That "only" is a bad word in there.

Hopkins: It doesn't add anything to it.

Haas: "... of which 34..." you can say.

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- White: Well, if "only" doesn't belong there, then neither does the whole phrase, since that's the significance of including it.
- Eccles: The purpose of it is to point out that it is an insignificant amount and therefore the justification of this expenditure.
- Taylor: well, I don't want to be too stubborn about it, but I think "only" is a fighting word in that particular context, and I don't think it is necessary to use it.
- Eccles: Well, the point is, why mention it? I mean it seems to me, Wayne, that if you're going to use this as an argument for this increased expenditure, and that's what it's used for and for no other purpose, that the sentence doesn't seem to convey the idea unless you say that "only" this much has been spent.
- Taylor: Well, you take the rest of the context here. "It was naturally very difficult to predetermine..," see, and so on. You go along in very factual manner, talking like an economist, which is what you're trying to do. And all of a sudden you say "only this much comes out."
- H.W.Jr: Would you say "this much came out"?
- Taylor: Yes.
- H.W.Jr: Take both "approximately" and "only" out?
- Taylor: You can take "approximately" out if you want to, but I think that "only" is a fighting word and you don't need to put it in there. It doesn't add anything to it.
- White: I'll have it typed.
- H.W.Jr: Come on, some of you other fellows, settle this.
- Eccles: Of course, sometimes you've got to use a fighting word to get your point.
- Gaston: I think the sentence is pointless without the word "only" or "less than" or "but" or some other diminutive. You're preceding it with an apology for the fact that the expenditures were small.

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- H.M.Jr: Hurry, Harry, hurry.
- Gaston: It naturally follows that you use the word "only" to indicate they were small.
- Taylor: You don't say that, though, Herbert. You make a finding of fact that from July 1 to November whatever-it-was the total withdrawals and so on
- Oliphant: What was the total authorized, Wayne?
- Hopkins: Well, a billion and a half.
- Eccles: If you want to put in the figure of a billion and a half and then say that 34 was used, then you can leave "only" out.
- Taylor: Do it that way. Say "of the total authorizations" and give the amount.
- Eccles: Say "34 was used." I'd cut out "only" - self-evident.
- Delano: Very small figure.
- Eccles: But I think without the total picture you've got to use "only" there to point that thing out; otherwise, it's pointless. But if you want to put in the billion and a half authorization and say 34 was used, why, that speaks for itself.
- H.M.Jr: How would you do it, Mr. Delano? I'm kind of tired.
- Delano: Well, the "only" comes before that - is 80 million the carry-over from last year?
- Bell: The 80 million includes the 34. Might say "80 only" - "of which 80 million" - that's even small.
- Eccles: Well, Wayne's point is that "only" is a fighting word and you don't want to put it in, it serves no purpose; so whether you put it one place or the other wouldn't get away from his objection.
- H.M.Jr: Well, say "P.W.A. has spent 80 million out of the billion and a half appropriated."
- Eccles: Well, that complicates it.

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- Bell: It isn't a billion and a half.
- H.M.Jr: What is it?
- Bell: It's only 965 million that they're talking about here.
- Oliphant: Well, let's examine whether or not it is a fighting word, if you want to take that time.
- Bell: I don't think so.
- H.M.Jr: Well, I think the letter is a fighting letter. It should be.
- Eccles: Well ...
- H.M.Jr: I think the whole letter is a fighting letter.
- Eccles: What I think is that this is an issue that's worth fighting for and if anything the letter isn't - doesn't have enough fight in it. I'm not deterred because of the fact that we've got - we're using a fighting word or it's a fighting letter. I'm worried about the question are we making a strong enough fight to carry the point? This thing is sufficiently important that we ought to put up a hell of a fight if we have to; that's the way I feel about it.
- H.M.Jr: You and me both.
- Eccles: I don't care about holding punches at all in this; if you feel it, you feel it.
- Gaston: The whole force of that is devoted to stating that not much has gone out on this heavy expenditure, and you're not just engaged in setting down statistics; I think the word "only" is needed to make your point.
- H.M.Jr: Want to settle it, Mr. Delano?
- Delano: I think I'd use "only." I see Mr. Taylor's point. But this is a letter to the President; we're trying to point out that after all only a small amount has been expended on this - this last appropriation.

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H.M.Jr: Are you satisfied to use it, Marriner?

Eccles: Well, I'm - I'm not satisfied not to use it, or something else.

H.M.Jr: Well then, we're unanimous on it, unless Harry objects; of course, he might object.

Hopkins: (Nods no)

H.M.Jr: (Laughs)

Harry would say it's even more diminutive - just a measly trickle - 34 million.

Eccles: I think it's really a compromise, Wayne; if you really got the feel of this meeting, it's only a compromise.

H.M.Jr: If you put each dollar end by end, it would only go around the world half a time.

Taylor: I don't feel very strongly about it; just wanted to call attention to the fact that if you put it in there, why, you were saying it that way.

Eccles: That's right.

Taylor: And that you were - the tone of the letter was supposed to be one of slight detachment and finding that things were so.

H.M.Jr: Well, I think that point is settled, as long as you people feel that way. I think that, to echo Mr. Eccles' - didn't mean it that way - sentiments, I say that I can't approach this with a viewpoint of detachment. I just can't be detached on this.

I've got to be careful on my puns. I see that the New York Times boxed one in their news yesterday. They asked me how the British pound would be and I said, "Time only will tell, and if they don't, the New York Times will." They ran it in a little box. It was a terrible pun, because when I said "Time only" I mean the Time Magazine; so the Times takes it on itself.

Gaston: We can suggest to Time Magazine that they use it and

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reverse the capitalization and put it "Time will tell, and if not the times will."

H.M.Jr: After I said it, I realized it's a terrific pun.

Klotz: Terrifically good or bad?

H.M.Jr: Bad. But the New York Times seems to like it. Put it in one of their boxes - solicitation for advertising.

Now, can you (Oliphant) read yours? Got your correction? Waiting for Miss Chauncey?

Oliphant: We're waiting for Miss Chauncey.

H.M.Jr: And then as soon as we get this, Mr. Delano, do you want to read it over the phone to Mr. Ruml?

Delano: Yes, sir, I'll be glad to do it.

H.M.Jr: I think it's a good letter.

Hopkins: Are we going to discuss the letter Mr. Oliphant dictated?

H.M.Jr: As soon as it comes in, which ought to be any minute.

Eccles: Harry, I'd like to - you mentioned that seven and a half months. Are you planning to reduce it so it will last seven and a half?

Hopkins: (Nods yes)

Eccles: How many?

Hopkins: Put it down about the middle of February to two million eight, about 400,000 less than we've got now.

Eccles: How much will that involve in dollars? About seven million a month decline, commencing with December?

Hopkins: Well, beginning right today. It began ten days ago.

Eccles: That will be

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Hopkins: As a matter of fact, it began about the second or third of November.

Eccles: ... 14 in December, 21 in January, about 28 in February.

Hopkins: Yes. That's a theoretical base. Don't know how it will average out.

Eccles: In the meantime, Congress will be here in January.

Hopkins: In the meantime, I think the curve in P.W.A. shows an increasing number of dollars going out; if you're going to add the dollars that go out from P.W.A. and that go out from us, I think the amount of dollars going out from the Federal Treasury would stay fairly constant in December and January. The question of the velocity there is not a matter

Eccles: A real difference.

Hopkins: Yes. On the other hand, some of their stuff does push out into private credit that isn't reflected in the Federal books. For instance, the cement manufacturer discounts his stuff at the bank; the bank handles some of that stuff.

(White hands H.M.Jr. another draft of letter to President)

White: One word missing.

H.M.Jr.: One word missing?

White: Yes.

H.M.Jr.: Shall I read this out loud?

Bell: Uh-huh.

H.M.Jr.: The first paragraph - the first paragraph is the same. "It was pointed out in the spring of '38 when you recommended to Congress comprehensive recovery legislation of which the appropriation for work relief formed an important part, the possibility was envisaged by Congress that a situation might arise which would call for expenditures beyond those anticipated at that time.

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"Although there has been a marked increase in industrial production, and, it is believed, a sound foundation for the continuance of recovery has been established, nevertheless the level of unemployment remains higher than was anticipated. It was naturally very difficult to predetermine accurately when expenditures on the heavier type of projects represented by the public works and public housing programs would become fully effective. We find that from July 1st to November 18, 1938, the total withdrawal from the Treasury by the U. S. Housing Authority was less than \$4 million and by the Public Works Administration, under the program authorized by the Emergency Relief Appropriation Act of '38, exclusive"

Bell: No, that's wrong.

H.M.Jr: That's wrong. I knew it was.

White: The "exclusive" belongs out.

Bell: The whole thing is twisted around. They didn't copy what was at the bottom of the page.

White: They did, but ...

H.M.Jr: Well, the idea there is wrong.

"Whereas, the total withdrawal by the Works Progress Administration for the same period amounted to approximately \$882 million.

"In addition to the foregoing, the New England hurricane dislocated industrial production over a wide area and also imposed additional burdens on the Works Progress Administration. Private re-employment has been and is being further retarded by the depressing effects on American trade and industry of the extremely critical international political situation. Finally, there has been an unanticipated lag in private employment despite the sharp increase in industrial production. A combination of these circumstances has thrown most of the recovery burden on the W.P.A. portion of the recovery program during the last five months.

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"It would now be necessary to cut the W.P.A. rolls by almost one million workers if we are to remain within the apportionments of funds by months hitherto made pursuant to the Emergency Relief Appropriation Act of 1938.

"It is our opinion that from the standpoint of the proper timing of Government expenditures with the requirements of the general economic situation, it would be exceedingly unwise to cut work relief expenditures drastically at this time. Therefore, the Fiscal and Monetary Advisory Board respectfully recommends that you both release all present reserves and also modify apportionments by months hitherto made by reducing the period of apportionment from eight to seven months."

Well, as far as I'm concerned, it's all right.

Eccles: All right with me.

H.M.Jr: Mr. Delano?

Delano: I think it's all right, but I would like to - I don't think that's the form that Ruml passed on, and if I could call him up I'd like to tell him how much of this follows the original form and how much has been changed.

H.M.Jr: Well, you can go into Mr. Hanes' room.

Delano: I'll do that, and

H.M.Jr: There were things in it which, if you'd like to know what I thought - I felt editorialized too much and went into some things which I'm not quite sure I'm convinced of, see?

Delano: I see.

H.M.Jr: And I mean that's why I asked to have them left out. But we're free and I'm willing to listen. But I'm happy over this - the other thing.

Delano: It seems to me it's all right.

Eccles: Well, this has practically all of the thoughts, it seems to me, that the other had.

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Taylor: Left out one.

H.M.Jr: Just another way of meeting.... - what did you say, Wayne?

Taylor: Left out only one thought, which was the one about the consumption level. Everything else is in there.

Eccles: That was a technical economic thing that was difficult to explain.

H.M.Jr: That's the thing I'm referring to which I would a little bit rather have left off; but I'm more than pleased to discuss it if you feel it's important. Is that fair?

Delano: That's entirely fair.

H.M.Jr: Now, Harry, have this fixed up with Bell. Do it again while we wait.

White: Yes, we can just step outside.
(Bell and White go out)
(Brief intermission ensues)

H.M.Jr: We'll go ahead with the letter from Bell to the President.
(Delano goes out)

H.M.Jr: Well, go ahead with that. Where are we? Do you want to read this out loud? You've got

Hopkins: I've got a copy.

H.M.Jr: Shall I read it?
"My dear Mr. Bell:" Shall we do this without Bell here? Let's wait a minute. Don't you want to?

Hopkins: I think we might discuss some things about it even though Bell isn't here.

H.M.Jr: All right.

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"Reference is made to the provisions of Section 2 of the Emergency Relief Appropriation Act of 1938.

"I find that the following unforeseen extraordinary emergencies and unusual circumstances have supervened since the apportionments of W.P.A. funds were made pursuant to the provisions of the Section just mentioned:

"1. Re-employment in private industry has not, to the degree expected, kept pace with the increase in industrial activity.

"2. An unanticipated drop in the price of cotton has greatly accentuated relief problems in a large area of the country."

Will Wallace object to that?

Hopkins: I'll say he'll object.

H.M.Jr: All right. May I just make a footnote: "Page Henry Wallace."

Eccles: Why say the price of cotton only? You've got corn, wheat. It seems to me the price of agricultural products, or certain agricultural products, instead of singling out - Wallace won't disagree that there has been a great drop in the price of certain agricultural products.

Oliphant: All right.

H.M.Jr: Why not say "agricultural commodities" - "the price of agricultural commodities."

Eccles: All right - "products and commodities."

Taylor: I think that it's a big - unless you absolutely have to have it, it's a big mistake to put it in.

Oliphant: Well, this is not a

Taylor: I mean in addition to pointing out certain other things that have gone wrong with the general program, why, you throw in agriculture too; and to have the

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President put that in a published letter that's going to Bell and so on, which has to be published - I think it would be very unfortunate.

Oliphant: It doesn't have to be published at this time.

Eccles: It will be, though.

Oliphant: It has to be published when it goes to Congress.

H.M.Jr: I raise - I think it's - you got how many reasons - four reasons - and I think it's very unfair to Henry Wallace.

Oliphant: Well, suppose you said "certain agricultural commodities."

H.M.Jr: I don't see why you have to say it at all.

Oliphant: Well....

H.M.Jr: You don't say

Oliphant: Then I'd like to postpone the discussion until Dan gets here, if there's doubt about it.

H.M.Jr: You'd like what?

Oliphant: I'd like to postpone the discussion until Bell gets here.

H.M.Jr: I don't see what legally it adds to it.

Oliphant: Well, this money is not available at all, Mr. Secretary, unless the President can point to certain concrete extraordinary emergencies and unusual circumstances which could not have been anticipated.

Hopkins: Have you got the copy of the law there?

Oliphant: Yes.

Hopkins: How does that Section read?

Oliphant: "... except upon the happening of some extraordinary emergency or unusual circumstances which could not be anticipated at the time of the making of such apportionment." Now, you're not now dealing with the

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question of publicity; you are now dealing with the question of what has to happen in order, under the law, to make the appropriation available, and ...

Hopkins: Well, I've got two suggestions to make to this room.

Oliphant: Well, what would you think, Harry, if you said "prices of certain agricultural products"?

Hanes: Why not say "certain commodities"?

Hopkins: I feel very strongly about this one. This has got to be a legal document, but at the same time this might become a very important political document. I would certainly have a sentence in this document which you've got in the other one: "Although there has been a marked increase in industrial production and, I believe, a sound foundation for the continuance of recovery has been established..." - I'd put a sentence like that in this letter. Unless you are forced to the bitter end, I'd take out this agricultural thing, lock, stock and barrel, because I just think that - that's just political dynamite.

Oliphant: Well, is there any secret about the fact that these commodity prices have dropped? Just what is the political dynamite? I want to look at it.

Hopkins: You say it has greatly accentuated relief problems in a great area. You certainly do lay the whole farm problem on the line and say everything the Republicans say.

Oliphant: Well, the Republicans didn't say the prices have dropped. The market pages say it. I'm not saying what the Republicans say.

Hopkins: Well, on legal grounds, after all, one reason is as good as three.

Oliphant: If none of them are very good, you might need about seven. I'm not any too well satisfied with it as it is, putting in all I could get.

Gaston: The interpretation would be that we've been cursed with abundance and that's the emergency.

(Bell and White return)

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- Taylor: That it's too bad.
- Hopkins: I'll tell you how many people are on the relief rolls because you cut down the production of cotton, but I don't want to.
- Oliphant: Well, that's not an unanticipated one. And for the same reason I'm not making any reference in this document - I want to point that out to you, Mr. Secretary - to the fact that you're slow in getting your P.W.A. under way, because that was not unanticipated; the answer to that is that you could have anticipated it and hurried it up. What I've tried to do is to stick to facts, events that you couldn't anticipate, and, putting them all together, you don't have any too much.
- H.M.Jr: Well, if the idea is to hang it on somebody who isn't in the Administration, why not say - now, wait a minute - that you've got your international situation in there - an act of God.
- Gaston: You're implying that God isn't the Administration.
- Eccles: Yesterday we went all through this.
- Klotz: Hear what Gaston said?
- H.M.Jr: Sometimes I wonder, Herbert.
Now, I'm 50 percent serious on this suggestion - unanticipated drop in sterling and its repercussions on the commodity prices.
- Hopkins: You've got Hitler and Chamberlain both there.
- Taylor: You've got them both.
- Eccles: You've already got them both in on the international situation.
- Oliphant: There's something to that, I'm satisfied. I'm satisfied if you let me work it up that way
- H.M.Jr: I'm 50 percent serious.
- Oliphant: I'm 100 percent.

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- Walte: I'm 100 percent against it.
- Hopkins: Dan, does this under the law have to become a public document?
- Belli: No, except that ...
- Taylor: It will be.
- Bell: ... for some reasons....
- Hopkins: You've got to notify Congress.
- Bell: ... some reasons like this have got to go to Congress when you ask for additional money.
- Oliphant: "... except upon the happening of some extraordinary emergency or unusual circumstances which could not be anticipated at the time of making of such apportionment. The same may be waived or modified by the President, who shall fully set forth the reasons therefor at the time of any such action" - he has to put it down in writing - "and shall communicate the same to Congress in connection with any estimates for additional appropriations to carry out the purposes of this title."
- Hopkins: Probably means he shall communicate the same document, doesn't it?
- Bell: Probably does. That would be the safest thing to do.
- Hopkins: Be the right thing to do.
- Bell: The right thing to do. In January that could go up.
- Eccles: Why not pass that up for the moment and take the rest of them, see if there's enough in there to eliminate this agricultural matter, come back to it?
- A.S.Jr: Don't want to also put in "due to the fact that our purge in Iowa was unsuccessful, it is therefore necessary"?
- Hopkins: We can go
- Taylor: Go ahead.

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- Hopkins: You can go back to sterling if you want to.
- Eccles: Think you better go forward, not backward.
- Hanes: Sterling didn't drop quick enough; that's the trouble.
- Hopkins: The British never missed a bet yet, and I don't think they missed one this time.
- (White steps out)
- H.M.Jr: All right. I've been a little facetious. Now what?
- Oliphant: Has White left the room?
- Haas: You scared him away.
- Hopkins: White did have a fit on that one.
- Oliphant: I would like to point out that, following out your idea, I want to keep that idea in.
- H.M.Jr: You like that?
- Oliphant: That but for the price situation, the acute price situation in the international commodities, the situation would have been different; and that is directly related to exchange.
- Hopkins: I like that idea, because I'm sure nobody on the Hill or anywhere else will understand it. I think it sounds like an awfully good reason.
- Taylor: We can write one like that for you, Herman.
- Eccles: The very fact they don't understand it, though - they may ask somebody to go up to explain it.
- H.M.Jr: You notice I'm being very facetious since we finished our letter; but this letter that Bell is going to write - I'm having a good time. I was very serious, but now I'm having a swell time.
- Taylor: Herman's driving me nuts on this one.
- Oliphant: Well, I agree that that first suggestion of yours, that we put in that little - you know -

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Hopkins: Yes.

H.M.Jr: ... ivory up there at the top.

Oliphant: But I'd like to work out that commodity price thing and see if we can't work that in.

H.M.Jr: Bell, this is your letter, old man, so what you going to put in it?

Bell: Well, this is a letter directed to me; I'm on the receiving end.

Taylor: Attaboy, Dan.

Bell: The last paragraph is really the only one I'm interested in, where I get the direction.

H.M.Jr: How about sending a carload of lawyers down with this letter to the President, so that he can

Taylor: If you don't give him a return ticket, it's fine.

Bell: This is crazy.

H.M.Jr: Herman, you want a little more time?

Oliphant: Yes, I'd like to see with white if we can't work out a formula satisfactory to everybody.

H.M.Jr: Why don't you go back to your office? And then the only people really - Hopkins will want to see it. Did you (eccles) want to see it?

Eccles: Not necessarily. This is not my

H.M.Jr: Let's wait a minute until we hear from Mr. Delano, clear that up.

Oliphant: Want to read the rest of it?

Hanes: Want to read the rest of it?

H.M.Jr: Oh, is there more? All right.

"3. The critical foreign situation has had an adverse effect on recovery and private employment in this country." You know what the President is going to say to that? "That's what Herbert Hoover said in '32."

(Walte returns)

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"4. The hurricane seriously dislocated industry and trade in the northeastern section of the country and added to the relief burden in that area.

"Because of these emergencies and circumstances, I direct that the apportionments of W.P.A. funds hitherto made on the monthly basis" and so for and so on.

Herman, do you want

Olliphant: I'd like to talk that over with White and Haas.

H.M.Jr: Let's wait for Mr. Delano. White's in on the other thing.

Bell: White and I switched the word "only."

H.M.Jr: From which to what?

Bell: Put it before the 30 instead of before the 34. If you put it before the 34, it's only 34 of the 80, and that isn't the impression you want to leave.

White: It belongs before the 80.

Bell: It belongs before the 80; you see, if you put it "only 34," it's only 34 out of the 80.

H.M.Jr: Isn't that correct?

Bell: That's correct, but that doesn't impress you with the smallness of it. It's half of the 80.

H.M.Jr: What?

Bell: It's half the 80.

Eccles: Only 34 of 80 is half of it, which is not so bad; but 80 of seven or eight hundred is only a tenth, so that's bad.

Olliphant: Billion and a half.

Bell: No, it isn't a billion and a half.

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Eocles: It's the appropriation.

Bell: Well, it was a billion and a half if he sold his bonds, but he isn't taking any bonds; they're all grants.

Hopkins: Well, he can give the whole business out in grants if he wants to; therefore, it's a billion and a half.

Bell: No, it isn't.

Hopkins: Certainly is. He's got power in the Act to give away a billion and a half dollars if he wants to.

Bell: Only in case he takes bonds for 55 percent of the 965 million.

Hopkins: The power is there. If he doesn't take bonds and makes all grants, he can make grants up to the billion and a half.

Bell: I don't think so.

(Delano returns)

H.M.Jr: Well, we'll come back to that in a minute?

Bell: Yes, sir.

Delano: Dr. Ruml checks all right on this. He said he thought it was a very good idea to leave out that paragraph about consumption. Said that was simply intended for information; not essential to it.

He made another point about policy in general that I think is very good. It was running through my head when I asked if this were to be given out to the papers. He said, of course, if the President wanted to give it out; all right, but he wanted to point out that it might be a bad precedent to establish if every time the President asked our opinion or we had some suggestion to make to him, ipso facto it were going to be given out; and pretty soon you'd begin having pressure from Congress and the public, wanting to know what we were recommending. The President wants, I suppose, to keep this as an

-35-

advisory committee to him that he can talk to freely, and not an organization necessarily giving formal papers and documents out.

- H.M.Jr: Well, if I - I went at great length to try to explain to the press yesterday what my understanding was. They kept asking me, and I said, "As far as - this is a fiscal and monetary committee; we report to the President. The President may throw our reports in the ash can or he may use them, I don't know. But what we do is his property."
- Dalano: Absolutely.
- H.M.Jr: "... is his property, and I haven't the faintest idea what he'll do."
- Dalano: Well, the point that Kuml makes is that, of course, if the President decides to give this out, why, we have no complaint; but perhaps for his future peace of mind it might help him if he didn't give - didn't establish the custom of giving these things out.
- H.M.Jr: I think in this case, like so many things we do here, we've just got to let him decide whether he thinks it's a useful instrument for him to use publicly or keep it in his vest pocket. That would be my feeling. I never know. Anything that I send over to the White House - I always write it so that it could be given out, but I never know whether it will or won't. But he may feel, "Well, they've taken this on themselves, to offer me their advice, and in order to justify this I want to give it out." Now, on the other hand, he may say he won't. I think we have to leave that to him.
- Eccles: Even if he should give it out, it wouldn't necessarily need to establish a precedent, because as he got reports from time to time, nobody but he would know that he had those reports, so that
- H.M.Jr: I made it awfully plain to the boys yesterday that we would never give them any information here; any information of this group would have to come from the President. I said this would be just as secret as the work we do on the budget.

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Delano: (Nods yes)

H.M.Jr: So if that's the only thing

Delano: That's the only thing on that.

H.M.Jr: Otherwise he likes it.

Delano: Trying to protect the President, really.

H.M.Jr: Well, in this case it's purely up to the President. Nobody here will give it out.

Delano: Yes.

H.M.Jr: Mr. Delano?

Delano: Yes. I was only wondering whether it wouldn't be advisable to furnish - he'll make up his own mind as to whether he'll give this out, but if he begins by giving this out, it's going to be a little harder not to make the others

H.M.Jr: I wouldn't want to do that. I mean I'd be very loath - it takes a lot of nerve to do this much, but then if I go on and tell him what to do with the document, he might feel I was going too far.

Delano: All right, sir.

H.M.Jr: Now we're back to this word "only"?

Delano: Why?

H.M.Jr: Mr. Bell or somebody changed it around. Would you tell Mr. Delano what you did?

Bell: I don't know whether White did

White: Yes, we put the "only" before the 80 because that's where it properly belongs. I don't think there's any question about it. Otherwise it merely means that they have been subject to unfortunate criticism, if you like, because they haven't expended the whole 80 and expended only 34 of the 80; whereas, what you have in mind, I take it, is that they expended only 80 of the total and even part of that 80 was for something else.

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Delano: That's all right. Surely.

H.M.Jr: That all right, Marriner?

Eccles: Yes. See if I understand it. The way it reads now, the impression would be given that only 34 million out of 80 million has been expended, which of course is a large percentage; whereas, what we really meant to say was that only 80 million of the large appropriation, plus what was carried over, had been expended. Therefore, the "only" would go before the 80. Is that ...

Bell: That's right.

H.M.Jr: Is it agreeable, then, to everybody that we put this in a form where it can be signed?

Eccles: It's agreeable to me.

H.M.Jr: Mr. Delano?

Delano: Yes, sir.

H.M.Jr: Now, what I would do, Harry, when it comes for signature, under the - whatever the way is it's signed - "Respectfully yours" - then I would put under that word "Fiscal and Monetary Board" and then room for signature under that, see? Because it will be written on my stationery. What? - Oh, here it is. That's the way.

White: I'll have that done right away.

H.M.Jr: Now, Mr. Oliphant, you want to hold forth?

Oliphant: No, what I'd like to do is discuss that problem with Haas and White, and I take it we can work out a formula that will be satisfactory to Harry and yourself, and I think that you're the only persons involved.

H.M.Jr: This is the letter from the President to Bell.

Delano: Yes.

H.M.Jr: Would you care to see that when it's finished, Mr. Delano?

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Delano: No, I think it will be perfectly all right with me.

H.M.Jr: Marriner?

Eccles: No, I don't care to see it. I think as far as this committee is concerned that our responsibility here ceases when we make this recommendation. As to what the President might say to Bell as a means of carrying out that recommendation ...

H.M.Jr: Would you mind waiting five minutes to sign it right now? Is that all right?

Now, you (Hopkins) want to see this letter. What?

Hopkins: I'll be in touch with Oliphant. That letter won't be ready probably for another hour or so, will it, Herman?

Oliphant: No.

Hopkins: I'll be in touch with him over the phone about it. I'd like to be excused if I could. I've got several appointments.

H.M.Jr: Well, the way this is going from the Fiscal and Monetary Board is entirely satisfactory to you?

Hopkins: Altogether so.

H.M.Jr: All right. The other thing Oliphant will check with you. Right? I'll send a man down with it on the eight o'clock plane.

And if you gentlemen don't mind just waiting a few seconds

November 22, 1938.
10:11 a.m.

HMJr: Hello.

Operator: Secretary Ickes.

HMJr: Hello.

O: Go ahead

HMJr: Hello.

Secy.
Ickes: Hello.

HMJr: Harold?

I: Hello Henry.

HMJr: How's Havana?

I: Fine.

HMJr: I want to go there some time.

I: You ought to. The Ambassador Wright down there told me that you had been nibbling at it.

HMJr: Yes.

I: And he - they really have a delightful lay out there, if - any time you want to go, and that country club.

HMJr: Oh, at the country club?

I: Where you'd be quiet and alone, nice

HMJr: Did you play that?

I: You can play golf or swim.

HMJr: Where did you stay?

I: Well, I stayed at the hotel. I was there just one night. But if I - if I should go there for a so-called rest why I would go to the country club.

HMJr: Right. I just called up to say thanks on giving those artists a clearance to go ahead.

I: Yes.

- 2 -

HMJr: And I understand everybody's happy and I want to say thanks to you, and you might tell - in your absence Burlew was very cooperative with me personally.

I: Oh, well, I'm sure he would be.

HMJr: Well, he was, but that's all I had on my mind.

I: All right Henry, thank you.

HMJr: Goodbye.

I: Goodbye.

November 22, 1938 - 11:15 a.m.

Present:

Mr. Bewley
Mr. Taylor
Mr. Lochhead
Mr. White

H.M.Jr: I asked you to come - you most likely will want to make some notes.

Bewley: I will borrow a pencil if I may.

H.M.Jr: In the first place, I want to acknowledge receipt of this. (Secret memorandum from the British Embassy dated November 17th).

And I also want to say in this conversation which I am going to have with you to-day that as far as the operations of the British Treasury are concerned, all through these difficult times I have felt that they have done everything that they could to maintain the price of sterling. But the reason I asked you to come to-day is on account of this sharp break which has taken place. It just happens to be a circumstance that this came over the Dow Jones ticker at 10:40. Just happens to be a coincidence.

(Bewley read the ticker announcement.)

Bewley: Yep.

H.M.Jr: You didn't see this, Taylor. Its 4.86 plus, you see. Now the way I look at this thing I am sure it is bothering your government just the way it is us.

Bewley: I think that's quite certain.

H.M.Jr: And under the tripartite we are supposed to consult.

Bewley: Yep..

H.M.Jr: My only regret is that we haven't consulted more frequently. On the other hand its no use asking to talk and to gossip and I have been hoping that with the signing of the trade treaty possibly things would get better. I have really been marking time and waiting until that was by and finished. I am very much disappointed to see that sterling did not recover

- 2 -

signing; that that would be sort of a mile post.

Now we went thru all kinds of consultation with the French prior to their getting out their recent decrees. We were unsuccessful in our efforts to advance certain advice to them which they did not choose to follow, but it never got to a point that they would take our advice so I never said anything about it and their situation was getting steadily worse.

But we have been doing a lot of studying here for about a month on the relation of sterling to the dollar and I just jotted down a few things here. (H.M.Jr. gave Bewley a copy of Exhibit 2 attached.)

"Now if this decline should continue it is likely to raise questions in this country concerning the meaning and usefulness of the tripartite accord."

Well that's already happened. The New York Tribune in their financial columns sneered at it last week. I don't know whether you happened to see it or not.

Bewley: Yes I did.

H.M.Jr.: Remember, all last summer the European papers kept saying that if only America would get out and get going it would help things abroad. Well we have got things going.

Bewley: Of course there is always a lag.

H.M.Jr.: True.

Bewley: Your balance of payments is not balanced as yet. I have no doubt it will be soon.

H.M.Jr.: True. I am talking about our internal recovery.

Bewley: Yep.

H.M.Jr.: We have had a very, very sharp recovery and its going up almost as rapidly as it went down.

Bewley: Yep. Yep.

- 3 -

H.M.Jr: (Reading aloud Paragraph 4 of Exhibit 2)

Bewley: That's further information that you have got which is not published? The second part of that sentence, "Information which we collect and periodically publish for the United States, and of information not published that we would be glad to exchange, etc."

H.M.Jr: No I mean not published by you.

Bewley: Oh yes.

H.M.Jr: Not published by you.

Dr. White: Or by the British.

H.M.Jr: You (Dr. White) mean both? I didn't know.

My attitude, Mr. Bewley, is this: It seems to me that we ought to be intelligent enough to find some way to cope with this situation and I have no concrete suggestions to offer. I am worried. I am concerned.

Bewley: Yep.

H.M.Jr: I am sure your people are also.

Bewley: Yes.

H.M.Jr: And I would be more than pleased to get any suggestions. And I think until we can see daylight that we ought to consult frequently and I consider this one of the most important problems I have to cope with. And its the sterling commodity situation which is the one weak spot in our whole recovery program here, and so I would appreciate it if you would communicate this to your people and see what suggestions they have.

Bewley: Certainly I will. I don't think as regards present position I have anything to add to that note I gave you the other day. The only thing I can add at the moment in connection with your recovery I imagine that will come in time but the lag in that is bound to be very great; bound to be a matter of some months, but your purchases pick up relatively. I should hope that as time went on that that would become a very strong factor. It has not really come into play yet.

- 4 -

H.M.Jr: No but why I am talking to-day is for two reasons: 1. I wanted to wait until the trade treaty was signed.

Bewley: Yep.

H.M.Jr: 2. I hoped that 4.70 was the bottom.

Bewley: Yep.

H.M.Jr: But when the trade treaty was signed I hoped it would go up.

Bewley: Yep.

H.M.Jr: That has not happened. And therefore - here it is the 22nd of November and you signed it on the 17th, so I wouldn't have asked you to come to see me for weeks if sterling had stayed around 4.70.

Bewley: Yep.

H.M.Jr: And I sincerely hoped it would not break 4.70 but the milestone, as far as I am concerned, is that I have been waiting for this trade treaty. We believe here, in the administration, that this question of sterling-dollar rate would be left to the discussions as between Treasuries and within the tripartite and we would keep it outside of the trade treaty, which we are doing now.

Bewley: Yes, oh yes.

H.M.Jr: I made this understood with the State Department, that we would not try to weave it into the trade treaty and say that this or that happened, so we have left it outside, and we just felt that this was the proper incident to conduct this conversation.

Bewley: Yep.

H.M.Jr: You agree?

Bewley: Oh yes.

H.M.Jr: So here we are. I am leaving at noon tomorrow and if you have something and its important - are you (Taylor) going down to your place?

Taylor: No.

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H.M.Jr: You will be here?

Taylor: Yes.

H.M.Jr: Wayne will be here and you get in touch with him and if its important enough you can come up to my place. Its just an hour and a half by air.

Bewley: How long are you going to be away?

H.M.Jr: Back Monday morning.

Bewley: Monday morning.

H.M.Jr: Yes. If this thing should be downward - just to show you how closely our two things are together here is a chart of Reuter's. That is your index and Moody's is ours. Spot and commodities futures. You can just see how they move together. Looking back a month here's ours. And this whole thing they practically move together. I haven't got a sterling chart here but they're of the spot and futures and here's your daily index. If you would like to have this I would be glad to give it to you. Would you care to have it?

Bewley: Yes thanks very much.

H.M.Jr: I didn't have it - this isn't staged or anything. I get this every day. But I'm just showing how closely related they are. As far as commodities go the two countries are in the same boat and its very important to us.

Bewley: Well I don't think there is really anything more I can say but I certainly will pass it on by telegram and I know my people are as concerned as you are and will do everything they can.

H.M.Jr: I don't expect you to say anything, but I am letting you take my pulse and if there is anything you want to ask me in addition.

Bewley: I don't think there is at the moment. I think I understand your position quite clearly. You have given it quite clearly.

H.M.Jr: Butterworth is on the water now.

Bewley: Coming over here?

- 6 -

H.M.Jr: I sent for him. I sent for him ten days ago just to bring me up to date, but the reason I am saying this I have sensed this thing right along but I have been marking time hoping each day the thing would get better.

Bewley: Yes.

H.M.Jr: But we will see. But it does seem as though these two great countries there ought to be some way that we can devise to lick this thing and not just take it lying down. There must be some way. We have got to lick it.

Bewley: Yep.

H.M.Jr: Wayne want to add anything?

Taylor: No.

H.M.Jr: Archie?

Lochhead: No. We will keep it just on the general discussion.

H.M.Jr: Harry?

Dr. White: No.

H.M.Jr: Thanks very much. I wish I could be cheerful.

Bewley: I will let you know just as soon as I have any reply.

H.M.Jr: And as I say during the next few days you contact Wayne and if it is sufficiently important I can be gotten.

(Mr. Bewley left the Secretary's office and the group remained)

H.M.Jr: You (Mr. Taylor) satisfied?

Taylor: That was very good.

H.M.Jr: You, Harry?

Dr. White: Yes, quite.

Lochhead: You got this thing over that you are concerned; that we are not just complacent about this thing.

- 7 -

Dr. White: And this business of "lag" is not altogether true. They are beginning to feel the impact already on account of imports.

H.M.Jr: I left out all mention of capital movement and trade. I did not want to argue. But certainly it was just the moment to give him the chart. I certainly was most courteous.

Taylor: It was fine.

Dr. White: That was perfect. He knows you are concerned.

H.M.Jr: I wanted to get over to him that I waited until the trade treaty had been signed and if it not broken I would not have done anything.

Dr. White: I think it was perfect.

Taylor: Just grand.

H.M.Jr: Would you (Mr. Taylor) have done it any differently?

Taylor: No.

H.M.Jr: (To Mr. Taylor) Tell Herbert Feis that this is what I gave him (Exhibit 2) *pg 357*

(11-22-38)

My dear Mr. Bell:

Reference is made to the provisions of Section 2 of the Emergency Relief Appropriation Act of 1938.

I find that the following unforeseen extraordinary emergencies and unusual circumstances have supervened since the apportionments of W. P. A. funds were made pursuant to the provisions of the Section just mentioned:

(1) Reemployment in private industry has not, to the degree expected, kept pace with the increase in industrial activities.

(2) An unanticipated drop in the price of cotton has greatly accentuated relief problems in a large area of the country.

(3) The critical foreign situation has had an adverse effect upon recovery and private employment in this country.

(4) The hurricane seriously dislocated industry and trade in the Northeastern section of the

-2-

country and added to the relief burden in that area.

Because of these emergencies and circumstances, I direct that the apportionments of W. P. A. funds hitherto made on the monthly basis be, pursuant to the provisions of Section 2 of the Emergency Relief Act of 1938, modified by reducing the period of apportionment from eight to seven months.

I further direct that all reserves hitherto set up against the appropriations in question be released.

Sincerely,

Honorable Daniel W. Bell,
Acting Director of the Budget,
Washington, D. C.

(11-22-38)

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DRAFT

*OK as altered
7/0
DWB*

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I find that the following ^{unforeseen} extraordinary emergencies and unusual circumstances have supervened since the apportionments of W. P. A. funds were made pursuant to the provisions of the Section just mentioned:

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(3) The critical foreign situation has had a ^{adverse} ~~detrimental~~ effect upon recovery, ^{and private enterprise} in this country.

(4) The hurricane ^{seriously} dislocated industry and trade in the Northeastern section of the country and added to the relief burden in that area.

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-2-

Act of 1938, modified by ^{reducing the period of} ~~making such~~ apportionments
on the basis of ^{from seven} ~~eight~~ months, ~~instead of seven.~~

I further direct that all reserves hitherto set up against the appropriations in question be released.

Sincerely,

11-22-38
first draft

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DRAFT

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-2-

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I further direct that all reserves hitherto set up against the appropriations in question be released.

Sincerely,

C O P Y

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November 22, 1938.

TELEGRAM (OVER WHITE HOUSE WIRE)

(PHONED TO MR. RODIER AT THE WHITE HOUSE AT 7:55 P.M.)

LIEUTENANT McKAY COAST GUARD ARRIVES ATLANTA AIRPORT ABOUT
MIDNIGHT TONIGHT BY COAST GUARD PLANE STOP I HAVE ARRANGED
TO HAVE CAR DRIVE HIM TO WARM SPRINGS AND WOULD APPRECIATE
YOUR HAVING A ROOM RESERVED FOR HIM STOP McKAY IS CARRYING
A VERY CONFIDENTIAL AND MOST IMPORTANT DOCUMENT WHICH I
WOULD LIKE VERY MUCH FOR THE PRESIDENT TO HAVE THE FIRST
THING WEDNESDAY MORNING NOVEMBER TWENTY THIRD STOP WOULD
APPRECIATE YOUR COOPERATION

HENRY MORGENTHAU JR

(See meeting of 11/19/38 at Secretary's home when some of this material was given him.)

November 22, 1938

My dear Mr. President:

Inclosed herewith I am sending you the following material which was supplied to me by Mr. K. P. Chen:

1. Memorandum on Yunnan-Berma Road
2. Memorandum on North-western Highway
3. Memorandum on South-western Transportation Routes
4. Map of North-western and South-western Trunk Roads
5. Memorandum on Highway Administration in China
6. Memorandum on Purchases of Equipment and Supplies.

Sincerely yours,

The President,
Warm Springs, Georgia.

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6. Memorandum on Purchases of Equipment and Supplies.

Sincerely yours,

The President,
Warm Springs, Georgia.

Mr. McHugh,

These ~~is~~ are
attachments to
~~the~~ letter to Pres

dated 11-22-38

in Gen'l diary

WASHINGTON, D.C.

November 18, 1938

Memorandum on North-Western Highway

The North-Western Motor Highway commences from Chungking, provisional Capital of China, traverses through the Provinces of Szechuen, Shensi, Kansu, Sinkiang and terminates at Alma-Ata, a station on the Russian Turkey Railway. Total length of the Road up to Ili measures 4574 Kilometers. It is considered the most important outlet for the vast North-Western regions of China.

The principal cities through which the Road passes and the distances between them are as follows:-

Chungking	)	450	Kms.)	
Chengt	)	556	")	
Hanchung	)	739	"	)	4574
Lanchow	)	2829	")	
Ili					

From Lanchow the line was extended to Sian, Capital of Shensi Province measuring 753 Kilometers in length and there connected with the Lunghai Railway. This line has played an important role in supplying materials to the fighting forces on the Northern front. Another line connecting Lanchow, Tienshui and Fenshian serving as a shunt line between the Lanchow-Sian Line and Senin-Chengt Road whereby goods may be transported from Lanchow to Chengtu without passing through Sian.

Realizing the importance of the North-Western Motor road the Central Government has spent considerable amount of money

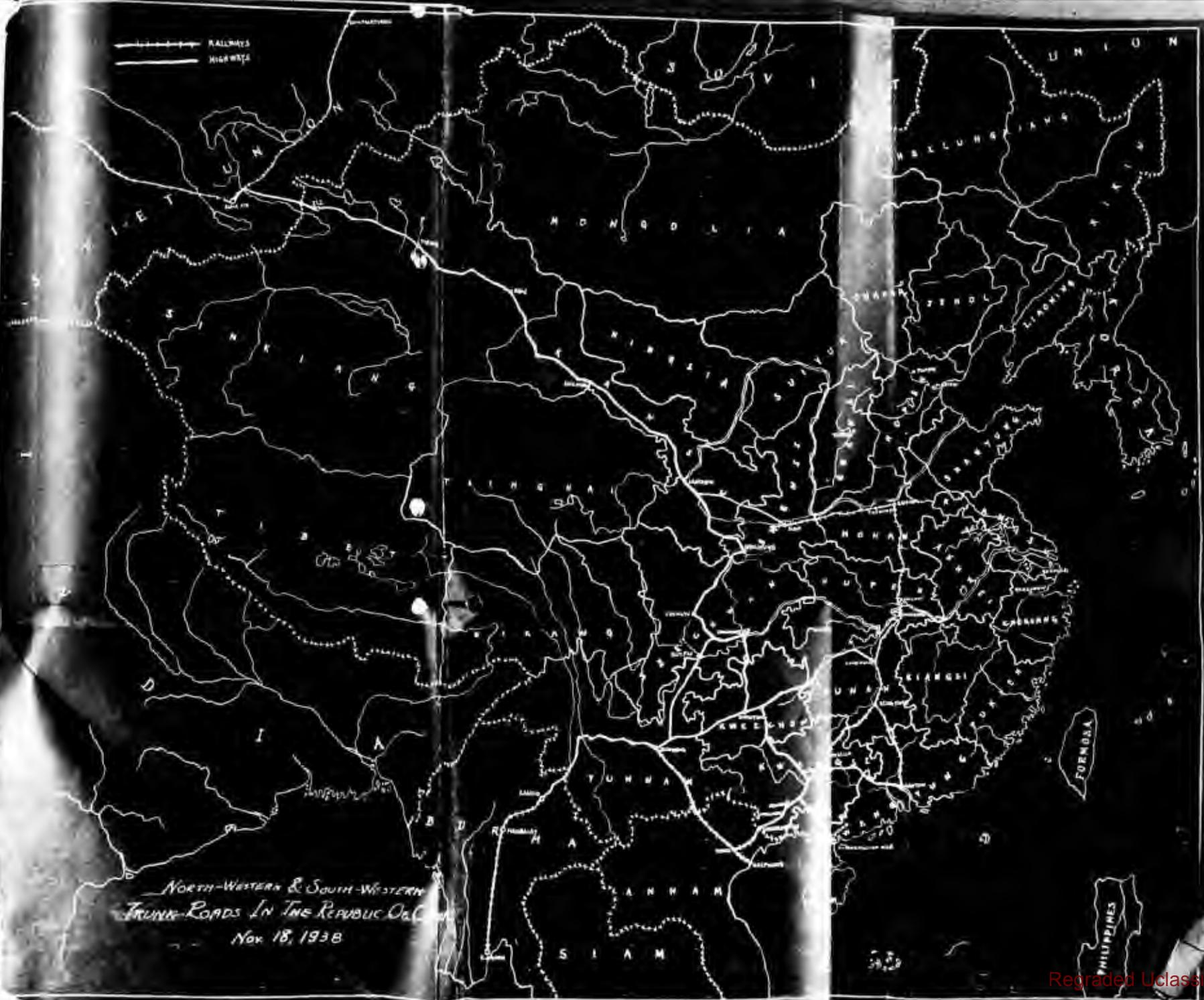
during the past two years for the improvement of road bed, road surface and the building of bridges and culverts. Road surface varies with different sections of the Road - some sections keep the original hard earth surface, other sections possess macadam surface and still others stone pavement. On the whole the road bed and surface are in fairly good condition with prospect of constant improvement as time goes on.

Width of the road bed also varies in different sections - narrowest is 4 and widest 9 Kilometers. Maximum grade is standardized at 10% and minimum radius in mountains is 12 to 15 meters.

All bridges have a load carrying capacity of $7\frac{1}{2}$ tons. There are over-flow bridges and fords on the Lanchow-Atma Ata section but no ferries. On the section between Lanchow, Chengtu and Chungking there are twelve ferries, most of which are being replaced by bridges.

Since October 1937 the North-Western Highway Transport Administration, Ministry of Communications, has been entrusted with the responsibility of transporting materials from Russia to Central and Western China. The Russians deliver their materials at Lanchow and thence the Administration forward them to the destinations. A fleet of 214 trucks and buses are being operated on this Road by the Administration. Repair shops and gasoline depots are maintained at main stations along the Road. Certain difficulties are experienced in bringing in petrols and spare parts.

RAILWAYS
HIGHWAYS



*NORTH-WESTERN & SOUTH-WESTERN
TRUNK ROADS IN THE REPUBLIC OF CHINA
Nov. 18, 1938*

WASHINGTON, D.C.

November 18, 1938

Memorandum on Yunnan-Burma Road.

The Yunnan-Burma Road connecting Kunming, the Capital of Yunnan, and Lashio, terminus of the Rangoon-Lashio Railway in Burma, is destined to be one of the most important highways linking China to a safe foreign seaport and will play a vital role in her struggle for national independence. In view of recent interruption on the Canton-Hankow Railway immediate utilization of this Road with adequate and efficient transportation service is of paramount importance.

The total length of this Road is 1161 Kilometers or about 720 miles. On the Yunnan side the Road measures 975 Kilometers and on the Burma side 186 Kilometers. The principal cities through which the Road passes and the distances between them are as follows:-

Kunming	)	196)		
Tsuyung	)	225)		
Siakwan	)	204	)	975	
Wahyao	)	224)		
Lungling	)	128	)		1161
Wanting	)	186	)	186	
Lashio))		

The entire trip from Kunming to Lashio takes six days. On Burma side from Wanting westward there is a branch road passing Nankam to Bahmo with a length of 178 Kilometers.

The Road was built on an old earth road by the Provincial Government with technical and financial assistance of the Central Government. Construction work started before the end of 1937 and completed by the end of August, 1938, with the exception of a small number of bridges which are temporary structures and will be completely replaced with permanent bridges before the end of the current year.

The roadbed has a width of 9 meters except in places of heavy stone cutting where the width is only 6 meters. It has a macadamized surface of 5 meters in width and 10 to 30 centimeters (4 to 12 inches) in thickness. Although the Road passes through a very mountainous country maximum slope seldom exceeds 8% and sharp curves less than 15 meter radius are very few.

Most of the bridges are built of stone arches having a carrying capacity of 15 tons. Some are floored with heavy wooden beams capable of carrying $7\frac{1}{2}$ to 10 tons. There are two modern suspension bridges, one across the Lee-Kiang River and the other across the Lan-Changkiang River. About 60 out of 164 bridges are temporary structures having a carrying capacity of 3 tons. By the end of this year when all temporary bridges are replaced heavy trucks of 5 to 7 tons will be able to negotiate the entire road without difficulty under any weather conditions. As there are no ferries to negotiate the volume of traffic on this Road is only limited to the number of motor trucks available.

WASHINGTON, D.C.

November 18, 1938

Memorandum on South-Western Transportation Routes.

With a view to develop the vast resources in the interior part of the country and to support the nation-wide warfare in the front, China has recently completed a network of trunk highways in the Southwest with the city Chungking as the center of radiation and the seaports as the terminus. Through its completion, speedy movement on land of passengers and goods to and from the interior is now possible.

The network in question consists of the following ^{four} ~~three~~ lines:

1. Chungking-Kweiyang-Kunming Line connecting with Kunming Haiphong Railway, or Kunming-Burma Road, 1150 Kms.
2. Chungking-Kweiyang-Liuchow-Nanning-Chengnankwan Line connecting with Indo-China Railway, 1506 Kms.
3. Chungking-Kweiyang-Liuchow-Siying (Kwangchowwan) Line, 1606 Kms.
4. Chungking-Suifu-Kunming Line connecting with Kunming-Haiphong Railway, or Kunming-Burma Road, 1160 Kms.

All these lines are located well in the interior and therefore are remote from the dangers of war operations.

The roads are built, and some of them are being improved, according to such standards as to serve 300 to 500 vehicles a day. The roadbed is 7 to 9 meters wide for ordinary soil and 4 to 6 meters in rocky sections. All the roads are surfaced with macadam or gravel which has a width of 4 to 5 meters and a thickness of 10 to 30 cm. (4 to 12 inches). The gradient is

limited to 10% and the minimum radius is 12 to 15 meters on steep hills. Bridges are built of stone, concrete, steel and mostly timber, with a loading capacity of 7½ tons or more. Ferries are used over wide and deep rivers and can carry vehicles across the river at the rate of more than 20 per hour one way. Recently, a program has been started to replace several of the ferries with permanent bridges.

Following the improvement of these trunk roads, a Highway Transportation Administration Bureau was organized this year under the Ministry of Communications to provide passenger and freight traffic service on these roads. The Bureau has in operation a total of 480 buses and trucks, insufficient number limits its business. At the terminal stations, passengers wait by hundreds to get tickets in advance, and goods pile up in the godowns.

PROFILE OF YUNNAN-BERMA ROAD (SINWAN-WANTING SECTION)

Scale: Vert 1:20,000
Hor 1:1,000,000



Memorandum on: HIGHWAY ADMINISTRATION IN CHINA

Realizing the utmost importance of promoting and co-ordinating the highway developments in different provinces, the Chinese Government, in 1932, adopted a program of road control in various provinces by means of financial grant and technical aid to the Provincial Governments. A Highway Office was then established in the National Economic Council. In December, 1933, in order to handle the much expanded road activities, the Highway Office was transformed into the "Bureau of Roads". The function of the Bureau is three-fold: first, to prepare standard engineering specifications and estimates; secondly, to approve the designs and verify the estimates submitted by the provinces so as to allocate the "road-aid" funds; and thirdly, to supervise and help the construction or surveying work done by the provinces.

In pursuance of this policy and program, China has been able to build new roads at a rate of ten thousand kilometers a year, and at present she possesses a total length of 120,000 kilometers most of which are built by the provinces with the financial aid of the central government.

After the commencement of the present Sino-Japanese hostilities, as a part of the plan for the reorganization of the Executive Yuan, the Bureau of Roads under the National Economic Council was consolidated into the New Ministry of Communications and renamed the Bureau of Highways, or literally, "The Directorate

-2-

General of Highways". Working side by side with the Departments in charge of railways, shipping, commercial aviation and other means of communications, the Bureau of Highways is now able, in supervising the construction and traffic of national highways, to co-ordinate its activities with those of other departments. Unification of traffic regulations, control of bus companies and trucking services and promotion of road transport in general become its principal duties and functions. Hence, the Bureau is now organized into four divisions; the Administrative, the Engineering, the Traffic, and the Mechanical Divisions. Besides, there are supervisory engineers stationed at the provisional capitals or important cities. A regular field engineering staff with bridge labor gangs is also maintained to help the local highway organizations in bridge construction or repair works. Whenever a specially designated road is to be built or improved by the Bureau, a Highway Construction Office is formed under its jurisdiction. At present, the direct line linking up Hanchung of Shensi Province with Chungking, the provisional capital, is one of the important roads of such category.

Since highway transport is a new development in China, most of the provinces are not yet provided with strong organization for such purpose. As a rule, each province has a highway bureau of its own, authorized to build the "central-aid" road as well as provincial roads and to operate bus service thereon. It often happens that lack of funds and technicians in the Provinces render

-3-

the roads idle with no regular traffic. Under such circumstances, the Ministry of Communications picks out a number of trunk roads of national importance and, by establishing in different regions specially authorized bodies called "Highway Transport Administrations" it institutes traffic operation services and road maintenance on these roads. Three such Administrations are now in existence: the North-Western Highway Transport Administration, the South-Western Highway Transport Administration, and the Yunnan-Burma Road Transport Administration. The last-named is only in its preparatory stage.

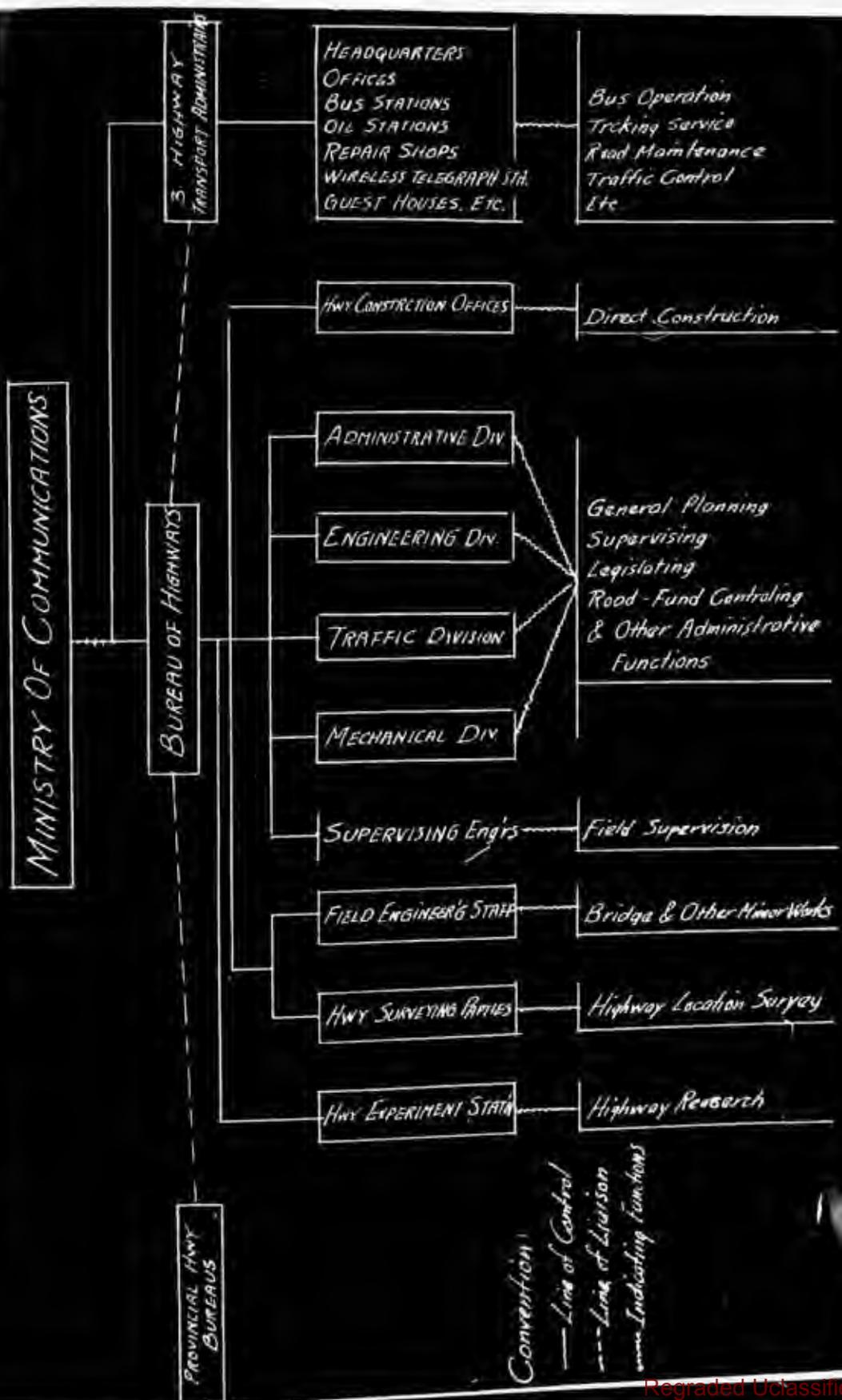
The North-Western Highway Transport Administration is in charge of transport service on the Sian-Lanchow-Sin-sin-chah (Sinkiang-Kansu border) Road, the Sian-Hanchung Road and other roads in North-West. The South-Western Highway Transport Administration operates four trunk roads forming a cross at Kweiyang, namely - Chungking-Kweiyang, Kweiyang-Liuchow, Kweiyang-Kunming, and Changsha-Kweiyang. These two transport Administrations are each equipped with a few hundred automobiles, service stations, repair shops and guest houses provide the facilities. Trade vehicle or provincial car passes on "central-operated" roads are under the control of the Administrations but the issuing of license is vested in the Bureau of Highways.

In conclusion, it is to be noted that the Ministry of Communications has a firm control on the important trunk roads, by way of financial and technical aid and by direct construction and operation of traffic services. Directly under the Ministry, the

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Bureau of Highways assumes the function of planning, supervising and research while the regional transport administrative bodies actually operate traffic services and exercise direct control of the roads. Highway Administration in China is tending to centralization and unification.

HIGHWAY ADMINISTRATION SYSTEM IN CHINA



Memorandum on Purchases of Equipment and Supplies

In anticipation of early successful conclusion of a loan or credit arrangement which is to be applied in making purchases in this Country, request was cabled to the Chinese Government for requisition list. Upon receipt of cable reply a brief memorandum was submitted on October 20th. Since then detailed lists and specifications have been received by mail. A list more in detail is submitted herewith.

For the purpose of concentrating Chinese Government purchases in this Country and for proper distribution of Chinese commodities imported on account of the proposed loan an American Corporation was incorporated in the State of New York under the style of Universal Trading Corporation. Authority has been obtained from the Chinese Government to have the three members of the present Mission act as Chinese Directors. Appointment of American Directors will complete the organization and inaugurate its work.

While awaiting the formalities of approving the proposed loan it is thought advisable to go ahead with placing orders for some of the equipments and supplies most urgently needed. Negotiations with manufacturers will take some time and by such procedure it is hoped that by the time the loan is approved orders may be placed at once without losing any more time. These purchases are to be negotiated in the name of the new Corporation and with the unofficial advice and assistance of the Treasury.

List of Equipments and Materials to be purchased in U.S.A.

I. Aeroplanes, Spare Parts and Gasoline Oils:

1. 100 Ryan STC2 Menasco C4B,
Same type for 50 with Warner Scarat Engine.
2. 60 North America NA41 Wasp S3H1
3. 60 Twin Engine Bombing Trainers. Choice between
Beechcraft 18 and Lockheed 112 with 2 Wasp Junior
SB remodeled from existing commercial types.
4. 150 Seversky P35a Twin Wasp SCG with additional engine
conversion parts to make 50 convertable P35b.
5. 100 Vought SB2U1 Twin Wasp Junior.
6. 20 Seversky Observation Twin Wasp 5CG.
7. 20 Bombers. Choice between Martin 166 and Lockheed
14 GB3 with Cyclone G105.
8. 6 Beechcraft 17R Whirlwind R975E3.
9. 2 Heavy Transports. Either Lockheed 14 Cyclone G105
or second hand Douglas DC2 Cyclone F52.
10. One year requirements for aeronautical raw materials
for repairs estimated about US\$1,000,000.
11. Gasoline Oil requirements:-

74 Octane	2,000,000	Am.	Gals.
80 "	1,200,000	"	"
87 "	4,000,000	"	"
95 "	400,000	"	"
100 "	400,000	"	"
Stanavo 100	120,000	"	"
" 120	280,000	"	"

Total estimated cost of the above about US\$35,400,000.

II. Guns, Rifles and Ammunitions:

1. 200,000 Rifles 7.9
with 1000 rounds of cartridges for each rifle.
2. 15,000 Light Machine Guns
with 10,000 rounds of cartridges per gun.
3. 5,000 Heavy Machine Guns,
with 20,000 rounds of cartridges per gun.
4. 360 Pieces Anti-Tank Guns 3.7,
with 2,000 rounds ammunition per gun.
5. 360 Pieces 7.5 Mountain Guns,
with 3,000 rounds ammunition per gun.
6. 500 Pieces 13 mm Anti-Aircraft Guns,
with 3,000 rounds ammunition per gun.
7. Other Auxiliaries and Materials.

Total estimated cost for the above about US\$85,500,000.

III. Gasolines and Oils:

1. Gasoline:

a. Aviation:	Octane No.87	1,000,000	Am.Gals.
b. Motor:	Octane No.70	30,000,000	" "

2. Diesel Oil:

a. Light	30,000	tons
b. Heavy	6,000	"

3. Motor Oil:

a. 1st Grade SAE 30	450,000	Am.Gals.
b. 1st Grade SAE 40	600,000	" "
c. 1st Grade SAE 50	750,000	" "

4. Cup Grease	180,000	Am.Gals.
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5. Red Engine Oil	800	Tons
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6. Marine Oil	1,600	Tons
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7. Axle Oil	800	Tons
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8. Engine Oil	1,600	Tons
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9. Cylinder Oil	800	Tons
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10. Kerosene	400	Tons
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11. Brake Oil	90,000	Am.Gals.
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12. Yellow Oil	1,400,000	lbs.
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Total estimated cost for the above about US\$9,510,000.

IV. Motor Trucks, Trackers, Repairing Equipment & Oils:

1. 3,000 3-ton Trucks.
2. 1,000 6-ton Tractors with Semi-trailers.
3. Spare Parts.
4. Spare Tires and tubes.
5. Repairing Equipment and Materials.
6. Fuels and Oils:
 - a. Gasoline Octane No.60 15,000,000 Am.Gals.
 - b. Diesel Oil 10,000 tons.
 - c. Lubricating Oil SAE No.30 600,000 Am.Gals.
 - d. " " " No.40 300,000 " "
 - e. " " " No.110 40,000 " "
 - f. " " " No.160 160,000 " "
 - g. Grease 200,000 lbs.
7. Highway engineering materials.
8. 200 Motor Chassis for Oil Tankers.

Total estimated cost of the above about US\$15,400,000.

V. Trucks, Motor Cycles, Spare Parts and Materials for Military Use:

1. 4880 Units 2½-ton Motor Trucks.
2. 50 Units Heavy Duty Engineering Trucks.
3. 100 Units Light Duty Engineering Trucks.
4. 500 Units Motor Cycles.
5. 10 Units 3F Heavy Repairing Trucks.
6. 40 Units 3F Light Repairing Trucks.
7. 10 Units 2.5F Supply Trucks.
8. Spare Parts, Repairing Materials, etc.
9. Telephone & Wireless Apparatus and Materials.

Total estimated cost of the above about US\$7,780,000.

I. Aeroplanes, Spares, Gasoline:	US\$ 35,400,000
II. Guns, Rifles and Ammunitions:	85,500,000
III. Gasolines and Oils:	9,510,000
IV. Motor Trucks, Tractors, Oils:	15,400,000
V. Trucks, Motor Cycles, Spare Parts, Materials for Military Use:	7,780,000
	<hr/>
	US\$ 153,590,000
	<hr/> <hr/>

November 22, 1938

Last night I was standing next to Mrs. Craig at the Woodring's dinner and the General walked across the room and said to his wife, "I just want you to know that in my old age I found a man who is thoroughly honest and whom I love." His wife turned to me and said, "It sounds as though Malin had not met an honest man in years."

November 22, 1938

(The other day, Sumner Welles told the Secretary that he wanted to see the President about calling a meeting of all the Secretaries of the Treasuries of North and South America. HM, Jr said that, as far as he was concerned, it was all right to speak to the President about it, but he took it perfectly for granted that no meeting would be called unless a policy was formulated first. However, when Mr. Welles called today, he said that he had gotten the President's permission to go ahead and call such a meeting.)

Sumner Welles telephoned today. HM, Jr said to him: "The Treasury is not equipped to go into such a conference. We had the Brazilian Financial Attache in today and we talked to him and we asked what we could do to be helpful. I will see any other country whom you ask me to see, but to agree to go into a meeting not knowing what the President's policy is, I think is just crazy. As far as financial matters for North and South America go, let the State Department handle them. And I am willing to write such a letter to the State Department saying so.

"If you can get the President, Mr. Hull, yourself and myself to agree on what we are going to discuss, I am ready to go ahead, but before I go out on the end of a limb -- I will not go myself to any such meeting, but I will send a Treasury representative down to Lima and let him listen. But until we have such an agreement, as much as I would like to cooperate, I will not be put into a false position. I am not being stubborn, but I want a policy formulated and after that is done, then let's have a meeting.

"The President must have changed his mind, because he has asked me not to go to any international meetings. I think it's a grand idea to call a meeting of all the Secretaries of the Treasuries, but you must have a policy first."

SECRET

MEMORANDUM

As Mr. Sayre raised with His Majesty's Ambassador the other day the question of the exchange value of the pound sterling, it is thought that the United States Treasury may like to have the following indication of the views of His Majesty's Government on the matter:-

His Majesty's Government have made for more than six months most strenuous and persistent efforts to support the exchange by the use of their gold reserves and have every intention of continuing to do so.

The present weakness of sterling is due only in a minor degree to purely economic causes such as a somewhat unfavourable balance of payments. For the most part it is due to the withdrawal of sterling balances from London by citizens of neutral countries, aided at times by a withdrawal of French balances which was notable in May and has again come into evidence in these last few days as a result of the publication of the Reynaud reform plans. There is an entire lack of evidence of any abnormal capital movements due to the initiative of British subjects.

The loss of gold has been accompanied by a reduction in the short-term liabilities of the United Kingdom to foreign countries but these liabilities are still very large and if Great Britain were to
adopt/

-2-

adopt any rigid policy of pegging, the current losses of gold might become so great as to imperil the position.

But it cannot be doubted that the actual fall in the value of the pound which has taken place - it is still less than 4% below the old par - is far less than it would have been but for the support which has been lavished on it. On any recovery of confidence His Majesty's Government see no reason why an improvement should not take place in sterling.

BRITISH EMBASSY,

WASHINGTON, D.C.,

November 17th 1938.

We are concerned by the decline in sterling.

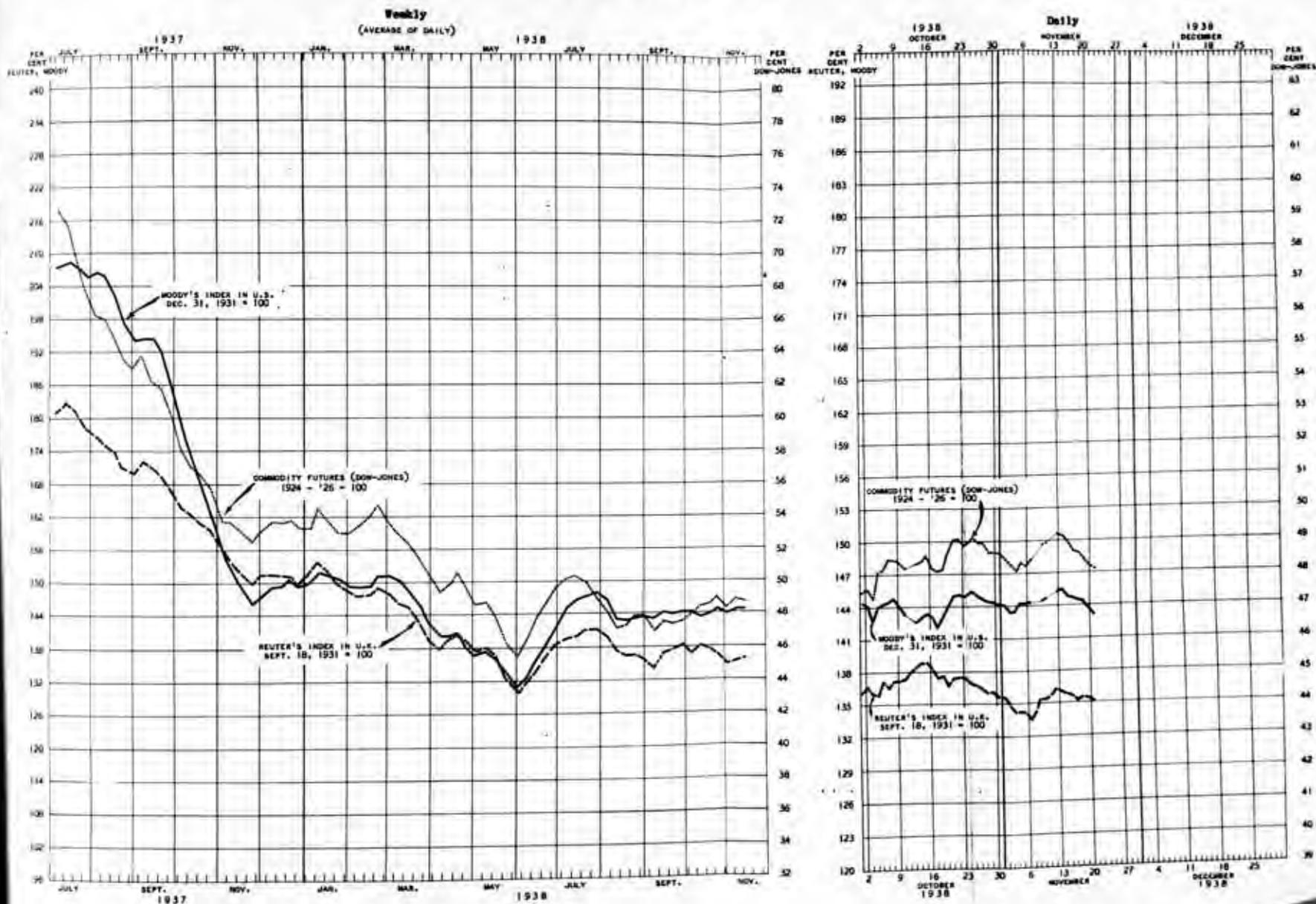
1. This decline if it should continue is likely to raise questions in this country concerning the meaning and usefulness of the Tripartite Accord.

2. Given a continuance of the present economic recovery and the increase in American commodity purchases abroad likely to accompany it, we do not at present find in the trade positions of the two countries any apparent fundamental reason for the appreciation of the dollar with reference to sterling. Moreover, it appears to us that there are substantial reasons why a decline of sterling may not be in the British interests.

3. We feel that a continued decline may seriously endanger the world economic situation just at a time when American recovery is tending to check the general decline of trade now affecting most countries.

4. In dealing with these questions, we find ourselves somewhat handicapped by the lack of information concerning the short-term capital and gold position of England corresponding to the information which we collect and periodically publish for the United States, and of information not published that we would be glad to exchange with the adherents of the Tripartite Accord.

COMMODITY PRICE INDEXES IN U.S. AND U.K.





DEPARTMENT OF STATE
WASHINGTON

November 22, 1938.

My dear Mr. Secretary:

I transmit herewith a copy of a cable just received from our Embassy in Brazil. The Department would appreciate it if the Treasury would indicate what information may be cabled to the Embassy. As I am preparing to leave for Lima, Peru, may I ask you that the reply be sent to Mr. Ellis Briggs, acting head of the Division of American Republics.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

From Rio de Janeiro,
No. 269 of November 22.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

JR

GRAY

Rio de Janeiro

Dated November 22, 1938

Rec'd 10:35 a.m.

Secretary of State,
Washington.

269, November 22, 10 a.m.

A United Press despatch, dated yesterday, from New York states that Penteado, Financial Attache to the Brazilian Embassy, has been invited to confer with the Secretary of the Treasury today. The despatch speculates that the conference will deal with the remittance of exchange for exports of American merchandise to Brazil.

I would greatly appreciate any information the Department can furnish regarding this matter.

SCOTTEN

HTM:KLP

RE STERLING EXCHANGE RATE

November 22, 1938.
10:45 a.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead

H.M.Jr: Now, what I thought I would do - I've read this thing very hastily - when Bewley comes in - and I've checked off these; and what I thought I would say to him is, I'd take number one, which is: "The decline of sterling, if it should continue, is likely to raise questions in this country concerning the meaning and usefulness of the tripartite accord." That's number one.

I'm going to skip number two.

White: There was an editorial just the other day on just exactly that point.

H.M.Jr: You've (Taylor) seen this, haven't you?

Taylor: (Nods yes)

H.M.Jr: Number two I'm going to skip, because frankly I haven't done my homework - which is the question of current income and balance of payments. I want to skip that.

Number three - "Given a continuance of present economic recovery and increase of American commodity purchases abroad likely to accompany it, we do not at present find in the trade position of the two countries any fundamental reason for the decline of sterling in relation to the dollar. Moreover, it may not be in the British interests."

Taylor: He'll agree with that very completely.

H.M.Jr: Four - "We feel a continued decline may seriously endanger the world economic situation just at the time ..." - and so forth.

And I'm skipping five and six, and coming down to seven. "In dealing with this question we find ourselves somewhat handicapped by the lack of information concerning the short-term capital and the gold

-2-

position of England, corresponding to information which we collect and periodically publish in the United States. Information not published we will be glad to exchange with the adherents of the tripartite accord."

Now, that's what I thought for the first bite. You see what I mean? The other stuff - before I go into it, I want to study it more; in other words, I thought this was far enough for the first meeting.

White: Of course, if he pushes you a little further on the specific questions, you might want to select the questions which are listed in the brackets.

H.M.Jr: Well, I just - with the thing today at 4.66

Lochhead: Sterling has gone down to 4.66 5/8. That's the figure that we can operate - the exact figure; I told them to stop operating as soon as it touched that figure.

H.M.Jr: Well, all I'm interested in, Archie, is that the thing has broken sharply below... I haven't seen Bewley, I've waited; I wanted to do everything possible to give the trade treaty all the chance in the world. I said facetiously I wanted the corpse - it isn't a corpse - I wanted at least

White: A chance to cool.

H.M.Jr: A chance to cool.

Taylor: Take the pennies off the ice.

H.M.Jr: Pardon?

Taylor: Take the pennies off the ice.

H.M.Jr: Certainly nobody could be more patient than I've been all through this thing.

Lochhead: He's been all ...

H.M.Jr: Mr. Hull is often very sarcastic. I don't know whether he meant it or not, but on the day of the signing of the treaty, when I congratulated him, he thanked me for what I did. He's always so sarcastic; I don't know.

-3-

I said, "Well, while I don't claim any credit for helping you, at least I didn't do anything, Mr. Hull, to hold you back." Which of course is true. I didn't do anything to help. On the other hand, I certainly played ball with Cordell to do everything possible to stand by and give him a clearance. And I mean it.

But this thing is now - and I first thought I'd have Herbert Feis here. Then I thought I wouldn't. This is strictly a Treasury thing. We all agreed we'd do it through the tripartite. I don't think - don't see why Herbert Feis should sit in this morning. Tell him afterwards what happened.

Taylor: One suggestion I'd like to make, and which I probably think you're going to do anyhow: that you start off by saying that you have studied this message which you received from them, and

H.M.Jr: Well, I'd like to go back further than that, Wayne. I'm going to say to him that all through this difficult time I feel the British Treasury has played ball.

Taylor: Yes, that's - that's fine, and then bring in this message, which is a rather important message.

H.M.Jr: Let me read it.

White: Some of it is very naive, but the last ...

Taylor: But it's

White: ... a statement that - well

H.M.Jr: Just a second, gentlemen.

(Reads message)

Well, I want to say this. I haven't said this to you before, but some time last week - and it's one of these extra-confidential things - we were talking about - when I went over to see the President in the morning; it was Wednesday or Thursday. You (reporter) might look up when I went over to see him in the morning. I only saw him once last week; there must

-4-

be a record when I went over there. Let's see, I was going to see - I don't know; well, the record is here. And the President has told me this now several times when we've talked about the price of commodities falling. He said, "Well, don't be surprised if I call you up late some night and say, do something about stopping this flow of gold this way."

And he said, "If sterling continues to drop, aren't there just two things that you can do, either devalue further or put on some kind of control?" And I said, "Yes, that's all that we can do."

White: There is a third.

H.M.Jr: Just a minute.

Taylor: Without legislation.

H.M.Jr: Just a minute. So I said, "After all, as to the control, we could get it on a basis where anybody who wants to complete a legitimate commercial transaction could pay us in gold, and anybody else that didn't want to wouldn't have access to gold." And I said, "That would, I think, overnight make all the difference in the world." And I said, "This gold coming here, which represents capital movement, doesn't do us any good."

But the President has this in mind and has had it before, and he keeps poking it at me. I just wanted to tell you people. And it doesn't particularly frighten me.

Lochhead: Sterling will break even further if we stop gold from coming in.

White: Break further with any restrictions. They'll demand dollars . . .

Lochhead: The people will sell sterling all the more to get dollars.

H.M.Jr: Wait a second; I don't know if I agree with you at all.

White: Not - if you're going to eliminate capital movements,

-5-

the Secretary is right.

- H.M.Jr: I don't agree with you at all. If the fellow owns sterling and sells sterling and he can't get gold out, what the hell is he going to do with it?
- White: If he can't get his gold out.
- H.M.Jr: What's he going to do with it? He's going to stop selling sterling.
- Walter: If you put restrictions on getting gold, it's going to unquestionably check the flow of capital here.
- H.M.Jr: And - wait a second - and then it's purely in the British hands. If the fellow sells sterling and wants to buy gold, if they don't want to give up the gold he can't get the gold.
- White: Pretty drastic measure. There's another measure ...
- H.M.Jr: But I want to get this in the record. What do you think?
- White: There's a third measure that I suggested a couple months ago - wasn't opportune; that was to raise your selling price for gold, increase the spread; keep the buying price, keep the legal price of \$35, but just raise the selling price by X percent, let's say 2, 3, or 4 percent.
- H.M.Jr: The selling?
- White: The selling price. Which would be an indication that anybody who gets his gold in here might lose on exchange getting it out; and it would be a very severe deterrent to those who are sending their funds here for speculative purposes or for short-term capital gain purposes in the market. I'd have to explain, give you a memo on that. But there is very definitely something in that.
- Lochhead: A variant on the idea of keeping the book value of your gold the same, but
- White: It's adopting the same type of procedure that England is doing in that direction.

-6-

- H.M.Jr: You mean to say that when a fellow wants to buy gold, instead of having a quarter of one percent have a half of one percent?
- White: When he wants to buy it here to take out - well, I was thinking of something more.
- H.M.Jr: I mean when we buy it ...
- White: When we sell it. I wouldn't want to disturb the buying price.
- H.M.Jr: When these fellows get gold and ship it here, we pay them \$35 less a quarter.
- White: In this transaction I wouldn't disturb the buying price. I would put the disconcerting element at the other end: that if he wants to buy his gold from US
- H.M.Jr: But nobody buys any gold.
- White: But the mere fact that he'll have to pay much more for buying in itself will cause a turn, and won't subject us to the charge of devaluation. It's a milder method than devaluation and probably just as effective.
- H.M.Jr: well, if I did it I would only do it with the understanding that that's step A and if it didn't work I'd go to - immediately to step B.
- White: It would be easier once you begin altering your selling and buying price, which you have the power to do without any
- H.M.Jr: Listen, these fellows - Mr. Daladier is going to fall within a few days. I think he's finished. The beauty of my plan was that if they'd have taken my plan it would have been satisfactory to the extreme left, because the extreme left want what I suggested. And this fellow who was over here, Monnet, says the working man is willing to work like hell and will work like hell if he's convinced the capitalist is also willing to do his part.
- White: Phillips said the same thing in the Times.

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H.M.Jr: But he's not willing to work like hell as long as he thinks the capitalist is getting away with murder.

Now, I'm not going to go into this stuff today, but I wanted to let you fellows know - it's the first time we've had a chance to think out loud. And I don't want it at this particular stage to go outside this room. I mean if and when it's ready ... But I always - when I get working and talking, you fellows know and I want you to know what's running through the President's bean. But it's not ready to talk about outside, because it would frighten people to hell. And I sincerely hope that if they're going to do something like this, it will come from the British; and it's got to come from them. In other words, it's getting down to a matter of days before they can't stand this any longer.

But I'm going to be very sympathetic, very courteous; I have no reason to be anything else. I'm certainly not going to jump on a fellow's neck when he's having the troubles they are. I'm going to tell them that up to now I've got no complaints.

Taylor: And that we fully understand the problems.

White: Particularly in view of that last sentence there, which is important.

H.M.Jr: And I may kind of drop a hint of the possibilities if they'd like to send somebody over here to talk to me - Wayne?

Taylor: (Nods approval)

H.M.Jr: What?

Taylor: I think they'd probably say, "Well, Bewley's right here, and ..."

Lochhead: Don't think they've got any better man to send.

H.M.Jr: Well, he went on his vacation just before October 1.

Lochhead: Well, that's different.

White: I'd like to get a chance to explore some time in the

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near future that other matter. It's a little technical. I think it would be a very smart thing to do. I'd like to write it up.

- H.M.Jr: What I'd do with a thing like this - like everything else - so many pistols at my head, and I'm doing each thing as fast as I can assimilate it. I can't assimilate these things any faster than I am. And you see Hopkins' stuff is out now in the paper, and I can't do anything faster; and the domestic stuff comes first. I mean I admit with this thing coming I'll just have to go to town. I can't work any more hours than I am working; I can't assimilate things any faster.
- White: But you have in mind there is this possibility you want to explore before you come to a conclusion.
- Taylor: There are a million possibilities.
- H.M.Jr: I haven't begun, Harry; I haven't begun. And you know everybody will get a chance at me. I haven't begun.
- White: Are you going to read that to him or
- H.M.Jr: Yes. Then if he wants a copy
- White: I can make him a copy quickly of those - just those questions you want to read. Won't take me long.
- H.M.Jr: All right. Here, I checked - the ones that I've checked are the ones I want.

November 22, 1938

Subject: Sterling.

Sterling today is down to 4.66 1/4. That is dangerously close to the recent low of 4.61 reached on September 28, 1938 which in turn was the lowest sterling rate since October 23, 1933.

If sterling breaks through the September 28 low, the psychological effect of that may well be what a break through the old parity of 4.8666 was on August 30 this year, namely, a further accelerated downward movement.*

I have heretofore considered as untimely any suggestion that the Secretary of the Treasury build up sterling balances instead of converting all his sterling purchases into gold. I feel today that times and conditions have sufficiently changed to make this suggestion now because

(I) of the technical position of the market:

a substantial short position is falling due in December.

(II) of the danger of a further accelerated

downward movement of the sterling rate if the recent low of 4.61 is broken through.

(III) it would, certainly at least temporarily,

help to prevent a breakdown of the trade treaty with England just signed which aims at greater trade activity between the two countries.

*It took about 8 weeks for sterling to weaken 7 1/4 points (from 4.92 5/8 on July 7, 1938 to 4.86 3/8 on August 30, 1938), but only just short of 12 weeks to weaken 20 points (from 4.86 3/8 on August 30, 1938 to 4.66 1/4 on November 22, 1938).

(IV) it would prevent questions being raised as to the usefulness of the tripartite arrangement.

(V) it would help to stifle renewed clamor for further dollar devaluation which continued weakness of sterling is almost bound to bring forth.

(VI) it would help to remove the disturbing factor of a dropping sterling rate which I am told the market feels very definitely would interfere with future Government financing.

(VII) the British have, in my opinion, proven their willingness to support their currency, suffering thereby losses which have brought them nearer the end of their gold holdings in their stabilization fund.

The expenditure of money by the stabilization fund in support of the sterling rate by means of sterling purchases without conversion into gold seems just as defensible as direct subsidies already paid by the Government and it may be a whole lot cheaper - assuming that the purchase of £50,000,000, at say 4.62, would be sufficient - a 30 point drop in the rate to 4.32 would entail a loss of \$7,500,000 for us. 4.32 is about as low a figure for sterling as has been mentioned as a likely level.

My recommendation as above is, however, predicated on two very important points

(a) that the British share my belief that it is reasonable to assume that at around 4.30 sterling is, if anything, undervalued provided no further international complication arise and also my hope that the amount of £50,000,000 would be sufficient.

(b) that the British are willing to do this operation for joint account as follows:

(1) we would make the necessary dollars available for sale by them, against sterling, in their market and for purchase by us of sterling here.

(2) all sterling thus acquired would be credited to a joint account say in the name of Federal Reserve Bank as Fiscal Agent of the United States and Bank of England as Fiscal Agent of the British Treasury, and would not be liquidated, except by mutual agreement, for, say, 12 or 18 months, and

(3) all profits or losses established at time of liquidation will be equally shared.

I am fully aware, of course, that all efforts at holding the sterling rate near a given level would be doomed to failure if further international crises should develop; but that possibility does not, in my opinion, necessarily warrant our sitting back and doing nothing.

HDM:lrs
11/22/38

Plot
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The Export-Import Bank has under consideration the following loans to Brazil:

1. A proposal submitted by the Foster-Wheeler Corporation in collaboration with the Chemical Bank and Trust Company involving the financing of material and equipment to Brazil to be used in the construction of an oil refinery for the State of Rio de Janeiro. Amount, approximately \$1,750,000.

2. Sale of coal to Brazil on short-term payment basis reported in letter of October 29.

3. Sugar equipment to Brazil; no amount mentioned in letter of October 17, 1938.

4. Road building machinery to State of Rio de Janeiro; no amount mentioned in letter of October 17.

5. Commitment of \$7 million to the Central Railways of Brazil, expires on June 30, 1939.

C A B L E

From: Bolton
Bank of England

Date: November 22, 1938

148-7 148-11

No improvement in situation. In face of heavy demand for dollars we have allowed rate to sag. So far we have sold \$2,500,000 rate now 4.67-5/8 turnover \$30,000,000.

Bank of England

Bolton

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE November 22, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

Mr. Bolton called me at 12 o'clock but had not received my cable of this morning informing him of our purchase of about £600,000.

As regards the sterling market it was the same old story, he said. The basis of the difficulty was primarily political; the Anglo-German tension, if anything, had increased. Yesterday's debate in the House of Commons had brought forth a renewed attack on England by the German press. Worse yet, there was a fair amount of political dissension within England, all of which furnished excellent breeding ground for the speculators. His losses of gold and exchange had been at such a rate that it was now impossible for them to go on losing at the same clip. It was now a question of ultimate reserve. Their losses had averaged about £4,000,000 a day, the inevitable result of which had been that they had to limit their supporting operations; this in turn was bound to bring about wider fluctuations. They were now operating at a limit which was reducing their daily average loss to £2,000,000. He could assure me, Bolton continued, that as far as Europe was concerned, there was a universal conviction that sterling was going to depreciate further. Although the London market decidedly disliked this continued depreciation of sterling, there was talk about a 4.50 level. The Continent seized upon anything, the loss of an election by the Government, the state of the budget, etc., to emphasize the unfavorable position

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE November 22, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

BY L. W. Knoke

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of sterling. He could see no hope of improvement in the political situation for some time to come.

Bolton referred to my telephone call the latter part of last week and the hints I had dropped to him at that time. Whitehall on the whole seemed disinclined to consider anything as drastic as they at the bank had then had in mind in the way of restrictions. That being so, he might want to take some action through personal contact with the market although he was aware that this would probably do no more than advertise the weakness of his position. Nevertheless, he thought something had to be done. However, before doing anything of that nature he would give me notice well in advance. Steps along these lines if taken would be more in the nature of managerial technique with which Whitehall was, of course, not concerned but he would make sure that I heard of it in ample time.

He had arranged to ship about £7,500,000 of gold from Paris. I reminded him of our telephone conversation of some two or three weeks ago in the course of which he had stated that they didn't know yet whether they would cover their short position by means of purchases in the market or by means of gold shipments and inquired whether these new shipments were contemplated as cover. That was one of the things he was discussing now, Bolton replied. They had £25,000,000 falling due in December and if they didn't furnish the sterling by means of dollar purchases it might be difficult for anyone short of sterling

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

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to find the needed supply; that, of course, might well help the sterling rate. They had to consider this matter from many angles as it was not only an exchange question but one that also directly affected the London money market. I pointed out that his calculations might well be correct provided foreign balances in the London market were sufficiently low and as to that he was the best judge of the situation. Bolton didn't seem to feel that he could do much to stem the capital movement which was under way but rather thought that his plan might be successful in squeezing some of the speculators. At any rate, no matter what they finally decided on he would give me plenty of notice.

LWX:KW

NC

GRAY

LONDON

Dated November 22, 1938

Rec'd 3:32 p.m.

Secretary of State

Washington

1346 November 22, 6 p.m.

FOR TREASURY.

Though the London stock market has been relatively quiet and British funds have registered little change with war loan $3\frac{1}{2}\%$ unaltered at $993/16$, pressure on sterling was heavy and the rate dropped from the opening at $4.68 \frac{3}{4}$ to as low as $4.66\frac{1}{2}$ recovering later to $3/4$. The British fund sold dollars in the morning but is believed by the market not to have operated this afternoon, the hardening of sterling in the late afternoon being due to support from New York.

214 bars were sold at the gold fixing, 100 of which were supplied by the British fund at 148 shillings 9 pence the price rising subsequently to 149 shillings $1\frac{1}{2}$ penny though the after fixing turnover was small.

The franc has been steady around 178.77, the Bank of France having operated in a small way in the afternoon at 178.66.

KENNEDY

KLP
BW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 22, 1938, 6 p.m.

NO.: 1975

FROM COCHRAN.

In the press and on the market there has been a good reaction to the Government's forceful action to end the small strikes that occurred yesterday, and to the strong order given by the Premier to departmental prefects in France to put an immediate end to any occupational strikes that might occur. There has also been a good reception for the announcement by the Minister of Finance that the Treasury would hasten the settlement of bills due government suppliers. There is general improvement in shares and French rentes.

At 5:30 I talked with the Bank of France and ascertained that the French control had a satisfactory day acquiring a good amount of sterling and seeing some improvement in the forward franc. The fact that sterling had further dropped has caused much worry in the city and in continental central bank circles. At present, gossip is circulating that the gold resources of the British equalization fund are exhausted.

The story appearing in the British press that French control has been selling its recently acquired sterling to purchase dollars is denied and resented by my friends here.

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Four hundred and sixty-eight million francs gold bars invoiced today by the Bank of France for shipment on the PRESIDENT ROOSEVELT to the Federal Reserve Bank of New York for the account of the Bank of England.

It is not yet known what will be the outcome of this afternoon's meeting of the French Chamber Finance Committee wherein it was planned that Daladier and Reynaud would insist on immediate consideration of the budget for 1939 and on postponing discussion of the decree laws.

END MESSAGE.

WILSON.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 23, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

Mr. Bolton called at 11:55 this morning. They had had rather a lighter day today, he said, and had lost altogether not more than £1,500,000. If they could keep their net losses down to £2,000,000 a day they would be doing about as well as could be expected. The slight improvement in the situation he thought was due to a somewhat better feeling in France where Bonnet was reported to be ready to sign a non-aggression declaration with Ribbentrop. Although the French labor situation was probably worse, Paris paradoxically seemed to feel a little better simply because the French Government was determined to apply a firmer hand to strikers. Nothing much was expected to result from Chamberlain's and Halifax's visit to Paris as the German-Jew situation had pushed right across any arrangement which the English and French statesmen might have had in mind.

LWK:KW

REB

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GRAY

London

Dated November 23, 1938

Rec'd 2:11 p. m.

Secretary of State,
Washington.

1351, November 23, 5 p. m.

FOR TREASURY.

A foreign exchange dealer describes today's market as nervous, erratic and narrow. The British authorities checked the fall from the opening at 4.66-1/2 to 4.65-7/8 and the rate stayed around 4.66-1/2 until the dollar was offered from New York and the rate went to 4.67 later reacting to 4.66-1/2 around which it now stands.

The Bank of France is reported to have taken in a substantial amount of sterling today bidding first at 178.65, later at 63 and 61, but in the late afternoon at 66. The French have lost a small amount of their sterling gains.

Only 77 bars were sold at gold fixing at 149 shillings 2 pence estimated to give about one-half pence and post fixing dealings were small.

British securities eased slightly with war loan 3-1/2 down 1/16 to 99-1/8.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 23, 1938, 6 p.m.

NO.: 1981

FROM COCHRAN.

The Finance Committee of the Chamber in an extended session last night voted down a Socialist motion denouncing the decree laws of the Government; there were twenty votes against the motion, 18 votes for it, and five members did not vote at all. Immediate discussion of the budget was voted, 25 for it, 16 against it, and 2 abstentions. Thus the Government's desire that the budget have priority over the decree laws was approved. Press reports indicate that the Government won its victory only after Daladier threatened to cancel the visit to Paris of Chamberlain and Halifax which was scheduled for today, and that he would convoke Parliament to pass on his policy as a whole if the Finance Committee would not uphold him.

Reynaud, the Finance Minister, again categorically opposed exchange control during the Committee discussion. He said that adjustments could be made in certain measures decreed provided there was no reduction in the total revenue derived from them, and provided there was no change in the general trend. Signs of improvement already exist, he stated. Since the first of November, he said, about 1 1/2 billion francs have been repatriated. The needs of the Treasury, according to the Minister,

are

- 2 -

are covered until March, 1939. The Treasury would have to pay out before that date 22 billion francs, and it had already on hand 17 billion francs of this amount. At the present moment ordinary Treasury bonds/^{in circulation}total 20 billion francs as compared with 8 billions on the first of November. The Minister of Finance announced that the ordinary budget for 1939 would be in balance at 66.3 billion francs.

At noon today I had a talk with Rueff. He said that although the voting last night was close, Reynaud had really made a good impression. In spite of Left and organized labor opposition, they hope to carry the program through.

The French stabilization fund gained sterling on the Paris market today. There was also improvement in the forward franc. Weaker French rentes and shares. After the Bourse closed, the announcement of a common declaration by France and Germany improved sentiment here. Important sales of dollars were made against sterling by Lazard today. Dollars were purchased by the Bank of Indo-China.

At half-past five I talked with the Bank of France. I was told that for the day the French control had gained over one million pounds, even though there had been a slight turn this evening because of labor and political fears.

Today

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Today the Bank of France invoiced for shipment on the AURANIA 472,000,000 francs gold bars to the Federal Reserve Bank of New York for the account of the Bank of England.

I am told by Paris-American bankers that they understand the British are officially buying Indian gold at 34.62 which is premium over 34.59, which latter figure is what Americans calculate they can afford to pay for it.

END MESSAGE.

WILSON.

EA:LWW

TREASURY DEPARTMENT

385

INTER OFFICE COMMUNICATION

DATE November 23, 1938

TO Secretary Morgenthau
FROM Mr. Taylor:

I called Mr. Briggs of the State Department, in accordance with the request conveyed in Feis' letter to you of November 22d, and asked him to send to the American Chargé at Rio the following message:

Secretary of Treasury asked Penteadó to convey to Souza Costa message to effect that on occasion of Souza Costa's visit they had worked out existing gold credit arrangement; that it is desire of U. S. Treasury to work very closely with Brazilian Treasury; that U. S. Treasury had been making some preliminary studies looking to further cooperation in this field, and Secretary Morgenthau wished to know if Souza Costa had any suggestions as to further steps which might be taken.

W.T.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: November 23, 1938, 8 p.m.

NO.: 651

No. 33. FOR THE TREASURY. FROM HEATH.

The total disclosed debt of the Reich increased only 64,000,000 marks in the month of September to a total of 23.8 billion marks. The increase was entirely in the form of short term indebtedness which rose from 4,513,000,000 marks at the end of August to 4,753,000,000 marks on September 30. This increase of 240,000,000 marks was mainly offset by a decrease of 7,000,000 marks in long term external debt and 169,000,000 in internal medium and long term debt. The greatest part of the decrease in internal funded debt was in the reduction of 4% "Treasury work certificates" of 1921 from 228,000,000 to 60,000,000 and in 4 1/2% Treasury certificates of the 1934-37 issues which went from 1,120,000,000 marks to 1,028,000,000. On the other hand bonds of the January Reich loan in the amount of 96,000,000 marks were issued.

In view of the huge expenditures for fortification and other military preparation in September the slight increase reported in the debt at first sight seems incredible. On the other hand September was a record month for tax revenues which totaled 2,013,000,000 marks or 543,000,000 marks (37%) over September 1937.

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However, there is evidence that in order to meet extraordinary expenditures for the month of September the Government had recourse to credit operations of an unusual character which the official debt statement does not show. It is reported that municipalities had to loan reserve funds to the Government, which funds were later repaid by October loan bonds. It is also reported that credit was extended to the Government by munitions and other factories for which no payment was made either in "delivery certificates" or other paper. According to one banker, a munitions factory which has a capitalization of 7,000,000 marks has on its books 4,000,000 marks of Government debt for which it has not received any Treasury or other certificates; because of its lack of operating capital it is having difficulty in meeting its payrolls. According to this same banker, the Government did not have to resort to the issue of unrecorded "special bills" during the month of September, but that "special bills" were plentiful in limited amount to a few large industrial undertakings for the month of October. It has been impossible for me to confirm this statement, and the Government continues to deny that "special bill" financing has been undertaken again.

For the month of October the composite bank statement shows

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shows that deposits - excluding time and savings deposits - increased by 105,000,000 marks as compared with the month of September, when there was a decrease of 707,000,000 marks. It is unusual that there was an increase in deposits following the 1,850,000,000 marks Reich loan which was floated in October. However, this is to be accounted for by the repayment of Government short and middle term paper which I mentioned in my telegram No. 32, the last one I sent to you.

END SECTION ONE.

GILBERT.

EA:LWW

JR

GRAY

Berlin

Dated November 23, 1938

Rec'd 9:25 p.m.

Secretary of State,
Washington.

651, November 23, 8 p.m. (SECTION TWO).

The total demand deposits of all German credit institutes (savings banks excepted) stood at 18,310,000,000 marks of which 6,175,000,000 marks were inter-bank deposits. Savings deposits of these banks increased 29,000,000 marks to 614,000,000 marks. The cash reserves of all German banks (excluding savings banks) were 1.9 per cent at the end of October as compared with 3.1 per cent at the end of September. The relations of other liquid assets to liabilities was 59.7 on October 31 as compared with 52.5 per cent September 30.

On the assets side total bank holdings of securities presumably mainly as a result of the loan increased 250,000,000 marks to a total of 3,572,000,000 marks as compared with a decrease of 68,000,000 marks in September. Bill holdings (not including Treasury bills) increased 349,000,000 marks in October to a total of 5,346,000,000

on

-2- #651, November 23, 8 p.m. (SECTION TWO) from Berlin.

on September 30. Practically all (340,000,000) of this increase was in the form of three months bills almost exclusively in the form of single bills of the Gold Discount Bank. Bank holdings of Treasury bills decreased 17,000,000 marks in October to a total of 3,482,000,000 marks as compared with an increase of 242,000,000 in September. Interbank claims decreased from 2,186,000,000 marks to 2,149,000,000 on October 31. Merchandise loans increased from 446,000,000 to 464,000,000.

The Reich Stock Market index which had fallen to 103.18 in September ~~rose~~ to an average of 107.48 for October and 108.26 for the first week in November. (1924-26 equal 100) following anti-Jewish demonstrations the index fell to 105.21 for the third week in November and doubtless would have declined much further had it not been for the prohibition against sales of Jewish owned securities. The average yield for all stocks at the September average prices was 4.82 as compared with four per cent for September 1937. Taking only concerns paying dividends of five per cent or more the average yield at September 1938 prices was 5.08 per cent as compared with 4.49 per cent at September 1937 prices. (END MESSAGE).

GILBERT

HPD

C A B L E

331

From: Bankers Trust Co., N. Y.
London Office

Date: November 23, 1938

AT OPENING DOLLARS STRONGLY WANTED AND BANK OF ENGLAND SOLD ABOUT 2 MILLION DOLLARS AT 4.65-7/8. MARKET THEN GOT OFFERED ON PROFIT TAKING AND HIDDEN CONTROL STARTED BUYING DOLLARS FROM 4.6650 DOWN TO 4.66-3/16. AT MOMENT MARKET UNCERTAIN. FORWARDS SLIGHTLY OFFERED SPOT FORWARD FRANCS SLIGHTLY OFFERED.

DE CASTELLANE REPORTS CONTROL RECEIVED THIS MORNING 2 MILLION DOLLARS MONEY RATES EASIER. CHAMBER MAY NOT RE-CONVENE BEFORE DECEMBER 13. CLOSE ASSOCIATE FINANCE MINISTER HOPEFUL GOVERNMENT WILL HAVE MAJORITY IN CHAMBER BY GRANTING PROLONGATION MANDATE AGAINST WHICH GOVERNMENT MIGHT RECEIVE FULL POWERS ONE YEAR. COMMUNISTS AND SOCIALISTS CAMPAIGN CONTINUING BUT NO INCIDENTS SO FAR IN EVICTING SIT DOWN STRIKERS. NOT BELIEVED STRIKES WILL ASSUME BIG PROPORTIONS.

CONFIDENTIAL

November 23, 1938.
11:14 a.m.

H.M.Jr: Hello.

H.M.Jr: Does he know that I'll see him at 11:30?

Douglas: Hello

H.M.Jr: Hello - Bill?

D: Ah - Mr. Secretary.

H.M.Jr: Yes.

D: Ah - maybe this will be unnecessary - ah - make unnecessary my coming over at 11:30. I, as is my custom in these big things - ah - before we actually make a public release - always talk with the President and advise him.....

H.M.Jr: Yes.

D:as to what is going on so that when it's really big the first knowledge that he will have is what we're actually doing and what we gave to the newspapers.

H.M.Jr: Right.

D: So - ah - I had a talk with him this morning by telephone just as a routine checkin - just - telling him that we were going ahead, why we were going ahead, why it was important - the fact that I talked with you and so on.

H.M.Jr: Yes.

D: And it's - ah - the whole thing is obviously agreeable to him.

H.M.Jr: Yes.

D: Now he did make this suggestion that I thought that you ought to know that perhaps Delano - perhaps might do something about. He said this. In connection with the publicity on this matter it would be desirable in his opinion to - ah - ah - indicate in some way or other that - ah - the - this was not - this is not an attack on the - on the integrity of the banks and the

- 2 -

banks underlying this Transamerica thing are - are solvent - that - something along that line to allay the panicky fear on the part of any depositors.

H.M.Jr: Yes.

D: Well now that was what the President suggested and I - I wanted you to know it and it seemed to me that if - ah - that one appropriate way of doing it might be - ah - to have the Comptroller of the Currency make some statement of that kind.

H.M.Jr: Well, Bill, I don't see how he can.

D: Yes.

H.M.Jr: Because I - I'll talk to him but as I understand it - ah - I mean if he made such a statement about the bank it would be contrary to the charges that he makes to the management. Now look this is what I did and I wondered whether this wouldn't cover it, see?

D: Yes.

H.M.Jr: This afternoon Hanes, acting for me, is going to have a meeting with the Comptroller with a representative of FDIC, representative of Federal Reserve and representative of RFC to lay plans to protect the depositors in case anything should happen.

D: Yes.

H.M.Jr: Now that meeting has been called for this afternoon.

D: Yes.

H.M.Jr: Now, if it's agreeable to you, I will tell Hanes what the President said.

D: That's - that's fine.

H.M.Jr: See?

D: Yes.

- H.M.Jr: And then let this group decide and assume the responsibility to make damn sure that nothing happens to the depositors.
- D: Yes and perhaps it could be worked out by one member of that group - ah - just says that the depositors have nothing to be afraid of.
- H.M.Jr: Well I'll - I'll put that up to them but - coming from the President.
- D: The President indicated that it would be desirable to indicate in connection with the first publicity that - ah - the depositors shouldn't start running these banks.
- H.M.Jr: Well I'll you - and your publicity will be at three on Friday.
- D: That's - ah - our publicity will be at three on Friday.
- H.M.Jr: Well I - I'll - I'm going to talk to Johnny about this.
- D: Yes.
- H.M.Jr: And tell him that when he gets this group together - because I'm leaving around noon.
- D: Yes.
- H.M.Jr: That he should be thinking this over and that this is the President's suggestion.
- D: Yes.
- H.M.Jr: When you talked to the President, did he give you the impression that he knew this was coming?
- D: Oh sure. He did. He said, yes - he mentioned talking with you about it and I said that all I wanted him to know was that it was from the SEC point of view it was a clear duty, that we felt very strongly we had to go ahead and nevertheless, in view of the wide ramifications of the thing in various areas, that I wanted him to know directly from me that we were going ahead, when

we were going ahead and why we felt we had to go ahead.

H.M.Jr: Well I appreciate your calling me and I'll pass this along to Johnny right away.

D: Yep.

H.M.Jr: What else do you know?

D: That's all.

H.M.Jr: And may I again say that I want to congratulate you on (laughs) your - the action and the courage in connection with it.

D: Well it's - we appreciate very much.....

H.M.Jr: And if I keep my health (hearty laughter) you'll find me fighting with you side by side.

D: Swell.

H.M.Jr: All right.

D: Thank you very much.

H.M.Jr: Goodbye.

D: Goodbye.

GROUP MEETING

November 23, 1938.
12:00 Noon

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

H.M.Jr: (Hands Mr. Gaston a note.) Herbert, Wednesday night?

Gaston: Yes; right.

H.M.Jr: Seven thirty.

Gaston: Rodney is out there right now; maybe

H.M.Jr: Where is this thing for me to sign?

Oliphant: Ed (Foley) is going around to get it initialed.

Upham: I went to Delano and brought back the initialed carbon and gave it to Ed.

H.M.Jr: Yes; well, don't argue; go get her.

H.M.Jr: Mac, any of your old people Monday?

McReynolds: No.

H.M.Jr: Steve, any more people Monday?

Gibbons: (Nods "No.")

H.M.Jr: Harry, those maps you gave me went down to the President yesterday, so get me another series, will you, by Monday.

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White: All right; and there is a memo I'll leave with Mrs. Klotz for you to check with me.

H.M.Jr: You'd better get it awfully early; the pouch is closing; it's closed.

Klotz: Going, going, gone.

Oliphant: When is the next pouch?

H.M.Jr: Monday.

Oliphant: I am going to send something tonight.

H.M.Jr: Well, he don't get -- that's all right, he'll get it Friday morning.

Klotz: We'll tell you when.

Lochhead: Mr. Chen was just in; he said he had a very satisfactory visit with Secretary Hull last night; said he'd been asked to go over and see him, and his Secretary said, "Well, don't spend more than ten minutes with Mr. Hull, because he is very tired these days," and Mr. Chen said, on the contrary, he had half an hour with him; he tried to break on that time but Mr. Hull kept him. He was very interested. Mr. Chen confined his talk to the fact he was over here on business and was interested in keeping trade relations between the countries, and keep an open door to China, and he said Mr. Hull seemed to be very responsive, and spoke in general terms; he asked him a couple specific questions; he said, "Are you going to continue to fight? Can Japan make another India out of China?" And he asked several questions like that. And he said he was very interested; he wanted to get that first hand, because he had gotten various conflicting advices.

H.M.Jr: Did Chen get any money?

Lochhead: No. He was not trying to be specific, but he did find Mr. Hull expressed sympathy with China and asked certain specific questions.

H.M.Jr: But he got no money?

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- Lochhead: No. He didn't ask for it. Of course, that is all he can ask, for a while; if he can get the State Department to express sympathy, he can get that taken care of.
- H.M.Jr: (Low to Mrs. Klotz.)
- Lochhead: Incidentally, Mr. Hull asked him to come back if he was still here; he wanted to see him again when he came back.
- H.M.Jr: Now, Archie, an awful lot's happening around this town, and if sterling should get sicker, why, it is you, Taylor, and Harry, to get together and simultaneously get me on the phone - if she's really sick, see, Wayne?
- Taylor: (Nods "Yes.")
- H.M.Jr: I didn't hear - I gather the patient is about as is, but if she gets sicker, the three of you get together and talk about it, and give me a ring.
- White: I think she will keep for a while.
- H.M.Jr: All right for you to be encouraging ^{what} on/silver is doing.
- White: Apply the proper dosage and I think you'll get results.
- H.M.Jr: Gene?
- Duffield: No.
- Hanes: Nothing but that meeting at four thirty; I want everybody to understand who is going to be there. I think Herbert Gaston is the only one not notified; will you be there?
- Gaston: I am not included, I think, John.
- H.M.Jr: I asked, definitely, that you be included.
- Gaston: I misunderstood; we have a letter from the President on it.
- H.M.Jr: Very definite.

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Gaston: Four thirty - right.

H.M.Jr: Just wait a minute. No, very definite. And I want everybody to be around to help Hanes, if necessary, on Friday, too.

(Mr. Foley comes in.)

You want me to say, let that thing go - you and I were talking about - that method of having that - I think we'll let it go until this afternoon.

Hanes: I think we can handle it all right.

H.M.Jr: Well, you will have three ex-newspaper men there with you - Gaston and Upham and Duffield.

(Reads a letter - to himself - that Mr. Foley handed to him.)

All present?

Foley: I think everybody that was here this morning has initialed it.

H.M.Jr: Where's yours?

Foley: There.

H.M.Jr: She blows, huh?

Foley: She blows.

Oliphant: Rodney still waiting?

Foley: No, he's coming back at a quarter of one.

H.M.Jr: Who?

Foley: Rodney.

Upham: Is Duffield on there - Gene? He was here.

Foley: Yeah.

H.M.Jr: I've got a reason for putting a time on there - never done that before, but I've got a reason.

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- Foley: You want it to go right over, or you want me to wait until Rodney comes back to pick it up?
- H.M.Jr: When will he be back?
- Foley: Quarter of one.
- H.M.Jr: That's all right.
- John, everybody knows who is on tap now?
- Hanes: Foley, I think, stands as representing him and Oliphant; Gaston, Taylor, Duffield, Upham, Delano - Mr. Delano won't be here; I understand he is sick.
- Upham: He may be down this afternoon.
- H.M.Jr: I think he ought to be unless he's got a trained nurse or something that is longer than his mouth. I think he ought to be here.
- Hanes: I believe that is all.
- H.M.Jr: All right.
- Wayne, did that thing get to you; did you fellows take care of that thing about Brazilian financial policy?
- Lochhead: I have it; that is one I have been waiting for.
- H.M.Jr: Anything between now and Monday, Wayne?
- Taylor: Among other things, yesterday I had luncheon with Feis, and described - gave him that memorandum which you asked me to give to him - described in great detail what had happened at conversations. He asked that we give him a copy of the message which we had received from the Treasury. I hadn't been able to clear that, and I said - but I said, we would.
- H.M.Jr: Sure.
- Taylor: The other thing, late yesterday evening Livesay sent over a copy of this German note, suggested reply, which really isn't our business. I made it clear to him that I was - if he wanted me to

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comment on it as an individual, I would be glad to, but as far as the Treasury went, why, that was their business.

H.M.Jr: That is fine.

Taylor: And I made a couple of suggestions - wording, and so on.

Had a long talk with Secretary Wallace yesterday afternoon, and they are proceeding in a way that I think will make it clear to - I hope will make it clear to everybody what the program is and what the alternatives are.

H.M.Jr: Yeah. O. K. Well, anything else?

Taylor: (Nods "No.")

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

George?

Haas: I have nothing that won't hold.

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

Gaston: Had a letter from Al Cohen this morning, and he wanted you to know that Sheridan Downey has declared himself in on the political patronage in California and has recommended to the President that Pearson Hall be appointed District Judge. He thought you might be helpful in the situation. But I am just passing on the word.

H.M.Jr: No. I mean, I am not interested in California politics any more. I am

Gibbons: You want to read Westbrook Pegler on Hollywood this morning - Los Angeles - it's the best thing that's happened out there.

Oliphant: That stuff won't be ready to take with you; can I send it up tonight?

H.M.Jr: Please.

Oliphant: I want to send it, so you will have it. I might send it to Mrs. Klotz.

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H.M.Jr: Just send it to Fishkill, New York.

Oliphant: She'll write it out.

H.M.Jr: If I may be a little sentimental for a moment, I want to say, the last few days I appreciate particularly the team work in the Treasury. I think that we - without going into too great an explanation, I think we did something on this relief business, and I know I am very happy about it. I just want to thank everybody for that help, and I realize, as Johnny Hanes says, the President has been up against a hell of a problem, but I want to let each and every one of you know how much I appreciate the help you have given me, not only the last couple days but through a number of these very difficult things.

And I am really proud of my group, and I want to wish you all a day of peace and rest tomorrow.

Klotz: Thank you.

H.M.Jr: I promise not to call anybody tomorrow. --
I don't know whether you get the hint or not.

November 23, 1938.
12:50 p.m.

HMJr: Hello.
Arthur
Sulzberger: Hello.

HMJr: Hello, Arthur?

S: Hello.

HMJr: Henry talking.

S: Hello Henry.

HMJr: How are you?

S: I'm well. I'm very tired. I'm running away this afternoon. I'm going out West.

HMJr: Good for you.

S: Ephie and I are going off, we've shipped the car out to San Francisco and then going to motor down to Phoenix and have the kids join us at Phoenix for the Christmas holidays.

HMJr: Oh, are you going to be gone that long?

S: Yes.

HMJr: Oh for heaven's sake.

S: Quite a jaunt. But I've gotten awfully tired on this thing and I'm not thinking straight, so I'm running away.

HMJr: Well, it's nice to talk to you, and I hope you're going to have a good rest.

S: Thanks. I'll tell you Henry what I called you about.

HMJr: Please.

S: A man named William Speed, who's been involved with the Government was a bank director out in the Louisville National Bank who's an old friend of ours.

HMJr: How do you spell his name?

S: Speed. S-P-E-E-D.

HMJr: Yes.

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S: William Speed.

HMJr: Yes.

S: He is a perfectly grand decent human being, who happened to have been a damned fool and gotten involved as a director of one of those banks that got into difficulty.

HMJr: Yes.

S: And he's taken a terrible licking, a court order I believe, the courts have finally come through and it's a very heavy jolt.

HMJr: Yes.

S: And he called me up today, though, and said that he's very anxious now to settle this up. It's been hanging over him for years, that he's gotten a group of people who are still there to see likewise and he wanted to know, if I knowing you wouldn't ask you to whom he could come and talk with that end in view.

HMJr: Well I suppose it would be Preston Delano, the Comptroller of the Currency. I - I haven't - I think I vaguely know of the case.

S: Yes.

HMJr: It's several years old I think.

S: It is several years old. Yes. Well, he's anxious now to get a little happiness in life again, and to meet the situation and clean it up. I know nothing about it other than he's a very white, decent person.

HMJr: Well, I'm not familiar either, but I would say that if he'd come down here Monday, I'll see that he at least gets a chance to see whoever is the person.

S: Right. And where should he come on Monday?

HMJr: Well if he'll come to my office.

S: Come to your office on Monday.

HMJr: Yes, but I - ten o'clock - but I - tell him I wouldn't raise his hopes, see?

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S: Oh, of course not. It's merely - if he'll come to your office at ten o'clock on Monday, he will find out then to whom he can talk and that's all.

HMJr: That's right.

S: Righto.

HMJr: Have a good time.

S: Thanks. Give my love to Ellie.

HMJr: Thank you.

S: Right.

Original in meeting on
Bank of America, same date. B.N.

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November 23, 1938.
9:38 a.m.

- HMJr: In the office here are my own people, plus Commissioner Douglas of SEC.
- Leo Crowley: Yes.
- HMJr: And - Are you where you can talk?
- C: Yes, sir.
- HMJr: All right. Well now, Commissioner Douglas wants us to - he's entitled to a hundred and fifty per cent assurance that all of us are going to back him up, see?
- C: Yes.
- HMJr: And I'm going to let him talk to you a minute and satisfy himself, see?
- C: All right. Let me say this, I'm sorry I'm away right now. I had to come out here to the hospital for a little check up and I'll be back the Friday after Thanksgiving.
- HMJr: Well that's all right.
- C: Let me talk to Bill now.
- W.O. Douglas: Hello, Leo?
- C: Hello Bill, how are you?
- D: Fine. Have you - you're up to date on what the SEC has decided to do on the Trans-America situation?
- C: Yes, we'll stand back of you a hundred per cent Bill.
- D: There is no reason, in your mind, why we shouldn't proceed forthwith with a proceeding to delist the Trans-America securities?
- C: I don't see any reason in the world Bill, I think if that fellow is going to be able to dictate and run the policy of the Government, why we all better quit.
- D: Yes. Well you realize of course that in the allegations and the charges that we will be making in our order that will be issued Friday of this week, that there will be certain facts charged that will challenge

the financial integrity of that whole system.

C: I appreciate that, Bill. I don't think it'll hurt the institution any at all. If it does why we'll stand back of any of them.

D: Well I just wanted to make sure that there was absolutely full accord all down the line.

C: That's right. I'm with you Bill, you go right ahead.

D: O. K.

C: All right Bill.

D: Thanks very much.

C: Hello.

HMJr: Hope you have a nice Thanksgiving.

C: Thank you. Are you going to take a little vacation? Are you going to be back the first of the week?

HMJr: I'll be back Monday morning.

C: I'll see you the first of the week. I'd like to talk with you.

HMJr: Give me a ring will you please.

C: Thank you.

November 23, 1938

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AA
OUTLINE OF PLAN FOR REFUGEE PROBLEM

Solution of the refugee problem requires:

1. Immediate withdrawal of the refugees from Germany.
2. Maintenance and retraining of the refugees until their transfer to permanent status is complete.
3. Permanent resettlement of the refugees along several lines.

The following plan is designed to accomplish all three objectives:

1. Rapid withdrawal of as many as 500,000 people can be achieved by apportioning them among the cooperating countries on the basis that each country immediately receive its full quota of immigrants for a given number of years, plus a specified percentage of refugees who will be maintained until permanent arrangements are completed for their resettlement in other countries. The refugees will enter on temporary visitors' visas, and with the understanding that a stated proportion will leave the country within a specified period.

The United States could take care of 135,000 refugees on its five-year quota, plus another 100,000 to 200,000 on the temporary basis. Great Britain, Holland, France, Scandinavian countries, Russia and perhaps the British Dominions could easily absorb among them, on the same basis, another 300,000 to 500,000, providing the necessary funds for their transfer and maintenance can be arranged.

2. Maintenance of the refugees

The refugees will be maintained in specially prepared communities where they will be given every opportunity for self-maintenance, rehabilitation and preparation for their future vocation and conditions of life. The communities will be operated and administered by a government-sponsored corporation, which will use all existing available equipment such as that of abandoned C.C.C. and Army camps. Food, clothing, shelter, etc., can be obtained at especially low cost by purchases from the Federal Surplus Commodity Corporation and through utilizing the facilities of other government agencies.

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It may prove desirable for political and economic reasons to segregate most of the refugees in the specially prepared communities. They will not be permitted to enter the labor market or to indulge in any transactions which are competitive with any part of the national economy until they obtain legal residence.

3. Permanent resettlement of the refugees will be achieved by a combination of the following three procedures:

(a) Gradual absorption of a predetermined number of refugees by the countries originally receiving them in accordance with their regular immigration schedules or some modification thereof.

(b) Latin American countries would almost certainly agree to absorb immigrants if their absorption were tied up with a feasible industrialization loan which would increase their economic independence of certain European countries, and which would increase their capacity to provide employment for the additional immigrants. A brief summary of a plan which would be practicable for Latin America is appended.

(c) Settlement of refugees in areas throughout the world regarded as suitable for colonization. Various spots in the world have already been suggested, such as Costa Rica, British Guiana, Tanganyika, Kenya, Northern Rhodesia, Mexico and parts of Russia in Asia. Many, if not most, of these areas may prove unsuitable but it is assumed that no colonization program will be started until a thorough investigation of the potentialities of these areas has been made. Once suitable areas have been found, volunteers from among the immigrants will settle there to prepare for future more extensive and intensive settlement. There will be a subsequent flow of immigrants from the camps in the countries originally receiving them to these areas in accordance with their absorptive capacities. It is not likely that a large portion of the immigrants could be absorbed by colonization of previously undeveloped areas.

4. Administration

Congress will establish a government-sponsored corporation or corporations which will have full responsibility for the execution of the plan. The corporation will, of course, cooperate with and accept the voluntary assistance of private organizations and individuals.

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5. Financing of Plan

How much funds will be needed depends, of course, on the number of refugees taken and the ease with which the refugees could be settled in other areas. It is not unlikely that the sum necessary to accomplish all these purposes may exceed one-half billion dollars. Clearly the limiting factor on the number of refugees that can be taken care of will be the amount of money that can be made available for the purpose.

There are various feasible alternatives for raising the funds necessary. It will doubtless be found necessary to resort to all of them to obtain the large sums needed to carry out the plan on a broad scale.

(a) An outright appropriation by the United States Government of \$X amount as its contribution towards the maintenance of refugees.

(b) Contributions by private individuals and organizations toward this fund.

(c) The flotation of a long-term loan bearing low interest rates for sale to the general public.

A combination of the above three may yield several hundred million dollars. The final decision as to what combination shall be used should be taken only after consultation with experts in the financial problems involved.

It is our opinion that the flotation of the loan will meet with considerable success. The risk element will be reduced by the fact that inasmuch as all of the contributions are to be centered in one fund, to be managed by the government-sponsored corporation, the borrowing of money direct from the public by this corporation would have equity behind it equal to the contributions made by the government and private individuals. Moreover, a large proportion of the loans would be repaid by the refugees or by the enterprises which will be established from the proceeds of this fund.

Some important factors that have to be borne in mind in attempting to solve this problem:

1. The age composition of the refugees is likely to be such as to make rehabilitation difficult. Studies of the refugee population in Germany indicated that as much as 50 percent will be over 45 years of age.

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2. The present occupational distribution of the refugees is also likely to make rehabilitation difficult. About 60 percent of those who will seek work will have had experience in commerce and merchandise trade. Only about 25 percent will be trained in industry and crafts, and 4 percent will be physicians.

On the other hand, many of the refugees have already been preparing themselves for resettlement and the process of rehabilitation has already begun, so that the time required for readjustment will not be as long as it would otherwise have been. Nor should it be overlooked that many of the refugees might be an extremely valuable asset to their countries of final destination, as a result both of their background and of their special aptitudes.

3. There is the danger that the absorptive capacities of the relatively undeveloped countries may be quite small and that therefore the countries originally receiving the immigrants may have to permanently absorb more refugees than originally planned for.

4. If the present wave of sympathy for the persecuted minorities of central Europe continues, the political problems involved in apportioning refugees among the countries originally to receive them and among the countries finally to receive them may not be difficult. However, it should be noted that already France is tightening up its alien and immigration laws; South Africa has indicated that it will receive no more immigrants; Mexico has recently passed a decrees law which imposes almost insuperable barriers to immigration.

It is imperative to bear in mind that any solution of the refugee problem which does not in some way adversely affect or penalize the governments of the countries may serve only to create greater refugee problems. Unless the countries creating the refugee problem suffer economically or politically as a direct consequence of their action then other countries may be encouraged to solve their internal difficulties in the same way by creating refugee problems. There are at least several million potential refugees in areas contiguous to Germany and in countries who need but little encouragement to follow Germany's footsteps.

The sight of Germany losing its minorities at no economic cost and some economic gain to itself might only serve pour encourager les autres, unless the clearly expressed disapprobation of the democratic peoples is articulated in specific actions by their governments.

APPENDIXPlan for promoting the industrialization of Latin America

A separate government-sponsored corporation, or a branch of the government-sponsored corporation which will handle the whole immigration problem, will be set up with the specific purpose of promoting the industrialization of Latin America.

It will make loans to qualified persons or groups to develop special industries in the Latin American countries. These industries will be so selected as to include the production of goods now imported from Germany and of strategic raw materials which the United States now has to import from elsewhere. It may be politically and financially possible to raise funds especially for this purpose.

Three conditions should be attached to the loans:

1. The borrowers should pay very low rates of interest (probably $2\frac{1}{2}$ percent).
2. The Latin American countries will agree to receive appropriate quotas of refugees.
3. All commodities and services imported for these enterprises will be purchased in the United States.

Advantages of the plan

1. It will contribute to the permanent and satisfactory absorption of refugees.
2. It will promote the industrialization of the Latin American countries and hasten the process of rendering them economically and politically independent of Europe.
3. It will decrease the dependence of the United States on distant sources of supply for strategic materials.
4. It will increase business activity in the United States and will promote trade between the United States and Latin American countries.

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Treasury Department
Division of Monetary Research

Date..... Nov. 231938

To: Secretary Morgenthau

Appended is proposal prepared
by Ezekiel which he thought would be
of interest to you though only in a
sketchy and preliminary form.

MR. WHITE
Branch 2058 - Room 200

Memorandum on the Refugee Problem.

This is merely an attempt to set down in outline form certain possible elements of an action proposal for dealing with the problem. It is stated in backward form from the basic fundamentals to the more immediate action to be taken.

I. Creation under some form of federal sponsorship of an industrial development corporation with a total capital stock of 500 million dollars or larger, the funds for the corporation to be used in establishing industries either in the United States or in other North or South American countries in one or more of the following ways:

- A. Where the industries will produce products which previously have been imported by the country from Europe.
- B. Where the industries will produce products or extract minerals which previously have been purchased by any other Pan-American country from any non-American portion of the world.

In every case where the country where the industry is to be established agrees to accept a number of refugee immigrants in addition to the number which it is already receiving under existing legislation and/or administrative rulings, equal to the number of bread-winners with their families which will be employed by the new industry, these immigrants to be admitted as rapidly as new industries added to employment.

While technicians and artisans especially suited to the industry should be given priority in selecting these immigrants, there would be no intention to staff the new industries entirely with immigrants, but on the contrary, they would be staffed partly with natives of the country

concerned, while immigrants such as professional people, lawyers, merchants, etc. would be admitted as part of the immigrants but under the number restriction set forth above.

In countries where socialistic development is being stressed, as in Mexico, the new industries might be set up on a cooperative basis with the capital stock owned by the workers of the concern, and with the bonds, in return for the investment in the industry, gradually paid off by the workers.

In each case under this proposal, the funds should be loaned at a moderate rate of interest so as to make it possible for the industries to pay off their indebtedness within a reasonable period of time if they become financially successful.

Some provision might be added that a given proportion, say 50 per cent of the material and equipment required in the construction of the industries, be bought in the United States if the funds are raised here.

In the United States about \$5,000 is invested in industrial or mercantile equipment for each person occupied. Under conditions of Latin and South American countries probably industries could be set up with an average investment of \$4,000, in view of lower labor and some material costs. At \$4,000 per person employed, the 500 million dollars would provide employment for 125,000 persons. This would represent approximately the bread-winners from half a million individuals.

II. With the backlog of this financing corporation to provide eventual industrial expansion and absorption in industry of the refugees, it is proposed that immediate steps be taken to move half a million refugees-- Jewish, socialistic, and some Catholic--out of Germany. This movement

might be undertaken by agreement between the smaller countries of Europe that are already active in this field, England, France, and the United States. It might involve possibly 250,000 being brought to the United States at once.

These refugees would be brought to the United States under a temporary visitor's visa and be housed in refugee camps. All existing idle equipment, such as that of abandoned CCC camps could be used, and in addition tent refugee camps could be established with material of the army in mild climates such as along the Gulf Coast.

The feeding of the refugees could be cared for in part through surplus foods, in part through special funds to be raised through the Red Cross, and in part from funds of the corporation outlined above.

While in camp arrangements would be made to aid the refugees in retraining themselves, both in respect to language (English, Spanish, and Portuguese) handicraft skills, and other rehabilitation training to aid them to fit themselves for the new occupations to be.

Those refugees who have already been assigned numbers for visas in Germany but who because of the limits of the quota have not received them, would be held in these camps with the other refugees until their visas became available. When they became available they would be permitted to leave the camps as quota immigrants. All other refugees would be held in the camps or restricted areas immediately surrounding them until their immigration was arranged for as a result of the operations of the financing corporation mentioned above.

In some cases the refugee camps might be located adjacent to cotton mills or other industrial resources, or clothing factories might be established at the camps and certain selected refugees be given an

opportunity to work in these mills or factories part of the time both to provide clothing for themselves and other refugees and to learn skills which could be used later in establishing new industries in Latin America or other American countries. The work in such industrial plants should be tied in with the training in the skills established in the camps (with refugee instructors) to facilitate the vocational training and rehabilitation of the refugees.

Comments. The proposal outlined above would help stimulate a new Pan-American trade which would replace the triangular Pan-American-European trade which has previously existed. It would tend to build up in Latin American countries the production of products which previously they have imported from Europe and would provide a new basis for these countries to import directly from the United States and other American countries the finished products which previously they have imported from Europe. They would thus be able to buy from us the raw materials which previously we have exported to Europe in return for raw materials we buy from them. At the same time this would stimulate the development and expansion in South America of various mineral products of strategic importance which previously we have imported from other parts of the world, and would increase the self-sufficiency of the Americas as a whole in contrast with Europe, Asia, or Africa. For these reasons the actions proposed above would be very much to the national interest of the United States as well as of a great humanitarian value in meeting the refugee problem.

At the same time it would demonstrate that the Democracies can take positive and direct action to deal with a situation with which they are concerned, and would help greatly to reestablish the prestige of the democracies as opposed to authoritarian dictatorships.

USS POPE

Hongkong, November 23, 1938.

BPAGENT

WASHINGTON D C

For Nicholson from T. V. Seong

QUOTE Information leaked out recently from authoritative Jap political sources indicate Jap policy towards China undergoing new orientation STOP UGAKI group advocates of domination by stages favoring compromise and understanding with Powers particularly Britain are of course discredited but equally discredited are extremists favoring complete military conquest. Fall Hankow and Canton contrary to all their hopes has in no wise terminated war. In addition under present circumstances no cooperation could be secured from Chinese elements as any Chinese joining puppets at once loses authority with his own people. New policy has as avowed aim reduction China present position of subserviency of Czechoslovakia towards Germany but allowing Chinese in occupied territory some real measure of autonomy and evolves as its catchword self determination of Asiatic peoples. This liberalizing policy which now has adherence of Konoye and Itagaki is designed reconcile Chinese to Japan. It is realized at present no understanding could be reached with National Government but time it is hoped would bring them around. Equally time must be allowed for extreme militarists in Japan to be reconciled to new policy otherwise repetition of February 26th incident is feared. Therefore Japan will not make any serious military efforts to take Western China but proceed consolidate its military successes and adopt more subtle means win over Chinese masses by campaign solidarity of Asiatic races and antagonism towards Europe and America. The necessary corollary to policy is that influence and trade of western nations should be rigidly excluded from China. If you see fit please pass above

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information to highest quarters. UNQUOTE

CAMPBELL

JAPANESE EMBASSY
WASHINGTON

November 23, 1938.

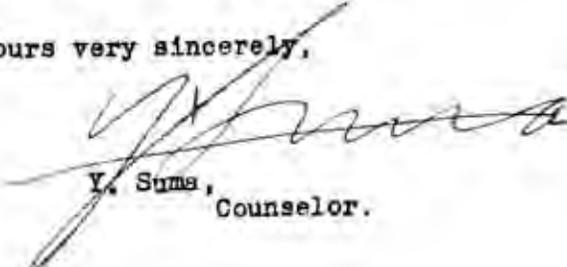
The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Department of the Treasury,
Washington, D.C.

Dear Mr. Secretary:

I wish to inform you that
Mr. Shoji Arakawa, Japanese Financial
Commissioner at London, Paris and Washing-
ton, D.C., has arrived in the United States
from London to stay about one month. He
will be in Washington for three days from
November 29 to December 1 and would like to
have the pleasure of an interview with you.

I shall be much obliged if you
will be kind enough to let me know whether
this is agreeable to you and, if so, what
date would be convenient for you to see
him.

Yours very sincerely,


Y. Suga,
Counselor.

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RED CROSS
+
ROLL CALL
-JOIN-



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 23 1936

TO Secretary Morgenthau

FROM Herman Oliphant

For your information

You will recall the difficulties we had in connection with the purchase of automobile tires through the Procurement Division in the summer and early fall of 1937, resulting from the practice on the part of the tire manufacturers of bidding identically in response to Procurement Division invitations looking toward competitive bids on tire requirements for the Government.

The case was referred to the Attorney General for such action as he might deem proper under the anti-trust laws and, the second set of bids having been rejected, a contract for tires was negotiated with Sears-Roebuck and Company at a substantial saving. A later public invitation produced non-identical bids from the bidders whose prices had been uniform before, and contracts were awarded at still lower prices.

As a result of our referring the case to the Attorney General for attention that office decided not only that the identical bids in question were prima facie collusive, but also that a civil action under the Sherman Act would lie against the participants for treble the damages that could be proven to have been sustained by the Government as a result of the collusive agreement inferred from the fact of the identical bids.

I am in receipt of a letter from Assistant Attorney General Arnold advising me that a complaint has been drawn for such a civil action, as has a public statement relative thereto, to be issued simultaneously with the filing of the complaint. A copy of the complaint and of the statement accompanied Arnold's letter.

Generally it may be said that damages will be claimed from fifteen tire companies in the amount of approximately \$1,000,000, this amount being three times the actual damage claimed to have been sustained by the Government as a result of the collusion. The measure of damage is the difference between the prices bid and the prices at which the goods could have been purchased had the collusive agreement not existed. Obviously, persuasive proof on this point is not readily adduced, but the Department of Justice feels that it is proceeding on a theory that finds support in the decided cases and that substantial damage can be established.

Herman Oliphant

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM
November 23, 1938

To: Mrs. Klotz
From: Chief Wilson

Tentative plans of the President call for his leaving Warm Springs on the night of December 4. He expects to spend Monday, December 5 in Columbia, South Carolina, Sanford, Chapple Hill, and Durham, North Carolina. It is contemplated that he will leave Durham on the night of December 5 and that he will arrive Washington 8:30 A.M., December 6.

We will inform you of any change in the itinerary.

120 BROADWAY
NEW YORK

November 23, 1938.

My dear Mr. Morgenthau:

As far as I can make out from reports received from Prof. Chamberlain and Miss Rasovsky, who were in Washington with Mr. Warren of the Visa Department, and with Mr. Hotaling and Mr. Shaughnessy, our mission was entirely successful and there is an assurance of some 500 children being permitted to come in over a period of time. This is a most satisfactory result, and largely due, if I am not much mistaken, to your initiative, and, of course, I am most grateful for it.

You spoke to me on the phone yesterday about another matter. I have followed it up and I understand that since that time Charles Liebman has either tried to have, or he did have a conversation with you.

Most sincerely yours,

Karl M. Ladd

Hon. Henry Morgenthau, Jr.,
Secretary of Treasury,
Washington, D.C.

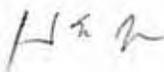
November 23, 1938.

Dear Dr. Bowman:

Thank you for your letter of November 22nd and for the copy of the "Geographical Review."

I look forward to reading this with interest while I am on my Farm this week-end and appreciate your sending it to me.

Sincerely yours,



Dr. Isaiah Bowman, President,
Johns Hopkins University,
Baltimore, Maryland.

November 23, 1938.

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Sincerely yours,

Dr. Isaiah Bowman, President,
Johns Hopkins University,
Baltimore, Maryland.

THE JOHNS HOPKINS UNIVERSITY
BALTIMORE, MARYLAND

Henry

10/27/38

✓

OFFICE OF THE PRESIDENT

November 22, 1938

Dear Mr. Morgenthau:

I am sending to your house my personal copy of the October issue of the "Geographical Review". The first article deals with African farming. The pictures and their captions are the essential parts of the paper. Figures 23 and 24 show farming in Tanganyika. Succeeding pictures show Kenya which is worth consideration.

The government of Santo Domingo has expressed a willingness to take refugees, and I have heard that it has accepted twelve families as an evidence of good faith. This is a much more practicable region for settlement than all but a small part of British Guiana. Surveys would be required. In the same issue of the "Geographical Review" is an article by Van Royen on Santo Domingo, and you can get a pretty good notion of the region by glancing through the article.

Sincerely yours,

Isaac L. Johnson

✓ The British will want the advantages of B.G. so as to get capital to level of other parts of this island colony!

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
2211 30th Street
Washington, D. C.

10/27/38
10/27/38
10/27/38

November 23, 1938.

Dear Mr. Tyler:

I find that your letter written me early in the fall has not been acknowledged, and I want to tell you how much I appreciated it, and the interesting report on the situation in Hungary, which you enclosed. Of course this was read most attentively, and I appreciated your comments and the conclusions you drew from conditions with which you are personally familiar. I shall always be glad to have any further memoranda you may care to send me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. R. Tyler,
c/o The League of Nations,
Geneva, Switzerland.

GKF/abs

My dear Mr. Secretary,

You may be interested to see the enclosed. I wrote it and gave it to a few people during the Council meeting last May, because I noticed a tendency, particularly among the British, to regard Hungary as gone anyway and not worth another thought or effort. I don't think so then, and I don't now, unless the British & French make a mess of it, I should ^{now} expect to see Hungary, as well as Germany's other neighbors to the E., anxious to keep out of Germany's orbit and to strengthen their ties with the Western powers. And their circumstances are better adapted to resistance than C.S.'s were.

I expect to be going to Hungary for a few weeks this fall, and I'll send you some notes on what I find there.

A couple of points of possible interest:

1) The suggestion of ceding the Sudeten lands made in the London Times leader, on 7 Sept last. Emphasis in Germany and on

the Continent generally, ^{assumed} it is
 suggestion was made ~~at~~ ^{at} the Foreign
 Office's bidding. I have reason to
 believe it is not so, and that it
 was put in as his own idea by
 Leo Kennedy, author of the article,
 without previous consultation with
 anyone (but probably after talk
 with members of the Duncinman party).
 The F.O. were perturbed when they
 saw it, and asked Dawson
 (Ed. of the Times) why he let it pass.
 Dawson replied he hadn't noticed
 it when he read the proof.

2) Mussolini's proposal of a four-
 cornered talk at Munich (Sept. 29-30):
 I don't know whether it is true
 that the King of Italy had just refused
 to sign a mobilization order, but several
 well-informed newspaper men here have
 a story that there was a public
 demonstration in the streets of Milan
 on Sept. 28th, with shouts of
 "Down with Mussolini! We won't have war!"
 I can well believe this, having
 been in Milan 10 days before.

Yours sincerely,

R. Tyler

Prospects for Hungary.

Summary.

How does Hungary stand after the Anschluss?

Unwillingness on Hungary's part to collaborate in any attempt, by Germany's neighbours to the East and South-East, to check further encroachments, so long as the protection of Czechoslovakia's present frontiers forms part of the programme.

No Hungarian Government could survive one hour if it neglected an opportunity of recovering Slovakia.

The present régime in Hungary ardently desires that the country remain independent, but this régime is in danger of being undermined by Right Radicals who want revolution under German management.

The economic difficulties facing Hungary have been greatly increased by the Anschluss. Some success in dealing with them must be won by the present régime if it is to survive. Possible means of helping Hungary to this end.

1. The Anschluss, coming sooner and in more thoroughgoing form than had been expected, gave Hungary a profound shock. Most Hungarians learnt of it with dismay. But more important than their feelings about that past event is its effect on Hungary's present and future attitude to the chief international questions. The Anschluss has converted a hope of some time obtaining revision of Hungary's frontier with Czechoslovakia into a conviction that Czechoslovakia will shortly either break up or become a vassal state dependent in all essential respects upon Germany. A breakup of Czechoslovakia, in this view, would mean the incorporation into Germany of those parts of the old Kingdom of Bohemia which are inhabited by a German-speaking majority, the return of Slovakia to Hungary, who would grant Slovaks autonomy, and the survival of a Czech core of old Bohemia, with such degree of autonomy as Germany might consider appropriate. The only alternative, again in this view, would be a vassal status, under German domination, for the whole of Czechoslovakia in its present frontiers, giving Germany, through the territory of its vassal a common frontier with Roumania. Hungary has never been willing to collaborate with Czechoslovakia on any basis involving abandonment of her claims for territorial revision. Since the Anschluss, she is firmer than ever in her refusal, being persuaded that any attempt to maintain

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Czechoslovakia as at present constituted would result in handing over the entire state to Germany, and that her own chances of recovering a substantial part of her lost provinces would then vanish for good and all. It would be vain to hope that Hungary, out of her desire (which is real) not to fall under German domination, would work in with Czechoslovakia. Hungary would regard such a course as likely to lead precisely to the issue which she wishes to avoid.

2. The present Hungarian Government, and the circles from which its members are drawn and which will supply future Governments as long as the present trend is maintained, wish to see Hungary remain independent. In their view, Hungary's post-war frontiers were too narrow to allow her any real freedom in her foreign policy: she was obliged to look for friends. If she had been able to find support in the West without sacrificing territorial claims which no Hungarian Government could drop and remain in power, she would probably have preferred to lean on the Western Powers, and particularly on Great Britain. Failing that, it is held that she had no alternative to collaboration with Germany. This does not mean that she wishes to bind herself to Germany. Recovery of Slovakia would, in the Hungarian view, give her a possibility of pursuing a more independent course than she can steer in her present reduced condition. She would then have a common frontier with Poland, and there would be a broad belt across Central and S.E. Europe, stretching from the Baltic to the Adriatic, composed of three States: Poland, Hungary and Yugoslavia, whose policy it would not be difficult to harmonise and all of whom would have a major interest in resisting encroachment from whatever quarter. Yugoslavia has, of course, former Hungarian territories, but the bulk of them (Croatia) did not form part of the lands of the Crown of St. Stephen, but were won by later conquest, and the number of Hungarians in them is much smaller than in Slovakia. Also relations between Hungary and Yugoslavia have already, for some time past, improved so much that there appears to be no reason why they should not be put on a lasting and satisfactory basis. As for Roumania, Hungary would hope, in the above event, to secure for her minority there what she regards as its due.

3. Such, roughly speaking, is the prevalent view in the circles that have governed Hungary, and are still governing today, and of the majority of Hungarians who have a stake in the

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country, including the mass of peasant proprietors. It is not certain, however, that these circles will continue to govern. There is much discontent in the country, much criticism of the Government on the ground that it does nothing on a sufficiently big scale, that it is afraid to deal with the Jewish question, afraid of industry, finance and the big landowners, and that its fidelity to Hungarian Parliamentary tradition is a fatal handicap at a time when a Government cannot afford to be hampered by hindrances to rapid and efficient action. These criticisms are made by numerous malcontents, by young men turned out by the Universities and technical schools, many of whom cannot in present circumstances hope to find employment in the branches for which they have been trained. Similar doctrines are being preached to the agrarian proletariat, not without effect. And in this connexion it is important to remember that no one can safely call himself a communist in Hungary to-day, but many hold communist opinions, and find in the Nazi doctrine enough to their liking to make them willing to join forces and to improve the new opportunities for agitation conferred on them by a label which is not taboo. Further, the army, and in particular the general staff, has long considered that national defence was being starved by a Government composed of politicians, hide-bound in their prejudices in favour of the country's ancient Parliamentary tradition, of individual freedom, of budgetary stability and other such obsolete fetiches. There is thus a large body of opinion in Hungary, representing several strata of society, which regards it as a necessary condition of progress to break with the past, to put the conduct of affairs into the hands of men who are uncorrupted by wealth or by the political game. Its leaders would not hesitate to appeal to Germany for guidance, and indeed for a general staff to make order after the Nazi pattern. The watchword would be to take finance and industry out of the hands of the Jews, thus providing jobs for the educated unemployed, split up the big estates and give land to the landless peasant, and make rearmament the cardinal point in the Government's programme, all under German management.

4. It is difficult to estimate Nazidom's chances of prevailing in Hungary, but few who know the country well would deny that it is gaining ground. It appears not to have thrown up, so far, any outstanding leader. Major Szállasi, who for a time looked like becoming one, has lately suffered from the revelation that he is of Armenian origin, and that his war record

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is not an impressive one. But evidence of its spread is beginning to show even in the attitude of certain prominent members of the party supporting the Government. At present an active, confident and irresponsible minority is agitating for a Nazi solution, while the Government itself, having made its bid with its one milliard pengő public works and rearmament programme and with its bill curtailing the employment of Jews, waits for the hoped-for response, and so far waits in vain. The Government, no doubt, has the support of the moderate, responsible elements in the country, but these elements suffered from the Anschluss, and many loyal supporters of the present order are convinced that there must be changes if the revolutionary tide is to be turned. All the more is this felt to be necessary, that Germany is straining every nerve to reduce unemployment in Austria and to improve the standard of living. Some spectacular successes will be achieved, in all probability, and whether or not they stand the test of time, they will make a deep impression on the negative minds of observers on the Hungarian side of the border.

5. The Government and the circles supporting it contain some men who might well prove equal to the occasion, able to devise a programme and to execute it, to rally the forces that stand for tradition and for national independence, to inspire devotion and enthusiasm, and to dislodge the dangerous notion, so prevalent just now, that only Nazi doctrine will go down with the youth. One of these men (Imrédy) may soon become Premier. But even assuming that government is carried on by hands having the requisite strength, there is a new and difficult economic situation facing Hungary. Germany, which only a few years ago came third on the list of Hungary's customers, now stands first, taking some 40-45% of Hungary's total exports, Italy coming next with 12-13%, and then Great Britain with 7-8%. The railway lines that connect Hungary with her Western markets pass through Germany, who is now in a position to bring pressure to bear by means of freight charges. Thus far, Germany appears to have adopted a reassuring attitude in trade negotiations with Hungary, contenting herself with a share of Hungary's exports not exceeding her former share, plus Austria's. But this does not alter the fact that, whenever Germany may wish or need to do so, she is in a strong position to attract an ever larger share of Hungary's trade. This attraction can only be resisted if Hungary can find free exchange markets, for no free exchange is to be had from Germany.

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6. How can Hungary be supported in her efforts to provide herself with the necessary free currency for her foreign debt service, and to remain in control of her own economic policy? The share in her exports going to Great Britain and to France can probably not be increased sufficiently to make any vital difference. Italy, however, does offer a market, the importance of which for Hungary has been declining recently, because of Italy's inability to offer ^{the} free currency balance which Hungary formerly obtained from her. But Italy's is a market where certain important Hungarian exports, and especially live cattle, have an established footing, and which might easily be increased. If, in connexion with some scheme for using credit to revive Italy's foreign trade, it could be arranged that Hungary's export surplus to Italy should be paid for in free exchange, a relatively small outlay might enable Hungary to avoid being drawn into the German economic system, involving prices adjusted to German prices that would make it more and more difficult, given the forced rate of exchange between RM and pengő imposed by Germany, to sell Hungarian food products elsewhere than on the German market.

7. It may be objected:

a) that Hungary is hoping to benefit, by recovering Slovakia, from a break-up of Czechoslovakia caused by German pressure, and that if that hope were fulfilled, Hungary would be more than ever bound to Germany. However, Hungary's view of her relations with Germany, once she had recovered Slovakia, would probably be determined by the considerations that collaboration with Germany could not be expected to produce any further major advantage, and that when Germany incorporated Austria she also incorporated the regions, formerly part of Western Hungary, which were detached from Hungary and given to Austria in 1939;

b) that it would be repugnant to assist a Hungary preparing to profit, or just having profited, by a German enterprise against the integrity of another country. Here, it might be answered, from the Hungarian side, that Hungary's claim to Slovakia (part of the original lands of the crown of St. Stephen, and where there is a large Hungarian minority), has formed no part of the German case against Czechoslovakia, which has been pressed exclusively on its own grounds. If satisfaction of Germany's demands results in making impossible the maintenance of an independent Czechoslovakia, Hungary is not responsible for the position that has thus developed. If Hungary benefits

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she only gets what would otherwise be absorbed, either formally or virtually, by Germany. From the point of view of the general interest, rather than to preserve a Czechoslovakia, nominally independent but in fact controlled by Germany, it might be preferable to permit a realignment which, restoring Slovakia to Hungary, might prove to be more lasting and less of a source of friction and danger to the rest of the world than the Czechoslovak State has turned out to be. Hungary thus increased would accept the remaining 1919 frontiers, and might be trusted, together with Poland and Yugoslavia, to provide a valuable element of stability in Central Europe.

8. Finally, if Hungary's expectations above alluded to are fulfilled by the event, and the efforts made in Czechoslovakia's interest succeed in solving the minority problems and maintaining the integrity of the Czechoslovak State, Hungary may be given the benefit of her repeated declarations that she seeks satisfaction of her claims by pacific means only. If the difficulties outstanding between Germany and Czechoslovakia are solved, there need be no fear that Hungary's claims on Czechoslovakia will cause any danger to European peace. Hungary is too small, too west and too much isolated. In her present borders she would not make as important a stabilising factor in Central Europe as she would if she were to recover Slovakia, but she would not be negligible, and it would still be worth while to try to help her to preserve her economic independence and to continue to fulfil the foreign debt agreements, which she has negotiated with her creditors, and has so far carried out in a manner that has earned the recognition of the competent international authorities.

10.V.38

PARAPHRASE

A telegram of November 24, 1938, from the American Consul at Rangoon, reads substantially as follows:

Arrangements have been made with the Chinese Government by syndicate Chinese banks to finance the Yunnan-Burma Railway, according to a representative of the Bank of China who is in Rangoon at the present time for the purpose of establishing government banking business. This representative states that Chinese engineers from occupied areas have begun a survey for the railroad, that at least 150,000 laborers will be available for the work, that the railway will be finished within 18 months, that it is expected to obtain abroad credits for some materials, and that with voluntary labor the entire sum needed is estimated to be Chinese dollars 14,000,000.

With the landing of 61 field pieces, the unloading began the week of November 30 from a British vessel of war materials from Russia. It is expected that another vessel will arrive the week of November 27 and that several will come in December. Pending the opening of the road the supplies are being stored. According to reports there will be available for transportation 1,000 trucks.

If the Chinese build the line as proposed it is probable that a connection from Lashio will be built estimated to cost from fifteen to twenty million rupees, according to information received by the Consul from the head of the Burma Railways.