

200  
December 15, 1938.

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 to make such preparations as may seem advisable for the administration of fiscal and monetary policy toward mitigating the severity of future booms and depressions.)

Data

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.
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.
3. 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.
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.
5. That the influence of the budget upon business activity is in large part conditioned by the source of receipts and direction of expenditures.
6. 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.

- 2 -

Recommendations

In pursuit of the objective of attaining a higher national income we make the following recommendations with respect to fiscal policy in the next fiscal year:

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.

2. If taxes are increased, they should be those interfering least with additions to the national income. These are arranged in order of preference:

- (a) Inheritance taxes
- (b) Gift taxes
- (c) Capital gains
- (d) Undistributed profits
- (e) Modification of income tax exemptions
- (f) Income tax on middle brackets

3. We advise against taxes which operate to reduce substantially consumer purchasing power. These are arranged in order of least desirability:

- (a) Processing taxes
- (b) Sales taxes
- (c) Taxes on payrolls
- (d) Excise taxes
- (e) Taxes on low incomes

(4. In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recommend that

(a) benefits in connection with old age annuities should be liberalized and payments begun in 1940, and

(b) that the 50 percent increase in old age payroll taxes scheduled to begin in 1940 be postponed to the following year.

(The addition to buying power resulting from the adoption of these two proposals would amount to \$250 - \$300 million during the second half of the fiscal year 1940.)

- 3 -

5. The Committee 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 of certain appropriations to self-financing government corporations. Examples: Farm Tenancy Program, R.E.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.

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.

213 9/12-17  
676

# RECONSTRUCTION FINANCE CORPORATION WASHINGTON

JESSE H. JONES  
CHAIRMAN OF THE BOARD

December 15, 1938

*James H. Jones  
of board is all  
right*

Dear Mr. Secretary:

The enclosed resolution covers action taken by the Executive Committee of the Export-Import Bank held in my office December 13th.

The action will be approved by the Directors when a quorum is available, but between Directors' meetings the Executive Committee has authority to transact business.

You are advised that this Corporation is prepared to buy the additional \$25,000,000 preferred stock in the Export-Import Bank of Washington when requested to do so by you with the approval of the President. There is a place at the bottom of Page 3 of the enclosed resolution for the President's approval.

Sincerely yours,

*Jesse H. Jones*  
Chairman

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

*Approved  
sent to  
Carter - Ryc  
3:45 PM  
12-15-38  
N*

RECONSTRUCTION FINANCE CORPORATION  
WASHINGTON

LESLIE H. JONES  
CHAIRMAN OF THE BOARD

December 15, 1938

*Sumner Welles  
approved 12-15-38*

Dear Mr. Secretary:

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The action will be approved by the Directors when a quorum is available, but between Directors' meetings the Executive Committee has authority to transact business.

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Sincerely yours,

*Leslie H. Jones*  
Chairman

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The Secretary of the Treasury  
Washington, D. C.

*Copy  
sent to  
Carter-V-Exc  
3:45 PM  
12-15-38  
M*

It has been a mistake, and a grave mistake, to think that the absurdity of what is going out from such sources as the Dies Committee is enough to refute it in the popular mind. On the contrary, the more absurd the charges, the more sensational they are, the more publicity they receive and hence, the more widely they are believed by the mass of people. This is true of all things that play on mass fear, and it is confirmed in this case by the Gallup poll of December 10, which shows that 74% think the Dies Committee is doing an important job and should be continued. It is important to note that the vote favorable to the Dies Committee was heaviest in the South and middle West, where such movements as the Ku Klux Klan have always been the strongest.

Many other groups operating secretly are playing on the fears of the people. The most preposterous rumors are being circulated and widely believed by that great mass of people who get their news and form their opinion from hearsay.

Grave as has been the mistake of assuming that such activities as those of the Dies Committee and of other rumor factories are unimportant because absurd, it would be an even graver mistake to attempt anything that looked like suppression, such as cutting off appropriations. That would add fuel to the flame. Folk everywhere would ask: "What are they trying to hide?"

All these fear stories going to the people are serious. They are, of course, serious if true; and equally serious if false. Spread

- 2 -

fear widely and deeply enough and anything, however monstrous, can emerge from it or be built on it.

The practical, wholesome and democratic way to deal with this situation is to set up a group outside the Government, and composed of men in whom all people would have complete confidence and to whom they could go to get the truth.

This group should be composed dominantly of the elders of our national community, who have no self-interests to serve and who face life with the sincerity and detachment which the approach of its end brings. The following are the type I have in mind:

Charles C. Burlingham, of the New York Bar

William Lowe Bryan, retiring President of Indiana University

Daniel Willard, retiring President of the B. & O. Railroad

Nicholas Murray Butler, President of Columbia University

John Hessin Clarke, ex-Justice of the United States Supreme Court

John H. Finley, retiring Editor of the New York Times

Albert Bushnell Hart, author of history textbooks

In addition, it might be wise to have in such a group one or more persons whom the masses know very well, such as Will Rogers, were he alive. Names of this kind are Lewis Stone, actor, Edgar A. Guest, popular author, and indeed, Robert Ripley, of the press and radio.

The work of this group should be supported by popular subscription. This bulwark against terror and intolerance should be built like much of the Washington Monument — from the pennies and dimes of school children and small sums from many people.

- 3 -

This group would need a relatively young executive secretary to carry the labor load. A newspaper editor, universally accepted in the newspaper world as an honest and competent editor and newsman, might be best for this purpose.

The group would meet periodically, first to decide what questions coming to it would be investigated; second, to announce its report on those previously selected for investigation. Its product should be cumulated in pamphlet form from time to time, and made universally available.

Now this whole thing should be initiated is of first importance. In its operations its complete detachment from the Government, church, business, etc., should be constantly emphasized. Should that be true of its initiation also? It could be started by an invitation to a White House conference issued jointly by the President and Mr. Landon or Mr. Hoover; or it could be started by privately laying the plan before one of the proposed group, such as Charles C. Burlingham or William Lowe Bryan, and having him get it under way as a citizens' undertaking, begun wholly apart from the Government.

Finally, the work of this group should not be aimed at the Dies Committee or at any other rumor agency. It should be pitched on a plane far above them, and should deal with rumors and falsehoods, not with their sources.

Alternatively, this whole thing could be done under the auspices of, or indeed by, some existing organization, such as the National Education Association or the Parent-Teachers' Association.

*Harman Olcott*

12/15/31

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Treasury Department  
Division of Monetary Research

Date.....1938

To:

The text includes only those statements on which there is believed to be complete agreement. The portions in the parentheses are, I believe, agreed to by some but I am not sure by all.

H. M. Jt.

White only had the  
pages ready. I put(?)  
by the ones I want to

MR. WHITE Enclosure  
Branch 2058 - Room 200 J. W. H.

219  
December 15, 1938.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

DEC 15 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information

To-day's public hearing on the glass industry was featured by the story, through the testimony of George Ball of Ball Brothers, Mr. Levis, President of Owens-Illinois Glass Company and Mr. McNash, President of the Hazel Atlas Glass Company, of the enveloping movement by certain groups in the industry, through combination among themselves, by which the amazing degree of concentration of power which now exists in the industry was achieved. This story was supplemented by the testimony of two representatives of small people in the industry showing how the "squeeze" was put on, through actual litigation or threat of litigation or otherwise (all relating to patents). The story was effectively told and the need for some corrective measures made abundantly clear.

HM

Peiping via N.R.

Dated December 15, 1938

Rec'd 7 a.m. 16th

Secretary of State,

Washington.

724, December 15, 5 p.m. (GRAY)

One. The first anniversary of the establishment of the Provisional Government passed yesterday without untoward incident. Some tension existed in the city for a few days previously; motorcars, including those of foreigners, were stopped at night; and the city gates were carefully guarded.

Two. The occasion was observed by a ceremonial meeting at which were read congratulatory messages from the Japanese Premier, war, navy and foreign ministers, General Sugiyama and the counselor of the local Japanese Embassy. (END GRAY) Among the statements contained in a manifesto read by Chairman Wang Keh Min were the following "The authorities of the Provisional Government are sure that the stabilization of the Far East, above anything else, depends on the close cooperation between Japan and China, while all the

-2- #724, Dec. 15, 5 p.m. from Peiping

the reconstructive work in China must depend on Japan's direction and assistance. Japan, our neighbor, sent expeditionary forces to China to eradicate what Chinese there were for future disturbances, and things have (now?) not been so reformed that a new start in the conduct of national affairs of China can be taken.

This lofty and unselfish act of Japan has been the source of our never-failing pleasure and delight, while the Japanese love of peace and humanity has compelled us to be grateful. Feelings of gratitude and sorrow fill our hearts when we think of numberless Japanese who have so far sacrificed their lives for the common cause, ~~not to~~ speak of still others, the number of whom are legion, who have exposed themselves to the suffering, physical and mental, for the past year" and "in cooperation with the reformed government in Nanking, and another regime which will soon be established, we shall, in response to public voices, strive toward the realization of our projected aim -- the establishment of a new China".

Three. Repeated to Chungking, by mail to Tokyo.

LOCKHART

WIC:HR

Confidential

P A R A P H R A S E

A telegram (No. 766) of December 15, 1936, from the American Ambassador at Tokyo reads substantially as follows:

Washington and London despatches to the effect that the United States and Great Britain are actively considering the matter of economic reprisals against Japan and feature articles on this subject have, during the past few days, received much attention in Japanese newspapers. As the newspaper articles contain points which have not appeared in the published press despatches it seems that the interest of the Japanese papers in the matter has been inspired by the Japanese Foreign Office or some other official source. An article in the Asahi, which is exceptionally well informed, states that before long the Japanese Minister for Foreign Affairs will again take up his conversations with the American and British Ambassadors and that after explaining the Japanese viewpoint he will urge that plans for economic sanctions by Great Britain and the United States against Japan be reconsidered. The Asahi states also that there is growing evidence of discussion between Great Britain and the United States looking toward concerting measures of reprisal, that at the present time the Department of State has under study the possibility of

-2-

of excluding imports from Japan or restricting them, using Section 338 of the Tariff Act as a basis for this action, and that instructions have been sent to the Japanese Ambassadors in Washington and London to find out the intentions of the governments to which they are accredited. As signs of the trend of British and American thought in official circles, the Japanese newspapers are referring to such matters as a reported approaching American credit loan to China, the return to the United States of Ambassadors Kennedy and Johnson, and increased British export guarantees to cover the purchase of war supplies for China. The tone of the articles in the Japanese press is not compromising although they emphasize that the door in China will not be completely closed by Japan.

793.94/14503.

RECEIVED

DEC 1 1938

TREASURY DEPARTMENT

U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

# UNITED STATES OF AMERICA

## 2 PERCENT TREASURY BONDS OF 1947

Dated and bearing interest from December 15, 1938

Due December 15, 1947

Interest payable June 15 and December 15

TREASURY DEPARTMENT,  
OFFICE OF THE SECRETARY,  
Washington, December 5, 1938.

### I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1947, in payment of which only Treasury Notes of Series C-1939, maturing March 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series C-1939 tendered and accepted.

### II. DESCRIPTION OF BONDS

1. The bonds will be dated December 15, 1938, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1947, and will not be subject to call for redemption prior to maturity.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized.

ized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before December 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series C-1939 maturing March 15, 1939, which will be accepted at par, and should accompany the subscription Coupons dated March 15, 1939, must be attached to the notes when surrendered, and accrued interest from September 15, 1938, to December 15, 1938, (\$3.770718 per \$1,000), will be paid following acceptance of the notes.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, Jr.,  
*Secretary of the Treasury*

(Filed with the Division of the Federal Register, Dec. 5, 1938)

U. S. GOVERNMENT PRINTING OFFICE: 1938

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 15, 1938.

TO Mr. White  
FROM Mr. Hooker

The price paid for newly mined domestic silver has remained at 64.64 cents per ounce for the entire year 1938. On the other hand the general index of commodity prices and the index of prices of metals and metal products of the Bureau of Labor Statistics have both declined.

|   | <u>January<br/>1938</u> | <u>November<br/>1938</u> | <u>Percent<br/>Change</u> |
|---|-------------------------|--------------------------|---------------------------|
| Price of newly mined domestic silver                | 64.64¢                  | 64.64¢                   | -                         |
| B.L.S. general wholesale price index                | 80.9                    | 77.3                     | - 4.4                     |
| B.L.S. index of prices of metals and metal products | 96.6                    | 95.2                     | - 1.4                     |

If the price of newly mined domestic silver had been adjusted to the change in the general wholesale price index it would now be 61.76 cents per ounce and to the change in the index of prices of metal and metal products it would now be 63.70 cents per ounce.

December 15, 1938

Talked to the President of the United States and thanked him for all the backing he has given me on the Chinese loan and also that he gave me the opportunity to do this. Then he said, facetiously, "All you have got to do is every day put a little oil on your tongue." I said, "Well, the thing I am worrying about is that from now on the Democratic party is going to have a monopoly on tongue oil." He laughed; very jolly; and then he said, "Have you heard the British are going to go along on this too?" I said, "No." He said, "I talked to Eden on this and he said, 'I think the British will do something.'"

December 15, 1938.  
3:23 p.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Hello.

Jones: Hello. Well, does the matter look all right to you?

HMJr: Sure. I O.K.'d it -- so did the President.

J: Yes, well, he's O.K.'d it -- what did you think of the press release?

HMJr: It's all right.

J: I thought we ought to put a little of that "smooch" in there, huh?

HMJr: That's all right.

J: Well, do you -- do you agree to that, or don't you?

HMJr: Sure -- sure -- I O.K.'d it first; then he took it over to Welles. He had his whole gang together; then they went over to the White House.

J: They O.K.'d the press releases as well as the other, huh?

HMJr: So I understand. Everybody's done it but the good Lord.

J: Good.

HMJr: I don't know whether you want to consult Him or not.

J: I don't think I'll bother Him this afternoon.

HMJr: Did the boys tell you that Roper has resigned?

J: No, I didn't know it.

HMJr: Yes -- out on the ticker.

J: Is that so?

HMJr: Yes -- yes, I thought that was what you were calling me up about.

J: No -- I guess -- well, I guess Hopkins goes in then?

HMJr: I suppose so.

J: Yes.

HOWE: I told Harry -- I said, "Harry" -- oh, this was about a month ago --

J: Uh-huh.

HOWE: I said, "What the hell do you want to be lighthouse-keeper for America for?" I said, "You've got a good job now." He said, "Well, what do you figure?" He said, "Well, what else is there over there?" With that and the Alaska fisheries.

J: That's right.

HOWE: I said, "You look after the lighthouse and the seals up in Alaska."

J: Well, he's going to operate on the big business men now and convince them that he is a safe candidate for the presidency.

HOWE: I see. I see -- well --

J: That gives him the right contact, you see?

HOWE: I see. I told him, I said he could have the lighthouse -- just the lighthouse-keeper.

J: That's all right.

HOWE: Well -- this Chinese thing -- I'm very happy over it, and I want to thank you for the cooperation that I got and the backing.

J: Well, I'm delighted to do it, and I'll let the release go and Rudolph Foster said the President had O.K.'d it.

HOWE: Well, Mac came back and he said it was all clear and he said that Foster would call you directly.

J: Yes, he did.

HOWE: Personally, I'd much rather send it that way than to go over and sit around waiting for an hour myself.

J: Oh, yes, that is the nicest way to do it.

HOWE: Don't you think so?

J: Fine.

HOWE: Now, we'll take up Brazil next, huh?

- 3 -

J: That's right.

HMJr: And I'll just consult with you as we go along. It may be a month.

J: All right.

HMJr: But we'll keep it under our hat until we have something, eh?

J: That's right, and not let the fellows tell it before it is ready.

HMJr: Excuse me?

J: And not let the fellows tell it before it is ready.

HMJr: That's right.

J: Alright, thanks.

HMJr: Good luck.

J: Good bye.

December 15, 1938. 232  
3:52 p.m.

Operator: Go ahead.

HMJr: Hello.

Helvering: Mr. Secretary.

HMJr: Yes, Guy

H: Two of those people are already off -- Nicholas Tagliamonte --

HMJr: My god!

H: Nicholas T-A-G-L-I-A-

HMJr: Wait a minute -- how much -- Nicholas what?

H: Tagliamonte.

HMJr: Tag

H: T-A-G-

HMJr: Yes.

H: L-I-A-

HMJr: Yes.

H: M-O-N-T-E-

HMJr: Right. He's off?

H: Yes, and Daniel J. Ryall. R-Y-

HMJr: Wait a minute. Daniel J. Rydell -- how do you spell that?

H: No, Ryall -- R-Y-A-L-L-

HMJr: R-Y-A-L-L-

H: Then there's -- ah -- we can -- we can keep three of those people.

HMJr: Good.

H: I really would like to consult the collector. There's five of them -- we put seven on for them.

HMJr: Yes.

H: There's five of them still on that have to go off the nineteenth and twentieth.

HMJr: Yes.

H: We can -- ah -- retain three.

HMJr: You could retain three.

H: And our guess would be from the cards and everything that the three most efficient would be James Warren --

HMJr: James Warren --

H: And a woman by the name of Jane A. -- Jane Ann Galleger --

HMJr: Jane Ann Galleger -- Yes.

H: And John A. Gaffney.

HMJr: Gaffney.

H: G-A-F-F-N-E-Y-

HMJr: Would you want to consult me?

H: Now the other two -- I don't think from these records here that would be of any particular benefit to us, than which we had on these temporary appointments.

HMJr: Yes.

H: And both of them have to go off the twentieth.

HMJr: I see.

H: There's Rita Miller -- R-I-T-A-

HMJr: Rita Miller, yes --

H: And John J. Schafer --

HMJr: John J. Schafer. Now before -- you want to talk to the fellow and let me know tomorrow?

H: Well, I want to talk to the collector and he isn't -- he isn't at the -- he has gone down today to see his mother.

HMJr: Well, will he be around tomorrow?

H: I doubt very much if he will.

HMJr: Well, what do you think, what's-his-name coming in here at four -- when do these -- the last two go off on the twentieth?

- 3 -

H: Yes.

HMJr: Well, that's Tuesday, isn't it?

H: Yes.

HMJr: Could you let me know by Monday?

H: Yes, I can do that.

HMJr: Would that be time for these others?

H: Let's see -- the nineteenth -- that's Monday -- um-hm -- Well, I tell you, we'll -- we'll talk to his assistant.

HMJr: Yes.

H: I'll tell you what would be the best solution to it. Supposing we keep all five of these on for ten days, and we'll -- in the regular order, we'll get the recommendation of the collector, but we haven't a place for any more than three.

HMJr: But you will keep the five on until the ten days?

H: Yes.

HMJr: Why don't you say keep them on until the thirty-first?

H: I'll keep them on until the thirty-first of December.

HMJr: And then after that you'll pick three.

H: Yes.

HMJr: How's that?

H: Alright.

HMJr: Fair enough?

H: Yes.

HMJr: Keep the five on until the thirty-first.

H: Yes.

HMJr: And then pick three out of the best five.

H: Yes.

HMJr: Alright.

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H: If he's got anything to say about a preference on this - but just from the record here, those three I gave you are the ones we'd want to keep if we just had the paper record.

HLMJr: Alright. Fair enough.

H: Alright.

HLMJr: Thank you.

December 15, 1938.  
5:12 p.m.

HMJr: Yes?  
Tommy  
Corcoran: I've talked with our hero of the wooden leg.  
HMJr: You what?  
C: I've talked with our hero of the wooden leg.  
HMJr: Hero of the wooden --  
C: Fourth and the sixteenth district -- Mr. Fay.  
HMJr: Oh!  
C: And he would feel perfectly happy over that arrangement if two men --  
HMJr: Um-hm.  
C: Who are about to be fired -- or are not fired --  
HMJr: Oh those? Those -- those two are off.  
C: No, it's another two that are being threatened.  
HMJr: Pardon me?  
C: Another two who weren't put on at all.  
HMJr: Yes?  
C: Two fellows in the office, he says, is the result of inter-office politics arising out of this thing -- two fellows who were on the payroll long before the election -- one of them is Doles -- D-O-L-E-S-, chief office deputy.  
HMJr: Was what? D-O-  
C: L-E-S-  
HMJr: D-O-L-E-S-  
C: The chief office deputy.  
HMJr: She's been fired?  
C: She's been asked yesterday to resign.  
HMJr: Chief office deputy --  
C: And the other is a -- I'll read you the little note I took down from my telephone conversation -- "Joe Higgins

C: has notified William Layer -- L-A-Y-E-R- -- a deputy collector in the New York office, that he must resign because Christie Sullivan wants Layer's place for one of Christie Sullivan's men."

WMJr: This is getting too deep for me. Seriously, I don't want --

C: I wouldn't if I were you either.

WMJr: No. I -- I --

C: If we could hold those two -- then we could be out of the Fay situation.

WMJr: William what? How do you spell it?

C: William Layer -- L-A-Y-E-R-

WMJr: L-A-Y-

C: E-R-

WMJr: E-R-. I tell you what I am going to do. It's late now -- tomorrow I'll call up Helvering and I'm going to tell him to contact you direct.

C: All right then.

WMJr: And I'll let you work with him, because --

C: It isn't something that you should be bothered with.

WMJr: No. Honestly, but I'll tell Helvering he should work with you direct, and if you'll do that, I'm sure he'll give you service.

C: Thank you.

WMJr: Is that all right?

C: Fine.

WMJr: Swell!

C: Thank you.

WMJr: Thank you.

C: Good bye.

JR

GRAY

Berlin

Dated December 15, 1938

Rec'd 8:35 a.m.

Secretary of State,  
Washington.

730, December 15, 11 a.m.

No. 39. FOR TREASURY FROM HEATH.

I am leaving tonight for three weeks vacation. My address will be Hotel Quellenhof Arosa, Switzerland. The Embassy will continue to report direct by telegraph on any important financial development. If for any reason it is desired to have me return to Berlin I can do so within a few hours.

GILBERT

RR

## GROUP MEETING

December 16, 1938.  
9:30 A. M.

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

(H.M.Jr. and Mr. Oliphant talking together.)

H.M.Jr: And so what?

Oliphant: I would be inclined to say no unless you thought otherwise.

H.M.Jr: Well, there is our Public Relations Counsel.

Oliphant: Could I have the benefit of your judgment too?

H.M.Jr: I don't know. Talk to him first.

Well, Dan, did you come up for air? I didn't expect to see you.

Bell: Why?

H.M.Jr: I thought you were sunning.

Bell: I am.

H.M.Jr: George and White - Haas and White, who have we got, for instance, on a question like this, I can refer to? Would it be advisable if, for instance, I decided to sell five hundred million dollars worth of R. F. C. notes in January, February, to build up our balances, so I might want to temporarily stop selling bills. Who have I got in the Treasury who knows anything about that? Have I got anybody in the Treasury?

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White: I think there are men in both shops, with respect to it, specifically; most likely George's shop.

H.M.Jr: Have you got any men?

Bell: No.

Taylor: Harry Seltzer would be good on that.

H.M.Jr: I don't think Seltzer is worth a damn on this.

White: Why not let a couple memoranda be submitted? We can get them together quickly enough.

H.M.Jr: I am using this, not that I really want it so much, but to bring out the point I don't think I have got anybody.

White: Very definitely, there should be men in your Research organization to answer that question.

H.M.Jr: I am just raising it. It is wrong, for heaven's sake. I called on Hanson and said, "Give me a memo on it."

Taylor: Hanson doesn't know anything about it.

White: There are two approaches to that problem, Mr. Secretary; one is technical, which appears to be George's shop - he can handle it, as well as the theoretical. In addition to his men, in our shop we can handle the theoretical aspect.

H.M.Jr: Supposing I get a memo from both places Monday morning.

Wass: O. K. What was the problem?

H.M.Jr: Supposing I want to sell five hundred million dollars of Federal Reserve notes ....

Taylor: R. F. C.

H.M.Jr: Do I want to let my bills run off? What if I don't; what will it do to the bank balances, and so forth, and the whole picture? Here we have this tremendous influence on reserves and bank balances and all the rest of it, and I don't think

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we've got a first class man in the Treasury that can answer it. If I'm wrong.....

- Haas: I think you have, Mr. Secretary. I think, in justice to yourself you ought to bring down a first class man and let some of our fellows, along with you .....
- H.M.Jr: Harry Seltzer's got no training along these lines.
- Haas: Oh yes, he has.
- H.M.Jr: Where did he get it?
- Haas: He got it in Detroit; he was Financial Counselor for a Fund. He had a good job, for which he got more money than he's getting now, some years back in an investment corporation. And Murphy handled the portfolio bond in one of the largest banks in New York.
- White: If it's a question of experience I haven't got anybody.
- H.M.Jr: I don't think it ought to be in your section.
- White: There are certain monetary aspects to that problem, purely theoretical; for a man having all the experience in the world, wouldn't have that slant. Another aspect that's at least important.
- H.M.Jr: I go a step further; I think on those questions of bank balances, I've got something definite in mind - getting into the possibility of selling securities of this power corporation. There ought to be an A-A-Number One man who would do original thinking for me along these lines. I - I may be wrong, but I just don't think I've got anybody like that in our shop. Not only to advise me, but to advise Bell.
- Haas: Well, I don't know about these; I mean, these fellows have been in my shop, so I can't - maybe I am biased on the thing.
- H.M.Jr: Well, let's see what they can produce over the week-end.
- Lochhead: Wouldn't that question of reserves overlap?

Wouldn't you depend on the Federal Reserve Board to give you that? That is really their problem. You could depend on them to work that out.

H.M.Jr: Yes, but we have the mechanics over here. Bell does it twice a week. He fixes up the bank balances twice a week.

Haas: I think the men up in your shop ought to be able to get in touch with me.

H.M.Jr: He has the bank balances under his thumb, and I think what we need around here is really a first class economist on that particular basis.

I don't know how you feel. That's the way I feel. I mean, to sit down .....

Bell: I don't know just what you have in mind. It's a rather simple matter to tell the effect of what my work has on the market.

H.M.Jr: But who is telling me, Dan? Nobody.

Bell: I can tell you most any time you want. Just open down every day I withdraw money, or change it around one section of the country to another.

H.M.Jr: I can't stretch you any further; you can't do it; it isn't fair to you.

Well, think it over George, because it seems to me there is where it ought to be. I hate to always be pushing you. I ought to be getting this stuff, and have a chance to decide. Have somebody as an original thinker; that's what I want.

Haas: Well, they have put some thought - I mean, on this problem of your balances and so on, in our shop.

H.M.Jr: I don't get anything. The only thing I got out of there was that memorandum showing that the last period, the list of Government bonds in private hands in the last seven or eight months. That was a good piece of work. That's all I've gotten since Labor Day.

Haas: You got two financing memoranda.

H.M.Jr: Well, I wouldn't bring those up.

Haas: I mean, on that sort of thing you're going to get every man's opinion, and two pieces of financing might work as well as any particular one.

H.M.Jr: There is one original piece of work - that chart showing the amount of Government securities - decrease in Government bonds. That was a good piece of work.

This whole question - you take this question, if it changes in the Social Security taxes, and all that, who is going to follow that for me?

Haas: I have been sending John a memorandum on that; I didn't know whether you wanted a copy of that. You told me one time to work through him on that.

H.M.Jr: That's right.

Haas: I think part of our difficulty is just knowing exactly - certain things that you have in mind that you think are important at certain times. You can send volumes of material in here, Mr. Secretary, on .....

H.M.Jr: I want to be asked; I want to be poked; I want to be prodded.

Haas: We've got some good prodders in there.

H.M.Jr: I don't want to do the prodding.

Well, let's see, huh?

Haas: Yes. I think there is the other problem, too; I think you ought to check them.

H.M.Jr: I listened to them a year ago when we had them around here for suggestions when things were going down hill.

Haas: I mean on this particular specialized problem.

White: We are not going to prepare anything; it is not in our shop.

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H.M.Jr:

Mac?

Bell:

In that connection, Mr. Secretary, I talked to Harrison on December 15 on this situation. He said he thought he was premature in talking to you; he hadn't done his homework, and had since thought about it and come to the conclusion there was nothing we could do and if the situation got so it needed attention and was clearly up to the Federal and he agreed it did need attention, with a billion eight hundred million dollars of reserves in New York City alone, he didn't think a withdrawal of eight hundred million would hurt the market at all. I told him we could, in a pinch, redeposit some of the balances, but didn't like to go through that; it was an unwieldy sort of thing.

H.M.Jr:

George Harrison called me, and he called you. As far as I know, the Federal Reserve Board doesn't exist except as a damn nuisance.

Bell:

I called him; I called him after you told me about it.

H.M.Jr:

Yes, but supposing suddenly we found there was a shortage. I mean, all I am saying is, I try to do the best I can in a day, but with so heavy - responsibilities are so heavy, that I - I worry when the work slackens a little bit. I mean, that is.....

Taylor:

Roller coaster.

H.M.Jr:

All right. Mac?

McReynolds:

I didn't know what memo .....

H.M.Jr:

Listen, Linebeck - Post Office - printed the designs constructed by the President of the United States, and call up the White House and ask him. That is his particular thing; I don't care. Linebeck is his - one of his pets.

McReynolds:

That's all I have.

H.M.Jr:

Anything else?

McReynolds:

No.

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H.M.Jr: (Points to Mr. Bell.)

Bell: The Secretary of War has authorized to sell certain military material to the Philippine Government, and the Philippine Government is required to put up as security, United States Government bonds, and they want to purchase about six and a half million of Government securities to put up as security, and they'd like to purchase them through the Treasury. The Secretary of War has written us a letter.

H.M.Jr: They have changed. This is the same crowd?

Bell: No, this isn't the same crowd; this is entirely different. So that they want to buy six and a half million of the long term bonds, to yield not less than two and a half per cent, and to lodge these bonds with the Treasury of the United States until the transaction is complete.

Is it all right to send that along?

H.M.Jr: Yes. Who do you send it to?

Bell: Taylor will send it. It will go through Mr. Lochhead.

H.M.Jr: Does Archie carry it out.

Lochhead: Hadley will watch that now. The question I wanted to bring up the other day was this question about Government Life.

H.M.Jr: Now, I've taken good care of Government Life; let them keep it at two per cent. The difference between - pay two points, more or less - is a great deal more than getting a half of one per cent interest.

Bell: I don't think there is any kick on that.

H.M.Jr: We have done mighty well, haven't I, for Government Life?

Bell: The office upstairs got notice of a million and a half investment. They sent the authorization along in the usual channels. It went through Lochhead and .....

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Lochhead: Mr. Welles wasn't there the day I spoke about the bonds, so I knew you would get the pressure from the Government Life, so I wanted him to know about it.

H.M.Jr: Just let them wait and we will buy them cheaper. We always have.

Bell: That's all I have.

Lochhead: Sterling is about 4.67 $\frac{1}{2}$ . It did reach 4.68 last night, but eased off a little bit; the volume is very small; doesn't seem to be any real tendency in the market. The franc is still fairly good.

H.M.Jr: Harry?

Whitaker: There is a little computation on silver you asked for.

H.M.Jr: (Reads memo, silently.) "Price paid for silver,...."

(Pause)

I wish I could call up the President and say, "What did you promise Senator Pittman at lunch yesterday, so I can do at least as well at lunch today." I'd like to know what he promised him at lunch.

Whitaker: You are correct about New Zealand; they had put on restrictions in the way of exports of gold, but there were notices in the Christain Science Monitor, which one of the boys happened to subscribe to, and noted it after we looked it up. There was a cable just came in on it. We'll have more information on it.

H.M.Jr: But I was right?

White: You were right. We will prepare a memorandum.

Lochhead: They are not supplying full exchange; they have kept the rates, but the rates, nominally - to be the same before hand. They are not supplying it as freely as they did before.

H.M.Jr: John?

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Hanes: Bill Douglas is not going to - I don't believe he's coming back until tomorrow night.

H.M.Jr: You want to stay after this meeting; tell me what happened last night?

Hanes: Yes, I was going to ask you if you think we ought to ask for a meeting of the Commission and lay that thing before them this morning.

H.M.Jr: If you stay afterwards, and tell me what happened.

Huh, Wayne?

Taylor: I've got this Brazilian thing, we can do any time you want to.

H.M.Jr: I'll do that this morning. By the way, you are supposed to be my ambassador at the court of St. Wallace.

Taylor: Yes sir.

H.M.Jr: And is it cricket to announce a processing tax without consulting the Secretary of the Treasury?

Taylor: He announced that a long time ago.

Hanes: He's got an alibi on that, I think. We have had two meetings with Dr. Ezekiel, and - what's the other fellow's name?

Oliphant: Appleby.

Taylor: Bean.

Hanes: Bean.

H.M.Jr: Should I blow up, or down, or what? Hot or cold?

Hanes: I asked Ezekiel if they were serious about the processing tax. He said, serious about getting the money; he didn't care how.

McReynolds: I thought Wallace was serious about the "how" and didn't care about how much.

H.M.Jr: Well, what I was getting at, should I start something in Cabinet this afternoon on processing tax or will he come back and say, "Well, Hanes and Taylor know all about it."

Taylor: No.

Hanes: I expect he will say that; he's got a reason to say that, because Ezekiel had a two-hour session with him, and I had him for lunch with Foley, and somebody else; I've forgotten who the other fellow was. He's had four hours with us, and I think he'd probably say we were familiar with his view point.

H.M.Jr: How would it be, in the Monday afternoon press conference, if somebody asked me if I had changed my viewpoint on processing taxes and I said, "No, I am still against processing taxes."

Taylor: I think it would be dandy.

Hanes: I'd think about it a little bit before I said that.

H.M.Jr: I have said it before.

Hanes: Have you? I think it is just a question of whether it is the right time to say it.

H.M.Jr: Think it over, Herbert.

Gaston: Off hand, I don't think it would be a good idea. You are not talking about what your recommendation is going to be about taxes. I think I'd pay no attention to Wallace.

H.M.Jr: No, but I can talk about what I am "agin." So today I hope they will write a story about all the conservatives I am surrounded by.

Oliphant: Reactionaries - not conservatives.

H.M.Jr: Wayne?

Taylor: I haven't heard back from that Dr. Black, and Jesse Tapp on this last conversation we had over there, in my official post as ambassador.

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H.H.Jr: I see.

Taylor: They are supposed to be doing the question and answer alternative thing that any child could understand, you see.

H.H.Jr: In the hopes that I could?

Taylor: I thought maybe, if I could, it would be easy for you.

McReynolds: Deeply associated with Agriculture.

H.H.Jr: Could you come in at eleven forty-five if you are free, on Brazil and clean it up. That is just you and Harry and Archie.

Taylor: Yeah.

H.H.Jr: And, Harry, are you going to show the Uphill and Downhill letter to Mr. Hanes before he leaves town tonight?

White: He was just going to let me know when he had a moment.

H.H.Jr: Eleven forty-five on Brazil.

Gibbons: The Attorney General has approved the site for the radio station; the title's clear; it's all ready to take over.

H.H.Jr: Fine. You want to get into the ward politics in picking who should and shouldn't stay in Mr. Fay's district in New York?

Gibbons: I should think Mr. Fay should be - I mean, Internal Revenue, and stuff like that appointment. I should think Mr. Fay - the men are good he suggests - for my part they're equally as good.

H.H.Jr: You want to get in on it? I was going to try to turn it over to Guy Helvering. I tried to yesterday but found I was in the midst of ward politics.

Gibbons: Would you be interested in seeing Joe Higgins, who is Collector of Internal Revenue on the

Supreme Court ....

H.M.Jr: Well?

Gibbons: Most Supreme Justices of other laws at their elbows. I think he's a good lawyer; he's been a swell fellow with us.

H.M.Jr: Yeah. Well, I couldn't - he's good as a Collector of Internal Revenue; whether he'd be good for the Bench is beyond me.

If you don't want to get in on it, I am just going to turn it over to Guy. You want to get in on it?

Gibbons: I'll talk to Guy any time he wants, but it's Guy's job; he's got to take care of his shop. Fay, I don't think, is going to be such a sweet smelling rose.

Haas: There is one figure on these November figures we put on these balloon charts I think will interest you. I have a miniature toy balloon chart. This figure here - you see, they are way behind on Public Works; now they have even started this figure below.

H.M.Jr: On that, I'd like to study those a little. Just let them go.

Haas: It is not all Ickes. Public Works includes it all; his are down too.

Duffield: Did Cy tell you Jesse Jones - last night - did Cy tell you Jesse Jones might kick a little bit about the notice that is going out to the Anglo-California stockholders?

H.M.Jr: No one's talked to me about Anglo-California.

Duffield: There is no reason you should know it unless Jesse called up and objected. He wanted to reason, "We'll have a barbecue and, maybe, talk about some stock." Since it's their responsibility they made a detailed announcement, and he might kick a little bit. You will know about it if he does.

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- E.H.Jr: He calls me a couple times a day but he hasn't said anything about it.
- Daffield: I don't think he knows it's been changed. That's all.
- Gaston: I don't know anything this morning.
- H.W.Jr: In the family, I'll tell you a good Jesse Jones story. He called up in the morning: "I don't think we did a swell job, carrying this thing all over Washington to get it initialed," - this publicity on the Export-Import Bank, and after everybody initialed it, and Mac got the President, Mac told me Foster notified Jones and Jesse called me up. He said, "Is it all right to go ahead with it?" I said, "Well, Jesse, Sumner Welles had a staff meeting and they approved it, and the President's approved it; it's all right," and he said, "But what about that publicity statement? Is that all right, Henry?" I said, "Sure, I'd let it go." "Well, now, Henry, is that publicity all right?" "I approved it and Sumner Welles approved it." I said, "Listen, Jesse, do you want God to approve it?" He said, "No, we won't bother him this afternoon." (Laughter)
- Now, listen, if that story gets out, I'm going to look around this room. (Laughter.) But I thought it was a good story.
- Gaston: I'm afraid there will be a leak, so I guess I'd better get to bat first.
- Hansf: Get it out straight.
- H.W.Jr: Good old Jesse; he's read that over again: "I, Jesse Jones, announce....." He thought I was going to say something. That's the kind of thing that makes you love him.
- Gaston: Funny, they told me at a quarter till four last night they were pushing the thing out, and it didn't come over the ticker until four thirty. I don't know what the complication was over there.
- Hanea: Was it on the front page of the Times?
- Taylor: Yes, a long story; a good story.

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Oliphant: A good story, well handled.

H.M.Jr: You all right, George?

Maas: (Nods "Yes.")

H.M.Jr: Duffield, you all right?

Duffield: (Nods "Yes.")

H.M.Jr: Herbert?

Gaston: I'm all right.

Oliphant: That matter of stopping a lot of those little gold license cases is going through the legal shop you asked me to speak to you about; they are all routinized.

H.M.Jr: All right.

Oliphant: You've got a new Acting Director.

H.M.Jr: O. K. - sold.

Oliphant: There is no need of their going through the legal shop. We'll keep our eyes on those involved in legal questions.

H.M.Jr: Sumner Welles asked me last night whether we agreed with the new Counselor of the Export-Import Bank. He is very much bothered. He is saying that the Export-Import Bank has a right to make loans to Governments and Sumner Welles has been saying, consistently, we don't, and he is terrifically bothered, and he'd appreciate it if you would give him, and me, an informal ruling. Nothing has happened that has disturbed him so much. Sumner said, "Gee, that's the worst thing that's happened in a long time."

Taylor: Sumner Welles is way off the deep end on that, because the first loan made by the Export-Import Bank to a Government, which was the Cuban loan, was the one that he arranged.

White: That is why the thing was created in the first place; the Bank was created for loans to the Governments.

- H.M.Jr: Well, anyway, he asked me. I was asked at my press conference Monday, "What about it?" I said, "I don't know." The next day, on the record, he makes a statement at his press conference that it can't. I said, "I don't know, gentlemen," and he went on the record that it can not. Now he's hot and bothered.
- Bell: I thought it was the one exception. Is that under the Johnson Act?
- Gaston: It's an exception under the Johnson Act.
- H.M.Jr: Taylor, you say he's off the deep end. You know he did it after my press conference.
- Oliphant: I'll give him a little essay on the history of that thing.

RE GOVERNMENT POWER CORPORATION

December 16, 1938.  
10:40 a.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. Bell  
Mr. Foley  
Mr. Duffield  
Mr. Bartelt

H.A.Jr: All right, you power boys, make it short and snappy. I told Mr. Bell I would keep him only five minutes. Where are you at?

Duffield: (To Foley) Want to talk?

Foley: Go ahead.

Duffield: We've been hastily over the ground and we don't see anything that would prevent it from being done. There are several patterns of financing set up on these things already, and you really have to cut your cloth to each of those patterns; but it can be done. There is, as far as we can tell, about a maximum of something just a little under 500 million dollars of bondable properties now. That doesn't include the War Department stuff, on which we are just now getting figures, but that, we're told, is not very large.

Now, that's the maximum. It depends on - you'd have to decide if you wanted to bond them 100 percent or what percentage. And that does include some water irrigation properties which are to be amortized but which don't pay any interest. And if you include them at 100 percent you'd have to give the corporation an annual appropriation to pay interest on those properties.

H.A.Jr: Well, can't you .....

Duffield: Now, if you go ahead - if you did this for construction now authorized and under way, by 1943 you'd have somewhere around a billion 400 million dollars of this stuff.

H.A.Jr: Well, can you men give me a memorandum Monday morning first listing the projects - I'd list them, then I'd say how much has been spent and how much you think they could be capitalized for.

-2-

Duffield: (Handing Secretary sheet of figures) This is exclusive of the War Department.

H.M.Jr: At present, T.V.A., 116 million.

Duffield: That's it - total cost, power.

Bell: That must be the expenditures to date.

Duffield: That's right.

Bell: Not the total cost.

Foley: That's not - we've got the other list there.

H.M.Jr: 61 million dollars for power.

Duffield: May I explain: there are two lists, one being expenditures to date, with the power section; the second list contemplated total expenditures.

H.M.Jr: Which one shall I read?

Duffield: That's the present.

H.M.Jr: T.V.A., 116 million - 61, power. Supposing I sold 61 million dollars worth of bonds. Do they earn enough at present?

Duffield: Not at present. None of these projects will earn interest for maybe even five years.

H.M.Jr: Well, how much of the 61 is good?

Bell: If you charge it specifically to power, they probably don't get that much money in, but if you charge it to the whole project, they probably will. They had ten million dollars of receipts last year from all sources.

H.M.Jr: Now if you just take a few minutes - terribly important - let me tell you what I got in my mind. Then you fellows tell me where you differ.

Let's go back. I'm just talking about power. I mean I just want to lift that part out of T.V.A. Now we say 61 million, that's their total. Are they

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still adding to that?

Duffield: Yes.

Wells: Oh yes.

Foley: There is the ....

Duffield: This is what the total power investment will be at the end.

H.W.Jr: 279 million, against the 61. How much would you say figure - four percent, plus amortization, five percent - how much can they afford?

Duffield: They've set up, Mr. Secretary, estimates of their revenues when that present system is fully operating, at which they've set up at three percent interest - no amortization, but depreciation allowances. Now, they won't earn those charges for four or five years. But when they get their earnings going, they've made provisions in them to repay interest during this preliminary period. Do you understand?

H.W.Jr: Yes, but that isn't what I want to do, because - I mean - I mean the fact that this is the way they do - it isn't the way I feel. I want to get this over to you fellows. What I want to be able to show - and I consider it - now, I didn't ask this, the President asked us to do it, but I think the by-product is a damn sight more important than what he asked us to do, because out of this may come for the first time - we may be really able to have the President really look at this, what this money is going for, and maybe we can get a formula on how to set up a Federal power project and also convince the public. Maybe we can and maybe we can't. First have to try to sell - I want to be sold - that this money is well spent.

And out of this - I'll say again, what the President told us that he's willing to do is to write off anything at the beginning that won't produce; simply say it's a mistake and we'll write it off.

Duffield: Well, on the basis of their figures, every bit of that is good in their prospective earnings, with a surplus.

H.W.Jr: Now look, the way - taking T.V.A., which is the

-4-

toughest, what they're saying is they've got total appropriation for power, 279 million; so you'd have to say for T.V.A. 279 million is the ultimate that we're going to the public with, of which at present we can take X millions of dollars, based on the present revenue, and they will earn X percent, plus depreciation, plus amortization. Now, what I want is another figure, see, that out of that 61 million so much could be sold within the next three months.

Duffield: Well, you see, Mr. Secretary, you ....

Foley: So much power or ....

H.M.Jr: So much dollars.

Duffield: You could do it two ways. You could either set up this corporation ....

H.M.Jr: Do you (Hanes) see what I'm getting at, do you see the possibilities?

Hanes: Yes, sure.

Duffield: You could either set up this corporation, as I see it, and let it bond all of the power construction done to date, which would be 61 million dollars, and annually appropriate the money to it to pay interest during this if during this load building period T.V.A. doesn't earn its interest; or you could let this corporation only bond as much of that 61 million dollars as is current earnings. Now, you can do it either way.

H.M.Jr: Now, my answer, shooting from the hip, is, I only want to sell to the public what the project is earning, and I don't want to go to Congress the way we do in United States Housing and ask them for an appropriation to make up the deficit. In other words, I want to say to the President, perfectly aboveboard, "Mr. President, all T.V.A. today will support - you've spent 116 million dollars and the only thing it will support is X millions of dollars." And then as it begins to add to that, we'll sell more bonds. But I will not go to Congress and ask for an appropriation and then ask for another appropriation to pay the interest, when I've already borrowed the money once.

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Duffield: Then there will be very little of that.

Foley: Very little that you can do at the present time.

Ramos: I agree a hundred percent with that.

Bell: Boulder Canyon you can.

Duffield: Boulder Canyon and a very small part of T.V.A.

Foley: About five million dollars comes in on Boulder.

Bell: But that's getting bigger every year, and you'd be through within a year or so.

Foley: By 1940, and they plan in 1940 to earn about five million dollars.

H.M.Jr: Here's a total of one billion 390 million dollars. The President seems to think we can sell two or three billion dollars. I want to show him, "Now, here's so much of power." Then along here should come another column, and, "As of today, as of December 31, the close of the calendar year, Mr. President, of the 484 million expended as of December 31, 1938, there's only so many millions of dollars which I can sell honestly to the public, because there's only so much revenue to support it."

Duffield: Then we need to know the interest rate you'd like to fix. Most of these people figure at three percent.

H.M.Jr: Well, you can't do it. Jesse Jones sold those Southern California District bonds around 108. Weren't they four percent 50-year bonds?

Bell: They were serial ....

Foley: They were fours.

H.M.Jr: Fours?

Foley: Yes. But if this had a Federal guaranty on it, it would sell below that. You see, the guaranty would carry it, rather than ....

H.M.Jr: Well, let's say three percent plus one percent for amortization, huh?

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Taylor: Seems to me - I'm not sure - I think it may be done, but I ....

H.M.Jr: What's that?

Taylor: I'm not sure that's the way to approach it.

H.M.Jr: What do you mean?

Duffield: To capitalize current earnings, you mean.

Taylor: The way you're talking about. The reason I'm not sure about it is, I think this kind of a thing is different. In other words, can't establish the same criteria that you would on a privately-owned corporation and say that we could sell - let's say we'd bond it for 50 percent, you see, and the rest of it is common stock. I think you have to approach it as being all one kind and see what it will support on that basis, so that you will ....

H.M.Jr: Well, you and I are saying the same thing.

Banes: He's talking about lumping the whole thing in one corporation. You're not talking about selling T.V.A. bonds.

Foley: Neither is Wayne.

Taylor: There's a place there that I think I may want to argue about later.

H.M.Jr: All I'm trying to do is - the men in the room, I want them to see how I'm thinking as of 10 minutes of 11 this morning. I consider this one of the most important things that have been handed me, but for an entirely different reason than the President does. The President said to us what he wants to do is keep the debt from going above \$40,000,000,000. I told him we're lucky if we keep it from going above \$45,000,000,000. I'm interested - in the mood he's in, to go to him and show him out of all of this stuff how much when you get all through and done can be bonded and sold. Now, that's what I want to do. And if - I don't know, the picture may be terrible, it may be so terrible when we get through that we can't do it. On the other hand, it may be a

-7-

very good picture.

Bell: I think certain parts of it probably will be terrible, but I don't think the power end of it is so terrible. On a low interest basis, I think a good many of them will pay out. I don't think you're going to get what you want by Monday. This is a tremendous job. What I'd like to suggest is that we list these projects, putting down in the first column the total cost, second column the total amount paid to date.

H.M., Jr.: Excuse me - total cost to completion?

Bell: I'd say the total cost of the project to completion, and put down the money spent today and the balance required to complete it.

Foley: And the date of completion.

Bell: And the date of completion. And then I'd split that cost into various parts: power, flood control, navigation, so forth.

Moffett: Can't do that on some of them, Dan.

Bell: I think you can do it if the engineers are on the job. They've been required to do it in many places. They certainly can give you some rough figure. They can't do it and don't want to give it to you in many places because the power won't pay out. Fort Peck - just wasn't any excuse for it, except it was a work project. Everybody will tell you that. The only power outlet they have is for irrigation purposes and the reclamation. Haven't been able yet to give an estimate of the power requirement. But anyway, it will show up for the purpose you want it.

Then I think, going from there on, you list the various kinds of revenue that you're going to get in on that project, and from that point on you can say what you want to capitalize it at - say, a three and a half percent rate, is what Bonneville is figured on. Boulder Canyon is figured on a four percent rate, 50 years, isn't it, Eddie?

Bartelt: Yes.

H.M., Jr.: 50 years.

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Bortelt: Yes.

Bell: They say Bonneville will pay out in forty years, three and a half percent rate, completed.

H.H.Jr: How much of that is for amortization?

Duffield: He hasn't got any amortization in that. He just depreciates his properties. He hasn't got any amortization, as I understand it. What he's ...

H.H.Jr: What's going to happen at the end of the time?

Duffield: He's going to refund, because - but he would have a new plant, because he's depreciated.

Bell: Think he would maintain his current repairs, keep his plant in current condition all the time, out of that.

Duffield: Maybe so. I may be wrong about that.

Bell: But it seems to me that's the way to approach it. And after you get your picture and the part of the project that will produce revenue, that's the part you want to capitalize.

Duffield: Now you come up against these irrigation things in the reclamation projects, where they have a schedule of amortization but no schedule for interest payments.

Bell: That's right.

Duffield: What you going to do with them, split it?

Bell: You've got to capitalize it on some rate so that it will write off about 50 percent of the principal. That's the only way you can do.

Duffield: I see. But you won't try to take those and set them aside.

Bell: A million dollar project probably be capitalized around a half million at three percent.

Duffield: That's what you want to try to do, instead of split them and put them aside.

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Bell: The irrigation projects will have to be put in a separate category, because they go into the reclamation fund.

Foley: Goes into a separate fund - except Boulder.

H.M.Jr: Well, gentlemen, I don't say it has to be Monday, but certainly by Tuesday I'd like to have another meeting. I'd like to keep pushing this thing. And I wanted you people to know and I want to know this: figure this thing through to December 31, the end of the calendar year; how much is there that we could offer to the public which would - where the revenues would support that?

Foley: On present income.

H.M.Jr: On present income.

Duffield: We can give you that briefly, because there's very little present income.

Foley: Very small.

H.M.Jr: How much?

Duffield: Probably not more than three million dollars.

H.M.Jr: You mean revenue?

Duffield: This year. Bell says ten million.

Bell: T.V.A. is getting ten million dollars of revenue, but some is coming from fertilizer.

H.M.Jr: But power - I couldn't sell over three million?

Duffield: No, that's the interest.

H.M.Jr: Well, figure it for me: three percent interest, one percent amortization.

Duffield: We can do it.

Foley: About a hundred million dollars.

H.M.Jr: About how much?

Foley: About a hundred million.

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H.M.Jr: even if we made a start, if the President would agree to start... Will you get word to me when you're ready? Let's have it by Tuesday. This puts Taylor to thinking about it and Hanes to thinking about it. And Bell and the rest of us - we'll all be thinking about it. I'm very much interested; I think it's great stuff.

Bell: I think you would be interested in the Boulder Canyon statement. It was prepared in 1933 and it ought to be brought down to date to show the complete picture, Eddie. Kubach (Chief Accountant, Reclamation Bureau) could do that. It isn't Kubach, though, is it?

Barrett: That's his.

Foley: Is that what you mean - that's down to date?

Bell: No, that's June 1933, if it's the same one. Well, it's good enough for this purpose. I just wanted to show you, Mr. Secretary - this is rather complicated, but I just wanted to show you that they start out in Boulder Canyon - there's the City of Los Angeles contract, here's another contract; here it shows you the total cost and the revenues produced over forty years, and reducing your debt as you go along. Here's your flood control. Now, that's the kind of a thing we'd want, except that you don't need year by year; you can do it as a flat sum annually.

H.M.Jr: Now keep at it. I consider this very important, because if we're ever going to convince the American public that we've spent the money well, I don't know a better way to do it than this way.

Foley: You can take off all your physical properties and bond them and then charge each department rent every year.

Bell: Ohhh, sunn!

Foley: I mean if you're going to do it, you can go the whole hog.

H.M.Jr: No, I don't go "Sunn" but that's something entirely different. And listen, by the time we do this job

-11-

here and take this and take the Greenbelts and everything else, and run through this thing, I'll have you fellows ragged. But when we get through, the important thing is, I'll be educated as to what the net worth of these things will be, the President will be, the Congress and the public. and I don't know any better way than to say, "At three percent plus one, this is what these things are worth."

Bell: That's right.

Duffield: Of course, that's not the way you do Commodity Credit.

H.M.Jr: No, no, this is different.

Bell: Yes, it has to be.

Hanes: He's trying to get away from going back and asking them for a deficiency appropriation.

Duffield: That's what I thought would be a good screw to put on the operators every year. I thought we'd like to go back every year.

H.M.Jr: This is something else again.

## RE ASSISTANCE TO BRAZIL

December 16, 1938.  
11:45 a.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. Gaston  
Mr. White  
Mr. Lochhead

H.M.Jr: Now, this letter ....

Taylor: This is the draft which Sumner Welles approved.

H.M.Jr: Yes.

Taylor: This is this paragraph which Jesse wishes to substitute.

H.M.Jr: I see. Now, where did that come - the substitution?

Taylor: Where I've ....

H.M.Jr: I see.

Taylor: It comes in there, see?

H.M.Jr: I see. I see.

Taylor: Now ...

H.M.Jr: Go ahead.

Taylor: I think we can accept that, but add the piece that I have in parentheses there.

H.M.Jr: Oh. Well, I'll read it out loud from the beginning.

"My dear Mr. Minister:

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

"It is gratifying to note that you feel that your nation is approaching more and more a situation where

-2-

you will be able to reestablish free exchange markets. We are pleased likewise to receive 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 international markets. It is particularly gratifying to learn of your intention to establish a Central Bank for Brazil which might cooperate closely with 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 economic objectives set forth in your communication. The form of this Government's cooperation, however, would necessarily be dependent upon a more definite understanding of the general economic program which your Government contemplates."

Then this is the substitution:

"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 productive equipment, we can say that in our thinking of the problem we have assumed that this would be appropriate to the character of the equipment and its projected life."

Jesse definitely doesn't want the - he called me up on the phone.

Taylor: He hadn't seen the letter that the fellow wrote you.

H.M.Jr: Yes. But his reason is that if we say twenty and hang on to it, we lose some trading ground.

Taylor: I don't think you lose a thing.

H.M.Jr: Well, if you want to argue it out with him, it's all right, but I'll take it either way. But I want this thing written and I want it over in Welles's hands - I'll put it - by four o'clock, when he comes from Cabinet. I mean so when I come back from Cabinet I could sign it and send it over to them; because I want this thing - I'm going to call up Welles now and tell him it will be over right after Cabinet and I want this thing

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cabled down - no sense otherwise. He'll hand it himself to the Brazilian Ambassador; that's what he wants to do. I want this thing down by cable tonight, be handed to Souza Costa. See, we save a week. I'll tell him.

(On phone) Mr. Sumner Welles, please.

But I'll take it either way, I don't care. But inasmuch as I don't - inasmuch as Jesse has done this in writing, I wouldn't want to have it come back and Jesse immediately begin to buck me by saying, "Well, I didn't say I'd give them twenty years; I only said that - said I wouldn't go more than fifteen."

White:

I'm inclined to agree with Wayne that it would be desirable to mention it, if you can get them to agree.

H.M.Wr:

But having shown it to him and he taking the position that he owns that Bank - but I'll take it any way if it's typed on my desk, and it ought to be typed - the letter will be actually written by Miss Chauncey or you (Taylor) can dictate it in your office - a letter of communication to Mr. Welles saying: "My dear Sumner: according to my understanding with you, will you please have this cabled down tonight, and hand a copy of it to the Ambassador here."

(On phone) Hello. (Conversation with Welles follows.)

December 16, 1938. 208  
11:54 a.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Welles: Hello. Good morning, Henry.

HMJr: Good morning. Sumner, if this is agreeable, this is what we propose to do -- when you come back from Cabinet there will be a letter on your desk from me asking you to send out by cable tonight a letter for me to be delivered by our American Ambassador in Brazil to de Souza Costa tomorrow.

W: Send it by cable?

HMJr: Yes, there is no sense wasting a week on this.

W: That's all right, sure.

HMJr: See? And then you will, in your own good time, hand a copy of it to the Brazilian Ambassador here.

W: I'll gladly do that.

HMJr: Is that all right?

W: Absolutely.

HMJr: I thought by sending it by cable we would save a full week.

W: That's all right, Henry. You bet.

HMJr: Now the other thing -- so that you could be guided by this -- Arthur Krock last night had written the story that that statement which I made on Monday or Tuesday about that we were beginning to study things in South America -- that this was all prearranged between Mr. Hull and myself.

W: Yes?

HMJr: And it was a bribe to South America.

W: Oh, yes.

HMJr: It is a lie. He came to Haynes' house last night at ten o'clock, and Haynes made him rewrite it, and it was rewritten the way it appeared in this morning's paper.

W: I haven't seen it yet.

HEJF: Well, he convinced him that there was no communication between Mr. Hull and myself.

W: Yes.

HEJF: And that I was hard-pressed at my conference for an answer, and I gave this answer.

W: Yes.

HEJF: And then, in addition to that -- ah -- Alsop saw Taylor yesterday, and pursued him along the same lines, and he also convinced him that between Mr. Hull and myself there was nothing.

W: Yes.

HEJF: And this was all before, I think, Tuesday. It was supposed to have been arranged before Tuesday's speech of Mr. Hull at Lima.

W: Yes.

HEJF: As a matter of fact, strictly between yourself and myself, I have not yet read Mr. Hull's statement, you see?

W: Yes.

HEJF: But I thought that you might -- that you might be questioned by the press that this statement of mine was all prearranged.

W: Well, I have been off the record, and I've evaded it. I said I knew nothing about it.

HEJF: Well, you can emphatically say that there was no prearrangement. As a matter of fact, this was all arranged about six weeks ago or two months ago before Mr. Hull left.

W: Yes.

HEJF: That -- with the -- with the President and Mr. Hull that I should go ahead working with the Secretaries of the Treasury, I don't mention Brazil, to see whether we can help each other.

W: Yes.

HEJF: But I wanted you to know that both Krock and Alsop had their say, and both Haynes and Taylor have killed the story.

W: That's very helpful. The one thing, Henry, that would do us harm, I think, both here and down there, would be

to have any indication that a straight Government/Government loan was being contemplated.

HMLJr: Well, that isn't coming out of this shop, but if you'll take care of the new General Counsel over Export-Import, it will help.

W: Yes.

HMLJr: And I've asked Oliver to look up that law and give me an informal opinion.

W: Fine.

HMLJr: I asked him this morning.

W: Good. Tell me when you get it, will you?

HMLJr: Right away.

W: Thank you so much. Good bye.

HMLJr: Good bye.

-4-

(Hanes comes in during conversation  
with Welles)

H.M.Jr: Now, will you (Taylor) go through on the details and have that thing on my desk at four o'clock so I can sign it and get it over there so it goes down by cable tonight. And then simply write this letter that, carrying out this conversation, I would appreciate it if he would give a copy to the Brazilian Ambassador here in Washington.

Taylor: Uh-huh. Say, "Please transmit to our Embassy .... "

H.M.Jr: Through our Embassy by cable, to Souza Costa. That saves a whole week.

Taylor: Yes.

H.M.Jr: The only other thing - while you fellows were checking up on me, what I did or didn't do - the only communication I've had, so - just to make it 100 percent pure - is, there was a communication on December 7 from Mr. Hull to the State Department, in which it adds would I go along on a resolution recommending the calling of a conference of Treasuries? I mean I just wanted to be a hundred - that thing went through and nothing's been done about it. You've (Taylor) read it. You (Hanes) haven't. That's the only communication I've received and nothing's happened.

White: Did Welles make any changes in the document?

Taylor: No. He changed a couple of I's or something like that.

H.M.Jr: You don't think that twenty years is a little big?

White: No - both that and I think they can reply more intelligently to your request if they know you're thinking in long terms.

H.M.Jr: If Wayne can do - but between now and four the finished product has to be on my desk.

My dear Mr. Minister:

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

It is gratifying 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. We are pleased likewise to receive 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 international markets. It is particularly gratifying to learn of your intention to establish a Central Bank for Brazil which might cooperate closely with 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 economic objectives set forth in your communication.

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

communication. The form of this Government's co-operation, however, would necessarily be dependent upon a more definite understanding of the general economic program which your Government contemplates.

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 productive equipment we assume 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 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

-3-

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 to be considered.

I 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,



IN REPLY ADDRESS  
BRANCH OF SUPPLY  
AND REFER TO FILE NO.

275

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

December 16, 1938

MEMORANDUM FOR THE SECRETARY

The attached memorandum, being the record of  
Captain James A. Bull, USNR, was obtained from  
the Navy Department this morning.

Assistant Director of Procurement

**RECORD OF JAMES A. BULL**      Born 19 Nov. 1878

Appointed Assistant Paymaster, U.S. Navy from 29 May 1903 from California  
Resigned U.S. Navy 31 August 1915. with rank of Lt Comdr.

Enrolled Pay Corps, U.S. Naval Reserve 6 March 1917  
To active duty 11 April 1917; released active duty 15 August 1919.  
Enrollment expired 5 Mch. 1921; reenrolled 14 June 1921 and  
continued to reenroll so that he has had continuous service in Reserve.  
Made Captain SC USNR from 1 January 1929.

Served as Civil Service clerk with Q.M. Dept. Marine Corps from  
30 August 1901; resigning 1 August 1902.

\*\*\*\*\*

U.S. NAVY DUTY

Orders

July 1903 to USS FROLIC  
12- 5-04 to Asst. Supply Officer, Cavite Navy Yard  
3-17-05 to GSK Olongapo and Paymaster  
3-18-06 to U.S. - Asst. Supply Officer, Navy Yard, Phila, Pa.  
10-12-07 Purchasing Pay Offr. and GSK Navy Yard Pensacola, Fla.  
Detached 6-30-08  
3-11-08 Navy Yard, Cavite  
2-24-09 SO USS DENVER  
12- 6-09 Detached <sup>to</sup> Paymaster of the Yard, Olongapo  
2-26-11 Detached to Supply Officer, NEW ORLEANS  
2-15-12 Detached to home and  
3-11-12 Pay Officer, IOWA, MASSACHUSETTS in Reserve at Philadelphia  
1-30-12 Additional duty Pay Officer, Rec. Ship, Philadelphia  
1-13-12 Detached IOWA, MASS.; continue duty Receiving Ship, Phila.  
12-19-13 Additional duty, Commissary Officer, Navy Yard, Phila.  
RESIGNED 31 August 1915.

\*\*\*\*\*

U.S. NAVAL RESERVE DUTY

Orders

4-11-17 To Supply Officer, Rec. Ship, Philadelphia; addl Commissary Store.  
10-31-17 To duty abroad with Admiral Sims - such as might be assigned  
12- 1-17 Supply Officer, Queenstown, Ireland  
additional Disbg. Officer, Trg. Bks, Base 6  
Detached Base 6, 6-30-13  
Mch. 1919 Detached Queenstown to New York for special temporary duty.  
2-14-19 Report 4th Naval District; settle accounts; proceed home;  
regard himself released from active duty.  
Released from active duty 8-15-19.

Has performed tours of active duty for training purposes of short duration  
since 1919.

Served on the U.S. Naval Mission to Peru from Nov. 1920 to Nov. 1922 as Member;  
but was not on active duty as Reserve officer.

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Has performed tours of active duty for training purposes of short duration  
since 1919.

Served on the U.S. Naval Mission to Peru from Nov. 1920 to Nov. 1922 as Member;  
but was not on active duty as Reserve officer.

December 16, 1938.

Dear Sumner:

I am enclosing a copy of a message which I would appreciate your transmitting by cable to His Excellency Arthur de Souza Costa, Minister of Finance of Brazil, through our Embassy at Rio de Janeiro. I understand that you will also inform the Brazilian Ambassador at Washington of this communication and give a copy of it to him.

Thanking you,

Yours very truly,

The Honorable

Sumner Welles,

Acting Secretary of State.

cc:1

Sent Special by  
Secret Service man 4 pm

December 14, 1936.

My dear Mr. Minister:

I have read with great interest your communication of December 2, 1936 regarding financial cooperation between the United States and Brazil.

It is gratifying 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. We are pleased likewise to receive 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 international markets. It is particularly gratifying to learn of your intention to establish a Central Bank for Brazil which might cooperate closely with 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 economic objectives set forth in your communication. The form of this Government's cooperation, however, would necessarily be dependent upon a more definite understanding of the general economic program which your Government contemplates.

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 productive equipment we can say that in our thinking of the problem we have assumed that this would be appropriate to the character of the equipment and its projected life. Obviously, the establishment of this principle would in many cases, permit far longer periods of amortization than

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

- 2 -

than those mentioned in paragraph 24 of your communication to me.

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 to be considered.

I 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,

CABLE RECEIVED FROM CHUNGKING

Dated Chungking, Dec.16, 1938  
Recd. Washn.D.C. Dec.16, 1938

FROM: DR.H.H.KUNG  
TO: MR.K.P.CHEN

Thanks for your telegram 15th and good news (stop)  
Please transmit to Secretary of Treasury, Mr. Morgenthau,  
following message:

Quote Very pleased to learn from Chen conclusion  
woodoil loan (stop) Wish to express to you  
on behalf of my Government and myself most  
sincere thanks and appreciation for your  
timely assistance at our critical moment  
which will greatly help strengthen morale  
of our people and soldiers (stop) Appreciate  
more so for the fact that it was entirely  
through your untiring efforts that this loan  
was made possible (stop) Have given  
instructions to do best to ship oil out from  
China in order to meet our obligations (stop)  
Will thank you to convey to Mr. President my  
heartfelt gratitude (stop) Kindest regards

H.H.KUNG

Unquote

# TREASURY DEPARTMENT

282

## INTER OFFICE COMMUNICATION

DATE December 16, 1938.

TO Secretary Morgenthau  
FROM Mr. Taylor

Yesterday afternoon when I attended the Federal Farm Mortgage Corporation meeting there was an extended discussion as to a move for re-amortization of existing Commissioner's loans which was being stimulated by some of the Land Bank presidents who wish to be able to offer re-amortization in order to hold some of their best borrowers who had the opportunity of refinancing elsewhere on more attractive rates. I am not sure how much will come of this movement and in any case it is not of great importance to the Treasury unless it involves a reduction in rate imposed by Congress. In addition, there is a strong movement for cattle loans which will be utilized to re-stock ranches which lost a great deal of their animal population in the drought years. The Farm Credit people are divided in their opinion of the desirability of these operations and feel that if the pressure is strong enough something will probably be done by Congress either through the Reconstruction Finance Corporation, the Farm Security Administration or re-opening the Regional Agricultural Credit Corporations. They are not prepared to make a recommendation as yet but I got the impression that they were leaning toward opening up the R.A.C.C.s rather than have the business handled elsewhere.

Jim Edwards, the man whom I mentioned to you as a good possibility for a Chief-of-Staff for our Latin American work, is leaving here Monday afternoon or Tuesday. I think it would be a good idea if you had a chance

- 2 -

to talk to him for a minute or two on Monday. I have checked with Warren Cieseen who thinks pretty well of him and with various members of the State Department who have known him for a number of years. I haven't as yet had a chance to talk to Sumner Welles about him, but am quite sure that he thinks highly of him as it was on his recommendation that Edwards came to the Export-Import Bank after completing a special job for the State Department in Cuba when Sumner Welles was Ambassador there. All in all I think he is the best all around bet available in the near future.

Achilles of the State Department, who is working on refugee matters, told that they had just had word from Rublee in London of the plan proposed by Rehaecht which is roughly as follows: That a billion and a half marks would be established in Germany which would carry interest at 4 per cent and amortization at 2 per cent; that a similar amount in marks, the rate not being specified, should be established by the committees who were working on the refugee question which would be used to take care of the immediate problem. In other words, the funds which would be advanced for the purpose would be repaid over a period on 6 per cent annual basis including amortization of principal. The 6 per cent amortization payments, which Achilles said figure out to be \$36 million a year, would be transferred on the basis of additional exports with no requirements as to the countries involved. In addition they were to recommend that a Government official from the United States should be appointed immediately to a committee which would work on the question, similar officials being appointed by the British, French, Dutch, et cetera. In addition, a

prominent outside individual who is familiar with the problem, preferably a member of one of the committees who is working on the question, should also be appointed. He asked me if there were any Treasury official who was on the other side whom we could recommend for the Government end of it. I told him that the only two people that we knew of were Cochran and Butterworth, that neither one of them would be available next week. I gave him the names of three American bankers who might serve in a pinch, namely, Dan Grant of the Guaranty, Tom McKittrick of Higginson Company, London, and possibly one of the Carters from Morgan & Company, Paris. He also made it clear that he was not asking for an official Treasury position but was merely asking my informal opinion as to whether such a financial man was available.

(Dictated but not read)

TRIPLICATE

STRICTLY CONFIDENTIAL

## AMERICAN CONSULATE

Rangoon, Burma, December 16, 1938.

Subject: Shipments of War Materials.

STRICTLY CONFIDENTIAL.

The Honorable

The Secretary of State,  
Washington.

Sir:

I have the honor to report, supplementing information already transmitted, that the first war materials for China sent over the new road in Yunnan were part of a shipment which arrived here on the British-Indian steamship KARAGOLA from Singapore on November 22, 1938. The materials consisted, according to reliable reports, of German and Czechoslovak machine guns and ammunition and other supplies, and they were transhipped at Singapore, presumably having reached there from a German port. Shipment from Rangoon was by rail to Lashio, and 20 hired motor trucks were used in transporting them from the railhead to the frontier and into China. There is a report that they weighed 60 tons.

Bridge Requires Strengthening.

T. L. Soong, brother-in-law of Marshal Chiang Kai-shek, and who was in Rangoon, went into China at the same time, and it is reported that it was planned to have several loaded trucks follow his car into Yunnanfu. He is said to have left Lashio on December 8th and to have arrived

at Yunnanfu in six days. It appears that there has been no definite news of the arrival of the trucks, and local newspapers have printed reports that they were unloaded at a point about 180 miles north of the Burma border and the materials transferred to mule caravans. It was expected to transfer the loads to Chinese Government trucks at that point. It is known that one of the two large suspension bridges on the road has been found unsafe for heavy traffic, and that additional steel cables are being provided to strengthen it. It is said to have sagged dangerously under the weight of a loaded one-ton truck. The necessary work may require three weeks to a month, according to reports.

Duty Fixed at One-Sixteenth.

The materials brought here by the KARAGOLA consisted of 146 packages, and the duty amounted to Rupees 10,000. This represented 1/16 of the full duty, as the Government of Burma has decided to grant a drawback of 15/16 of the specified import duty on shipments for China passing in transit through Burma. As practically all war materials are subject, under the Burma Customs Tariff, to a duty of 50 percent ad valorem, it appears that the declared value of the shipment was Rupees 320,000, or approximately \$112,000 at present exchange.

Materials From Italy.

The Norwegian steamship HUST, formerly the FIDALGO, arrived here on December 4th, bringing a cargo reliably reported to have been loaded at Spezia, Italy, and to consist

- 3 -

consist of war materials of Italian origin, largely high explosive. A week was required for the discharge of the cargo, which is reported to have weighed 1,300 tons. The explosives were, like those unloaded from the STANHALL, placed in a barge and are being held in the Rangoon River below this port, pending shipment by river to Bhamo, and thence to the frontier connection with the road in China. The BUST left Rangoon on December 11th.

Second-hand Materials From Russia.

The war materials from Russia delivered by the British steamship STANHALL, the first munitions carrier to reach this port, are still in warehouses here, and Customs examination is still in progress. The cargo consisted of 90,000 packages and is said to have weighed about 4,000 tons. There has been a newspaper report that the cargo was valued at 8,000,000 Chinese dollars, but there has been no confirmation of this. In Government circles here it is reported that the shipment includes second-hand materials.

French Supplies in January.

Paul de la Lande, representing French manufacturers of war materials, was in Rangoon a few days ago, and it is reliably reported that he said that a cargo of French supplies for China, loaded at Marseilles, would reach Rangoon early in January. Also, that the vessel chartered for the shipment is one of the British "Stan" Line, a sister ship of the STANHALL, owned by the Stanhope Steamship Company (Ellisair and Company), London. It is understood

- 4 -

stood that it was originally intended to send the cargo to Haiphong, Indochina, for shipment over the French railway to Yunnanfu. The supplies will include trench mortars, according to the statements of the French representative.

Military Police Guard Supplies and Viaduct.

There is a large force of Burma military police at Lashio, and they guarded the war materials which arrived there for China, and accompanied the loaded trucks to the Chinese frontier. On the Mandalay-Lashio line of the Burma Railways, 463 miles from Rangoon, a gorge is crossed by means of a steel viaduct 2,200 feet long and 320 feet high which was built by an American firm in 1900, and this is now being guarded day and night by military police, as any damage to the viaduct would stop all railway service to Lashio, 98 miles distant from the gorge. It is stated that searchlights are being used at night. Any person approaching the viaduct is subjected to an examination.

Storage Facilities at Lashio.

The Burma Railways have just commenced the construction of two miles of track to carry their line from the station at Lashio to a point suitable for the establishment of storage facilities for war supplies intended for China, and after these facilities are available supplies in transit will be held there and not at Rangoon. It is expected to complete the extension within a month, and in the meantime warehouse construction will be carried on.

Publication of Statistics.

The question of the inclusion in published Customs statistics of figures on transit shipments of war materials to

- 5 -

to China is still under consideration by the Burma Government. It has been suggested that they might be shown only in annual statistics, not in monthly returns. The interest that Japan would have in the figures is said to have been considered. However, it is understood that the attitude of the Defense Department is as previously reported (despatch no. 82 of June 15, 1938); that it believes there should be no attempt at secrecy in connection with the shipments in question, for the reasons previously outlined.

Respectfully yours,

Austin C. Brady  
American Consul

Distribution:

1. In quintuplicate to the Department.
2. Copy to the Embassy, London.
3. Copy to the Consulate General, Calcutta.
4. Copy to the Consulate, Yunnanfu.

800.

ACB/leh

RECEIVED  
JUN 15 1938  
AMERICAN CONSULATE  
YUNNANFU

A true copy of  
the signed original

*ml*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 16, 1938, 5 p.m.

NO.: 2123

FOR TREASURY.

Today in a quiet and uneventful market here the franc remained firm. In financial circles the impression is that in the absence of any unfortunate international political developments, the main currencies are likely to hold the level they are at now until after the first of the next year. Throughout the day sterling stayed around 177.60. Between two hundred and three hundred thousand pounds were bought by the fund. Slight improvement in the forward rate. No activity on the security market; firm tone. Almost no change in rentes.

The Chamber is examining the 1939 budget, and the work is progressing satisfactorily. It is expected that on Friday, December 23, the first reading by the Chamber will end. From the looks of things now, it may be that Parliament's final approval will be forthcoming before the first of the year.

Yesterday Parliament gave its approval to the Franco-Swiss convention which was signed on October 13, 1937 at Paris, for the purpose of avoiding double taxation. Today's JOURNAL OFFICIEL published the law authorizing the President to ratify it. With the decree of promulgation will be published the text of the convention and of the letters which

were

- 2 -

were exchanged on the day of signature. When the measure was presented to the Senate the reporter of the Finance Committee of that body recalled that the convention was one of a series of agreements which have been concluded during the past few years with Italy, Belgium, the United States of America, Germany and Sweden. However, he added that the arrangements with certain of these countries related to both double taxation and to the repression of fiscal fraud while that with Switzerland only sought to avoid both.

The financial paper "INFORMATION" carries a report that a royal decree of December 5 authorized the Bank of the Netherlands to keep secret the place where its gold reserves are kept; the newspaper suggests that the reserves have been shipped to some place outside Europe. In the newspaper JOURNÉE INDUSTRIELLE there is quoted an explanation given by an Amsterdam paper to the effect that 352 million florins, or about one-fourth of the total gold reserves, were held abroad at the end of November, and that in the weekly statement of the Bank of the Netherlands the amount of gold held abroad ~~xxxxxxxxxxxx~~ has not been shown since the date of the royal decree, December 5.

The French financial press has not given much notice to the cabled reports of discussions between the President and Sir George Paish. There was no serious consideration of the suggestion that an agreement might be reached to

stabilize

- 3 -

stabilize the rate of sterling versus the dollar. It is observed in this connection that Great Britain apparently does not favor stabilization, while the United States does. Finally it is brought out that the fate of sterling does not depend upon a single treaty but upon a number of interlocking political, financial and economic events. It is stated that even if an agreement regarding stabilization were reached at Washington, the whole problem would still remain, and that agreement alone would not prevent gold from flowing to New York.

END MESSAGE.

WILSON.

EA:LWW

JR

GRAY

London

Dated December 16, 1938

Rec'd 3:25 p.m.

Secretary of State,  
Washington.

1444, December 16, 6 p.m.

FOR TREASURY.

One. Today's average Treasury bill rate was pounds 1 no shillings .79 pence as compared with 19 shillings 2.1 pence. The year end stringency is affected by December 31 falling on Saturday which prevents the tender for bills being arranged by the market so as to force the Government to borrow from the Bank of England over the clearing banks' window dressing. Expected measures to ease the credit position were not evident in yesterday Bank of England return which showed an increase in the note circulation of pounds 7.6 million to pounds 495.3 million while government securities rose by only pounds 2.2 million and total securities by only pounds 7.4 million. Bankers deposits dropped by pounds 3.4 million to pounds 99.5 million and public deposits by pounds 3.4 million to pounds 15.6 million.

Two. As for the past three days the exchange  
market

-2- #1444, December 16, 6 p.m., from London.

market has been quiet today affected by the obscurity of the outlook and the approaching holiday. Gold fixing at shipping parity on Wednesday and one-half pence premium yesterday resulted in only small arbitrage dealings while today the one pence premium offered by the price of 148 shillings  $8\frac{1}{2}$  pence, the dollar being 4.67-11/16, gave arbitrageurs no reason to operate and the 238 bars sold were taken by hoarders. The British fund gave about 30 bars.

While the British fund bought a few dollars yesterday and Wednesday, it has operated in a small way in the other direction today the pressure becoming slightly heavier towards the close of the market when the dollar was bid at 4.67.

The franc has been steady, the Bank of France obtaining small amounts of sterling yesterday and today, the rate remaining close to 107.55.

JOHNSON

PEG:WWC

12-16-58

Number of \$1,000 Cash Subscriptions to Dec. 1938 Offering

| <u>FRB</u>         | <u>Bonds</u> | <u>Notes</u> | <u>Comparison with recent issues</u>  |
|--------------------|--------------|--------------|---|
| Boston.....        | 1160         | 404          | Approximately 2 times   |
| New York.....      | 1738         | 489          | Bonds 4 times Sept. and 17 times Dec.<br>Notes 5 " " " 40 " "                                   |
| Philadelphia.....  | 1301         | 230          | Considerably more (Davis recommends<br>straight percentage<br>allotment)                        |
| Cleveland.....     | 1750         | 270          | More than double  |
| Richmond.....      | 1720         | 541          | Bonds 3 times and Notes 2 times Sept.   |
| Atlanta.....       | 6966         | 4528         | " 3½ " " " 2½ " "   |
| Chicago.....       | 2100         | 600          | Bonds 75% and Notes 50% more than Sept.<br>(Sihler recommends allotment up to \$100<br>in full) |
| St. Louis.....     | 1858         | 780          | Bonds 2 times and Notes 3½ times Sept.  |
| Minneapolis.....   | 226          | 91           | Slight increase   |
| Kansas City.....   | 786          | 245          | Bonds 2 times Sept. and 7 times Dec.<br>Notes 2 " " " 6 " "                                     |
| Dallas.....        | 733          | 345          | More than half again as many as Sept.   |
| San Francisco..... | 571          | 113          | About double  |
| Total.....         | 20,909       | 8,636        |   |

December 18, 1938.  
10:36 a.m.

Operator: Go ahead.

WMJr: Hello.

Bill  
Douglas: Good morning, this is Bill Douglas.

WMJr: Good morning, this is Henry Morgenthau.

D: I'm up in New York.

WMJr: So I hear. Ah -- Bill -- I've got in the office here  
one Haynes, one Taylor --

D: Yes.

WMJr: And the loud-speaker is on so that they can hear both of  
us.

D: Yes.

WMJr: Ah -- we want to get together -- ah -- I have what I call  
a Banking Committee here, and they are now ready to show  
me their recommendations on Bank of America.

D: Yes.

WMJr: And when I have seen them, and I have not yet seen them,  
I'd like you to see them at the same time.

D: Fine!

WMJr: Now, and then I thought, if we agreed or didn't agree,  
we'd send them back, but if we did agree, my understanding  
is that before we do agree finally I'm going to walk across  
the street and show them to the President.

D: Yes.

WMJr: Now, when can you sit down with me and the Treasury people  
and hear what they have to recommend in regard to the  
Bank of America?

D: Ah -- any time from -- from half past nine tomorrow morn-  
ing on.

WMJr: Well, I've got -- half the Treasury is going up to New  
York tonight. They said they would be sober by ten-thirty  
and they are coming over here with Eccles at ten-thirty to  
twelve-thirty.

D: Well --

HMJr: I could be here at nine-thirty if they can.

D: Yes, well I -- I ought to be all sobered up by then. I am going to attend the --

HMJr: Yes, that's where they are going.

D: The -- the financial dinner in New York.

HMJr: You'll meet the Treasury there.

D: Yes.

HMJr: Well, why don't we say -- I should think -- let me ask Haynes how he will be -- (aside, will you be clear by nine-thirty tomorrow morning?) Well -- (aside, well, then ten-thirty) -- Well, why not let's meet from nine-thirty to ten-thirty tomorrow morning?

D: Fine.

HMJr: Is that all right?

D: That's good.

HMJr: Nine-thirty in my office and you bring anybody you want with you -- from the Commission.

D: Yes -- I'll probably bring the man who is going to try the case -- John Roggie.

HMJr: Now just a moment. Haynes -- Haynes said that he spent some time last night with Jerry Frank bringing him up-to-date.

D: Yes.

HMJr: So he said he -- he -- he did post him last night.

D: Yes, good.

HMJr: Well then, I'll expect you and whoever you wish to bring with you at nine-thirty tomorrow morning.

D: Yes.

HMJr: And if you don't mind I'll do my home-work in your presence.

D: Good! And if -- I'm very glad that the Treasury is attending the dinner tonight because then we'll all be operating under the same handicap tomorrow morning.

HMJr: Right! O.K.

D: Good bye.

HMMJr: Good bye.

December 16, 1938. 299  
12:11 p.m.

HMJr: Hello.

Operator: Helvering. Go ahead.

HMJr: Hello.

Helvering: Hello.

HMJr: Guy?

H: Yes.

HMJr: Last night Tommy Corcoran called me back again about these political jobs up in New York.

H: Yes?

HMJr: Well now, I haven't got the time or the inclination to go into ward politics.

H: Yes?

HMJr: And I don't know why he's in it anyway, and why this new Congressman can't talk for himself. See? -- Hello --

H: Ah -- who can't talk for himself?

HMJr: This new Congressman.

H: Oh, yes.

HMJr: Fay?

H: Yeah.

HMJr: In any event, I told Corcoran I'm going to leave the entire matter with you.

H: Yeah.

HMJr: And I'm just washing my whole hands of it.

H: Well, you tell him to come over and see me. I'll tell him what we can and can't do. Of course --

HMJr: You have your office call him up, will you?

H: Yes, all right.

HMJr: And -- but I'm just telling you -- I'm going to leave it with you, because I can't get down to ward politics, and I don't want to.

H: Yes.

WMJr: In New York -- I don't know -- I don't know whether this is pleasing to Farley or whether it is pleasing to the President. I've had no word from either of them.

H: Yes. Well, of course -- ah --

WMJr: And I don't see why this new Congressman can't come in and talk for himself, but it would -- it would be a help to me if you would take this off my shoulders.

H: Now where do I get Corcoran?

WMJr: Ah -- ask-- you call -- you call your secretary and tell her to ask my operator to get him for you.

H: Yes.

WMJr: Mrs. Spangler -- she knows how to get him.

H: Yes.

WMJr: See? I don't know where he "hangs out".

H: All right.

WMJr: But if you will take this off my shoulders, it'll help me.

H: Well, if you'll just tell him --

WMJr: Well I did. I told him last night I would call you this morning and that you'd send for him.

H: Yes, all right.

WMJr: See?

H: All right.

WMJr: Thank you so much.

H: You bet.

December 16, 1938

The President, much to my surprise, brought up the question of processing taxes and asked Wallace what he intended to do. Wallace, as usual, hemmed and hawed. The President said, "Well the two Henrys better get together or I will lock them up in a room."

He turned to me and said, "What do you think of the processing taxes?" I said, "Mr. President, don't you think it is about time the householder got a break?"

Later on he asked again if we would get together and I told Wallace I would be glad to give him a hearing before the Fiscal and Monetary Committee.

**FEDERAL RESERVE BANK  
OF NEW YORK**

December 16, 1938.

Dear Mr. Secretary:

The total of corporate issues during the week was \$56,200,000. Two of these issues, comprising about two-thirds of the total, were considered thinly priced in the market and have moved comparatively slowly with one of them offered at some discount from the issue price. \$30,000,000 of Chesapeake and Ohio Railway refunding and improvement mortgage 3 1/2s of 1963 were priced at 101 1/2 to yield 3.41 per cent. The bonds are rated Aa, but they evidently are handicapped by general fears concerning railroad securities. It is reported, however, that the underwriters expect the issue can be sold successfully, if time is allowed for its distribution, and they are likely to hold the issue in syndicate for the reinvestment buying which is considered a regular feature of the month of January. For the present the asking price is being held at 101 1/2 but no bid price is quoted. The second issue that is moving slowly is \$7,750,000 of Green Mountain Power Corporation first and refunding mortgage 3 3/4s of 1963 at 101 1/2, rated A. This issue is quoted in the "guaranteed investment" market at a moderate discount.

Three bond issues, totaling \$12,700,000, were placed privately during the week; \$3,100,000 of common stock of the Glenn L. Martin Company is being offered to stockholders at a price well under the current market, and there were several smaller issues. Of the week's total, all but \$5,500,000 was for refunding.

The offering of \$55,000,000 of bonds, debentures, and preferred stock

303  
12/16/38

of the Public Service Company of Colorado, which was to have been marketed yesterday, did not clear the Securities and Exchange Commission, and the registration has been withdrawn. The flotation may be made early in 1939. The \$38,000,000 of Central Illinois Public Service Company bonds offered last week are quoted at a discount of 2 or 3 points and are still moving slowly. On the other hand, the offerings to stockholders of Commonwealth Edison Company and Continental Oil Company convertible debentures are still quoted at premiums of around 7 points. The market, therefore, is selective and still quite receptive to issues which it considers secure - on somewhat stricter standards than agency ratings - and attractively priced. Besides the current offerings to stockholders and the possible completion of one or two private sales, the only important public security financing expected before the end of the year is the marketing next week of \$10,200,000 Consumers Power Company first mortgage 3 1/4s and \$16,000,000 Railway Express Agency serial notes.

Municipal bond awards during the week amounted to about \$18,800,000. Recent offerings have been moving more rapidly than they were two or three weeks ago. Nearly half of the \$25,000,000 State of Connecticut issue is still unsold, but dealers' total inventories are on the down-grade.

Yours faithfully,

  
Allan Sproul,  
First Vice President.


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

December 17, 1938.

Dear Mr. Sproul:

For the Secretary I am acknowledging your letter of December 16th, giving a survey of the corporate issues for the past week. Mr. Morgenthau is always very much interested in the information contained in your weekly letters.

Sincerely yours,

H. S. Klotz,   
Private Secretary.

Mr. Allan Sproul,  
First Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

GHE/dbs

Confidential

**P A R A P H R A S E**

A telegram (No. 32) of December 16, 1938, from the American Consul at Tsingtao reads substantially as follows:

Japanese soldiers have again been arriving and a division of Japanese troops is expected soon, according to reliable information received by the Consulate.

793.94/14505

RECEIVED

DEC 1 1938

TREASURY DEPARTMENT

Office of the  
Director of the Bureau of  
Internal Security



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

IN REPLY ADDRESS  
BRANCH OF SUPPLY  
AND REFER TO FILE NO.

December 16, 1938

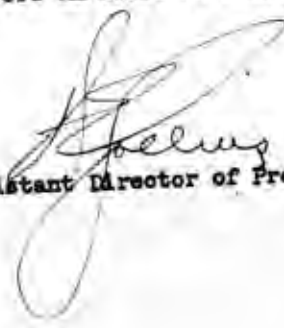
MEMORANDUM FOR THE SECRETARY

At the request of Mr. Chen, specifications have been furnished his Mission for the following equipment:

|                                  |                                    |
|----------------------------------|------------------------------------|
| Tractors                         | Transits                           |
| Leaning Wheel Graders            | Levels                             |
| Steam Road Rollers               | Plane Tables                       |
| Sheeps Foot Tamping Rollers      | Electric Furnaces                  |
| Wash and Core Drilling Equipment | Electric Furnace Brick             |
| Wheelbarrows                     | Hammers (for use in hand drilling) |
| Spades                           | Aluminum Alloy                     |
| Picks                            | Grinding Equipment                 |
| Drill Rods (for hand drilling)   | Gauges                             |

Inasmuch as no quantities are available it is impossible to estimate the amount of money that would be expended for this material.

In addition to the above, they will purchase 7,000 tires, inquiries concerning which are at present in the hands of tire manufacturers. It is expected that they will contact this office before an award is made.

  
 Assistant Director of Procurement

December 16, 1936

MEMORANDUM FOR THE SECRETARY

At the request of Mr. Chen, specifications have been furnished his Mission for the following equipment:

|                                  |                                    |
|----------------------------------|------------------------------------|
| Tractors                         | Transits                           |
| Leaning Wheel Graders            | Levels                             |
| Steam Road Rollers               | Plane Tables                       |
| Sheeps Foot Tamping Rollers      | Electric Furnaces                  |
| Wash and Core Drilling Equipment | Electric Furnace Brick             |
| Wheelbarrows                     | Hammers (for use in hand drilling) |
| Spades                           | Aluminum Alloy                     |
| Picks                            | Grinding Equipment                 |
| Drill Rods (for hand drilling)   | Gauges                             |

Inasmuch as no quantities are available it is impossible to estimate the amount of money that would be expended for this material.

In addition to the above, they will purchase 7,000 tires, inquiries concerning which are at present in the hands of tire manufacturers. It is expected that they will contact this office before an award is made.

Assistant Director of Procurement

EDA

HONG KONG VIA N.R.

Dated December 16, 1938

Received 7 a.m.

Secretary of State

Washington

119, December 16, 3 p.m.

Following from the American Consul at Saigon. December 14, 11 a.m. Saigon "Port of Haiphong" crowded with freight shipments estimated to be 300% over normal. Maximum capacity reached and goods routed there will be seriously delayed."

SOUTHARD

RR:WWC

December 16, 1938.  
4:21 p.m.

WJr: Hello.

Operator: Mr. Jones.

WJr: Hello.

Jones: What's the news with you?

WJr: Hello, Jesse?

J: Yes.

WJr: How much is a ton of tung oil worth today?

J: Well, I didn't know you sold it by the ton. I thought it was by the gallon.

WJr: No. The President told me, always keep a little tung oil around my tongue and I'll be all right.

J: Good for you! Well, any news with you.

WJr: Ah -- no, I didn't -- I'm exhausted. I came out of Cabinet.

J: Uh-huh. I knew you had been over there.

WJr: Yeah. What's on your mind?

J: Not a thing.

WJr: All right.

J: I think we got -- got rid of Giannini yesterday. He's gone away.

WJr: I see.

J: I think it's in pretty fair shape.

WJr: Uh-huh.

J: I've done most of my -- used most of my -- if I have any diplomacy, trying to create a better spirit, a better feeling between the department and him.

WJr: Uh-huh.

J: And I'm sure that he's -- I've convinced him that -- that -- Hugh, and Johnnie, and Wayne, and I, and Preston, are all friendly.

HMJr: Good!

J: And I think the boys -- that I didn't think that anybody else would be permitted to do any harm to him.

HMJr: Uh-huh.

J: So I think it is in pretty fair shape.

HMJr: Well, I expect to see it within the next day or two. I haven't seen it yet.

J: Yes, all right. Well, we got away last night at midnight, and I think it is going to work out all right.

HMJr: Well, I haven't seen it but John is going to show it to me in the next day or so.

J: Yes, I'll -- by the way, I've got to write him a letter.

HMJr: Write who?

J: I've got to write Giannini a letter and tell him that when it comes to increasing his capital that we will help him, you see?

HMJr: Uh-huh.

J: But that -- I can do that next week.

HMJr: Uh-huh. Well, I don't -- I don't know anything about it. I haven't -- no one has told me a thing and I -- John is going up to New York and when he comes back --

J: Well, that's perfectly all right. I didn't have it in mind discussing it particularly.

HMJr: Well, I'm not prepared yet, Jesse.

J: All right. Well, I'll -- we'll take care of the tung oil.

HMJr: How's your knee?

J: It's a little better. The -- the Chinese came out to see me today.

HMJr: Good!

J: And the publicity seemed to work pretty good. The story was carried, and I think it has gotten out all right.

HMJr: Fine. Well, take care of yourself.

J: All right. Good bye.

HMJr: Good bye.

December 16, 1938.  
4:23 p.m.

WMJr: Hello.

Operator: Mr. Delano.

Preston  
Delano: Hello.

WMJr: Hello sir. What's this I hear you're back in the office?

D: Well, I just have to make a little demonstration once in a while.

WMJr: I see.

D: I figure that I can't just take this job and stay home all the time.

WMJr: Uh-huh. Well, I'm going to be in tomorrow, and Haynes is telling me about this offer he made to you of his place down in the Carolinas.

D: Well, that's very nice.

WMJr: And I really think you ought to get yourself in shape because the winter is going to be a hard one.

D: I know it is. I have a few inklings of it myself.

WMJr: And I thought it was an awfully nice idea of his, and as far as I am concerned, why -- I would be more than pleased to see you go down there and build yourself up.

D: Well, it is terribly nice. Is he -- is he going?

WMJr: No -- I don't -- I don't know what his plans are, but as I understand it, the place is there at your disposal.

D: Well, that is terribly nice of him. I didn't/quite understand that. He said it in an off-hand way, and I thought he was joshing, you know.

WMJr: No, no. He came back and told me. He said that he had offered it -- that he meant it -- and that it is there for your use.

D: Well, that is terribly nice of him.

WMJr: I think the way you don't seem to be able to get enough reserve strength, I'd seriously consider going down there long enough to really get well.

D: Well, that is very kind of you. What I had in mind was that I'd see if we couldn't see through these two things.

HMJr: Yes.

D: There is some sort of conclusion here because I think , and then I thought possibly around the holidays, you know --

HMJr: Yes.

D: I thought the pressure might lift a little bit. I am terribly anxious -- ah -- I wonder if I could say something to you right now over the phone that's been -- that I have wanted to say for sometime.

HMJr: Yes.

D: Is there any possibility -- would you give consideration to letting Danny Bell come in here as the other deputy?

HMJr: Well, I don't know, but I -- I don't think he'd consider it.

D: Yes he will.

HMJr: What?

D: Yes he will.

HMJr: In what capacity?

D: As deputy.

HMJr: Well, that's amazing to me.

D: Well now, the only -- I don't want you to think I talk to people before consulting you first. What happened was this -- I was down joshing with Danny the other day.

HMJr: Yes?

D: And, we have been friends for a long time, and I said that we had some stiff work up here and I wished to heavens I could steal him, you see?

HMJr: Yes.

D: And he said, "Well, why don't you?" And I said, "Well, do you mean it?" And that's the reason why I am speaking about it.

HMJr: Uh-huh.

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D: I -- I really think if you'd talk to him you'd find that he would be willing to come.

Mr: Well, of course, it's really up to the President because --

D: I understand that.

Mr: The President has refused to release him.

D: I -- I understand that. I just thought that I'd mention it because it would be a great help here in our -- our rather broad plans for reorganization.

Mr: I see. Well, it's something to think about anyway.

D: Yes. Well, I'm terribly much obliged to you about the other thing. Let me explain that I'm not an invalid. I don't want you to think that you've got a cripple over here, Mr. Secretary, but what happened was that these Doctors continually bear on me for getting out too soon. I did have lobular pneumonia, which is a pretty bad thing to have, and I've been trying to -- I get a little strength ahead and I come in here, and then I'd use it up, and -- Saturday night I went home and passed out, just became unconscious, and it scared my wife to death, you see?

Mr: I'm not surprised.

D: And, so, we had a lot of Doctors in, and that is the reason why I stayed out for three or four days.

Mr: Well, I didn't keep calling the house because I didn't want to bother --

D: I appreciate that.

Mr: But I did get reports indirectly.

D: Well, it wasn't -- it's all right again, to the extent that if I -- if I can just -- if I can win I'll get a lamp on this thing, you know?

Mr: Right.

D: I'm ever so much obliged to you, sir.

Mr: O.K.

D: Good bye.

MEETING OF FISCAL AND MONETARY  
ADVISORY COMMITTEE

December 17, 1938.  
11:15 a.m.

Present: Mr. Eccles  
Mr. Bell  
Mr. Ruml  
Mr. Taylor  
Mr. Hanes  
Mr. White  
Mr. Haas  
Mr. Currie

Ruml: There's been a marked change in the trend of business last four or five days. Thursday is the best day since Munich - completely out of trend, on the up side.

H.M.Jr: On the up side.

Ruml: Completely out of trend.

Eccles: You mean on the retail business for Christmas.

H.M.Jr: Well, that's very good, isn't it?

Ruml: That is good.

H.M.Jr: Is that just for Macy's, because you may happen to have ....

Ruml: Well, the Macy thing is so general, Mr. Secretary, that what happens to us happens all over.

H.M.Jr: Does that include Atlanta?

Ruml: That's New York. Toledo was very strong.

H.M.Jr: Do you consider that a tip?

Ruml: No, I shouldn't say that. You've expressed interest from time to time.

H.M.Jr: I have.

Well, come on, experts. Make it short and sweet.

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White: Short. (Hands copy to Secretary)

Eccles: I've got one, Harry. No I haven't.

Currier: Yes you have - that one you have in your hand.

Eccles: They don't check.

White: You've got one. Is this the same?

Eccles: Practically the same. Technically - the heading's a little different, Currie.

H.M.Jr: Where's George this morning? Oh there he is. Guess I'm getting blind staggers.

White: There is one general comment that George had that I think is important to note, that the assumption is that this draft, if it's to be used - to be used for the President - if it's to be used to be made public, there are some statements which it contains that you might wish to consider from the point of view of its effect upon business.

H.M.Jr: Well, I never send anything over to the White House that I don't assume that it might be made public.

White: Well, in that event, your statement as to what the additional income will be this year - one of the points that George raised - might not be received with ...

H.M.Jr: Where is that?

White: ... great enthusiasm.

Reas: Number one - that the national income will be between 65 and 68 billion.

H.M.Jr: I can't help that.

Reas: A good many people are more optimistic than that. Why not let them be?

White: You mean if they wish they might reduce your estimate down to 64.

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James: No, but I hope this is wrong - you know, hope it's better.

Eccles: There's the other side also, George, that this is on the conservative side and it may have the effect, too, of them not complaining about some of the other expenditures that are going to be made.

H.M.Jr: Harry, please ....

(White goes up to Secretary)

James: The original draft had "In the absence of facts that are not now known ...." There is something terribly deterministic about this.

James: Yes. The public thinks this committee can make figures, more or less.

Eccles: You've got "estimated."

James: Isn't there anything that human beings can do between now and the end of 1939 that can help us out? I mean are we simply to be deterministic about the whole thing? + thought "In the absence of facts not known ...."

Currie: That's true of every guess. You can protect yourself...

James: I don't want to protect myself. The fact I want to indicate is that human beings still have free will and intelligence.

Taylor: That's a very useful thing to indicate.

Eccles: Whether true or not, huh?

H.M.Jr: Well, Harriner, why don't you take this and you run through it today, and I'll sit - sort of sit back and rest a little bit.

Eccles: All right.

H.M.Jr: I've had a tough thing, and why not - you conduct the class today, will you?

Eccles: You want me to read it, then just take the .....

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Mr. J. J. : You run through it. Will you do that for me?

Mr. J. J. : Under A: "The Board ..." - well, this is slightly different. "The Fiscal and Monetary Advisory Board has been advised by the experts of the Treasury, Federal Reserve Board and National Resources Committee that:

"1. The 1938 national income is estimated at \$62 billion. For the calendar year 1939 it is estimated that the national income will be between \$65 and \$68 billion."

Now that's just as we O.K.'d it the last time we met - that particular section.

"2. A national income of about \$80 billion is required to provide a substantial reduction of unemployment."

I'll read three, because the last time we considered it, two and three were all considered under number two and it was suggested that we split number two because there were two different thoughts there. Number two here is the first thought, and then I'll read number three.

"An income of \$90 billion or more is attainable through full utilization of our man power, plant and equipment, technology and natural resources" - and we've got in brackets here, which is raising a question: "assuming the elimination of some important bottlenecks."

We O.K.'d that under number two last time, with the instructions that it be split as it has been split. The only question then for today, unless we want to go back and reconsider what we approved before, is whether or not we want to leave this assumption in here that we make - I mean that we want to leave this exception of eliminating bottlenecks, that there is the assumption that an income of 90 billion is possible ....

Mr. J. J. : You really don't need it, do you, if you say "is attainable through full utilization"?

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Eccles: That's right, if you get bottlenecks you don't utilize them.

Walter: I think it indicates an appreciation of some major problems.

Eccles: I don't see any objection to it. It does point out that even with a 70 billion income such as we had in '37 we had an increasing price and increasing wage structure in steel and three or four other commodities, that even with that level at which there was a lot of unemployment we did get bottlenecks. Personally I wouldn't object to its being left in. I think it's a little more qualifying, but ....

Rum: Well, it simply repeats what you're saying by implication under four, and I see no objection to leaving it there to make entirely explicit what we're talking about.

Eccles: It points out one of the subjects we have been considering here. We've been considering the bottleneck problem - this committee - and all this does is recognize the problem which we've been considering.

All right, we go on to the next then if there isn't any ...

Walter: I take it, then, you want to remove those parentheses.

Eccles: Yes, if there is no objection.

"4. With a national income of around \$80 billion the existing tax structure would yield Federal revenues sufficient to balance the current level of expenditures."

Now that's just as it was before and was O.K.'d. No change, as I see it.

Walter: George has one. There's a slight change there. George Haas had a suggestion there to insert the word "even" after "balance." That would change the concept of it - might be worth considering - so it would read "With a national income of around \$80 billion the existing tax structure would yield Federal revenues sufficient to balance even the

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current level of expenditures."

- Hanes: Is that quite a true statement? That isn't, according to our figures, a true statement.
- Hanes: No, you mean that - that's right, you weren't in here last time. They took care of me by putting the "around" in.
- Hanes: If a billion and a half off is "around," then they're right.
- Eccles: Was that - we're speaking of cash, you're speaking of bookkeeping, Johnny. There's the distinction.
- Hanes: I was speaking of the budget as a whole and the budget which we have envisaged.
- Eccles: Bookkeeping deficit or cash deficit?
- Hanes: I was talking real deficit, not bookkeeping.
- Eccles: But the real deficit - it depends entirely what you're talking about: the cash income and cash outgo, which is the thing that affects the economy, or the bookkeeping deficit, which is a different matter. For instance, in the calendar year '37 you had a cash deficit of about 400 million and you had a bookkeeping deficit of close to two billion, which is a very great difference; it's fundamental in this whole concept. And I think the only thing that we've got to consider is not the question of bookkeeping, it's the question of the cash receipts and disbursements, which is the thing that influences the - which is that part of the fiscal policy that influences private activity.
- Hanes: Well, if you explain it in that way, that's all right; but as I read this, this means to me - this says in effect that we will about have a balanced budget with an income of 80 billion dollars; I don't think that ....
- Eccles: It says "level of expenditures." It's speaking of expenditures and receipts; the cash is implicit in the statement.

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- Hess: But what John's thinking about is that the budget is now eight nine, and are we figuring that the tax structure on 80 billion dollars would yield eight billion nine hundred million? I mean that's what - isn't that what you had in mind, John?
- Bell: Of course, there is some assumption there that if you had a revenue structure of eight billion four there wouldn't be the necessity of spending eight billion nine.
- Hess: That's why I put the "even" in.
- Hanes: So long as we all understand what we're saying, that's all I'm trying - bringing up - that we're not ...
- H.M.Jr: Well - excuse me - we'll have to have another meeting Monday morning, so everybody's going to have one more chance at this thing.
- White: Would you - if the word "cash" were inserted in front of that, would that add or make it worse - in front of "expenditures"?
- Woolles: Well, it would leave - it wouldn't leave any doubt then that it was the cash budget you were talking about. I certainly wouldn't see any objection to it.
- White: Would that help it?
- Hanes: That would clarify, I think, ...
- H.M.Jr: Is that all right with you (Bell)?
- Bell: It's all right.
- Auml: It's what we mean.
- Woolles: It's what we mean.
- H.M.Jr: Is it all right with you, Dan?
- Bell: It's all right with me. All you're talking about is the public debt outstanding in the market.
- White: Were there any reactions to the word "even" - in or out?

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Bell: I'd leave that out.

Eccles: Johnny, the assumption was that if we get the national income up to 80 billion there is every reason to expect that we can get a cash balanced budget.

Hanes: That's what you mean to say.

Eccles: "... is sufficient to balance the current level of cash expenditures."

Bell: Really ought to be enough to balance the budget.

Eccles: Yes, maybe, but it seems to me we're pretty conservative - you mean the bookkeeping budget even.

Bell: That's the only budget I think of. It's the only one I can stand by.

McR: Think about what we owe as well as what we pay.

Eccles: "5. 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."

There was no question on that last time. If you're all agreed on that - any question?

"6. It is extremely important for Federal fiscal policy to take into account:

(a) Changes in the volume of the outstanding debt of State and local governments and changes in the volume and character of their expenditures and receipts. "

Bell: Want the wording .... Well, go ahead.

Eccles: "(b) Changes in the volume of capital expenditures being undertaken by private enterprise."

Bell: Do you want the word "also" in six - "also to take into account"? That's besides taking into account the Federal side of it.

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Eccles: Where would you put that word, Dan?

Bell: "... also to take into account."

Eccles: Yes. Any objection to that? I think that's all right.

"In pursuit of the objective of attaining a higher national income we make the following recommendations with respect to fiscal policy for the next fiscal year:"

White: That number one, Mr. Eccles, is out. That was out last time and I take it it's still out. We tried to rephrase it in some such way in which we wouldn't get the same concept in, but we were not successful. But it contains the same concept, which I take it the committee didn't accept last time, or at least all of them didn't accept. We did rephrase it, but still the same thought runs through it. Same concept runs through this as ran through the last one.

Taylor: I don't know; I don't think so.

Eccles: You mean number one which is at the top of the second page on the last - well, it's the top of - you've just eliminated number one from it.

White: Yes.

Eccles: ... from the recommendations that we considered last time.

White: I can read the old one, the one which wasn't accepted. "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 those taxes take away." And we made it shorter and rephrased it, but the same thought is implicit in both: except for additional expenditures.

Eccles: Well, in other words, this is the substitution, is it - bottom of page one? Harry?

White: What's that?

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Accles: This number one - this is a substitution, is it?

White: This is a substitution, but it's not a satisfactory substitution, because we couldn't get - at that time there was some suggestion that - Mr. Ruml had a suggestion, I think, as to how that might be phrased, and neither Mr. Currie nor I could remember it sufficiently accurately; and we tried this and felt that it wasn't the kind of statement that would satisfy the different points of view. So that if there - the statement here is essentially the same as the one about which there was a difference of opinion last time.

Accles: Well, that's the one that I - I feel that goes to the very heart of this whole question and it's vital. And I have a statement here stating the reasons, but I won't go into that now, because we don't want to go into any lengthy discussion. This was the controversial part, you recall, that you and I ....

H.W.Jr: Very well.

Accles: ... that you - that they were going to restate, and haven't done it. Do you prefer to leave that over to Monday?

H.W.Jr: Yes, because you and I have an honest difference of opinion.

Accles: "e don't know, we're not sure; I'd like to ...

H.W.Jr: Let's let that go on over to Monday, because up to now I haven't been able to see the thing phrased - as I understand it - don't let me try to interpolate, but I don't know whether you call that a compensated budget or what, but that's the thing that I can't subscribe to. Now, if we can't agree on Monday, there's no reason why you can't file a brief with your name to it. But I don't know how Bell feels and how Hanes and Taylor feel. But I just can't subscribe to a compensated budget. But as I said the other day - Hanes wasn't here - for myself, being realistic, I know that the President is going to increase expenditures and therefore he has told us that he wants a billion dollar tax bill, of which 500 million dollars would be available during the

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next fiscal year, and I'm proposing to go along with him, you see.

Now, but I - I think it's such a long thing - I'm willing at 10:30 Monday morning to sit down and go into the thing again, if we've got everything else. But maybe we can get together, I don't know.

Eccles: The only - this has nothing to do with the question of whether the budget is compensatory any more than the whole thing may have. The whole thing has some relationship. We're relating the public expenditures here to the national income and that's all related to the private, so that if national income is up high and business activity was great, why, we would naturally - the public budget would look very different. And therefore in the very nature of the thing it's compensatory.

H.A.Jr: Excuse me - may I give you a good laugh?

Eccles: Yes.

H.A.Jr: Yesterday at Cabinet - I'm positive Wallace put the President up to it - he opens the Cabinet meeting and says to Henry Wallace, "Henry Wallace, what's this I see in the papers about a processing tax?" Then he looks at me. Well, I hadn't said anything to him.

So he said, "What you going to do about it?"

Well, Wallace kind of hems and haws, doesn't say anything.

"Well, you two Henrys better go across the street; we'll lock you into a room until you settle it."

I said, "Mr. President, if you're going to ask that and it's going to last as long as that, why can't you send us to Florida, down there?"

So they went on. So finally the President said, "What do you think about it?" I said, "I'll tell you what I think about it." I said, "Don't you think it's about time the householder got a break?"

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So then he said - well, the President came back at me again and said, "Well, you and Wallace have got to get together."

I said, "Fine. I'm sure your Fiscal and Monetary Committee will be glad to give him a hearing." And that brought down the house.

And that's where I stand. And that's where I stand. And why shouldn't - seriously, if a fellow - why shouldn't Wallace come before this board and plead his case? I'm very serious, Marriner.

Lucas: Of course, this is quite contrary to some of the things that Wallace said.

H.A.Jr: I mean just think that over. Why shouldn't Wallace or anybody else who has a tax theory ....

Lucas: Well, let's pass up this one, then.

H.A.Jr: All right.

Lucas: "2. If taxes are increased, they should be those interfering least with additions to the national income." These are ....

Walter: Before you enumerate those, do you think there's a possible interpretation there, in view of the misunderstanding that appears to prevail with respect to the distinction between national income and Federal revenue - that people might feel this means it interferes with increasing Federal revenue? Probably we ought to say "with additions to the income of the American people."

Walter: Yes, that would be much better.

Lucas: That's right, that's what it is.

Walter: Yes, that would be a terrible misunderstanding.

Taylor: Your English is unfortunate there, too. "If taxes are increased, they should be..." I don't think is the King's English.

White: "... taxes selected ...."

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H.M.Jr: (On phone) Notify Henry, will you ... (etc.)

White: What's wrong with "they"?

H.M.Jr: Did I miss something?

Eccles: What do you suggest, Wayne?

Taylor: I'm a purist, that's all. I don't think that's ...

White: I'll consider that, but that still leaves me asking the question ...

Taylor: "If taxes are increased, those selected should be ..."

Eccles: "... those selected.." - I think that's better -  
"... should .."

Taylor: "... interfere least..."

Eccles: "...interfere least with additions to ..." - is that -  
what do you have there in place of "national"?

White: "... the income of the American people."

Eccles: "... the income of the American people."

Taylor: "... with additions to ..."

Eccles: Yes. "... interfere least with additions to the  
aggregate income ..."

Haas: It will be misunderstood, because they will think  
you're going to have some that have low rates, you're  
not going to take - this is a difficult concept for  
a layman to get.

White: "... to the total income of the American people."

Eccles: You can't put this so every layman can get it.  
That's impossible. Have we got "the aggregate  
income of the American people"? That's really  
what - that's better than "national" because "national"  
confuses it with the Government's income, and if you  
say the other they can't at least make that confusion.

"... namely:" - this isn't necessarily a question of  
order, is it?

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- White: No, that's why you suggested last time to eliminate the order.
- McCles: It's merely a list of them instead of trying to - this is a group - that if there are going to be increased taxes, they should come in some way or other out of this group. And I think that it is much easier for us to do that than to try to draw a fine distinction of what should be the order of them.
- H.M.Jr: Now, may I interrupt here to say to Hanes that as to the taxes, the whole thing - I left it all wide open until you sit in. As far as I'm concerned, nothing has been agreed on, it's all wide open. So you say whatever is on your mind, please.
- McCles: Well, there's the list: the estate and gift taxes, modification of income tax exemptions, income tax on middle brackets. Of course, that modification of income tax exemptions isn't very explicit. It seems to me that we might spell out, at least discuss what we mean there.
- McCles: That means the elimination of the tax-exempts - is that what you refer to?
- Hanes: No, it doesn't mean that at all. As I understand, the modification of the income tax exemptions - for instance, there's an income tax exemption of twenty-five hundred for ....
- Hanes: The base is what you mean.
- McCles: ... the married man, a thousand dollars for single, and four hundred dollars for each child. The thought is that an exemption might apply to a person getting \$2500, or you might even drop the base exemption, but why apply an exemption of \$2500 and \$400 for each child to a person getting \$500,000 a year or a person getting \$50,000 or \$10,000? It does tend to slightly increase the tax if you don't give the exemption, but I think it would be less objectionable ....
- Hanes: We're exploring a method of doing that by simply doing - instead of doing that, doing away with that altogether, taking \$100, we'll say, away from the

-15-

total tax computed, for example, which would have the effect of giving to the \$2500 man his present exemption, but to the \$2800 man, the \$3000 man, the \$10,000 man, and the \$50,000 man it would be \$100 just the same. So it would do away with that exemption that you're talking about.

Archer: The exemption would get less as the income went up.

Hanes: No, be the same. The man with \$50,000 would get the same exemption as if he had an income of \$2500.

Eccles: Oh yes, I see. That pretty well accomplishes the same thing. That's the idea here.

Hanes: That will add something to our revenue. That will add about \$90,000,000 to our revenue.

Eccles: Yes.

White: How would you want to phrase that?

Hanes: Well, this wasn't clear to me the way you've got it, because I'd say - you've got to spell that out a little bit, because to my mind that represented - I thought you were referring to the elimination of tax-exempts here. That's now clear it was to me. I wasn't here, didn't hear the discussion.

Hans: Wouldn't you call the suggestion you made the substitution of a tax credit in place of exemption?

Hanes: Tax credit upon the income tax.

Taylor: You could put "for example" if you want to, in there.

Hanes: Huh?

Taylor: "For example."

Hanes: I think we can get some words, if we understand what we want.

Eccles: For this purpose here - it seems all the committee is doing - it's not trying to spell out in detail the type of tax; we're speaking in pretty general terms. Now, with reference to gift taxes, estate

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taxes, there's all kinds of approaches to modifications of that thing.

Hanes: You could say "lowering the tax exemptions."

Eccles: That's right. Why not say "lowering the tax exemption as the income goes up"? That's the effect of it.

Hanes: That's right.

Eccles: That's lowering tax exemption as income goes up.

Hanes: Eliminates it.

Eccles: Well, finally does.

Currie: We refer to the principle in our place as the principle of vanishing exemptions.

Eccles: Vanishing exemptions. But that's a question of ....

Hanes: ... phraseology.

Eccles: Yes, but the principle - I think it's a question of whether or not we support the principle as a means of getting revenue, if they are going to get additional revenue.

Hanes: It would be a more palatable way to give it to Congress.

Eccles: Than to increase the tax rate.

Hanes: Than to reduce the exemption: in other words, reduce the \$2500 on a married man to \$2000 is not very popular. This seems to me a palatable way to get it; maybe I'm wrong.

Eccles: Well, it tends to - you could call it vanishing - it's the principle of vanishing exemptions, isn't it?

Hanes: That's what it is.

Eccles: As the income goes up.

White: Is there any thought in your minds that it might be

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desirable to put a range of revenue that might be obtained, or is that not at all necessary?

Eccles: Well, it seems to me ...

Walter: It would give the President some idea ....

Eccles: It seems to me, Harry, that you might do that in the case of modification of income - this thing we're talking about, but after all that all depends on the formula that's applied, and I don't think that this committee is prepared to put an estimate on the amount of taxes that's possible under each of these headings. I think that may require a good deal of study, and I think all we're talking about is that if they're going to get more revenue it ought to be in these fields. Now, as to what rates and to what extent they're going to attempt to get taxes out of the gift or out of the - increasing it in the lower income brackets, I don't believe at this time it would be my feeling that we could undertake to estimate at all what we could get from there.

H.M.Jr: One way to lay less emphasis on one as against the other would be to run it along like a sentence, not have the a, b, c; just run it right along as a sentence, with commas. There wouldn't be so much emphasis on the one as against the other. What, Ruml?

Ruml: (Nods approval)

Eccles: Let's do that. There can be no question ....

Ruml: Wouldn't letter them. As soon as you letter them, a is more than b.

H.M.Jr: I wouldn't letter them. But I want Hanes entirely satisfied on this, because this is his particular responsibility.

Hanes: That's all right with me - leave the a, b, c, d, e, and f - a, b, c, d order - leave those letters out, and strike the e and f completely from it.

Eccles: This is the slippery one, Harry.

Taylor: That's my vote.

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- Hanes: I want to strike that out.
- White: Slipped in easily; it can slip out easily.
- Eccles: As a practical matter, I don't think you've got a political chance.
- Hanes: I don't see any reason why we should just deliberately jump in a hornet's nest; I'm the one that's got to jump, and I object to it.
- Eccles: As an economic matter, it was just a question of choosing a preference; that if it's going to ... I don't think the President would be likely to propose either one of those taxes, after the last year's experience.
- H.M.Jr: Well, I'm - as I say, I keep repeating, this is Hanes's responsibility and he's got to do the jumping for me.
- Hanes: You understand, I'm not taking any stand on the economic - any more than I have on any of those taxes. But I don't want deliberately just - as I said before, just go up and thrash up a lot of people that we don't have to thrash up at this time.
- H.M.Jr: And furthermore, it's impractical because we've talked to the President about a, b, c, and d, and those were acceptable to him, and he didn't bring up e or f, and we didn't.
- Hanes: Nobody has said anything about it at all up to that.
- H.M.Jr: So I think ...
- Eccles: There's another tax that isn't here that he mentioned and that's a tax on a tax. In other words, put on a special war armament tax of ten percent; figure the taxes just as they are now and then make a levy of plus ten percent for armament purposes.
- White: On income or on all taxes?
- Eccles: On all income taxes, both corporation and individual. As I understand it, it's estimated to give from 200

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to 250 million.

Hanes: That's right.

Eccles: Now, why wouldn't that be a - why wouldn't it - let's take the capital gains and the other one out of here, for the reason that we know they won't be used, and if he's going to publish this and it shows capital gains and undistributed profits it would direct a strong attack on it on the basis of that and might - and it wouldn't help any; so I'd just as soon take those out, not that I've changed my views with reference to the principle at all; but I'd just as soon take them out and would suggest that we might add this 10 percent tax upon existing taxes.

Hanes: Our boys here have been working on that suggestion in varying degrees of percentages, so forth, and I'm not ready to make a report as to what they think, because I don't think they've gotten down to the point of making up their own minds; but there's a terrific lot of objections on that thing which I'd like, before you put it in here, to weigh very carefully.

Eccles: You mean technical objections?

Hanes: I'm certainly not sold on that, Harriner. I just haven't been sold on it.

Eccles: You don't mean because of the fact that it imposes that much more taxes on existing taxpayers?

Hanes: Yes, that's what I do mean. I mean that it doesn't do what we were planning to do in the other, broadening of the income tax, at all. It simply concentrates the greater load where it is already too great.

Walter: You mean the man who is now paying, let's say, an extreme - 79 percent - he'll be paying 88, 10 percent more.

Hanes: Yes. It just adds to the dilemma you're in already.

Eccles: It does on the very high brackets.

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- Hanes: You've already got too high - you'll admit that the high brackets are too high. There's no way to argue the case any other way.
- Lucas: You might well apply it on corporations, though, under normal ...
- Hanes: Well, we're hopeful of getting an increase on the corporations anyway, and that would - that would stir that hornet's nest up too. I don't know, there are a lot of things that - I don't object to that kind of tax except for the specific reason that I think you've got to weigh it very carefully before you just say that's a good way.
- Lucas: What would you put in here, then, as an alternate? I think we've got to - it's a question of getting a certain type of tax in preference to consumer taxes here. Now, we haven't given much of a field before we get into consumers. There's four items. If we say those are out then you've got to go into the consumers' taxes. My feeling is that if you exhaust those four fields there, before you get into the consumers' tax you ought to increase corporation taxes, you ought to do some other things first, and then - because we have it in here, we in effect say that if the present four proposals here are not sufficient to get the taxes, then you've got to move into the consumption taxes, that there is no other - there is no other tax field which would be preferable after you exhausted, we'll say, these four fields.
- Hanes: I think those four fields, with the increase in corporation tax which we contemplate anyway - but to add another increase upon the increase contemplated would be something we couldn't get by with.
- Taylor: Why don't you mention your increased corporation taxes as a fifth item?
- Hanes: That's all right.
- Lucas: Let's do that, and take those two out. That would be agreeable to me.
- Hanes: There again, I don't think we'll get anything the first year. We've been figuring it in two bites here,

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hoping to get 500 million dollars available in the first taxable year. The first full year that we get the benefit here is a different thing than our first taxable year, so we're going to get less benefit on the first taxable year than we get on the first full year.

Beales: That's because you only get a half year ....

Hanes: That's right. So what we do is arrange this thing so as to get 500 million dollars, as the President wants, in the first taxable year.

Beales: That's a billion a year.

Hanes: That will be a billion a year. Be a billion the first full year.

Beales: Well, that - I couldn't - I wouldn't go for that, because you'll do just what you did in '37 if you try it, if you increase taxes by a billion dollars out of the present national income, or even the prospective national income this year you'll have. I think it's vital, that very point, the question of whether you're going to push taxes up to get another billion dollars; unless you spent another billion beyond the eight billion, you've closed the gap again, you've brought the - well, if you increase taxes by a billion and don't increase expenditures by that amount, you'll have almost - you'll come very close to a balanced cash budget in 1940.

H.C.Jr: Oh no, not by a couple of billion. Right, Dan?

Bell: I don't get just what ....

Beales: The point I make ....

H.C.Jr: Not by a couple billion.

Beales: No, you'll be much closer than that. Don't you agree, Currie?

Currie: I think so.

White: Isn't that point similar to the one that you passed

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up before and were going to take up later? Do you think it's necessary to go into that now?

Taylor: It isn't a question of amount when you list these; I mean in this memorandum, for example, there is no mention as to amounts anywhere.

Eccles: That's right. That's correct.

Taylor: So that if you can list your corporation tax and so on, you won't have any effect on the thought of it.

Eccles: Well, I'm willing to do that. Let's take the capital gains and undistributed profits out and put the corporation in. You're just talking about the avenues available.

Hanes: May I make a suggestion which has nothing to do with the thought behind what you're doing, but rather with the practical way of going about this thing: if by chance this should become some part of the budget message, you'd make our trading with the Congress and with the people that are going to be our opponents in any kind of a tax increase that we might envisage - you're going to just start a hell of a lot of rumpus before it's necessary to start it; and as a matter of trading, I think we've got a good trading weapon, we've got a whale of a good trading weapon here to get this corporation tax increase if we handle it properly, and if we go out and this thing should happen to get in the budget message, I would rather have it that we have a, b, c, and d and let it go at that, and without any more explanation on those items than we'd have to give, and not go into the corporate tax field. It isn't a disagreement with you, because I'm looking at that corporation tax as a source of revenue right now. But I - there again, I think it would put us in a much better trading position if we don't get it out in public print at this particular moment.

Ruml: Mr. Secretary, ...

Eccles: Well... - go ahead.

Ruml: Would this make your point, Mr. Hanes: if we came to a period at the end of "national income" and

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say, "These are, among others:" and give the four?

Hanes: That's right. We've got about eighteen other suggestions here as alternates where we can fill in the gap in revenue when we're cut down by these various Congressmen. We've got several sources of revenue which we want to submit when we're cut down. And they're good sources of revenue, and they're not deflationary sources of revenue.

H.V.Jr: Such as what?

White: The justification for doing that is that you also indicate the taxes you don't like; therefore, it is not necessary to ....

Eccles: I think with Beardley's suggestion there - say that again.

Ruml: Come to a period at the end of "national income" and say, "These are, among others:"

Eccles: "These are..." - you give the four, you say "... among others." That's all right. Then that leaves...

Ruml: That's illustrative.

Eccles: That doesn't exclude undistributed profits and capital gains.

White: Then it's all right to put it in.

Hanes: I'll go along a hundred percent on that. We've got others. You see, it isn't only the corporation tax. We've got others too.

Eccles: I think in view of number three now - if it wasn't for number three, I'd feel different about it; but in view of the number three, to say "among others" comes in all right; because you exclude certain types in number three.

Ruml: You could apply the same principle in the statement of three; say, "These are, among others" and list those.

Eccles: Then are we agreed on number two?

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Bell: Do I understand that e and f came out altogether?

Eccles: Just leave the four in, Dan; he's going to say, "These are, among others:"

Bell: It's all right.

Eccles: All right, then, number three.

"We advise against new taxes which operate to reduce substantially consumer purchasing power. These are, among others:" - see?

Taylor: Why not say "such as"?

Eccles: Except you want the same language you had above.

Taylor: Well, I think maybe it's better up above to say "such as."

Eccles: "Such as."

Taylor: Yes.

Eccles: All right - "such as."

Taylor: In both cases.

Eccles: Well, that doesn't mean there are others.

White: It means a little different.

Eccles: I think "These are, among others" leaves it wide open.

Taylor: All right.

Eccles: I think personally if you say "such as" it's more limiting than saying "These, among others." And then let's take the a, b, c, d off, just as we did above; just ....

White: Separated by a dash.

Eccles: That's right. Is that agreeable, Dan?

Bell: Yes, it's all right.

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Eccles: Do you want Johnny's ....

H.S.Jr: I'll let Johnny do the talking.

Hanes: The only thing I don't like about that is your taxes on low incomes - well, that isn't specific, because we're - we must contemplate - if we're going to raise the revenue, we must contemplate taxes on lower incomes than we're getting now. I wonder how far you want to qualify that low income. I mean that - of course, I know what you mean there, you mean ...

Well: Very low.

Hanes: ... very low income groups that we don't want to attack with more taxes. But I'm wondering if that's - if that's - if we're following closely what we've said above. In other words, we are going to lower exemptions, so forth and so on, we're going to get down to the lower groups - now, what is low?

Taylor: Pick a figure.

Eccles: This tax picture is for this year only; I mean it's applying to the present picture, the present budget picture. And next year there could be a shift, the situation could possibly exist where you'd say, "We'll put taxes in the low income." It's just a question now of trying to emphasize ....

Hanes: I'm not arguing with that. I'm arguing with the consistency of your statement above in item - what was - item c, income tax on the middle brackets, which does go down to - in order to get the revenue, does go down to a pretty low income.

Eccles: It seems to me that it's pretty difficult, though, when you say "middle brackets," you don't qualify that either. It seems to me that it's like your gift taxes and like the modification of the tax exemption; it's a technical question, and I doubt very much if in this report you can ...

Hanes: If you said "very low income," would that do it?

White: In view of the fact that you have "middle" above.

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- Hanes: I'm trying to be consistent. It means everything that wouldn't come in what's in the middle.
- White: You could either push them in the middle or put them in the low.
- Eccles: I think this is better from your standpoint, because it leaves a good deal of flexibility with it.
- Hanes: As long as you think it's consistent with what you've said above - I have no objection to it other than that it looked inconsistent.
- Earles: I raised the same question, said to Currie, "What do you mean by low income; do you mean five thousand dollars or three thousand?"
- Hanes: Exactly. That's where you get off.
- Ruml: The average income is what? about \$1700. And certainly nothing above average would be considered low. I mean you could make that kind of an argument.
- Eccles: You might put it that way. You might put it that you wouldn't increase taxes on any income below the average.
- Bell: Taxes on the poor.
- Ruml: That goes pretty far. As a matter of fact, I think you could eliminate it altogether, in view of the fact that these things illustrate a principle, and when you say "among others."
- Taylor: I think it's better out.
- Eccles: You mean eliminate taxes on low; then you've got the converse to it above: taxes on middle brackets.
- White: That's what makes possible its elimination below. If you didn't have it above as one of the taxes to be desired ....
- Eccles: All right, all right; it's all right with me. Yes, the fact that ...
- White: You mention "middle" above and not just incomes.

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- H.S.Jr: Are you through with the taxes now?
- Reeles: Yes, we're just through now.
- Bell: I suppose you mean taxes on payrolls to finance the regular expenditures of the Government; you don't mean, for instance, old-age reserve, anything like that.
- White: That's a good question.
- Reeles: Well, that means, I would say - that would apply on the whole thing, that it makes no difference; if you put a tax on payrolls for any purpose, it is a tax that takes away from consumer buying power, and to do that at this time ...
- White: Well, I take it that Danny is raising another question: do you have reference to the added increase which is due next year, and if so, isn't that - doesn't that appear later and doesn't that presuppose ....
- Bell: Yes, that's what I - that follows what I'm thinking of.
- White: If you agree to the other, you wouldn't mind leaving it here; but the question as to whether you agree to the other - this presupposes that. Didn't think of that before.
- H.S.Jr: Would I say something - because I've had an appointment for three days to have my feet bound and I'm due at 12:30, so I want to be excused. I want to go to eight, if I might.
- Reeles: Right.
- H.S.Jr: If I might. And I've got an idea which I think is a good one.
- Reeles: There isn't any eight on here.
- White: Have you got the final copy? - Here you are.
- Reeles: I've got one now.
- H.S.Jr: My suggestion on that is that this planning for engineering and the legal planning, and so forth and

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so forth, for public works, should be done in preparation for the time ...

Dooley: Should be done what?

H.E.Jr: .. should be done in preparation for the time when the rearmament program begins to diminish in this country. I just want to get that thought in. That doesn't say it can't be done in addition to ...

White: This is particularly important - "in preparation for..."

H.E.Jr: Well, the point I'm making - a lot of people say, "Well, now the housing program in England is through, the rearmament program is going on; what's going to happen after the rearmament program slumps off?" I'd like to somewhere just leave the thought: well, we're not going to rearm for ever, see? I mean I'm being - and just leave the thought that we're not going to always rearm and we hope some day this thing is going to be over; and if and when it is, then we've got a lot of things to take its place. I think it's worth thinking about. I'd like to throw that in. I mean so often when you talk to English economists they say, "Well now..." - or German - "... what happens after the rearmament program," and "You can't stop this race for rearmament unless you can give them a good substitute." See? And, thinking in terms of the world rearmament program - "Well, we have a good substitute and are working for it, so we aren't for rearmament because it's an employment thing and we haven't got something better." I think it's worth thinking about.

White: It has two excellent aspects. It meets the criticism that is being directed against the present armament program as merely an excuse for reemployment, and it also provides a sort of a promise that the moment the urgency is gone it will be diminished and something productive will take its place.

H.E.Jr: I mean we're ready for it, see, so people can come along and say, "Now, of course, if the Germans only had something to take the place, maybe you could get them to stop rearming" - they say, "What'll they do?" and nobody has the answer. Do you get it, huml?

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Sumi: I think it's great.

Becles: It recognizes what I think is fundamental in this whole picture, and that is that the Government stands ready, if need be, to be a compensatory factor, that is, to - if when the rearmament quits and private employment can't use the man power and facilities, you've got a - the Government recognizes that it's got to have a program that will do it; and that instead of meeting the thing on an emergency basis or a dole basis, that they recognize the possibility that private industry will not take care of everyone when the rearmament program is over and that it is the duty of the state, and that they are prepared to. It seems to me that that's the fundamental thing that I see in it, and I'm for it a hundred percent.

Sumi: Well, I tell you another thing that it will do. It will meet the criticism I had in the business group that the stuff wasn't good enough - I mean the indication that W.P.A. isn't good enough to spend the money on.

H.B.Jr: Well, there's a lot of good stuff; I think it's worthy of a paragraph, if you fellows will agree, and - just making that rearmament thing stick out.

Do you agree, Currie?

Currie: Yes, very much so, Mr. Secretary.

H.B.Jr: What?

Currie: Very much so.

W.B.Jr: Because when you ask these people - any country comes in and has a big rearmament program - "What have you got to take its place?" nobody has an answer.

Becles: The great complaint today on the public expenditure isn't so much the amount of the expenditure - at least they say it isn't - but it's the fact that you're not getting value; it's the wasteful way it's being done.

H.B.Jr: If you fellows would excuse me, because I really

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have to have my foot rebandaged.

Eccles: You want us at 10:30 Monday?

H.M.Jr: Yes, but continue here, and I'll ...

waiter: One point before you go, that that group - Mr. Blough and Mr. Shoup and Miss Newcomer have come down and are working already on a preliminary survey with respect to state and local taxes, and they can have it ready for Monday, I understand - the preliminary survey - if we push them.

H.M.Jr: Push.

White: But you would like something.

H.M.Jr: Sure. Poosh!

Can I see you (Hanes) at one?

Hanes: Well, I'll leave here at a quarter of one.

H.M.Jr: quarter of one, right.

Hanes: I'll be there.

H.M.Jr: I'm going now. Take me five minutes ...

Hanes: I'll be there at a quarter of one.

H.M.Jr: All right. So we'll take on the great compensatory budget ....

Eccles: I just don't get - I'll have to drop that word and find some other way, because this is ...

Sumi: It's going to take him months to come to a final ...

Eccles: It's a question of degree, it isn't a question of principle.

H.M.Jr: You go right ahead, you gentlemen. You don't mind. But this foot does have to ....

Eccles: Well, we'll go ahead then.

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H.M.Jr: I have it on my calendar for 10:30. It's for two with the President; we checked yesterday.

Locles: We got down to number four. We finished three, didn't we? We cut out e on three and cut out all the letters enumerating them, putting a dash between each.

Haml: "These are, among others:"

Locles: "These are, among others:"

Hanes: May I ask a question on four? Have you come to that?

Locles: Just coming to it, John.

Hanes: All right, go ahead.

Locles: Are you making these changes, Currie or White?

White: I have the changes up to now.

Locles: "4. In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recommend that

"(a) benefits in connection with old age annuities should be liberalized and payments begun in 1940, and

"(b) that the 50 percent increase in old age payroll taxes scheduled to begin in 1940 be postponed to the following year."

Then there is this in brackets here; that - maybe we better read that, too, as an explanation of why this suggestion. "The addition to buying power resulting from the adoption of these two proposals would amount to \$250 - \$300 million during the second half of the fiscal year 1940."

All right, Johnny, what was it you ....

Hanes: Maybe that answers my question which I had in mind. Is "In view of the fact that the anticipated deficit

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will be greatly less in the second half of the coming fiscal year than in the first half" - I wondered on what that was based.

H.S.Jr: Good night, everybody. I think we're making real progress, think we're going to have something.

McCles: See you Monday.

H.S.Jr: Good-bye. (Leaves)

Hanes: That was based - was that based on this explanatory note down here, based on a greater income coming in in the second half of the year from the tax?

Currie: That's right: from what estimates we have been able to make, that both the big increase in income tax and in payroll taxes the first half of '40, reflecting the fairly good year we expect in '39 on the income tax, and possibly the peak - both P.W.A. and W.P.A. tapering off at that time.

Hanes: I see.

McCles: The drop in expenditure and the increase .....

Hanes: I got it.

Wahl: Say it in other words. The Resources Committee is extremely apprehensive about the situation in 1940; great danger of another 1937 coming for the same reason.

McCles: And in lieu of that, to offset that situation, it was recommended that these payroll taxes be deferred for at least a year.

Hans: Harriner, on that point there was some disagreement among the experts, if you're interested in it.

McCles: Yes, I - we've been making a study of a report - got it right here - on the whole Social Security program.

Hanes: I mean the experts ...

White: He's putting "experts" with quotes on it.

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Lucas: On.

Hughes: With quotes on it. I've talked to Harry; I haven't talked to Lauch about it.

White: That's why we talked - put it with a question mark.

Lucas: What's your position, George?

Hughes: Take the first sentence under four and then your remedy includes the use of the Social Security taxes. My feeling on that is this: that the Social Security tax is related to a definite system of benefits and these benefits now only apply to a limited portion of the population; therefore, if you want to make this correction for what you stated in the first sentence under four, that the Social Security system - I'm talking about the b part of it - shouldn't be changed, preferably - I mean for that purpose. If you want to change the whole system, O.K.; and I think it needs some drastic face-lifting. So I'd say as long as the system is standing as it is, you break up the whole arrangement and I think it's greatly inequitable to take in and to pay just a limited population out of what amounts to the total tax structure. This is now directly related to benefits - the tax; and the benefits - I'd say if you wanted to make a modification of the tax, take some taxes which are in the same category as these.

Ball: Take the taxes under a, b, c, d, and e, which you don't want to levy and which you do levy.

Hughes: I'm expressing my own view on that.

Lucas: Of course, speaking of the other taxes that Dan spoke about, we're talking about not increasing those taxes. Those taxes are there. We know it's impractical, it may be desirable, to reform; I would say that it would be very desirable if we could start from scratch on the whole damn tax system - just as it may be on the Social Security. But we know, after all, that we've got to be practical, that you've got to take the tax thing just about as it is, and such changes as are made in the existing tax system this year should not be directly harmful to consumption at this stage of the ....

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Hans:

Yes.

McCles:

And when you get to the Social Security, I agree with you that the whole damn Social Security thing is not equitable, it's unsound in a great many aspects. But you can't - I don't think Congress if they want to - that's one thing - I don't think that the President, as a practical matter, could admit that the Social Security program needed to be completely thrown out and started all over again.

Hans:

Not throw it out, no.

McCles:

It seems to me the most we can get at this time, the most that he could possibly propose, would be a modification of it as indicated here for a broad economic reason of keeping consumption up until the national income gets higher by, first, not imposing this half of one percent, which is a tax on consumption, and it comes too soon, and secondly, that the benefit payment to old age be moved up. Now, true, there's a lot of people that are not under this and it's being proposed, and that may be an additional thing; but I don't believe that comes within our sphere, to say that the Social Security should take under it all farm labor and all domestic servants and so forth. But that's a deflationary thing, however, because if they do take under the Social Security those groups, they will start paying taxes immediately on, I suppose, this one percent basis, and the employer one percent; so there will be a two percent tax on a very much larger payroll of the country. And the benefits paid out, though, to that group, if you'd wait three years, which you are waiting now for the first group - this started in '37, then we wait until '40 ...

Hans:

Unless you put it on a pay-as-you-go ...  
if

McCles:

That's right. Now, when you bring this group in, you immediately start giving them old-age benefits in '40, just the same as those that came in three years ago, then of course you may pay out to them as much as you take out from the group; at least it would be closer than if you wait three years.

Hans:

My point as an economist is this. I think that one consideration of the Social Security tax is this one

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of the compensatory arrangement - one consideration - but would it be wise to make a decision on one aspect of the Social Security problem purely on this consideration, until this committee sees the whole Social Security arrangement through? That's my objection.

- Walt: Well, Mr. Eccles, I think there's a certain logic that would appeal to common sense in this kind of a proposal from this point of view: that when this tax - I mean when the set-up was originally made, there were progressive increases from year to year on the general assumption that things were going to get better and better and better; and then you had 1937 coming in, so that you're not much better off and won't be in 1939 than you were in '36. So there is a certain, it seems to me, practical logic in saying, "Well, we couldn't foresee that far ahead and all we're doing now in this proposal is to make this recommendation that we not make the increase that was called for when the law was originally enacted."
- Eccles: On the assumption that conditions would get better, and they didn't.
- Bell: I don't think that's the reason for adopting it altogether. I think you had an actuarial computation to set up a reserve. But you're going on the theory of pay-as-you-go.
- Eccles: I think that's what you've got to come to economically; you don't have any choice.
- Walter: You can say, moreover, this is a step in the direction of the inevitable trend.
- Walt: But you can't go on a pay-as-you-go system and have your taxes come out of the general tax structure, I don't believe, and only a section of your population receiving benefits.
- Eccles: That's right. And I don't believe - think you can go on that basis until you get a much higher national income than you've got now.
- Walter: Moreover, the mitigating circumstance is this: that a portion of this tax, the employer's portion at any rate, is for the most part, it's conceded, passed on; so that element of it, George, doesn't - if you

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reduce that, it becomes in the nature of a reduction that hits the whole population, that portion of it. I mean that mitigates the difference to that extent. But the other portion - that's not true of the employee's portion. But it's not as bad ....

Currie: In this connection, it is interesting that the report of the technical committee that drew up the bill - the report that was submitted provided for a much slower stepping up of the rate, every five years, and that was changed at the last to every three years. So ...

Lucas: The stepping up depends on the condition of the national income.

Bell: Much higher than the present law, wasn't it?

Lucas: Well, I - my whole point is that this thing is about - I mean here is a recommendation of a specific tax adjustment which is bound up with a system of benefits and taxes; that the committee, after thinking through the whole Social Security arrangement, may arrive at this, or even lower this, which would meet this situation more completely than just this adjustment which is suggested. I just register my ....

Lucas: George has stated, I think, very clearly, the viewpoint which we ought to take from the Treasury standpoint.

Bell: Absolutely.

Lucas: Because if we go out and make a recommendation which we subscribe to here which is running around behind the Social Security crowd with whom we're dealing daily, it seems - and pick out one specific thing to say, "We recommend this" - why, then I don't think the Treasury can recommend that. My suggestion would be to stop at "... liberalized," because the only thing I think we're all in unanimous agreement on is that benefits in connection with the old-age annuities should be liberalized.

Now, as to a specific method of liberalizing them, we are in the process of trading with or being

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educated by, if you will, the Social Security Board at this particular moment, and we've been engaged in that process for the last forty-five days. Now, I would hesitate to say that the Treasury wanted to go over and make a recommendation on some specific portion which doesn't at all take up the program as a whole.

Ellis: As I recall, the Secretary at the last meeting said he could not go along. I assume that's the reason you had a bracketed question.

Walter: Bracketed because there wasn't any agreement.

Gurrier: I thought he said he could.

Hepner: I wouldn't go along unless you considered the whole program.

Seviant: I see your position. The Treasury feels that they're meeting with this committee, the Social Security, and discussing the whole program; that then to be a party to making to the President specific recommendations that may be counter to it, may be only a small part of the whole program ...

Hanes: You see, there's so much, too, Harriner, that has to do with administrative work from the Bureau. Now, those fellows from the Bureau have got a lot of questions that haven't been settled between themselves and the Social Security Board as to ways of going - methods of collecting these taxes. If you've got to send out a five dollar a day man to collect eighteen cents of tax, it isn't economical. There's an administrative problem in the collection of these taxes which has got to be determined too: how we going to collect them?

Colles: It seems important to me. That's why I'm sorry that we took the objective out, and I think we've got to come back and state in the first instance what the objective of this thing is, because I think otherwise we get off the track all the way along the line; that if we had an objective pretty generally or broadly stated, it would be much easier to deal with this particular thing, it seems to me.

Now, what we're talking about is the effect of the 1940 budget on the economy as a whole. That's what we're concerned about at this time, to avoid what

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may have happened in the past. We don't want the economy to bog down because of taxes, whether Social Security or other, which reduce consumption at a time when we need consumption increased; we don't want expenditures to bog down. In other words, we don't want the cash budget to come together as a result of a decrease in expenditures and an increase in taxes, rather than for it to come together out of an increase in national income. We're all agreed in the beginning here that it's the increase in the national income that has got to bring about the cash expenditures and receipts together, and everything, it seems to me, has got to be consistent with that approach.

Are we getting away from that by the increase in taxes that are going to come on consumption through Social Security? Here's an increase here. And in turn is there going to be a decrease in expenditure, so that in effect we bring about a balanced budget, or a budget which is much closer in balance from a cash point of view, than should be the case with a low national income, because if you do you freeze the national income down, while our objective is 80 or 90 billion dollars national income. That's fundamental in this whole thing.

And if there is some other way to state this, I'm not wedded to this particular specific approach - if there is some other way we can state the thing and not lose it ....

Ruhl:

Well, Marriner, I think we might do this. Perhaps the group would agree to say simply that, "in view of the fact that the anticipated deficit will be greatly less..." and so forth, "that a problem exists with respect to benefits and taxes upon Social Security, upon which we are not prepared to comment at the present time."

Hanes:

I think that would have to be our position so far as we're concerned, if we're going to keep faith with Hopkins and the Secretary of Labor and Wallace, with whom we've been meeting on this thing. If we're going to keep faith with them, we've got to say that.

Hamm:

It seems to me we might be remiss, or might be interpreted to be remiss, if we didn't recognize that we

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recognize the problem; but I don't think we need to make a specific comment today.

White: Well, one aspect of it - the Social Security program, W.P.A., and all the others consider their particular problems within the range of reference - within the terms of reference of their specific problems. This Board, I take it, has as its objective a somewhat different and more general approach. It presumably is to consider all taxes, all expenditures, in its relation to the whole problem. So that even with the Social Security program, for example, to come out and say, "We favor the imposition of this tax," or vice versa - it would be quite within the province of this Board. In fact, I would say they were remiss in their duty if they didn't point out that this tax is desirable or undesirable from the point of view of the national income, and the choice will have to be made as between those two problems.

Hass: That's stating it differently, Harry. You recognize that it's a conflict of convictions, and which one is going to ...

White: Whether it should be phrased this way, or so phrased as to say that this imposition of the tax, which, it is to be noted, is in direct conflict with your objective, or with the statement that you made above that you wouldn't add to the payroll tax - oh, that was deleted for this very reason.

Taylor: No, it's still in.

White: I mean tax on payrolls - wasn't that ...

Taylor: We didn't delete it, just passed it.

Ruml: Mr. Eccles, ...

Eccles: Yes, Beardsley.

Ruml: ... I think ideally, Harry, what you say is true, and the Secretary's statement this morning indicates what the drift may become, when he suggested that Mr. Wallace should make his statement to this Board. But I think there is such a thing as trying to grow up all

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at once, and that isn't a good thing for your bones, muscles, or anything else. And it would seem to me that even in two weeks or so we might have another memorandum on Social Security; nevertheless, at the present time the recognition of the problem as something that we propose to comment on would seem to me to get us over this immediate hurdle. I don't know whether the others agree on that.

HARBO: I agree to that. That would do just what I said to do, to stop ... I'd even be willing to go so far - if I had any say at all, I'd be willing to go so far as to say that this committee, if it is, is in favor of liberalized benefits of some form or other. What liberalized benefits has got to be a matter that we've got to keep faith with the other crowd on. I don't think we can go behind them and say we're in favor of some particular thing at this time.

WARRIE: I do think, however, that if the monetary aspects dealing with business are to be done anywhere with regard to the Social Security program, it will have to be the responsibility of this Board and not the Social Security Board.

WARRIE: Perhaps we couldn't do everything at once.

WHITE: How did you phrase that?

HARBO: I would say: "In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recognize a problem in connection with benefits and taxes under the Social Security program, upon which we are not prepared to comment at the present time."

we recognize the problem.

TAYLOR: Or you can even go a little bit stronger than that by saying that you recommend this subject be reviewed.

WARRIE: We say we're not prepared at the present time; the implication is that we'll make another report on it.

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Taylor: Say that we recommend it be reviewed rather than say we recognize the effect; even go one stronger than that.

Boies: I would like to say that we recognize the problem, see, but also say we're studying the problem and will make - see, I'd like to pin us down to the necessity of not just passing it over, because I don't think that will excuse us if a year hence we're bogged down again due to our hindsight being better than our foresight. And it does seem to me that this particular problem is so fundamental in this job that this committee's got that we can't - we mustn't only refer to it but we must say we're studying the thing and will make a report upon it.

Wheeler: That's the only question I've got about what you say. It isn't a disagreement in substance. It's one which you're better acquainted with than I am. That's a policy - question of policy as between these various committees appointed by the President. There's a Cabinet committee appointed by the President consisting of the Secretary of Labor, Secretary of Agriculture, Secretary of Commerce, and Mr. Hopkins for the express purpose of reporting to him and recommending to him upon this one point, that is, Social Security.

Boies: This committee doesn't necessarily need to conflict, as Harry pointed out.

Wheeler: I understand. I just bring that in as long as you've got that - that there is this committee appointed by the President. You handle it any way you like.

Wheeler: Would it be a parallel case that a presidential committee might be appointed to examine the need for additional armaments, and they come forward and say we ought to have a billion dollar increase; that still leaves room for some other committee to pass judgment purely from the point of view of the expenditure. And Danny Bell might come along and say, "Yes, they think we need a billion, but we can't get it."

Boies: I'd say, "Yes" if you didn't have the Secretary of the Treasury on both committees. But I don't think

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the Secretary of the Treasury can be very consistent without advising his fellow members of the other committee that he's making the .....

Forbes: But he might well - he as chairman of this committee could well report to this other committee: "Now, from the broad monetary and fiscal aspect of this thing, this is the view of this committee."

White: If he subscribes to it, he could say, "This is the view that's taken."

Hanes: You can say that any way you want. I just put you on notice that the Secretary is in that somewhat embarrassing position, which I don't want you to forget.

Bell: Do you have to bring in Social Security at all?

Hanes: No. You could make this adjustment in any way you wanted.

Bell: Why don't you follow Ruml's idea and say, "We recognize" or "We recommend..." - either one - "We recognize that the decline will have some effect on business conditions and hope - we're studying it and hope to make a further report," or "We recommend that a study be made of the effect of the decline on business."

White: That might be a suggestion - "We recommend that a study be made of the Social Security program from the point of view of its effect ...."

Hanes: No - "... of the decline in the deficit and its effect on business."

Bell: That's talking about Social Security. In that first paragraph you're talking about a decline in Government expenditures and the effect it's going to have on buying power of the country. Now, what you want to study is that effect.

Hanes: May I just express my opinion? I've got to go to meet the Secretary. May I express an opinion? I want to vote for Mr. Ruml's suggestion as my last word, because I like that, I think that's what we ought to say if we said anything about it.

White: There's one other part if you could pass judgment on ...

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Hanes: That last one I'd like to leave out - those brackets - so far as I'm concerned.

White: Which?

Hanes: The last one.

White: The - oh - "and parts of a broad health program."

Hanes: I don't understand that.

Bell: I don't know how you could have a broad health program without affecting the deficit.

Hanes: I know what total expenditure is contemplated, and I'd just like to have a lot of time to study that one.

White: O.K.

Accles: We're going to meet again, Johnny, on Monday, so it seems to me that this is - we've tried to get this particular section redrafted for consideration, then, and we can reconsider any of these other matters that you want to bring up at that time.

Hanes: The thing as you've got it now, with the eliminations as I've got them marked on my list here, which I've taken down as you've suggested them, is perfectly fine with me, with Mr. Ruml's wording on that other thing.

Ruml: I think I want to argue for Mr. Bell's wording rather than my own. I think you'd agree to that. There is a special reason why that has good advantages.

Hanes: I didn't hear what Danny's was, but I'll go along with Danny's. Good-bye. I'm sorry, I've got to leave.

(Hanes leaves)

Ruml: Because this W.P.A. program is as great a program as Social Security. That thing is going to go off probably pretty fast. Now then, would this meet your point: in order to make the thing concrete say it the way you did; say, "Such as Social Security, W.P.A.," so forth, to indicate, to give some concreteness

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to the type of drastic change that's likely to take place in 1940.

Bell: I can go along with that. I'd rather eliminate it altogether. But you may - when you come to consider, you may say, "Let's decrease excise taxes," which are practically the same.

Ruml: I was thinking not of recommendations as to what we would do.

Bell: What you would study.

Ruml: But what the circumstances are that make it necessary to do something.

Taylor: I think that's pretty good like that.

Ruml: You see? I think that thing could be made very . . .

Eccles: It seems to me that this goes back to this point where the Secretary and I are apparently in disagreement. That's the heart of the thing: what's the cash deficit going to be? That's the heart of it.

Ruml: I know, but here you've got a concrete situation in the spring of 1940. I mean there is no general theory about this. This is just as concrete as it can be. Do you see? And for that reason we have to make some concrete studies of what we propose to have up our sleeve, if you please, to take care of a situation that may emerge. Isn't that right?

Eccles: Yes, that's right. But the question is, you can always have W.P.A. as an emergency, but God! we don't want that.

Ruml: The main problem is to get rid of W.P.A., I should say.

Eccles: That's the only kind of a thing - that's the kind of a thing we can always do. We don't anticipate it. We let this damn tax go into effect and we'll fail to get the old-age payment out, because it takes legislation. Then you get into the emergency, the bogging down, and then, by God, you run forward with the same old bait. We had that last spring, if you will recall.

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White: I don't see why that has to be settled, Ruml. You'll have an opportunity, I take it, some time between now and before it's too late to make your report.

Taylor: Make a special report.

Ruml: Following along Bell's suggestion, it would be practical to make a special report concretely on the situation that may exist in the spring of 1940 and go over the whole bag of tricks and indicate what the dangers are, what the possibilities are, what optional legislation might be desirable, and so forth and so forth, and make a specific study on the dangers of 1940.

Eccles: That's all right.

Bell: Do you mention the specific suggestions or leave it out?

Taylor: Leave it out. You're just recognizing the fact that you may have a situation in 1940 and you're going to make a special report.

Eccles: That's all right. Then you can bring Social Security in, or anything else. That suits me fine, that's better still.

White: Is that your thought?

Bell: I didn't get it.

White: Later on you can bring in whatever you think is pertinent to the subject, every ...

Bell: Not only suggestions of this sort, but everything else that's pertinent.

Eccles: We just say number four here, but we cut out anything specific; we merely recognize the problem and merely state that we'll study the thing and make a special report.

White: How did you say that?

Bell: I said recognize it or study it and make a report later. But I think Ruml has it better: to make a report at that time.

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Taylor: You're not making the report in '40.

Ruml: Make the report in about four weeks, I should think, some time while Congress is in session. "In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recognize the existence of an important problem for the year 19- - for the calendar year 1940, upon which we propose to make a special report."

Taylor: You can even ... - "which may exist."

Ruml: "... which may exist."

McCles: "... and upon which we will make a special report."

Bell: That's O.K.

Ruml: Leave Social Security entirely out.

McCles: That's fine, because that's too damn a limiting thing. I'd just as soon leave it open.

All right, now, number five.

Bell: That's about the same as it was.

McCles: "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."

Now we can get over this pretty fast. I guess we'd all like to get away; I know I would.

Ruml: I dislike that term "Businessman's Budget."

Hans: Nobody knows what that is.

Ruml: I think it does a terrible thing in giving a symbol there of the relationship of a corporation budget to the Federal budget.

White: That's what the President called it - or whatever it was called.

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Bell: That's right.

Eccles: They say if it's a business man's budget then you've got to balance it.

Ruml: And you can afford to borrow for capital expenditures. It seems to me that what we ought to do, Marriner, is to educate people away from the idea that the two are the same, rather than toward it.

White: Well, as a business man, Mr. Ruml, how would you describe it?

Ruml: How would I describe what?

Taylor: I wouldn't call it a principle. I think that's it. You can simply talk about changes that have been recommended, and that the principles involved be extended as rapidly as feasible.

Bell: Why not just say "the proposed changes"?

White: "... notes with approval the proposed changes in the budget presentation."

Eccles: "... the budget classification.."

Taylor: "... that the principles thus established be extended as rapidly as feasible."

Eccles: Did you get that, Harry?

White: I'm not sure. "The Board notes with approval the proposed changes in the budget classification or presentation."

Taylor: "... presentation..."

Bell: "... presentation ..."

White: "... budget presentation, and recommends that the .." - what would it refer to?

Taylor: "... that the principles ..."

Eccles: "... and recommends that the principles be extended as rapidly as feasible."

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White: "... that the principle embodied in those changes..."?

Eccles: That's understood.

White: O.K. All right.

Taylor: I think you can add that word - "... principles embodied in that..."

Eccles: It may clarify it. You can see now it looks.

All right, number six.

"(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 secure a large railroad equipment program."

Haas: I was thinking of some of the railroad equipment executives, when they see that - they're so damn blue. "Now they're worrying about we're going to be in a bottleneck." They'll hope we're right.

Eccles: Well, they've been talking that; this won't shock anybody.

Haas: No, but they're not all so bullish - worrying about having to get income.

Taylor: Might give them cause for thought.

Eccles: That wouldn't hurt anything.

Now here's the last page.

Haas: Hanes wanted to cut out a piece of that b there.

White: It's out.

Taylor: Just the part in parentheses.

Eccles: "The Fiscal and Monetary Advisory Board has been advised by the experts of the Treasury, Federal Reserve Board...." - what's that? What the hell have I got here? You fellows got this all attached together wrong.

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White: Somebody's got it patched together wrong.

Bell: Harry isn't going to take the blame.

Taylor: Harry White did that, I know.

Haas: Harry felt it read just the same either way.

Taylor: Start in any place.

White: It's all the same.

Eccles: I've got it now.

"(b) Recovery could be stimulated without adding to the deficit by an extension of certain other government activities through the device of self-financing government corporations. Examples are toll roads, bridges, tunnels, public garages, and parts of a broad health program."

Taylor: We're eliminating "and parts of a broad health program."

Currie: That has not been discussed.

Ruml: Shouldn't be.

But, Harriner, I have a comment on that. I don't like that phrase "without adding to the deficit." I'd like to see that cut out.

Bell: So would I.

Ruml: I mean fifty-fifty - you can argue it all around the block.

Taylor: You can leave that out and it doesn't weaken it anyway. You can just say "could be stimulated by an extension of certain government ..."

Eccles: It wouldn't add to it.

Bell: I don't agree with you. You just can't do it; you're going to have some losses, just going to. Got to make up your mind ...

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McCles: You add it as the losses occur.

Ruml: The issue isn't whether it adds to the deficit.

Bell: I'd cut out the examples, too.

Currie: That's all right.

Hess: Yes.

McCles: What have you got? "Recovery could be stimulated ..."

Taylor: "... could be further stimulated..."

McCles: "... could be further stimulated..." I don't know whether it's "further" or not, Wayne.

Taylor: Well, by an extension of certain other governmental activities.

McCles: "... further stimulated by..." and you cut out "without adding" - "... by an extension of certain other governmental activities through the device of self-liquidating government corporations." I think it's as well to cut out ...

Taylor: "... self-financing..."

McCles: Yes - "by the device of self-financing government corporations."

Bell: Well, that's - let's see, what you mean, really, is by an extension of the device of self-financing government corporations to other government activities, isn't it?

Ruml: Well, the other public activities ...

Bell: Isn't that what you mean? You don't necessarily mean extending the R.F.C. or Commodity Credit; you mean creating other devices.

McCles: Well, it may be better ...

Currie: The thought was there, I think, that you'd probably take on new activities not now covered, in number six; that you're doing - already you're shifting over, but

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there may be some new activities which the Government could undertake which could also be in this category.

- Bell: You take on those activities or functions, whatever you call them, and extend to them the device of self-financing.
- Currie: Unless you get in the thought of new activities the Government might undertake, there's no use putting b in at all.
- Taylor: You want to say "additional" instead of "other"?
- Eccles: "Recovery could be stimulated by an extension of certain other governmental activities..."
- Taylor: "...additional..."
- Eccles: "... by additional..." - all right - "...other governmental activities."
- Bell: Don't need the "other."
- Taylor: Cut out the "other."
- Eccles: "... certain additional governmental activities through the extension of self-financing government corporations."
- Bum: "... extension of the principle of ..."
- Eccles: Well, "...extension of the principle..." Then that might be new corporations or might be extending existing corporations.
- Bell: That's right.
- Eccles: "... extending the principle..."
- Bum: If you really want to make it absolute, "...extending the application of the principle..."
- Eccles: Have you got that, Harry?
- White: No, Lauch is doing it.

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Eccles: Have you (Currie) got it?

Currie: Not yet.

Waylor: But they think they can.

Eccles: "... extending the application of the principle of self-financing government corporations."

Currie: Now, the way it reads now: "Recovery could be further stimulated by additional governmental activities through the extension of the principle of self-financing government corporations."

Eccles: "... through the application of the principle ..."

Currie: "... through the application of the principle..."

Eccles: "... of other self-financing government corporations." Then we leave the others out because that sort of limits the thing, doesn't it? You see, to give the examples - if you don't give the example, the thing is wide open, you don't get a controversy.

It seems to me we might come right to this point here. We talk of making recommendations in a report later on covering this project; this would be a proper place for us also, inasmuch as we have been considering the question of what bottlenecks might exist and how we might obviate them - that the report dealing with this falling off in '40 - right here is, it seems to me, where we might also make some more complete reports: Social Security, railroad equipment, and any other item of this sort that would seem to influence the budget situation in 1940.

Howell: Well, Harriner, it would be more flexible if you simply said, "A special report on this will be made later." You can consolidate it with the 1940 or not.

Eccles: That's all right. But I think we shouldn't quit on it, we should say that a further report on this will be made later.

White: "A special report dealing with these matters is in preparation." Is that what you - "... will be presented?"

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Eccles: "... will be made later." It isn't in... - I think that's better; then that leaves it open. We can take a month or two or whatever is necessary.

"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."

Now, I understand there is no question on that.

Ruml: Harriner, I have a question, I'm sorry to say. I want to know whether we don't have sufficient power to do that without bringing the matter to the attention of the President, whether we can't simply say that in view of the situation we described above as to the importance of those things, we're doing it. He doesn't have to authorize that, does he?

Eccles: Well, this - I know, but this report isn't merely to get authorization; it's a rather comprehensive report covering this broad field, and we consider that this is an important aspect of it.

Ruml: Why not go ahead and do it, then?

Eccles: But you want to refer to it.

Taylor: I think it's good to refer to it. Go back to what it says - "... has been advised by the experts..." and so on.

Ruml: In view of that, we're going ahead and doing it.

Currie: Would it make your point, Beardisley, if instead of saying that a comprehensive survey should be started, saying that it has been started?

Ruml: Or "... is to be made."

Haas: Might I raise the question, Harriner - you start the statement off - I don't know what the purpose is of stating it this way - by saying that the Board "has been advised..." I think it weakens the whole statement; as a matter of fact, a report by the experts is ....

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Taylor: I'm sorry - because the experts' report numbers one to six, see, then after that the Board takes over. So I was wrong about it.

Ruml: The Board takes over.

Neas: I didn't realize that.

Eccles: On the basis of certain evidence produced.

Neas: I didn't realize where the experts stepped out.

Eccles: Well now ....

Hall: Or where they stepped in.

Eccles: Do you want to change the order of seven, then; is that the suggestion? Is that the suggestion, to change the order of it? Or do you just want to change the phraseology?

Ruml: Here you say you're going to make a special report on this situation in '43; you can say that in view of the recommendation of the experts with respect to the importance of local and state fiscal operations, we propose to do it; we don't recommend it, we propose to do it.

Eccles: Upon the recommendation of the ....

Ruml: ... of the experts; since they have pointed out to us the importance of it, we propose to do it.

Taylor: Then it isn't a recommendation.

Ruml: It's not a recommendation.

Taylor: All the other things are.

Ruml: It may be it can be changed.

Eccles: That's the point.

White: I haven't been getting the significance - can you ...

Eccles: Number seven, instead of being under the recommendations to the President, by which it appears we're asking him

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to do something - that we merely want to refer to it in the memorandum not as a recommendation, but something that is necessary.

Currie: Say, "Consequently, a comprehensive survey has been started."

Taylor: I'd like to argue about that. You make the recommendation. That doesn't mean that you can't say - it can't be said, "All right, why don't you do that?" and say, "All right, we have."

White: Moreover, it is quite possible that if this survey indicates the desirability, after the preliminary one is made, Monday of going through with it, it may involve some ...

Beales: ... appropriations.

Gans: I think so.

White: Yes. And therefore ...

Gans: and it may be done by maybe the Census Bureau - may do some of it.

White: Or you can put it in - could you put that in the earlier part?

Taylor: I think it's perfectly all right to recommend that it be done and still go ahead - and still go ahead and do it.

Ruml: Uh-huh.

Beales: Then we go right back where we were, come right out there.

Ruml: It's all right.

Beales: "That a comprehensive survey..." and so forth.

Ruml: Well, obviously, if somebody else has to take some action to make it possible, it is entirely proper that we should recommend it.

Currie: Change it back.

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Taylor: The way it was.

Eccles: Leave it as it is, after going around that circle.

Hans: I think it's important, Warriner, from this point of view, that you require, no doubt, the cooperation of other Government agencies besides those represented here, and the President in his recommendations may facilitate that arrangement.

White: After you see the preliminary survey, which we will try to have ready by Monday, you may change that in some way; may say there's so much work involved that you ... - but you can have another crack at that Monday.

Eccles: Can't see that it's going to do any harm in this report. We're all agreed that it's necessary, and whether it's being done or can be done doesn't destroy the recommendation.

Now, number eight that's the one that the Secretary has - it's got to be rephrased, but we're all for it, but - so that covers ....

White: We'll try a couple drafts of that.

Bell: Harry, in working this out, you may have to change some of your numbers, because in the first paragraph you say, "In pursuit of the objective of attaining a higher national income, we make the following recommendations." Then under one or two of those numbers you say, "We recommend..." which is - you see what I mean? You may want to smooth that out. Because the whole thing is a recommendation, one to eight.

White: Danny, how about this tax on payrolls underneath there?

Bell: I'd still like to see them come out.

Taylor: You can leave that in.

Bell: If you interpret that to mean taxes on payrolls for running the current expenditures of the Government, I look upon Social Security as a little different: a man putting aside something for a rainy day, like an insurance premium. I think they ought to be distinguished.

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White: Well, it's up to you. Shall we leave ....

Bell: I think you've got to leave it there, because they  
all passed and agreed to it. We can raise the question.

White: I'll raise the question.

The Fiscal and Monetary Advisory Board has been advised by the experts of the Treasury, Federal Reserve Board and National Resources Committee that:

1. The 1938 national income is estimated at \$62 billion. For the calendar year 1939 it is estimated that the national income will be between \$65 and \$68 billion.
2. A national income of about \$80 billion is required to provide a substantial reduction of unemployment.
3. An income of \$90 billion or more is attainable through full utilization of our man power, plant and equipment, technology and natural resources, (assuming the elimination of some important bottlenecks).
4. With a national income of around \$80 billion the existing tax structure would yield Federal revenues sufficient to balance the current level of expenditures.
5. 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.
6. It is extremely important for Federal fiscal policy to take into account:
  - (a) Changes in the volume of the outstanding debt of State and local governments and changes in the volume and character of their expenditures and receipts.
  - (b) Changes in the volume of capital expenditures being undertaken by private enterprise.

In pursuit of the objective of attaining a higher national income we make the following recommendations with respect to fiscal policy for the next fiscal year:

- I. In view of the continued high unemployment additional taxes should be imposed only to meet additional expenditures. 7(?)

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2. If taxes are increased, they should be those interfering least with additions to the national income, namely:

- (a) Estate taxes
- (b) Gift taxes
- (c) Modification of income tax exemptions
- (d) Income tax on middle brackets
- (e) Capital gains (?)
- (f) Undistributed profits (?)

3. We advise against new taxes which operate to reduce substantially consumer purchasing power, namely:

- (a) Processing taxes
- (b) Sales taxes
- (c) Taxes on payrolls
- (d) Excise taxes
- (e) Taxes on low incomes

4. In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recommend that

- (a) benefits in connection with old age annuities should be liberalized and payments begun in 1940, and
- (b) that the 50 percent increase in old age payroll taxes scheduled to begin in 1940 be postponed to the following year. (?)

(The addition to buying power resulting from the adoption of these two proposals would amount to \$250 - \$300 million during the second half of the fiscal year 1940.) (?)

5. 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.

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 secure a large railroad equipment program.

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(b) Recovery could be stimulated without adding to the deficit by an extension of certain other government activities through the device of self-financing government corporations. Examples are toll roads, bridges, tunnels, public garages, and parts of a broad health program. (?)

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.

TREASURY DEPARTMENT  
U. S. PUBLIC HEALTH SERVICE

MEMORANDUM

DATE December 17, 1938

FROM THE SURGEON GENERAL:

TO: The Secretary of the Treasury

Subject: Report of Conference with Department of Agriculture Committee.

The Department of Agriculture has a committee under the chairmanship of Dr. F. V. Waugh which is considering ways of increasing consumption of surplus commodities. This committee invited the Works Progress Administration and the Public Health Service to attend the conference this morning.

Dr. Waugh explained that his committee had considered four general approaches in developing a policy concerning an increased utilization of surplus commodities.

1. School lunches, to be provided either free or at a nominal cost.
2. Distribution of certain foods at a lower price. Milk is being distributed in New York City to needy families at eight cents per quart; in Boston, milk is being distributed to needy families practically free, the consumers paying only two cents deposit for the bottle.
3. The geographic dumping of considerable quantities of surplus commodities in depressed areas.
4. A general food distribution plan under which food tickets or scrip would be issued to relief agencies. This scrip would represent one-half of the retail value of certain foods and would be redeemed by local or state welfare agencies with federal aid.

Dr. Waugh raised the general question of the impact of these plans, representing a "bread basket type of relief", upon current federal and state relief policies.

There was a long discussion of the ways in which the food scrip plan could be put into effect without causing relief agencies to reduce the current standards of relief.

Mr. Paul Appleby summarized the present position of the Department of Agriculture as follows:

1. The problem is so complex that an extensive program probably could not be put into effect, and anything which was done should be on a basis which would cause no diversion of present funds now being used for relief. In other words, the program contemplated would be within the present budget of the F.S.C.C.

2. The Department would encourage a general experimental program in a few places (no suggestions as to specific experiments were proposed by the Agriculture Department).

3. The Department of Agriculture wishes to keep in touch with the Works Progress Administration and the Public Health Service and have their advice in the development of plans.

I called attention to the fact that nutritional needs of large numbers of people not on relief were as great or greater than the groups now receiving some type of public assistance, and urged that any plans should embrace this group also.

Referring to Mr. Appleby's suggestion for a "general experimental program", I suggested a specific experiment in one community to determine the extent to which food consumption could be increased, and the effect of this increase upon the nutritional and health status of the population. Briefly, the proposal is as follows:

1. To provide school lunches to all of the children in a representative community.
2. To supply foods to families in need because of illness, on prescription of any physician or the health officer.
3. To expand the amounts of surplus commodities now going to relief families to include needy families not on relief.
4. To evaluate the effect of this program on the health of the community.

Specifically, this plan might be put into operation in Washington County (including Hagerstown) Maryland, a community which has served as a study and experimental area for public health work by the Public Health Service during the past fifteen years.

The Department of Agriculture committee seemed much interested. In particular, Mr. Tapp would like to go into the matter further with us to see if they can help.

*Thomas A. Aron*  
Surgeon General

copy to Mr. Haas

Confidential

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**PARAPHRASE**

A telegram (No. 34) of December 17 from the American Consul at Tsingtao reads substantially as follows:

There is a tendency toward the control of exchange for imports and exports, with the continuance of efforts to establish the Federal Reserve currency on a permanent and strong basis. There are indications, according to reports in commercial circles, that, beginning about New Year's Day or shortly thereafter, exports will be allowed only when the Chinese Maritime Customs Service has been supplied with proof that the bills of exchange have been negotiated at the official rate of exchange with the Federal Reserve Bank. It is said that Japanese will be on the same basis as foreign exporters. The official rate of exchange requirement is not considered as insuperable by European and American firms if Japanese shippers are on the same basis with them as local (?) prices will, of necessity, be brought down in time from the present prices which rose in 1936 as a result of the depression of Chinese national currency. Small shipments based on import and export link in the negotiations at official exchange rates of bills of exchange are being made experimentally by a small number of foreign firms. As, in the balance of ordinary trade at Tsingtao, there is an excess of exports, this procedure is not entirely feasible for the general trade.

893.2151/535

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 17, 1938

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information

This is the article on China which appeared in last night's  
Star.

*E. H. F. L.*

Attachment.

# Japanese Invasion Inconclusive, Says Missionary

## Yale-in-China Field Secretary Says War Will Be Long One

By JAMES WALDO SAWCETT.

The Japanese invasion of China thus far has been inconclusive, according to Minette M. Chatfield, field secretary of Yale-in-China, now residing in Washington.

"Imperial Japanese army forces," Mr. Chatfield said yesterday, "are arrayed along a line of battle that extends from Suiyuan Province, northwest of Peking, southward through Shansi, Hopei, Honan, Hubei to Hunan, thence eastward through Kiangsi and Chekiang to the coast and finally down the coast to Canton in the south, a distance of several thousand miles. To resist the Japanese invasion along this extensive front the Chinese plan of battle is to employ her vast man power to maintain pressure on the Japanese front lines while carrying on a relentless guerilla campaign in the territory nominally under Japanese control, constantly harassing the small Japanese garrisons and making even more precarious the invader's tenuous lines of communication."

### Long Struggle Seen.

The struggle may continue for a generation or even more, Mr. Chatfield believes. "Japan," he explained, "will keep pushing westward consistently, but there will be no final settlement in 5 years or 10 years. Meanwhile the Japanese realize that Chinese resistance is by no means crushed. In order to achieve complete victory the Japanese must extend their sway over the entirety of China. That would require men, machines and money—more than

Japan has available or can acquire under present conditions."

Mr. Chatfield frankly avowed his fear of Japanese control of the Asiatic mainland. "If Japan were successful in the conquest of China," he declared, "the rest of the world may well be alarmed. Japan is not an enlightened nation. She is controlled by a military clique representing imperialistic ambitions. Should she have the power to use Chinese men as she now is using Korean and Manchurian men in her armies, she could dictate to the whole Orient and threaten both Europe and America. It is an open secret that Japan wants territory now held by Great Britain, France, Russia, the Netherlands and the United States. China is really fighting the battle of all these countries."

### Internal Upheaval Possible.

Asked about the possibilities of an internal upheaval in Japan, Mr. Chatfield answered: "Something like that may happen because of the heavy burdens the Japanese commoners are called upon to bear because of the war."

The importance and the influence of Communists in China have been exaggerated, in Mr. Chatfield's opinion. "Because of Japanese propaganda," he said, "Americans have been led to think that a red star hangs over China, but the number of Communists in China numbers only about 10,000,000—a figure which is not very large when it is remembered that China boasts 400,000,000 to 450,000,000 inhabitants."

"On the other hand, there is no use in denying that the Communists are a force to be reckoned with. They have a powerful army, trained to a high state of efficiency in the tactics of guerilla warfare—strategic retreat and avoidance of decisive engagements when a decision is likely to be unfavorable; sudden, swift and unexpected onslaughts; the cutting off and destruction of small detachments of enemy forces; raids on communication lines to interrupt the flow of supplies. These methods have been employed with telling effect upon the Japanese in North China."

"Communists have been and will continue to be indispensable to Gen. Chiang Kai-shek in his struggle against Japanese encroachment. Before the present war he bitterly opposed the Communist movement and made several attempts to exterminate it, but now his attitude must necessarily be one of conciliation and compromise. China's salvation is unity. When the Reds offered their co-operation, Chiang Kai-shek accepted it."

"But it is a mistake to imagine that the Chinese Communists are working hand in glove with Russia. Although their program of agrarian reform and communal enterprise resembles that of the Moscow regime, they are not under the direction of the Moscow leaders. China turned to Russia when all the other nations deserted her, but the China-Russia accord is a mere political and perhaps in time a military expedient. It does not mean that Communism will overrun China."

### Survives All Crises.

Mr. Chatfield told how the Yale-in-China educational and medical work has survived all the crises which have shaken the Chinese people since the revolution of 1911.

"The Yale-in-China High School," he said, "was established in 1908 by Dr. Brownell Gage, Dr. Edward H. Hume, Dr. William J. Halls, Warren Seshury and Rev. Dr. Anson Phelps Stokes, now canon of Washington Cathedral. Its location was at Changsha, capital of Hunan Province, 200 miles from Hankow and 400 miles from Canton. But now, because of the Japanese invasion, some of the work has been moved west and south. A branch of the boys' preparatory school, known as the Yell Union Middle School, had been established at Yueelling, 150

miles west last spring. The entire school was reorganized there this fall. Meanwhile Central China College was removed from Weichang to Kweilin, the teachers and scholars with their equipment being transferred between July 11 and August 20—a 600-mile trek successfully completed in spite of bad weather, air raids and many other difficulties.

"Our medical center, hospital, out-patient clinic and nursing school remain in operation at Changsha. What the future will hold nobody knows, but Yale-in-China will continue its work as long as possible, regardless of the war."

December 17, 1938

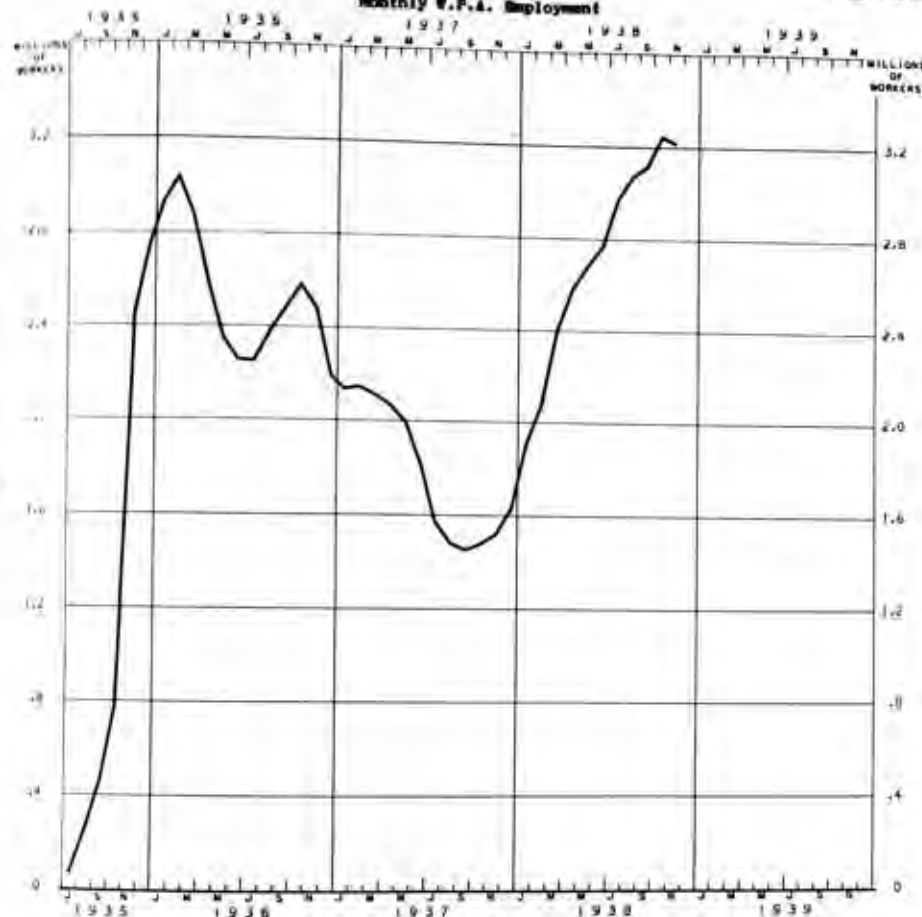
To: The Secretary  
From: Miss Lonigan *EL*

*SK*  
The total number of WPA workers on December 10, 1938 is 3,139,045.

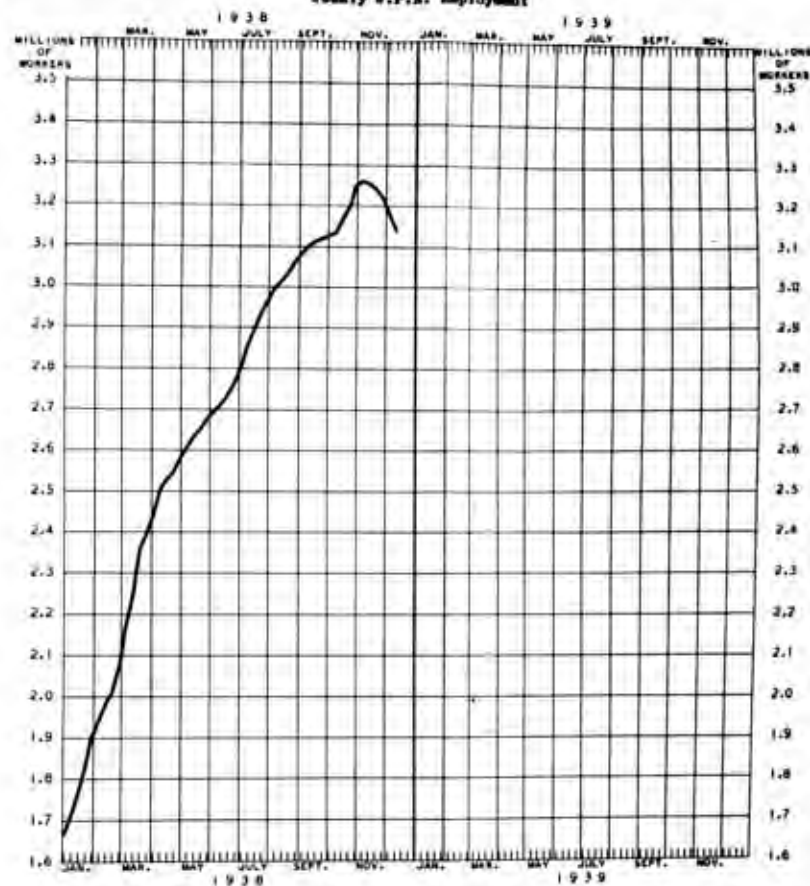
The decrease during the week from December 3 to December 10 was 45,514 workers. This is a total decrease of 124,722 workers from November 5 to December 10. The total increase from the low point of October 2, 1937 to the high point of November 5, 1938 was 1,814,215.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

## WORKS PROGRESS ADMINISTRATION

381

## Number of Workers Employed - Weekly

## United States

| Week ending<br>1938 | Number of Workers<br>(In thousands) |
|---------------------|-------------------------------------|
| March 5             | 2,167                               |
| March 12            | 2,244                               |
| March 19            | 2,357                               |
| March 26            | 2,395                               |
| April 2             | 2,445                               |
| April 9             | 2,504                               |
| April 16            | 2,531                               |
| April 23            | 2,544                               |
| April 30            | 2,582                               |
| May 7               | 2,607                               |
| May 14              | 2,626                               |
| May 21              | 2,650                               |
| May 28              | 2,678                               |
| June 4              | 2,693                               |
| June 11             | 2,712                               |
| June 18             | 2,736                               |
| June 25             | 2,767                               |
| July 2              | 2,807                               |
| July 9              | 2,853                               |
| July 16             | 2,899                               |
| July 23             | 2,938                               |
| July 30             | 2,967                               |
| August 6            | 2,993                               |
| August 13           | 3,017                               |
| August 20           | 3,039                               |
| August 27           | 3,067                               |
| September 3         | 3,086                               |
| September 10        | 3,102                               |
| September 17        | 3,114                               |
| September 24        | 3,120                               |
| October 1           | 3,129                               |
| October 8           | 3,137                               |
| October 15          | 3,167                               |
| October 22          | 3,201                               |
| October 29          | 3,245                               |
| November 5          | 3,263                               |
| November 12         | 3,258                               |
| November 19         | 3,244                               |
| November 26         | 3,216                               |
| December 3          | 3,185                               |
| December 10         | 3,139 a/                            |

Source: Works Progress Administration  
a/ Confidential

## WORKS PROGRESS ADMINISTRATION

## Number of Workers Employed - Monthly

382

## United States

|           | Number of Workers<br>(In thousands) |
|-----------|-------------------------------------|
| 1936      |                                     |
| January   | 2,926                               |
| February  | 3,036                               |
| March     | 2,872                               |
| April     | 2,570                               |
| May       | 2,340                               |
| June      | 2,256                               |
| July      | 2,249                               |
| August    | 2,377                               |
| September | 2,482                               |
| October   | 2,581                               |
| November  | 2,483                               |
| December  | 2,192                               |
| 1937      |                                     |
| January   | 2,138                               |
| February  | 2,146                               |
| March     | 2,115                               |
| April     | 2,070                               |
| May       | 1,999                               |
| June      | 1,821                               |
| July      | 1,569                               |
| August    | 1,480                               |
| September | 1,451                               |
| October   | 1,476                               |
| November  | 1,520                               |
| December  | 1,629                               |
| 1938      |                                     |
| January   | 1,901                               |
| February  | 2,075                               |
| March     | 2,395                               |
| April     | 2,582                               |
| May       | 2,678                               |
| June      | 2,767                               |
| July      | 2,967                               |
| August    | 3,067                               |
| September | 3,120                               |
| October   | 3,245                               |
| November  | 3,216 a/                            |

Source: Works Progress Administration  
a/ Confidential

Monthly figures are weekly figures for the  
latest week of the month.

They include certified and non-certified workers.

12-17-38

Federal Surplus Commodities Corporation  
Summary of Commodities Procured -  
Fiscal Year 1938 and Fiscal Year 1939 to date  
(Figures in thousands)

| Commodity                  | Unit    | Total<br>fiscal<br>year<br>ended<br>6/30/38* | Total<br>7/1/38<br>to<br>9/29/38 | 9/30/38<br>to<br>10/5/38 | 10/6/38<br>to<br>10/12/38 | 10/13/38<br>to<br>10/19/38 | 10/20/38<br>to<br>10/26/38 | 10/27/38<br>to<br>11/2/38 | 11/3/38<br>to<br>11/9/38 | 11/10/38<br>to<br>11/16/38 | 11/17/38<br>to<br>11/23/38 | 11/24/38<br>to<br>11/30/38 | 12/1/38<br>to<br>12/7/38 | 12/8/38<br>to<br>12/14/38 | Total<br>fiscal<br>year<br>1939<br>to date |
|----------------------------|---------|--|----------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|---------------------------|--------------------------|----------------------------|----------------------------|----------------------------|--------------------------|---------------------------|--|
| (1) Apples (Dried)         | Pounds  | 14,557                                       | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (1)  |
| (2) Apples (Fresh)         | Bushels | 5,625  | -                                | 3                        | 110                       | 198                        | 166                        | 70                        | 1                        | -                          | -                          | -                          | -                        | -                         | (2)  |
| (3) Apricots (Dried)       | Pounds  | 2,990  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (3)  |
| (4) Beans (Dried)          | Pounds  | 56,800                                       | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | 3,430                      | 6,380                    | 2,670                     | (4)  |
| (5) Beans (Snap)           | Bushels | 33   | 38                               | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (5)  |
| (6) Beets (Fresh)          | Bushels | 11   | 119                              | 65                       | 11                        | 46                         | 67                         | 20                        | -                        | -                          | -                          | -                          | -                        | -                         | (6)  |
| (7) Blackberries (Canned)  | Cases   | -  | 80                               | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (7)  |
| (8) Butter                 | Pounds  | 15,035                                       | 6,188                            | 5,109                    | 3,783                     | 3,804                      | 1,719                      | 2,469                     | 1,938                    | 924                        | 576                        | 1,773                      | 1,818                    | 2,794                     | (8)  |
| (9) Cabbage                | Bushels | 990  | 1,127                            | 370                      | 234                       | 216                        | 194                        | 133                       | 124                      | 89                         | 100                        | 47                         | 43                       | 14                        | (9)  |
| (10) Case Syrup            | Gallons | 237  | 107                              | -                        | -                         | -                          | -                          | -                         | 36                       | 25                         | 45                         | 30                         | 22                       | 5                         | (10)                                       |
| (11) Carrots               | Bushels | -  | 101                              | 6                        | 1                         | 16                         | 17                         | 5                         | 1                        | 2                          | 1                          | 2                          | 1                        | -                         | (11)                                       |
| (12) Cauliflower           | Crates  | -  | 21                               | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (12)                                       |
| (13) Celery                | Bunches | 1,174  | 178                              | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (13)                                       |
| (14) Cereal (Whole wheat)  | Sacks   | 408  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (14)                                       |
| (15) Cheese                | Pounds  | 3,446  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (15)                                       |
| (16) Corn                  | Sacks   | -  | 8                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | 449                        | -                          | -                        | -                         | (16)                                       |
| (17) Corn Meal             | Barrels | -  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (17)                                       |
| (18) Cotton                | Bales   | -  | 10                               | -                        | -                         | -                          | -                          | 15                        | -                        | -                          | -                          | -                          | -                        | -                         | (18)                                       |
| (19) Cotton Fabric         | Yards   | 1,133  | 147                              | 3                        | 22                        | 1                          | -                          | 30                        | 22                       | 15                         | 16                         | -                          | 250                      | -                         | (19)                                       |
| (20) Cotton Mesh Bags      | Bags    | -  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | 500                      | -                         | (20)                                       |
| (21) Cottonseed Oil        | Pounds  | 9,780  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (21)                                       |
| (22) Eggs (Shell)          | Cases   | 270  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (22)                                       |
| (23) Fish                  | Pounds  | 3,677  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (23)                                       |
| (24) Flour                 | Barrels | 2,699  | 279                              | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (24)                                       |
| (25) Grapefruit            | Boxes   | 401  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (25)                                       |
| (26) Grapefruit Juices     | Cases   | 552  | 471                              | -                        | -                         | 84                         | 214                        | -                         | 227                      | 132                        | 5                          | 95                         | -                        | -                         | (26)                                       |
| (27) Grapes                | Tons    | 8  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (27)                                       |
| (28) Labels                | Labels  | -  | 15,560                           | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (28)                                       |
| (29) Mattress Ticking      | Yards   | -  | 2,550                            | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (29)                                       |
| (30) Milk (Dry skim)       | Pounds  | 21,580                                       | 8,961                            | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (30)                                       |
| (31) Milk (Fluid)          | Quarts  | 12,497                                       | 6,672                            | 534                      | 551                       | 560                        | 631                        | 652                       | 2,947                    | 4,823                      | 3,042                      | 4,559                      | 4,107                    | 5,185                     | (31)                                       |
| (32) Onions                | Pounds  | 3,000  | 674                              | 78                       | 153                       | 74                         | 35                         | 12                        | -                        | -                          | -                          | -                          | -                        | -                         | (32)                                       |
| (33) Oranges               | Boxes   | 1,932  | 639                              | 54                       | 47                        | 44                         | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (33)                                       |
| (34) Paper Bags            | Bags    | 21,825                                       | 9,075                            | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (34)                                       |
| (35) Peaches (Dried)       | Pounds  | 2,534  | 3,523                            | -                        | 4,791                     | 1,873                      | 913                        | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (35)                                       |
| (36) Peaches (Fresh)       | Bushels | 8  | 6                                | -                        | -                         | -                          | -                          | -                         | -                        | 11                         | 3                          | -                          | -                        | 19                        | (36)                                       |
| (37) Pears (Fresh)         | Boxes   | 318  | 229                              | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (37)                                       |
| (38) Peas (Canned)         | Cases   | 862  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (38)                                       |
| (39) Peas (Dried)          | Pounds  | 6,000  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (39)                                       |
| (40) Peas (Fresh)          | Bushels | -  | 3                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (40)                                       |
| (41) Potatoes (Sweet)      | Bushels | 440  | -                                | 8                        | 204                       | 122                        | 36                         | 8                         | -                        | -                          | -                          | -                          | -                        | -                         | (41)                                       |
| (42) Potatoes (White)      | Bushels | 4,315  | 2,069                            | 232                      | 45                        | 19                         | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (42)                                       |
| (43) Potato Starch & Flour | Pounds  | 2,562  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (43)                                       |
| (44) Prunes (Dried)        | Tons    | 55   | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (44)                                       |
| (45) Prunes (Fresh)        | Bushels | -  | 13                               | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (45)                                       |
| (46) Raisins               | Tons    | 15   | 11                               | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | 267                       | (46)                                       |
| (47) Rice (Milled)         | Pounds  | 73,190                                       | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (47)                                       |
| (48) Tobacco               | Pounds  | 3,500  | -                                | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (48)                                       |
| (49) Tomatoes (Canned)     | Cases   | 50   | 145                              | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (49)                                       |
| (50) Tomatoes (Fresh)      | Bushels | 282  | 114                              | -                        | -                         | -                          | -                          | -                         | -                        | -                          | -                          | -                          | -                        | -                         | (50)                                       |

December 17, 1938

Treasury Department, Division of Research and Statistics.

\* Weekly figures reported 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.

Regraded Unclassified

Translation of cable from Chungking

Dated Chungking Dec. 17, 1938.

Rec'd Washington, D. C. Dec. 17, 1938.

From: Dr. H. H. Kung  
 To: Mr. K. P. Chen

Have received report from Quo Tai-Chi that Export Credit Guarantee Department, London has submitted to Parliament proposal increasing its power to grant export credits from 50 to 75 million pounds sterling with an additional amount of 10 million Pounds sterling for purpose of national policy without necessity of referring to Parliament (stop) Quo negotiating to have this 10 million specially assigned for giving credits to China. paragraph

Regarding woodoil have instructed Foreign Trade Commission to ship out as much as possible (stop) Fortunately most oil producing districts are within our own control and estimated 70 to 80 thousand tons can be acquired yearly ~~cannot~~ detailed amounts already acquired mailing by air (stop) Assure you we are doing best (stop) Tin produced in Yunnan and Kwangsi Provinces about 10,000 tons per year and can be increased if better machinery introduced (stop) No difficulty of acquiring by Government. Paragraph

Transportation on Yunnan Burma Highway feasible (stop) A shipment of arms and ammunitions has just arrived Chungking to-day by this route (stop) Bridges, etc being strenthened at various points thus enabling through traffic without hindrance shortly Paragraph.

H. H. Kung.

December 20, 1938

My dear Mr. President:

Herewith I am sending you  
a copy of a recent cable received by  
Mr. Chen from Dr. Kung, which I think  
you will find of interest.

Sincerely,

✓  
/s/ H. Morgenthau, Jr.

The President,  
The White House.

Enclosure.

By *hand*

envelope marked "Confidential"

NMC:mas

(Cable dated 12/17/38)

December 20, 1938

My dear Sumner:

Herewith I am sending you  
a copy of a recent cable received by  
Mr. Chen from Dr. Kung, which I think  
you will find of interest.

Sincerely,

*H. M. J.*

(S)

The Honorable,  
The Acting Secretary of State.

Enclosure.

*By hand*

NMC:mas

(Cable dated 12/17/38)

envelope marked "Confidential"

December 20, 1938

My dear Mr. Secretary:

Herewith I am sending you  
a copy of a recent cable received by  
Mr. Chen from Dr. Kung, which I think  
you will find of interest.

Sincerely,

/s/ H. Morgenthau, Jr.

The Honorable,  
The Secretary of the Navy.

Enclosure.

(Cable dated 12/17/38)

*By hand*

envelope marked "Confidential"

NMC:mas

December 20, 1938

My dear Mr. Secretary:

Herewith I am sending  
you a copy of a recent cable received  
by Mr. Chen from Dr. Kung, which I  
think you will find of interest.

Sincerely,

*H. M. J.* ✓  
H. Morgenthau, Jr.

The Honorable,  
The Secretary of War.

Enclosure.

(Cable dated 12/17/38)

envelope marked "Confidential)

*By hand*

NMC:MAS

MJD

Tokyo

Dated December 17, 1938.

Rec'd. 6:45 a. m.

Secretary of State,  
Washington.

789, December 17, 2 p. m.

Department's 419, December 15, 7 p. m.

One. Reports concerning the grant of credit loan to the Universal Trading Corporation were prominently featured in the papers yesterday afternoon. This morning the papers carry despatches from London and elsewhere stressing that the credit loan, along with the British guarantee covering shipments to China, evidence coordinated action by the United States and Great Britain toward protecting their interests in China.

Two. The HOCHI this morning carries a feature story substantially similar to those mentioned in our 786, December 15, 7 p. m. It concludes with the statement that the Minister for Foreign Affairs will, during his interviews next week with the British and American Ambassadors, emphasize that "the firm determination of the Japanese Government to set up a new order in the Orient will not be shaken" by "British and American assistance to Chiang Kai Shek and efforts to exert economic pressure on Japan".

Three.

MJD -2- No. 789, December 17, 2 p. m. from Tokyo

Three. An editorial this morning in the ASAHI which is the only one which has thus far appeared, describes the circumstances as set forth in the announcement of the Reconstruction Finance Corporation and concludes that the credits to the Universal Trading Corporation, which it characterizes as a "phantom corporation" is substantially similar to the British export guarantee to China. "In American financial circles the view is held that this loan was made to China, with Japan held in view and for the purpose of increasing China's power of resistance, that it is a political loan, and that it is intended to be a gesture in the direction of Japan in connection with questions arising over the principle of the Open Door and equality of opportunity. It is reported that Anglo-American discussions are taking place with a view to concerting measures in the nature of economic reprisals against Japan. In addition to these measures the United States, it is understood, is considering various measures which the President is authorized by law to take in the event of any foreign nation discriminating against American goods." The various forms of retaliatory action which are reported to be under consideration between United States and Great Britain are then reviewed, and the editorial concludes: "International assistance to Chiang Kai Shek in his efforts to continue resistance is now beginning to take

NJD -3- No. 789, December 17, 2 p. m. from Tokyo.

take shape. Apart from Soviet Russia it goes without saying that the prime mover is Great Britain. Whether the United States will pull Britain's chestnuts out of the fire is an open question, but one fact is clear, and that is that the grant of British and American credit loans to China will help the expiring Chiang Kai Shek spiritually, more than materially, and that these loans derive only from a malicious desire to stimulate Chiang to continue resistance."

Repeated to Shanghai for Paiping and Chungking.

GREW

PEG  
HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: December 17, 1938, 11 a.m.

NO.: 293

I refer to my telegram No. 288 of December 10.

I am told by the Exchange Director of the Bank of Brazil that during the week of December 19 the Bank will close exchange for maturities and daily quotas for the period November 8-14.

Inform Commerce.

SCOTTEN.

EA:LWW

(Dictated Dec. 18, 1938, but  
is not date of message  
referred to below)

I sent word to Sumner Welles through Livesey  
that if the President said this is what he wants,  
all right, I would acquiesce, but not cheerfully.

THE UNDER SECRETARY OF STATE  
WASHINGTON

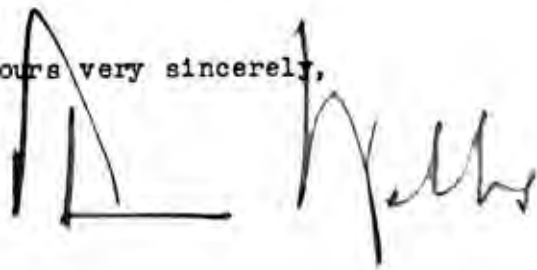
December 8, 1938.

Dear Henry:

With reference to our telephone conversation of the other day, I am enclosing a telegram which I have just received from the American delegation at Lima. I shall greatly appreciate having your views as soon as may be possible.

Believe me

Yours very sincerely,



Enclosure:  
Telegram No. 14, Lima,  
December 7, 1938.

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

JR

This telegram must be closely paraphrased before being communicated to anyone. (br)

Lima

Dated December 7, 1938

Rec'd 2 a.m., 8th.

Secretary of State,

Washington.

14, December 7, 11 p.m.

Your No. 20, December 5.

There follows the text of the proposed resolution on the meeting of Treasury representatives in the wording in which we intend to introduce it provided preliminary discussion with other delegations raises no unexpected question.

"The Eighth International Conference of American States:

"Recommends:

"(1) That the Treasuries of the American States arrange for periodic informal meetings, including group and regional meetings, of representatives for the discussion of subjects of mutual interest.

"(2) That such meetings be held at least annually and whenever problems of special importance arise.

"(3) The first meeting shall be held at blank not later than June 1, 1939, in accordance with

arrangements

-2- #14, December 7, 11 p.m., from Lima.

arrangements that may be worked out by the Pan American Union after consultation with the Governments of the American Republics."

Please tell Secretary of the Treasury that if he wishes to make changes to please transmit them at once.

HULL

RR

THE UNDER SECRETARY OF STATE  
WASHINGTON

BY MESSENGER

Personal and  
Confidential

RECEIVED  
DEC 9 PM 4 11  
The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

lw

Confidential

Tokyo

Dated December 18, 1938

Rec'd 7:10 a.m.

Secretary of State

Washington

790, December 18, 5 p.m.

Our 789, December 17, 2 p.m.

One. A despatch which Byas sent yesterday to the NEW YORK TIMES on the Japanese reaction to the China credit loan quotes portion of the ASAHI editorial outlined in our telegram under reference, but also conveys the impression that the Japanese press is reflecting alarm and uneasiness over increasing evidences of a stronger American and British attitude. Byas' attention was called to that statement and to the fact that the tone of the Japanese press without exception is firm and he admitted he had "made bricks without straw". However, he pointed out quite correctly that there has thus far been no violent outburst as many observers had anticipated but he agrees that the press reaction thus far does not (repeat not) warrant the impression that recent developments have put the Japanese into a conciliatory mood.

Two.

lw -2- No. 790, December 18, 5 p.m., from Tokyo

Two. An editorial this morning in the YOMIURI refers to reports that the possibility of resorting to economic reprisals is being studied by the American Government and expresses confidence that the United States will not (repeat not) take any "hysterical attitude". No reason is seen for doubting that Far Eastern problems are capable of solution by negotiation but "the labelling of the loan in various quarters as economic reprisal against Japan serves only to excite public feeling in both countries and to lead the way to further disturbance of the situation. For this reason we would recommend the United States to give the matter deep reflection".

Three. The ASAHI gives prominence to a despatch from its New York correspondent stating that the NEW YORK TIMES editorial of December 17th in describing the loan as a political loan to China and as gesture against Japan, reflects majority opinion in the United States which supports the President and which regards the loan as retaliation against the Japanese reply to our note of October 6. Articles of local origin in other papers again state that the Minister for Foreign Affairs will shortly convey to Craigie and us the views of the Japanese Government on recent developments.

Repeated to Shanghai for Chungking and Peiping.

GREW

RGC:EDA