

DIARY

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Universal Trading Corporation
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War Conditions
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December 13, 1938.
9:34 a.m.

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See also 8.56

HMJr: Hello.

Jesse
Jones: Hello, how are you feeling?

HMJr: Oh, I'm not looking for any new scraps. I'll try to handle what I've got.

J: That's pretty good!

HMJr: Yeah.

J: Well, I just thought at your convenience we might have -- I might come over and have a little visit.

HMJr: Right. Uh--what time of day would suit you?

J: Well, I expect it would be in the afternoon, Henry, if that's -- if that suits you.

HMJr: I'm going to that press club luncheon. I suppose you are to?

J: How's that?

HMJr: Are you going to that press club luncheon?

J: I thought I would.

HMJr: Well, do you want to come back from there, or would you rather do it later in the afternoon?

J: Uh -- it just depends on -- I've got a lot of these -- I've got a lot of fellows here that I don't know how I'm going to get -- maybe -- what time would suit you the best? Then?

HMJr: Well, three o'clock would suit me the best.

J: What time do you think we will get back from that luncheon?

HMJr: Well, I don't know. It's called for twelve-thirty.

J: Let's make it three o'clock.

HMJr: Huh?

J: Let's make it three o'clock.

HMJr: Does that suit you?

J: That -- I'll work to that, yes.

HMJr: At three o'clock here?

J: Yes.

HMJr: Alright.

J: Fine, thank you.

RE ASSISTANCE TO BRAZIL

December 13, 1938.
10:30 a.m.

Present: Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Livesey
Mr. Briggs
Mr. Collado

H.M.Jr: A month or so ago, I talked to the President and Mr. Hull - thought the Treasury should take up directly with the Brazilians the possibilities that we really could do something; so I had the Brazilian Ambassador in here and told him I had nothing, but suggested - did they have anything to suggest, and if they did we'd be glad to get it. And the result was that this note came up in the rather informal - it came directly through air mail, and not the Embassy. And incidentally, I'd like the advice of the State Department on how to acknowledge it. I told the Ambassador here I wanted to do business direct. I wish you people would think that over. I said, "Let's you and I sit down across this table, see if we can't work out something together" - and this letter comes in to me by air mail. That's one that you State Department people can tell me how to handle, because I don't want to lose my contact with the Ambassador.

Now, has somebody digested this note, what's in it?

White: Well, here's a brief digest; susceptible of somewhat different interpretations, because it's not wholly clear.

H.M.Jr: Have you people had a chance to read it?

Livesey: Just had a short time.

H.M.Jr: Supposing I read it out loud.

"Summary of letter from Minister of Finance of Brazil to Secretary Morgenthau.

"1. The Finance Minister asks specifically the maximum length of time we could grant on loans to Brazil for the purchase of equipment in the United States.

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"2. If the equipment needed for the reorganization of the railroads and transportation system of Brazil can be purchased from the United States on the basis of long term credits, Brazil will then be in a position to

- (a) Balance the budget;
- (b) Brazil would be able to relinquish exchange control on commercial transactions, and maintain the stability of the currency;
- (c) With the relaxation of exchange control, Brazil could then proceed with the organization of a central bank;
- (d) Lastly, Brazil would be in a position to make a settlement of its defaulted foreign debt.

"3. Swiss-French banking interests have already made an offer to Brazil in which they would

- (a) Organize a French-Brazilian corporation which would raise capital abroad to carry out public works in Brazil. The Brazilian Government would guarantee a minimum dividend to the stockholders;
- (b) A credit in French francs would be created for the purpose of stabilizing the Brazilian currency and permitting the organization of a central bank of Brazil;
- (c) In connection with this plan the external debt of Brazil would be converted from bonds payable in foreign currencies into bonds payable in Brazilian currency.

"4. Belgian and German interests have offered Brazilian credits for the purchase of equipment up to a maximum term of six years but the Brazilians feel that this is too short a period."

Well, in passing, I think the French better do a job for themselves first before they attempt to do one for Brazil.

Now, let me just sit back and think out loud a little bit, see, because I'm doing my home work right here with you people. Haven't had a chance.

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Instead of doing it from - which this analysis gives - the standpoint, "First give us really long credits, then we can balance the budget" and all the rest of it, I'd thought of approaching it in a different way, and that is to talk about the possibility of helping them organize a central bank. In other words, it seems to me that that's the kernel - I mean if you could get them a good strong central bank and a good strong currency, that then possibly they'd be able to help themselves. But just to give them, say, the ten-year loan, with no central bank and no strength behind their own currency - it really isn't getting right down to the meat of the coconut.

Now, I may be wrong, but I'd like to argue, hear you people argue about it, a little bit. I mean my approach would be the possibility of working out a method to help them, help their Treasury and their central bank put them on their feet. And I'm even thinking in terms of making them a loan from this Treasury to their Treasury for that purpose, according to Congress - going to Congress, getting an authorization for it, giving them maybe gold and silver, and then really making them - putting them in a strong position, give them enough to

Then the other thing - it's like France, for five years beating around the bush, talking about confidence coming back; if and when confidence comes, then their money will come back, then they can reduce their rates of interest from nine percent down to a reasonable rate; still waiting for confidence to come back, and the money is still out of France.

And so I just would like to hear approaches from the standpoint not of credits and all the rest of that, but what can we do to help them establish a strong central bank.

Livesey:

Brazil has always had an unbalanced position with the world, that is, balanced only by credits coming in from abroad. They've had very heavily - it runs in scores of millions of dollars of excess of payments; that is, of course, when they're on a - has largely been service on past loans. But they differ from France in that the French normally are well-balanced; they can take it in as much as they - they

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just about - in fact, they develop a faculty of lending abroad. And Brazilians have always been a borrowing country and apparently are likely to continue to be so, if they're to - well, they're practically under pressure to continue to borrow, to develop - bring money into the country. And you don't have - that is, if you just put money into a central fund down there and you don't get a resumption of normal investment from abroad in there, a constant flow, you'll exhaust that fund over a period of months or years.

Of course, if the operation worked out so that confidence were really restored and Americans, Frenchmen and other people went in down there, very likely in the form of direct investment rather than loans - I think there has continued to be a flow of direct investment money down there. It's a growing country; the people that go down and look at the country, really financially-minded people - they see where they can put money in and it will grow over a period of years, if you can just let the current payments, current income consideration, go; the financier can see things to do with money down there.

But you do have that fundamental difference that they - and that's what they direct their remarks to here.

Well, there's two things, as I see it. They say the situation has been improving since last May and - even better than it appears in the statistics. They have the possibility of considering freeing the exchange, although of course they were a month behind on their current payments up here, in spite of their contractual... - current payments on commercial obligations.

H.M.Jr: As of today?

Livesey: November 7, I think.

H.M.Jr: I thought they were worse than that.

White: They've been improving steadily.

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- H.M.Jr: Well, within the neighborhood of a month, huh?
- Livesey: Yes, although they have obligations to us associated with the trade agreement to pay; but they say they're approaching the time when they could do that. But they have these needs which they feel for developing the country and for national defense - those expenditures - and it is for that that they say if they could get long-term credits up here for that program, then they could plan that whole thing as a whole and ...
- H.M.Jr: Let me see, it gets down - as I say, what I want to think about - are they right that the long-term credit will free the stuff and then they'll do it and - or is the thought, which I'm just throwing out, that you've got to start first with a strong Treasury and strong central bank and then branch out - now, I don't know which would come first, or whether it would come together, but I think that's the thing we ought to think about.
- Livesey: I imagine they'd want it jointly.
- White: They have a plan for a central bank practically complete. They completed it last year, when they were here in '37.
- H.M.Jr: And nothing happened?
- Taylor: Couldn't put it into effect because they had this bad situation which developed as far as the prices went.
- White: Lot of groundwork has been done, so there is no reason why the two couldn't go on simultaneously. The big problem is, however, their outstanding debt. Their improved situation is accompanied by a complete default; I mean they've completely defaulted. That's the big problem.
- H.M.Jr: Well, may I interrupt just a minute. I want to explain to these people: you know, I've taken the position since I've been in this chair that I'm not interested directly in the private debt of any country; and so when I approach this thing - I mean

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my position is different than the position of the State Department. You know my position; I always... - so I can approach this, so to speak, without getting entangled with their debts which are owed to private citizens. I mean I don't close my eyes to it, but on the other hand I'm not in a position to - I don't want to be put in the position that * can't go ahead even though they do owe a billion dollars. That's the point that I want to make.

Livesey: Yes. Well, they - they bring in, however, another element which you don't mention; that is, they have also had their departments go through and develop a program of needs; and those are, as they mentioned them here, internal and - that is, land and maritime transportation, for which they say they'd like to look for materials up here... - and national defense, and of course, as we know, they have had to put out large orders for armaments and they've been giving them priority in payment. And their proposal would be that they draft a schedule of their absolute needs and see whether we could make provision up here for material credits - I suppose the kind of thing the Export-Import Bank has. And with that then they have confidence that they could do these other things: restore liberty of exchange and establish a central bank and stabilize with the other countries.

H.M.Jr: Livesey, have you a list of the things that they want?

Livesey: They just mentioned it here without stating a sum or anything.

White: They say they're studying it, but they do say - and they ask specifically if we could tell them in what year credits we're thinking of; they'll be in a position to tell us just what they want, but they'd first like to know specifically how long credits we're thinking of.

H.M.Jr: Of course, from our standpoint - as I say, I'm doing my homework. Livesey knows me; by the time you fellows get better acquainted I'm doing my homework here. As far as I know, I don't think this question has been up to the President - I mean here let's say Brazil is ready to buy X millions of

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dollars - "Now, Mr. Roosevelt, how far are you willing to go?" I think it would make a difference in presenting it to him if he could tell just what kind of merchandise they wanted, because

Taylor: Well, it's pretty well indicated here.

White: They indicated that.

H.M.Jr: I didn't get it.

Taylor: Railroad equipment, maritime equipment of one kind or another; that would have to do with their inland waterways, I assume, just as much as external.

White: Number two.

H.M.Jr: Well, I'm thinking, for instance, if some of the things they wanted would - the orders would go into our industries which are very low, the railroad thing particularly, a person would be more inclined to give them longer credits than if, for instance, they wanted to go into our shipyards, which are full. There isn't much incentive or reason to help them on a long basis to go into our shipyards when every shipyard in the United States, quoting the President, is full of orders, can't take any more orders. So it would only fill up - come in competition with our own Navy, own merchant marine. Wouldn't be much incentive there.

Livesey: Vargas says that he hopes to do a great deal in the way of internal communications, binding all the states together, development along that line. But I haven't seen any figures, or in fact any railway lines for development.

White: Seems to me it would be quite appropriate for you to ask them specifically what they had in mind.

H.M.Jr: I did, Harry.

White: Well, again - that they haven't given us anything specific and they might be a little more specific in their request.

H.M.Jr: Who was here when I saw the Ambassador? You check

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me on my memory. What I said to the Ambassador was: "Now, Mr. Ambassador, we've all..." - you check me, because I remember I - ... "I've heard a lot of talk about something between your country and mine. Everybody wants to help and everybody wants to do something. But wouldn't it be possible to get some of the specific things that your country needs, bring them in here and then you and I discuss them?" Isn't that what I said?

White: That's right.

H.M.Jr: Isn't that right? What?

Taylor: That's right.

H.M.Jr: Check my memory.

Taylor: That's absolutely right. What he's doing is coming back and saying, "All right, we have these various things in mind, but what terms will you give us?"

White: That's what he's saying, and I think it's not an appropriate answer to your question, and I think you might well rephrase the question in such way as to get just what we want.

Lochhead: I think it is appropriate in this way. The first interview was so broad; this is the next step. If we're not interested at all, there's no use for him going on. If we are interested, I imagine they'd ...

Taylor: Perfectly proper question to ask.

H.M.Jr: Wayne, would this, in your opinion, be a proper answer? "I am very much interested in Souza Costa's letter, appreciate the friendly spirit, so forth and so on. Now, quite frankly, the difference in the credits..." - be honest with them - "... it would make a difference if you wanted to buy things which would go to our industries which are in a low state of production or whether you wanted to buy something from our industries which are going at a hundred percent. Now, therefore, couldn't you indicate to me what some of the things are?"

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Taylor: Well now, I don't think I'd say it quite that way.

H.M.Jr: Well, you can think it over.

Taylor: You could give that kind of an answer by indicating the kinds of terms as having to do with the type of equipment, you see.

H.M.Jr: Well, I don't know; now, for instance, Wayne, if they wanted to buy a lot of locomotives, lot of railroad stuff, I'd be willing to recommend to the President he go the limit; but if they want to buy a lot of steamships, I wouldn't be so liberal.

Taylor: Well, I think we could indicate that in the answer, but I wouldn't bring in this question about the low level of production of certain industries here. They know that and I don't think we have to say it, because we might get ourselves tied up in sort of a sliding scale commitment that we wouldn't want.

White: Mr. Secretary, it seems to me that this note puts the level of the discussion on a plane below that on which you'd like to have it. You were perfectly frank with them; you stated to them clearly what your case was. I don't think that note is perfectly clear, and it appears to me that they might well, after you represent the case in whatever appropriate form you like, give an answer which would indicate exactly what projects they have in mind that they would like to obtain long-term capital to develop, and they could go into some detail both as to the kind of project, as to the type of material wanted, and as to the amounts involved.

H.M.Jr: I talked to this fellow and I tried to talk to him very plainly. I said, "Let's keep it between the two of us," and that's the way I talked to him. Now, I haven't got it; you don't always expect to get the first time what you go after, and that's what I'd like to go back at.

But now what I would like to suggest is - I don't know how long, Mr. Livesey, you gentlemen have had to think about this, see, but what I'd like to do would be to have you think about it, or even, if you had time now, if you could take another half

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hour and go in Mr. Taylor's office and prepare something for me - first place, I've got to answer this man, I want to answer him promptly, you see - prepare something for me, and then I'd like to send for the Ambassador again. I'd like to take what you have - and my own people, and digest it; and I'd like to send for him again Friday and have a talk, and just the way I did, on an intimate basis, not too formal. I'd even hesitate to give him a memorandum, I'd keep it kind of verbal - "I've read this thing, appreciate it." But I'll take your advice, what you think of the courtesy involved and what is the usage in South America, and whatever is the proper thing, that's what I'd like to do. My own inclination would be to talk to him on a man-across-the-table basis. That's the way I'd start it, then try to get him to show his hand, what he wants. That's my inclination, but I'm asking for advice.

Have you got another half hour that you could go into - how are you (Taylor) fixed?

Taylor: All right.

H.M.Jr: Well, if you'd do that. My own inclination, unless the State Department says, "No, you've got to be more formal, you've got to answer them" - if they do, I'll abide by their decision - would be to keep this on a sort of man-to-man basis with the Ambassador. I'd like to see him Friday, so that not too long a time goes over; like to have him down here Friday.

Do you (Briggs) want to say something?

Briggs: No, I have nothing much to add to what Mr. Livesey said, except to point out that Brazil has been going through a period of increasing nationalism and that might have some effect on the amount of investments which Brazil could hope to obtain. They appear to be on the point of nationalizing their insurance companies, for example.

H.M.Jr: Well, if you people could spend another half hour - because I'd like to see the Ambassador Friday. But I want to observe whatever the amenities of dealing

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with these people are; and as I say, the unusual thing in getting a letter direct and all that - whatever the Department thinks is the right way. I mean I wouldn't want to see the Ambassador again if you say that would irritate Souza Costa; now - I mean whether it would be better to go back and - on the other hand, don't irritate the Ambassador. So there is something for you people to tell me what to do.

Taylor: I've gotten the impression somewhere that the powers that be down south don't think so much of this fellow; I don't know.

H.M.Jr: Well, that's why I'm very anxious to have these people advise me. And I understand - I'm giving you this; maybe Mr. Welles told you - that after the Ambassador came, after I told him (Welles), he sent down - as I understand it, wrote a personal letter to President Vargas, said he and the Department were interested in doing anything they could to help. Do you know about that?

Livesey: (Nods no)

H.M.Jr: Mr. Welles told me he wrote a personal letter backing me up in this thing. Better find out; better ask Mr. Welles whether I should continue to keep this channel with Souza Costa open or whether I should go back to the Ambassador. But I'd like to have an answer by tomorrow.

Now, here, I'm going to give you people another very delicate mission for Mr. Welles. Here is this proposed resolution - do you know about it? - a meeting of Treasuries.

Livesey: Yes. Yes.

H.M.Jr: Now, to use undiplomatic language, please tell Mr. Welles for me that I just hate like everything to have this meeting called, because frankly I don't know what the United States Treasury would do at such a meeting. And all of my inclinations are to do it this way, the way we're doing it now, one country at a time - like Cuba, one at a time. If he and the President want to overrule me, I'm willing to be overruled, but I just hope he won't force me. Now, will you give him that message? This is it here.

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Livesey: I have copies of those telegrams on my desk.

H.M.Jr: Everything - my own feeling is no, but if Mr. Welles and Mr. Hull - Mr. Hull, Mr. Welles, and the President want to overrule me, I'll take it. I wouldn't - I won't like it, but I'll take it. Now, that's the - what we'll do at such a meeting I don't know. I have no program. I'm trying to work out one with Brazil. Now, if we're successful there we'll take on the next country, whichever one we decide is the most worthwhile. But to go into a big conference with no program for the United States Treasury - I just hate to do it. Tell them not to push me too hard. But if the President and Mr. Hull say, "Well, this is what we want," I'll - I won't say I'll take it and like it, but I'll take it.

Livesey: You have no verbal suggestions on that? I believe that's what they sent the thing up for.

H.M.Jr: If they're going to do it, all right, that's all right. But I'm a no-conference man. I like to deal with each country one at a time. And here's a good example. If we could do something for Brazil, grand; then we'd take on some other country down there.

Before you go to your room, is there something that you (Taylor) want to

Taylor: No, I - my feeling is that you have to be a little more specific, because he's quoting terms that he can get from other countries, you see. Now, maybe what he's doing is some shopping. Before he puts all the cards on the table, he'd like to know whether we're going to be, let's say, reasonable to do business with. That's the impression that I get from this.

H.M.Jr: Well, but Wayne, you come around to see me and I'm in the banking business, and you say, "I've got a proposition in mind; what are your terms?" And you're in the banking business. The first thing you're going to say is, "What's the proposal?"

Taylor: Well, but at a given point I think I'd be willing to talk a little bit about terms. See, you've gone through all that preliminary stuff.

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H.M.Jr: But I still don't know how much he wants and everything else. Now

Taylor: Well, you don't have to be very specific either, but I think you have to give him at this point some indication about rather distant maturities for certain types of things.

H.M.Jr: Well, I'd rather - well, as I say, I know he's shopping and he's throwing this Swiss-French thing in my face. And I haven't got time to check up, but Cochran is here and I asked him about it; he said he'd be amazed to see the Swiss go down into South America at this time.

Lochhead: Probably just agents looking for a commission.

H.M.Jr: Well, Cochran's here and he said he'd be just amazed at the idea of the Swiss going down there.

Livesey: They've got one little sweetmeat they're offering them down here; that is to change all these bonds which are owed mostly to the Americans and British into milreis bonds, which is just about signing off the debts except as something for the rich people to play around with who are willing to wait a generation or so for the return.

H.M.Jr: Well, could you - what's today, Tuesday? Tomorrow's Wednesday. Would it be pushing you too hard to ask you to come back again tomorrow? What?

Livesey: No, I think we ought to be able to get it considered in the Department.

H.M.Jr: All right, we'll do it. Is that O.K.? Now, Wednesday - I can't do it Thursday; tomorrow I'm going out, don't know how long I'm going to take; going to go out to Mr. Welles for luncheon. I won't be worth much after that. So let's say 10:30 tomorrow. Is that pushing you - you got a lot of stuff - is that pushing you too hard? What?

Livesey: No, I don't think so.

H.M.Jr: Is that pushing you (Briggs) too hard?

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Briggs: No, as far as I'm concerned, perfectly satisfactory.

H.M.Jr: Well, I'd like to push on this, really like to get somewhere. Let's say 10:30 tomorrow.

Will you adjourn to Mr. Taylor's office?

TREASURY DEPARTMENT

17

INTER OFFICE COMMUNICATION

DATE December 13, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Summary of Letter from Minister of Finance of Brazil to Secretary Morgenthau

1. The Finance Minister asks specifically the maximum length of time we could grant on loans to Brazil for the purchase of equipment in the United States.
2. If the equipment needed for the reorganization of the railroads and transportation system of Brazil can be purchased from the United States on the basis of long term credits, Brazil will then be in a position to
 - (a) Balance the budget;
 - (b) Brazil would be able to relinquish exchange control on commercial transactions, and maintain the stability of the currency;
 - (c) With the relaxation of exchange control, Brazil could then proceed with the organization of a central bank;
 - (d) Lastly, Brazil would be in a position to make a settlement of its defaulted foreign debt.
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 - (a) Organize a French-Brazilian corporation which would raise capital abroad to carry out public works in Brazil. The Brazilian Government would guarantee a minimum dividend to the stockholders;
 - (b) A credit in French francs would be created for the purpose of stabilizing the Brazilian currency and permitting the organization of a central bank of Brazil;
 - (c) In connection with this plan the external debt of Brazil would be converted from bonds payable in foreign currencies into bonds payable in Brazilian currency.
4. Belgian and German interests have offered Brazilian credits for the purchase of equipment up to a maximum term of six years but the Brazilians feel that this is too short a period.

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DEPARTMENT OF STATE

ADVISER ON

INTERNATIONAL ECONOMIC AFFAIRS

December 13, 1938.

Mr. Lochhead:

With me this morning in our conversation with Mr. Morgenthau were:

Mr. Ellis O. Briggs, Foreign
Service Officer, Class IV,
Acting Chief of the Division
of the American Republics; and

Mr. Emilio G. Collado, Economist,
Division of the American Re-
publics.

J. L. Linsley

RE GOVERNMENT POWER CORPORATION

December 13, 1938.
11:15 a.m.

Present: Mr. Oliphant
Mr. Foley
Mr. Duffield

H.M.Jr: What I'd like you two gentlemen (Foley and Duffield) to do is this. In talking with the President yesterday, he wanted me to get together all the Boulder Dams and all the other projects, see whether we could throw them into one corporation, and - talking about electric - and then issue their own guaranteed obligations, guaranteed by the Government, against them, but having all the revenues come in to that corporation, so that eventually these outstanding certificates will be paid off through the revenues, you see. And then let's say that the corporation - a billion dollars, whatever it is - I mean be no limit, whatever it is - and we sell these guaranteed obligations to the public, and then with that money

Foley: ... reimburse the Treasury....

H.M.Jr: Reimburse the Treasury.

Foley: .. for the capital cost, and then pay off the obligations as they earn money from the sale of services.

H.M.Jr: That's right. And I thought I'd wish that on you two people, and I'd like a report by Friday morning. Now, this is only power projects; or it could be including irrigation.

Duffield: Where there is a power angle.

H.M.Jr: Where there is a revenue angle.

Duffield: Revenue angle, that's right.

Foley: You want to include TVA?

H.M.Jr: That question was raised. You fellows consider it.

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Oliphant: Rural Electrification - have they got any stuff?

Foley: They don't own it.

Oliphant: We've got money in it.

H.M.Jr: What we're doing is setting up all these corporations on the basis of Commodity Credit, and the only money that the Treasury will have in that will be the stock. But from now on those corporations will issue their own securities. And if Rural Electrification has not gone to the public for its money, it will from now on, once we get the authorization from Congress, see? And so all those will be taken care of like Commodity Credit; once a year they'll be appraised and

Oliphant: Set up the losses and deficiency of capital, impairment of capital.

Foley: I should think the best way to approach it would be to get together with Ben Cohen. Ben is General Counsel of the Power Policy Committee, and he knows probably as much about this as anybody in the Government.

H.M.Jr: Well, listen, you fellows get together and give me the - I'll give you an appointment for Friday morning, see? On Friday morning - we'll take 10:30.

Oliphant: (Nods yes)

H.M.Jr: But you two fellows work together on this, will you?

Foley: Is it all right for us to talk to Ben?

H.M.Jr: Sure. Power corporation. But this does not take into - I mean nothing like Greenbelt or any of these other things; that's another idea. I told the President, "Give me one thing at a time." I mean I'm doing two things. The other thing is already in the works - setting up all these lending agencies on the basis like Commodity Credit. That he approved yesterday; that's done. But he's got this - got it in his message - this most likely, if it looks good, may go in his message.

And then as you go along: Will the price be the

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dollars we put in, is that a fair valuation, or do we have to revalue these things, write off a certain amount?

Foley: You mean

H.M.Jr: He said, "Now, take Greenbelt; if we were going to refinance Greenbelt, we'd have it appraised. If we had to write off 40 or 50 percent, we'd write it off and just sell what you think is a fair amount to the public and just say the other thing is a loss." So if these things are excess values, we'd only finance what we honestly believe we could get back through revenue.

Foley: Yes, and you might have to write off your flood control in part of these dams, because you're only allocating a part of your cost to the power.

H.M.Jr: But I'm not going to sell a phony issue; only going to sell what I think the revenue will pay a reasonable interest on. And on the amortization, I think in case of the power projects - I think some of them between thirty and forty years.

Foley: I should think you could go further than that.

H.M.Jr: What?

Foley: Go further than that with power; probably go to 60.

H.M.Jr: Well, think about it.

Olipphant: Back of it, of course, is the necessary enabling legislation.

H.M.Jr: That's right. But there's a nice little thing.

Duffield: Yes. Not so little.

H.M.Jr: No, but I just want to give it to you two boys. And be back Friday morning.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

December 13, 1933

Original 9-42

Dear Henry:

As you know, I am neither trained in public service nor experienced in public affairs. The President and you have allowed me an unusual opportunity to express an average man's interest in his country. Therefore, I am trying to make my best possible contribution to the Treasury under your leadership.

With this personal preface, I feel impelled to express to you in writing my views on the problem confronting the Administration as Congress prepares to convene in January.

The Republican party, steering in blind defiance of change, broke on the rock of unyielding conservatism. May not the Democratic party also founder by going too far towards the other extreme? It is my conviction that the American people are no more ultra liberal than ultra conservative. They are, in fact, progressive. The problems of making a decent living, the hidden fears of insecurity and old age, are our people's main preoccupations.

Therein, I think, lies the great secret of the success of the President's administration. The social and economic legislation of the past six years has accomplished more for the average man than was accomplished in any previous full century. Big changes, however, bring big adjustments, which we are now making. Although every business, occupation and profession has been forced from its rut, the people are striving very willingly, in the main, to make the complex revisions and assume the obligations of the new day.

If I am correct in this statement, our problem then becomes how to go forward in a time of adjustment. I am no believer in standing still, and I know that the President is not the kind of leader who would ask his people, in such times as these, simply to stand still. But there are ways and ways of going forward.

My suggestion, humbly offered, is that the best way to go forward is to consolidate our gains. Soon the President will address the Congress on the state of the Union. I believe that his first emphasis should be on the achievements of this Administration and on his determination not to sacrifice them. But I

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also believe that his second emphasis should be on the need for contemplation and revaluation. Congress should be asked to take inventory of what has been done, to improve where improvement is needed, to remove weakness where weakness has appeared.

In my opinion, nothing would contribute more greatly to economic recovery, or more firmly strengthen the Administration with the country. I have talked to all sorts of men in these last months. I am sure that all but a tiny minority would recognize and thrill at the wisdom of a call for contemplation and consolidation.

Of course, I understand that extremists might construe such a call as a short sale on the part of the President. But for the true liberal the present record is sufficient matter of pride. For the true liberal, consolidating progress is now the first objective. I have no inkling of the Administration's plans for the incoming Congress, but I do have a profound sense of the risk of new ventures, in a time of adjustment to the ventures already successfully made. The commonest fault of generalship is to jeopardize a splendid advance by ordering the vanguard too far forward--and thus subjecting it to all the dangers of flank attack.

I offer these observations because I feel so certain that consolidation of present gains is vital to economic recovery. At the risk of laboring the obvious, I should like to close by pointing out that healthy recovery is absolutely vital for three reasons.

First, for our Treasury purposes, unless there is recovery we cannot expect adequate revenue with which to balance the budget. There must be greatly increased national income, as we all know, or your task and mine is hopeless. Second, it is my deliberate judgment that without recovery, the Democratic party is out, that with recovery, the Democratic party is in. And third, there is a higher politics to be remembered. Without healthy recovery we cannot make our nation a strong fortress for the right, in a world in which the right is everywhere beleaguered.

I respectfully submit and earnestly urge that we can achieve economic recovery without surrender to the forces of reaction. This statement may have no merit in your eyes, but I want you to believe me when I say that it represents my honest judgment.

Sincerely yours,

The Honorable

The Secretary of the Treasury-

RE REVENUE ESTIMATES

December 13, 1938.
3:45 p.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Bell
Mr. Haas

H.M.Jr: The only two fellows (Haas and Bell) that count are here, George, and the rest can

Haas: Want me to sit down here?

H.M.Jr: I was motioning to Bell so he could see these things. You stand behind us.

Haas: Here's a copy.

Bell: O.K., thanks.

Haas: There's the revised figure for '39.

H.M.Jr: It looks good.

Now this won't - does this show us the deficit?

Haas: No, but Dan gets that.

Bell: Guess it's right.

H.M.Jr: Didn't you tell me the deficit is three billion 900 something?

Bell: Three billion 985 is the last official estimate.

H.M.Jr: Three billion 985.

Bell: Comes down a little now.

H.M.Jr: Are we going to have a new estimate on expenditures?

Bell: Oh yes, in the new budget. Revise it every year.

H.M.Jr: But you haven't got yours up to date for this?

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Bell: No, I won't have that until the end of the month.

H.M.Jr: Doesn't your (Haas) chart show expenditures are off?

Haas: Yes. I have some interesting figures there.

H.M.Jr: How much are they off?

Haas: About eight percent.

Bell: Largely due to AAA, I take it.

H.M.Jr: Can't you give us

Haas: A figure?

H.M.Jr: Yes.

Haas: But these are the total basis, not just budget basis.

Bell: That includes departmental stuff.

H.M.Jr: I mean could you people - we know it's 510 million better on account of the revenue, but we don't know how much expenditures will be off.

Bell: I don't think they'll be off much.

H.M.Jr: You don't think so. Well, instead of being three...

Bell: See, when I go over the 1940 estimates I'll go over '39 at the same time and tie them together.

H.M.Jr: I see.

Bell: If Harry Hopkins spends 250 million dollars more, and assuming that the other estimates are correct, ...

H.M.Jr: Yes.

Bell: ... the deficit will be now \$3,725,000,000.

H.M.Jr: How much?

Bell: \$3,725,000,000 for 1939.

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H.M.Jr: That's including the five?

Bell: That's including the additional revenue.

H.M.Jr: Just give it to me again so I'll remember it.

Bell: Three billion 725.

H.M.Jr: Three billion 725.

Bell: Now, on the basis of the figures that I gave you on the yellow sheet for 1940 - I want to impress upon you they're very rough - ...

H.M.Jr: Uh-huh.

Bell: ... and adding \$250,000,000 additional for national defense

H.M.Jr: How much?

Bell: \$250,000,000.

H.M.Jr: (Puts his hand to his ear)

Bell: That's right.

H.M.Jr: President said five hundred.

Bell: ... on the basis of these new estimates that George has just given you, we'll have a deficit of three billion 714 million in 1940.

H.M.Jr: Eleven million dollars less.

Haas: By a hair.

H.M.Jr: Jesus! You talk about these babies that make the slide-rule talk when you work them backwards!

Bell: (Laughing) See, I didn't have any knowledge of this estimate that George was going to give me either.

(Taylor comes in)

H.M.Jr: Give it to him (Taylor) again.

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Bell: For 1939 George has given me a new estimate of revenue of five billion 510, which is up about 510 over the official estimate. Adding 250 million dollars to the expenditure program for Hopkins, we get a deficit of three billion 725 for 1939 as compared with three billion 985 in the official.

For 1940 - just a very rough figure - adding 250 million dollars to that figure for national defense, subtracting what George now estimates for revenue, we get a deficit in 1940 of three billion 714 million.

Taylor: (Laughs)

Bell: Eleven million dollars under it.

H.M.Jr: Can you beat that? Let me say - see what you're reading from.

Haas: That'll make Jake Viner happy.

H.M.Jr: With all due respect to the Director of the Budget, how do you get away with 250 when the President said 500 for national defense?

Bell: Just can't spend it, Mr. Secretary, with all due respect to the Army and Navy.

H.M.Jr: You say, when I say nine million for Coast Guard, make it three because that's all they'll spend.

Bell: That's right. We can have a program of 500 million dollars for national defense, but it will take two years to get the cash out of the Treasury.

Taylor: Got Dan talking that way now.

Bell: Take that long to push it out.

H.M.Jr: You think so.

Bell: When I see the program, I may change that 250.

H.M.Jr: Well, you were with him this morning. Did he talk about it?

Bell: No.

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H.M.Jr: Huh? Other stuff.

Bell: Other stuff.

H.M.Jr: He didn't talk about War.

Bell: "Idn't have War; had Navy. Said there would be about five million for Navy in that program. But he didn't say what the Army would be. If they put it all in airplanes, it will be a three-year program.

H.M.Jr: Right. Well, he's talking about adding a hundred million to the Conservation Corps.

Bell: Oh no.

H.M.Jr: Yes.

Bell: For God's sake!

H.M.Jr: Six months' training course for the graduates in how to use manual arms and that kind of stuff.

Bell: There's a place for Waesche to get his training corps started.

H.M.Jr: Give a six months' course in military training.

Bell: As part of the 500 million program?

H.M.Jr: No.

Bell: Why not? That's what it is.

H.M.Jr: Then when they graduate from that, give them the chance to go to the R.O.T.C. if they want to.

Bell: Certainly got a nice program - spend an annual expenditure that you just can't get out from under.

H.M.Jr: I just remember these things as we

Bell: When you talk about R.O.T.C.

Taylor: You better cut that last part of it.

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Bell: R.O.T.C.?

Taylor: Yes.

Bell: You just can't beat that for

H.M.Jr: Huh?

Bell: That's a political joy ride.

Taylor: I'm talking about for these particular lads. That may be the best officer material in the world, but I'd just kind of have my fingers crossed on that a little bit.

H.M.Jr: Well now, George, unless there's somebody around here wants to challenge this - I don't; now, maybe Taylor or Bell or Hanes wants to go to work on this thing. I'm more than willing to take your figures. Been at it long enough now. Do you (Bell) want to challenge it?

Bell: No, I'd like - the only challenge I'd put to him this morning was to raise that 1940 above 1939; looks like we're going backwards. He tells me he's been over that.

Haas: One reason that these are on a very conservative basis - '40 - on this type of basis, is that here you're going ahead

H.M.Jr: You sound like an old Liberty Leaguer, George.

Haas: .. going ahead and making expenditures and the receipts which are estimated are estimated on a conservative basis just like a business firm would estimate....

H.M.Jr: Well, who the hell says we're a business firm?

Haas: Just assume, for instance

H.M.Jr: All right.

Bell: If we were

Haas: .. and the reason they can't change the figures as Danny suggests is this: that everything we have

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done - if anybody wants to come in and check the figures, everything is consistent all the way through. Take a level - it's - and I think you have to stay that way.

H.M.Jr: (On phone) Tell Danes I'd like him in here now, please.

Haas: We always have to be prepared, I think.

Bell: It's up to the Bureau of the Budget to get the expenditures down, I guess.

Haas: You appreciate the situation.

Bell: Oh sure, I'm just kidding.

H.M.Jr: On the five billion 510 - I'm just going to take it, but if any of you fellows want to go into this

Bell: No, I think you have to accept George's figures.

Haas: Well, I want to say to you that '40 on - to give you some idea how conservative it is, I took the FRB at 100.

H.M.Jr: Aw, George - naw, naw, naw, you can't do that. Honest, you're too low.

Haas: Well, you don't know.

H.M.Jr: For what calendar year?

Haas: For '39.

H.M.Jr: The whole year at 100.

Haas: Average 100.

H.M.Jr: But George, it's 100 now.

Haas: That's right, but there's pretty good evidence you're going to get some decline the first few months of the year. Then you've got this price situation, Mr. Secretary, that you don't see the end of. It's still declining, and if it should decline you might get quite a crack - I mean quite a drop, and there are some people that think in the end - after the middle of the year you're going to get quite a sharp drop.

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Andrews believes that - for A.T.T. - and he's not alone in that opinion. And I think for the purpose - we get another chance, Mr. Secretary, to change this; that is, this is a long shot into the future, see, 1940, and I think that it's better to stay on the safe side.

Bell: Got two more changes.

Haas: And then another thing: that may be low, but I've got prices going up somewhat and they may not go up, and the price is just as important

H.M.Jr: I'm not going to argue with you.

Haas: I know it's low. I don't think it's a probable business forecast.

H.M.Jr: But you got the thing on a basis of 100 for 1939.

Haas: That's right.

Bell: That's calendar year '39.

Haas: Calendar year '39.

H.M.Jr: What do you figure for the first six months of '40?

Haas: First six months of '40 is less than that - 95.

H.M.Jr: (Jumps up) George, you're a pessimist.

Haas: No, I think there's a combination of things that might ...

H.M.Jr: Pardon me - this 100 is for the month of November.

Haas: That's right now.

H.M.Jr: Well, December is going to be above 100.

Haas: A little above 100.

H.M.Jr: Yes. And you think in the first six months of '40

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Haas: Well, no, I don't - Mr. Secretary, that's so far away that I think for this purpose of making an expenditure budget you better be low on the thing now rather than having to go ahead in - there's a good many things that can eventuate....

(Hanes comes in)

...which might make this thing a good deal worse than it is.

H.M.Jr: Say, we've been at this now for fifteen minutes; this is up your alley. Haas is

Hanes: I got a message that you said you didn't need me.

H.M.Jr: Who told you that?

Hanes: Your operator must have called me.

H.M.Jr: No, did I say that?

Reporter: You told Kieley to say it was optional with him whether to come in.

H.M.Jr: Oh, is that what I said?

Hanes: I was finishing up - we're trying to finish that letter to the Bank of America.

H.M.Jr: Let me just take two minutes - you better take George, go in on this, if you will. Can I summarize for you (Haas)?

Haas: Yes, sir.

H.M.Jr: Which letter are you finishing?

Hanes: On the Bank of America.

H.M.Jr: Let me just give you this, because you can't give me this in two minutes - because you can't get it ... Mr. Bell and Mr. Haas have been in cahoots, see, and they tell me that on the basis of the '39, when they up the revenue 510, they show a deficit for '39 of three billion 725, and for 1940 a deficit of three billion 714. Now, if

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that isn't a phony - I ask you.

Bell: Eleven ninety-eight.

H.M.Jr: Now, if this thing - I'd like, really, the three of you to sit down with George. Are you (Bell) too busy?

Bell: And how.

H.M.Jr: Then the two of you (Hanes and Taylor) definitely make an appointment with George - tomorrow some time?

Haas: I think the sooner the better, Mr. Secretary.

H.M.Jr: Tomorrow, make it. Taylor and Hanes make an appointment, because George - I don't want to pound him - stand up and fight - he's figuring the income for the calendar year 1939 on a basis of Federal Reserve index of 100, and it's 100 now, for the month of November. And for the first six months of 40 he's only figuring a Federal Reserve of 96.

Bell: 95.

Haas: 95.

H.M.Jr: 95. Now, I wish the two of you would sit down with him some time tomorrow, Wednesday, and then if he can't - if you can't - if he can't convince you, I'll drop it, but if he can convince you then I'd like to see you again. I'll put it the other way around: if you fellows are convinced by Haas that he's right, we'll drop it. But if you think the way I do, by the old elbow, that he's too

Haas: Oh, I'm estimating - well, I'll go into it when I talk with them.

H.M.Jr: Well, you ought to really - I did it when I first came here - you've got to give him a couple hours.

Hanes: Good.

H.M.Jr: You can't do this right under from two to three hours. Is that right, George?

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Haas: Yes.

Hanes: We'll set aside the time tomorrow.

H.M.Jr: This thing takes from two to three hours, and if Haas - I think it's worth two to three hours to sit down either Wednesday or Thursday; but I think it ought to be Wednesday.

Haas: I think the sooner the better, because it takes us quite a little while to make any change.

Bell: We ought to have them by next week.

H.M.Jr: I'm going to ask you to give George between two and three hours, so you can learn this whole technique and challenge him if necessary.

Hanes: Make it tomorrow morning. Have you (Taylor) got anything on tomorrow morning? Make an appointment right now.

H.M.Jr: I tell you what I've got on. I've got Brazil at 10:30.

Taylor: Could you switch Brazil to eleven?

H.M.Jr: Not - well, yes. Yes, I can.

Taylor: When I got back to my office there, I found I had a date with Dupree of - you know, Procter & Gamble - who wants to come in; I don't know what it is he wants to talk about.

H.M.Jr: Well, will you take care of that with White and everybody else?

Taylor: Yes.

H.M.Jr: Yes. Well, when will you ...

Taylor: That's the only one I have. The afternoon is better for me.

Hanes: I'll have to - I'll just have to figure out, you see. Now let me tell you - maybe we can do it tomorrow night, but the only thing that's worrying

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me is to get this Bank of America thing under way.

H.M.Jr: I know.

Hanes: And we might have to see Bill Douglas some time tomorrow. In that case, we don't want to be tied up.

H.M.Jr: But this week and up to Christmas night we've all got to give the right of way, the green light, to the budget, and that's - this is part of the budget picture; the green light is on this.

Hanes: As far as I'm concerned, it's all right with me. We'll fix it tomorrow some time - get over it.

H.M.Jr: My plans - I've got to leave here quarter past twelve to go out to Sumner Welles's, so I won't get back here before three or four o'clock. I won't be around to pester you fellows. But the Bank of America will have to give way to the budget.

Hanes: We might start at twelve o'clock and go on through lunch. We'll go down here and have lunch in 296; won't have to go out of the Treasury; keep all our stuff here.

H.M.Jr: Donahey's his name?

Haas: O'Donnell.

Hanes: Yes, and a couple other boys.

H.M.Jr: I really would like you to do this. And you can't do it under two or three hours.

Hanes: Let's do it from twelve to three or four.

Hanes: You based your income now on five billion five - or 496 million, or something like that? That's a raise. Is that what this is?

Haas: Yes, the revenue receipts.

H.M.Jr: I've done it. I've been through the mill and ... Who the hell took my calendar?

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Hanes: There it is, to your right.

Haas: Mr. Secretary, I don't want to leave with you an impression that if I was estimating for business for one purpose I'd do it one way, have a different figure, and for a budget you have a different way.

H.M.Jr: Look, you don't know what happens. I go over there - I'm not even worrying so much about Congress - and the President will just pound hell out of me.

Haas: Oh, I see.

H.M.Jr: Well - on the fact that I come to him and Hanes comes to him and Mr. Bell comes to him, and what we're going to the President of the United States and saying to him is that the business for the next calendar year isn't going to be any better than it is this year, and for '40 it's going to be worse.

Haas: Well, you could say you think there's some good evidence for believing it will be better, but for budgetary purposes you want to be right down at the bottom.

H.M.Jr: Now listen, George, all I want is for these fellows to sit down and give me - I want what you honestly believe, but in order to play safe don't go five percent low, because it's a hell of a responsibility for the Secretary of the Treasury to get up before the country and say that 1939 business isn't going to be any better than it is this year and for the first six months of 1940 it's going to be worse.

Haas: Uh-huh.

H.M.Jr: And I've got to take it on the chin. Now, just take a minute - do you get that? And in order to play safe and be a good statistician, I think what he's done is he's written off just five percent.

Haas: Yes, that is what I do - not to be a good statistician, but I think to have a good budget.

Taylor: I think he's written off five for calendar year '39 and ten for '40.

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H.M.Jr: Do you (Hanes) get the import of this thing?

Hanes: Yes.

H.M.Jr: Rather, the Treasury is saying to the world that business isn't going to be any better next year than this. Well, I'm willing to say it if I'm convinced it's right and if you fellows are convinced it's right; but I'm not willing to say it unless on awful good evidence - and to say that '40 is going to be worse, but - I mean if the evidence is there, okey-doke.

Hanes: Can I study this tonight a little?

Haas: Sure, sure. Here's some other things.

Actual Receipts for the Fiscal year 1938 and January 1939 Budget Estimate (includes all receipts for the fiscal years 1939 and 1940)

1. Treasury Table

General and special accounts (on the basis of the Daily Treasury statement (unrevised))	Actual 1938	Estimated 1939	Increase or decrease 1939 over 1938	Percent Increase or decrease 1939 over 1938	Estimated 1940	Increase or decrease 1940 over 1939	Percent Increase or decrease 1940 over 1939	Increase or decrease 1940 over 1938	Percent Increase or decrease 1940 over 1938
Total receipts	\$ 2,838,018,138.71	\$2,095,000,000	\$-548,018,138.71	-19.3	\$ 3,315,000,000	\$-500,000,000	-15.1	\$-548,018,138.71	-19.3
On the product shipment (Daily Treasury statement basis)	2,046,271.57	5,528,000	3,481,728.43	16.7	5,500,000	3,453,728.43	16.2	0	0
Unaffiliated internal revenue:									
Capital stock tax	178,348,446.48	127,000,000	-51,348,446.48	-28.8	128,000,000	-50,348,446.48	-39.3	-51,348,446.48	-28.8
Excise tax	28,178,888.84	12,000,000	-16,178,888.84	-57.4	12,000,000	-16,178,888.84	-57.4	-16,178,888.84	-57.4
Gift tax	3,448,778.01	2,000,000	-1,448,778.01	-42.0	2,000,000	-1,448,778.01	-42.0	-1,448,778.01	-42.0
Alcoholic beverage taxes	687,648,446.71	45,000,000	-642,648,446.71	-93.5	45,000,000	-642,648,446.71	-93.5	-642,648,446.71	-93.5
Transfer taxes	548,777,448.79	548,000,000	-777,448.79	-0.1	548,000,000	-777,448.79	-0.1	-777,448.79	-0.1
Room taxes	48,277,448.72	32,000,000	-16,277,448.72	-33.7	32,000,000	-16,277,448.72	-33.7	-16,277,448.72	-33.7
Amusement and service taxes	416,777,448.72	37,000,000	-379,777,448.72	-91.1	37,000,000	-379,777,448.72	-91.1	-379,777,448.72	-91.1
Entertainment taxes	111,827,448.48	17,000,000	-94,827,448.48	-84.8	17,000,000	-94,827,448.48	-84.8	-94,827,448.48	-84.8
Total unaffiliated internal revenue (collected basis)	2,472,158,228.81	1,172,000,000	-1,300,158,228.81	-52.6	1,172,000,000	-1,300,158,228.81	-52.6	-1,300,158,228.81	-52.6
Adjustment to Daily Treasury statement basis	-2,472,158,228.81	-	2,472,158,228.81	100.0	-	2,472,158,228.81	100.0	2,472,158,228.81	100.0
Total unaffiliated internal revenue (Daily Treasury statement basis)	0	0	0	0	0	0	0	0	0
Payroll taxes (Daily Treasury statement basis):									
Social Security taxes	502,448,448.90	510,000,000	7,551,551.10	1.5	510,000,000	7,551,551.10	1.5	7,551,551.10	1.5
Warrents' Banking Act of 1935	120,177,448.48	10,000,000	-110,177,448.48	-91.6	10,000,000	-110,177,448.48	-91.6	-110,177,448.48	-91.6
Total payroll taxes	622,625,897.38	520,000,000	-102,625,897.38	-16.5	520,000,000	-102,625,897.38	-16.5	-102,625,897.38	-16.5
Total internal revenue (Daily Treasury statement basis)	2,472,158,228.81	1,172,000,000	-1,300,158,228.81	-52.6	1,172,000,000	-1,300,158,228.81	-52.6	-1,300,158,228.81	-52.6
Refund (Share Investment Insurance Act) (Daily Treasury statement basis) 4	-	-	-	-	4,700,000	4,700,000	-	4,700,000	-
Others (Daily Treasury statement basis)	331,137,268.57	175,000,000	-156,137,268.57	-47.1	175,000,000	-156,137,268.57	-47.1	-156,137,268.57	-47.1
Unaffiliated revenue and deposits (Daily Treasury statement basis)	308,145,640.33	175,000,000	-133,145,640.33	-43.2	175,000,000	-133,145,640.33	-43.2	-133,145,640.33	-43.2
Total receipts, General and special accounts (Daily Treasury statement basis)	\$ 2,838,018,138.71	\$2,095,000,000	\$-548,018,138.71	-19.3	\$ 3,315,000,000	\$-500,000,000	-15.1	\$-548,018,138.71	-19.3

Treasury Department, Division of Research and Statistics.

January 9, 1939.

Unaffiliated revenue and deposits are not included.

Unaffiliated revenue and deposits are not included on a collection basis with the total adjusted to the basis of the Daily Treasury statement (unrevised).

Attention is directed to the temporary nature of the figures shown.

It is noted that 10 percent of the total tax liability under the Act will enter general and special accounts, and that 10 percent will be paid on a quarterly basis in the following quarters. It is noted that 10 percent of the only

Here quarterly will be collected in the fiscal year 1940.

December 13, 1938

4:45 pm

Present:

Mr. Bewley
Mr. Taylor
Mr. Locnhead

Mr. Bewley: I hope you have recovered.

HM, Jr.: Not entirely. I am afraid it will be a couple of weeks.

Mr. Bewley: I am sorry.

HM, Jr.: It was broken, you know.

Mr. Bewley: A broken bone in the toe?

HM, Jr.: No, broke it right off.

Mr. Bewley: That's wretched. How did you do it?

HM, Jr.: On a chair.

Mr. Bewley: On a chair!

HM, Jr.: But, all in a day's fun.

Mr. Bewley: But of course it isn't fun.

Well, I brought you the answer down. You wanted to know what the Treasury thought about what has happened about Sterling over the last ten days or fortnight and what they want me to tell you is the improvement which took place towards the end of November, they thought was mainly caused by the return to better in France. They say that Sterling derived some indirect advantage whenever the European prospects seem better and that there was a definite upturn in France when the strike was broken. That's

-2-

what they attributed it to. But they say the benefit to some extent has been offset by the fact there has been export of capital from London to Paris. Then they say the technical business, which I told you about confidentially the other day, has been going along just as they expected and they hope that effects will become more pronounced. The scheme will be more or less completed -- forward contracts will be more or less completed in the next couple of weeks, so it will get better. And then finally they say that there is really no significant change in the outlook because the markets are still almost exclusively dominated by political considerations and they regard the outlook as obscure.

HM, Jr: Well, what I would gather from that is that they still can use the same device to take care of it in another couple of weeks.

Mr. Bewley: Another couple of week, yes. That's what I understand. The thing is going steadily forward for the next couple of weeks, but they are not willing to make a guess.

HM, Jr: That gives me what we get here about it. It all checks.

Mr. Bewley: Yep.

HM, Jr: It all checks up.

Mr. Lochhead: The last day or two there has been more pressure.

Mr. Bewley: My message is dated December 13th, but probably drafted yesterday.

HM, Jr: That's just what I want and I wish you would thank them very much and I have nothing unless there is something you should like to ask me.

Mr. Bewley: I don't think there is anything at all. I have nothing to add and nothing at the moment I want to ask you.

HM, Jr: Wayne?

Mr. Taylor: I told you (Bewley) we would ex-

-3-

change this information, more or less, on the Chinese business and you will have some comments coming back a little later.

Mr. Bewley: Oh, yes! I telegraphed the same day, but I think they will take a little time getting out all that they have done. It's a little more complicated point.

HM, Jr: But there is nothing they are waiting on from me.

Mr. Bewley: I don't think so.

HM, Jr: I am caught up, so to speak.

Mr. Lochhead: The market has been inclined to be flat, particularly in the last day or two, because after recovery in France the markets were quite active. Last two days it seems that they are waiting for Mussolini's speech. He is supposed to be speaking next Monday and pending that speech the market is inclined to mark time.

Mr. Bewley: What has Sterling been doing today?

Mr. Lochhead: 4.64. Supported at 4.65. Came back in the late afternoon, but no volume, but there is no real tendency in the market just now.

HM, Jr: Mr. Bewley might like to know what the Department of Agriculture is doing. They have educated you (Mr. Lochhead). This is the wheat deal and how they are handling Sterling. I would not tell him now, but after this meeting.

Mr. Bewley: I don't know about it. I would be interested.

HM, Jr: Our friend here (Mr. Lochhead) was educated last night and he would be glad to pass it on.

Mr. Bewley: I would like to know about it very much. Thank you very much. Yes, I would like to know.

-4-

HM,Jr: I think Mr. Bewley might be interested.

Mr. Bewley: As soon as I have anything more, I will tell you.

HM,Jr: Incidentally, your Mr. Eden made a perfectly grand off-the-record speech at the Press Club. He made an excellent impression. Oh, really excellent! Mallet was next but one to me and I leaned over and told him, but really he was awfully good.

Mr. Bewley: Delighted to hear it.

HM,Jr: Biggest turn out the Press Club has ever had.

Mr. Bewley: That's very good. He's a pretty attractive figure.

HM,Jr: He has a very nice way; very sincere way.

oOo-oOo



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

43

December 13, 1938

Dear Henry:

As you know, I am neither trained in public service nor experienced in public affairs. The President and you have allowed me an unusual opportunity to express an average man's interest in his country. Therefore, I am trying to make my best possible contribution to the Treasury under your leadership.

With this personal preface, I feel impelled to express to you in writing my views on the problem confronting the Administration as Congress prepares to convene in January.

The Republican party, steering in blind defiance of change, broke on the rock of unyielding conservatism. May not the Democratic party also founder by going too far towards the other extreme? It is my conviction that the American people are no more ultra liberal than ultra conservative. They are, in fact, progressive. The problems of making a decent living, the hidden fears of insecurity and old age, are our people's main preoccupations.

Therein, I think, lies the great secret of the success of the President's administration. The social and economic legislation of the past six years has accomplished more for the average man than was accomplished in any previous full century. Big changes, however, bring big adjustments, which we are now making. Although every business, occupation and profession has been forced from its rut, the people are striving very willingly, in the main, to make the complex revisions and assume the obligations of the new day.

If I am correct in this statement, our problem then becomes how to go forward in a time of adjustment. I am no believer in standing still, and I know that the President is not the kind of leader who would ask his people, in such times as these, simply to stand still. But there are ways and ways of going forward.

My suggestion, humbly offered, is that the best way to go forward is to consolidate our gains. Soon the President will address the Congress on the State of the Union. I believe that his first emphasis should be on the achievements of this Administration and on his determination not to sacrifice them. But I also believe that his second emphasis should be on the need for contemplation and revaluation. Congress should be asked to take inventory of what has been done, to improve where improvement is needed, to remove weakness where weakness has appeared.

In my opinion, nothing would contribute more greatly to economic recovery, or more firmly strengthen the Administration with the country, I have talked to all sorts of men in these last months. I am sure that all but a tiny minority would recognize and thrill at the wisdom of a call for contemplation and consolidation.

Of course, I understand that extremists might construe such a call as a short sale on the part of the President. But for the true liberal the present record is sufficient matter of pride. For the true liberal, consolidating progress is now the first objective. I have no inkling of the Administration's plans for the incoming Congress, but I do have a profound sense of the risk of new ventures, in a time of adjustment to the ventures already successfully made. The commonest fault of generalship is to jeopardize a splendid advance by ordering the vanguard too far forward--and thus subjecting it to all the dangers of flank attack.

I offer these observations because I feel so certain that consolidation of present gains is vital to economic recovery. At the risk of laboring the obvious, I should like to close by pointing out that healthy recovery is absolutely vital for three reasons.

First, for our Treasury purposes, unless there is recovery we cannot expect adequate revenue with which to balance the budget. There must be greatly increased national income, as we all know, or your task and mine is hopeless. Second, it is my deliberate judgment that without recovery, the Democratic party is out, that with recovery, the Democratic party is in. And third, there is a higher politics to be remembered. Without healthy recovery we cannot make our nation a strong fortress for the right, in a world in which the right is everywhere beleaguered.

I respectfully submit and earnestly urge that we can achieve economic recovery without surrender to the forces of reaction. This statement may have no merit in your eyes, but I want you to believe me when I say that it represents my honest judgment.

Sincerely yours,

John Hanes -

The Honorable

The Secretary of the Treasury.

December 13, 1938

To: The Secretary

From: Mr. Hanes

Several items came up at the Cabinet meeting last Friday which I did not report to you.

1. The President instructed the members of the Cabinet that in case any foreigners came to any department of the Government with letters of introduction or with credentials, no matter from whom, that before acting upon such requests, the department should submit the matter to the State Department for check on the individual.

2. The President asked the Treasury Department to try to work out a plan to take care of small subscriptions to the next long-term bond issue.

3. The President asked me if we were in agreement with the State Department on the matter of the tung oil advance to China. I replied that we had finally gotten into agreement with the State Department and that everything was settled, and that we were ready to go forward at once. I asked Mr. Welles if this was not correct, and he advised the President that the State Department had been over the matter thoroughly with the General Counsel of the Treasury and was satisfied with the set-up as now constituted. The President suggested that the tung oil information should be allowed to leak out through the paint trade rather than by specific announcement by either the State Department or the Treasury Department.

Present at the Cabinet meeting were Messrs. Welles, Woodring, Cummings, Swanson, Ickes, Wallace, Roper, and Madame Perkins. Also, Messrs. Farley, Hopkins, and Hanes.

J. W. H.

December 13, 1938

Dear Henry:

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*orig. to Mr. Lusk
for the Secy 11.12.38*

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Sincerely yours,

The Honorable

The Secretary of the Treasury.

JWE:ce


Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor



After meeting in your office on Brazil, we adjourned to my office and divided the work of drafting the proposed reply to Souza Costa so that the State Department would charge itself with the general comments and the Treasury would devote itself to the specific language relating to the questions asked by Souza Costa. The feeling of the meeting was that we could be rather specific as to the maximum terms and would indicate that while the terms would vary with the type of equipment purchased, that in certain cases such as for example public utility equipment we would be willing to go up to 20 years, for railroad equipment of certain types up to say 10 or 15 and so on; that we would not indicate either the rate of interest or the amounts, that we would be less specific about the possible credits which could be advanced for stabilization purposes, but would indicate a desire for cooperation and leave the door very much open, indicating strong interest in the establishment of a Central Bank and emphasizing our desire to establish smoothly working trade and financial channels between the two countries but not committing ourselves toward a general stabilization program which would benefit other countries in greater proportion than the United States.

I had lunch with a man by the name of James H. Edwards who has had some 25 years experience in Latin America. I have known Jim Edwards for a number of years particularly when he was the head of the Latin American

- 2 -

Division of the Office of the Special Advisor to the President on Foreign Trade and the Export-Import Bank as originally constituted. I think that he may be the man that we are looking for to act as our Chief of Staff for the work which we have discussed. He is completing a mission as Financial Advisor to Nicaragua and will be free not later than March 1st. I will do a little more checking to find out if he is still persona grata to the State Department which I believe to be the case. If this checks out all right I think it would be advisable to have you talk to him while he is here. He is not a youngster; in fact being sixty, but is a hard worker and I think probably about as good an all around man as we could get for the work that I have in mind.

I gave Livesey your request to have Heath return for a visit after the first of the year and he will set the wheels in motion. Pierrepont Moffat reported back on Royal Tyler that he would be able to make the trip to Italy right after the Christmas holidays. I told him I thought that would be satisfactory.

well.

TREASURY DEPARTMENT


INTER OFFICE COMMUNICATION

DATE DEC 13 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

The second day's public hearing before the Temporary National Economic Committee on the patent situation in the glass container industry did not contain any very spectacular developments, the testimony being largely confined to a technical exposition of the nature of the basic processes patent control of which is a distinguishing feature of the control of the industry. The last witness, Mr. William E. Levis, President of the Owens-Illinois Glass Company, was questioned at some length about the control which his group has in the industry, without anything of importance being developed. His testimony will be continued tomorrow.



Confidential

P A R A P H R A S E

A telegram of December 13, 1938, from the American Consul at Rangoon reads substantially as follows:

Part of a shipment of machine guns and ammunition valued at approximately \$112,000 from Czechoslovakia and Germany were the first munitions of war scheduled for transport over Chinese road. A British vessel is scheduled to arrive in Rangoon in January with a shipment of war materials from France. 1300 tons of Italian arms, ammunition and explosives have been delivered by a Norwegian vessel.

893.24/511

FE:EGC:VCI

12/14/38



JR

Hankow via N. E.

Dated December 13, 1938

Rec'd 1:15 p.m.

Secretary of State,
Washington.

103, December 13, 4 p.m.

The determination of Japan to establish a "new order" in the Far East based on cooperation between Japan and China Manchukuo has been stressed during the past few days in the Hankow-Japanese controlled vernacular paper and in leaflets distributed by planes and trucks. Repeated to Chungking.

JOSELYN

WWC:HTM

JR

GRAY

London

Dated December 13, 1938

Rec'd 3:44 p.m.

Secretary of State,
Washington.

1429, December 13, 6 p.m.

FOR TREASURY.

The foreign exchange market has been very quiet today, operators apparently awaiting Mr. Chamberlain's speech tonight and meanwhile influenced by conflicting factors in the neutrality proclamation. The stock exchange has also been very quiet with little change in quotations. The dollar opened at 4.65-7/8 bid and the British fund offered dollars but are thought to have sold only a small amount. The rate went to 4.66-3/16 at fixing when 256 bars were sold, 102 of which were married and about 80 of which were supplied by the British fund. It is believed that the British authorities sold a small amount of gold after the fixing at a slightly higher price.

The market in francs was also very quiet the rate remaining around 177.80.

T/C:CSB

6

JOHNSON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 13, 1938, 4 p.m.

NO.: 2102

FOR THE TREASURY

There was not very much business done in the exchange market here today; rates remained almost stationary around 38.10 for the dollar and 177.70 for sterling. According to our market contact, the fund did not intervene at all. The forward rate for sterling was almost the same as it was yesterday. In regard to domestic and foreign matters the atmosphere was not as apprehensive as it was yesterday. There was no special news on the market.

In a quiet market, variable revenue securities and rentes were almost without change.

Today's newspaper Information estimates that the exchange fund now has in the neighborhood of nine billion francs gold according to statements made recently by Reynaud.

After the Minister of Finance's refusal to accept important modifications proposed in certain provisions of the recent decree laws, the Chamber Finance Committee yesterday evening, by 25 votes to 17 and 17 abstentions, adopted

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adopted the project of the 1939 ordinary budget. An excess of twenty-five million francs of revenue over expenditures is shown in the project for the budget as approved by the Committee. It is expected that until it comes before the Chamber on December 15 Parliament will agree to follow the same special procedure providing for quick discussion as that adopted for the 1938 budget last year.

Yesterday the Chamber Finance Committee vetoed paragraph 35 of the decree law of November 21 (See page 3, Embassy's despatch no. 3349 dated November 23, 1938) under which the Government would have the power to increase taxes approved in the budget by 10 percent.

According to the financial press, the French Economic Mission, under the leadership of Alphand, which was recently sent to Central Europe, has just returned to Paris, and that as a result of its labors new commercial arrangements would be signed with Rumania soon and negotiations dealing particularly with payments by Yugoslavia will begin December 20. I am informed that the mission also concluded an agreement with Bulgaria. (End message).

WILSON

EA:MEG

EG

Tsinanfu via Tsingtao
and N. R.

Dated December 13, 1938

Rec'd 5 a.m. December 17.

Secretary of State,
Washington.

6, December 13, 9 a.m.

Private exchange shops through which it had previously been possible to obtain Chinese central government notes in exchange for Federal Reserve Bank notes and vice versa were outlawed in Tsinanfu effective December 10, 9 a.m. and similar action is reported to have been taken at Tsingtau and Chefoo. Measure is designed to bring about the circulation, in those areas of Shantung still under Chinese control, of the currency of the Peiping regime but will greatly retard business, at least for the time being. Central government legal tender with which to buy agricultural products in the seventy "unoccupied" counties of the province will no longer be obtainable though it is understood that local banks will continue until next March to purchase northern issues of certain government notes discounting them ten per cent.

Repeated to Peiping and Chungking. By mail to
Tsingtau, Chefoo and Tientsin.

PEG

HAWTHORNE

GROUP MEETING

December 13, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Hanes
Mr. Taylor
Mr. Haas
Mr. Gibbons
Mr. Duffield
Mr. Lochhead
Mr. White
Mr. Bell
Mr. McReynolds
Miss Chauncey

H.M.Jr: Good morning, gentlemen.

Gibbons: Good morning.

H.M.Jr: (Telephone conversation with Mr. Jesse Jones
at 9:34 A. M. attached.)

December 13, 1938.
9:34 a.m.

HMJr: Hello.

Jesse Jones: Hello, how are you feeling?

HMJr: Oh, I'm not looking for any new scraps. I'll try to handle what I've got.

J: That's pretty good!

HMJr: Yeah.

J: Well, I just thought at your convenience we might have -- I might come over and have a little visit.

HMJr: Right. Uh--what time of day would suit you?

J: Well, I expect it would be in the afternoon, Henry, if that's -- if that suits you.

HMJr: I'm going to that press club luncheon. I suppose you are to?

J: How's that?

HMJr: Are you going to that press club luncheon?

J: I thought I would.

HMJr: Well, do you want to come back from there, or would you rather do it later in the afternoon?

J: Uh -- it just depends on -- I've got a lot of these -- I've got a lot of fellows here that I don't know how I'm going to get -- maybe -- what time would suit you the best? Then?

HMJr: Well, three o'clock would suit me the best.

J: What time do you think we will get back from that luncheon?

HMJr: Well, I don't know. It's called for twelve-thirty.

J: Let's make it three o'clock.

HMJr: Huh?

J: Let's make it three o'clock.

HMJr: Does that suit you?

J: That -- I'll work to that, yes.

HMJr: At three o'clock here?

J: Yes.

HMJr: Alright.

J: Fine, thank you.

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H.M.Jr:

Jesse Jones.

(Telephone rings.) Hello. Right. Hello. I've got my whole 9:30 group here. Oh. Yeah. Yes. I see; I see. Oh, for heaven's sake. Uh huh. Oh. Crazy. Crazy. Did you, ah, indicate which doctor? Yeah. That's right. Did you tell her that? Oh. Oh, which is the one that Gelley (?) recommended? Uh huh. Yeah. Yes. That is right. That's right. Yeah. All right. Well. Yeah. I see. O. K. Thank you.

One think I've got here in my Business Review which I think is very interesting. - I want some more work done on it; I have talked to Haas. - and that is that he's got these figures on exports and uses the foreign industrial production fiscal volume figure of the Department of Agriculture; and it shows here for our exports up to January, '38, they've always been with foreign industrial production, but since January, '38, or shortly after that, the two lines for the first time, oh, in eight years - five years - have separated.

Now, on the other hand, our own industrial production and imports in the United States still move together.

Well, this is something new, and I wish Harry would collaborate with George and then give me the break-down: Where are we losing our exports, because here are two lines which have moved together five years, and then suddenly, our exports split away from foreign production.

White:

It is an interesting observation and analysis.

H.M.Jr:

It is, very; it is something entirely new, and as soon as I saw it, it hit me in the eye, because our own industrial production - I asked some time ago to bring me up to date. Take this particular thing. George said, "This is your baby, in the sense it comes to breaking it down." I will pass it around because it is something which is, to me, quite startling, and I think we ought to see where we are losing. Where is the industrial pickup, and where are we losing our exports?

White:

Give you the whole picture.

H.M.Jr: Fairly fast, Harry.

White: In a couple days.

H.M.Jr: Those things we get out of the beaten path, hit them early and we may be able to do something about it.

Now, again, if I may be a little patient, George, Jesse Jones said

Haas: (Talking to another of group.)

H.M.Jr: George, excuse me; Jesse Jones said three o'clock, so I'll make you three forty-five; and Haas is coming in at three forty-five to give me his adjusted revenue figures, if anybody's interested in it. He tells me revenue for this year is going to be up five hundred million dollars, which is good news to give the President, rather than the other one, and I'd like to get it. Anybody interested, I am going to receive the figures at three forty-five.

Johnny, I got your memorandum last night and I don't understand this any more than you seem to understand it. I'll read the first sentence:

"Memo for Secretary Morgenthau from Helvering." The first sentence, "Through Mr. Irey, I am instructed to report to you upon the subject of the information obtained by the Bureau from statements of net worth" and so forth. I have never in my life told Irey to tell Helvering, who is his superior, to report to me.

Duffield: Oh, Mr. Secretary, remember you talked to Mr. Irey with me in Mrs. Klotz' room one day, and told him you wanted him to remind Mr. Helvering of these division setups.

H.M.Jr: This is this question of net worth statements of a hundred thousand dollars. No. No, that - well, that wasn't what Magill used to call his "blue print division," is it?

Duffield: I don't know; I thought it was, that's all.

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H.M.Jr: Let me explain. What - maybe they're the same; we'll clear it up. Magill kept talking all the time that if he had a place where the really big estates would go through a blue print division, where we could see what these people did, then we wouldn't have to have these sudden investigations. We ought to know what that man or corporation is doing. That doesn't mean we have to know his personal stuff but that was my idea.

Hanes: I took it up with Guy when I got that memorandum from your office. Guy said they sent out the first long form for the taxpayer to report every single, solitary, item that he owned in the world.

H.M.Jr: Which was wrong.

Hanes: Which.....

McReynolds: They did that on their own responsibility, without checking with the Secretary.

H.M.Jr: Say that again.

McReynolds: I say, they did that on their own responsibility, without checking with you, and without checking with the legal division, and so forth.

H.M.Jr: Without yourself (Mr. Oliphant).

Oliphant: (Nods "Yes.")

H.M.Jr: And when it came out and I saw it, I killed it.

Hanes: And the second said, where they could not get all the information they needed, they could ask for whatever they like, like they can in any case. That had the effect of automatically stopping the whole thing.

H.M.Jr: Well, now, see if we can't get what I think we ought to have, and this is number one of Magill's hobbies, and that is on these very rich estates, and big corporations, and they make these moves, we ought to have a sort of continuous plan so we don't wait until they are in hot water and then suddenly wake up to the fact a new method has grown up. Maybe one tax firm is advising people we know. After all, we are in their business over fifty per cent; we ought to run a continuous plan there so that these particular devices which are

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suddenly - after three or four years you find a whole group of taxpayers have changed this sort of thing, go in, have a Congressional investigation, and everybody gets upset, and so forth.

I wish you'd think it over. See what I mean?

Hanes: I see what you mean. We've got figures on about seventy-five. There is no continuity on these big incomes, next big incomes; next five go down, drop out of the group.

H.M.Jr: Yes, but suppose he decides he is going to incorporate his business. Seventy-five of these following a method of tax avoidance. You see? Before it gets too serious, before we have to go through the thing simply either correct it or say to these fellows, "Wait a minute; you're getting into trouble," before he's in the thing too deep. It will be fine, if some particular firm is advising them, using some method of tax avoidance, if we catch them while it is young.

I think the way to do is to keep studying the things and have some little place, not too many, where they just would keep studying this thing, of a certain number of typical corporations and a certain number of typical individuals, and so forth and so on; and that was the plan.

I really think we'd be doing the individual or the corporation a service. The fellow might say, "I didn't know I couldn't incorporate my yacht. Why didn't you tell me so?" Or, if we didn't happen to catch this fellow that brought over this customs stuff, "I've brought it over like this for five years; I didn't know it was wrong."

Hanes: You didn't ask for this particular thing when Irey got this.

H.M.Jr: What I wanted to know was, what happened to the original thought, John. See? The original thought, of keeping up with these fellows.

McReynolds: They were supposed to have organized a little section over there.

Oliphant: It had two aspects, in addition to watching the prospective tax evaders, we have a larger stake, for instance, in General Motors, than anybody in the world; anybody outside with that large a stake would keep themselves acquainted.

H.M.Jr: You get what I have in mind?

Hanes: Sure, I do.

H.M.Jr: Will you give it some thought? Two or three men set up a little Bureau to study all the time.

McReynolds: I know one of Irey's men was brought in and put in charge of that section.

H.M.Jr: What's happened to it?

McReynolds: Explosion (?).

H.M.Jr: You've got the picture now?

Hanes: It can be worked automatically so you'd get that information every year and keep it up to date.

H.M.Jr: It wouldn't be yearly. It's a question, if they find - let's submit these fellows always will find some means of advising his group of clients how to decrease his payments, and I want to try to keep up with these fellows, and if it is legal, all right; if it isn't legal, or ethical, let's advise these people before they are in hot water, and we have lost a lot of revenue. That's the whole idea, and not wait until it becomes a practice and then we have a hell of a time dynamiting it out.

Hanes: Uh huh.

H.M.Jr: And we have been talking about this thing for two years and I have never gotten anywhere. That's the purpose of these meetings, if there is something somebody doesn't understand, and I don't understand, to bring it out in the open.

Mac, just see that these two things are disposed of, and please don't bring them back to me. Huh?

McReynolds: All right. (Laughs.)

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H.M.Jr: Herman, sometime in the next twenty-four hours, bring that in and I'll sit down with you.

And, Wayne, following our request, for Mr. Welles, that we give him anything on China that we have, this memorandum was handed to me Sunday night by K. P. Chen, and I'd give it to Welles, see? And nobody's seen this. Through Archie, circulate it; and I want to send a copy to the President.

Taylor: Is this a copy of what you gave Archie?

H.M.Jr: Wait a minute. Let's get a copy to the President and then circulate it. The people interested in China are Archie, White, Taylor, Hanes, and Oliphant. My Chinese friends.

Bell: Chinks.

H.M.Jr: Huh?

Bell: Chinks.

H.M.Jr: Chinks? I don't know how the rest of you feel, but this old man Jackson is getting kind of expensive; they keep upping this all the time. Have you got yours?

Taylor: Yes, but I didn't look at the price; have they raised it?

H.M.Jr: Yes, they have raised.

Hanes: I feel badly; they left me out.

Oliphant: I am going to give it to him.

H.M.Jr: (To Miss Chauncey:) Call up Mr. Bray, Mr. Farley's secretary and say, "We've got a new Under Secretary; he's insulted."

Taylor: And about five years' back dues.

H.M.Jr: He's insulted.

Hanes: That's what you think.

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H.M.Jr: Farley ought to have a little place that does this studying too.

Hanes: Mr. Farley hasn't forgotten me, don't worry.

Lochhead: I think Mr. Hanes has been getting away from the New York prices though.

Hanes: Mr. Farley made a personal call on me.

H.M.Jr: And just acknowledge that, and say that I have already seen it.

I think you'd better hang on to this.

Herman, I started at the other side yesterday.

Oliphant: There is nothing special.

H.M.Jr: Nothing?

Oliphant: Jesse's going to see you about the check this afternoon?

H.M.Jr: He just said he wanted to come over and talk.

Oliphant: He said he wanted to sleep on that resolution after we gave him the message.

H.M.Jr: God, I hope he slept well.

Hanes: I told him just what the arrangement was; I understood he was to pass that resolution.

H.M.Jr: He just said he wanted to come over and talk; said he might find out in advance whether the resolution - you (Mr. Taylor) are the director - whether the resolution was passed.

Oliphant: I hoped it would be handled with such promptitude the truck thing could be handled.

H.M.Jr: I don't want the truck thing, please. They've got the cash and I think it would be very good to let them spend the cash.

White: Could they pass the resolution before the papers on the contract were complete? They are not complete because I made some changes about ten minutes ago.

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H.M.Jr: He's the director.

Taylor: Which resolution is this?

H.M.Jr: On the tung oil.

Taylor: I said something last night; there was some place in it he was worried about.

H.M.Jr: I don't want the truck thing to go through. It should have been bought yesterday. If they put it through the Export-Import, they start the negotiations all over again for two or three months. It isn't worth it. They've got the money.

Oliphant: I thought that if this loan meant this much employment, and so forth, it would be awfully good stuff to go out.

H.M.Jr: It shouldn't be delayed. I just wouldn't upset Chen on this. He doesn't want it to go through. It ought to be announced today. We were going to do it yesterday. We've got a wonderful price and if they go back again, the automobile people - "What is all this?" And they lose confidence. They've got a wonderful price on it.

McReynolds: There is People's suggestion, and there is Leahy's..

H.M.Jr: I think I'll let it ride.

McReynolds: Leahy admits they probably haven't had experience.

H.M.Jr: Which is which?

McReynolds: That list is Leahy's; that one is Peoples - he gives only one.

H.M.Jr: Any good?

McReynolds: Leahy thinks probably he might be better than these other fellows. He's had plenty of experience.

H.M.Jr: Huh - better background of experience than either of those other people. (Reads memo.) Yeah, that sounds awfully good. I'd like to meet him if he's around.

McReynolds: No, he's in San Francisco.

H.M.Jr: Oh. Well.....

McReynolds: He can be reached on the telephone.

H.M.Jr: Why not phone him; say, if he's interested we'll pay his expenses to come on and I'll look him over. This man is for Manager of the Chinese Corporation - a retired naval officer. This looks good; he's been in the firing end of the Navy. That looks good.

Hanes: Not any more.

White: While we are on that point, I take it that some - Mr. Hanes, I know is interested in the price of tung oil, and before that goes in the contract, which I take it, is today, I think he'd better go over it. Now is the time to check it, before it goes to the Export-Import Bank and they pass on it.

Hanes: We should contact the paint people on that.

White: I just thought Mr. Hanes was interested in the price.

Taylor: Might talk to Pearson.

H.M.Jr: Talk to who?

Taylor: Pearson.

H.M.Jr: I'm up in the air; I don't know; I mean, Oliphant called me a couple times yesterday, and I said, please, to handle it, the legal end to go through; unless there was an emergency leave me out. I can only handle so many things personally; I don't know about this.

Hanes: I don't know what the price determinate is myself.

Oliphant: We can handle it.

H.M.Jr: Let Wayne know, because Wayne represents me on this Export-Import Bank.

Taylor: I think we ought to talk to Pearson straight on it; after all, he's the fellow that has to carry

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through the thing and on the setup, and I think you will save time in the long run; if you've got any problems like that, put them in his lap.

Oliphant: We have been talking to him about it.

Taylor: I think it's very important to do that at this stage.

H.M.Jr: Wayne, inasmuch as you are the Director, will you find out what it's all about.

Taylor: I'll endeavor to, sir.

H.M.Jr: Unless

Oliphant: On the legal questions which Welles is raising objections to

H.M.Jr: unless it's something I'd have to get in on I'd like to be relieved; it's getting down to too much detail; I can't carry it, so will you find out? And if you've got any interests - I mean, let's let it follow through Wayne because this is his; he's got to know what it's all about in order to vote yes or no. All right?

You got something?

Hanes: Nothing.

H.M.Jr: George?

Haas: We have a new edition of the balloon charts, containing the November. You want to see them?

H.M.Jr: At three forty-five.

Wayne?

Taylor: R. F. C., what they call "Fannie May," which is their mortgage association, wants to sell fifty million of their debentures between now and January first. They will probably want five year, one and five/eighths.

H.M.Jr: To whom do they sell? The syndicate?

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Taylor: They will do their own selling on it; they will offer them for subscription; that's the way they did it before. We don't handle them.

H.M.Jr: Oh.

Bell: They have only had one issue, I think.

Taylor: They did twenty-five once before.

H.M.Jr: If they want any advice, I think it's foolish to sell it between now and the first of the year because the money is all running out. Right after the first the tide is coming back. My suggestion, unless they really need the money - about the fifteenth of January is the right time. About the fifteenth of January people will be lousy with money, because Harrison spoke to me a couple days ago; he's a little worried there may be a shortage of cash during the next two weeks. Unless there is something; unless they are really out of the pocket, my recommendation to them is that they make the issue the fifteenth of January.

Taylor: Or certainly after the first of the year.

H.M.Jr: Certainly after the first of the year. Has George Harrison spoke to you?

Bell: (Nods "No.")

H.M.Jr: You knew he called about a week ago?

Bell: No, I didn't.

H.M.Jr: The drains are taking seven hundred million, plus the usual year-end drain, which is very heavy, and he said if he needed help he'd call me again.

O. K., Wayne, does that make sense?

Taylor: Yeah, if they find the market is there and is very willing to take it, I think for fifty it doesn't make too much difference, because those things go all over the country. They are not concentrated in New York, necessarily.

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H.M.Jr: No, but I'd prefer it be after the first of the year.

Taylor: I'll tell them that. The other thing is those two men you were curious about, they are members of the Trade Agreement Division and they are going to Uruguay and the Argentine, and what it amounts to is a paid vacation. You see, they worked pretty hard on the British Trade Agreement.

H.M.Jr: Well, Mac, I don't know who is in Gaston's office, but I think the newspaper men should know - they ran a story; I've got it here - these men, some way, from the Information Section of the State Department - if it can be given out that these two men are not doing foreign exchange. I don't want to seem as though there is a difference between the Treasury, but the information should come from the Information Division of the State Department, that these men

Taylor: They have very specific instructions as to what they are supposed to be doing.

H.M.Jr: But not foreign exchange.

Taylor: And that is only incidental.

H.M.Jr: Will you take care of that?

McReynolds: Yes sir.

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

Well, I saw the President yesterday. I don't think he had, and I haven't, seen this man on the appointment list.

(To Mr. Oliphant:) Thanks.

Oliphant: That's the last report.

Taylor: There is a continuation of the meeting of the Munitions Board on the tin plate thing this afternoon. Did Huntington (Cairns) tell you? Now are you ready to make any great point?

Oliphant: No. The matter - White's been working on it; he's most familiar with it.

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White: This afternoon will be the time, I presume, they will consider any further statements, and oral statements, to be made by various members of the tin plate industry; whether they will come to a decision or not, I don't know, but if they do it will be a question of preserving Treasury position.

Taylor: Their intention is to go through as is. This lad who's been running around, why, isn't quite what he said he was.

White: Oh.

Taylor: He produced a lot of letters, supposedly signed by Congressman McReynolds, and Congressman McReynolds didn't know anything about that.

H.M.Jr: That's been done before.

All right?

Taylor: Well, I think all other things being equal, we'd simply go along with what is now the case. In other words, ninety-five and five.

White: Unless the Legal Department, who is examining the case, had some considerations they would want to bring up. I don't know.

H.M.Jr: I am not in on this at all.

White: I don't think it's "yes sir" yet.

Taylor: Unless we had some particular point to make at this point, I think we'd better go along as is.

H.M.Jr: I don't know what you are talking about.

Taylor: Herman has some legal points he wants to make.

H.M.Jr: You are saying either make it now or hold our peace.

Taylor: On this particular one.

H.M.Jr: O. K. You're serving notice on him.

Taylor: I don't care whether they make it now or some other time, if they are not completely ready, I'd let this one sleep.

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H.M.Jr: I still say I don't know what it's about; I'll leave it with you.

Incidentally, I am giving Mr. Chen a couple recommendations for Manager of the Chinese Corporation; I am trying to find this retired Naval officer. You might tell that to Pearson; I have taken on the responsibility of finding for Chen a Manager for the Corporation - a retired Army or Naval officer for his Manager. Will you tell him that, please? And this man looks very good. Does that clear you, Wayne?

Taylor: (Nods "Yes.")

H.M.Jr: Harry?

White: I don't know whether you have noticed, but Heath, the man who went over for the State Department to Germany - his cables are getting to be pretty good. There was a long time when we got nothing, but they are beginning now.

H.M.Jr: I was thinking, I thought we'd better bring Heath back now.

Lochhead: whether or not the cables were as spot news rather than - you see, he sent one that Schacht was coming to London. The other is ten or twelve pages of statistics.

H.M.Jr: Well, Wayne, supposing we tell the State Department, right after the first of the year, I'd like Heath to come back for a short visit. Please.

Anything else, Harry?

White: No.

H.M.Jr: When you fellows of this Committee have a draft let me see it before Thursday, will you, on what they call the Hill and Valley Committee.

White: Oh yes.

H.M.Jr: It's a new name for it. All right?

McReynolds: (Inaudible - something about "playing up and down.")

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H.M.Jr: Steve?

Gibbons: I have been having a lot of protests and hearings from people down on the Texas Border on the amendment of the Customs law, which gives you the authority to issue instructions or issue a T. D., making people going across the border remain over there an hour, ten minutes, or twenty-four hours. In other words.....

H.M.Jr: Will you handle it?

Gibbons: Yes.

H.M.Jr: Until I want to go over the border myself.

Gibbons: It is just one of those things; we've got about as many protests for as against it. The State Department stepped in on it yesterday with a memorandum.

McReynolds: California and Texas borders want two different things.

H.M.Jr: Afraid of Texas in California on the 1940 delegation (?). Better keep that in mind.

Gibbons: Might have in California, but not Texas.

H.M.Jr: Oh, I see.

Gibbons: Saw the Burns yesterday.

H.M.Jr: Jimmy?

Gibbons: Burns is pleading guilty in the Lauer case. I think Jack Benny and two or three more of them will probably be involved.

H.M.Jr: Gracie Allen, on the radio - can't listen any more.

McReynolds: Well, this jewelry was for her.

Gibbons: My assistant said yesterday it would probably make him more popular.

H.M.Jr: I don't think he's right.

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Gibbons: I think the fellow's through.

Lockhead: The exchanges improved a little since early morning. Sterling is up to 66.5.

H.M.Jr: I am going to stop calling you early.

Dan?

Bell: Out of the seven hundred thirty-one million dollars cash allotment we got five hundred sixty-five million in cash; a hundred sixty-six million by credit. Bank deposits are going to go up by a hundred sixty-six million. Reserves ought to go down considerably.

H.M.Jr: That's an amazing amount paid in cash.

Bell: That is about what it was in September.

H.M.Jr: How much was the total, seven?

Bell: Seven thirty-one.

H.M.Jr: Have you given that out?

Bell: Yes.

H.M.Jr: How much in each issue that hasn't been given out?

Bell: It was announced yesterday, I think.

H.M.Jr: Usually you show the new issues of - two issues amount to so much.

Bell: Well, the details are given out in that tabular form; I haven't seen those. Everyone knows it's coming at about seven fifty. That's given out in tabular form.

H.M.Jr: Shouldn't go out before the fifteenth.

Bell: It should have been out the first of this week; I'll check up on it. In dealing with these banks, getting them to take depositories to handle Social Security funds, many of these object to having to buy Government securities at a premium and place them with the United States Treasury, and are

always raising the question, if we withdraw the deposits, they'd have to sell the securities at a time when it might be unfavorable to them. I don't suggest this as a remedy right at this point, but would you have any objection if we studied the problem of designing a special security for them on a graduating interest rate?

H.M.Jr: You are not going over to the President of the United States, are you? Have a church security - going to get out a new security just for churches of the United States.

Hanes: Three per cent.

H.M.Jr: Three per cent. Go ahead and study it.

Bell: I think we might work out something that would be non-transferable that would give an interest rate at a small rate for five years and raising it one/eighth, say, a year.

H.M.Jr: I have no objection.

Bell: We redeem it at par.

McReynolds: Same idea that Frederic had for trusts.

Taylor: There is a real market for both those types of securities.

H.M.Jr: Well, will you study it?

Taylor: We have one of them worked out, and we have done some work on the other one you are talking about, Dan.

Bell: This wouldn't amount to more than seventy-five million.

Lochhead: Have a grown-up baby bond.

H.M.Jr: What else have you got?

Bell: That's all.

H.M.Jr: How is the Coast Guard appropriation? I haven't heard anything more about it.

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Bell: Well, the Admiral came in to me and apologized for having asked anybody outside of my office for any money.

H.M.Jr: What's that?

Bell: The Admiral came in and apologized to me for having asked anybody outside of my office for any money.

Gibbons: Well, you can't increase your equipment without increasing your personnel.

Bell: Well, we have always given them an increase in personnel for their larger cutters and larger planes.

H.M.Jr: He's always short two hundred million.

McKeynolds: He wants a swing. He wants a swing group.

H.M.Jr: What I did was this: This thing is moving so fast, in the national defense, I thought I'd get in on it before it jumped, so I'm getting fifteen new airplanes that can be used for armed defense purposes; three new cutters. I had to move awfully fast, and at least this is the only part of the national defense program that we have been informed of in advance.

Gibbons: I have been insisting on one thing ever since Ballinger went over to Coast Guard. Been trying every since to get a civilian assistant to Waesche that would run this thing in a business-like way and Danny has finally agreed to it.

Bell: I haven't swallowed all, but some of it.

McKeynolds: He gave you two out of ten.

Bell: I didn't swallow the whole program.

Gibbons: I know you didn't, but, for instance, the top man.

H.M.Jr: This is Exhibit A. I think there are twenty-five initials, and then when it comes to me - a little memo on it says, "Don't sign it." I thought it the funniest thing. "Don't sign it." They have

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even worn the paper out.

McReynolds: The damn thing has been signed and promulgated once, and I pulled it back because it was by an Acting Secretary.

H.M.Jr: O. K.

McReynolds: Everybody's tied down on that because it limits everybody's activities.

GROUP MEETING

December 14, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Hanes
Mr. Taylor
Mr. Haas
Mr. Duffield
Mr. Gibbons
Mr. White
Mr. Lochhead
Mr. McReynolds
Miss Chauncey

H.M.Jr: Hello, Mac. Who would be a (Telephone rings)
Excuse me - got a phone call.

(Over telephone) Hello. Hello. Hello. How are you? Would you like to come over and have lunch with me tomorrow? Oh gosh. Oh. When will you get back? I see. When you leaving, tonight? Oh. Well I - I'll - I'll find out during the day whether this thing will keep or not, that I've got in mind, see? Right. Oh. Well, I'm - ah - this - I'm going out to Welles' for lunch; I don't know when I'll get back. At - out in the country. We're all going English today. I'll see how it gets along. Thank you.

Bill Douglas.

I got this clipping here that the President's Committee, taking up Federal financial aid for carriers, see, and I thought, Mac, you sit in on this Uphill and Downhill Committee, and you might bring that, to get that to Eccles' attention, see Mac? And see whether the work - you know what they are working on.

McReynolds: Yes, I know.

H.M.Jr: On this railroad stuff, and whether he's contacted that Committee. We don't want to do it twice, see? Anybody know anything about it? It looks as though there were duplication.

McReynolds: Well,

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H.M.Jr: Just bring it to his attention.

McReynolds: Yes, I will. This is the Railway Committee?

H.M.Jr: Excuse me.

McReynolds: This is his Railway Committee?

H.M.Jr: Yes. Looks as though we here are working on something that the President has another committee working on, and Eccles carrying it.

I'd like to say, if you people don't agree with me, if you don't agree, now is the time to say it. I'd like to get the word out as far as the Treasury is concerned, we are going to sit tight on all banking legislation until after the S. E. C. starts their hearings, see? I mean, there are a lot of things going on; I haven't even read Eccles' reports, and my feeling was that if we sat tight and S. E. C. started its public hearing, and everything else, and the thing went along a couple weeks we may get entirely different type of legislation, and the word I got, Crowley said Carter Glass is going to rush something through in the first ten days. My feeling was, I wasn't going to call the meeting the President told me to; just sit tight on banking legislation and let's see what develops at this hearing.

Who doesn't think that's a good idea?

White: That's a good idea. Extendedly, though, I take it, it doesn't imply internally you won't have some preparation?

H.M.Jr: Well, we had a banking bill last year, didn't we, on holding companies?

Taylor: (Nods "Yes.")

H.M.Jr: Didn't we have one last year? I haven't looked at it, and, just talking for myself, I just thought I'd say that is something I don't figure I have to get around to till maybe the first of February - just sit and see what happens.

Oliphant: If you have occasion to see Wagner and Glass, they may take the same point of view.

H.H.Jr: I called up Glass and he is not in town; I wanted to see Crowley and talk it over. As far as I am concerned, I am going to sit back and watch the clouds go by until about the first of February.

John?

Hanes: I go along with that; I think that's a good thought.

H.H.Jr: Wayne?

Taylor: I think you'd relieve your mind quite a bit if you'd read what I think is in the memorandum - I haven't seen it - which Ronald Ransom tells me was in it. It isn't a recommendation for legislation.

H.H.Jr: I am not worrying. Let me just talk; give me a chance to make a record of what the President told me his idea was as to legislation in connection with bank examinations.

He suggested that a separate agency be formed in which would be put F. D. I. C. and the Comptroller of the Currency, and call it "Comptroller of Banks," in which the Treasury would have a representative; would have this outside of the Treasury. And then, in this agency, a quasi-judicial body who would pass on bank matters from the sort of thing the Federal Reserve is doing. Put that in a little group - three people be a quasi-judicial body, be a part of that organization. And then I said, "How about this suggestion I made of bringing in the bank examiners of Home Owners' Loan and all bank examiners?" He said, "Fine; they'll all go into that." That would be outside the Treasury. And he said, "That would be all right with me." He said the Treasury would have one representative sit in on the Board of Directors, so - which is not Eccles' idea at all.

I - I got kind of a general idea about it. I am just saying that is what he had in mind, and as far as I am concerned, it is all right. What do you think about its administration, Mac?

McReynolds: At present I think it is good, because it is the same idea I expressed to somebody else the other day.

- Oliphant: A single man as Administrator, and then this body to handle the quasi-judicial....
- McReynolds: But out of the Treasury. Plus Federal Reserve. I told one of the boys the other day I didn't think they were talking about the question of tying it in with the Treasury. I said, "You've either got to tie it in or tie it out, one or the other."
- H.M.Jr: As far as I am concerned, tie it on the outside. Was it you I talked to yesterday, Wayne, about this?
- Taylor: Yes. I think it is swell.
- H.M.Jr: Did you also say what Mac was - you also thought of it before the President?
- Taylor: Yes, quite a bit before, except for the semi-judicial aspect.
- H.M.Jr: I think that is a big - you, for instance, have been talking about just going so far, you see, and I have learned a lot about bank examinations in the last three or four months, and I think this is all right. I don't - how does it sound to you, John?
- Hanes: It sounds all right to me. It isn't right like it is, that's very clear to me. Just how it ought to be, I haven't given it enough thought to say.
- H.M.Jr: Excuse me.
- Hanes: I just don't think it's right, now.
- H.M.Jr: Herman, suppose you draw up a rough bill, along the President's idea, just inside the shop. You going to tell me you were going to have it drawn?
- Oliphant: Well, if we are going to have an 'I-told-you-so' party, I have been thinking about this several years. I have done a lot of work on it.
- H.M.Jr: Gene, what do you think about it?

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- Duffield: I think it's a good idea; I don't know whether insurance should go along with that or not. Maybe Insurance belongs here; we pay the whole bill.
- Olliphant: The insurance ought to be with the underwriter, just as is a fire, and that sort of thing. Inspections, and all those things that go right along with the underwriters.
- H.M.Jr: You mean the insurance.
- Olliphant: Examination and underwriting, side by side - belong together, functionally.
- H.M.Jr: I don't know how the authority would flow. The Treasury would have a representative; that's all right. Would it be responsible to him? Would it be spread? Federal Reserve would have a representative on this Board.
- Olliphant: But there ought to be a single Administrator to run the shop and a Board.
- H.M.Jr: Board of Directors.
- McReynolds: The general Administrative end of the organization would be tied in as one of the Treasury units, and not with any direct supervision, but in the same way that Farm Credit and institutions of that kind ought to be tied in.
- H.M.Jr: You mean Farm Credit or Commodity Credit?
- McReynolds: Farm Credit.
- Olliphant: He means ultimate.
- H.M.Jr: Well, you've got this thought; play with it and see what you get out of it.
- Olliphant: You can set it up, splice it out, and later determine its ultimate affiliation in relation to the President.
- Taylor: There are some steps that have to be taken in there, such as you have to determine the ownership of the stock of the F. D. I. C., and clear up that situation.

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- H.M.Jr: I don't think there would be much argument on that. I think the United States Treasury ought to own that.
- Taylor: There are some loose ends of that character that have to be cleared up.
- H.M.Jr: If Herman will bring it in and submit it to the Banking Committee of the Treasury, John, it will be a little progress.
- Now, what have you got, Mac; your lap looks full.
- McReynolds: Well, this Cabinet Committee on Social Security is calling for a meeting again tomorrow at eleven o'clock, in the office of the Secretary of Labor.
- H.M.Jr: Who follows that for me?
- McReynolds: You designated your Under Secretary; he seems to be getting a lot of things.
- H.M.Jr: When did I designate him?
- McReynolds: Quite sometime ago; quite soon after he came over here.
- Hanes: I never heard of this Committee, here, that I remember.
- H.M.Jr: This is the Committee that gave birth to the thing.
- McReynolds: The original Cabinet Committee appointed by the President, and Wallace.
- Hanes: I say, that is a little new to me; I don't remember that one. I have been working with Altmeyer and our boys. They are having two meetings today, if that is the same thing.
- McReynolds: Since you probably won't go, and you're a member of that Committee, I think the only thing—of course, Mr. Hanes is familiar with everything that's happening with respect to discussions of their proposed legislation on that.
- H.M.Jr: Is he?

Hanes: I think I am, unless they are not telling me; we have had boys over there right straight along.

H. J. Jr: Well, then, this would follow right along, wouldn't it? Will you pick this up, then? Where is it?

McReynolds: Miss Perkins' office, eleven o'clock tomorrow; I'll send your boy a note.

H. J. Jr: What else you got?

McReynolds: I've got this young fellow I have been talking to as a proposed appointment for Miss O'Reilly's place down in

H. J. Jr: Gee -- (Laughs) Oh, what a man. Honestly, did you do everything I said to do yesterday?

McReynolds: (Laughs) You can't ask me about it in particular.

H. J. Jr: Don't dare me, Mac; don't dare me. Mac kind of blushes. I think Nell knows the story anyhow.

Chauncey: (Blushing) I'm just guessing.

H. J. Jr: She knows the story.

Does anybody know any good reason why I shouldn't take Mac's candidate, Frank Leland Howard, as Assistant to Mrs. Ross? O. K., I do, Mac. Put him on.

McReynolds: Of course he will go down there as Acting for a while, and along about - give him two or three months trial in that capacity, and if he does all right we'll make him - I won't give him any promotion; we'll just try him.

H. J. Jr: What else you got?

McReynolds: Nothing.

Lochhead: Outside the exchanges, things still quiet.

The other day you asked Harris to look into what bonds the F. D. I. C. - you want to sell something; he's looked that up. In the meantime we have got an order that came downstairs to buy six hundred thousand dollars worth for Government Life. We

- 8 -

have been holding up the purchases for that account. On the other hand they say Government Life wanted to get the money invested.

H.M.Jr: Put it in two per cent bonds.

Lochhead: I thought Bell would be here this morning. We will continue that with, at least, no further investments.

H.M.Jr: Government Life; we'll invest it for them. It's silly to put the money into anything else.

Lochhead: Nothing else.

H.M.Jr: Harry? Listen, Harry, when are you going to give me a trial run on this Hill and Valley Committee?

White: We'll work on it today, perhaps.

H.M.Jr: Am I going to see it before tomorrow?

White: I'll work on it today; before you go home tonight.

H.M.Jr: I might want to see it after supper.

White: It will be ready before then.

H.M.Jr: Have you got anything on tonight?

White: Not so far.

H.M.Jr: Keep it open, will you please.

Gibbons: (Nods "Nothing.")

H.M.Jr: John?

Hanes: Do you want to see these recommendations of the Social Security? They are going to the President, I think Altmeyer told me yesterday, Monday or Tuesday of next week. Do you want to see what he's preparing to recommend to the President?

H.M.Jr: I would like to.

Hanes: I'll have the information for you; I think we'll have all the recommendations in by four o'clock this afternoon, so I'll give you a memorandum on it tonight.

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H.M.Jr: What I thought, talking at four o'clock, I thought at four o'clock this afternoon, if you and Haas and Taylor will come in, I'd like to see the three of you, to get the benefit of what you find. You busy?

Hanes: I have a meeting with this Social Security crowd at four o'clock in my office.

H.M.Jr: Could you make it four thirty?

Hanes: I'll try; I'll see what I can do. There are eight people coming to that meeting.

H.M.Jr: I'll tell you what I'll do.

Hanes: You might be through before four o'clock.

H.M.Jr: The minute I get back from Welles' I'll see you people. If necessary, I'll see you after four. All you've got to take is exactly three minutes. How's that?

Hanes: Fine. Fine.

H.M.Jr: As soon as I come back from Welles' I'll ask to see you three gentlemen and all you've got to say to me is you do or you don't; you see what I mean?

Hanes: Yeah.

H.M.Jr: O. K.

Hanes: Fine.

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

Taylor: The Export-Import Bank, at its meeting yesterday evening - Jesse's ready to go over with you whenever it is -- passed their resolution.

H.M.Jr: Well, will Jesse call me?

Taylor: I don't know; it was all he said. He was going over to the White House today.

Oliphant: He said he was going, didn't he?

Taylor: Yes.

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H.M.Jr: I think I'll wait until he calls me.

Oliphant: He also drafted a publicity

H.M.Jr: He showed me that.

Hanes: What was that?

Taylor: A press release. I think State will want to change it a little bit.

Hanes: You better read that memo I gave you last night before you give anything out to the press.

H.M.Jr: What's that?

Hanes: What he said at the Cabinet meeting.

H.M.Jr: But I disagree with it. What I'll do, in order to carry it out, you tell Jones the President has his own idea. He ought to clear that publicity statement with Steve Early. That takes care of us. Tell him, at the discussion the President had his own idea, so in order to be sure it is agreeable he'd better show it to Steve Early.

Taylor: You'd - when you go over together, why if you're going over together

H.M.Jr: I may forget about it. -- I won't forget about it.

Taylor: I think that's better.

H.M.Jr: That, and the publicity, show it to the President.

White: Your ideas in respect to the publicity was in accord with the meeting last night.

H.M.Jr: Well, this statement is gotten out by the R. F. C.; it's a statement of the Reconstruction Finance Corporation - the announcement on the part of the Export-Import, and saying what it is for - a perfectly plain statement, and in perfectly simple English, and I am for it. Hanes is right to bring it up, but I told Welles over the phone I disagreed with the President. I think we can cover it by telling Steve this is what the President wants and let him get a clearance with the President.

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I am glad you brought it up. I would not have -
I'd have taken it on my own.

Taylor: It was understood last night there would be a
clearance on the publicity.

H.M.Jr: With the White House? O. K. That's all right.
I disagree with the President a hundred per cent.

Hanes: I think you're right, too, but I think he ought
to be persuaded out of that position.

Taylor: I don't think that will be very difficult.

Hanes: I don't think so.

Oliphant: What's the next step, Wayne?

H.M.Jr: The next step is wait till Jesse calls me up and
asks me to go over it with him. The reason is that
Jesse - you never know; he might feel well; he

Taylor: might want to go over alone. I don't know that
he wants me. I want to be invited. I'm very
sensitive about it.

Taylor: I'll be your social secretary for it.

H.M.Jr: He might wake up this morning with the wrong -
"Henry, can't I get a clearance with the President."
I am serious; I mean, "I'll clear it; Henry doesn't
have to do it."

Lockhead: If the R. F. C. has officially cleared that, I
have been holding a little memo I think for about
a month and a half.

Oliphant: Well, wait a minute.

H.M.Jr: You've got the President's initials on it?

Lockhead: The bet was the R. F. C. Export-Import Bank bears
it. See what it is labeled.

H.M.Jr: Chinese Sweepstakes. By the way, was it unanimous?

Taylor: Surely.

H.M.Jr: Did the State Department vote on it?

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Taylor: (Nods "Yes.")

H.M.Jr: This way is - how was it? It doesn't say how it is.

Lochhead: Yes, the initials on it - took the vote there - three.

H.M.Jr: H. M. J., no; White, no; H. O., no. "Yeses" are Hanes, Lochhead, and Foley. So each of you get seventy-five cents.

Chauncey: Fifty cents.

Hanes: I'll take mine now. (Laughter)

H.M.Jr: All right.

Hanes: Did you see what Archie said?

H.M.Jr: What?

Hanes: That "I never worked so hard for a quarter in my life."

Oliphant: I have one more question. Assuming the President approves, what is the next step before our friend gets away to Cuba? We don't want to get sewed up and tied up before he leaves.

Taylor: Well, I think this contract has to be worked out in final form.

Oliphant: Can't it be set up so we can go ahead and operate, even though he is down in Cuba?

Taylor: Oh yes.

H.M.Jr: Are you sure?

Taylor: (Nods "Yes.")

Oliphant: It ought to be mentioned to him specifically.

H.M.Jr: Is Pierson coming at eleven?

Taylor: Yes.

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H.M.Jr: I'll tell him, then; you tell him too. O. K.,
I can do it.

Anything else on China?

Taylor: I think that's about all.

H.M.Jr: I never lost a quarter so cheerfully.

McReynolds: You're getting awfully extravagant. It used to
be nickels and dimes, and now quarters.

Hanes: We didn't have any change that day.

H.M.Jr: Well, I just want to thank everybody for the help.
There's nothing happened around the Treasury which
makes me happier than to see the Chinese get this
thing, and there is still just a slight chance that
maybe the deciding factor in the Pacific, and
Cochran had breakfast with me this morning, and I
told him when he goes back, from now on, as he
travels around, keep asking questions of Swiss
bankers and Dutch bankers, and French bankers,
about China and South America, because all those
things run in there. He's going to call you for
authorization to travel after the first of January.
As he goes on, he knows the Swiss banker made the
loan to Brazil. As he goes around, keep asking
questions. I told him to keep his ears open on
Indo-China.

By the way, would you ask whether we have a
Consul at Hai-Phong.

Taylor: We haven't one. And they have one - at the only
place that you wanted covered, the only one they
had a Consul at is at Rangoon. They haven't one
at the rail head but they are sending a man down
into Indo-China to look the situation over with
the view of recommending whether or not there
should be a Consul at Hai-Phong.

H.M.Jr: Would you tell them, if they haven't got the money,
I'd pay for one for six months; I'll make a com-
mitment for six months - his expenses and salary
at Hai-Phong, and one at Rail Head, too. I'll pay
for both. They've got a lot of young fellows;
you know it will be swell training for somebody
that has just come through the thing, see? I'll
pay for one at the rail head, and one at Hai-Phong,

- 14 -

which is where the Indo-China Railroad starts, isn't it? At Hai-Phone? At the Red River, is it?

Lockhead: Yes. Yes, that is the one that goes up to Hai-Phong; that is the railway for the French.

Taylor: The other thing is, they are reporting by air mail every day as to traffic, and so on, that they see, and they send copies of that over to us, which will come here for the first time, today, I guess it is, with the idea that that may be good enough, rather than do the cable job.

H.M.Jr: All right, but they are getting copies every day as to traffic over the Indo-China road, and the other one?

Taylor: They are getting air mail letters. It may not be daily, but I understood it was practically daily.

H.M.Jr: On the Indo-China Railroad?

Taylor: They have got a man in Indo-China, not definitely at the post.

H.M.Jr: I'd like one at Hai-Phong. It's important to me to have one at Hai-Phong and one at the rail head at Bhamo. I'd be glad to pay for two men, six months each.

Now, who told me last night about this?

Duffield: (Raises hand.)

H.M.Jr: What about those two fellows?

Duffield: I asked what they were saying and prior to Mr. Taylor's call over there they were saying these two men had gone down there for the purpose of obtaining certain information on matters largely of a technical nature concerning trade relations, particularly matters of exchange, and since Mr. Taylor's call they have changed it to "particularly matters of exchange control."

H.M.Jr: You were a hundred per cent successful. Well, do you mind if I call Sumner on that myself?

Taylor: No. What they are really doing is having a vacation down there.

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H.M.Jr: What are those two fellows' names?

Duffield: Fowler - F-o-w-l-e-r - and Sappington - S-a-p-p-i-n-g-t-o-n.

H.M.Jr: Sappington. You mind if I call Sumner?

Taylor: Not at all.

H.M.Jr: I think this is very funny.
(Over telephone:) Mr. Sumner Welles, please.
All right.

Haus: I have nothing this morning.

Duffield: Just that.

Oliphant: With a view to avoiding that difficulty with reference to Sudeten Territory, we are going to have the same thing....

H.M.Jr: I can't hear you.

Oliphant: I say, with a view to avoiding the difficulty we had with Sudeten Territory, we are going to have the same thing with Poland and Hungary - what they've taken - and we are proposing to issue prestige to the effect when we get this notice from the State Department, if, as, and when we get it, we have to apply the same rule, so we have put the shipping industry on notice.

H.M.Jr: Whose name is on that?

Oliphant: This is under the Commissioner of Customs, and it's been over to the State Department and they have approved it.

H.M.Jr: O. K. There is the statement if you want to see it.

Oliphant: It will go through Gaston.

Gibbons: You mean, issued today, Herman; don't know when State Department will give us clearance.

H.M.Jr: Everybody happy?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1938

TO Secretary Morgenthau

FROM Mr. Taylor

Senator King called me on the telephone, largely for the purpose of repeating the conversation which he had had with you on the question of silver. I gathered that he felt that as long as we maintained the domestic price it was quite agreeable to him to see the foreign price reduced and, in fact, purchases could cease. He was curious as to what action would be taken and I had nothing to offer, but thanked him for the expression of his views.

The newspaper boys have the story on the Chinese credit. I did my best with the three who talked to me to hold them off. However, they have the details of the amount, the fact that it has been approved by the Bank and the R.F.C. and is now awaiting final approval by the White House. There were quite a few people at the meeting yesterday so that we can suspect Commerce, State and the R.F.C. if we want to. However, the fact remains that there will unquestionably be pretty educated guesses in the morning papers,

W.T.

EDA

CHUNGKING VIA N.R.

Dated December 14, 1938

Received 4 a.m. 15th

Secretary of State

Washington

599, December 14, 9 a.m.

The CENTRAL DAILY NEWS on December 11, commented on the Ambassador's trip to the United States, saying that it will have a far-reaching effect on the future of the Far East as well as on the prestige of the United States. This journal remarked that Japan is seeking first of all to wipe out western prestige in the Far East and that if America is to protect its interests and prestige in the Orient positive action is the only way out because protests and declarations have proved insufficient. All American needs to do, this organ remarked, is to adopt retaliatory economic measures against Japan and provide economic assistance to China; military action is not necessary. The article concluded with an appeal to the United States to express through action its denunciation of Japan's solution of the Nine Power Treaty.

The TAKUNG PAO on November 13 published a long article on American Far Eastern policy which reached the conclusion that

EDA - 2 - #599, December 14, 9 a.m. from Chungking

that in the light of traditional American policy and of obvious Japanese ambitions, the time has come for the United States to adopt a positive policy based upon the principles set forth in the President's speech at Chicago in 1937. This journal remarked that the time is ripe for international cooperation in the maintenance of legal principles, that only America is qualified to lead this movement and that the present and future happiness or misfortune of the world will be determined by the question of whether America can accept the responsibility of this leadership.

No (repeat no) other noteworthy comments on the Ambassador's departure have appeared but the Embassy has learned that in official circles there is much speculation regarding steps that may be taken by the American Government following consultation with the Ambassador.

Repeated to Peiping for mailing to Tokyo.

PECK

RR

Personal

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

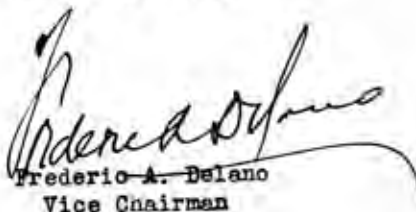
December 14, 1938.

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

My dear Mr. Secretary:

I have been over with Mr. Ruml the preliminary draft which he and his committee have been working on, and I can assure you that in general terms I am in agreement with it; but I am sorry I can not be at the meeting tomorrow morning because I have the regular monthly meeting of the Park and Planning Commission at which I have to preside.

Very sincerely yours,


Frederic A. Delano
Vice Chairman

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE DEC 14 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

The public hearings involving the patent situation in the glass industry continued to-day with representatives of the two largest producing companies on the stand. The fact that the industry is dominated by a very small group and that it is, as a practical matter, impossible for any new entrant, however financially responsible or capable, to enter the field except with the permission of the dominant group, has been illustrated so often that its repetition is becoming somewhat monotonous. The manner in which the existing concentration was attained is only less clear, and it is abundantly evident that control of patents in the industry has been a decisive factor in the development.



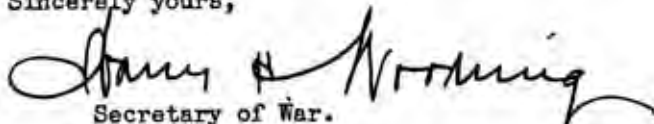
WAR DEPARTMENT
WASHINGTON

December 14, 1938.

My dear Mr. Secretary:

I have been very much interested in examining the confidential memoranda regarding the Chinese situation which was enclosed in your letter of November thirtieth. I appreciate your thoughtful courtesy in sending it to me.

Sincerely yours,


Secretary of War.

The Honorable

The Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant.


December 14, 1938

Aubrey Williams telephoned me this morning, and I confess some difficulty in getting his point. He said that yesterday he was discussing with Mrs. Roosevelt, or she was talking to him, about the policy which the Treasury pursued in determining whether gifts to charity were taxable. I said that the Treasury could only follow the legislation as interpreted by the courts, that there was a multitude of decisions on the question, and that it was too complex for the whole Treasury legal position to be stated in a word. He then suggested that I telephone Mrs. Roosevelt and tell her what our policy was, or that I write her a memorandum.

I tried to find out what specific case was involved, but he was quite vague, although he did mention a proposed gift by the Good Will Foundation to the Youth Congress.

I shall handle the matter any way you say. I could, of course, write Mrs. Roosevelt a dissertation on the subject if that was desired. There is too much law involved to state it all on the telephone.

In the meantime, I am looking into the Good Will Foundation case to ascertain its status in my office and its merits.



An order of September 13, 1938, issued by the Secretary of the Treasury, transferred to the General Counsel for the Treasury Department the control of the legal work of the Office of the Comptroller of the Currency. The order provides also that the Secretary of the Treasury shall pass upon all changes in the legal staff and in their salaries. The legal authority for this order is clear and may be briefly outlined as follows.

It is clear that the Secretary of the Treasury has control over the administrative functions of the Comptroller of the Currency. This appears from the debates in Congress in 1864, when the statute creating the Office of the Comptroller was enacted, and from the terms of the statute itself as interpreted by the courts and the Attorney General. It appears from the debates that an effort was made in the House of Representatives to make the proposed bureau independent of the Secretary. However, all amendments designed to accomplish that purpose were rejected. Moreover, the statute expressly provides that the Office of the Comptroller is a "bureau" in the Treasury Department and that the Comptroller shall perform his duties under the general directions of the Secretary of the Treasury. The amplitude of such control by the Secretary has been emphasized by the courts, and the Supreme Court has said that national banks are subject to the "supervision and direction of the Comptroller of the Currency and of the Secretary of the Treasury." Also, the Supreme Court has given a like construction to a statute which placed the Commissioner of the General Land Office under the direction of the Secretary of the Interior. In 1912, Attorney General Wickersham informed the President

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that the Comptroller of the Currency, in the exercise of his administrative and executive duties, must be subject to the control of the Secretary of the Treasury since otherwise the provision in the statute that the Comptroller perform his duties under the general direction of the Secretary would amount to nothing.

It is apparent also that the general regulatory power of the Secretary extends to the supervision and control of the legal staff and its work, including the rearrangement of the legal machinery of the Department and the appointment of attorneys or the approval of such appointment. Not only is that true as a matter of Governmental efficiency and responsibility, but it also follows clearly from the express language of a provision of the Revised Statutes of 1873, which authorizes the head of each Department of the Government to regulate the distribution and performance of its business. It has been frequently held by the courts that the appointment and removal of members of an administrative staff is the exercise of an administrative or executive function.

Moreover, the Secretary's control over the legal staff and its work is fortified by the law creating the Office of the General Counsel for the Treasury Department which states that the General Counsel shall be the chief law officer of the Department and shall perform such duties as may be required of him by the Secretary. Under that statute and an order of the Secretary issued in 1934, the General Counsel has supervised the legal work of the Bureau of Internal Revenue, the Bureau of Narcotics, the Coast Guard, the Bureau of Customs, the Procurement Division, etc. The extension of the supervision of the General Counsel, by the Secretary's

order of September 13, 1938, to the legal business of the Bureau of the Comptroller of the Currency merely followed an established mode of procedure, and was fully authorized since, in its relationship to the Treasury Department, that Bureau occupies a position no different from that of the other bureaus of the Department mentioned above.

RE ASSISTANCE TO BRAZIL

December 14, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead
Mr. Pierson
Mr. Livesey
Mr. Briggs
Mr. Woodward

H.M.Jr: I'll have to do my homework. Everybody seen this?

White: (Nods yes)

H.M.Jr: Has Pierson seen this?

Pierson: Yes.

H.M.Jr: In the first place, has the State Department decided the letter should go right back to Souza Costa?

Taylor: They have a recommendation to make to you as to how it should be handled. Mr. Briggs, I think, will give that to you.

Livesey: Your idea about sending a letter - Mr. Briggs, who is of the diplomatic side, suggests getting this off by mail and then telling the - giving this a little head start, then calling in the Ambassador.

H.M.Jr: Whatever you people think is right, I'll accept.

Livesey: Mr. Welles, of course, would like to see the draft - completed product before it goes.

H.M.Jr: Fine. (Starts reading proposed letter)

Just a little thing. The first three paragraphs start with "I." I think we might change that.

(Continues reading)

Just a small thing, the top of page 2 - "for the payment on purchases of needed economic equipment" - can you give me a better word?

Pierson: "Productive."

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H.M.Jr: What?

Pierson: "Productive."

H.M.Jr: That's all right; I don't like the word "economic."

Briggs: Of course, "productive" would rule out armaments.

H.M.Jr: Pardon me?

Briggs: "Productive" would rule out armaments, which is one of the things they want.

H.M.Jr: I question whether ...

White: You need have no adjective - "needed equipment" if you like.

H.M.Jr: It has to go - the President would decide if he wants to make loans for armaments. Personally, I haven't been thinking in terms of armaments. I've been thinking in terms of productive equipment.

Taylor: I think say "productive equipment" and the other one could be handled in conversation.

White: Armaments could be construed as productive, as a policeman's club, if you wish.

H.M.Jr: Why need any adjective?

Taylor: I think it's better to have it.

Pierson: I've been emphasizing this type of financing as much as I could.

H.M.Jr: Which way, please?

Pierson: The productive feature.

H.M.Jr: It's all right with me. That makes sense.

Taylor: I think much better to have it productive; then if you have to move away from that, you can.

H.M.Jr: I don't like the word "economic."

White: Ill-chosen word. Since I put it there, I can say that. Oh, I know why it's in there - because he

-3-

put it in. I remember. I used the exact word. But we can leave it out.

H.M.Jr: I don't like it.

White: I was wondering why I had it in. I've got my alibi.

H.M.Jr: On three, "I need not assure you" - I'd leave out the words "need not." What? The last - just leave out the words "need not." "I assure you."

It's all right. It can be refined, but I'm willing to take it as it is. I think it's a good letter; I think it's a good letter. Just those few little suggestions. And I think like all these things, you can spend hours over them; but this covers everything I had in mind.

I haven't had a chance to talk to Mr. Pierson. How do you feel about the general idea?

Pierson: I think it's good. I just heard of it yesterday. I think it's excellent.

H.M.Jr: The idea back of it was this. Just take a minute. I went to the President and Mr. Hull and said, "I'd like to try, see if I really can't do something with the Secretary of the Treasury of Brazil particularly, just concentrate on that, if it's all right with you." They both said, "Fine, go to it." I thought just to concentrate on this one country, see what we could get out of it.

Pierson: Well, it's one of the great countries down there and it's one that is most friendly to us. Good place to start.

H.M.Jr: And has greatest possibilities, doesn't it?

Pierson: I'd make Colombia a pretty close second. They're in pretty close

H.M.Jr: Their things are in good shape, aren't they?

Pierson: Yes, they are.

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H.M.Jr: Do they need loans?

Pierson: Yes, they need equipment loans and loans for electric power, railroad loans.

H.M.Jr: Well, I thought I'd just concentrate on Brazil for the time being.

Well now, I think we'll do this. I think that you might - if the State Department would show this to Mr. Welles, and if he has any changes, if you could bring it back - I think see all of you tomorrow - if you get it back in Mr. Taylor's hand, see?

I think it would be a nice thing, Pierson, to show this to Mr. Jones. I mentioned this to him yesterday. He's home sick today.

Pierson: Yes.

H.M.Jr: But I think if you - have you got a draft?

Pierson: Yes.

H.M.Jr: It's important enough. I'd like him to take a look at it, see if he has any suggestions.

Pierson: I'll be glad to do it.

H.M.Jr: Just bring word back to Taylor. I'd like to know.

Taylor: We'll give you a clean draft of it.

Pierson: Yes.

H.M.Jr: But you (Livesey) don't need anything

Livesey: No, we can take care of that very handily.

H.M.Jr: Now, as to the method. I'm to write this to Mr. Souza Costa, put it in the air mail, and then if we got, say, a clearance tomorrow, then maybe Monday I'd send for the Brazilian Ambassador. Is that the idea?

Briggs: If you got it cleared tomorrow, that would be about the right thing - time; I can check on when it would

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get down.

H.M.Jr: Well, we could - you want it to get there before I see him, is that the idea?

Briggs: Either just before or else have you see him on the same day when it would arrive.

H.M.Jr: And would I show him the letter I got from Mr. Souza Costa at the same time?

Briggs: Certainly wouldn't see any objection to it, would you (Livesey)?

Livesey: No.

H.M.Jr: Why do you suppose - is this fellow, so to speak, an exile, this Ambassador, sent up here as a political refugee?

Briggs: No.

H.M.Jr: Huh?

Briggs: No. No, I think it would be desirable to cooperate closely with him. But I think your main man is down there.

H.M.Jr: All right. Then I'll do it. And I think the thing to do is this. Ask Mr. Welles if he could let us know, say, by noon tomorrow whether this is all right. Mr. Jones the same.

Pierson: I'll do that.

H.M.Jr: Huh?

Pierson: I'll see him today.

H.M.Jr: And then get it back to Mr. Taylor. See, we don't know what will come out of this thing, but at least we - what I've done - I've accomplished this much: I've established direct connections with Souza Costa. Don't you think he's the fellow?

Briggs: Well, he and Aranha. I don't know which - there's a little jealousy, see?

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Taylor: Aranna will know about it if we let the Ambassador here know; and also you will send copies of that down to our Embassy, so they'll be informed.

H.M.Jr: Well, I think it's all to the good, it's all to the good. The way I feel - I'll tell Mr. Pierson the way I feel - I just feel this way: if X country goes in there from Europe and says, "We'll lend you the money at five percent for nine years," I think we ought to say, "We'll lend it to you for ten at four and a half." Whatever they do, we ought to go just a little bit better.

Taylor: We thought we'd like to go quite a lot better. That's why we started giving that twenty - because that's the one thing that we have to sell that the other fellows haven't got. Well, let's go way out on the end there.

H.M.Jr: I'm delighted to be pushed out on the end.

Livesey: That's on an amortization basis.

Taylor: Oh yes, regular amortization. But the last payment - why, as long as the payments are kept up, you don't give a damn how long it is; and the other fellow does.

H.M.Jr: Well, I'm all right on this.

Robert Forbes Woodward
Foreign Service Officer of the United States of America,
Division of American Republics
Department of State

December 13, 1938.

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My dear Mr. Minister:

^I
(We) have read with great interest your communication of December 2, 1938 regarding financial cooperation between the United States and Brazil.

^{I am}
(We are) pleased to note that you feel that your nation is approaching more and more a situation where you will be able to reestablish free exchange markets. I also note with interest your expression of the principal aims of your financial and economic policy which would ensure the relative stability of the milreis, not only in the internal but also in the international markets.

We are particularly glad to note your intention to establish a Central Bank for Brazil and we look forward to close cooperation between that institution and the appropriate agencies of this Government.

As I have already made known to you, this Government is desirous of cooperating with your Government in achieving the desirable economic objectives set forth in your communication. The form of this Government's cooperation would necessarily be dependent upon a more definite understanding of the general economic program which your Government contemplates, and a detailed explanation of the present financial situation of your Government.

His Excellency
Arthur de Sousa Costa,
Minister of Finance,
Rio de Janeiro, Brazil.

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In answer to your specific inquiry relating to the maximum length of time which could be granted to your Government for the payment on purchases of needed ^{economic} (productive) equipment we can say that in our thinking of the problem we have assumed that arrangements would be such as would be most appropriate to the objectives and to the conditions under which the program is to be executed. In some cases, for example where the equipment purchased will have a very low rate of depreciation, it is expected that the period of amortization may be as long as twenty years. On the other hand, where the equipment is short-lived, naturally the terms would call for shorter maturities.

Much, too, depends upon the comprehensiveness of the entire program of economic reconstruction which you are planning and the circumstances under which this program is to be undertaken. It would be necessary, of course, to consider the long term as well as the short term factors with respect to the general economic position of Brazil at the time credits are arranged. Obviously such factors as the appropriateness and effectiveness of contemplated changes in your monetary system, stability of exchanges and the status of your international balance of payments would need be considered.

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I need not assure you of my personal gratification at the renewed expression of your Government's wish for increasingly effective cooperation between the United States and Brazil.

Sincerely yours,

RE CHINESE LOAN

December 14, 1938.
11:15 a.m.

Present: Mr. Taylor
Mr. White
Mr. Lochhead
Mr. Warren Pierson
Mr. Livesey
Mr. Briggs
Mr. Woodward

H.W.Jr: I want to talk to you (Pierson) a minute about this Chinese thing. Are we all right on the Chinese thing? Anything you want to ask me? This moving all right?

Pierson: Yes, one thing I want to ask you.

H.W.Jr: Please.

Pierson: I understood you and Mr. Jones, or you, were going to get some approval in the form of a resolution

H.W.Jr: Now, in view of Mr. Jones being ill, he asked Mr. Hanes to come up to see him on a banking matter. So I told Mr. Hanes to make this suggestion: if Mr. Jones felt that he wasn't going to be able, I'd be glad to handle it the way we always handle it here - the formal things, written in a formal way; Mr. McReynolds, my administrative assistant, will go over to see the Chief Clerk at the White House, Mr. Forster, and ask Mr. Forster - give Mr. Forster two things, the resolution and the publicity release, and ask whether the President would initial - get a clearance on the publicity.

Hanes is up there now with Mr. Jones. If he wants to handle it that way, it's all right, or does he want to wait until he, Mr. Jones, can see the President himself? So they're up there now, and that's - if Mr. Jones feels he can't get out for a day or two, I take it my Mr. McReynolds will walk across the street and see Mr. Rudolph Forster and say, "Mr. Jones and Mr. Morgenthau would like a clearance on two things, the Bank's resolution and

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the publicity." So if you would tell Hanes's office to call you when he gets back, he'll tell you what the decision is. Is that all right with you?

Pierson: Fine.

Taylor: Warren's going to Cuba, sailing on Friday. Or are you going to fly?

Pierson: Take a train to Miami, fly from there.

Livesey: Mr. Secretary, are the State Department's interests taken care of in regard to publicity?

H.M.Jr: I wouldn't worry about the State Department's interests. What do you think we should do?

Livesey: The publicity thing - of course, we want to know what's coming out, and I raised a question in the meeting last night about whether or not there should be some mention that this is not - does not have to do with arms and ammunition. I just raise this question.

H.M.Jr: That's the purpose of having the State Department sit in here, is to advise me before it's too late.

Pierson: We have a different idea.

Taylor: We have a commitment to the State Department that we will show the press release to them before it goes out.

H.M.Jr: Well, when you go out would you leave that message in Hanes's office, so that ... - what?

Taylor: (Nods yes)

H.M.Jr: Because it might - well, I didn't know about it; I mean I didn't make such a commitment, but if you have I'll live up to it. Will you (Taylor) carry that?

Taylor: (Nods yes)

H.M.Jr: Because it might perfectly well go over there and get a clearance and pop out. I didn't know about that.

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So what else is there?

Taylor: Mr. Jones did, though.

H.A.Jr: Pardon?

Taylor: Mr. Jones did, because he was there at the meeting.

H.A.Jr: Well then, he'd know about it.

(Discussion is carried on
re Cuba for several minutes;
this discussion transcribed
separately)

And there was something else on the China thing.
You know that they've got two thousand tons of
tung oil which is arriving, worth \$800,000.

Pierson: Yes.

H.M.Jr: Use half a million of that for capital; the other
three hundred thousand is going to be earmarked
for future interest payments, not going to spend
it.

Pierson: I knew that.

H.M.Jr: And I think it's - I mean Chen is behaving beauti-
fully, and I wish they were all as good - like
Chen.

White: An interesting comment at the meeting last night
that probably might be appropriate. Patterson
wanted to know who the
never heard of them, and he has considerable
familiarity with China.

H.M.Jr: Who?

Pierson: Patterson.

H.M.Jr: Who's he?

Pierson: He's the Treasurer of the Export-Import Bank.

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White: And Wayne told him that K. P. Chen - and the minute he heard "K. P. Chen," K. P. Chen's name, he said, "Oh, it's all right, he's first rate."

Lochhead: Mr. Chen, in fixing up that company in China, said he'd give Mr. Kung all the directors he wanted. He said he wouldn't fight Kung on three directors as long as he could appoint three other directors.

H.M.Jr: as long as who could?

Lochhead: Chen. So he appointed three others - merchant, tin man, tung oil man.

White: Apparently Chen's reputation is pretty good there.

H.M.Jr: Oh yes.

Lochhead: Of course, Chen feels very strongly that he is personally responsible to you.

H.M.Jr: I told Chen - I've had him a couple times alone for tea at the house - I've just drilled this thing in. "Now, Mr. Chen, it's your personal honor and credit that I'm doing business with. I'm just counting on you as a Chinese gentleman. That's what I'm counting on." And he's got that.

White: His health is apparently better, too.

H.M.Jr: And his health ... And I just keep saying, and I'm very sincere - I mean I wouldn't be doing this at all if I couldn't have K. P. Chen personally staying here and seeing this thing through.

Have you (Pierson) got something else?

Pierson: That's all.

H.M.Jr: Thank you very much.

RE FINANCIAL ASSISTANCE TO CUBA

December 14, 1938.
11:25 a.m.

Present: Mr. Taylor
Mr. White
Mr. Warren Pierson
Mr. Livesey
Mr. Briggs
Mr. Woodward
Mr. Lochhead

Taylor: Warren wants to talk to you a little bit about his trip to Cuba.

H.M.Jr: Fine. Let's go ahead on Cuba. These people are all interested, aren't you?

Briggs: Very.

H.M.Jr: All right, go ahead.

Pierson: I don't know how much you know about it, Mr. Secretary.

H.M.Jr: I know practically nil.

Pierson: We received letters, to which I understand the White House has agreed to give thoughtful consideration, involving expenditures in Cuba of approximately four and a half million dollars for public works. The State Department and ourselves have studied the suggestions and have made very drastic reductions in a preliminary way.

H.M.Jr: The State Department has.

Pierson: And our - and the Bank.

H.M.Jr: I see.

Pierson: This thing has never been considered by the Bank's board or even by its executive committee. But the officers of the bank, in connection with the Treasury and State Department, have done a lot of talking and thinking about it.

There appears to be one major project in Cuba which could properly and safely be undertaken, and that is a highway and a waterworks - more or less of a

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revenue-producing nature there, with waterworks in two or three other towns and perhaps some small radial highways which will connect with the central highway which runs down the length of the island.

It was my idea, Mr. Jones' idea, that I should do what I could to learn all possible about these several propositions, then come back here and everybody talk them over before anything in the nature of a firm commitment was put out.

H.M.Jr: Well, I - I mean I again - I don't know how much Taylor knows about it, but I know nothing, know nothing about it. This is really - and if I don't know it, it's just because I've been busy and

Piereson: If anybody has any advice or counsel for the peripatetic emissary of the Bank, I'll be glad to get it.

Briggs: I think it might be useful to state confidentially, Mr. Secretary, that this preliminary offer of assistance is a contingent one, contingent upon Cuba's taking two actions: one, paying up the public works debt which has been in default in whole or in part for the last five years; and two, undertaking a revision of the entire tax system. In regard to two, the Cuban Government has arranged, through Mr. Taylor and Mr. Welles, to have Roswell Magill go down; he's going - arriving there two days after Christmas.

Taylor: Mr. Morgenthau.

H.M.Jr: Well, I

Briggs: I beg your pardon.

H.M.Jr: "The Treasury" would be correct - "the Treasury help."

Briggs: So he's going down on that. And the question of whether or not the financial assistance is granted really depends on Cuba's putting its own house in order in regard to those two points. We assume that they will; they assured us that they will.

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H.M.Jr: You're perfectly conscious of the fact that in my dealings with Souza Costa I'm not saying anything about their debt to our private citizens.

Briggs: (Nods yes)

H.M.Jr: I mean so - I mean - I mean I think I explained my position, didn't I?

Briggs: (Nods yes)

H.M.Jr: And if I may say so, for my own - I think that - I want to choose my language very carefully - well, when a government plays a role of - when a quasi-governmental banking-lending agency is used as a leverage to collect private debts - I personally would think twice about it. I mean I'd just ...

Briggs: This wasn't put on the basis of a cuius pro quo, but on the basis of creating a situation in which it would be possible to give sympathetic consideration to assisting them.

H.M.Jr: Well, I'm just throwing that out. I mean there's a - well, I mean I have always - I think you might just as well know how I feel. I mean I just stressed - at the time when we originally made the loan to China, that they were held up while they paid back five million dollars to the Continental Bank of Chicago. I mean the thing was held up. Do you remember?

Livesey: (Nods yes)

H.M.Jr: And there was a difference of thought, and I realized that there was the difference. But I just - as long as I've been told this, I mean, I would - I think it ought to be given consideration how - I want to be very - I don't want to use the word "ethical" - but now wise (that's a good word) it is to use a government bank as a possible lever to collect private debts.

Pierson: Well, I find my views on that coincide with the Treasury's.

H.M.Jr: You do?

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Pierson: That we've used the Bank, or tried to use the Bank, repeatedly in that direction. It hasn't done any good, incidentally.

H.M.Jr: And don't misunderstand me, gentlemen. I mean just as long as it's brought to my attention ... And in this question of China we've been so careful not to ask for anything in return. In fact, the only thing we have asked for is in line with the President's own suggestion that if they hire foreign engineers for the railroads or highways, that it would be pleasing to us if they were Americans; that's the only suggestion we have made.

Livesey: That Continental Bank case - of course, there was an unusual record of the Department of State, Secretary Lansing, I think, having written letters encouraging these people to go in. And on one occasion when we just had written a note and handed it out to the press saying that we consistently did not undertake negotiations on behalf of private debtors, in walked somebody with a case - some reference to this thing - I've forgotten ...

H.M.Jr: What?

Livesey: Saying things in the Far East, particularly China, go by opposites, you can say that the Department consistently has not done a thing - absolutely ignoring what we have done in the Far East, because there everything is the opposite and different. So, for whatever value that may have, they - the Far East people tend to make out that our governmental agents over there are on a different basis from what they are over here.

H.M.Jr: Well, as long as it's important, and if I said nothing you might be led to believe - and Pierson was asking for suggestions - that I acquiesced in that theory of approach; and I don't, and I personally feel quite strongly about it. I mean that's

Pierson: I think in Cuba, Mr. Secretary, what we're all trying to do is to determine whether it was wise to make the loan; in other words, whether it was a sound proposition to enter into.

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H.M.Jr: Well - I mean when you come back

Pierson: Unless there would be certain other things that
might not be sound.

H.M.Jr: When you come back, I'd love to see you - when you
get back.

RE REVENUE ESTIMATES

December 14, 1938.
4:30 p.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Haas

H.M.Jr: Did you come to an agreement? Didn't you fellows work together?

Taylor: Oh yes. Better let John make the speech, you see, because from the psychological standpoint I agree with him very completely, and then there are other aspects to it.

H.W.Jr: Make it a short and snappy speech.

Hanes: Well, has Wayne

H.M.Jr: Nobody's said anything.

Hanes: No? I can tell you my position fairly quickly on the thing - is this. These fellows here have been over these estimates - I'm thinking now primarily of the income tax estimates - they've been over those things with such a fine-tooth comb that there is only one question left in my mind at all, and that is on their estimate of 1939 income, which must be taken in conjunction with the 1938 income, that is, the fiscal - I mean the calendar year of 1938 and '39 must be taken in order to get the estimated income for 1940.

H.M.Jr: Yes.

Hanes: Now, the 1938 figure I haven't any argument with. The 1939 figure is - shows a very, very slight increase over 1938 in their calculations. They base their calculations on an F.R.B. of 100; their Bureau of Labor Standards commodity prices they're taking at 77.5. Now, those two factors, it would seem to me - well, the general price level has more influence upon income than the business index figure; if we had, in other words, a B.L.S. figure of 85 instead of 77, then I'd say this figure here is out, all out of kilter, because with an increasing

-2-

business situation, plus a rising price situation, we'd have an ideal prosperity staring us right in the face. We haven't got that, however, and our B.L.S. figure is on the way down and we're getting lower prices for commodities today than we were a year ago. For that reason I'm not inclined to argue with their figure. But my own - I haven't anything to base it on, but my own feeling is that that figure for 1939 is not optimistic from their standpoint. They're not making - they don't claim it's optimistic. They say, "We're being conservative on that," but I think - the point I'm making is that they've got every reason to be conservative, making that figure, because of this falling commodity and - index price figure.

I can't take issue with them on any other point except that one. I said to them that I'd like to see them be a little bit more optimistic about that figure there and give us a little bit better estimate of income for 1939. Well, that would mean simply the addition to our total figures as Donahue (O'Donnell) and George estimate them - about \$200,000,000 more of revenue added to our gross figure, which would be five billion 700 million instead of five billion 500 million, roughly.

Hans: It would be on the five billion 460.

Hanes: Well, that's what I call five billion five.

Hans: That's right.

H.M.Jr: Well now - and you think they could add 200 million to that, on what basis?

Hanes: On the basis of pure optimism - that 1939 is going to be a year of a little bit better prices on a rising scale, and that business - because of this increase in business and of the demand for more goods, we ought to get - I'm hopeful, in other words; I don't say we ought to - I'm hopeful that we'll get a rising price schedule, which will give us a margin of profit which this price range won't give.

H.M.Jr: But statistically it isn't there.

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- Hanes: Statistically it isn't there. It's just guess work. Theirs is guess too; they're guessing that the commodity price index - the B.L.S. figure, they're guessing, is not going above 77.5, that the business index figure is not going above 105. They're figuring on 100.
- Hanes: On an average.
- Hanes: They're guessing. And that 105 - well, Colonel Ayres says 104.
- H.M.Jr: well, more wrong than us.
- Hanes: That's the reason I feel George is right in saying 100 is a fair level. If you get an average of 100 I think you're in pretty fair territory. I don't think anybody can complain at you for guessing on that basis.
- H.M.Jr: Well, he says 100 for the calendar year.
- Hanes: Well, on that, Mr. Secretary, what we did - just as Johnny said, but the price - the level we had in mind was 105. Then we take five off. We have to make some allowance for error both in estimating the business and converting the business into revenue. We could take it off after we made our calculation in the end on the total amount, but instead of doing that we took it off the business index, which makes it easy to calculate new estimates for Mr. Hanes when he wants them up on the Hill - on capital gains, for instance. So you could tell the President the thing was calculated
- H.M.Jr: What do you mean "air"?
- Hanes: Error.
- Hanes: Error.
- Hanes: Error in estimating. There always is a - you always have to make an allowance for an error, and we took it off the business index rather than taking it off at the end, the total amount, because I have certain - several people working on different estimates, and in

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that way it makes it easier for us to estimate what any change in the revenue law would yield. So in reality what you've got there is 105, you see.

Hanes: I'll show you something here which makes an impression on me.

H.M.Jr: How much - how long were you fellows on this?

Hanes: About two hours; we had lunch together on this. In 1936 - these are actual calendar years, not the fiscal years - one billion 200 million; that's the income tax. This is just the income tax alone. In 1937 actual was a billion 150 million. Now, in 1938, from all their sources - and they've got a very carefully broken down schedule - their estimated figure of the total income of 1938 is \$788,000,000. They're figuring in '39, then, on the same calculations, 836. Then the combination of those two go in to make up the '40 estimate of income, 816 million. This is the combined of these two. Here I gave you the 1939 figures.

Now, you see, that figure there is not but just a little bit larger than this figure here. And the reason why they're conservative there is because this Bureau of Labor Standards price level has gone down to 77.3 from 81.

H.M.Jr: But 816 is only a small part of the whole income.

Hanes: This is just the personal - this is just a breakdown showing the personal income tax return, that's all. That's all that is.

H.M.Jr: Excuse me - how much ... - are you through?

Hanes: Go ahead, yes.

H.M.Jr: Do you (Taylor) agree with him?

Taylor: I think that '39 ...

H.M.Jr: Yes.

Taylor: ... that particular figure that they have there, I think, is light. Now how much light it is, God

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knows. But I would say that the difference between your - on any basis of computation, of personal income taxes which will be, let's say, due in 1938 calendar year and 1939 calendar - there's going to be more of a spread between them; how much I don't know.

H.M.Jr: Well, last year I was pessimistic and we knocked off about 125 million, didn't we - two percent?

Haas: Uh-huh, uh-huh.

H.M.Jr: And this year we're talking of - Hanes is talking about adding how much?

Hanes: 200 million.

H.M.Jr: It's just automatic, is it?

Hanes: No, I got that figure from

Haas: He just guessed it.

Hanes: He just picked it out of the air.

H.M.Jr: Who's "he"?

Taylor: O'Donnell.

Hanes: O'Donnell. But he didn't suggest it as having any basis of fact. But he said it wouldn't be far wrong if the F.R.B. was 105 and you had a little more rising scale of commodity prices or general price level than we are now. And he said that 200 million - it wouldn't be a figure that was terrifically wrong.

H.M.Jr: 200 million above

Taylor: ... 550.

Haas: 5462.

H.M.Jr: 5462.

Hanes: That's right.

H.M.Jr: Well, I'll go along with that, because I think you fellows are on the down side this time.

Hass: Oh, we want to be on the down side.

Hanes: George wants to be on the lower side. And I say that - I say if we can stretch it

Hess: I thought that's where you wanted to be.

H.M.Jr: Well ...

Hanes: I said to George, if we could stretch our conscience a little bit here in this case and bring that estimate up, I think the encouragement given thereby will bring it there. I think it's the time when you want to be optimistic and not pessimistic.

Hess: I'm not sure that will bring that index - because that will work through on the other one. You're talking now about five points on the F.R.B. - or - oh, you're just talking of 200.

H.M.Jr: Add it automatically. Five billion six six. Just up it 200 million.

Hass: We'd have to fix the other part up and make it work. In other words, we can't give him any estimates that won't work before anybody.

Taylor: You're, in other words, willing to take the 200 million and stick it where it fits.

Hanes: Just like you took off 125 last year.

H.M.Jr: Just like we took off 125 last year. I was nearer right - how much - we were way off.

Hanes: No, just one percent - one and two-tenths.

Taylor: That's after you took off the 125.

H.M.Jr: This year?

Hass: Yes, one of the closest estimates ever made in the Treasury.

H.M.Jr: After I took off the 125.

Hass: That's right.

H.M.Jr: How much were we off?

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Haas: One and two-tenths, one and three-tenths.

H.M.Jr: But you've added 500 million. Before you added the 500 million.

Haas: when you took it off, it was for the fiscal year ending last June; and that estimate, Mr. Secretary, was off one and two-tenths.

H.M.Jr: after I took off the 125.

Haas: Un-huh.

H.M.Jr: Well, that's pretty good.

Haas: That's a beauty.

Hanes: You can put on 200 million and put it - hit it on the nose this time, maybe.

H.M.Jr: Well, how about this year, going back - the estimates in the President's budget last January?

Haas: You're off six - no, after you ...

H.M.Jr: The 500 back - go back to last January.

Haas: Oh, the 500 back. Of course, we don't know; that isn't up until next June.

H.M.Jr: But you're adding 500 million.

Haas: We're adding 500 million on to the year which ends next June.

H.M.Jr: Yes.

Haas: So you won't know the results, how it came out.

H.M.Jr: But last year after deducting 125 we hit it within a little over one percent.

Haas: One and two-tenths.

H.M.Jr: Well, I'm willing to go along and add 200 this year. I think it's in the wood. And you fellows can fake your figures to make it right.

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Haas: Oh, it isn't a question of faking, because we have a margin of error.

H.M.Jr: Oh, well

Hanes: They've been conservative. They say they have.

Taylor: He's got 200 he can put on there almost any place.

H.M.Jr: Well, don't put it on the income place. I mean spread it, make it look good.

Hanes: We broke down the income tax, individual income tax. We broke down that the way - we took the work sheets - broke that down to find out how they arrived at those figures. They've got a darn good reason for it. Those boys are good.

H.M.Jr: I wanted both of you - hell, I hadn't been in the Treasury a week before I stayed up one whole night doing this; and I wanted you men to go through with it. You've (Taylor) done it before.

Hanes: There's a lot more work that I want to do on it, too.

H.M.Jr: Well, you - I don't want to - I know you've got that other crowd in there, haven't you?

Hanes: I'll call them back when I get through here.

Haas: This is 200 million in the 1940 fiscal year. The other one stands as is. The other one is five five ten. You've got two years.

H.M.Jr: Well

Haas: The one - the 1939

H.M.Jr: We're through with that.

Haas: No, that doesn't end until next June.

H.M.Jr: I'm talking about the year beginning July 1, 1939, and ending June 30, '40 - that you're adding in those twelve months 200 million dollars.

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Haas: O.K.

Hanes: That's the five billion 462 million, from July 1, 1939, to June 30, 1940.

H.M.Jr: You add 200 million. If we can't make that good, with the Fiscal and Monetary Committee functioning

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
Fiscal Year 1938 and Fiscal Year 1939 to date
 (Figures in thousands)

Commodity	Unit	Total Fiscal year ended 6/30/38	Total Fiscal year ended 6/30/39	9/30/38	10/6/38	10/13/38	10/20/38	10/27/38	11/3/38	11/10/38	11/17/38	11/24/38	12/1/38	12/8/38	12/15/38	12/22/38	12/29/38	1/5/39	Total Fiscal year 1939 to date
1. Apples (Fresh)	Pounds	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	548 (2)
2. Apples (Frozen)	Bushels	5,625	-	3	110	198	166	70	1	-	-	-	-	-	-	-	-	-	328 (6)
3. Apples (Dried)	Pounds	2,990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40 (7)
4. Apples (Dried)	Pounds	56,800	-	-	-	-	-	-	-	-	-	3,830	6,590	4,970	4,380	3,750	1,330	2,280	24,900 (5)
5. Apples (Dried)	Bushels	33	38	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38 (5)
6. Apples (Dried)	Bushels	11	119	65	11	46	67	20	-	-	-	-	-	-	-	-	-	-	328 (6)
7. Apples (Dried)	Bushels	15,035	6,168	5,109	2,783	3,804	1,719	2,469	1,938	324	576	1,777	1,818	2,734	2,718	67	2,166	3,393	41,839 (8)
8. Apples (Dried)	Bushels	990	1,177	370	234	214	194	133	124	89	100	47	15	14	5	-	-	-	2,691 (9)
9. Apples (Dried)	Bushels	837	107	-	-	-	-	-	26	25	45	30	22	-	-	-	-	-	270 (10)
10. Apples (Dried)	Bushels	-	-	101	6	1	16	17	5	1	2	1	1	-	-	-	-	-	163 (11)
11. Apples (Dried)	Crates	-	81	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81 (12)
12. Apples (Dried)	Bushels	1,174	178	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	183 (13)
13. Apples (Dried)	Bushels	408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (14)
14. Apples (Dried)	Pounds	3,446	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (15)
15. Apples (Dried)	Bushels	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8 (16)
16. Apples (Dried)	Bushels	-	-	-	-	-	-	-	-	-	449	-	-	-	-	-	-	-	449 (17)
17. Apples (Dried)	Bushels	-	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25 (18)
18. Apples (Dried)	Yards	1,133	187	3	28	1	-	15	-	-	-	-	-	-	-	-	-	-	791 (19)
19. Apples (Dried)	Sage	-	-	-	-	-	-	30	22	15	14	-	250	500	150	160	-	234	830 (20)
20. Apples (Dried)	Pounds	9,740	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (21)
21. Apples (Dried)	Bushels	270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	270 (22)
22. Apples (Dried)	Pounds	3,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	279 (23)
23. Apples (Dried)	Bushels	2,693	279	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73 (24)
24. Apples (Dried)	Bushels	601	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	53 (25)
25. Apples (Dried)	Bushels	552	471	-	-	84	214	-	287	132	5	95	-	-	75	-	-	-	1,303 (26)
26. Apples (Dried)	Tons	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (27)
27. Apples (Dried)	Bushels	-	15,560	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,560 (28)
28. Apples (Dried)	Yards	-	8,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,550 (29)
29. Apples (Dried)	Pounds	21,520	8,961	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,561 (30)
30. Apples (Dried)	Quarts	12,497	6,472	534	551	580	631	652	2,947	4,823	3,042	4,559	4,107	5,245	6,170	6,845	541	733	44,578 (31)
31. Apples (Dried)	Pounds	3,000	674	78	153	74	-	-	-	-	-	-	-	-	-	-	-	-	979 (32)
32. Apples (Dried)	Pounds	1,932	632	54	47	44	35	12	-	-	-	-	-	-	-	-	-	-	831 (33)
33. Apples (Dried)	Bushels	21,625	9,075	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,075 (34)
34. Apples (Dried)	Pounds	2,534	3,583	-	4,791	1,473	913	-	-	-	-	-	-	-	-	-	-	-	11,100 (35)
35. Apples (Dried)	Bushels	8	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6 (36)
36. Apples (Dried)	Bushels	318	229	-	-	-	-	-	-	11	-	-	-	19	24	8	-	-	294 (37)
37. Apples (Dried)	Crates	542	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54 (38)
38. Apples (Dried)	Pounds	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 (39)
39. Apples (Dried)	Bushels	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 (40)
40. Apples (Dried)	Bushels	440	-	6	804	122	36	8	-	-	-	-	-	-	-	-	-	-	378 (41)
41. Apples (Dried)	Bushels	4,315	2,069	232	45	13	2	-	-	-	-	-	-	-	-	-	-	-	2,367 (42)
42. Apples (Dried)	Pounds	2,568	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (43)
43. Apples (Dried)	Tons	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (44)
44. Apples (Dried)	Bushels	-	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13 (45)
45. Apples (Dried)	Tons	15	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (46)
46. Apples (Dried)	Pounds	73,190	-	-	-	-	-	-	-	-	-	-	-	267	411	333	-	-	114 (47)
47. Apples (Dried)	Pounds	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	- (48)
48. Apples (Dried)	Bushels	50	145	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195 (49)
49. Apples (Dried)	Bushels	282	114	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	396 (50)

January 14, 1939

Treasury Department, Division of Research and Statistics.

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

December 14, 1938.
4:58 p.m.

HEMJr: Hello.

Jones: Hello, Henry.

HEMJr: I am distressed to hear that you are laid up now with the knee.

J: I certainly have got a sweet knee.

HEMJr: Well, isn't that too damn bad!

J: It went bad on me last night. I don't know how I hurt it.

HEMJr: Gosh! You didn't do some dancing there, did you?

J: Well, I saw some.

HEMJr: Uh-huh.

J: Henry, is this Universal Trading Corporation already incorporated?

HEMJr: Now, that's funny. I've got the attorney sitting right here, Mr. Morris. I can ask him.

J: Yeah, ask him.

HEMJr: He's right here at my desk. (Aside -- Mr. Jones wants to know whether the Universal Trading is already incorporated). He says it's a New York corporation. It's been done.

J: It's alive?

HEMJr: It's alive and been done. (Aside -- you mean it's an existing corporation)? It's an existing corporation.

J: Is it Chinese-owned?

HEMJr: (Aside -- Is it Chinese-owned? - Pause - Who owns it?) Morris says the stock is issued in his name as the nominee for these three men.

J: The point is -- I thought in this announcement, which we might just as well be frank about it and say it is a Chinese-owned corporation.

HEMJr: Well, yes, (Aside -- we might just as well say it is a Chinese-owned corporation. Isn't that what it is? - Pause - Pardon? Mr. Jones wants) - Pause - Well, it's Chinese-owned and it belongs -- the ultimate - hello --

J: We've done business, you know, with the Amco which belongs -- it's an American company but it belongs to Russia.

HMJr: Well, I -- I would say, and he cannot or contradict, that the relation of the Amco of the Russian Government would be the same as this Universal to the Chinese.

J: Well, that's what I was thinking, so it just occurred to me that in this press release, which I will get over to you in the morning --

HMJr: Right.

J: Uh -- would be the Universal Trading Corporation of New York, the Chinese-owned company.

HMJr: Well, I -- I have no objection.

J: I mean, that's just being entirely frank about it.

HMJr: Entirely.

J: And that -- that gives the answer first. I'll get that over to you in the morning, Henry.

HMJr: Yes -- that -- that -- that'll be the truth.

J: All right. They are going to want to know who -- I didn't want to get out on the limb about the --

HMJr: Well, that was why Mr. Morris came in -- to ask me when the questions come out about -- about the corporation -- how would he answer them.

J: Yes.

HMJr: See?

J: Yes.

HMJr: That's just what we were talking about.

J: Well, that's fine. Well, I'll get it to you in the morning.

HMJr: Thank you so much.

J: Good bye.

HMJr: Good bye.

FEDERAL RESERVE BANK
OF NEW YORKOFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE: December 14, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

I called Mr. Bolton at 12:40 today. I mentioned that in our market the undertone for sterling was definitely firm and that traders here seemed to expect another squeeze before December 31, resulting from a new short position built up during the last few days, most of which was maturing in 1938. All this seemed good news to Bolton. I told him a little ^{of} how some of our commercial houses which had direct borrowing facilities from London banks, indirectly and unknowingly, helped people like Lazard and Dreyfus - the only ones who seemed to have managed to carry their short position in sterling forward in spite of the arrangements made by the Bank of England with the London market - to sell sterling short and we agreed that of course no system could be evolved, and for that matter should be evolved, which would limit all speculative operations and that the squeeze engineered by the British fund had at any rate been intended to carry through the month of December only. I further mentioned that as a result of wheat sales by our Government in the London market, one of our Government agencies had yesterday and today been offering in our market sterling for forward delivery for the equivalent of ~~only~~ \$5,000,000 or roughly one-half of the total amount involved and that the local bank handling these operations had managed to place such sterling for forward delivery without difficulty and without affecting the price. Inasmuch as according to the information given us most of this sterling had been absorbed by buyers in our market, this seemed to indicate a healthy demand here for

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE December 14, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knake

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that currency probably on behalf of commercial buyers. My comments elicited from Bolton the information that he was now in touch with the British Food and Defense Ministries and had arranged with them in future to consult with him whenever they had an exchange problem in connection with their purchases in this country. In that case he would want to work in conjunction with us trying to route through us such business as would have to be undone here.

I discussed with Bolton some of the figures collected by us weekly from our banks, stock houses, etc., and commented on the fact that the sterling position of our banks, always moderate, had been reduced ^{further} from about \$12,500,000 short on November 18 to \$5,800,000 short on December 7. As he had previously shown interest in our capital movement figures I gave him those for the week ending December 7, that is, an inflow of \$13,000,000 compared with an outflow of about \$11,000,000 the week before. The interesting feature about the \$13,000,000 figure was that it represented almost entirely foreign investment in our security markets. This latter, Bolton thought, was in line with what seemed to be a general conviction in London, namely, that our stock market was going to show an upturn in the Spring.

As regards the current market in London, Bolton told me that he had bought about \$5,000,000 in the afternoon which practically wiped out his losses of the last two days (his subsequent cable states that

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE December 14, 1936.

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BANK OF ENGLAND.

L. W. Knode

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his total purchases for the day were in excess of \$5,000,000). The sterling market was undoubtedly strong at the moment and there was an increasing evidence of a general desire to even up all position by the end of the year. As a result Swedish crowns, belgas and guilders, all acquired by speculators in September for forward delivery, were now being liquidated. Meanwhile, as a result of this liquidation, the pressure was of course taken off the forward market so that the forward discount had not widened.

In France, the picture had turned rather badly for awhile as a result of the squabble in the French Chamber over the procedure to be followed in the debate. Finally Reynaud seemed to have won out with his insistence that the budget be discussed first and as things now looked this budget was likely to be adopted without difficulty. In that case, Bolton thought, the franc would have clear sailing through the rest of the year. Meanwhile Cariguel was gaining small amounts (about £500,000 a day). Cariguel was not too happy, as Bolton put it, as he was disturbed about the general political situation.

Bolton asked whether the Japanese were increasing their gold shipments and I told him that we knew of about \$15,000,000 now on the way, or at least ready to be shipped, which meant heavier shipments than they had been making for awhile. This seemed to indicate to me, I said, that the Japanese were spending money faster

FEDERAL RESERVE BANK
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DATE December 14, 1938.
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now than in recent months which seemed to be borne out also by the fact that their borrowings in New York had gone up rapidly. Bolton replied that he hadn't seen any Japanese operations in the London market for a long while and was under the impression that the Japanese were now managing their affairs entirely through New York. One reason for this might be the difficulty which the Japanese had experienced in the exchange market which was loathe to take Japanese contracts. Bolton commented on the widening discount on silver for forward delivery and spoke of heavy forward sales coming into the London market from all quarters. He asked whether the Chinese had completed their sales and I suggested that probably the bulk of their holdings had been disposed of.

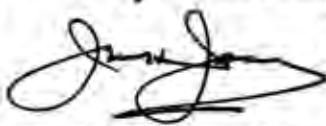
As far as affairs at home are concerned, Bolton seemed to be hopeful to be able to get through to the new year but worried as to what would happen thereafter. The political situation in Europe was undoubtedly bad; there was an increased distrust shown everywhere in England towards all Germans and the opinion prevailed that Hitler was going to make some demonstration in the Spring which would mean trouble in Europe and likely to create another war area there.

LWK:KW

12-1-38

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For Henry Morganthau Jr.



(Jones' covering letter
p. 213)

WHEREAS, the Universal Trading Corporation of New York, a Chinese owned company, has applied to the Export-Import Bank for loans or a line of credit up to \$25,000,000 to finance the purchase and exportation of American agricultural and manufactured products to China and the importation of wood oil from China to this country; and

WHEREAS, approximately 95% of the wood oil required by American manufacturers of paints and varnishes is imported from China, which produces substantially the entire world supply of this commodity; and

WHEREAS, because of the situation which has existed in China the past few years it has not been possible for American consumers to have a dependable, regular and continuous supply of wood oil; and

WHEREAS, the Universal Trading Corporation has contracted with Foo Shing Commercial Company, a Chinese corporation, for the purchase of approximately 220,000 tons of wood oil to be delivered to this country periodically during the next five years; and

WHEREAS, the loan, if consummated, should assure American consumers an adequate supply of this product at reasonable prices and will improve our foreign trade by causing to be exported agricultural and manufactured products;

NOW, THEREFORE, BE IT RESOLVED, that, subject to the approval of the President and agreement by the Reconstruction Finance Corporation that it will, upon request of the Secretary of the Treasury with the approval of the President, purchase \$25,000,000 additional preferred stock in the Bank to enable it to extend the credit, the Export-Import Bank of Washington authorize loans to the Universal Trading Corporation up to but not more than \$25,000,000 for the purposes herein stated. All such loans shall mature prior to January 1, 1944, shall be unconditionally guaranteed by the Bank of China, and shall be subject to such other terms and conditions as the Executive Committee of the Export-Import Bank may require;

BE IT FURTHER RESOLVED, that the President or Vice President and the Treasurer or Assistant Treasurer be and they hereby are authorized and directed to take such action as may be necessary or desirable on behalf of the Bank with respect to all matters in connection with the said loan; to enter into such agreement or agreements with the Applicant or third parties and to make such changes or modifications in the details of said terms and conditions as they deem necessary or convenient to carry this resolution into effect; and to make disbursements from time to time in accordance with the terms and conditions of

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this resolution and in any agreement or agreements executed pursuant thereto; provided, that any action taken pursuant to the foregoing authority shall first be approved by General Counsel of the Bank or other Counsel designated by him.

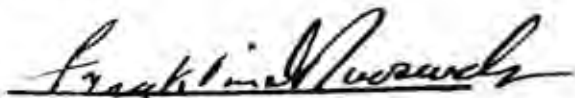
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I, HAWTHORNE AREY, Secretary of Export-Import Bank of Washington, hereby certify that the foregoing is a true and correct copy of a resolution adopted by the Executive Committee of said Bank at a meeting held on the 15th day of December, 1958.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said Bank, this 14th day of December, 1958.


Secretary


Approved:



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 14, 1938, 4 p.m.

NO.: 2113

FOR TREASURY.

Today exchange market business here is again on a restricted scale, with no special movement in any one direction. It is the belief of market circles that trading will continue dull and listless until the Christmas holidays are over, unless something unforeseen in the international political situation or in Parliament should take place. Quotation for sterling was around 177.72, and it seems that the fund did practically nothing on the market. No change in forward rate for sterling. Some pressure on the belga.

Rentes advanced a few centimes on the security market.

Parliament has been asked by the Government to approve additional credits totaling about 1420 million francs under the 1938 budget. This total includes 692 millions for national defense, and 500 millions for service of various loans which have been issued since the end of 1937 and increased requirements for the service of loans issued abroad or expressed in other currencies. The relevant project or law has an accompanying memorandum which indicates that a deficit of approximately 6500 million francs appears in the 1938 budget up to the first of November.

Certain financial observers think that the importance
of

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of the object of Schacht's visit to London has not been sufficiently realized in Paris. These observers point out that the meeting with Norman is of special interest in view of current political events. Berlin, they state, is anxious to overcome the monetary restrictions imposed upon Germany because of ^{enormous} armament expenditures. It is predicted in this connection that there will soon be made another capital levy of from 8 to 14 percent for armament account, and that Germany will naturally be obliged to maintain an embargo on exports of funds under such circumstances. If there is to be a relaxation of currency restrictions, therefore, there will have to be a reduction in public and especially armament expenditures.

The London correspondent of AGENCE ECONOMIQUE reports the City view that the present Rome-Berlin maneuvers are more of an economic order than political, and that Schacht's visit is attracting much attention there for this reason. In this report it is stated that the City believes Schacht's main purpose in coming to London is to improve German-British trade relations because "in view of the failure" of the voyage of Doctor Funck in Central Europe, Berlin authorities are disturbed about the possibility of a commercial battle backed up by Great Britain's vast material resources.

The Basel correspondent of AGENCE ECONOMIQUE reports regarding Schacht's visit that Beyen, BIS President, has

left

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left for London and that Beyen will take part in the talks which Schacht has with Norman. In this report it is stated that it is possible that the BIS will play an important part in the common action being taken regarding German Jews if a positive result is reached in this regard between Schacht and Norman.

END OF MESSAGE.

WILSON.

RECEIVED
NOV 12 1944
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany (part air)

DATE: December 14, 1938, 8 p.m.

NO.: 728

No. 38, for Treasury from Heath.

It is stated at the Reichsbank that the trip which Schacht made to London - reference my telegram No. 38 of December 7 - has no specific object other than to ascertain the attitude of financial and Government circles in Great Britain toward Germany and the prospects of better financial and economic arrangements between Germany and Great Britain. According to our information, Schacht is to report to Hitler at Munich upon his return. There is some faint "hope" among moderate Government elements that Schacht's report might possibly bring about some moderation of the German policies which have brought grave problems before the economic authorities of the Government. It is tacitly admitted in Government circles, and in trade circles frankly admitted that exchange and export problems have been decidedly intensified by the boycott resulting from anti-Jewish measures and organized outbreaks.

Today reliable information came to me that in recent months there has been a small retirement of special bills forming the undisclosed floating debt discussed in my
telegram

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telegram of December 8, No. 37. I could not learn the amount of the decrease because of strict party orders that no information be given out about the "undisclosed debt" but it was admitted that there was no significant decrease. Another thing I learned was that private banks, despite reports in the financial press to the contrary, still hold in their portfolios very considerable amounts of special bills. It is possible that technically it is true that actual "special bills" are not held by certain banks. The Reichsbank tries to push back to accepting private banks special bills which it has accepted for discount; for several months it has been selling not the bills themselves, but a certificate or title to a special bill which the Reichsbank itself holds. Upon completion of the sale a special bill is earmarked for the purchasing bank's account, and the amount of the bill is deducted from the total "special bill" holdings of the Reichsbank.

Although actual payments on the last billion and a half Reich loan do not start until January, it is admitted that they are making plans already for a new loan which might be announced in February, 1939; should this be the case, ^{more than} ~~xxxxxxxxxx~~ eight billion marks would have been borrowed by the Government on long term for the current fiscal year ending the thirty-first of March. In the

Government

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Government it is admitted that the consortium which was organized by the Reichsbank for floating the various Reich loans has not been able to dispose of all of them to the public; the favorite rumor is that about 10 percent of the various loans floated is still held by the consortium, but what I believe to be a good authority informed me that the percentage is not that high.

There has been a net increase in short term debts of nearly three billion marks during the present period, which sum must be added to the increase of long term debt of eight billion or more for the whole sum of Government borrowing. During the next few months the short term debt will be substantially reduced, it is claimed; however, there was a reduction of only forty-five million marks during the month of October.

GILBERT.

EA:LWW

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AM
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 15, 1938, 4 p.m.

NO.: 2118

FOR THE TREASURY.

Today in more active trading the franc was favored; a fair amount of sterling was obtained by the fund; which at opening offered francs at 177.72 and gradually brought its peg down to the present rate of 177.64. One month forward rate is 5 centimes; three months, 85 centimes. Slight improvement in the belga.

On the security market there was a better tendency, with a gain of about 70 centimes in rentes.

Today's statement of the Bank of France (as of December 8) shows that the gold reserves increased very slightly. Decrease of 658 million francs is shown in commercial portfolio, and a decrease of 1,200 million francs in thirty-day advances. There has been a reduction of 687 million francs in note circulation, and an increase of 1,647 million francs in deposits. Gold cover ratio is 60.18 percent against 60.17 percent.

The New York office of AGENCE ECONOMIQUE reports that a proposal has been placed before the President by Sir George Paish that an international conference be called for the purpose of seeking ways and means of settling the economic and political difficulties which now menace world peace. In the report it is recalled that the Administration

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has in the past received such proposals coldly.

The report also indicates that there seems to be agreement on the part of Washington that the time has come when the United States and Great Britain might well make a common declaration as to the level to be maintained for the dollar-sterling rate.

There is a report in the FINANCIAL PRESS that the Finance Minister of Belgium, Jannsen, said in Brussels yesterday that there is no question of linking the Belgian currency to the pound, and that devaluation of the Belgian franc is not being considered by the Belgian Government.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
FEB 11 1930
THOMAS SAUNDERS VERNER
DIRECTOR OF THE BUREAU OF THE
TREASURY DEPARTMENT

December 15, 1938. 149
10:47 a.m.

Operator: Go ahead.

HMJr: Hello.

Jones: Good morning.

HMJr: How are you feeling today?

J: Oh, I feel a little better than I did yesterday, but I am still in bed with this bum knee.

HMJr: Well, I'll be darned.

J: But I can operate just as well in bed as I can any other way.

HMJr: Yes?

J: Because I don't have to see as many people and I can use the telephone.

HMJr: Good.

J: Ah -- I've just -- since I'm sending you a letter --

HMJr: Yes?

J: Which I just signed, enclosing the resolution with a place for the boss' signature on it --

HMJr: Good!

J: And -- I'm telling in that letter that the R.F.C. in its resolution passed, conditioned that the boss O.K.'d it and that the R.F.C. would agree to buy this stock.

HMJr: I see.

J: Upon your request, I have included in the letter, that the R.F.C. was prepared to buy the stock upon your request.

HMJr: I see.

J: And then I'm also enclosing a copy of a press release. Of course, the story is all out.

HMJr: I know.

J: As you know, but I'm -- I'm making another -- another release which I think is appropriate under the circumstances.

HMJr: Good!

J: Which you will see when you get it, and that is -- well, I won't go into it now with you, but you'll see it.

HMJr: Yes.

J: I think it is highly desirable that it go at the same time.

HMJr: Well now -- ah -- is it coming from your office?

J: It will reach your office in about forty minutes.

HMJr: In about forty minutes? And -- I -- well -- could --

J: I thought you would send it to the White House.

HMJr: I do, but I wanted it so that it doesn't go all over the Treasury. I wonder if you could tell them to deliver it personally to Mr. McReynolds?

J: Well, I'll see that -- who?

HMJr: McReynolds.

J: McReynolds?

HMJr: Yes.

J: I'll see that it goes to McReynolds.

HMJr: McReynolds, and then --

J: Then he'll bring it to you.

HMJr: Yes. Otherwise it may float all over the Treasury.

J: That's right. Well, I'll get it to you in just about forty minutes.

HMJr: Fine. Now, you'll take care of yourself now.

J: I'll do that, and, (aside, "let's see one of those things") -- Oh, yes, then you'll take it up with the boss?

HMJr: Ah -- I'll do just what I said. I'm going to have McReynolds go across the street and give it to Foster, and tell him that we would like to get it cleared; but before we do that I'm going to -- I told Sumner Welles he could take a look at the publicity.

J: Yes.

HMJr: So I'll send it there first, and from there over to the White House.

J: Alright. Now they -- of course, they've already given out all the publicity. Somebody apparently did it.

HMJr: Well, they waited to see Wayne last night, but they had the story.

J: Yes.

HMJr: And Wayne said that they undoubtedly got it from some of the directors of the Export-Import Bank.

J: Yes. Well, I asked him -- I asked him to treat it all executive until we had --

HMJr: Well, somebody there talked.

J: But you know when you have seven, nine to eleven fellows together --

HMJr: And Wayne was successful in getting them to put in that word as a commercial, you know.

J: That's right.

HMJr: He -- he --

J: I thought it read alright.

HMJr: Well, he played it down hard, you see.

J: I thought it read pretty good.

HMJr: But he couldn't tell them it wasn't so because they had gotten it from some director.

J: Yes. Alright, well then I'll -- this will come to you in a little while.

HMJr: Swell. Thank you so much.

J: Nothing else?

HMJr: No -- uh -- oh, I thought -- I had Pierson here yesterday --

J: Yes?

HMJr: And I told him that -- to show you a letter that I was thinking of sending to

J: I may -- he did, and I thought it was an excellent letter, and I made one little suggestion.

HMJr: Good!

J: Which he said he would bring to you this morning.

HMJr: Swell! But you liked the letter?

J: I -- I liked the letter immensely.

HMJr: Fine.

J: And the only suggestion that I made was that you make no mention of twenty years. That there might be -- that the time be appropriate to the purpose, etc.

HMJr: I see. Well, that twenty years -- ah -- well, you'd rather leave that -- ah --

J: Leave it blank.

HMJr: Alright.

J: I say -- I think from your standpoint, because I know those birds down there a little -- I don't --

HMJr: Yes.

J: If you ever give the they'll never give that one up and they'll never get another one, you see?

HMJr: I think it's good trading.

J: So that -- I just said that -- appropriate -- well, I gave him the language.

HMJr: That's good trading.

J: And -- otherwise I thought it was a nice letter.

HMJr: Thank you so much.

J: And I think that's alright except that -- just -- I wouldn't put that in now, you see?

HMJr: Save it.

J: That's right.

HMJr: I'm with you.

J: Good bye.

HMJr: Thank you.

MEETING OF FISCAL AND MONETARY
ADVISORY BOARD

December 15, 1938.
11:00 a.m.

Present: Mr. Eccles
Mr. Bell
Mr. Ruml
Mr. Taylor
Mr. White
Mr. Gaston
Mr. Haas
Mr. Currie

H.M.Jr: Have you had a chance to see this, Marriner?

Eccles: Not this latest one. I went over one yesterday afternoon late.

White: That was Mr. Ruml's original.

Eccles: I had the same one you got a copy of yesterday afternoon.

H.M.Jr: I went over it last night.

Eccles: That's what I did, went over it out home last night.

H.M.Jr: Is this after or before I went

White: That's the final one.

H.M.Jr: Hanes had to go to the Social Security Board. I wanted him to put - look at the tax thing; he's put question marks after all the tax recommendations.

White: Mr. Hanes had two copies, so we haven't got enough to go around.

H.M.Jr: Well, here's one with this question mark, which I want to keep. Questioned all the tax recommendations.

White: There were a couple of brackets of parentheses I left out of the duplicate that I should have put in, to indicate those hadn't been accepted by this

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committee - merely tentatively suggested.

H.M.Jr: We've got a question mark on page 2 after 1 and 2 and under 4, (b) - practically the whole page.

Well, let's go ahead and see. Shall we - shall I read it out loud and see where we are?

"Policy.

"The Fiscal and Monetary Advisory Board agrees that: the objective of Federal fiscal and monetary policy is to assist in increasing national income, production and employment (and ..." - now, why brackets, Harry?

White: Why, it was just that Mr. Ruml wasn't sure that we would all agree with that.

Ruml: I simply - may I state this, that in drafting this thing yesterday in longhand, I put in parentheses all items with which I thought there was - I couldn't be sure there was complete agreement; and the things that are not in brackets I think - thought there was agreement on. So I didn't state anything I wasn't reasonably sure about.

H.M.Jr: Well, do you want - how do you want to do this, Harriner? Do you want to do item by item?

McCles: I would think so. And on the bracket, I would just read it on through.

(Bell comes in)

H.M.Jr: Hello, Dan, how are you? Haven't missed anything yet.

Got a copy for the Director of the Budget?

Ruml: That's the one that's being read.

Bell: Thank you.

H.M.Jr: I'm just reading the first part.

"The objective of Federal fiscal and monetary policy is to assist in increasing national income, production and employment (and to make such preparations as may

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seem advisable for the administration of fiscal and monetary policy toward mitigating the severity of future booms and depressions)."

Well, let's do one thing - how about that first sentence? Who wants to talk?

Eccles: Well, this is the same as it was. You didn't - there is no change in this one. I can express my feeling as far as - I could accept that just as it is. It seems to me that it's a general broad statement and it would seem to me that that's a proper objective. I don't know how we could state the objective in a broader manner than this. It doesn't pin you down to detail, but it does cover the general broad philosophy, it seems to me, and I could accept that myself.

H.M.Jr: Well, I could accept it, but I'd like to leave the part in brackets out.

Bell: Well, that's the purpose of the - I mean why do you have to state it at all, the policy of the committee, the objective of the committee?

Eccles: The committee ought to have some kind of an objective.

Bell: It may change every month, it seems to me.

Taylor: Doesn't say the committee; it says the "fiscal and monetary policy."

Eccles: That's all.

Bell: well, "Fiscal and Monetary Advisory Board agrees that: ..."

Eccles: "The objective of Federal fiscal and monetary policy is to assist in increasing national income, production and employment." Now, I don't know how on earth that can change. If it isn't for that, why, then it serves no purpose at all, it can serve no purpose, it would seem to me. It would be

Bell: Well, it may come out when we read the rest of this. This is a report to the President on this

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- H.W.Jr: But you've got to put your name to it if you agree.
- Bell: It may come out when you read the rest of it.
- H.W.Jr: Well, the point about the bracket part of it - I said last night I want to leave it out because I think that - oh, I don't want - if we have a future boom or depression, I don't want to have them say, "Well, you said that was your responsibility."
- Eccles: Well ...
- H.W.Jr: I mean I think the first sentence is O.K. The bracket part - I feel we're taking on too much territory. That's the way I feel.
- Eccles: Well, you only take that on to the extent that it outlines an objective. It doesn't say that you have the responsibility to mitigate it. As I understand it, we've got to have some objective to function at all; otherwise, we haven't got any premise to start from.
- H.W.Jr: I think "increasing national income, production and employment" - that's enough.
- White: I'm rather in sympathy with Mr. Bell's position that it's taken for granted and the nature of the subsequent discussion, I think, hardly necessitates that first paragraph. I'd delete it completely.
- H.W.Jr: Do what?
- White: Delete the whole paragraph. It's implicit in what follows.
- Eccles: Well, from that standpoint - let's go on and see - come back to this and see if Harry's point is well made.
- H.W.Jr: "The Board has been advised by the experts of the Treasury, Federal Reserve Board and National Resources Committee as follows:
- "1. That for the calendar year 1939, barring the appearance of factors not now known, national income will be between \$65 and \$68 billion. For 1938 national income is estimated at \$62 billion."

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George, do you agree to that 65 to 68?

Haas: That's within the range of the thing. I'd be on the low side.

H.M.Jr: Yes. Any discussion on number one?

Taylor: I'd stick 1938 first.

H.M.Jr: I agree with you. I was going to say that.

Eccles: Yes - is so-and-so, and then put the other for '39. I think that's good.

H.M.Jr: '38, yes. All right, shall I go on to two?

Eccles: One is O.K., then, with these....

H.M.Jr: I take it it is. Three little experts sitting in a row (Haas, White and Currie). All together? What? Nobody fall off the rail?

Currie: Not yet.

H.M.Jr: All right.

"2. That a national income of about \$80 billion is required to provide substantial reduction of unemployment; and that an income of \$90 billion or more is attainable through full utilization of our man power, plant and equipment, technology and natural resources."

That's a mouthful in there. How about it, experts?

White: I think it's important to point that up that way.

H.M.Jr: George?

Haas: That's number two?

H.M.Jr: Yes.

Haas: That work was done by the - we haven't checked that; that's been done by the Resources Committee.

H.M.Jr: Well, hell, you've got a chart there.

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- Hess: That's on three.
- H.M.Jr: Oh. Well, is there anything in two that you can't go along with, George?
- Hess: We've got a rough check on that, which roughly agrees with that, but I haven't made a detailed study of that.
- White: Both on the ground of the detailed study and, I think, wouldn't you say, George, on the ground of general a priori reasoning and the general situation, that this is within the realms of extreme likelihood; it's even conservative.
- Currie: There were a few words we meant to put in there, Mr. Secretary, and apparently left out. That's 80 billion at present price levels. It's just theoretically possible you could have a national income of 80 billion with no reduction in unemployment, just because prices were higher. I think it's a little more airtight with "at present price levels" in there.
- Hess: I'd have a little objection to that. I think it's reasonable to assume an increase in prices, because actually getting up to 80 billion would cause an increase. I'd leave it the way it is.
- White: I think so.
- Eccles: Prices would go up some if you got a - couldn't help it, if you got up to an 80 billion
- Hess: That's right.
- White: We could put it "moderately higher prices" or "slightly higher prices" or leave it out.
- Hess: It's just a rough statement, and I'd leave it as it is.
- Eccles: Of course, theoretically, you could get an 80 billion
- Hess: Theoretically, yes.

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Eccles: ... national income, and get no increase in employment.

White: Theoretically, but it's not likely.

Eccles: I'm satisfied with it as it is.

Bell: Say "not less than at present." I think - take the 90 billion dollars, then, of national income to eliminate the unemployment - I think that's what it's intended to say.

Wahl: No.

White: That you could reach 90 billion at full employment.

Bell: Full man power, I think,

White: Yes, I think Danny's right, that that follows.

Wahl: Says 90 and more.

White: Anything less than 90 billion would not do it.

Wahl: 90 would not necessarily provide it.

Taylor: I think it's more effective there if you split those two statements up.

White: (a) and (b) ?

Taylor: Either (a) and (b) or make them a separate head.

White: Yes, we'll do that - (a) and (b).

Eccles: Would you change the construction, Wayne, or ...

Taylor: No, it's simply - you get two very separate thoughts; they are related. And I think it's just more effective if you do split them up.

White: I think so too; and they're both important and distinct.

Eccles: So you'd change that to two and three and then change all other numbers.

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- White: Just change it to (a) and (b) under three. They're related to that extent.
- H.M.Jr: What are you trying to say, what are you trying to convey? I get the 80.
- White: That 90 billion is wholly possible with our present resources,...
- H.M.Jr: I see.
- White: ... man power and technical equipment.
- H.M.Jr: Then I think they're two separate ideas. I think they ought to be spelled out a little bit, don't you think so, Dan?
- Bell: Well, I think you say probably a little more - I don't know whether this will be made public or not - I think it will be interpreted that the Administration has got to have 90 billion dollars before we stop spending. Now, is that what we mean?
- Eccles: You never stop spending, Dan. You mean before we get rid of the deficit.
- Bell: Is that what we're trying to say? That's how it's going to be interpreted.
- Taylor: That's covered in the next sentence.
- White: It might be so interpreted if it weren't followed ...
- H.M.Jr: Let's do these, discuss them, say we don't agree to anything, go back over them, give everybody a chance.
- Bell: I don't object to number two. It has that criticism, I think.
- H.M.Jr: Well, we'll go over the whole business.
- "That with a national income of about \$80 billion (at present price levels) existing revenue sources and rates will provide sufficient income to balance expenditure at present levels."
- You're repeating yourself.

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Haas: That's different.

Taylor: Different thought.

H.M.Jr: I mean why the bracket "at present price levels" and then again "present levels"?

Bell: That means expenditure levels, doesn't it?

Currie: That was a mistake. That "at present price levels" was meant to go up in two, got in three by mistake.

Eccles: That was the thing that Currie suggested in two.

Currie: That's right.

H.M.Jr: What do you mean "at present levels" at the end of the sentence?

Bell: At present levels of expenditure.

White: Present levels of expenditure.

Bell: Eight billion or more.

Haas: That would be interpreted to mean the expenditures in the present budget, over eight nine. I don't agree with that sentence.

H.M.Jr: You say "at present levels." I'd say "at present levels of expenditure." I don't know if I want to say it, but if that's what you mean ...

Taylor: Don't you want to define your expenditures a little bit more there?

White: Well, you'd have to state a specific amount.

Taylor: No, I'm not talking about the specific amount, but define what you mean by

Bell: Want to call them Federal expenditures?

Taylor: You can say "actual out-payments" or whatever it is, rather than various bookkeeping transactions that we might enter into. It's this whole thought of

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White: Yes, I see what you mean.

Taylor: .. thought of the amount that's actually contributed by the Federal Government, as opposed to

White: Of course, the sooner we get a term to distinguish those two concepts that you're going to use more and more, a term that would suit Danny Bell and the rest of them, the better it would be.

H.B.Jr: Well, Danny, do you want to define it?

Bell: Why, I don't think there's a lot of difference between the terms.

Boles: You're not talking about next year's budget; you're talking about the present rate of expenditure, which doesn't mean expenditure today or yesterday, but it's the present rate, which we'll say has been in effect here for a few months.

Bell: Well, you're talking about an expenditure level of somewhere between seven and nine billion dollars. Now, the President has come out and talked about a permanent level of seven billion, but the last two budgets have been eight and a half, eight nine.

Boles: Well, this isn't talking about any - recommending any type of expenditure. It merely is pointing out that if the national income was up to 80 billion, which is a figure at which we will still have a substantial amount of unemployment - when it is up to that point, that the existing tax structure would give sufficient income to about equal present expenditures.

Bell: I don't think it will. You figure we'll get about seven and a half, don't you, George, on 80 billion?

Boles: I've forgotten what the figure is, but I know this won't make it.

H.B.Jr: Do you mind getting it, because I think it's terribly important at this juncture to get those amounts.

H.B.Jr: O.K.

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

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Reas: Yes, I think so. I think we can word a paragraph there which will agree (Steps out of room)

Taylor: You can say that whole thing a little better than that. See, you're talking about national income and then you say just income. You've got to say Federal receipts or something like that, and then "balance this expenditure" - define that a little bit more.

Bell: Yes, the layman will say you're talking about income the same as the national income above.

Taylor: Yes.

Ruml: Yes.

Bell: Got to be straightened out, I think.

Hocles: The significant thing is that as the national income goes up, your Federal revenue goes up without an increase in taxes.

Taylor: But I think we can say it a little bit clearer than that.

White: The study by this Twentieth Century group had a figure of nine billion at present rate structures....

Currie: On the 1928 income.

Bell: On the 80 billion.

Currie: Little less than 1928.

Bell: Oh, they applied the '28 national income to the present tax structure.

Currie: Yes.

Bell: The other way around.

Currie: Then I'm adding on the additional Social Security; eight point two, then it comes up to about nine billion.

White: But doubtless a difference of estimates there.

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Bell: My figure of seven four may have included the Social Security, I don't know; George had two charts, one was excluded and one included. I may have gotten the figures mixed.

H.M.Jr: Do we want to wait ...

Eccles: Why can't we go on with the others?

H.M.Jr: Then come back.

Eccles: Yes.

H.M.Jr: "4. That the available supply of credit is so great that present and prospective Federal borrowing will not create a shortage of credit available at reasonable rates for private enterprise."

Eccles: I don't think anybody would want to question that.

H.M.Jr: Well, it's been true now for four years. I don't want to argue about it.

White: Oh, credit can be expanded up to a preposterous sum on the basis of

Eccles: Even without much expansion, the funds that are idle, available for investment, are very large.

H.M.Jr: It's all right with me.

Bell: I think the statement is true. I question whether you want to say it.

Rumr: Mr. Bell, that's one of the things people are most worried about. This business men's group on Monday night that Fortune had together - one of their principal apprehensions.

Eccles: I agree with Beardsley that the great criticism of Government spending beyond its revenue is that it is taking savings that otherwise ought to go into private industry, on the assumption that if government takes a billion or two out there's going to be a shortage for private industry. And that is one of the points that the opposition make first, just as though there isn't enough for both.

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- Ruml: Well, they're perfectly honest about the thing, too, you see, because that's what's happening in France and they look at the French picture and draw the parallel with the American picture, without understanding the difference.
- Eccles: Without understanding that French capital is running out of France and we're getting it.
- Bell: Well, just the mere statement - does that eliminate the impression that's around? You say these people were very much concerned about that. Now just making this statement - does that relieve them of their concern? It doesn't prove anything.
- Eccles: Well, but it's a statement.
- Bell: It's a statement of what we feel.
- Eccles: A statement of what we find here. If you want to get into the basis of the finding, we could present a - plenty of evidence, you could write a long document. But this is a statement based upon the findings of the ...
- H.W.Jr: ... of the three organizations.
- Eccles: Yes, that's all.
- White: In other words, when three organizations speak - Treasury, Federal Reserve Board, and National Resources - and make a statement of that kind, it's as significant as a statement by anybody in the Government, I should think.
- Ruml: I think it's an important element, because if that were not true we certainly would be thinking in very different terms.
- Eccles: Very.
- White: But they're still going to have their doubts after they read it. No question about that.
- Eccles: Oh well, you can't change the doubts of some of them, no matter what you do.

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- H.M.Jr: But it's dispelling the fog to that extent.
- Aunt: Quite right. They may come - ask for evidence; then we can give it to them.
- Eccles: We can give them plenty of evidence. We can make a case on this thing. This isn't just pulled out of thin air. Plenty of data to back that up.
- H.M.Jr: Do you doubt it as to fact or as to wisdom of saying it?
- Bell: As to wisdom of saying it.
- H.M.Jr: I think that's the safest statement in the whole group.
- Eccles: Well, I agree with you. I think that's a very definite - I don't think any question about that statement.
- H.M.Jr: I think that's the safest one there.
- Eccles: Well, it certainly is - I agree, I think that that's a sure one.
- (Haas returns with charts)
- H.M.Jr: Well, we can come back on all of them.
- We just were moving ahead, George. Now we go back again. We'll go back to three now. How about that, George?
- Haas: That's a part of this - you know, I've worked out these figures, Mr. Secretary, and gave you these tentative figures that were on this chart. But if they're to be published, I think we ought to check these figures just as carefully as we do the revenue estimates. I think they're all right, but I wouldn't want to stake my life on the thing.
- H.M.Jr: Well, hell, you get up and say 80 billion dollars at the present level will balance it. Well, you say that's what you believe. Some other fellow says you're cock-eyed, it will take 82. Then he gets up. I mean it gets into the realm

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Haas: Yes, you can hold out in an argument a long time.

Eccles: Yes, I think that ...

H.M.Jr: And I mean some other fellow says it's all wrong, it takes 77. It's like the national income; not everybody agrees that our method of figuring the national income is correct. Isn't that right?

Haas: That's right.

H.M.Jr: And how many unemployed are there.

Eccles: It's all an estimate.

H.M.Jr: I wouldn't be too fearful, George, if that's what you boys had. I mean let's give us the best we have. All this stuff - we're doing a little crystal-gazing. What? It's a little crystal-gazing.

Bell: I think George is worried about somebody getting up and saying it takes a hundred billion, not the 82.

H.M.Jr: What does it say?

Haas: Here's the present expenditure, see, this line, eight nine. And here's the national income of 60 billion, produces that; 70 billion

H.M.Jr: Well, is that

Haas: National income of 70 billion will produce six billion two of revenue.

H.M.Jr: 70 billion?

Haas: Yes. 80 billion, seven four.

Gaston: Excluding Social Security?

Haas: That's holding Social Security at the 1939 level; it's assumed that the Social Security will balance itself on each side of the balance sheet.

Eccles: But it certainly wouldn't at that national income, George.

Haas: Huh?

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- Eccles: Which it certainly wouldn't do at that national income. Social Security would certainly accumulate at that national income a lot of funds.
- H.M.Jr: So on the cash point of view what would the picture be?
- Sell: Here you are - seven billion four at 30 billion.
- H.M.Jr: That isn't going to balance it.
- Sell: That was my point.
- Goss: Includes just the 1939 level of Social Security.
- Eccles: Which balances out on both sides.
- Sell: You don't include another three or four hundred million because of the increase in payroll
- Eccles: That will be over eight billion if you take Social Security in.
- H.M.Jr: That wouldn't balance the budget.
- Sell: Wouldn't be eight billion, because you'd have to run up 600 million on that, on Social Security
- Eccles: You'd run that ... No, eight billion wouldn't, not at the present picture. But, Dan, if you had a 74 billion national income, your Social Security would accumulate more than it would at a 64 national income.
- Sell: Well, that's true. But there is already in that figure 500 million of Social Security taxes, see, on a 1939 level.
- Eccles: As I understand it, he figures that Social Security income will about offset Social Security outgo; that the Social Security, he said, would about balance out, be no accumulation.
- Sell: Oh, I didn't get that.
- H.M.Jr: According to George as you talk here, you've got to get about eight five.

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Walter: Well, we picked this figure out and were conservative on the basis of the Twentieth Century study. Now that obviously is not one that you would want to take as against George's.

Bell: I'd take eight billion.

H.M.Jr: You'd take eight billion.

Bell: If you're sure of eight billion, I'll take eight billion.

H.M.Jr: What do you mean, revenue?

Bell: And balance the budget - pretty close to it, with authority to reduce expenditures a little bit.

Lucas: If you've got eight billion income, it would be much easier to balance it, because there would be certain expenditures there just couldn't be the same pressure for.

Ross: I think a real question whether you should put the Social Security in, because the increase on that won't help you on other expenditures. That's why it was kept constant there - thinking of balancing the budget.

H.M.Jr: Let me ask you something: if we're going on the premise that at 80 billion the unemployment thing is solved.

Lucas: It isn't solved, but it will be greatly reduced and the burden much less.

H.M.Jr: May I just run through this thought, what I'm getting at. Let's say at 80 billion the thing is, we'll say, almost solved. Then you won't have to have that two billion dollars in there for relief and public works. Is that right?

Bell: That's right. What you ought to have is P.W.A. eliminated entirely and W.P.A. substantially reduced, if you have eight billion dollars and 80 billion dollars national income.

H.M.Jr: So I mean would this be drawing on the imagination too much, to say if we got 80 billion that then the

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total expenditures would be reduced to eight billion? See what I mean?

Bell: Well, that's a nice thought. I don't know. Should be. You can say "should be."

Woods: We've got to make an estimate what it would be in these two years, and allowing a billion for relief we get 8395 (millions), including public works back on the old figure, you see.

H.M.Jr: How much is that total?

Woods: That total is 8395.

Woods: George here has got a future normal year which totals - how much?

Woods: Eight billion 395 million. And it leaves regular operating up a little bit from what it was in '39 and cuts down public works to the old figure of five and puts loans and investments at the same figure as it was in '39, cuts relief to a billion, cuts the C.C.C. to 300, Agriculture to 700; Social Security it leaves at the level of payments now, assuming that if the payments increase there will be taxes to compensate; and includes ...

Bell: You didn't read the morning paper.

White: There are slight changes you might make in this. You might compromise.

H.M.Jr: Will you please wait a minute?

Woods: What we did there, Mr. Secretary, is assume that - well, we put it that way so if anybody thinks that's too much or too little, you can cut that much off.

H.M.Jr: What I'm trying to argue about, Dan, is: is 80 billion high enough? Is - that's the thing, because I know the President wants that figure, because he asked me about it - what figure. Is that enough?

Bell: Well, I believe it is.

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H.M.Jr: Do you?

Bell: Yes.

H.M.Jr: Would you be

Bell: I should think that this - that certainly ought to be the - I should say not higher than that.

Eccles: Well, you'd speak of the cash budget. I think there's a great - that's different. I think you've got to think of this thing on the basis of a cash budget; that if you're going to think of balancing it on the basis of the bookkeeping budget, that would mean, of course, a substantial retirement of the public debt through the Social Security taxes.

Gaston: If you don't do that, you're headed for a lot of trouble.

Eccles: Absolutely. So it seems to me that it's important that we distinguish between the cash and the bookkeeping. The cash is the thing we're interested in from the question of production and employment and so forth. It's cash budget, not the bookkeeping.

H.W.Jr: Well, the only thing - I differ a little bit with Dan; I don't think 80 will do it. But if you go much above it, it seems so impossible to attain that - if we can't attain it at 80, we'll never attain it. Is that right?

Bell: Yes. Are you talking about 80 national income or eight billion revenue?

H.W.Jr: 80 billion national income.

Eccles: Dan, I think 80 billion, on the basis of - on a cash basis, would give you a balanced budget - on a cash basis, not on a bookkeeping; but it would certainly give you a balanced budget unless there's a lot of extraordinary expenses for Army and Navy and things of that sort by that time. That is, there's no reason that 80 wouldn't give you a balanced cash budget. If you merely take into account what the reduction in unemployment alone is going to be, that in itself - you could keep

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up practically every other expenditure, and merely the reduction in the unemployed would give you a balanced budget at 80 billion.

H.M.Jr: well, the way I feel - we're all - at least I'm talking for myself - doing a little stratosphere flying; at 80 billion the air gets pretty rarified.

Amil: It's absolutely indispensable, because - I mean from an employment standpoint, you've got to get that figure or you haven't got a system that's working.

H.M.Jr: I won't argue with you. What I'm only arguing about - if I'm left to myself, I don't think we'll get a balanced budget at 80.

Eccles: I don't say you will, but what I say is that you can unless you go ahead and develop a lot of new channels for expenditure.

H.M.Jr: Well, that's what I'm ...

Eccles: And what we're trying to say here is that if we get a national income of 80 billion dollars, that the existing revenue sources and rates now in existence would provide sufficient income to balance expenditures against receipts. Now, that's with the - I think we ought to make that clear that it is the cash income and the cash expenditures.

Haas: In other words, the Social Security is off on the expenditure side but included on the receipts.

Eccles: That's right.

Gaston: That would just prove out, according to George's figures. Of course, that isn't a balanced budget.

Eccles: Cash - but let's make the point of cash balanced budget. After all, that's the thing that influences the question of national income and employment. It isn't the bookkeeping, it's the cash.

Gaston: Yes.

H.M.Jr: Again, unless you fellows insist, I don't think I'd

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qualify any of this stuff too much. I'd leave a couple loopholes knowingly. I mean I wouldn't specify cash; I'd just say balanced budget. I think we ought to leave it a little bit vague.

Waite: I think we could include a couple words that would just do that. Instead of saying "about 80 billion" we could say "around 80 billion." That makes an area a little wider.

Pell: Big circle.

Waite: And instead of saying "at present expenditure levels," just cut that - "will provide sufficient income to balance expenditures."

H.V.Jr: How will it read?

Waite: "That with a national income of around 80 billion, existing revenue sources and rates doubtless will provide sufficient income to balance expenditures." Now, you can skip the word "doubtless" in there if you want to.

Taylor: That takes away the effect of your "around."

Waite: That you can't safely balance it until you really reach that region.

Ami: Something slightly different from that - my thought is that as long as you have a potential of 90 and as long as you can balance the budget at 80 - in other words, the thing can be done. Now, you have options as to how you're going to do it, so forth and so forth; but nevertheless, from the standpoint of physical production and from the standpoint of the present physical requirements, the thing is a solvent situation.

Gaston: That implies pretty much that if you don't balance it at 80 you're running grave danger of insolvency.

Eccles: Not insolvency; you're running great danger of getting an inflation.

Waite: You're being unwise if you don't balance the budget.

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Smith: At that point, perfectly possible to have a balanced budget which at the same time would be positive with respect to the effect on purchasing power.

White: That's right. Your committee can't see the possibility of new pressure groups which would greatly increase expenditures; it would be unwise at the time to give in to them.

B.M.Jr: I go along personally just for one reason, that I want the President and his people to be thinking of an 80 billion dollar national income and doing everything to get it; and I want them to have their eye on that mark, on that bench mark, 80 billion. Now to me - I mean the important thing is to get him thinking, "Now what can I do to reach that bench mark?" Now I'll go along on that basis, and I'm not going to pretend to be smart enough to know what will happen. But I think if we get his eye on that - I'm hopeful a lot of good things will happen. What?

Leslie: Take your chance on being willing to balance the budget if it gets to that point of income.

H.A.Jr: Oh, I might balance it when it reaches 77. But I mean what I'm getting at, Harriner - I've arrived at my own thinking; if I could get the President - and the rest of us get him to thinking in terms that the important thing is to increase the national income, then give him a bench mark that he can shoot at, then we'll sit back and hope that some groups aren't smart enough to think up something new, some new kind of law. But I do think we've got to give him a mark to shoot for; I think 80 is as good as any.

Quiston: I think it's important for them to get the idea that you not only can balance the budget at 80, but that you must.

Leslie: I agree with Herbert. You've got two objectives. First, get his idea on the 80; I agree with you on that, that that's first. Secondly, that if we can reach that, see, then we not only can balance the budget at that time, but it is desirable that we should balance it. But to try to balance it

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prior to that time - you find it impossible to do so.

H.A.Jr: Again, may I be a little realistic? I'm willing to do these flights, but as far as I'm concerned, I don't want to put in any "must" about it, or anything else, because then immediately that comes - at that point, "What you going to do if it doesn't?"

White: Look rather peculiar to say we must balance the budget when we get to 80. I mean such big figures there - it becomes a little academic.

Walt: These are only findings from our technical experts. We're not giving any doctrine here.

H.A.Jr: Marriner, unless you feel strongly on balancing the budget (smiling)

Eccles: I don't say we should say that. But I do think it is important to make this point: that we not only want to get the national income to 80 billion, but if we get it to 80 billion, then it will give sufficient revenue at the present tax rates to effect a balanced budget, so long as expenditures don't exceed a certain amount. Now the point was here that at 80 billion - that if we had 80 billion now, we'll say that it's expected that the cash budget would balance.

H.A.Jr: Well

Eccles: That's practically what we say here. Apparently George doesn't altogether agree with that.

Walt: At 80 it would be very close; it would yield 8.4.

Eccles: Why not say "approximately" then?

H.A.Jr: He says "around."

Eccles: "Around" then.

H.A.Jr: I'm satisfied - "around 80 billion."

White: "Around" is a little less than "about."

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- Eccles: All right. Let's just take it as it is. How does it read now, Harry?
- White: "That with a national income of around 80 billion dollars, existing revenue sources and rates will provide sufficient income to balance expenditures."
- Currie: Might change that to "existing Federal tax receipts."
- White: That's the very thing I think you should avoid, right in line with what you're saying - that that will provide sufficient receipts to balance the budget.
- Haas: That leaves you an out on declining expenditures because of the rise.
- White: Or leaves you an out on increasing expenditures because new pressure groups come in. But it implies you can balance it at that range and should.
- H.M.Jr: We're talking here about data and when we say, "We must balance the budget," we're editorializing; it's policy, and we're talking about data. If you're going to get policy, it's something else again.
- Eccles: I'm just saying if that sentence is complete, it just seems to me
- Taylor: You've got to stick in a couple of "Federals" there, Harry.
- White: Yes, it has to be "Federal expenditures."
- Eccles: "... to balance expenditures." They say, "Well, balance what expenditures?" When you say that, it doesn't mean anything.
- Taylor: They're fixing it up, putting in a couple "Federals" there.
- Bell: How about putting "existing tax sources and rates will provide sufficient revenue - Federal revenue" - if you want to say it - "to balance expenditures."
- Eccles: "... to balance expenditures at present levels."
- Gaston: No.

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Eccles: It's a fact.

Bell: Well, I don't think we want to admit that the level of eight billion, or eight billion nine, is the permanent level of expenditures.

Eccles: We don't admit it; we don't even state it. We simply say, if we had a national income of around 80 billion, that the present revenue sources and present tax rates would be sufficient to do it, but it doesn't say ...

Bell: But it won't according to estimates; it will fall ...

Eccles: But you say "around" in there to give you enough leeway. It may be 81 or 82 or 79.

White: Stretch it to 84.

Eccles: You say that around 80 billion you could balance the thing. I think to say you're going to balance expenditures and then stop without saying what expenditures - the press is certainly going to say, "What does that mean?"

White: Want to say "balance expected expenditures?"

Mumf: Can't say that.

Eccles: No. "Why not talk about "present expenditures"?"

Taylor: Why don't you give a figure of around eight?

Eccles: You could say "around eight."

White: "... to balance expenditures"

Eccles: "... at around eight billion."

Bell: I don't think so.

Eccles: Well, why?

Bell: It might be higher, might be lower.

Eccles: Of course, we're not saying - we're just saying that that kind of a revenue at existing rates will balance expenditures if at that level; if they're less you'd have a surplus, if the expenditures are more you'd

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still have a deficit.

H.M.Jr: Well, the way it was written here before - "That with a national income of about 80 billion, existing revenue sources and rates will provide sufficient revenue to balance expenditures... "

Eccles: "... at .."

H.M.Jr: "... at the present level."

Eccles: I could accept that. That suits me.

Ruml: There's another method that's a little more explicit. You might say around 80 billion dollars would provide eight billion dollars of revenue and then say that expenditures in the last two years have been so much, including amounts for W.P.A. and so forth.

H.M.Jr: If you don't mind, I'd like to leave it open-ended, advisedly, on expenditures. I'd like to leave it open-ended.

Ruml: Uh-huh.

H.M.Jr: I don't want to figure it back. I don't want to give them too much to figure; afraid we might get caught.

Eccles: I'm like you, I think the way that is - you can put the word "around" in there, helps out a little - with that word "around," the statement like it is.

H.M.Jr: I'll take it that way.

Eccles: So will I.

Ruml: That's the point at which Mr. Delano saw it yesterday - that way.

H.M.Jr: What way?

Ruml: As it is.

H.M.Jr: He was satisfied?

Ruml: Yes.

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H.M.Jr: And you?

Ruml: We've got to let Bell think about it.

White: If you substituted the word "current" for "present," it would make it slightly more ambiguous, which I take it is what you want.

(Hearty laughter)

"That with a national income of around 80 billion existing revenue sources and rates will provide sufficient income to balance expenditures at current levels."

Taylor: You can put in "approximately current levels."

White: "... at approximately current levels." I think that's safe.

H.M.Jr: And then after that, put two question marks in brackets.

Taylor: They can't sue you for that one.

H.M.Jr: All right now, where were we? Did we go by number three?

Haas: This, Mr. Secretary, ...

H.M.Jr: Say, in this thing somebody swiped my paper.

Bell: It's right under your envelope there, isn't it? Isn't this it?

H.M.Jr: Oh yes, thanks.

Haas: Mr. Secretary, I think the public when they see the 80 will probably think of eight billion, because the Waley-Eaton letter this week has 80, and they go up to 80 and say eight. They may figure it out very simply that, say, ten percent would be the ratio, so ten percent of 80 billion would be eight billion.

H.M.Jr: Well, that's all right.

May I suggest this, Eccles and Bell and Ruml: let's keep moving; then those three gentlemen should take

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this thing and they can work on this thing and get it to us not later than Saturday. Then we can look at it again. Is that all right?

Eccles: All right with me.

H.M.Jr: Otherwise we won't get through today.

Eccles: Where we can, let's O.K. it; where there's a question let's let them work on it.

H.M.Jr: Well, they've got most of it.

We sort of go by three and we said we agreed on four. Now we're - we haven't talked about five, have we?

Beil: No.

H.M.Jr: "That the influence of the budget upon business activity is in large part conditioned by the amount and source of receipts and direction of expenditures."

I didn't agree to that last night.

White: Well, it can be crossed out this morning.

H.M.Jr: Where is that sheet I worked on? You're bringing some of this back on me.

White: That one ...

Currie: That was a point, Mr. Secretary, in the findings. Do you remember how you had it, Beardsley?

Ruml: That some expenditures have more influence than others and some receipts

Currie: Four or five points.

White: We lumped it up in one sentence, put it in there.

Ruml: Well, from my point of view it's a perfectly obvious statement. But I read some of those editorials, Mr. Secretary, that you sent me commenting on the appointment of the Board.

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E.J.Jr: Yes.

Wmli: And two or three unfavorable editorials - one particularly struck me, which said that obviously no - obviously the Federal budget has no effect on the economy. And sometimes we fail to realize what the state of public knowledge is in this and how it is sometimes desirable to put a pin down.

Eccles: But isn't - we're giving this to the President as our views, that's our findings. It seems to me, when we consider we're not really drawing this up to issue - to release as a committee; we're merely giving it to the President as indicating to him what our findings - what our beliefs or our findings are, and

H.M.Jr: Well, I'm not ready to go along, personally, with five. I'm not ready for that yet. I mean I want to have more time to think about that. I go along with six, but I'm not ready for five.

White: Unless - you may not feel it's appropriate to put in here, that's one problem - but unless you, it seems to me, accept the logic of that, then there is no justification for selecting one kind of tax rather than another.

Eccles: Or one type of expenditure. In other words, all expenditures would have the same effect, whether W.P.A. or P.W.A., and all types of taxes - no difference whether they're - it's a question of the total deficit.

H.M.Jr: But, you see - if I may have a minute - then we get into this whole question of the chart and everything else. I don't want to be put on the defensive to explain this five. I'm personally willing to go along with differentiating between those kinds of taxes; I'm willing to do that.

White: Then it isn't necessary there, because in that case it's implicit in your selection of certain taxes.

H.M.Jr: I'm willing to go along with that, if the other people are; but I very definitely don't want to be put in the position of underwriting five.

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- Rum1: Isn't it true that five ties up with the thing in parentheses that you also want to strike out, and that they aren't necessary for immediate consideration?
- Currie: These are still in the realm of the findings of your experts, that's all. You are advised by the experts. These - this is not part of the recommendation.
- White: Nevertheless, if he doesn't accept it, it shouldn't go forward.
- H.W.Jr: I'm detached from the committee, and if this is made public - and you've always got to go on the assumption it will be - and I go up on the Hill on something else; I don't want to be cross-examined at this time or maybe subsequently. Now, maybe subsequently I'll accept it; but as to five, I'm not ready for five, personally.
- Eccler: Well, you wouldn't - I see, you're in a little different position, because you may feel if this should be made public and you have to go on the Hill, you have to - it puts you in a position of trying to explain the thing.
- H.W.Jr: That's it.
- Eccler: But you wouldn't object then.
- H.W.Jr: I don't object if you as Chairman of the Federal Reserve want to go up when you testify and
- Eccler: I mean, for instance, in this report to the President, what we should say - well now, I feel that that's a proper statement at this time and I'm willing to O.K. it, and you say, "I'm not sure."
- H.W.Jr: Let's put a question mark.
- Eccler: All right, let's put a question mark. I'd like to think about it, as to whether I think it's necessary or not. I'm not sure it is, but if it's all right I'd put a question mark there, which means you're going to eliminate it as far as you're concerned. But I'd like to think about it.

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A.A.Jr: That's all right. Now how about Bell?

Bell: Well, I think it ties in with all this discussion we've had on these charts.

H.W.Jr: Yes, it does.

Bell: It gets back to the old question of whether or not we should spend and spend in certain categories in order to influence the economic picture.

White: Not so much that, Danny.

Taylor: I don't think that says that, Danny, at all.

White: You might take that interpretation, but it isn't the necessary one.

Taylor: That isn't what they're trying to say. If they're saying that, then the sentence should be changed.

Bell: What does it mean, then?

Taylor: Well, it means that certain types of taxation have, let's say, a different - they each of them have different effects, also certain types of expenditures have different effects. Has nothing to do with whether they should be greater or lower.

White: Just a statement of fact, that's all.

White: I think that's fundamental; you take it into consideration every time you try to decide to put a tax on

Reed: Consumption tax or capital gains.

Taylor: Whether it's a good or bad tax, whether you want to do W.P.A. stuff or P.W.A. stuff.

White: I think what the Secretary's thought is, is this legitimate difficulty that he doesn't want to have that raised now. You can accept that thesis. When it comes to a question of attempting to put any exact qualification or measurement or statement as to this tax versus the other, that, I take it, the Secretary doesn't want to approach yet. And the only

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way in which he is meeting this difficulty is by merely specifying the particular taxes or - which he approves or disapproves of. Yet I don't think that you're going that far merely by this generalized statement. I think it's so general, I don't see how anyone could disagree with it. It merely says certain types of expenditures and the amount of that effect; unless that were so there would never be any question

Bell: I think it is well-worded, Mr. Secretary, from

H.W.Jr: I don't want it. I'm sorry, but I can't at this time. I'm impressed with seeing those things. A man like Dr. Viner says, "Now maybe it's all right, but nobody's done enough study on it to say whether it is or it isn't." And I want to see more study before I go up and suddenly find those charts facing me at some hearing and find I signed my name to that. "Well, how about that?" "Well, you said that there. Now what about that?"

So I mean I just - want Viner said; I want more study. Hanes goes even much further; Hanes said no one has shown him yet that a tax on

Walter: Sales tax.

H.W.Jr: .. that a sales tax is deflationary; no one's given him any data to prove it. Everybody says so, but nobody has any data to prove it. Now, I don't go as far as he does; he's talking for himself. I'm willing to go along with what's on page 2. But I'm not willing to go along with that. And I realize - and you say, "Well, the difference is, we're talking about specific things, and then in five we're generalizing." And frankly I just don't want to find myself suddenly with a big chart in front of me. Maybe - but Eccles, you said you're willing to think about whether it's necessary or not.

Eccles: I'd like to think of it in connection with everything else that's going in there, to see whether or not I think it's necessary to complete it.

H.W.Jr: Well, is it agreeable to you gentlemen to leave it go by with a question mark, knowing how I feel about it?

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- Wahl: It is from my point of view. I think it is important to recognize that this statement as it stands is simply intended to be a statement of fact, and no particular discussion of method is involved in the statement of fact. I'd like to make that clear, because there are many methods by which it can be approached, of which we had one.
- Bell: It has this advantage: this is data being submitted to you....
- A.A.Jr: I mean if it's - if Eccles and some of the other people think it's important enough, there's no reason why it can't be put on as an appendix to the statement. If Eccles and the rest of this group want to bring this - "Morgenthau doesn't concur," that's all.
- Eccles: We can just write this in here, say, "Agreed to by so-and-so, and not by so-and-so."
- Wahl: I think you need two categories, one of dissent and one of deferred judgment. You put the Secretary in a very awkward position to dissent from it.
- A.A.Jr: I'm not dissenting.
- Taylor: I don't think the sentence means at all what you think it's intended to mean. And I've come into it, as you know, late - I haven't looked it over; I get an entirely different impression.
- A.A.Jr: What do you think it means?
- Taylor: I think it means what I said.
- E.E.Jr: Say it again.
- Taylor: You're simply saying that certain types of taxes have a different effect than others - that you think they do, and certain types of expenditures have a different effect than others. It hasn't got anything to do, let's say, with this compensatory thing or
- Eccles: Or you don't say what kind of effect they have; but they just have a different effect.

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In other words, a sales tax would have a different effect than an inheritance tax. You might say that putting capital stock into a bank has a different effect from a W.P.A. expenditure. You don't say what effect; you merely say the effect is left open to study. We're not bringing in the charts that were presented.

Taylor: And you think they have different effects.

Eccles: Whether the multiplier is one or five, we don't say; but we do know different expenditures have different effects, and we're not prepared to say what effect. That's what we're studying.

H.K.Jr: But you don't say you're studying. If you don't mind, I just don't want to put my foot into that door, because I'm afraid I may have to go into the room, that's all. Now, that's just the way I feel. On the other hand - it may not seem consistent - I'm willing to subscribe to what's on page 2.

Taylor: Well, it's

H.K.Jr: It's just - I just have a feeling on it, I mean, so the others can think about it.

Sum: This is the last memorandum we'll probably send the President anyway; and there's plenty of time to consider the wording, explanation as to what ought to be said in connection with both the part in parentheses and the others.

White: Mr. Eccles, there's really no loss in leaving it out, because it's quite implicit in your recommendation of taxes, because if we didn't feel certain taxes were desirable and others not, I don't think we would subscribe to them.

Eccles: That's what I said: in relation to the whole document, I'm not sure it's necessary. And I'm not sure it is necessary.

Sum: I think it might be the subject of a later and more carefully considered memorandum.

H.K.Jr: What I'd like to say - "In pursuit of the objective of attaining a high national income ..." In other

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words, I'm trying to think of higher national income, higher national income, you see.

Eccles: What you going to do with number six on the bottom of the page? We passed number five; didn't do anything about number six.

H.M.Jr: "That it is extremely important for Federal fiscal policy to take into account:

(a) the outstanding debt of state and local governments, and their fiscal operations, both as to expenditures and receipts;

(b) the volume of capital expenditures being undertaken by private enterprise."

Haas: That isn't quite the same.

Eccles: In other words....

H.M.Jr: I go along on six.

Eccles: I can.

H.M.Jr: What?

Eccles: I can go along on six.

H.M.Jr: I can go along on six.

Taylor: Not a - so do I, but I think that you have - what you're really talking about in each case is movement.

H.L.Jr: Meaning what?

Taylor: (a) reads as if it were very static. You say "the outstanding debt." Then you go in the other one and talk about volume.

Rumi: Changes in volume - quite right.

H.M.Jr: How would you have it read?

Taylor: They can fix it; they've got what I've - what I'm talking about.

Eccles: Put "changes in the volume." That's right.

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Taylor: Same thing applies more to the outstanding thing than it does to the ...

H.M.Jr: All right to go on two? All right, Dan?

Bull: Un-mum.

H.M.Jr: Mum?

Mum: Yes.

H.M.Jr: "In pursuit of the objective of attaining a higher national income we make the following recommendations with respect to fiscal policy in the next year."

May I just go back again to that thing in the brackets. If you're going to leave the brackets in, then I think there should be something again on top of two, you see. I mean you don't say anything on your recommendation about what's in the brackets on the first page. I just want to draw your attention to that. Harry, see what I mean? I mean you're talking about "in pursuit of the objective..." - you say "objective of ... a higher national income" and you leave out booms and depressions.

Sam: But that's the second clause of that; the part not in brackets does cover that. The policy statement is the part in brackets, and the part not in brackets - the part not in brackets hitches up to that statement.

H.M.Jr: Well then, be all the more reason to leave it out - the part in the brackets.

Currie: The part in brackets hitches on to part 3 in recommendations on the third page.

H.M.Jr: "1. New and additional taxes should be imposed only if there is a corresponding increase in aggregate expenditures, and then only if such expenditures add more to national income than new taxes take away."

That isn't what I read last night, Harry.

Walter: No.

Bell: I don't think you want to say that.

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H.H.Jr: No, that wasn't that way last night.

White: Have you got that copy? Well, even if it weren't - even if you did happen to pass it by, it can come out now.

B.H.Jr: No.

White: It was there, but probably you didn't notice it.

Eccles: It was in the statement yesterday.

H.H.Jr: Was it?

White: There it is - the last ...

H.H.Jr: Where is it, Harry?

White: Down at the bottom of the page.

H.H.Jr: Well - "New and additional taxes should be imposed only if" - no, I can't say that. Can you, Dan?

Ball: No.

H.H.Jr: No.

Ball: been advocating the opposite.

H.H.Jr: No, I can't say that.

Eccles: Well, have you been advocating that you increase the taxes even if there is no increased expenditure? For instance, an armament expenditure - that's an increased expenditure. This merely says that taxes should be increased only if there is an increased expenditure.

H.H.Jr: That's an entirely different philosophy; I couldn't subscribe to that.

Eccles: Of course, you could put taxes on heavy enough right now, and it seems to me if it's important and you want to balance the budget now at 65 by trying to, you could put very heavy taxes on and create a condition of diminishing returns, possibly. In other

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words, it seems a very important thing - the very heart of a fiscal committee, it seems to me, would have to do with whether or not additional taxes are going to be put on before the national income reaches a certain point. It's fundamental, it's the very heart of the thing.

White: Mr. Secretary, we did make one change which might slightly alter that before - we said right above that it is "with respect to fiscal policy in the next fiscal year." In other words, it's not - this is not a statement of general principle, but it just applies to this next year. And I thought you had said you would not favor additional taxes next year unless there were going to be additional expenditures on armaments.

Bell: Well, that isn't what's been talked about at all.

Taylor: That doesn't say that the way it is.

White: Yes it does; it says for "the next fiscal year."

H.H.Jr: No, I can't say that. I mean that thing - I couldn't subscribe to one at all, even changing a couple words. I mean I just don't - I couldn't go along with that.

"2. If taxes are increased, they should be those interfering least with additions to the national income. These are arranged in order of preference."

I'm willing to subscribe to that.

Bell: That's all right.

H.H.Jr: And there's a list there.

White: A couple new ones which you didn't see.

H.H.Jr: "If taxes are increased, they should be those interfering least with additions to the national income. These are arranged in order of preference."

Gaston: I should think one could be restated in a way that you

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H.W.Jr: I doubt if you could do that.

White: Aren't you going to make any recommendation with respect to taxes for next year - in this document, I mean?

H.W.Jr: Well, here's the - let me just take a minute or two to explain. I've been here now five years. In the first place, I've always taken the position before the committees that I go on this law, which may or may not be correct, but I've taken it: I have never recommended any form of additional taxes, and that we wait until Congress sends for us and asks us. And then it's what kind of taxes. They say how much money. That's the position I've always taken. I took that position at my press conference this morning and I've never originated - I mean as Secretary of the Treasury.

Now, as to the way it's going to boil down - this is very confidential, Harriner, all of you - I mean so that you have the whole picture, this is the latest situation, and it's shifted twice this week, but this is the last one. The President says he's going to ask for an additional billion of taxes, 500 million of which will come in during the fiscal year '39-'40 and the other 500 million would come in in the subsequent fiscal year. Is that right, Dan?

Belk: That's right.

Lucas: How could you get it in this fiscal year '39-'40?

Belk: That's Mr. Hanes' problem to try to work out.

Lucas: You've got to get it passed before March 15.

Gustons: You're talking about fiscal year '39.

H.W.Jr: July 1, '39, to June 30, '40.

Lucas: Get half of it then - get the last half.

Belk: That's right, yes.

H.W.Jr: Well, I - in the year '39-'40, out of the - what they recommend is a billion dollar tax bill, of which only 500 million would be collectible in '39-'40.

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- Bell: In the fiscal year 1940, that's right.
- Acles: In the fiscal year 1940. It's the fiscal year '40; collect half of it and half of it would come in the next year.
- H.M.Jr: Is that right, Dan?
- Bell: That's right, yes.
- H.M.Jr: And - no, and then in the subsequent year you get a billion. It's a billion dollar tax bill.
- Acles: A billion a year, and you'd get half of it in the last half of the fiscal year '40 and you'd get a billion
- Whiter: It's a billion dollar tax bill, but you creep up on it so that for the first two years you get a billion and a half.
- Gaston: Largely estate tax; you wouldn't get much.
- H.M.Jr: Against that - we have never spoken as confidentially as this; it's very confidential - the figure again as it was of Monday or Tuesday for national defense, was, on a cash basis in the coming fiscal year, 500 million dollars; but the appropriation would be at least for a billion, wouldn't it?
- Wells: I didn't get that last part.
- H.M.Jr: Well, I think so. Taking what he did with Coast Guard, for example; he asked for three cutters, nine million dollars. You said, "Well, I'll give you three because that's all you can spend." I take it he's doing the same with everybody.
- Bell: I didn't get the last part on the billion. I got the information all we'd send up in the subsequent estimates would be 500 million.
- H.M.Jr: He didn't tell me that either. I'm just taking it .. He said the Navy - they want so much - I'm taking it he took it on the basis they'd only spend this much, there would be at least two-thirds left.
- Bell: I see. Well, I don't know.

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- H.M.Jr: Well, I'm jumping to that conclusion.
- Selli: That probably is right, in view of his previous discussion.
- H.M.Jr: I'm jumping at that conclusion. I may be wrong. Again so you have what he has in his mind, what he said - try, if we're going to be out of pocket 500 million on national defense, for everything over and above the regular - he says, "I want to raise 500 million for that."
- McCles: but he doesn't - but that isn't in addition to this tax that we're talking about. In other words, you said that he wants a tax that will give 500 million in the fiscal year '40 and a billion in the fiscal year '41. He doesn't want another 500 million to meet that. That's what he wants the 500 million for.
- H.M.Jr: The 500 million is to meet the extraordinary national defense appropriation.
- McCles: He expects that there will be an appropriation, say, of a billion dollars, but of actual cash expenditure during the fiscal year of not more than 500 million, say half of what is appropriated.
- H.M.Jr: That's right.
- McCles: We surprised if it reaches anywhere near a half.
- H.M.Jr: I'm giving you the most recent and the most confidential information I have. Now, say this to Delano but nobody else, please, and caution him, will you please?
- Wahl: Yes, sir.
- McCles: I just say I'm not surprised at that conclusion.
- H.M.Jr: Now, here's my position, you see, knowing this - and now that you know it, I don't want to be in a position to say, "Well now, you can't have additional taxes unless you have additional expenditures," because, in the first place, the President doesn't arrive at that - he said, "In order to take care of the Army, Navy and Coast

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Guard, I'm going to spend 500 million dollars. Johnny, raise me 500 million dollars additional taxes."

And therefore, knowing that - I mean I say I'm willing to go along and say, "Well, if you're going to do that, Mr. President..." - I mean he isn't going to dissociate me one minute as Secretary of the Treasury from the next minute as Chairman of this Board. He'll say, "What's the matter with you, Henry? were you dumb the other day when you were over here?" So, knowing this, I'm willing to join you people in saying, "Well, if you want 500 million, Mr. President, we consider these are the least deflationary and these are the ones which are the least desirable." Doesn't that make sense?

Rush: Yes, but, Mr. Secretary, something must be wrong with the phraseology of number one, because that's exactly what you had.

Wheeler: Just exactly - that's just what we say here.

H.S.Jr: But I don't want to say you mustn't have new taxes unless you have new expenditures. That's what I can't swallow.

Rush: It ought to be possible to rephrase it.

Wheeler: I think that's important, number one.

H.S.Jr: I want to be reasonable. Try it.

Wheeler: Mr. Secretary, isn't it fair to state this: that the President has talked to us from time to time on the national defense program of substituting national defense expenditures for P.W.A. and W.P.A. In other words, he would reduce other expenditures when he starts in on his national defense program, so there will not be additional expenditures over the present level. Therefore, the tax to be levied will be to take care of the present level of expenditures.

H.S.Jr: But then again, being on the level with these people, "anny, were you impressed when he said that?

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- Sell: Yes, I think you have to be practical in the thing. I don't think this expenditure can go up above nine billion.
- Caston: Of course, he denied that at the press conference and those figures you showed us contemplate additional expenditures for the armament, over and above the corresponding expenditures for this year.
- Lucas: I think that's a fact too; that's what it will result in.
- S. S. Jr: What I don't want to say is this. Eccles and I have an honest difference of opinion. I don't want to say publicly that you can't raise additional taxes unless you have additional expenditures. I don't want to be in that position, see? Now, see if you fellows can get me into the position where I feel comfortable.
- Lucas: Well, without going to the question of what the formulation should be, Mr. Secretary, may I point out that unless in fact no additional taxes are taken in beyond what goes for expenditure, unless there be some extraordinary tax that has no effect whatever on purchasing power, the effect of such a policy will be damaging to the national income in two ways, because it will both remove purchasing power from the hands of the people and will increase costs, thereby increasing prices and getting a destructive situation. The fact of that just simply cannot be overlooked.
- Lucas: You're talking about a national income of 80 billion as the objective. Therefore, the tax program, the expenditure program, have to fit into what that objective is. And it seems to me that we're going counter to arriving at that objective to the extent that we impose additional taxes, unless at the same time there are expenditures to offset them. I mean, in other words, we've got a Federal expenditure of around eight billion dollars. Well, to try to reduce the deficit by taxes on the present national income basis tends to freeze the national income where it is. That's my theory.

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- Qastan: I'd suggest a substitute there: that there shouldn't be any drastic increase of taxation, in view of the present status of recovery; if in order to improve the budget position a moderate increase in tax revenue is considered desirable, then it should be sought from the right sources.
- Rum: Of course, something could be done to increase tax revenue by shifting the sources of it.
- Sciles: That's very difficult, practically.
- Scal: What probably is happening - we're playing a grand game of put and take, or take and put. The dollars we take in taxes we have to put out on W.P.A. and P.W.A. and the budget gets higher and higher consequently.
- H.M.Jr: Well, to be entirely fair to myself, when I saw the President on Sunday I was entirely satisfied and nappy - when he told me Sunday that he was going to ask for only 500 million tax bill, of which - and he upped me 500 million. You were present, Dan.
- Ball: Yes.
- Sciles: Well, this isn't counter to that.
- H.M.Jr: No, no. I was convinced, after listening to the other people, that at this stage of recovery a tax bill calling for 500 million, which would only be really collectible in the second year after the time it was passed, was acceptable. I did not recommend a billion dollars. I think 500 million at this time is about all we could stand.
- Sciles: I think you can't stand that unless you're going to spend the 500 million.
- H.M.Jr: Well, you're going to.
- Taylor: Well, you're going to; don't have to worry about that.
- Sciles: That's all we say here, then.
- H.M.Jr: Just a difference in approach: "Which comes first, the chicken or the egg?" You say the expenditures come first.

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- Secles: They go together here. I think the tax and expenditure go together.
- H.W.Jr: If these fellows, plus Ruml, can put it on a basis of recovery rather than expenditure, I'll go along with you.
- Secles: That's the only basis I have in mind.
- H.W.Jr: Harry, did you have what I said in
- White: Not this last.
- H.W.Jr: If you people can work it out with Ruml that you put it on the basis of recovery - at the present stage of recovery we can't stand much more taxes...
- White: I think it would be very easily stated; very easily eliminate this statement of principle here. There's no need for that statement, since you agree on what's going to be done. Time to fight over the principle is when there's a difference in the recommendations.
- H.W.Jr: Can you fix it up?
- Ruml: I think so.
- H.W.Jr: And make it palatable to me.
- Ruml: We'll try.
- Secles: Well, I'm not - I'm not advocating expenditure first and then taxes. I'm advocating that they go right together, that you get the taxes to take care of the expenditures. If they're going to increase the expenditure 500 million, then I'm for increasing taxes to meet that.
- H.W.Jr: Well, on that basis we're practically together.
- White: That's what I said.
- H.W.Jr: We're all together. But ...
- White: The way it's stated here, there's a principle which goes beyond that, and I take it that it's not necessary to raise that principle at this time, since the

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recommendations and things in process are things you're together on and can be so stated.

H.M.Jr: Mr. Keenes just stated - I'll go along with what he said.

Keenes: Let's restate that thing along that line, then: that if they're going to increase expenditures, they should increase taxes along with them to meet the increased expenditures, so that the deficit is not increased.

H.M.Jr: Something along that line.

White: But in view of the state of recovery, you don't feel that further drastic taxes are called for at this time.

H.M.Jr: But - I'm not fooling myself - but in this thing there is a philosophy expressed which I don't subscribe to.

White: There is something more than that implied in this statement, that's true.

H.M.Jr: I don't want to get in that "something more."

Roller: Right. That can be out quite legitimately.

Gaston: He's writing a prescription for this particular situation without going into his medical philosophy.

H.M.Jr: That all right with you (Bell)?

Bell: Yes.

H.M.Jr: All right. This is wonderful.

Now, all you got to do is - what else is there?

White: There's a couple of new taxes been slipped - been put in.

H.M.Jr: Slipped?

(Hearty laughter)

Harry, that's the time you slipped. Oh boy, you're

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going to have to take that for a month.

Eccles: I hope he got that on the machine.

H.M.Jr: He did.

In the future will you underline the ones that were slipped in? Let me look at those first.

White: They are (c) and (d) under two.

Gaston: Doesn't say which ones.

H.M.Jr: I think you better wait until Hanes looks at this list.

Eccles: You've got six in this statement. Have you put some more in?

White: (c) and (d) were not in the list which the Secretary saw last night.

H.M.Jr: Were they slippery?

White: (c) and (d) under two - capital gains and undistributed profits.

H.M.Jr: Oh yes. Oh yes. Herman Oliphant

White: I just was a minute ahead of time. I knew you'd see it.

Taylor: I would like to object to the order if you - if they were included.

H.M.Jr: You missed the uproarious laughter because Harry in a moment of weakness said they slipped a couple in, and the ones that they slipped in were (c) and (d).

Taylor: Yes.

Bell: I think - thought it was pretty well agreed in the meeting the other day that the income taxes mentioned were third in order of priority.

White: Income tax on the middle brackets, third.

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H.M.Jr: That was second.

Bell: No, I think it followed the inheritance.

H.M.Jr: Well, they put gift taxes

Taylor: (a) and (b) were grouped together.

White: They were originally.

H.M.Jr: again going - as far as the President is concerned, all he's interested in for the moment, and Hanes, was inheritance taxes and gift taxes and the - and (e)

Bell: Middle brackets.

Taylor: (e) and (f).

Bell: (e) and (f) are together, really.

H.M.Jr: (e) and (f).

Eccles: well, not altogether, Dan. I mean you can take (e) and modify the exemption and it has the effect, of course, of increasing the revenue; but it's a little different than actually applying an increased tax rate.

Bell: I agree to that.

Eccles: It has the effect.

Hans: On the first one, Mr. Secretary, the Federal Government does not have an inheritance tax. It's an estate tax.

H.M.Jr: Yes, I know. That's a good point.

Eccles: This capital gains and undistributed profits - we're not looking at this from a political standpoint; we're considering - we know that it may be thoroughly impractical and the President might not even have proposed them; but looking at it from the standpoint, from which we're discussing this, the economic effect, these taxes are certainly preferable to increasing taxes on the low income group or increasing sales taxes or anything of the sort. They - I'm strong for both of them.

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A.J.Jr: Would it be agreeable to you to have a rum session with Hanes? He's over at Social Security this morning. I asked him to go over to represent me. Will you have a rum session with him on this?

Coates: I'll be glad to see him, but I don't think it would accomplish very much - either him converting me or me converting him.

Taylor: You always come out where you started on that one.

B.J.Jr: How about three? Does anybody want to change three? Processing, sales taxes

White: Did you make a decision on two?

H.J.Jr: I'm going to wait until Hanes sees this.

Bell: Do you want Hanes to see three too?

A.J.Jr: Three also, very definitely.

Bell: Yes.

Hanes: On three, I don't think we can make up a very strong case for its exact order.

H.J.Jr: But leave processing taxes first, just to help me out.

Hanes: In other words, whether this is two or one, they all look bad.

H.J.Jr: But leave processing taxes first.

Taylor: I'd move (c) up to second place; but that's just a question of opinion.

White: We can just cut out "These are arranged in order of least desirability," if you don't like that phrase.

Humi: I wonder a little about that; I think it's a doubtful point. But the thing about the sales tax is that it not only takes away from consumer income but it also tends to obstruct purchasing. You get a double effect out of a sales tax that you don't get on a tax on payroll, a resistance to price

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Eccles: Adds to the cost.

Mumf: Adds two things.

White: That's true of the processing tax.

Mumf: Processing tax likely will get ...

Taylor: Get a triple effect on processing tax because ...

Mumf: Because you get mark-ups all along the line.

Taylor: Just a question of personal

H.M.Jr: Would you put capital gains and undistributed profits last?

Taylor: I would if you mention them at all.

Eccles: I don't think the President will mention them, but I do think that from our point of view it's a good thing to make a record here on that.

Bell: Does this mean we're in favor of eliminating the present excise taxes.

Eccles: Just talking about increased taxes.

Bell: Talking about increased taxes.

White: New taxes.

Eccles: That's all, just new taxes.

Bell: If taxes are increased.

Eccles: How do you feel about that undistributed profits and capital gains? Don't you think it ought to be put in there? Why should we shut our eyes just because Congress doesn't like them?

H.M.Jr: Oh, I don't - I mean I'm the fellow that took it on the capital gains - I mean on the undistributed ...

Eccles: They're the easiest taxes to defend I think there are.

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H.M.Jr: I was just looking for an easier time next year; I don't suppose I'll have it.

On the undistributed - one thing I was never satisfied with on the undistributed was the way it hit small business.

Eccler: That's right. But the principle ...

H.M.Jr: As to the principle, where it got into the big corporations, why, I always thought it worked pretty well. But when it came to the little fellows, I just never could see it. I mean I think it made it very, very difficult for the man with a moderately small business.

Eccler: You and I agree a hundred percent. The proposal I wrote up on that was a fifteen thousand exemption right from the start.

H.M.Jr: Well, I'd go bigger than that. That's where it hits those fellows; and I never knew a good answer to explain why it didn't hit them.

Gordon: It's the little stockholder of the big corporation that was getting soaked.

Suml: We had some experiences with that tax, and I'll be very glad to relate them at any appropriate time.

H.M.Jr: Well, can we go along? We've got about ten minutes more. What?

Eccler: Well, I

H.M.Jr: Go ahead, Harriner.

Eccler: I was just going to say, do you - let's leave a question on them. Personally I'd like to see those two in.

H.M.Jr: I'm going to ask you - Hanes to meet with you fellows again.

Eccler: I don't care whether they're put down below the others. I think as a practical matter you won't get them in until at least after you get (e) and (f) in.

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H.H.Jr: What about four?

Bell: I don't know how you arrived at the statement that the deficit the second half would be less than the deficit the first half.

Currie: Don't you think that is so?

Bell: I don't know; just haven't figured it out.

Currie: Your income tax, your payroll tax - you all step up the first half of '40. Your W.P.A. presumably with the recovery of business will be slightly lower. I don't think - see how it can be avoided.

Bell: I'm not so sure about the tax part.

Ecceles: Well, the rate goes up. The present recommendation is half ...

Taylor: I sat in all yesterday noon with them, Dan, and the way George's stuff - I read it that way.

H.H.Jr: This is Professor Hansen - this is his suggestion, isn't it? At least that's where I got it from.

Taylor: Have quite materially increased receipts in the first six months of calendar '40.

Bell: '40, yes. Well, this is all right then.

Ecceles: Our own experts are all agreed on this: both Federal Reserve and Treasury, and Resources; it all fits into it.

Hoes: I think that that's the way it's going to work out.

Taylor: That was certainly the impression I got from

White: Social Security recommend this too?

Currie: Not on (b), but (a).

Hoes: It's all involved in the whole problem of Social Security. Question whether you want to take a piece of it like this and make a decision.

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E.J.Jr: I raised this point with the President. He just brushed it aside. But that doesn't mean he's right. Let's just pass it. I mean Hansen convinced me it's all right. But I just want to get through the whole memorandum today, so we'll have it over the week-end.

Wells: I'm con- - certainly convinced of it.

E.J.Jr: Hansen convinced me all right.

Wells: Aren't you sure that you're not starting something that you can't hold back?

E.J.Jr: Well, they've started it, Dan, anyway. But let's ...

Wells: I guess they did.

E.J.Jr: Were you there when the President said, "No"? He told me, "No, I don't want to change it, because once we change it we're sunk."

Wells: I think that's right.

E.J.Jr: He said, "Once we change it, we're sunk." He said, "I don't want to do this." I gave this to him Sunday. He said, no, he didn't want to do it. He said, "Once we let the barriers down, we're sunk." But that doesn't mean necessarily he's right or we're right.

Wells: Difference in point of view. Others might say that once he lets the barriers down, he's saved.

E.J.Jr: I'm willing to take it. But I'm rushing at this point; I'd like to get the whole thing once.

"The Board notes with approval the proposed adoption of the principle of the 'Businessman's Budget' and recommends that the principle be extended as rapidly as feasible to include

"(a) the shift of certain assets to self-financing government corporations;

"(b) the shift" I don't like the word - isn't "shift" sometimes considered an under-shirt?

Wells: Also a gentleman with a black beard.

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S.S.Jr:

"(b) the shift of certain appropriations to self-financing government corporations. Examples: Farm Tenancy Program, H.R.A., U. S. Maritime Commission, etc.

"6. (a) For the purpose of adding to the national income next year, and of preventing what promises to be a serious bottleneck within the next year or so, action should be taken to stimulate a large railroad equipment program through a self-financing government corporation.

"(b) Recovery could be stimulated without adding to the deficit by an extension of certain other government activities through the device of self-financing in government corporations. Examples are toll roads, bridges, tunnels, public garages, etc."

The only thing I'd raise - as I say, I'm rushing - I don't know how anybody else feels, but I just wondered if under six - if that sort of thing shouldn't be indicated, but are we ready to say railway equipment?

Seymour:

Well ...

S.S.Jr:

Eccles, have you crossed that bridge?

Bell:

You mean (b).

Taylor:

(a).

Seymour:

I'd be perfectly ready, because we did an awful lot of work on that before. But as to whether or not it should be the government corporation or whether there should be a - I question whether we could get that over or not. But if not, then certainly the railroad equipment thing should be tackled. I think it's fundamental. And this committee that's been appointed - they likely will approach this from the standpoint of hundred percent loans by the R.F.C. at very low rates, which would be somewhat of a subsidy to the railroads to get them to go ahead. Now, that would be certainly better than nothing, but it possibly wouldn't be as good as this, because we wouldn't have the same kind of control over it that a government corporation would. But I don't

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know of any field of private activity that would be - that's as necessary, and will be in the future and will likely create a bottleneck, and at the same time would actually lose less to the government; it would be more self-liquidating in nature.

Kuhl: Marriner, it sounds awful good, but I wish that this language would be not quite so specific as a recommendation, because I feel, I'm sure Mr. Delano feels, that unless he sees black on white that he can study - it certainly sounds marvelous, but we haven't seen anything as a board.

Taylor: You might say "preferably."

Woolles: You've all got - the memorandum's here, very complete.

A.A.Jr: What I again say, couldn't - what we say - "For the purpose of adding to the national income next year, and of preventing what promises to be a serious bottleneck within the next year or so, action should be taken to stimulate a large railroad equipment program" - and stop right there.

Woolles: That's all right.

A.A.Jr: Stop right there, leave off "self-liquidating government corporation."

Kuhl: That's all right. But you must leave out the bottleneck situation because that applies only to the railroads; got to leave that out.

A.A.Jr: Use that as a type.

Woolles: If you've got to talk about bottlenecks use this as a type, say, "This is not the only thing ..."

A.A.Jr: I'm rushing a little bit here; I know I am.

Woolles: Well, in view of the fact you haven't read the memorandum and the other members of the committee are not completely sold, possibly, or in a position to support that program, I would be willing to leave it in general terms.

Kuhl: Such as?

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Coles:

as a type case here.

S. J. Jr:

O.K.

"Recovery could be stimulated without adding to the deficit by an extension of certain other government activities through the device of self-financing in government corporations. Examples are toll roads, bridges, tunnels, public garages, etc."

That's all right.

"7. That a comprehensive survey be started with the view of immediately setting up machinery to obtain all necessary detailed information with respect to the current receipts and expenditures of State, local and municipal administrative bodies and to changes in the volume and make-up of their outstanding debt.

"8. Arrangements should be made at once that would make possible engineering and legal planning of various public works which would be available for immediate prosecution when required to give increased flexibility in the timing of public expenditures and increased assurance of value and utility of the expenditure itself."

That's a new one.

Bell:

National Resources.

Rum:

I suggested that this morning. One of the great difficulties that we have always had is being able to have things available when, as, and where needed.

S. J. Jr:

That's right.

S. J. Jr:

"and a great criticism that I heard Monday night of the whole program was the fact it looked wasteful; that they weren't getting enough for their money.

S. J. Jr:

Well, I tell you what I'm willing to do. If the experts can work, I'd be willing to give up a perfectly good Saturday morning to meet again, Marriner.

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Eccles: Suits me. I - Saturday morning - let's see. Yes, I can get - I've got to go up to that - I agreed to go to some New York gridiron dinner affair that the financial group is having - Bill Douglas and Leo Crowley and - agreed to go up there - the head of the Stock Exchange, Martin. We can catch the midnight. There's a train ...

Taylor: .. around two.

Eccles: I'll make it a point to catch that and get here if you want to have a meeting Saturday morning.

H.M.Jr: I think we ought to, because we didn't just have time ...

Eccles: When are we meeting with the President?

H.M.Jr: Monday afternoon. Monday morning would be too late.

Eccles: O.K., Saturday.

H.M.Jr: And if Currie and White had a Sunday off they wouldn't know what to do with it.

Eccles: That's right.

H.M.Jr: Haas too.

Ten o'clock Saturday?

Eccles: Suits me.

H.M.Jr: Ten o'clock.

Ruml: I wish you could make it at 10:30. I tell you, we have a Resources Committee at 9:40. If I could get in 40 minutes with them ...

H.M.Jr: Could you do it in 40 minutes?

Ruml: I agreed to put in an appearance.

H.M.Jr: Dan?

Bell: It's as good as any time. Putting me in the hole. I've got about four days of work here, which if I don't finish by Monday I'm sunk.

H.M.Jr: 10:30. Well, I think we got over a lot of ground.