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ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

December 24, 1938

From: Mr. Campbell, Hongkong, China.
To : Secretary of the Treasury.

Message from Professor Fuck, dated Chengtu, December 2.

Several my Lanchow reports delayed in mails. One important general predicted Japanese attack on communications west Lanchow via Mongolia or Ninghsia and believes it can be successful, although he says more vital blow to China would be attack on Tungkwang and thence to Manchung in South Shensi. Japanese test of Tungkwang defenses show Chinese defenses strong and situation still favoring China. Chinese fear Japanese attack will be aided if Yellow River freezes. Szechwan loyal and governor confident of defenses, but foreign help and war supplies urgently needed. Governor expresses thanks for American help and hopes further assistance possible.

THE WHITE HOUSE
WASHINGTON

December 27, 1938.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you and Secretary
Wallace talk with me about this
after the next Cabinet meeting?

F. D. R.

OFFICE
SECRETARY OF THE TREASURY

DEC 23 AM 10

EA



DEPARTMENT OF AGRICULTURE
WASHINGTON

December 21, 1938

The President,
The White House.

My dear Mr. President:

Since our talk with you on Saturday morning we have been thinking about the change in our land purchase policies which would take place under a system of bookkeeping that revealed federal assets as well as liabilities. This would enable us to make adjustments within agriculture more rapidly and upon a basis which probably would gain a wider public acceptance. A few of us in the department have been thinking a great deal along these lines for some time. We feel that a triple budget system has definite advantages over a dual budget system. In our discussions we have thought of the total budget as breaking down into the following three categories:

1. An annual operating budget for non-recoverable expenditures including amortization charges on some types of fixed investments.
2. An investment budget for recoverable assets which would be self-liquidating.
3. An investment budget for tangible assets which would not be income producing at the time of their acquisition even though they might increase in value through the years.

We can make a great many investments in recoverable assets. Both tenant purchase loans to farmers and purchases of good land which can be subdivided and leased or sold to tenants fall in this category. From twenty to forty percent of the money used for this purpose goes into construction or repair work which creates employment at practically no net cost to the government. Loans for water facilities and rehabilitation are from sixty to eighty percent recoverable. That portion of these loans undoubtedly should appear in this budget. Some areas of submarginal land which can be leased to farmers for grazing purposes and some tracts of commercial timber land in National Forest areas also fall in this category. Any fractional losses in investments of this sort could be taken care of by charges to the annual operating budget. We feel that the

classification of certain investments as recoverable assets should be done upon a very conservative basis so as to maintain the integrity of the budget for self-liquidating assets beyond question.

The great majority of submarginal lands and forest lands of the type now being bought, however, fall into the third budget classification. They will not be income-producing in the banking sense of the term at the time of their acquisition, although many of them would become so in the future. Cut-over forest areas planted to trees are a good example. Lands for the protection of wildlife, lands purchased in connection with flood-control work, and lands for migratory labor camps fall in the same category. It would seem to be sound accounting practice to amortize such investments in lands and labor expended on their development through yearly charges to the annual operating budget. We definitely feel that this is preferable to any specific issue of bonds against such specific properties.

An enormous expansion in our various land purchase programs is possible and can be justified. Large numbers of men can be given useful work developing such properties which will add to the value of these assets. Their proper segregation in one of the investment budgets would assure the taxpayer that his money had gone into the type of capital investment which he, himself, in his own private financing, would have amortized over a period of years.

If you care to do so, I should be glad to discuss this matter further with you.

Respectfully,

H. Wallace

Secretary

THE WHITE HOUSE
WASHINGTON

December 27, 1938.

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THE SECRETARY OF THE TREASURY

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F. D. R.

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Respectfully,

J. A. Wallace

Secretary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: December 27, 1938

TO Secretary Morgenthau

FROM W. H. Hadley

A short review of the government security
market for the week ending December 24, 1938

The market for Treasury obligations was strong throughout the week. There was good demand for Treasury bonds, especially the longer term issues. Banks were the principal buyers although some insurance company buying was also reported. Although there was some selling on Tuesday, December 20, offerings were readily absorbed. Treasury notes were also in demand but (excluding the purchases by the Federal Reserve for System Account Treasury bill replacement) were in smaller demand than bonds.

Prices of Treasury bonds were unchanged to $7/32$ nds higher for the week. The longer maturities showed the greatest gains as a group, although scattered issues in the short and intermediate term area were up 3 to $6/32$ nds. Treasury note prices showed gains as high as $12/32$ nds, the average for maturities over three years being up $8/32$ nds. These large gains in Treasury notes can be attributed in large part to the fact that the Reserve Bank purchased a total of \$35,904,000 Treasury notes during the week for replacement of Treasury bill maturities. Prices of guaranteed obligations were unchanged to $4/32$ nds higher.

As a result of the week's changes, the average price of all Treasury bonds continued at maximum levels while the five longest maturities closed about $6/32$ nds above the previous record high of last October. The adjusted average of Treasury notes maturing from three to five years closed within 2 or $3/32$ nds of the high levels attained last June.

Dealers' Portfolios

Dealers' holdings in government obligations other than Treasury bills showed a net decline of \$41 million for the week ending December 24, 1938. The most significant changes were reductions of \$23.5 million in Treasury notes maturing in 1 to 5 years, reflecting mainly sales to the Federal Reserve Bank, and \$11.9 million in Treasury bonds. An increase of Treasury bill holdings of approximately \$25 million represents the position of one dealer and is apparently a temporary condition.

(in millions of dollars)

	<u>Holdings</u> <u>Dec. 17</u>	<u>Holdings</u> <u>Dec. 24</u>	<u>Net Change</u>
Treasury bonds	34.2	22.3	- 11.9
Treasury notes (1 year)	43.7	40.3	- 3.4
Treasury notes (1-5 yrs.)	18.7	-4.8	- 23.5
Treasury bills	0	24.8	+ 24.8
H. O. L. C. bonds	-1.5	1.0	+ 2.5
F. F. H. C. bonds	8.4	3.5	- 4.9
	<u>103.5</u>	<u>87.1</u>	<u>- 16.4</u>

Dealers' turnover (purchases plus sales) was somewhat below the normal daily average. Total daily volume was approximately \$110 million, of which about \$60 million was in Treasury bonds.

New Security Issues

Corporate security issues totaled \$41.9 million, of which only \$4.7 million was for new capital. A \$16 million serial note issue of Railway Express Agency was taken readily by the market and rose quickly to a premium. The market, however, continues a little hesitant on the longer corporate bond offerings. Although a \$10 million 3-1/4% 28-year first mortgage bond of Consumers Power Corporation, rated AA by Moody's, appeared to be going well at first, ^{it} has turned somewhat sluggish at the offered price of 104-1/2 and is now offered less 1/4 and bid less 1/2.

Corporate Bond Market

The corporate market showed rather mixed tendencies during the week. High grade issues were fractionally stronger while second grade bonds were unchanged on average, with the appearance of a slight reaction to last week's strengthening in this group. There was no definite trend although some of the better grade utilities reached new highs and the high grade issues bettered their previous high levels. Foreign bonds continued irregular. The better grade European issues were steady but Italian and German bonds were under pressure and soft. Renewed weakness also appeared in Argentine and Brazilian bonds.

Federal Reserve System Account

In replacing its holdings of \$44,290,000 maturing December 21 Treasury bills, the Reserve Bank purchased \$27,510,000 of the new March 22, 1939 Treasury bills, \$3,876,000 other Treasury bills, and \$12,904,000 of various Treasury note issues.

In anticipation of the maturing of its holdings of \$48,544,000 December 29 Treasury bills, the Reserve Bank has purchased \$18,500,000 of the new March 29 Treasury bills and \$23,000,000 various Treasury notes.

Treasury Investment Accounts

There were no sales made on the New York market for investment account during the period December 19 through December 23, 1938.

However, purchases of long term Treasury bonds were made as follows:

Alien Property Bureau	\$ 200,000
Secretary of War-a/c Govt. of the Commonwealth of the Phillipines	6,269,750
Total	<u>\$6,669,750</u>

In addition to the above market transactions, \$500,000 was invested in 2½ special five-year Treasury notes for account of Government Life Insurance Fund. This investment brings the total special 2's held by this account to \$4,600,000.

TEXT OF A TELEGRAM RECEIVED AT THE CHINESE EMBASSY, DATED CHUNGKING, DEC. 27, 1938.

Addressing a meeting at the Central Kuomintang Headquarters on December 26, Generalissimo Chiang Kai-shek described the statement of the Japanese Premier Konoze on December 22 as stark exposé of the Japanese intrigues aimed at political dismemberment of China. The Generalissimo emphatically declared that the latest official utterances from Japan only gave the Chinese people deeper understanding of the Japanese designs and further solidified their determination to fight to the death without surrender or compromise. Referring to Mr. Wang Ching-wei's departure from Chungking, the Generalissimo said that Mr. Wang left for Hanoi (Indo-China) for medical treatment. There were however rumors abroad alleging that Mr. Wang made the trip on behalf of the National Military Council to discuss peace terms with Japan. "There is no shred of justification for such report. Mr. Wang's journey has no slightest connection with the Military Council, nor the Central Kuomintang, nor the National Government. The establishment of Asia Development Bureau and the advocacy of East Asia bloc or New Order in East Asia by the Japanese reveal to the minutest detail of the Japanese design to conquer China. Now the Chinese people knowing the issues at stake will cherish no idea of compromise with Japan, hence the vicious rumors the Japanese spread are not worthy of our attention.

RECEIVED BY THE
 CHINESE EMBASSY
 BEIJING
 DEC 28 1938
 TELETYPE UNIT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE December 27, 1938.

TO Secretary Mergenthau
FROM Mr. Hase
Subject: The Business Situation,
 Week Ending December 24, 1938.

Conclusions

(1)

Industrial production during November reached an approximate balance with demand, as confirmed by three indexes -- basic demand, consumer buying, and new orders. From this point on, business improvement is likely to be slower and more susceptible to setbacks, since it must be based on an improvement in the level of demand.

(2)

Commodity prices have declined further, though evidence of more stability has appeared in sensitive prices during the past few days. While an improvement has occurred in the French internal situation, and steel production in Great Britain continues to rise, an increasing apprehension in the United States over the possibility of a new war scare in the spring has resulted from the political tension between France and Italy and the expansion of German control in eastern Europe.

(3)

The prospect of some setback in business activity early in 1939 appears indicated by the current level of new orders for steel, and by the fact that textile production during November was in excess of basic demand.

Production has reached adjustment with basic demand and volume of buying

The rise in the FRB index to 103 in November places industrial production in approximate adjustment with the level of demand. Our composite index of basic demand (See Chart 1) rose somewhat further to 103 in November, as compared with 100 in October.

Secretary Morgenthau - 2

Among the leading industries, as shown in the lower section of the chart, the sharp increase in basic demand for iron and steel arising largely from the expansion of automobile production during November will be noted. Iron and steel production has increased even more rapidly than demand, however, and now slightly exceeds the basic demand level.

In the textile group, production during November reached a new high for the year, after a setback during the two previous months. The sharp production increase, however, has not been fully supported by basic demand, which has increased only moderately, and production now is in excess of the demand level. This fact, together with a decline in new textile orders during November and early December, suggests the possibility of some setback in textile production during the next few months.

The basic demand for automobiles has tended to level out in recent months, though November showed a slight rise. Automobile production in November did not quite reach the estimated demand level, but production has increased further during December.

For convenience in comparing the trend of industrial production with our three indexes of underlying demand -- the index of basic demand, the index of consumer buying, and the index of new orders -- we have brought the three together in a single chart. (See Chart 2.) It will be noted that all three point to the same conclusion: that industrial production in this country during November had reached an approximate balance with demand.

Throughout the past half-year, the relatively high level of demand as compared with production has been a powerful force in raising the level of production. From this point on, business improvement is likely to be slower and more susceptible to setbacks, since it must rely upon improvement in the basic level of demand.

Employment and payrolls lag more than usual

While factory employment during November showed a small increase over the October figure, the BLS employment index rising 1.1 points to 90.6, the trend was distinctly disappointing as compared with the recent sharp improvement in industrial production, showing much more than the usual lag. This has had its effect on factory payrolls, which improved but slightly during November.

Secretary Morgenthau - 3

The greater than usual lag in factory employment and payrolls may be due to a combination of three factors: (1) The increase in industrial production may have been largely concentrated in industries using a relatively small proportion of labor; (2) the increased unionization of labor in industry, together with recent national labor legislation, may have resulted in increased mechanization of industry and more efficient use of labor by employers in recent months; (3) the sharpness of the business rise may have retarded the usual adjustment of employment and payrolls to production, as was apparently true of the rapid 1921-22 recovery.

The price situation

The BLS all-commodity price index for the week ended December 17 continued to decline, reaching a new low for the year of 76.7, which was the lowest since December 1934. (See Chart 3.) Raw material prices, principally agricultural products, showed a greater decline than either semi-manufactured or finished products. During the current week, sensitive commodity prices have been stable with a rising tendency, coincident with some improvement in sterling exchange.

Foreign influences at present are two-sided. On the one hand is an improvement in the French situation, with a restoration of internal confidence apparent in the sharp improvement in French security prices. In Great Britain, steel production during November showed a further slight increase, despite the short month, following substantial increases in September and October.

On the other hand, increasing apprehension is apparent in the United States over the possibility of a new war scare, perhaps in the early spring, as an outgrowth of the political tension between Italy and France and the rapid expansion of German control in eastern Europe. This has doubtless had some effect in making business men cautious in placing new orders and in making long-term business plans.

The trend of stock prices during the next few weeks may provide an important indication of the trend of business during the first half of 1939. Some setback in business during the first quarter of 1939 has apparently been already discounted by stock prices in their recent decline at a time when business was rapidly improving.

Secretary Morgenthau - 4

The steel outlook

Steel activity this week again showed a greater than seasonal decline, the drop of 5.9 points to 51.7 per cent of capacity representing, for the second week in succession, a larger decline in points than in any of the previous five years. The volume of new orders in the past two weeks, at 45 and 46 per cent of capacity (See Chart 4), suggests a continued low operating rate during January, according to past experience. Unless an extraordinary demand for steel should develop, which we cannot now foresee, the FBE adjusted index of steel production in January seems likely to drop to 75 or 80, as compared with an index of 112 in November.

Increased buying of steel by the railroad and construction industries in 1939 is expected by the steel trade. It is also believed that the automobile companies will take on additional quantities of steel during January, depending upon the trend of retail automobile sales. General Motors' retail sales turned downward during the first period of December, several weeks later than the decline in daily average sales began last year. In 1936, however, sales continued to increase through December.

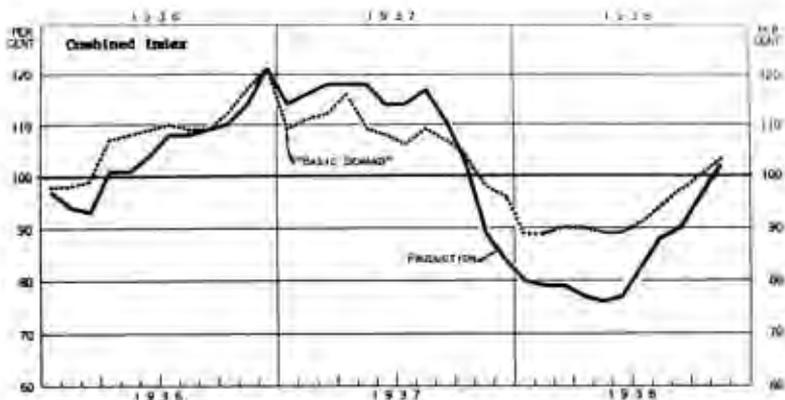
Current business news

Our weekly index of new orders (Chart 5) remained at a relatively low level during the third week of December. A small increase was shown over the figure for the previous week, largely due to some improvement in textile orders.

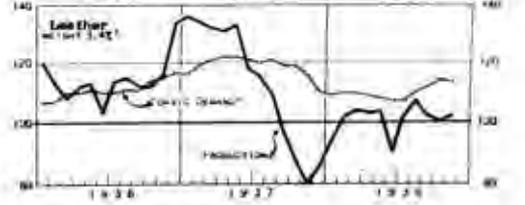
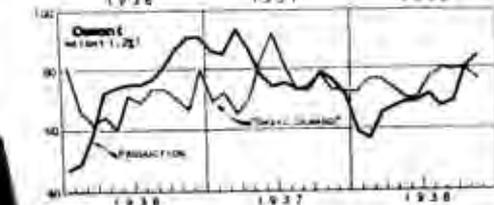
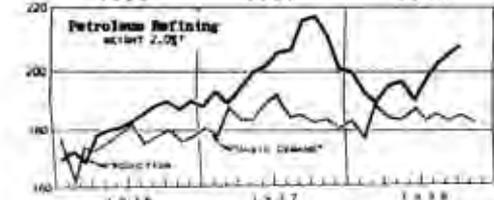
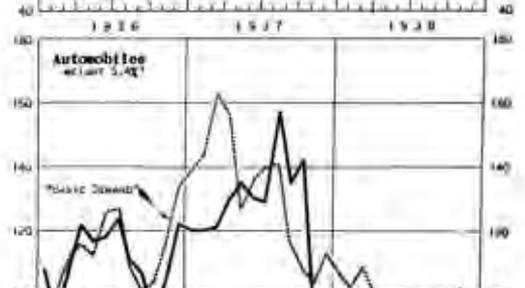
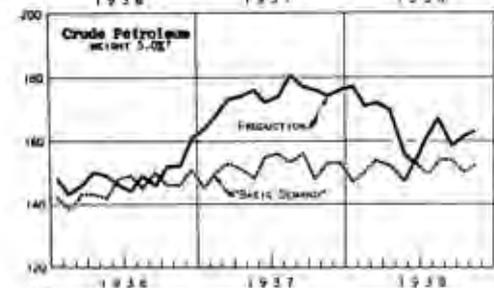
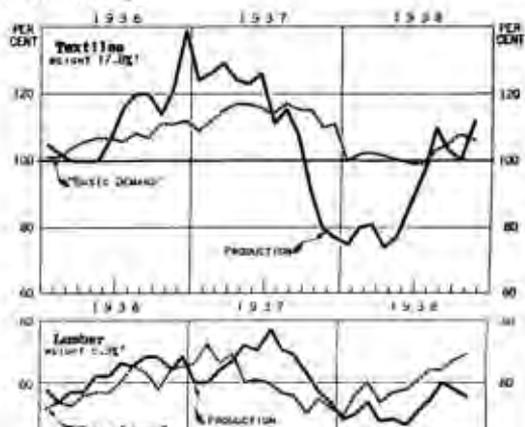
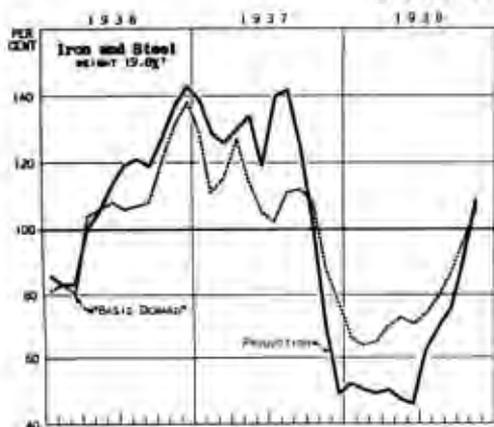
The New York Times adjusted index for the week ended December 17 declined 0.7 point from the year's high figure of the previous week. Electric power production established a new all-time high, surpassing the previous record made in 1937, but the increase was less than the calculated seasonal, and brought a decline of 1.0 point in the adjusted power index. Steel ingot production, and both carloadings figures, showed greater than seasonal declines, while the adjusted indexes of automobile production and lumber production and cotton mill activity were moderately higher.

For the week ending December 24, two components of the New York Times index will show substantial setbacks. The automobile production index will decline from 96.1 to about 90.3, while the steel index will drop from 98.6 to about 88.0. It should be emphasized, however, that year-end movements provide no dependable indication of the business trend, owing to the irregularity of seasonal influences.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1923 = '25 = 100, Adjusted



Selected Industrial Groups

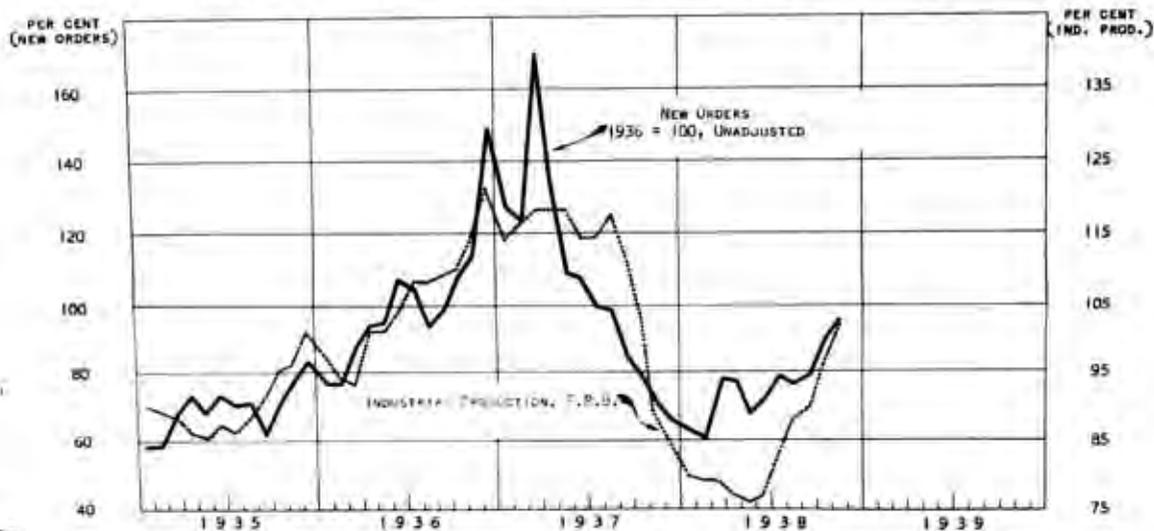
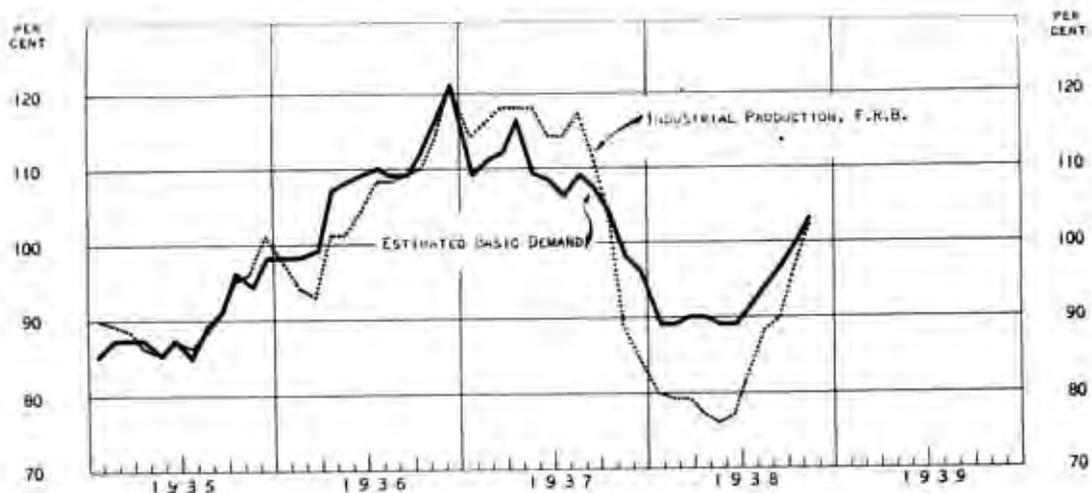


NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES

BASED ON COMBINED INDEX

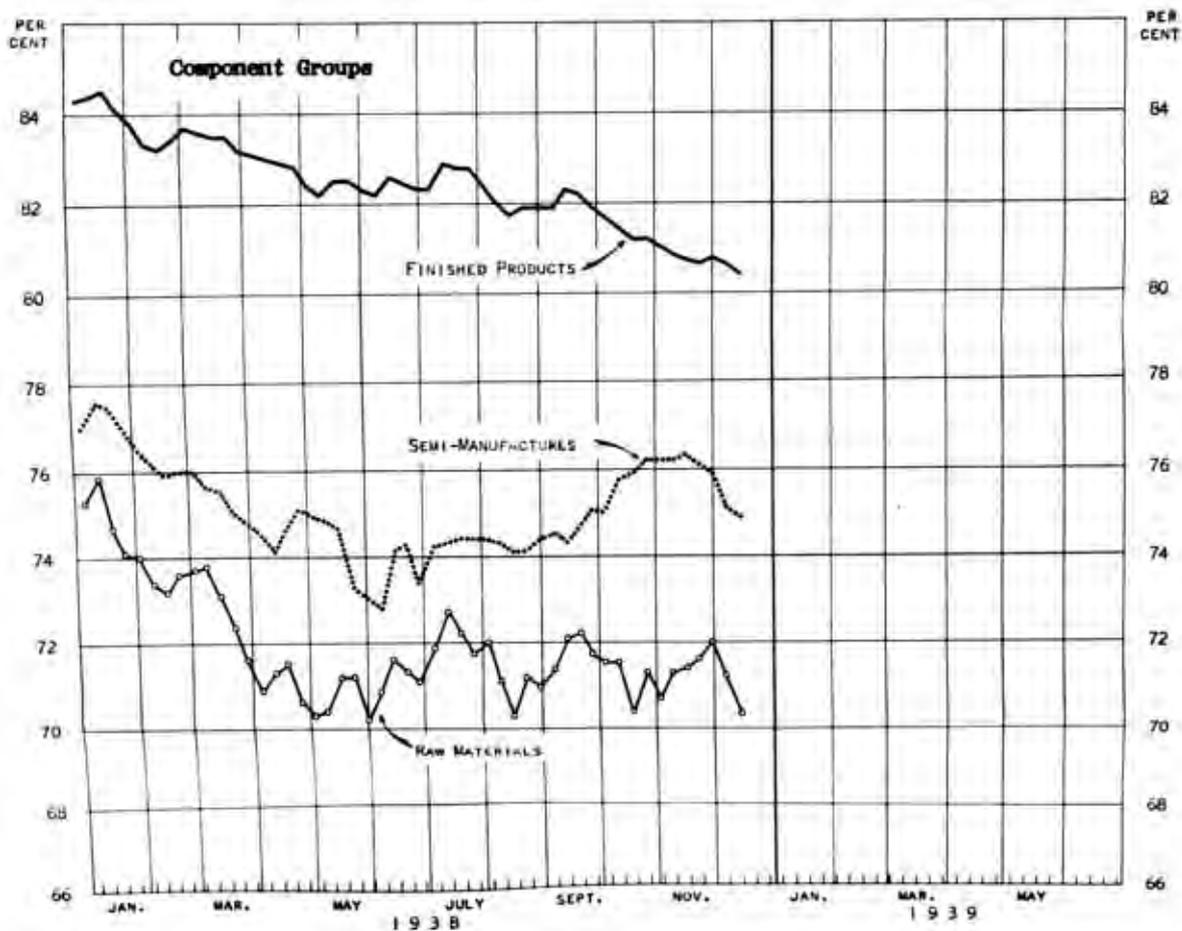
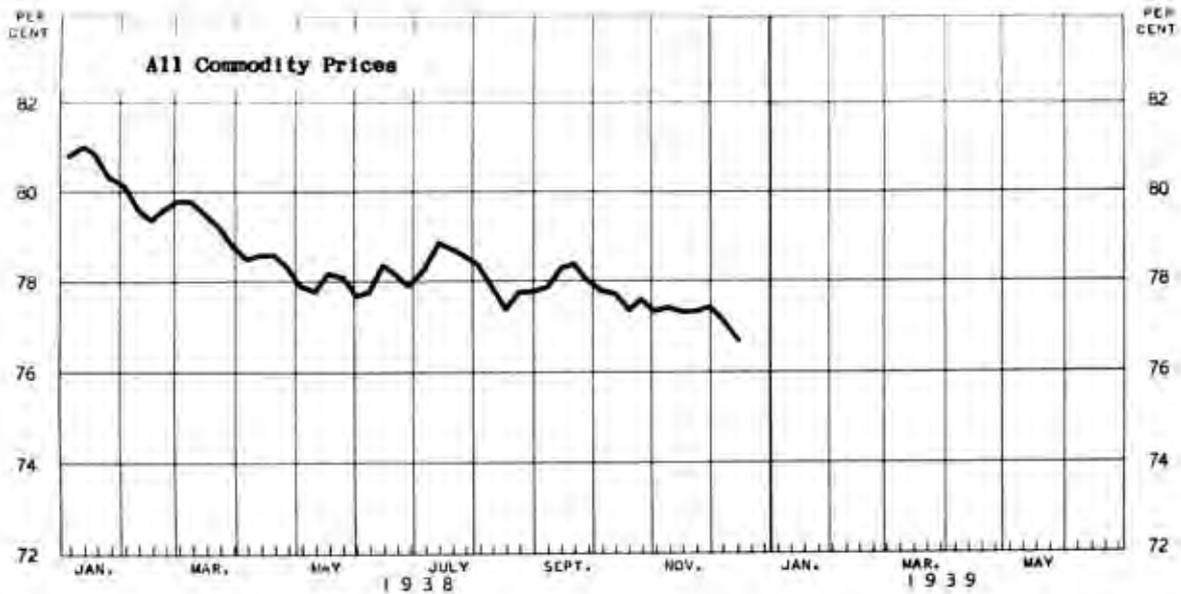
INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 = 125 * 100, SEASONALLY ADJUSTED*



* EXCEPT NEW ORDERS

B. L. S. ALL COMMODITY PRICE INDEX AND COMPONENT GROUPS
1926 = 100



TOTAL STEEL INDUSTRY PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity

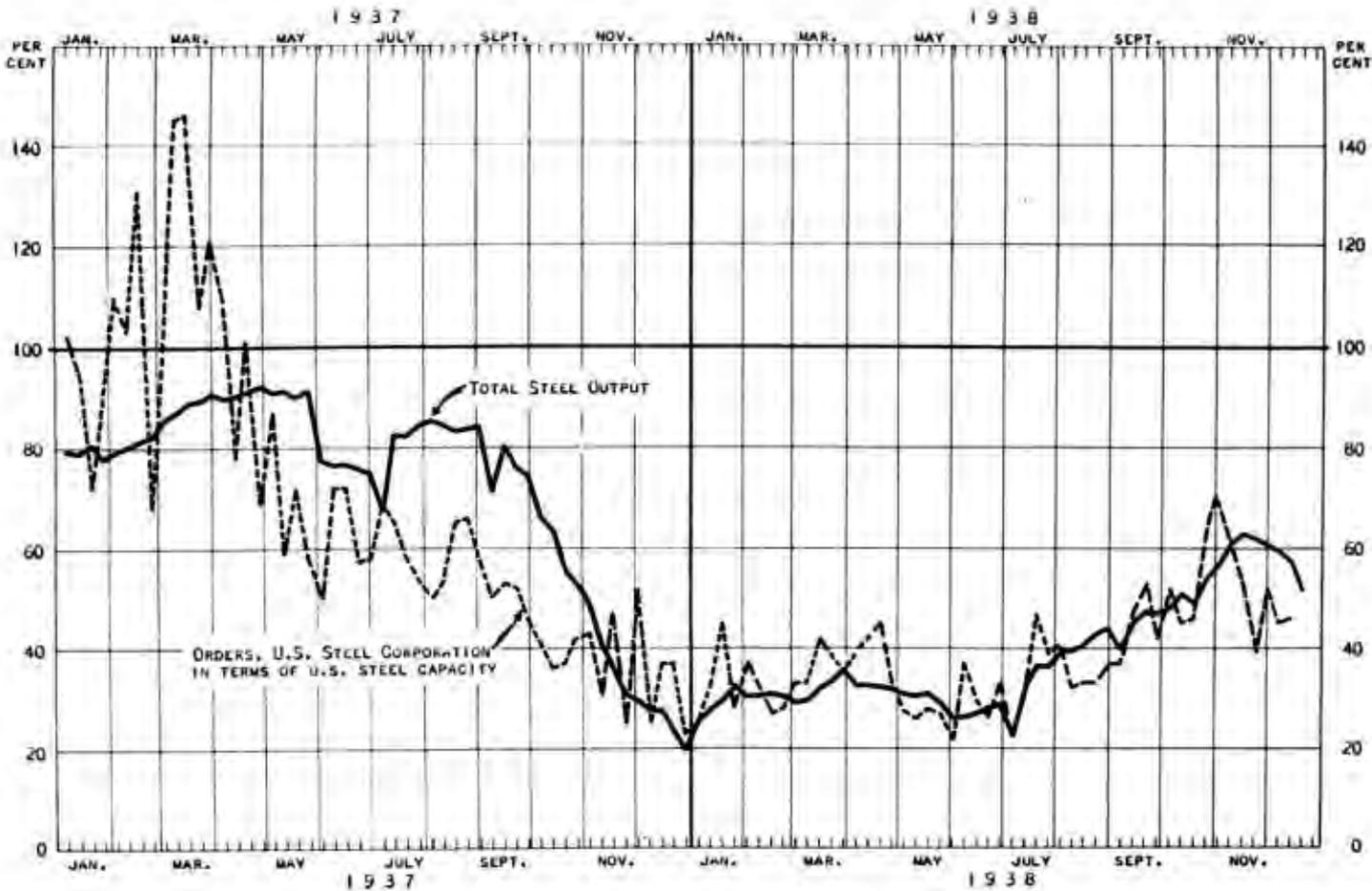


Chart 4
Confidential

Combined Index of New Orders and Selected Components

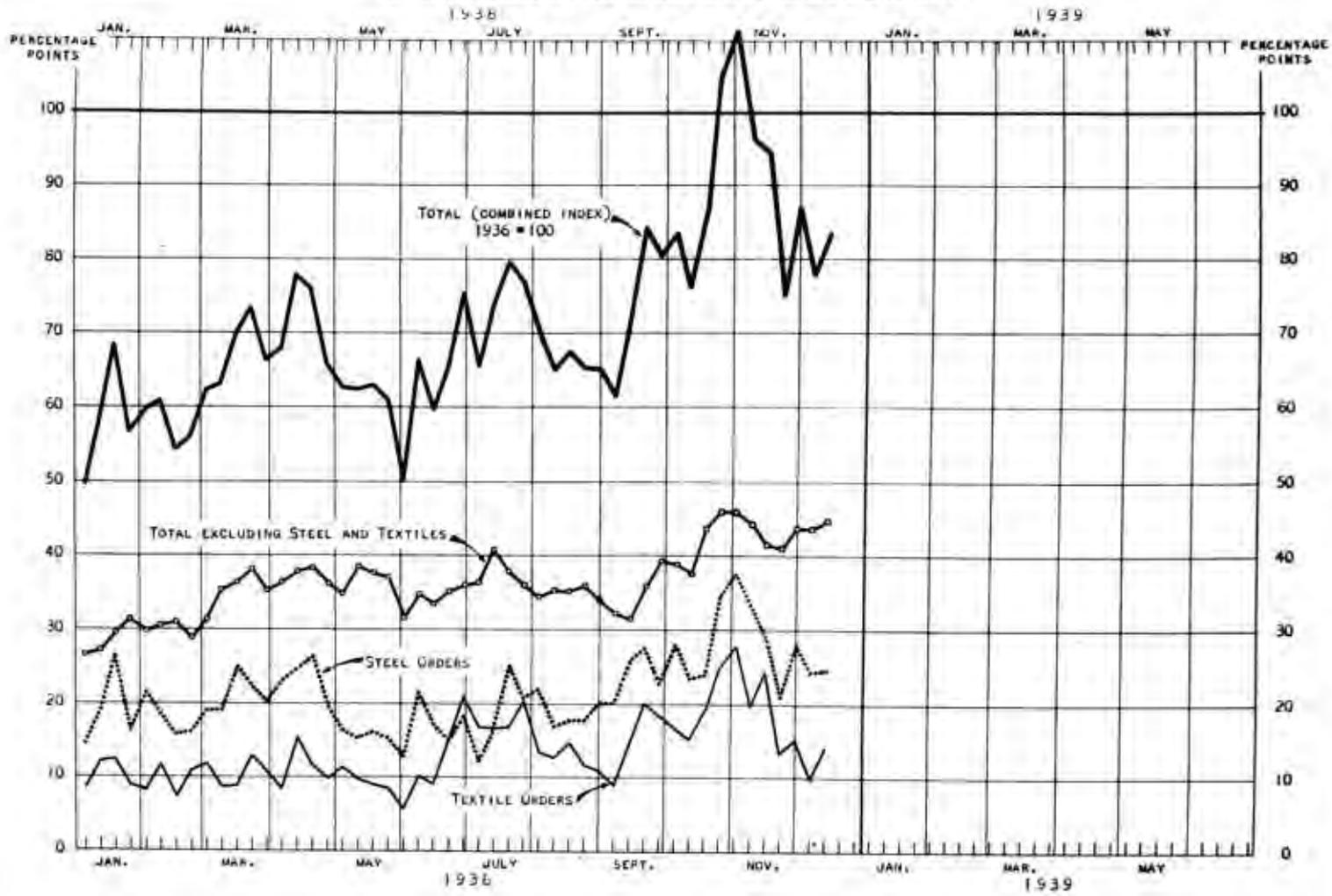


Chart 5
Confidential

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 27, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

At the meeting in Sumner Welles' office this morning the discussion started on the possibility of bartering agricultural surpluses for strategic war materials. As the conversation developed it was apparent that Secretary Wallace had not heard of the so-called Thomas Bill which provided for direct appropriation for the purpose of acquiring stock piles and was not familiar with the fact that the President had indicated his approval of this procedure. There was some question, in addition, in the minds of those present as to whether the Thomas Bill should supersede entirely any barter attempts. Secretary Wallace briefly described the conversations which had taken place with representatives of the Procurement Division and described the arrangements which could be made for storage of surplus products for the nominal benefit of the Federal Surplus Commodity Corporation.

The conversation then shifted to general policy in Latin America in which Secretary Wallace was for aggressive subsidization, et cetera, in order to cause as much trouble as possible for the totalitarian states. Serious objections were advanced to almost everything except the credit approach and I got the impression that the State Department was emphasizing the Argentine situation as being an immediate problem which must be faced realistically in the form of a trade agreement and that they were putting quite a lot of heat on Secretary Wallace who has pretty consistently backed

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away from an Argentine trade agreement for political reasons.

The discussion then shifted to a question of credits and Sumner Welles asked me to explain recent developments. I told him that considerable emphasis had been given to this as a result of a question that had been asked you at a Press Conference and that we had been endeavoring to keep the matter in its proper focus. He then referred to the fact that he had not as yet received a legal opinion from Herman Oliphant on the question of whether this Government had the power to make direct loans to foreign governments, and that he assumed that on account of Herman's illness the opinion had not been forthcoming. I said that that was unquestionably the case but that whereas I could not render a legal opinion, that my impression was that the answer would be that there were no limitations of the type which he described in the authority of the Export-Import Bank and reminded him of the fact that the first credit which he and I had helped to set up was to the Cuban Government. He said of course that should be considered as a commercial transaction and that it was secured by silver collateral. I said nevertheless I felt that there was no requirement which insisted on collateral. He then stated that if the Government entered into any series of arrangements which provided for the direct extension of credit to Latin American Governments that the work of the Administration for the past six years would come to naught. I then went on to explain some of the general type of cooperation which we had contemplated and he seemed to agree thoroughly with that type of endeavor. I do think it will be well to clarify this situation however.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 27, 1938

MEMORANDUM FOR THE SECRETARY:

Subject: Report of Price Control Conference Held
23 December 1938

A meeting of the Price Control Committee was held in the office of Mr. Morris, Attorney General's office at 3:30 P. M., December 23 with Judge Morris presiding. The following were also present: Judge Townsend, Mr. Fowler, Mr. Bell and Mr. Holboff of the Attorney General's office; Dr. Ezekial, Mr. Appleby of the Department of Agriculture; Mr. Meehan and Mr. Everett of the Department of Commerce; and Commander Foster as representative of the Director of Procurement who was in attendance at another and more important meeting.

Judge Townsend presented a final report upon the legality of the three price control measures prepared by Dr. Ezekial, Mr. Everett and Mr. Meehan following their report of 21 November 1938. Judge Townsend's brief holds in substance that under existing statutes the legality of the measures proposed is questionable; that funds when appropriated are available only for the purposes specified in the authorization and appropriation Act and none other; that implication cannot be read into the statutes; and that additional statutory authority would be required to authorize expenditure of funds for price control purposes of the character proposed.

The representatives of the Attorney General's office stressed the fact that this opinion was submitted not for incorporation in the final report of the Committee but only for preliminary information and guidance of the Committee.

It was decided to abandon the proposal concerning the control of railroad and ocean traffic; to concentrate on the proposal concerning the pooling of foreign orders; and to state the pros and cons of the proposal relating to Government owned or controlled reserve supply.

The report is to state what would have been recommended if Europe had gone to war after Munich; to state the Committee's opinion as to the legality of the proposed measures under existing statutes, and to recommend what legislation is required to make any proposed price control measures effective. Draft of such report is to be submitted to the Committee before final submission.

The Committee adjourned at 5:15 P. M.


Director of Procurement

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Director of Procurement

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 27, 1938, 8 a.m.

NO.: 2167

FROM COCHRAN.

On December 24 I visited Rueff at the Finance Ministry. The Ministry he told me was satisfied with the progress so far achieved under the Reynaud program towards financial and monetary recovery. On that day the Finance Minister and Rueff appeared before the Financial Committee of the Senate. Rueff told me that this week will be devoted to getting the budget bill enacted and that they expect renewed attempts by the Left to upset the Government. The Ministry believes it will have a real opportunity to put its further plans into effect once the budget is out of the way, but these plans have now been withheld until the early part of the coming year. The conversion of certain loans will figure in them importantly.

On December 22 the Financial Counselor of the British Embassy told me that consideration was being given by the French to the possibility of converting French railway bonds issued on markets in England, Switzerland and the Netherlands. London, he intimated was not yet ready for such an operation, as could be understood from the present situation of the market there. He wondered whether the United States had been approached regarding the dollar tranches of those loans, but I said I knew nothing about it.

I had a talk on December 23 with a Paris Morgan partner

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who volunteered to me the following information in the strictest confidence: The Ministry of Finance of France wants to convert French railway loans abroad in so far as it is possible, the state substituting for the borrower instead of the railways. Conversion operations are already being planned for the Swiss and Dutch markets by a syndicate of Swiss and Dutch bankers, which includes the Swiss Bank Corporation, the Credit Suisse and Mendelsohn. The new bonds of the Treasury would be for a thirty-year period, bearing interest at 4 percent and issued at 95. They would be payable in Dutch florins or Swiss francs.

The Paris branch of Morgans has been sounded out for its opinion, but not yet definitely requested by the Finance Ministry for a decision as to the possibility of putting a similar issue on the American market for converting the outstanding dollar bonds of the 1928 P and O 5 1/2 percent bonds and the 1924 Nord Railway 5 1/2 percent loan. The total of these loans is between 21 and 22 million dollars. I refer you to page 112 of enclosure 18 to despatch of January 28, 1938, No. 1639.

There would naturally be questions as to whether the foregoing could be done in view of condition in Johnson Act as to the renewal of existing credits. Another question would be whether the American bankers would consider the New York market receptive to such an issue, or whether

the

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the easiest thing would be to try to get the Dutch and Swiss syndicate to issue a sufficiently large loan to provide the French Treasury with funds from this side to call and pay off the dollar bonds, especially since European owners may hold the dollar bonds to a large extent.

I give you the foregoing purely for information; it should be considered strictly confidential, and no action thereon is needed. If either the French Treasury or the Paris office of the American bankers seeks official advice in the matter, I shall promptly report to you.

END MESSAGE.

WILSON.

EA:LWW

December 27, 1938.
9:15 a.m.

SMJr: Hello, Butterworth?
W.
Butterworth: Happy Christmas to you, sir.
MMJr: Same to you. How are you?
B: Very well, thank you.
HMJr: Butterworth, I've been away for three days, and I haven't seen any cables. Have you sent any?
B: Yes, I sent three.
MMJr: Oh, for heaven sakes!
B: Hello.
HMJr: Well, I haven't seen them.
B: Well, I sent two the -- I got in on Wednesday evening --
MMJr: Yes?
B: Sent two on Thursday and one on Friday.
HMJr: Ah -- did you see anybody in particular?
B: No, I haven't seen the -- the people that you referred to yet. I'm going to see them -- today is a holiday in London.
SMJr: Oh.
B: He suggested that everything was too much in a sort of Christmasy atmosphere and it would be much better if I should come in and see them tomorrow.
SMJr: Well, I'm surprised in a way that they didn't send for you. Hello?
B: Yes.
SMJr: They have been giving us very, very gloomy reports here.
B: Who is?
MMJr: Bewley.
B: Yes.
HMJr: And Bolton.
B: Yes.

HMJr: What's -- over the year end, you see?

B: Yes?

HMJr: And they asked who would be at the Embassy that they could talk to.

B: Yes.

HMJr: So we told them that you -- that you were back.

B: Uh-huh.

HMJr: And the reason I'm calling is that I thought I wanted to give you that, you see?

B: Yes. Well, they said that they would prefer to see me tomorrow.

HMJr: That's all right. I'm -- I'm in no hurry.

B: Right.

HMJr: But they are certainly laying the ground-work to prepare me for something, and that's what I wanted to tell you.

B: Thank you, sir.

HMJr: I've never gotten such gloomy reports, and -- hello?

B: Yes, sir.

HMJr: And -- that's about all I've got.

B: Well, I said -- I said in my cable on Friday that these people that I had been to see all take a pretty gloomy view of sterling.

HMJr: Yes, well, of course that doesn't help any, does it?

B: At the moment, of course, money is very tight here.

HMJr: Uh-huh.

B: Having it's effect, you know.

HMJr: Uh-huh.

B: And everyone is anticipating that after the end of the year --

HMJr: Yes.

B:

HMJr: Yes, well, everybody being so gloomy --

B: And the long-run view is pretty pessimistic about sterling, but as I say, so far I haven't been able to see a very wide range of people.

HMJr: Uh-huh. Well, that's all I wanted to get over to you.

B: Well, thank you so much, sir. That's very helpful.

HMJr: Henry -- my son Henry is sitting here and he said he is waiting for a bill.

B: Yes, I'm going to send him one. I -- I haven't gotten mine yet. Give him my kindest regards.

HMJr: All right.

B: Tell him I hope it's a false fit.

HMJr: Henry has got your suit on now.

B: No he hasn't!

HMJr: Yeah.

B: He's a great worker -- like his father.

HMJr: A happy New Year, and Henry send's you his regards.

B: Thank you so much, sir.

HMJr: Good bye.

B: Good bye.

GROUP MEETING

December 27, 1938.
9:30 a.m.

Present: Mr. Gaston
Mr. Bell
Mr. Foley
Mr. McReynolds
Mr. Gibbons
Mr. Hass
Mr. White
Mr. Duffield
Miss Chauncey

H.M.Jr: Dan, I talked to the President on the question of lunch guests, and he said as soon as they leave we'll be sent for; it will be some time around 2:30.

Bell: O.K.

H.M.Jr: See? But he will not see the Fiscal and Monetary Committee until tomorrow. But I don't know just how to - he told me to tell Mac, I think.

(On phone) If McIntyre is in, I'd like to talk to him. - If he's in, please.

Bell: I talked to Kennee, but I didn't get Mac. Told him I thought the suggestion had been made that a meeting scheduled for today go over.

H.M.Jr: Well, you're ready, aren't you?

Bell: Yes, I'm ready.

H.M.Jr: You and I start at ten.

Bell: Uh-huh.

H.M.Jr: Mac?

McR: (Nods nothing) I have nothing.

H.M.Jr: Pretty innocent this morning.

McR: I am.

Foley: I'd like to have a couple minutes right after

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H.M.Jr: well, we'll do this thing. Keep McReynolds informed on what you and I have been talking about just now, about this ... I don't know - where's Taylor? Keep both Taylor and McReynolds informed, will you?

Foley: Yes, sir.

H.M.Jr: See, Arcane's staying away this week. I told him to stay away. So that we may move ...

(On phone) Hello. - Hello. - Good. How are you? - I talked to the President a little while ago and told him that Bell and I would be ready, so he said that after he got through with his lunch guests, he'd phone us; we should wait until we heard from him. - Yes. And he said that as far as the so-called Fiscal and Monetary Committee, he'd let them go over until tomorrow. But not to have them today, see? Is that all right with you? - Yes. - Yes, he told me who ... - Pardon me? - Yes, he told me who he was having, and he said that - but the Fiscal ... The main thing is, I don't want the Fiscal and Monetary Committee there today, and he agrees. - Thank you.

At least we'll do our fighting first; then when we get something, show him. Right?

Bell: Eccles had his chance on it.

H.M.Jr: Yes. That's all right. If the President wants, I think it would be good to let the President show him the budget message.

Anything else, Dan?

Bell: No.

H.M.Jr: Is anybody working on the - I mean the thought, the possibility of selling 500 million of R.F.C. notes along about the month of February?

Bell: I understood Taylor had it under consideration.

McR: Talked about it once before.

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H.W.Jr: and I asked Mr. Eccles to give me a memorandum on it.

Haas: You asked us too.

H.W.Jr: You might call up Mr. Eccles' office and find out. would you mind?

Herbert?

Gaston: No, I don't know of anything. Got a call from your friend. He was in the bath, would call me when he comes out.

H.W.Jr: Talk to you with clean hands.

Gaston: He needs it.

H.W.Jr: we're talking about Fred Essary.

Gaston: Funny that Chick made the same remark when he saw it. He said, "why doesn't Arthur print his own stories?"

Gibbons: Baltimore Sun?

H.W.Jr: Yes, Fred Essary.

Bell: Tribune phoned me last night on this.

H.W.Jr: And you confirmed it.

Bell: Oh yes.

H.W.Jr: Show it to them.

Bell: I said it was news to me.

(Discussion concerns published rumors of Secretary's resignation)

Gibbons: Old stuff.

H.W.Jr: what?

Gibbons: Old stuff.

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H.A.Jr: Harry?

White: I have here a report on self-liquidating public roads that you might want to look over. It's better than it seemed to be at first.

H.S.Jr: Oh, good. Would you send it up to the house please?

Chauncey: Uh-huh.

H.A.Jr: And look, would you (White) and George Haas get together on this memorandum, please, and see if - either say to me, "well, we can't agree," or "We do" or so forth ...

White: I'll have the boys get together who did the technical work.

H.A.Jr: Will you, George?

Haas: What's that, Mr. Secretary?

H.A.Jr: I want your people and White's people to get together and let me know that either you agree or disagree. Will you please?

Haas: Uh-huh.

H.A.Jr: After all, we're all in the Treasury and we ought to be able to - I mean I don't want to judge it until ...

Haas: Yes. I think the disagreement is between the other ... We didn't do anything; we took figures of the other departments.

H.A.Jr: Yes, but those figures go to the President with the Treasury's approval.

Haas: Yes. That's all right.

H.A.Jr: No, it isn't all right. Either they're right or they're wrong, I'm not saying which. But I would like - I would like to know, because I send them to the President over my signature.

Haas: I send them into your office over mine.

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H.M.Jr: what?

Haas: I send them in to you over mine.

H.M.Jr: Yes. I mean the fact that it comes from another department doesn't mean anything as far as I'm concerned.

Haas: We did look at them. We'll get together.

White: There was a large outflow of capital ending the week December 14. I mention it merely in case it should come to your attention; it really wasn't an outflow of capital, but a breaking down of British balances here. But it was 32 million dollars. So it was merely an unusual transaction which shouldn't be interpreted in the ordinary light.

H.M.Jr: You mean they pulled it out for some reason other ...

White: They spent it. Probably building up dollar balances here and built up an unusual amount.

H.M.Jr: I wish you, through Archie's office, would find out how the English are paying for those airplanes, what methods they're using. They've got orders here for four hundred planes, you see. And let me know what that was; it must run to around - between 36 and 40 million dollars.

White: What are they doing?

H.M.Jr: They're taking delivery now, as I understand it.

White: I'll try to find out.

H.M.Jr: One is the North American Corporation and I think the other one is the ...

White: North American?

H.M.Jr: Yes, North American. .. and the other is the Lockheed. They got 200 from each. Now, what method are they using to finance it? And I want that information in connection with this man (Foley) here.

White: We'll - yes, we'll try to find out.

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H.A.Jr: I mean now the English - I'd like to know the whole story of how they do it. Be useful, won't it?

Poley: Yes, sir, be helpful.

H.A.Jr: What?

Poley: Be very helpful.

H.A.Jr: and get it through Archie.

White: The Vandenberg letter on silver I think you ought to answer before you go away, and I spent a little time with it because it involves a defense or an examination of the silver purchase program; and I worked on it yesterday and I'll have a copy of it ready tomorrow morning some time. Wednesday or Thursday I think you ought to go over it, take a little time, unless you don't want to handle it until you come back. But we've got it.

H.A.Jr: No, no, it's all right.

White: That's all.

Gibbons: There's a - the C.I.O. has gotten out a letter to all their members ...

H.A.Jr: Excuse me.

(On phone) Hello. - Hello. (Conversation with Bullitt follows:)

December 27, 1938.
9:40 a.m.

HMJr: Hello.
 Bill
 Bullit: Hello, Henry.
 HMJr: How are you?
 B: Fine.
 HMJr: Belated Merry Christmas.
 B: Belated Merry Christmas to you and a Happy New Year.
 HMJr: Thanks. Uh -- Bill, I want a little advice and some help.
 B: Fine.
 HMJr: You know your friend you brought over here--
 B: Yes.
 HMJr: Well, ah -- he doesn't seem to realize that there has been a New Deal over here.
 B: Yes.
 HMJr: I think we have persuaded him who he should use -- that he should not use a private banking house as his representative. I think we've persuaded him from that, see?
 B: Yes.
 HMJr: But -- ah -- he has picked as his legal advisor Sullivan and Cromwell.
 B: Yes, tell him to stop it.
 HMJr: Well, I can't tell him.
 B: I'll tell him right quick.
 HMJr: Sullivan and Cromwell represent General Franco against the Treasury.
 B: Yes.
 HMJr: They are suing the United States Treasury right now.
 B: Yes.
 HMJr: And -- ah -- I thought it might come better from you than it does from me.

B: Yes.

HMJr: Now, the other thing is -- he keeps talking about getting a line of credit.

B: Yes.

HMJr: And I think that before we go to showing him our most secret of secrets --

B: Yes?

HMJr: He ought to show us a little money.

B: All right, fine.

HMJr: And -- ah -- we haven't been able yet to get him to show us he's got any money.

B: Oh yes he has.

HMJr: Well, he hasn't showed it to us.

B: Yeah.

HMJr: See?

B: Yeah.

HMJr: And -- hello?

B: Henry, I think he's gone up to -- I think he's gone up to Canada at the moment.

HMJr: Well, I -- I don't know, but I thought this stuff might come better from you than me.

B: Well, I tell you, the whole point of the thing is this --

HMJr: Yes?

B: I -- I'm sitting out here on a beach -- quite a ^{distance} a/from Havana -- and it's very difficult to get the connections. As far as Havana, it goes all right from Havana to the United States, you see? And it is a little bit hard for me to pick him up if he's running around up there -- he's probably gone to Canada.

HMJr: Well, supposing I tell him to call you?

B: Yeah. Well, that's fine if you can get in touch with him.

HMJr: I'll -- I'll tell him to call you.

B: I'll tell you where he was. He was -- he was at his apartment in New York, I think, yesterday. I don't know where he is because I got a telegram from him.

HMJr: Yes, well, I don't even know where you are, Bill.

B: I am at Valadera's Beach, Cuba.

HMJr: Fine.

B: Valadera's Beach, Cuba.

HMJr: Yes, well, knowing how much you were interested in this, that's why I called you.

B: Well now, Henry, ah -- I want to say this, that he called me on the telephone to say "Merry Christmas" and nothing could have been greater than his thanks for what you have done.

HMJr: Yes.

B: And any indication that you give will be completely received with open arms.

HMJr: Well, if you don't mind thought I'm going to get word to him and -- and he --

B: Well, now who do you want. Who do you want him to have? May I make a suggestion if I say now don't have those fellows, who else?

HMJr: Well, I have -- I don't know, but if he would come and talk to Ed Foley --

B: What?

HMJr: If he would talk to Ed Foley who is Acting General Counsel now --

B: Yes?

HMJr: By the time he gets down we will have a suggestion of a -- at least of a firm that is neutral.

B: Wait a minute, I'm going to write down that fellow's name.

HMJr: Foley -- he knows it.

B: Yes. I don't -- I don't remember him.

HMJr: Well-- he's -- he's -- you know Herman Olipent is very ill.

B: Oh he is? I didn't know. What's the matter?

HMJr: He had a heart attack.

B: Oh, I'm terribly sorry.

HMJr: Yes. So --

B: Now --

HMJr: By the time he gets around, we'll at least suggest a firm which is at least neutral.

B: Yes, and then also I will -- no you just take somebody that you have absolute confidence in.

HMJr: Well, we'll -- we'll --

B: I mean, I can handle that, because it is a very funny situation for me, because the Paris representative of that firm --

HMJr: Yes?

B: Happens to be my closest personal friend on the other side. I don't mean any confidential relations. He's been an old friend for thirty years.

HMJr: Yes.

B: Now I'll -- I'll do that with great pleasure. And should I also suggest to him that he should indicate to you where the cash is?

HMJr: Yes, very definitely.

B: And he can do that sometime when he comes down on these other things.

HMJr: If he would.

B: Fine. I'll do them both.

HMJr: How's your daughter?

B: Fine, everything is lovely. You've never seen such beautiful weather anywhere in your life.

HMJr: Grand.

B: We are having a lovely holiday.

HMJr: Fine.

B: God bless you, Henry. Good luck.

HMJr: Thank you.

B: So long.

HMJr: Good bye.

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H.A.Jr: He says that the head of Sullivan and Cromwell in Paris is his best friend. A little embarrassing. But if you'll get this fellow to call Bullitt, Bullitt will talk to him. Now I have no suggestion, but you can be thinking about some firm that at least is neutral. Huh?

Foley: (Nods yes)

H.A.Jr: I wouldn't know any suggestion.

Foley: well, I'll think about it and suggest some names to you.

H.A.Jr: right. I mean so it doesn't have - I mean some firm that's outstanding in its ability, but at least isn't suing the United States Treasury.

Foley: and that we can work with.

H.A.Jr: Yes. I mean somebody that's ... - as long as they're not personal friends of Monnet.

Foley: Yes.

H.A.Jr: I mean I have no - I mean that - I mean I wouldn't suggest anybody who were friends of Monnet. But there must be somebody.

Foley: How about Covington, Burling, Rublee, Acheson & Shorb, Dean Acheson's firm?

H.A.Jr: whose firm?

Foley: Dean Acheson's firm.

H.A.Jr: It would be all right. Be all right. I guess as good as any.

Foley: Yes, it's the best firm in town.

McR: Good lawyers.

Gaston: George Rublee and Jack Linahan.

Foley: That's George Rublee's firm.

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H.M.Jr: well, why not?

Foley: That would be the best one as far as I'm concerned.

H.S.Jr: Why isn't that the one?

McR: as good as they could get.

H.M.Jr: Does anybody know why not?

Foley: That gets it away from the New York situation, too.

H.M.Jr: That's a happy thought. Anybody know why that wouldn't be a good idea? Rublee's over there spending his own time, I imagine, and his own money for the President. He certainly isn't getting anything out of it.

Foley: That's right.

H.M.Jr: Does anybody know any reason ... Dan, do you know ...

Bell: No, I don't.

H.S.Jr: .. is that the best firm in town?

Bell: I don't know much about the law firms in town, but I would say it stands at the head of the list.

H.A.Jr: Yes. and then maybe possibly get the Dean to take an interest in the thing.

Foley: Yes, I think he would.

H.M.Jr: what?

Foley: I think he would.

H.S.Jr: I think that's all right. Certainly a great deal better than to have the French Government use Sullivan and Cromwell, where they're suing us. I mean it's stupid.

White: Is that why Franco picked Cromwell and Sullivan?

H.M.Jr: Why? No, I don't know why. I don't know why they picked him. I don't know why they picked him.

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White: Mr. Monnet called me up Friday, wanted to see me. I don't know whether he just wants to say "Hello" - but he wanted an appointment. I called up Ed Foley to know whether there was anything doing. I haven't seen him.

H.M.Jr: At this stage what I want to know is - I want to see the money. And, Mac, check with Peoples: before these boys start out on this trip, see, I want to see the cash.

Mac: I talked to Harry Collins day before yesterday - he was up at the house - talked to him about that, and he understands that if the thing depends on credit, nothing doing.

H.M.Jr: Well, you better tell him.

Mac: I'll tell him, yes.

H.M.Jr: No trip until he sees the cash.

Mac: I think Harry's on the job.

H.M.Jr: What?

Mac: I think Harry's on the job. Talked about that very angle of it.

Gibbons: C.I.O. has gotten out a letter to all its members saying that - telling them about our conference and now satisfactorily they're going along. That's on the East Coast; they haven't got it ironed out yet on the West Coast.

H.M.Jr: That's fine.

Gibbons: And their paper which is printed - a weekly or monthly paper - has a very favorable editorial.

H.M.Jr: I'd like to see it.

Gibbons: Waesche is preparing a memo.

H.M.Jr: Took a long time.

Gibbons: Well, they had certain things they wanted to know

-10-

know about. Just sat down and talked the thing across the table, and perfectly satisfied. They're all anxious to get in now; before they were holding off.

H.A.Jr: This is in connection with training seamen. It's better than sending a telegram down to South America and telling them it's the Hawaiian Islands.

Gibbons: All it needed was to sit down at a table.

H.A.Jr: You know who sent the telegram, don't you?

Gibbons: Sure; they talked about that. They wanted to know, and that was discussed - that very thing.

H.A.Jr: George?

Gibbons: And the man whose picture was in the paper this morning....

Hans: (Hans H.M.Jr memoranda)

Duffield: Before you go away, could I have a couple minutes to tell you about our lawyer?

H.A.Jr: Yes, sure. Plenty.

Duffield: At your convenience. That's all.

H.A.Jr: Are you two gentlemen (Foley and Duffield) going to fix up for me - I'd like a sort of a dummy procedure if we have what we call our power corporation; so go ahead as though we were going to sell these bonds against - what do you call that?

Foley: Income revenue.

H.A.Jr: Supposing this law was passed, we got this power corporation; the thing would be for me to go ahead and sell, say, a hundred million dollars worth of bonds against Boulder Dam.

Foley: Yes.

H.A.Jr: In other words, could you fix me up a dummy prospectus?

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Duffield: Yes. That is, we'll - Ed has to make something to sell while you're away on vacation.

H.A.Jr: Well, at least they can make the arrangements for the commission.

McA: The arrangements for the commission.

Duffield: You know, we were to talk to Mr. Taylor about his ideas, and we're waiting for that.

H.A.Jr: Well, don't wait too long.

Duffield: No.

H.A.Jr: And then the other thing that I'm interested in now that I find the United States Treasury owns two billion dollars worth of - what do you call it, capital stock?

Bell: (Nods yes)

H.A.Jr: Treasury stock? What do you call it?

Bell: Capital stock of the various corporations. Is that what you mean?

H.A.Jr: Yes. I want to find out a way that the Treasury can get a little earnings on that - the various lending corporations.

Foley: Get some dividends.

H.A.Jr: Well, I wasn't - if they're dividends, I'd like them to be cumulative or a fixed dividend; I'm not interested in other dividends.

But seriously, here's two billion dollars worth of capital stock that we own - 500 million in the R.F.C. - and we don't get a nickel. So I wish - you might all be thinking about that, huh?

Bell: That helps Mr. Jones' statement a good bit.

H.A.Jr: I know. But I'm interested in his statement and mine too. But think out some way that we can do that.

All right?

-12-

Duffield: All right.

H.S.Jr: Ed?

Foley: On Thursday you gave me a letter that Mr. Oliphant had prepared to Doughton and to Harrison in regard to the codification of the Internal Revenue laws.

H.S.Jr: Yes.

Foley: And I've talked with John Hanes, and he left a memorandum with you before he went away, setting forth his position. The matter is a little bit confused, and I want to go into the factual side a little bit more today and talk to you perhaps tomorrow morning about it.

H.S.Jr: All right. Today Bell and I are pretty well tied up.

Bell: (Noas yes)

H.S.Jr: Yes. If you (Cnsuncey) can find the Hanes memorandum.

Cnsuncey: Uh-nuh, uh-nuh.

H.S.Jr: All right.

My dear Mr. Delano:

This is to acknowledge receipt of your letter of December 20, 1938, containing a copy of your statement to the President.

I indicated at the last meeting of the Fiscal and Monetary Advisory Board that in my opinion it is entirely proper for any member of the Board to present to the President a supplementary statement, provided, of course, that it is made clear to the President that the views expressed therein are those of the Board member presenting them and not necessarily of the Board as a whole.

I do feel that considerable advance has been made by the Fiscal and Monetary Advisory Board and, as I stated at our last meeting, I found the meetings very helpful and am looking forward to continuation of the progress we have been making.

Sincerely,

Herbert H. Morrison, Jr.

Mr. Frederic A. Delano,
Vice Chairman, National Resources Committee,
North Interior Building,
Washington, D. C.

13/21/38
FILE COPY
MM

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

CONFIDENTIAL

December 20, 1938.

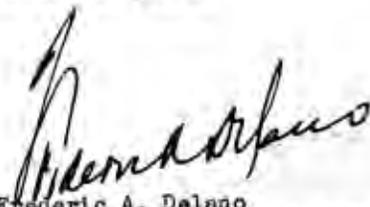
The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

When I got home last evening and after thinking over our conference, I felt that I had made a mistake in not handing to The President the memorandum I had prepared; so I prepared a letter to The President (copy enclosed) which I have sent over this morning, explaining my action. I hope that you will not feel that I am acting in other than good faith. I felt it important for The President to know that in the mind of at least one, perhaps two, of the Committee, there was the belief that we must avoid slipping backwards in 1940. I think the Fiscal Committee has made a great advance in arriving at unanimity.

Cordially yours,



Frederic A. Delano
Member, Fiscal and Monetary Advisory
Committee.

Encls.

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

December 20, 1936.

The President,

The White House.

My dear Mr. President:

At the conference which our Fiscal Advisory Committee had with you yesterday, I did not present a brief statement which Doctor Ruml and I had prepared and discussed at the morning meeting at Secretary Morgenthau's office earlier in the day. At that meeting, the Committee as a whole questioned the advisability of including my brief statement in the carefully prepared statement which we later submitted to you. Nevertheless, Secretary Morgenthau saw no objection to my submitting it to you as an expression of my views.

However, as our White House meeting lasted one and a half hours, I did not feel I was justified in taking any more of your time, especially as Mr. Eccles in part covered the same ground. On second thought, I think I was wrong in not leaving this brief memorandum with you, and I therefore send it now, - because I think it is important for us all to realize the hazard of repeating the occurrence of 1937. The whole matter is to be carefully studied by our Committee and presented to you if the Committee can arrive at a common understanding.

Respectfully yours,

(signed)

Frederic A. Delano
Member, Fiscal and Monetary Advisory Committee.

Encl.

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

December 19, 1938.

MEMORANDUM TO THE PRESIDENT:

I am making this separate statement, not because of any disagreement with the Report of the Board, but because of my desire to give emphasis to certain points not covered or only partially covered in the Report.

I believe that a special report on the possible fiscal and monetary situation in 1940 is particularly needed in the near future, since I am impressed by the facts presented to us by the experts that real danger of another sharp depression in 1940 exists, especially in view of the disappointing present estimates on national income for the year 1939.

I cannot but believe that the Federal budget has an important influence on national income; also, that some expenditures have more influence on national income than other expenditures, and that some receipts have more influence than other receipts. Accordingly, it seems to me the part of public wisdom to consider what we are able to do in the present state of our fiscal and monetary knowledge to protect our Nation against the demoralization of another economic crisis; and, if possible, to assist toward that higher national production, income, employment, and standard of living and well-being which we are convinced our national resources are able abundantly to provide.

(signed)

Frederic A. Salans

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NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

CONFIDENTIAL

December 20, 1938.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

When I got home last evening and after thinking over our conference, I felt that I had made a mistake in not handing to The President the memorandum I had prepared; so I prepared a letter to The President (copy enclosed) which I have sent over this morning, explaining my action. I hope that you will not feel that I am acting in other than good faith. I felt it important for The President to know that in the mind of at least one, perhaps two, of the Committee, there was the belief that we must avoid slipping backwards in 1940. I think the Fiscal Committee has made a great advance in arriving at unanimity.

Cordially yours,

Frederic A. Delano
Member, Fiscal and Monetary Advisory
Committee.

Encs.

December 27, 1938.
4:38 p.m.

HMJr: Hello.

Operator: Captain Collins. Go ahead.

HMJr: Hello.

Collins: Good afternoon, sir.

HMJr: Hello Captain. How are you coming along with the French mission?

C: Well we have - we have now laid out here just all the models that we could get deliveries on, sir.

HMJr: Got them all on your desk?

C: Yes, sir.

HMJr: You've got the figures and all that?

C: Well, we have figures here but they're dependent, of course, on what these people will accept. Some of the models there -

HMJr: Are you going -

C: Are based on what we originally counted on getting but now they don't seem to want those speeds, they want higher speeds.

HMJr: When you talk about models, you mean you've got actual drawings, or what?

C: No, we have the - two of these planes that we have here are in production, one of them the Douglas of course, is not in production, is built, one of the Martine is in production and one of them is ready to go in production.

HMJr: How long would it take you to come over here to see me?

C: About ten minutes.

HMJr: Supposing you come on over.

C: Yes, sir.

HMJr: Thank you.

December 27, 1938.
4:33 p.m.

Operator: Go ahead.
Jesse
Jones: Hello.
HMJr: Hello, Jesse?
J: Merry Christmas to you, Henry.
W(Jr: Same to you, Jesse.
J: How are you?
HMJr: Oh, ready for a little vacation.
J: Ready for a vacation?
HMJr: Yes. I'm going away with Mrs. Morgenthau on the night
of January 2nd for ten days.
J: Going where?
HMJr: Down to Bocagrande.
J: I see.
HMJr: Going away for ten days.
J: Well that's nice.
HMJr: How are you?
J: All right, still got a bum leg.
HMJr: Oh, are you getting out any?
J: Yes, I'm at the office.
HMJr: Are you? But - going to see you this week?
J: I hope so. You're going on the second, uh?
HMJr: Yes.
J: Well anytime that you sit down why I'll come around for
a visit.

- 2 -

HEJr: Well why not let's - pending Budget work, why not let's say tentatively Thursday for lunch.

J: All right, I'll put it down. I'll be delighted to.

HEJr: And I'll check with you, but I mean it all just depends upon the Budget.

J: All right, fine, and I'll make a note of it.

HEJr: Thursday.

J: At one o'clock.

HEJr: And I'll check with you.

J: We're allotting, on this little mortgage giving notes five per cent.

HEJr: Good.

J: They - it was terribly over-subscribed of course, with some further limitations on - nobody more than one million, some of the banks subscribed, some of them subscribed fifty millions.

HEJr: O.K.

J: So I cut the - nobody more than one million.

HEJr: It must have been a big success.

J: But that'll work it out so it gets a better distribution.

HEJr: Fine, Jesse.

J: Well then, I'll hope to see you Thursday.

HEJr: Goodbye.

J: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 27, 1938, 5 p.m.

NO.: 2170

Quiet and thin Paris exchange market today; the only trading which was of much interest involved the purchase by Guaranty of dollars for the French fund. By 3:30 this afternoon these purchases had amounted to 860,000.

WILSON.

EA;LWW

December 28, 1938.
10:21 a.m.

HMJr: get along with you no matter where you are.
Roswell
Magill: (laughter) I don't believe that. How's Herman, Henry?
HMJr: What's that?
M: How's Herman?
HMJr: Herman is showing steady improvement, Ros.
M: Oh, good.
HMJr: Now, this is what I'm calling you up about and
McReynolds and Foley are here too.
M: Yes.
HMJr: Are you at a hotel?
M: Yes, I am.
HMJr: Now, it's this old question of the Joint Committee on
the Hill getting out a codification of the laws.
M: Yes.
HMJr: And the position that Oliphant took was that these
codifications should be based on prima facie law and
not absolute law.
M: Yes.
HMJr: And the reason I'm calling you is because they keep
using your name, that while you were here, that you more
or less acquiesced, in fact in the report which is
printed up, I'll read it to you, a minute, they - in the
letter of transmittal - Hello.
M: Yes.
HMJr: They say, I'm quoting now from the Congressional
document - "Under Secretary Magill stated in the hearing
before the committee on Ways and Means that the Treasury
is vitally interested in this work and expressed the
hope that the staff would be able to complete the work
in time for codification to be approved at the session
of Congress."

- 2 -

- Q: Yes.
- MSJr: "In preparation of this work he made available " so forth and so on,
- Q: Yes.
- MSJr: Now it gets down to this. I'd like your advice. I mean Oliphant has written this letter that we go along on a prima facie basis.
- Q: Yes.
- MSJr: And Hanes is all hot and bothered because Doughton and Harrison want it the other way.
- Q: Yes.
- MSJr: Now, if you were back here, what would you advise me?
- Q: I think I would advise you to go along with Doughton and Harrison. We went all over that, and - when I was up there, and Herman's way is undoubtedly the safer way.
- MSJr: Yes.
- Q: Now, and if all other things were equal I would prefer to do it Herman's way. On the other hand the committee has spent a lot of time on this codification and after the last - well a year ago, they turned the thing over to us, and we had a great deal of checking done on the thing, so - that was done under Herman's direction so that we have had all the opportunity that we could have to check it over and point out errors and so on. Now as lawyers I think we'd all prefer that it be prima facie because we run less chance of getting our feet wet. On the other hand there are some advantages of having individual law since we've had all the chances of checking and so forth I don't think that we have a very good case for saying that in case that it may contain errors and so forth, therefore it had better be prima facie. Do you follow me?
- MSJr: I'm listening. Yes.
- Q: Now furthermore, I think the main point is this, that not only the technical staff of the committee, but

- 3 -

particularly Mr. Doughton, is very much sold on this side of the case and they've put in, I think, twenty-five or thirty thousand dollars into it.

HJr:

Yes.

Q:

And they're very anxious to do it.

HJr:

Well -

Q:

I think that if you put up a fight on it, prepared to die, you will be defeated anyhow, and that you'll create the bad blood that is undesirable.

HJr:

No, but why can't I do what Magill did, simply take a middle - in this letter, you simply said you were interested in the work, vitally interested.

Q:

That's right.

HJr:

But you didn't approve it.

Q:

That's right.

HJr:

Well, here Oliphant wrote a letter, just before he was taken ill, in which he holds out for the prima facie.

Q:

Yes.

HJr:

Now you think that I should go against his wishes and - or isn't there, isn't there some middle of the road?

Q:

Well, I don't know about the middle of the road, I think Herman had in mind the middle of the road, on the prima facie business. Now they won't mind the prima facie I think, because they say that really doesn't happen.

HJr:

Well, Ros.

Q:

Yes.

HJr:

It's only a page and a half, let me read it to you.

Q:

Yes.

HJr:

This is the letter he wrote for my signature to Harrison.

Q:

Yes.

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Q: 11

"There is before me the request from Mr. Stan, which he made Under Secretary Hanes, that I, as Secretary of the Treasury, express my views on the desirability the enactment Internal Revenue now revised in draft form. Legislation of this sort can not fail to be useful and it is all competent codification since it's put into readily accessible and convenient form a multitude and divergent scattered enactments helpful to public officials, lawyers and accountants, individual taxpayers and the like. I therefore hope for early enactment of the proposed Internal Revenue Code. Substantially all of these useful practical objectives which I have mentioned would be attained by enactment of this Code, not as an absolute law but like the Code of laws the United States of America and prima facie laws, and at the same time you would not be inviting the serious dangers of numerous errors which have characterized most careful previous attempts at comprehensive codification. In this connection I have had a memoranda which states more fully the consideration of practical convenience and legislative experience upon which this view rests. Finally I tender my cooperation which this Department can afford in securing the enactment of proposed Internal Revenue Code on the basis indicated. I may add that as I understand that the proposed Internal Revenue Code will be made prima facie, the law without action by Congress, except approval of committee on revision of laws in the House of Representatives. This could be done by putting it into the next edition of United States Code, or possibly by putting it in the next supplement of the United States Code. Yours truly, Secretary of the Treasury."

Q:

"Well I don't like that last part, Herman."

A: 11

Henry.

Q:

Henry. Because it seems to me that on the question of just what they do and how they do it, that's really up to them.

A: 11

Yes.

Q:

And I wouldn't put that in.

A: 11

I see.

Q: Now, then, I don't think they will like it, and I don't think it does any good.

WJr: Yes.

Q: Now then, as to the other, the first paragraph, of course, is fine.

WJr: Yes.

Q: Now I would be inclined, I think, myself, to do this, if I were in your place.

WJr: Please.

Q: I think I would say that there are some advantages in having a prime facie as against absolute law on account of the possibility of errors.

WJr: Yes.

Q: And we have checked the thing as carefully as we can and so have they, and the next possibility is to try to make it perfect, but still there is this chance of error. However, there's a question of whether they shall enact it prime facie or permanent law, absolute law, is up to them, as a matter of legislative action, that is, would sufficiently serve our purposes as an administrative department, if it were made prime facie.

WJr: I see.

Q: Something of that sort.

WJr: I see. Well, now, just let me ask - will you hold on a moment?

Q: Yes.

WJr: Let me talk to Foley and Mac a minute.

Q: Yes.

Operator: Are you waiting?

WJr: Yes, I'm holding on please.

- 8 -

- HMJr: Hello. Wall - Ros.
- M: Yes, Henry.
- HMJr: Foley said that, well you've given us what I want, see?
- M: Yes.
- HMJr: I didn't realize there'd been so much water gone over the dam.
- M: Oh, there's been a lot, Henry, and I think I should add to what I've said, that judging from what I - my talk with him, oh, probably six months ago, that Herman, I think, feels quite strongly on the thing.
- HMJr: Yes.
- M: And of course that should be very carefully taken into account.
- HMJr: Yes.
- M: Now, as I've said, I wouldn't have any question that as a lawyer, it would be a sounder thing to do to announce prima facie. On the other hand we've had quite a big discussion about it, a year ago they wanted to announce it then, and we said, "No, let's not do that because the President really hasn't had adequate chance to study it."
- HMJr: Yes.
- M: And so we didn't. We were then given a chance to study it and we went over it with a fine toothcomb and the joint committee, which were the staff was very good about the three suggestions which we made.
- HMJr: Yes.
- M: Now then, having gone through all that battle, I think that Doughton will unquestionably say to you, "Well, good heavens, you've had a year to check the thing. The thing was done with the help of your man in the first place, and we want to enact it as an absolute law."
- HMJr: Yes.

- 7 -

W: And I think that undoubtedly, you'll get into a certain amount of difficulty with the Congressional leaders if you advocate strongly that they should pass it or put it into absolute law.

HMJr: We don't want to oppose it. I think your letter - your suggestion for a draft of letter is all right.

W: I think I would put it, it seems to me that's probably the thing to say that's -- it's up to them as to what they are going to do with it.

HMJr: Right.

W: And we think that for obvious reasons that it would be safer to make it prima facie.

HMJr: Yes.

W: And that it would sufficiently serve our purpose, prima facie.

HMJr: Yes.

W: But that it's their problem as Congressional leaders, as to what they want to do.

HMJr: Well, I think we can couch the letter in that language.

W: Yes.

HMJr: How's the weather down there?

W: How are you?

HMJr: Fine. How's the weather?

W: It's very nice down here, it's very much better than I anticipated.

HMJr: Good.

W: Much hotter.

HMJr: Can you do the Rhumba?

W: (laughter) Not yet.

HMJr: Well, you'd better take lessons.

- 8 -

M: Well, we're going to be so busy, that I don't think we'll even see the Rhumba.

HMJr: Oh, nuts.

M: (Laughter)

HMJr: All right, Ros. Happy New Year.

M: Happy New Year. Give my best to Herman, if you will.

HMJr: I'll do that, and if you don't see the Rhumba while you're down there, I'll never recommend you for another job.

M: I'll see it.

HMJr: O.K.

M: Goodbye, Henry.

HMJr: Goodbye.

MG

GRAY

London

Dated December 28, 1938.

Rec'd 10:25 p.m.

Secretary of State,
Washington.

1471, December 28, 7 p.m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE
TREASURY FROM BUTTERWORTH.

By appointment I called on Sir Frederick Philipps this afternoon. Walcy and Cattarns, Deputy Governor of the Bank of England, were also present.

Philipps began by referring to the recent measures taken by the British monetary authorities and he characterized them as being on the whole a success. They had contributed materially in maintaining the pound during December but he added that only the normal tightness of money towards the end of the year had made them practical expedients and consequently with the beginning of the New Year their efficacy would be largely impaired. He said that with this in mind the British authorities had been canvassing the situation and had made it a point not only to consult each other but to feel out the

temper

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temper of foreign centers as regards the general attitude of those who might hold sterling balances in London. Practically without exception they had found that the view held was that sterling would depreciate further and that there was every expectation that after the year-end the movement out of the pound would be renewed.

Philipps said that he realized that this would coincide with the convening of Congress and consequently he had been desirous of communicating to you the position as they saw it. He said he was sorry to have to convey such doleful tidings for the New Year but it was a painful fact which they themselves were in the process of facing and he wished to play straight and fair with you. He said that the expectation was that sterling would touch the "Munich" level of 4.61 and even go lower. He went on to say that 80% of the trouble lay in the international political field and those who held foreign balances in London ^(would?) were find little or no comfort in the course of international events.

He said he was well aware that such a depreciation of sterling would have repercussions on the Continent as well as in America and having regard to the reaction which
the

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the last French devaluation produced in Belgium, he felt sure that the Belgians would find it necessary to go lower and probably the Dutch as well. As far as the Swiss were concerned, he was inclined to believe that they would stand pat.

I did not conceal the fact that I considered this very disturbing news and I pointed out that the average American, including the average members of Congress, looked upon the dollar rate as a sort of monetary barometer and I also emphasized the relation of the commodity price level to our recovery. Catterns then said that they realized that this might produce "fireworks" in the United States; that in fact it would produce them everywhere and that no one regretted it more than they did or wished to avoid such a contingency more than they did. But unfortunately political fireworks were going on all over the world which they were not able to control.

In answer to a query as to whether they had in their mind even a tentative figure below 4.61 at which they were prepared to resist, both Catterns and Philipps said that while they hoped that the rate would not in the near future go much below that level, they did not see how they could do more than what they had been doing, which was to

use

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use their best efforts and their gold in resisting the trend. Cattarns went on to say that he saw only three possible courses of action: (one) to adopt a Schacht system, which as far as he knew was not even up for consideration; (two) to peg the rate at definite point, which he was convinced was "sure death" (incidentally this was the phrase used by Montagu Norman when I talked to him the day before I sailed); or (three) to do what they had been doing, namely to use their skill and their gold with a view to maintaining the rate as best they could. When pressed on the matter of how liberally they were prepared to use their gold, Cattarns stated that they were prepared to resist "until the last shot is left in the locker".

I raised the question as to the possible outward movement of British capital and whereas I was again assured that to date the amount of flight British capital had been infinitesimally small, they frankly stated that there was of course no guarantee that at some point some nervous British money might not move out of the pound. They seemed less confident of the "patriotism" of British capital than when I left London.

I then referred to the squalor tactics which are now

being

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being employed and asked whether they had in mind any other technical devices which the British or American Treasuries could adopt, either individually or jointly, which would have a strengthening effect on sterling. In this connection Philipps mentioned the action taken in regard to the foreign transactions Advisory Committee (No. 1451, December 20, 6 p.m.) and Catterns said that whereas the request of the joint stock banks in the matter of lending against gold and renewing three months dollar swaps would become ineffectual after the year-end, a general request would be made to all financial institutions in the city to refrain from so doing. However, he frankly stated that there were no means of preventing operations by those who did not choose to fall into line. Aside from this measure Philipps and Catterns did not seem to feel that any other devices were at hand which would meet the situation. I then asked about the course of rates of interest; Catterns pointed to Philipps to reply inasmuch as cheap money is a Treasury policy which has always been disliked and distrusted by Montague Norman and the other Bank of England officials. Philipps merely said that sterling would perforce be plentiful at
the

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the year-end. I then asked about their figures on foreign balances and pointed out how desirable it was for the American Treasury in such difficult circumstances as the present to have a well rounded picture of the situation, upon which Philipps commented that he had never found the Bank of England's figures worth anything to him and Catterns went on to express very much the same view about this matter as I gave you in Washington, namely that the figures were admittedly so inadequate as to be practically useless, and he implied that in any case the foreign balances were so large in relation to the gold assets as to rob them of considerable significance. He also admitted that in the period when funds were flowing to London they had gained more gold than their figures indicated; that foreign assets in England had risen and in this present period of exodus of funds from London they had lost more gold than their figures indicated; that foreign balances had declined. He went on to say that they had tried all sorts of methods in an attempt to fill in their statistical gaps, but it was virtually impossible, for example, to ascertain the amount of English currency hoarded by foreigners in safe deposit boxes in London et cetera. At the same time he emphasized that

-7 #1471 from London December 28, 7 p.m.

that he did not wish you to have the impression that they were being difficult but the figures were so inadequate as to be misleading.

I think I should point out that "it is not done" for any official of the Bank of England to participate together with Treasury officials in such a conversation as today's and the fact that the Deputy Governor was present can only be interpreted as indicative of the concern of the British monetary authorities and of their desire to obtain your sympathetic consideration.

In the course of the conversation we touched on the British economic outlook, about which no great optimism was expressed. Philipps was guardedly hopeful but was careful to point out that he was quoting the Board of Trade as of the opinion that the bottom had been reached and that there were manifestations of evident improvement. I asked if, in view of the importance which armament expenditure is now having in fostering economic activity in this country, about the incidence of such expenditure. Philipps said that unfortunately they continued to be unable to spend money fast enough; that the expenditure was gaining all the time though falling behind the estimates but in turn the estimates were growing rapidly; that even

given

-8- #1471 from London December 28, 7 p.m.

given the post-Munich impetus to the armament programme, he felt that they were "pretty well into" the constructional part of the programme and that from now on expenditure would largely go into ships, tanks, guns and munitions, et cetera. Catterns and Waley were more pessimistic and emphasized that in the given international situation no sane business man could look about more than a few months ahead and obviously was not prepared to undertake such productive activities as required longer commitments.

JOINSON

HPD

December 28, 1938.
4:45 p.m.

WJr: Hello.

Operator: Senator King. Go ahead.

WJr: Hello, Senator.

Wm. H.
King: Who is it?

WJr: Morgenthau.

K: Oh, hello, my dear friend. I called you up for dual purposes.

WJr: I know. I was over at Cabinet. I'm sorry.

K: Yes. First to -- to tell you that you can't resign. We -- we have confidence in you. You are one of the few men in the administration that has the absolute confidence of all of us.

WJr: Well, that's terribly nice.

K: And I don't want you to resign. I should just feel terribly if you do that.

WJr: Well, I --

K: I just wanted to call you up to tell you how much I regarded you and loved you, and how -- how -- what a feeling of satisfaction I have when I know you're there.

WJr: Well, that's terribly nice -- ah -- I can't help people from resigning --

K: That's about all I called you up for.

WJr: Well, that's awfully nice of you.

K: And to wish you a very happy and prosperous new year.

WJr: Thank you.

K: I ought to call down in person but I have been so busy -- I am working all the time, day and night, but don't leave us, my boy.

WJr: Well, I don't think I will.

K: Well, that's fine. Well, good bye, and the Lord be with you.

WJr: Thank you.

December 28, 1938

I gave this to the President to read and he gave it back to me. He said to make it for six months and the price to be the same.



TREASURY DEPARTMENT

WASHINGTON

MEMORANDUM TO THE PRESIDENT:

1. As you know the Newly-Mined Domestic Silver Proclamation will expire on December 31, 1938. Unless the Proclamation is extended, beginning January 1, 1939 only silver mined prior to that date can be acquired by the Treasury under the Proclamation. I recommend that you extend the Proclamation for six months until June 30, 1939.

Section 43(b)(2) of "The Thomas Amendment" of the Act of May 12, 1933, as amended, authorizes the President:

"By proclamation to fix the weight of the gold dollar in grains nine tenths fine, and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum. Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire June 30, 1939, unless the President shall sooner declare the existing emergency ended." (Underscoring added.)

The underscored portion is the principle authority relied upon in issuing the Silver Proclamation. Because under such statute your power to provide for the unlimited coinage of silver expires on June 30, 1939 I recommend that you extend the Proclamation for six months only and also provide in the Proclamation that

GB 78

TELEPHONE: WALKER 8-7840

ADDRESS ALL COMMUNICATIONS
TO
"THE ASSISTANT ATTORNEY GENERAL"



CUSTOMS DIVISION
MAILING REFER TO

OFFICE OF
ASSISTANT ATTORNEY GENERAL
801 VARICK STREET
NEW YORK

December 28, 1938

MRN

Mr. Archie Lochhead,
Office of the Secretary of the Treasury,
Treasury Department,
Washington, D.C.

Dear Mr. Lochhead:

While the enclosed is rather ancient, I think that the Secretary may find it interesting and informative. The report, no doubt, has already reached the hands of the Navy Department and I believe the Secretary should have a copy of it.

Wishing you a Happy New Year and hoping to see you soon, I am

Sincerely,

(M.R. Nicholson).

Enclosure.

STRICTLY CONFIDENTIALPOLITICAL SITUATION IN CHINAAS OF SEPTEMBER, 1938.

By

J. M. McHugh, Captain U.S.M.C.
 Assistant Naval Attache,
 Chungking-China.

1. The assumption of office by Mr. T. V. Soong, indicated as a probability in my report No. 2-36 of 12 February, 1938, from Hong Kong, did not materialize and the family dissension outlined in my report No. 1-38 was continued to date in varying degrees of intensity. Various high lights in this drama, particularly those involving the question of foreign financial assistance to China and British interest therein, have been reported from time to time either through the medium of memoranda to the Ambassador, copies of which have been forwarded after he had radiced the gist of them, or as part of my own despatches on the general situation.

A. GENERAL SITUATION

2. As a result of the events of the past seven months certain rather specific factors appear to characterize the situation at present as I understand it, although the picture is still hazy in some respects:

a. Chiang Kai-shek's position as a nation-wide symbol of resistance to Japan, which I suggested in my original report, has become very definite. His popularity is widespread and his position of leadership is universally recognized throughout the country.

b. His elevation to the position of Tsung Tsai (Supreme Director) of the Kuomintang has furthermore given him dictatorial powers politically.

c. His consistent failure, however, to eliminate reactionary, inefficient and corrupt elements from the Government is difficult to explain other than from the point of view that (1) he is busy with the military problems of the war and lacks direct evidence of the confusion and inefficiency which exists in many departments, and (2) he adheres to old-fashioned political methods and avoids direct action against officials. There continues to be speculation, therefore, whether he himself will survive the popular wave of disapproval which many feel will eventually sweep these officials from office.

d. It has been definitely established that Chiang Kai-shek and Soong cannot work together in harmony. Chiang chides Soong for not accepting the posts proffered him and not cooperating in every possible way in helping him fight the war, but has failed to offer Soong the authority which the latter desires. Chiang probably distrusts, if he does not actually fear Soong's motives. Soong, on the other hand, cannot hide his scorn of Chiang's old-fashioned mentality

and willingness to put up with inefficient subordinates, nor can he conceal his contempt and vindictiveness toward Kung. Soong is by no means blameless himself as is adequately indicated in the account which follows.

e. Kung, who came to Hongkong in February a very worried man and whose position with Chiang was undoubtedly precarious at that time, has since been restored to favor, apparently as an effective block to Soong. Chiang even went so far as to inform the British Ambassador that he wanted it definitely understood in London that he intended to retain Kung in office and would accept no dictation from abroad on the question, even if it meant the forfeiture of foreign financial assistance to China. That Chiang actually likes Kung does not follow. Chiang is very obstinate and has a habit of concealing his purposes until the last moment. It will not be surprising therefore if he suddenly removes Kung some day. For the present Kung continues to serve him as an obedient servant and is thereby probably more expedient than others who might tend to cause trouble.

f. A contest for the economic domination of what remains of China exists between Soong, who heads the pro-League and pro-Western elements and who possesses extensive financial influence through his control of the Bank of China and recognized ability, and the Government groups, headed by Kung, who stand essentially for Chinese monopoly and who are basically anti-foreign. The Minister of Communications, Chang Chia-ao (Chang Kia-ngao) is Soong's direct opponent on most fronts in this contest, especially in Kwangtung which Soong unquestionably aspires to dominate as a potential lever against Chiang Kai-shek.

g. Underlying popular discontent toward Kung continues both on the part of independent politicians and the articulate section of the masses. He undoubtedly will be the principal target for any political uprising that may take place later, for he has come to symbolize wealth, greed and corruption in the popular eye. He is the "Achilles' heel" of Chiang's present organization. There are those who say that if China goes down Kung's name will be written on her tombstone. He was heckled publically both during the Kuomintang Congress in April and the People's Political Convention in July. The undisciplined and over-bearing activities of his children continue to arouse widespread dissatisfaction and criticism both from within and without the Government. There was actually a proposal signed and ready at the beginning of the People's Convention to impeach him, but it was suppressed subsequently in the interest of national unity.

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h. The Convention, attended by independent and non-Kuomintang members from all over the country, ended fairly amicably, however, and all hands appear to have settled down for the present to the grim job of continued resistance to Japan. There is a lukewarm attitude and lack of real determination to sacrifice, however, on the part of many, - a casting of furtive glances toward their individual future. There also is extensive sympathy with the mass organization and youth training methods practised by the former Communists which Chiang has attempted to counteract by initiating a program for the training of 60,000 youths for the Kuomintang. His failure to throw this open to the independent factions and the general efforts of Party officials to suppress all opposition is another source of discontent. He has indicated definitely, however, his faith in the principles of the Kuomintang and his impatience with other political creeds. Whatever his conception of some of the present Party leaders may be (and he has showed signs of wariness toward some), he believes in the Party itself and its ultimate service to the country through proper indoctrination of the younger generation.

i. Chiang's general relations with the former Communists and with the Kwangsi group remain satisfactory despite recurring reports to the contrary. His control over Szechuan, which presented a difficult problem for a time in the early Spring, strengthened later, although recently there have been rumors that some feeling has arisen between those actively engaged at the front and those now safe in the rear at Chungking. How much truth there may be in this I have not yet had the opportunity to determine.

j. It must be kept constantly in mind, however, that should Chiang Kai-shek be killed, the present resistance would in all probability disintegrate rapidly. It is very doubtful if any other leader could immediately replace him. While he lives, conversely, there appears every reason to believe (subject to the exception noted below) that he can hold the country together and continue organized resistance indefinitely. There have been recent indications that the Japanese are beginning to appreciate this.

k. The most serious menace to his control, as pointed out in my recent despatch on the currency question, is the probably demoralizing effect that the failure of the currency might have on the country in general, especially if it comes in conjunction with the probably fall of Hankow. It would not in itself come as a sudden blow, but as its general effect began to be felt by the people in connection with the loss of Hankow, it might produce panic and confusion which once started would be difficult to check.

1. Events as they have transpired on the financial front during recent months have substantiated the information which has been given me from time to time by Mr. C. Rogers and have proved that he has been honest with me and correct in his predictions. (See copy of Memorandum prepared by him for K. P. Chen, appended hereto). Kung, by his failure to retrench, economize and assist the export trade, as urged by Rogers last January, has expended China's reserves much earlier than necessary. He has at no time had a proper comprehension of the financial situation or plans to cope with it. He has assumed the role of an international beggar, grabbing at every small credit he could get, irrespective of the necessity to the war of the material offered or his ultimate ability to pay, in order to be able to flourish such credits before the Generalissimo to strengthen his own political position.

m. The result is that China's monetary reserve is almost exhausted and her currency, which has been remarkably sound and stable to date, is faced with complete collapse unless a substantial loan from abroad is forthcoming very soon.

B. THE SOONG FAMILY FIGHT

3. The unravelling of the threads of this family relationship, the many tales concerning their activities, the daily events involving them and the direct bearing of their every move on the existing situation and the very national destiny of China has presented a perplexing, if absorbing, problem. Not the least of the difficulty involved in endeavoring to obtain a clear conception of events has been the precise position of Mr. Donald himself. Two points mentioned in my original report have continued to stand out, namely, (1) that he is bound by a blind faith and devotion to Madame Chiang and the belief that the only hope for direct and satisfactory solution of the many problems involving China and Anglo-American interests lies through her and her ability to think and act as a westerner [a faith that is well merited, I believe], and (2) that he possesses her complete trust and confidence to the exclusion of all others, and with this at least the respect of her husband, who listens to him on many matters even though he has consistently refused to heed his advice in those concerning drastic action against Government officials.

4. Mr. Donald, however, has been drawn so closely into the family circle that I believe he has largely lost the objective point of view on China which in the past served him so well and which is vitally necessary at this time. Due to his advanced age, the strain of over-work and loneliness he has become more dependent than he realizes on the friendship of Madame Chiang and the Kung family and as a result has absorbed the hyper-sensitiveness of a

family

family member toward criticism from without while at the same time taking sides freely in the fight from within. To this must also be added probably the sub-conscious realization that should the present Chiang-Kung combination be disrupted, and especially if this should include the rise to dominant power of Soong, he would be out of the picture.

5. Nevertheless it should be emphasized, and should have been so noted in my original report, that he has devoted his life in China to battling for Anglo-American interests and endeavoring to obtain for them a fair and honest break from the Chinese. Furthermore I believe that he has in recent weeks come to realize that the criticism of Kung has had more basis in fact than he was willing to concede a few months ago and that his present trip to Yunnan, while genuinely necessary for purposes of health, embodies the two-fold object of getting away from the Kung regime for a time if possible. Opposed to this is his loyalty to Madame Chiang which I believe in the end will dominate and force him to return.

6. In order to describe as accurately as possible the situation that has existed with regard to the various characters involved and the events that have transpired, I again submit a chronological narrative of my various contacts and conversations:

7. While Madame Chiang, Mr. Donald and I were in Hong Kong I attempted one morning early in February to draw Mr. Donald out on the subject of the alleged corruption in the Ministry of Finance, of Dr. Kung's connection therewith and of Madame Kung's possible relationship. He uttered a categorical denial of the stories, saying that they were spread by Soong and his crowd plus the foreign banks, especially the Hongkong and Shanghai Bank, because the latter was disgruntled over the fact that Kung had taken away from them the control of exchange. He said that all he heard from within the Kung family were tales of how hard they were working for China and how unjustly they were criticized. He repeated what he had said many times previously that Kung had actually been trying for months to resign; that he was a sick man; that he had heard Madame Chiang upbraid Kung on many occasions for not having the nerve to go through with it, but that the Generalissimo always brushed Kung aside telling him that no one could quit during war time and that dropping dead of heart failure would be no worse than getting shot at the front. Donald went on to say that Kung had told his family many times that he would be a ruined man by the end of the war (it being true that he has lost extensive holdings in Shansi while any interests in the Shanghai-Nanking area are certainly in a questionable status). He said that Kung, like the Generalissimo, brushes aside stories of corruption among his subordinates saying that he must have proof.

8. Mr. Donald at this time re-asserted what he had told me previously, that he himself wanted evidence if it

existed of corrupt activities. He complained that people spread rumors, but never supply proof. He asserted that if he could get evidence he could obtain drastic action and that he would then go away from China on his boat as he has long wanted to do. (This letter is a favorite theme of his. He has a small yacht in Hong Kong on which he plans to cruise through the southern islands and write his memoirs.) He told me that only two days previously Madame Chiang had had a bitter argument with two of the Kung children who were rude to her and insisted on being permitted to accompany her back to Hankow; that she had ordered her plane made ready for the following morning in order to get away from them; and that he had with difficulty persuaded her to remain. (There are four Kung children: David, aged twenty-three, head of the Central Trust; Rosemary, aged twenty, who stays in Hong Kong quietly; Louis, aged eighteen, and Jeanette, aged sixteen, who have been at Hankow.)

After our return to Hankow on 19 February, Mr. Donald told me that Jeannette had actually engaged passage on a Eurasia plane for Hankow and had only been apprehended at the last moment before leaving. (Louis and Jeannette subsequently returned with their mother in April and have remained in Hankow ever since). He has frequently claimed that Kung insists that the children help him a great deal by making everyone else in the Ministry work. He offered this to me in apparent sincerity as justification of the situation and went so far as to bring two letters over from the Headquarters written by David Kung to Madame Chiang, one asking her cooperation in seeing that orders for aviation equipment receive her personal approval in order to assist him in eliminating many other unnecessary orders, and the other, written just prior to our departure for Hong Kong, in which he dilated on "Uncle T. V.'s" bitterness toward his father and unwillingness to cooperate with the family.

9. I am now of the opinion, in looking back on these incidents when I listened without comment to these remarks, that Mr. Donald was endeavoring to silence all adverse comment on the Kung situation and possibly hoping that I might even defend Kung, in the interest of offsetting the general impression held of him abroad and preventing it from acting as a deterrent to the granting of financial assistance to China. I believe he abandoned any such hope when the British later in the Spring let it be known that the chances of a loan in London would be considerably enhanced if Dr. Kung were supplanted, and when adverse comment against Kung had appeared in a number of articles published abroad, notably one by Gunther Stein in June in THE LONDON FINANCIAL NEWS.

10. The fight over the Kung children flared up anew after Mr. Soong arrived in Hankow. He raised the point on more than one occasion in his discussions with the Generalissimo and Madame Chiang and apparently elicited some sympathy from her in this respect. Mr. Donald, although he suppressed all information favorable to Mr.

Soong and continually represented him as a selfish and over-bearing individual toward his family, informed me on one occasion that Madame Chiang had chided Kung for giving David the responsible job of head of the Central Trust. Kung had replied that he had only appointed the boy to the Board and that the members thereof had elected him Chairman - a defense so patently weak that I was amazed that he repeated it. A short time later, however, David was brought to Hankow, the story given me being that he was at last going to get his wish to be sent away to college (he has constantly been represented to me as an unhappy boy who really did not want official position, but desired a chance to complete his education). Mr. Rogers, however, informed me during my visit to Hong Kong in April that young David had been caught in a very suspicious deal involving traffic in Yunnan bank notes between Hong Kong and Kunming and had had to clear out for Hankow until the situation cleared. He remained in Hankow several weeks and eventually returned to his post in Hong Kong where he still remains. Mr. Soong, however, set up his own purchasing commission for the Aviation after he took over control of that branch and I was informed during my last visit to Hong Kong that he had become so enraged over the interference of David and the Central Trust that he had impounded some eight million dollars of the Central Trust's funds in the Bank of China and refused them access to it.

11. During the first three weeks in February, following the preparations described in my first two reports for Soong to proceed to Hankow and assume office, a lull occurred during which Soong refrained from going to Hankow, ostensibly waiting for Dr. Kung to return first and also to see the manager of the Tientsin Branch of the Bank of China, who was then en route to Hong Kong, about the currency situation in North China. This delay proved fatal for at some time during the period the Generalissimo changed his mind. As previously mentioned Kung had arrived in Hong Kong a very worried man and even went so far, at Donald's instigation, as to call a meeting of the various American aircraft salesmen and endeavor to get them to confess, as in a revival meeting, whether they had ever paid squeeze to him or his subordinates - a move which of course proved fruitless and was, to say the least, unstatesmanlike.

12. Likewise during this period, while I was calling at the Kung home one afternoon to see Madame Chiang, Mr. Donald alluded to the vicious stories circulating about both ladies and invited me to tell what I had heard and expose my sources of information. Fortunately I had never told him much nor revealed any of my sources and I was therefore able to evade the issue by pleading my recent return to China and lack of contact with events of the previous two years. Madame Kung seized the opportunity to launch into an impassioned account of her innocence, insisting that she shunned all public functions and devoted her time exclusively to her family and to welfare work. She said that she had on several occasions spoken to her husband about the vicious gossip concerning her, but that he always told her he could do nothing without specific

proof. Madame Chiang then broke in and said that she was being blamed for the failure of everything and that even the congestion on the railroads was ascribed to the inefficiency of her Aviation Commission. She stated that some people were calling her a "modern Yang Kuei-fei" and were saying that the reason China was losing the war was because it had a "petticoat government". She termed the situation in a "hopeless mess"; said that her doctor had told her she would acquire cancer if she did not rest; and asserted she was going to resign her post as Secretary General of the Commission. Mr. Soong entered the room at about this time from a meeting of bankers going on in an adjoining room and after he had left, Madame Chiang remarked that he ought to be given her post and "let him see what he could do with it". Madame Kung contradicted her and said, "No, let him take the Ministry of Finance", and, turning to me, added, "You know we offered it to him the other day. That's what they are talking about in there now".

13. I did not fully appreciate at the time the significance of Madame Chiang's remark for I thought I knew more than she did at the time of the impending program for Mr. Soong. She had apparently been prompted by Mr. Donald for they took up the idea with the Generalissimo immediately after we returned to Hankow on the evening of 19 February and the following day he sent a telegram to Mr. Soong asking him to come to Hankow. Mr. Soong arrived two days later on 22 February. When I saw him four days later on 26 February, he informed me that Chiang had been very insistent ever since his arrival that he take over the administration of the air force by accepting the post of Vice-Chairman of the Commission on Aeronautical Affairs. Mr. Soong said he had asked the Generalissimo if there were no military leader to whom this task could be entrusted and that Chiang had replied, "Not one". Mr. Soong stated that even as late as the previous evening Chiang had eagerly inquired if they could not consider the matter agreed upon and had proposed that he give a dinner to announce it. Mr. Soong added that he had told his sister that she would have to find some way to discourage her husband on the idea since "she had lighted the train of fire herself".

14. He said he did not want the post primarily because he was not a military man and because he believed there were other and more important matters on which he could assist. He commented scornfully on Chiang's admission that he had no military man to whom he could entrust the post. He stated that he did not want any formal posts and had told Chiang he would act as unofficial adviser to him on any question, seeking foreign advice and making special studies for him where necessary. He asserted to me that it was not a question of family reconciliation; that he had always maintained very friendly personal relations with them, but that he wanted to avoid any question of the present crisis being a family affair and of sharing any posts with them. He added that he felt it necessary to maintain his own political independence in the existing situation (which struck me as very significant and probably the essence of his whole attitude with regard to any formal re-entry into the government). I learned the following evening that he had given in to the Generalissimo and had been installed as Vice-Chairman of the Aviation Commission that afternoon.

15. What actually transpired to cause the Generalissimo to change his mind about the program which both Soong and Rogers had outlined to me previously in Hong Kong I have never learned. From various comments dropped by Mr. Donald during my daily visits with him at this time and during Mr. Soong's subsequent visits to Hankow, one fact stood out - that Mr. Donald lost no opportunity to stress both to Madame Chiang and the Generalissimo that Soong was ambitious, unscrupulous, selfish and domineering and that Chiang would never be able to work with him. It was obvious therefore, that whatever favorable attitude Chiang may have had toward Soong prior to our return from Hong Kong and however conciliatory Soong may have been during their initial meetings, these could not have long withstood this none too subtle attack from within the family which certainly must have re-aroused Chiang's former animosity and distrust toward Soong. And, unfortunately, Mr. Soong himself soon lost patience and during subsequent visits to Hankow indulged in flare-ups to Chiang against Kung, the existing inefficiency, the handling of the currency, the interference of the Kung children and similar points which tended to bear out Donald's version of him and widen the breach between him and Chiang.

16. I likewise am not fully certain that I know the real reason for the very active animosity existing between Soong and Donald. Donald asserts that it dates from the incident in London in 1933 when Soong wanted him to keep the Young Marshal from sharing the spotlight and more especially to Donald's very successful efforts in building up the Generalissimo and Madame Chiang in the public eye both at home and abroad following their northern trip in the fall of 1934. The latter, Donald claims, completely blotted out publicity for Soong on a trip he had made just previously to the northwest while the subsequent rise to international prominence of the Chiang Kai-sheks as liberal leaders striving for the advancement of China relegated Soong, who had previously held this position, to a secondary role. There is little doubt that Donald deserves the lion's share of the credit for the rise of the Chiangs to this position, for he played the foreign press and the many foreign contacts of the Chiangs very astutely during the years that followed. He has advised them what visitors to see and whom to cultivate; he has written the majority of their statements to the foreign press; he has edited the work of many sympathetic writers and directed the activities of others; and has never lost an opportunity to extoll them and their efforts to the many foreign contacts who constantly seek him out. His present ill-health has been partly brought on by these efforts, but there is also a very patent element of discouragement in it, for despite his extolling of Chiang as a forceful and liberal leader he has failed both directly and through Madame Chiang to get the Generalissimo to take drastic action against inefficient and corrupt members of his government who in one way or another have consistently obstructed the efficient promotion of the war, particularly in relation to the cooperation of foreign interests which he has genuinely tried throughout his life to assist.

17. A curious anomaly exists at present in fact in that both Donald and Soong are fighting the Minister of Communications, Chang Chia-ao, on the latter's monopolistic and anti-foreign attitude in the administration of his

Ministry; the congestion graft and inefficiency of transportation systems; and his failure to concede reciprocal privileges to foreign airlines whose activity in China at the present moment would have proved a distinct asset. And yet, despite a common cause, they still pull in opposite directions while Kung sits placidly on the fence.

18. With respect to the Generalissimo's failure to invite Soong to join the government, Rogers informed me when he arrived in Hankow on March 5th soon after Soong had taken over the air force that Madame Kung had been primarily responsible for the Generalissimo's change of heart. He stated that Soong had waited too long in coming to Hankow and he was very regretful over having gone to Shanghai during this period to close out his personal affairs there. He asserted that Madame Kung had gotten wind of what was pending and had immediately set to work to poison Chiang's mind against her brother. During a subsequent visit to Hong Kong Rogers informed me that he had discovered the identity of the man who had tipped off Madame Kung, but he did not reveal his name. He said that she spread stories about her brother and never missed an opportunity to play on Chiang's inherent distrust of him for she realized that should Soong come back into office, 'many of her little games', as he put it, would be spoiled.

19. I am personally inclined now to doubt that the situation was ever clear cut, either with regard to Chiang's reported decision to drop Kung or his subsequent failure to prefer to Soong the opening which the latter had expected. I believe that Chiang lost confidence in Kung, at least temporarily, as a result of Rogers' exposure of the first C. T. Wang loan story during his trip to Hankow late in January and that he was sincere in his tentative promise to Rogers of retrenchment and reorganization, but that other considerations and subsequent events later restrained him. Two points have stood out consistently in Chiang Kai-shek's policy ever since the outbreak of the war, (1) an effort to obtain the cooperation of all factions and individuals in his program of resistance to Japan, - and (2) a conviction that the western powers sooner or later must inevitably come to his assistance. As to the former he has been continuously criticized for assigning positions of trust and responsibility to obviously unfit military leaders and for the retention of patently corrupt and inefficient politicians in the government, but he has stuck stubbornly to his theory of making the military leaders prove themselves in battle or suffer the consequences of defeat and popular scorn rather than condemn them himself in advance, and to force political leaders to accept mutual responsibility with him in his policy of resistance rather than encourage their plotting and opposition by eliminating them. There has at no time been any suggestion of indecision on his part in respect to this attitude. Rather has he exhibited a tolerance which has amazed and eventually won over those who formerly were most openly opposed to him, even though it may at times have irritated those closest to him who have advocated drastic elimination of the unfit. Whether the sacrifice in efficiency has been counter-balanced by a stable and increasing allegiance and unity which will ultimately bring victory remains to be demonstrated.

20. With respect to his faith in eventual help from abroad, Chiang took this for granted in the beginning, but even after the failure of such formal instruments as the League and the Nine Power Treaty (which he had been led to believe would automatically produce help), he has continued to cling to the idea that he is fighting a battle for all democratic nations, and that ultimately they cannot fail to come to China's aid. His belief in the justice of his cause is tantamount to a religious fervor, however veinglorious it may appear at times to some.

21. Kung has been a willing and subservient cashier to him while at the same time offering no political competition as titular head of the civil branches of the Government. Chiang's general attitude toward Soong has been that he ought to drop all personal considerations or past grievances and give his services whole-heartedly in any position proffered him. Specifically, however, all such offers to date (Soong has been offered the Ministry of Finance on at least two occasions and the Ministry of Communications on one of which I know) have either failed to remove Kung as Soong's nominal boss and thereby confronted him with having to serve as a part of the Kung machine or have stipulated (as in the latter instance) that he surrender control of the Bank of China, returning it to Chang Chia-ao. Soong has simply snorted at this and has vowed he will never give up control of the Bank for any job. I strongly suspect that this tendency to keep Soong hobbled has originated with Chiang himself, but in any event it has been very apparent that the other members of the family have strongly supported it. Soong, on the other hand, has held out for concessions which meant sweeping changes and therein not only did the stalemate occur, but it has constituted over fertile ground for the seeds of distrust which have constantly been sown by Madame Kung, Donald and others, irrespective of their various motives. The result has been that Soong, who for a time appeared genuinely sincere in trying to assist Chiang informally along general lines, has become thoroughly disgruntled again.

22. One very obvious attempt of the Kung faction to discredit Soong came to light early in March and continued throughout the Spring. As a result of their loss of face over the bursting of the C.T. Wang loan bubble, the suggestion then began to appear that if 'T.V. is so smart and well-liked in foreign circles, why not let him go abroad and obtain help?' Such remarks as this were quoted to me frequently by Donald, and I believe he, himself, was the instigator, if not the originator of most of them. Rogers informed me in my conversation with him on March 5th that the Chinese Ambassador in London, Quo T'ai-chi, had recently cabled out representing in positive terms conversations by himself and Sun Fo in London with British official and financial circles as favorable to a loan to China if Soong were to come and negotiate. Rogers asserted, however, that he had likewise seen the message from the Foreign Office to the new ambassador, Sir Archibald Kerr Clark Kerr, with whom Rogers stated he had established close relations

immediately upon the former's arrival, which showed London merely friendly but not at all specific. About this time Donald also suggested casually one day that Soong had been invited to Paris to discuss financial matters, but as things developed later I believe Donald had only fragmentary information of Soong's own negotiations with the Banque Franco-Chinoise about a loan which was completed in April to cover the cost of material for the proposed LANGSON-NANNING railway plus some munitions. This move appeared at the time to be a very patent attempt to get Soong out of the country and to place him in the vulnerable position of having to produce results or become a target of derision within the family.

23. Nevertheless it developed late in April during the British Ambassador's second visit to Hankow that there was a very definite move afoot in London to obtain a loan for China and that its prospects would be considerably enhanced if Kung were removed and Soong given complete control over Chinese finances. Rogers and his associates in Hong Kong had by this time become desperate for a loan to bolster their efforts to hold Chinese currency and Rogers had informed me on several occasions that the currency could not be maintained much longer if Kung were not removed from office. He stated that Kung lacked a comprehensive knowledge of the situation and its problems and therefore possessed no plan for anticipating and dealing with them. He said that Kung was constantly proposing unsound moves which they were barely able to apprehend and block in time. He mentioned specifically such points as a resort to inconvertible currency, complete abandonment of participation in the Shanghai market, arbitrary exchange control, and a weekly publication of exchange allotments together with a complete statement of the financial position of the Central Bank. I was, in fact, actually present in his room in Hong Kong late one night in April when a telegram from Kung on the latter point was telephoned to him by an official of the Central Bank and heard him dictate the procedure to be followed to avoid compliance.

24. Rogers showed me during this visit a copy of a memorandum on Donald which he had sent to the Bank of England in February in which he described Donald as a megalomaniac and reviewed the meeting between them in January, which I outlined in my report No. 1-38, during which Donald had treated him in a patronizing manner and had assumed the credit for the success of the Leith-Ross Mission. He outlined Donald's strong influence over Chiang Kai-shek and asserted that Chiang's fear of Soong was kept alive by constant whispering on the part of Donald and Madame Kung, both of whom knew that their power would rapidly wane if Soong ever returned to office. Rogers informed me that he had showed this memorandum to Howe (retiring Counsellor of the Embassy) when the latter passed through Hong Kong en route to London and that he had gotten in touch with Clark Kerr as soon as he arrived in order to "de-bunk" Donald and make sure that the new Ambassador did not fall under his influence. Likewise he wished to ensure that Clark Kerr would not contradict his suggestions to Chiang Kai-shek that London financial circles were cold to Kung. He stated that he had established most amicable relations with Clark Kerr (a fact that I have since observed

personally) who had consulted him frequently both in Shanghai and Hankow and who had asked his advice on the drafting of several despatches.

25. I returned to Hankow from this visit on 22 April, flying with Mr. Soong in the private Douglas. (Mr. Barr, Manager of the Shanghai branch of the Banque-Franco-Chinoise, was with us and was to have been accompanied by the French Ambassador who at the last moment did not come. I learned later that the French Loan, previously mentioned was concluded as a result of this visit.) The British Ambassador had just returned to Hankow and invited me in for an informal chat on the morning of April 24th (a move which I think was prompted by Rogers, although we have had subsequent talks which I am sure were of his own choosing). During our conversation he informed me that he had told Donald the previous day that London did not have confidence in Kung, but did look with favor upon Soong. He permitted me to infer that it might be possible for London to extend credits to China in the event that Soong should assume office as Minister of Finance. He expressed regret that Soong had continued to hold aloof and hoped that Soong would soon decide to endeavor to placate Chiang Kai-shek and work in harmony with him. He stated that he thought Rogers had gone a little too far in deflating Kung and had thereby menaced somewhat his position with the Chinese, but he nevertheless voiced his high opinion of Rogers and asserted that his presence would be invaluable if Soong returned to office. He likewise expressed his belief in the desirability of Rogers and Donald becoming better acquainted and said that he hoped to bring this about.

26. Later the same day I saw Soong who informed me that Clark Kerr had spoken very frankly to him about trying to smooth over his difficulties with Chiang Kai-shek and resume office. He expressed amazement to me that the British Ambassador should have seen fit to offer him personal advice on so short an acquaintance, but added that he had not resented it as he found him unusually agreeable. He stated that he had just seen Chiang Kai-shek and had again informed him of his willingness to assist in any way possible. He told me, however, that he would not ask for any office and would accept it only if he were specifically invited to do so.

27. The following morning I was informed by Donald that Kung had submitted his resignation to the Generalissimo the afternoon previous, but that Chiang had not indicated his decision. (It was significant that he had not rejected it summarily as he had formerly.) Donald said that Madame Kung had recently written several letters urging that her husband be permitted to resign. He also stated that he had urged upon Clark Kerr the desirability of London extending help to China at that time as an off-set to the aid being given by the Germans (this was prior to any indication of the coming crisis over the advisers) and that because of London's apparent confidence in Soong, he was willing to support Soong in order to obtain such assistance.

28. The foregoing combination of circumstances, coming within twenty-four hours, appeared to indicate that a change was imminent. Clark Kerr was scheduled to have dinner alone with the Chiang Kai-sheks that same evening and to leave the following morning for Hong Kong. Rogers was very hopeful that someone who understood Chinese and who was fully acquainted with the situation be present in order to report the developments, particularly with regard to any statements which Chiang might make or the exact manner in which Clark Kerr's replies thereto might be translated by Madame Chiang, who does practically all this work for her husband. He had thought that Soong would be there, but the latter was unable at the last moment to attend. Unfortunately the British Consul General at Hankow, Mr. G.S. Moss, received a last minute invitation. Mr. Moss, who is a very delightful gentleman, but a rather simple and naive soul, was not intimate with the exact state of affairs, although he was cognizant of the general friction between Soong and his family. And, unfortunately, when the evening had gotten well under way, he suddenly raised this question in a direct conversation in Chinese with Chiang and expressed the hope that these differences might soon be adjusted in the interest of more effective prosecution of the war. The result, as it was described to me later, was a marked coolness on the part of the Chiangs which marred the balance of the evening. Added to this, Soong, during a final visit to the Generalissimo the following morning prior to flying back to Hong Kong, got into a heated argument (the exact details of which were not recounted to me), lost his temper and indulged in a general denunciation of Kung. Mr. Donald, in describing the incident with obvious complacency to me that evening quoted Madame Chiang as saying, "You see, he says he will forgive, but he cannot forget. It is impossible to get along with him". The Generalissimo thereupon rejected Kung's resignation and the breach resumed its former width.

29. I next saw Soong when I returned to Hong Kong during the latter part of May. The fall of Hsuechow and the impending departure of the German advisers, together with the Canton bombings and a threatened rice shortage in Kwangtung, were absorbing attention at the moment and I made no effort to discuss the family breach. Soong was performing many useful services for them in Hong Kong, but obviously had dropped all idea of further attempt at compromise although I learned soon after returning to Hankow from this trip that the idea of offering him the Ministry of Communications had been suggested. Likewise there was renewed talk, mentioned to me casually by Donald, of getting him to go to Paris and London to endeavor to secure a loan. I believe that both of these ideas originated with Donald, the former particularly since he had been advocating Chang Chia-so's removal for over a year because of the latter's short-sighted and obstinate insistence right up to the outbreak of hostilities on attempting to develop the port of Whampoa in competition to Hong Kong and refusal to agree to the vital linking up of the Canton-Kowloon and Canton-Hankow railways. Donald was likewise enraged over Chang's procrastination in granting permission to foreign air lines

to enter China. Eurasia had applied to the British for permission to run a line from Yunnan into Burma and the British had countered with a request for Imperial Airways to shorten its route by flying through Yunnan into Hong Kong. Russia had likewise applied for permission to run a line into Sinkiang. (Neither of these has yet been granted). I believe that the counter-proposal of asking Soong to return control of the Bank of China to Chang in the trade was, however, added on by Kung when the idea was referred to him. This only resulted in driving Soong into another rage against Kung and prompting further comment from Donald on Soong's obstinacy and refusal to cooperate.

30. Soong did, however, seriously consider going abroad late in May, but agreed in the end to let Rogers precede him on a flying trip to London to lay the facts before them and force a showdown. Rogers made a quick trip to Hankow on June 6th when I had the conversation with him reported in my C-116 and when, on the occasion of his first meeting with Madame Chiang, she instructed him to inform London that the Generalissimo had no intention of replacing Dr. Kung even if it meant the forfeiture of all chance of financial aid from abroad. He returned from London early in July, having failed to get the twenty million pound loan he had been seeking because, after talks with private banking groups had failed on the question of credits secured on wolfram or other monopolies, the Cabinet had met and had likewise rejected the idea, because they felt it would commit them to a policy of general assistance in all lines which they could not then risk. Rogers has since informed me that the crisis over Czecho-Slovakia was even then far more acute than the general public knew and that the British Government felt that the slightest move on their part out here might disturb the delicate balance of their relations with Hitler and precipitate war.

31. Soong also returned to Hankow early in June and remained there for some time, devoting a good deal of attention to the affairs of the air force as well as to financial matters on which Kung apparently sought his advice frequently. It was at this time that further and very optimistic reports began to come through from Ambassador C. T. Wang on his new six hundred million dollar loan scheme, which I have already reported in several memoranda. Results were confidently predicted for July 1st, but that magic day came and passed without anything happening. Shortly thereafter I was informed of his recall. This had originally been reported early in March after the failure of his first scheme, but I believe Kung obtained a last minute reprieve for him to give him another chance. A similar effort was apparently made this last time as well, for although Rogers informed me soon after I returned to Hong Kong early in August that the recall was definite and that Dr. Hu Shih had been nominated (he showed me a personal letter he had received from Dr. Hu), Kung held up the final authority for almost a month and had even instructed K. F. Chen to consult with Wang after reaching Washington.

32. Soong returned to Hong Kong the middle of July where he was ill for a time and has remained ever since except for a trip to Indo-China and Yunnan in August. So much secrecy surrounded his visit to the Governor General of Indo-China at Dalat that our consul in Saigon reported that he had been unable to discover any inkling of what transpired. Since returning to Hong Kong, however, I have had two frank talks with Soong. I found him pleasant and confident with no trace of the depression or rancor which I have noted at times formerly. He informed me that he had found the French even more willing to cooperate than he had hoped; that the trouble had been that previous negotiations had been very poorly handled. He permitted me to infer that China would be able to rely on the French railway into Yunnan for shipments and that the French were prepared to cooperate in other ways. (Rogers and Young had already confirmed to me recently the fact that an additional French loan for one hundred and fifty million francs had recently been negotiated for the construction of a railway from Kengsi to Kweichow. They were annoyed at the fact that the news had leaked out and had been published in Shanghai.) I had already learned in Yunnan that Soong had been received there by Governor Lung Yun with full official honors. Chinese bankers there had told me, however, that the Yunnanese had rejected Soong's offer of financial assistance for the development of the province. Soong denied this during my talks with him here and said that the Yunnan officials had welcomed his offer; that the officials there had expressed their desire to cooperate in every way; and that the Governor had issued orders for this to be carried out without further reference to him. Soong's reception there was a distinct contrast to the attitude toward the Minister of Communications, Chang Chia-ao, who I was told, was bluntly informed by the Yunnan Government a few weeks previous that they did not care to receive him. Superficially these efforts on Soong's part can be regarded as an honest effort to help out in the present crisis and I believe they are entitled to that evaluation in part. But his obvious confidence (which I believe substantiated the success which he claimed), taken in connection with the desire he had expressed to Rogers in June to ask for the Governorship of Kwangtung, together with the many indications from other sources of his rivalry with Chang Chia-ao and his consistent cultivation of the Kwangsi group, cause me to suspect that underneath it all Soong aspires to attain sufficient control over the economic and financial affairs of the Southwest to place him in a position to dictate to Chiang Kai-shek later on.

33. I saw the British Ambassador again in Hong Kong on August 5th when he informed me that the question of a loan to China had only been tabled and that he intended to press for the re-opening of the question later on. He was impressed by the fact that during his last meeting with Chiang Kai-shek just before leaving Hankow late in July the Generalissimo had twice seized his arm in a friendly way, looked at him intently and said that he wanted it thoroughly understood in London that he intended to retain Dr. Kung as Minister of Finance. The Ambassador did not indicate to me any regret over the fact that Kung's removal had been intimated by them as a possible condition to

assistance, but stated that he thought they would have to consider the question solely from the broad point of view of saving China, making the best of the situation that exists. He likewise said that he had recommended to Rogers that the latter cultivate Kung more closely. (Rogers had already decided on this some time previously and has carried it into effect with fair success.)

34. In response to a direct question from me, the Ambassador assured me that he knew of no desire or tendency on the part of his Government to watch for a chance to compromise with Japan for the purpose of preserving British interests in the Far East. He stated that he felt confident, furthermore, that he was being kept fully informed by the Foreign Office of all that was transpiring. Rogers is not so confident of this and is particularly resentful of the Customs negotiations and British-American Tobacco Company's financial assistance to the Federated Bank in North China which has already transpired. There is a feeling on the part of many Chinese, especially since the final refusal of London to grant a loan, that the British are fair weather friends and that they will desert them if the present resistance begins to falter.

C. CONCLUSION

35. The foregoing presents the high lights of the situation as I have experienced them. In reviewing the hasty biographies which I appended to my original report I have little to add thereto which has not already been brought out in the body of this one. Donald's continual assertion that all of the stories about the Kung family are the vicious work of Soong and his crowd has given me pause for reflection on more than one occasion. It is true that specific proof of corrupt activities is almost impossible to obtain in China, but this is due primarily to the endless chain of underlings who always come in for their share of the spoils and none of whom would dare squeal. It is likewise true that Soong has been out of office for five years and, in addition to natural jealousy, that the majority of accusations against Kung have come to light during that time when foreigners had far more contact with Soong than with Kung. It is also obvious that holders of high office are frequently the subject of malicious gossip all over the world. There furthermore is no question in my mind from considerable personal contact with him that Soong is dictatorial, selfish, ambitious and ruthless. As the oldest boy in the family he dominated the others and his sisters especially have always resented this. Donald knew them in those days and his intense devotion to Madame Chiang naturally causes him to side with her. But granting all of the foregoing I have still been unable to accept the charge unconditionally at its face value. I have observed too much personally in addition to the evidence which has come to me first hand from unbiased sources. Soong may have aggravated the case against Kung but he certainly

never planned and directed it. Kung stands convicted on his own vanity, pompousness, lack of decision and the character of the subordinates with which he has surrounded himself. No one who ever knew the former two chief secretaries of the two men, M. Y. Tang in the case of Soong and Jabin Hsu with Kung, could have much doubt as to the relative honesty and efficiency of their chiefs. I reminded Donald of this one day not so long ago and for once he agreed with me, remarking, 'after all, a man can be convicted by the company which he keeps'.

36. As for Madame Kung, I can only re-phrase what I wrote originally, namely, that if she is guilty of even half that of which she is accused she is a modern Borgia, and if innocent of ninety percent she still is the most malign creature in the world. Donald had Madame Chiang invite her to Hankow in May where she stayed for almost two months. He explained to me that they needed her for the purpose of spurring Kung into action on some of the many matters with which they had to deal (which was rather condemnatory of Kung in itself). The incident of the reciprocal privileges for Imperial Airways was a case in point, for he informed me on June 19th that they had made Madame Kung go to her husband to force him to instruct Cheng Chia-ao to have the Ministry of Foreign Affairs issue the necessary permission. He thought this had settled the case, but Kung apparently never pushed the matter through. One of Madame Kung's closest associates is Mademoiselle Soomei Tcheng, well-known female jurist who actually is the wife of Wei Tao-min, Secretary General of the Executive Yuan. Even Donald had admitted to me that she was well-known at one time in the earlier days of the present government to have controlled the law courts and collected squeeze for fixing cases. And he later told me on one occasion that he had advised Madame Chiang not to be seen with her. Yet she came to Hankow with Madame Kung, was constantly with them and when I saw Donald recently in Kunming, I found her administering to him daily in in his illness to his obvious satisfaction! She is a very entertaining person. I do not blame him, but one should be consistent.

37. Donald probably suffers unfairly by my inability to record in his defense the many instances where he expended his strength to help a multitude of foreign interests and by his constant efforts to create sympathy for China abroad and obtain help for her. Both he and Madame Chiang have waded through mountains of correspondence daily that could not have been handled intelligently or forcefully by anyone else. They have continued to be the buffer for all approaches from foreign sources to the Generalissimo who has been completely absorbed with the direction of the war and the internal political problems attendant thereto. For Madame Chiang I continue to entertain the highest respect and admiration, as do all foreigners with whom she comes in contact. She does the work of several men daily, organizing and directing relief work of all kinds and constantly spurring on those around her to action. She and Donald have worn themselves out trying to get Chiang to take drastic action against the inefficiency which

surrounds him, but whether he is wiser than they in his handling of the Chinese remains to be demonstrated. Certainly it literally screams for action to the foreign mind. Soong's previous criticism of Donald that he is "only a third rate newspaper man" is obviously unfair, but it is regrettable to say the least that he has been the only foreigner to enjoy the complete confidence of the Chiang Kai-sheks. One of the German advisers on more than one occasion has held his head and whispered to me confidentially, "Gott, if he only were a military man!" Likewise it has been apparent throughout that had he been intimate with Rogers instead of scornful and had he possessed a less violent antagonism to Soong, he could have done much to have improved the situation.

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NOTE ON CHINESE EXCHANGE POLICY DURING
THE WAR.

(Prepared by Mr. C. Rogers for Mr. K.F. Chen as background preparation for the latter's trip to the U.S.A.)

The outbreak of hostilities at Liukochow in early July 1937 immediately caused a heavy drain upon the exchange reserves. Up to the 13th August, when fighting broke out in Shanghai, over U.S. \$50 millions had been lost. The events of 13th August necessitated a bank holiday to protect the Chinese banks from a wholesale run on deposits. When the banks re-opened after the holiday, the dollar, to the surprise of most financial circles abroad, firmed up considerably and exchange was ought. This resulted mainly from the wei wah regulations which, by making the "transfer dollar" inconvertible into cash and by limiting the withdrawals of cash to minimum requirements forced "uncovering" by banks and speculators. A further important contributory factor was the drastic curtailment of official "change-over" facilities.

Having quickly got the upper hand of the market by these measures, the authorities insisted upon tightening up the "Gentlemen's Agreement" with the foreign banks which had been put into operation in July. In an exchange of letters between the Chinese and Foreign Bankers' Associations the foreign banks agreed:

- (a) not to accept deposits from Chinese, or to permit substantial additions to existing accounts;
- (b) to confine operations to legitimate purposes; and
- (c) only to sell over the counter to their normal clientele.

Further relief came ironically from the de facto Japanese "blockade" which, although curtailing trade, both in and out, had the more important effect from the currency standpoint of drastically reducing the adverse balance of trade.

Because of the difference in import and export credit terms, it was realised in September that a big exchange demand would arise in November. Although the flow of goods had very largely ceased, yet payment had still to be made for the goods which entered in July/August and had gone up-country on the customary 3-4 months credit. As anticipated, remittances from up-country to the ports started to pile up in October, and particularly in November, when in the absence of export cover a position of US. \$25 millions had to be met. (As export exchange is usually available on shipment, the proceeds of July/August exports had already passed through the market). On this diagnosis no restrictions were placed on this exchange demand, for it was confidently expected that the drain would work itself off in a month or

two. This expectation was in process of realisation up to the middle of February, at which date the "volume of selling" had fallen to a monthly level of approximately U.S.\$5 millions. At this point a new and abnormal factor appeared which, because it was unrelated to the balance of payments, demanded special action. On 15th February, announcements appeared about the puppet bank in North China and immediately caused a heavy flight of capital through the Shanghai exchange market. The downward trend of official sales was reversed and the February total was carried above that of the previous month. Losses increased still more during the first week of March and were once more running at a monthly rate of U.S.\$25 millions (see graph and table attached). Action had therefore to be taken to curtail the "capital" items of the balance of payments and it was primarily for this reason that the Exchange Mandate of 12th March was issued. Since that date exchange was only supplied to banks against their undertaking that requirements were for legitimate trade and other purposes.

The mandate made it possible to introduce an orderly depreciation of the dollar which was the only alternative to the complete stoppage of sales and/or drastic devaluation which were then being suggested. Depreciation having become inevitable, and indeed necessary, as the only remaining way of influencing the balance of payments, was embarked upon through a system of rationing to the banks. All along the principle has been to the fore of avoiding sudden and arbitrary changes which would inflict inescapable hardships on the trading and banking community. The percentage allotment was therefore gradually reduced with three objectives in mind: firstly to give warning of the change of policy so that commitments could be adjusted in anticipation; secondly, to push more and more transactions into the black market where the increasingly adverse price differential would compel curtailment of imports; and thirdly, to save exchange reserves.

In entering upon the application system, the authorities had again relied upon the Gentlemen's Agreement. But it was unfortunately soon realised that while many banks were loyally adhering to the Gentlemen's Agreement several irresponsible banks were "padding" their applications. From 14th April the banks were therefore required to deposit 100% cash with their applications which thereupon fell by 40%. Almost two months later the system of applications was tightened up further by requiring applications to be made by the original buyer, i.e. the merchants, etc. These two months had meanwhile afforded the banks time to straighten out their oversold positions, so that when, in April, exchange sales were related directly to the movement of goods etc. the banks were no longer faced with the prospect of the heavy losses which they would undoubtedly have had to meet several months earlier because of the heavy oversold positions which many of them were then carrying.

The system of merchants' applications was progressively tightened up through a more careful scrutiny of the purpose for which the exchange was required, and the destination of the goods - i.e. to the occupied or unoccupied area.

The guiding principles in making the allotments were:

- (a) to give the benefit of exchange at the official rates to goods and services of greatest utility and going into the broadest cross-section of consumption, i.e. goods, etc., on the so-called "Preferred" list. In other words, the use of luxury articles was to be discouraged and prices controlled as far as possible.
- (b) to give exchange preference to goods entering the unoccupied area;
- (c) to make the most effective use of the exchange allotted. To this end a higher percentage was given to Shanghai than to other exchange centres. On the face of it, such a policy would seem unjustified, but on grounds of expediency could not be avoided. The stability of the dollar turns very largely upon reactions and sentiment in the largest exchange market of Shanghai, so that it was felt to be unwise to curtail exchange facilities there too drastically, and suddenly. The authorities have also been criticised in foreign circles for making no allotments in North China and thereby tacitly recognising loss of jurisdiction. Such criticisms are false, for attention has constantly been given to fa pi in North China. No allotments were made because the Tientsin market itself provides sufficient cover.

In spite of some ill-considered criticism the application system, in general, worked smoothly and achieved the objectives in view.

Towards the end of the first week in June - i.e. after three months operation of the new system - the market showed signs of nervousness, very largely because of fears that the progressive reduction of allotments implied that eventually no support would be forthcoming for the market. It was then decided to support the black market. A similar suggestion had been put forward at the end of March but had been rejected on the ground that the dollar had not then reached a proper valuation and that support therefore could not be justified. As there were indications that the dollar would not be overvalued at the level of 8 to 9 pence, intervention was decided upon when 8 pence was reached on 14th June. Operations were placed in the hands of the Hongkong Bank because of its wide experience and its traditional position, before the currency reform as market regulator.

The Hong Kong Bank offered substantial co-operation and on its own initiative, put an equal amount into the fund without any commitment from us. The first sales, in a narrow market, brought a quick recovery and after a few minor fluctuations the rate settled down to 9 pence at which level it was steady throughout July. By this time all sales had been covered with a margin to spare. The bad war news from Kiukiang at the end of July led to a break in the rate which was permitted until 8 pence was reached. Since then there have been two successive periods of stability, *viz.*, 1st - 15th August at 8 pence and 25th August to the present time, at 8 1/2 pence (see Exchange Rate graph). 101

Our general conclusion is, that given skilful operation, there seems no reason why basic stability should not be maintained. One of the most important results of a stable rate is to encourage the inward flow of emigrant remittances which has always been one of the greatest supporting factors for the dollar. Our experience has shown that, whenever rates fluctuate, remittances are held up and only come in at their usual volume when stability returns.

The above outline seeks to show that it ought to be possible to maintain the external value of the currency in substantial equilibrium.

The internal credit situation is also not without encouragement. In spite of the loss of major sources of budget revenue and heavy war expenditure, the expansion in the active volume of currency and credit has not been as extensive as might have been envisaged or as the budget deficit might suggest. It is true that the note issue has risen by some 30-40% but some part of this expansion represents replacement of silver collections, while considerable amounts have gone into hoards. It is most noteworthy, in spite of all that was said at the time of the currency reform about the people being reluctant to accept a paper note, that the banknote has acquired, and still retains a high position in the confidence of the people. In north China especially, there has been a constant demand for fa pi. As most, if not all, of this increase has gone into hoards, the increase in the note issue there represents, not inflation, but sterilization of capital values. (For a resume of the currency situation in North China see separate note).

An indication that the increase in the active circulation of banknotes has been relatively small is seen in the insignificant increase in internal prices. (Although prices in the ports, where foreign goods are largely consumed, have risen by 15-20%, the influence of these areas on the price structure of the rest of China is slow in taking effect).

An important factor in the internal control of currency and credit has been the remittance policy. Although

criticism has been raised against the restrictions placed upon remittances to the ports, this policy was an essential measure of defence against the infiltration of surplus fa pi from up-country into the exchange markets. In conformity with the general principle applied to all the restrictive measures imposed during the war, exceptions have been made in genuine cases.

It would be misleading to leave the impression that all is well with the currency situation. The above resume of the more important measures of policy following during the war is designed to show that, in spite of unprecedented difficulties and incomplete central banking machinery, there are encouraging aspects which justify the setting aside of pessimism: provided that adequate exchange resources can speedily be obtained.

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ADDENDUM

1. Chartered Bank "Special Account"

Applications and allotments for this account represent transactions for Japanese banks. Anomalous as it may seem, the policy has been followed of giving a small share of exchange to the enemy commercial banks in Shanghai. It was felt expedient to do this in order to prevent the Japanese from running amok. As will be seen from the table of Applications and Allotments, these operations have now ceased.

2. Sterling rates of exchange

Rates throughout this memorandum have been given in sterling for the sole reason that the Shanghai market is traditionally "sterling minded" and measures stability in terms of the London rate: movements in the rate on New York are regarded as reflections of changes in the cross-rate.

OFFICIAL EXCHANGE OPERATIONS

(Approx. figures)

(U.S. \$ millions)

104

	<u>Bought</u>	<u>Sold</u>	<u>Net Sales</u>
<u>1937</u>			
August (2nd two weeks)	4.3	-	4.3
Sept.	.8	1.5	.7
Oct.	.1	4.0	3.9
Nov.	1.1	28.6	27.5
Dec.	.2	17.9	17.7
<u>1938</u>			
Jan.	1.1	11.5	10.4
Feb.		11.8	11.8
Mar.		17.9	17.9
Apr.		6.6	6.6
May		4.6	4.6
June		3.1	3.1
July		2.0	2.0

8th September 1938

c/o Board of Trustees,
Liang Lu Kou, CHUNGKING,
28th December 1938.

Secretary Henry Morgenthau, Jr.,
Treasury Department,
Washington, D.C.

Dear Mr. Morgenthau,

I am enclosing a few items which I trust will be
of interest.

Respectfully yours,

J. Lossing Buck
J. Lossing Buck.

Encls:

JLB:MC

RECEIVED
TREASURY DEPARTMENT

RECEIVED

THE GENERALISSIMO'S ADDRESS, DECEMBER 18, 1938.

Chungking, December 20, 1938.

After my arrival in Chungking on December 18th, I heard many references to the Generalissimo's speech on the morning of the same day to officials. He severely upbraided them on matters of personal living and accomplishment in work. He referred to the American loan three times and told the officials that they must do better work to be worthy of this help. Apparently the Generalissimo, like the other officials and the public, is greatly encouraged by the loan. One finds much more optimism now and the loan is an excellent spur to greater effort. My language teacher expresses the favorable reaction to the loan as heartening evidence that America thinks China will not be annihilated.

The Generalissimo prescribed shooting as the punishment for gambling, playing with sing-song girls and for dancing. Two high officials are reported to have been warned. He urged that, with soldiers suffering at the front, officials in the rear should not indulge in pleasures. It was a very severe speech. The reaction among many is that the Generalissimo went too far in curtailing some legitimate forms of recreation and that he should recognize the need for some form of recreation.

RECEIVED

RECEIVED

RECEIVED

TRANSPORTION OF EXPORT PRODUCTS

Chungking, December 22, 1938.

Mr. F. W. Tsou of the Foreign Trade Commission informs me that within four months they will have 1,400 trucks, 40 trailers, 1,350 horse carts with rubber tires, and 8,000 hand carts drawn by six men, for the purpose of transporting export products to Kunming. One hundred and fifty tons of cargo will be shipped daily from west Hupeh and west Hunan. He is arranging to ship 150 tons daily by the Burma road and 150 tons daily by the Yunnan Railway. He is having no particular difficulty in exporting products from east China ports such as Wenchow, Ningpo and Foochow. As a matter of fact, the amount of tea exports this year from Wenchow and Ningpo has increased over last year. In northwest China 7,000 camels have been engaged to transport wool to Russia. Just this week he has completed shipment of 70,000 chests of tea for Russia via the port of Vladivostok and by the end of the month, the total will amount to 100,000 chests, all from Hongkong. He stated that the Russians are well pleased as they had thought it could not be done.

RECEIVED
DEPARTMENT OF COMMERCE
WASHINGTON, D. C.

RECEIVED

DEPARTURE OF WANG CHING-WEI

Chungking, December 28, 1938.

The departure of Wang Ching-wei has caused some concern in some circles and in others it is welcomed with the statement that he should have gone long ago. Apparently the chief reason for his departure is his realization of the opposition to his peace attempts which from all I can gather is also definitely out of line with the Generalissimo's opinion. It is noted that his life was in danger from those who bitterly opposed his peace attempts at this juncture. He has no following among the masses as he did about ten to twelve years ago.

RECEIVED

SECRETARY OF DEFENSE

NOV 29 1938

RECEIVED

SECRETARY OF DEFENSE
CONFERENCE DIARIES

December 28, 1936.

Dear Harriner:

Thank you for your letter of December 27th, which encloses a copy of one you addressed to Senator Byrd of Virginia, as released through the newspapers recently. I was much interested in reading this and appreciate your sending me a full copy.

Sincerely,

Henry

Honorable Harriner S. Hoopes,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

cc to H/S

GEF/dbs

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN



December 27, 1938

Dear Henry:

I am sending you herewith a copy of my letter to Senator Byrd which was released to the press last Sunday afternoon for publication in yesterday morning's papers.

Before deciding on this release I submitted it to Mr. Early for clearance. Later on he advised me that the President had commended the letter and had suggested that it be broadcast and released to the press simultaneously. However, no desirable radio time was available, and therefore the press release went through as scheduled.

As you were out of town when this release was decided upon, I thought you would be interested in the above.

Yours cordially,

Marriner
M. S. Eccles
Chairman

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

enclosure

R-567

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Monday, December 26, 1938

December 23, 1938

Attached is a copy of a letter sent to
Senator Byrd of Virginia by Chairman Eccles in
answer to the Senator's address in Boston of
December 10.

R-367

December 22, 1958.

My dear Senator:

In the course of your speech attacking the Government which you delivered in Boston on December 10, you so grossly misrepresented my own views that I feel compelled to address this letter to you in order to keep the record straight. You professed to quote from my speech before the New York Chapter of the American Institute of Banking on December 1, but it would appear from your misquotations that you had not done me the justice of reading my speech before you assailed it.

I cannot leave uncorrected the impression conveyed by your speech that I am an advocate of reckless, wasteful, ever increasing spending by the Government. As a banker and business man for more than twenty years before I came to Washington, I have a vital interest in the maintenance of our economic system and of our democratic institutions. I am quite as concerned as you are to maintain the solvency of the Government and to avoid the evils of inflation. However, I am equally in favor of avoiding the evils of deflation. I think I may be forgiven for feeling some impatience when a responsible public official like yourself so misconstrues my viewpoint as to make it appear that my advocacy of properly directed and properly timed Federal expenditures, for the primary purpose of stimulating private enterprise, is based on any other principle or purpose than to aid in bringing about the greatest possible degree of sustained employment and production of real wealth by private activity and enterprise, which, in turn, is the surest safeguard of our democracy as it is of the solvency of our Government. Only in this way, by restoration of national income, can we reach and maintain the balanced budget which I am as desirous as you are of achieving. You have every right to disagree as to the efficacy of fiscal, monetary and other policy in effecting stimulation in depression or retardation in a period of unound expansion. I, of course, reserve the right to present the other side of the case. But I am convinced that it deserves consideration on its merits, without rancor or misrepresentation.

It is evident from the program you presented in your Boston address that you and I have a fundamentally different conception of the responsibility of Government and of the functioning of the economic system. Your program makes only five specific recommendations, all calling for immediate and drastic curtailment of government expenditures.

You appear to believe that a large part of the Government's expenditure is "waste". You are fearful about the Government's credit and alarmed about the "burden" put upon the public debt. There is not space within a letter adequately to discuss these matters, but in view of your program and since you saw fit to make a personal attack upon me, I feel that it is in order to raise a number of questions with respect to each of the foregoing considerations.

As to the "burden" of debt: The pertinent facts are the volume of total debt in the country, the interest on that debt, and the income out of which interest may be paid. You failed to mention any of these pertinent facts. Are you aware of studies made by a distinguished group of scholars, under the auspices of the Twentieth Century Fund, indicating that the total of all domestic debts, both public and private, is no greater today than it was in 1929? That being so, does it not give a one-sided and alarming picture of the country's debt situation to concentrate attention solely upon the increase in the public debt without regard to the contraction of private debt, and without regard to the increase in population and in the material wealth of the country since 1929? Is it of no significance that, owing to the decline in the rate of interest, the total of interest payments today is far less than in 1929? Is it of no significance that while the burden of interest payments has been lessened, national income, out of which debts are serviced, increased since the low point of 1932 until in 1937 it was \$30,000,000,000 more than in 1932? Is it of no significance that the interest on the Federal debt amounts to only a little more than 1 per cent of our national income? Finally, is it of no significance that as a nation we owe our debts to ourselves and not to a foreign country?

As to your concern about the burden of taxation, have you not overlooked the fact that as national income increases, tax revenues increase, even without a rise in tax rates? National income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the Federal Government increased from \$2,080,000,000 for the fiscal year ending June 30, 1933, to \$8,242,000,000 for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments. Would you have the public believe that the country was better off in 1932 with lower taxes and a lower public debt than it was in 1937 with higher taxes and a higher public debt?

Since 1937, national income has temporarily contracted due to a combination of factors, one of which was a too sharp and too rapid reduction, amounting to more than \$3,000,000,000, in the Government's net contribution to community buying power in 1937 as compared with 1936. The Government's net contribution to purchasing power is the amount that the Government expends over and above the amount it collects. On this basis, the Government not only drastically withdrew its stimulus to consumption in 1937, but contrary to your apparent belief, actually had a balanced cash budget and a cash surplus of about \$100,000,000 for the period from June 30, 1937, to March 30, 1938.

So much for the debt "burden". Turning to the question of what is to be entered upon the credit side of the ledger as an offset to the increase of the public debt, you evidently contend that nothing is to be entered; that the Government's expenditures, for which the debt was incurred, represented "waste".

Is it "waste", as you seem to think, to have the Government borrow and put to use otherwise idle funds of individuals and corporations? Is it "waste" to have the Government, by borrowing from the commercial banks, replenish the supply of bank deposits which contracted by one-third because of debt liquidation during the deflation, and put this newly created money to work providing employment and thus utilizing man power and productive facilities that otherwise would have remained idle? Is it "waste" for the Government to expend these newly created and these otherwise idle funds for roads, street clearance, bridges, school houses, hospitals, and a host of other useful and necessary things that are needed by the community but are not supplied by private enterprise? Are these additions to our national wealth, additions resulting from public expenditures that are based upon increase of public debt, more "wasteful" than the expenditures in the late twenties, based upon private debt, whereby billions of dollars were diverted to uncollectable foreign loans and to build at inflated prices huge skyscrapers, office buildings and apartment houses, many of which never have been sufficiently occupied to maintain the investment?

Do you think it was "natural forces" that produced the recovery after 1933? Do you think that the restoration of the national income from less than \$40 billions to approximately \$70 billions came about in spite of and not as a result of Government expenditures? If so, why was it that for more than three years after 1929, when we did not have the legislation or expenditures to which you so strenuously object, there was no recovery, but instead, a continuing deflation until

the Government intervened on a comprehensive scale, replenished bank deposits and put these funds, together with stagnant funds held by individuals and corporations, to work? This, of course, increased the public debt after private debt had rapidly contracted. Doubtless had the Government been adequately prepared, it could have spent money more efficiently and more productively. Yet, in the light of all of the foregoing considerations, how can it justly be said that the Government's expenditures were "waste"? What to my mind is the real and irreparable waste, which the nation can least afford, is that which results from failure to use our human and material resources productively.

As to the Government's credit: Why do you suppose it was that in 1932, when the Government's debt was about half of what it is now, 3% government bonds sold down as low as 83? If the Government's credit is as precarious as you told your Boston audience, why is it that 2½% government bonds today are selling at a premium of more than 102? How does it happen that since 1933 foreign capital has steadily flowed into the country from abroad, if the credit of the country is in jeopardy, as you contend?

Early in your speech you extolled "these time-old virtues of thrift, frugality, self-reliance and industry". Somewhat later, however, you expressed alarm at the increase in debt of the last five years. I am at a loss to understand how you reconcile these two ideas. Certainly if it is good for people to save, i.e., practice the virtues of thrift and frugality, it must also be good that someone should borrow money and put it to productive uses. Private enterprise has in the years since the depression began been in no position to employ profitably anywhere near the total of the country's savings, because there was not sufficient buying power in the hands of the public to purchase the output of existing facilities of production.

In connection with the question of debt, you also make the curious statement that some day the whole amount must be repaid. Such a statement reflects a misunderstanding of the fundamental nature of our capitalist economy. Debts and obligations of various kinds are but the other side of investment, and if we ever tried to liquidate the whole amount of them, or even any substantial fraction, we would precipitate a crisis so severe that general economic paralysis would result. When there is contraction of total debt, private and public, we have deflation. We have never had prosperous conditions without an accompanying expansion of debt, either private or public, or both.

Do you think, as your speech seemed to indicate, that in a democracy the Government has no responsibility for creating debt in order to give employment at times when private indebtedness is contracting and private enterprise is unable to do so? Do you consider, as your speech implies, that government debt is evil, whereas private debt is not? One would gather from your attitude that if a private contractor, for example, borrows money to build houses you would commend him for "raising capital for private enterprise", whereas, if a government housing authority borrows money for the same purpose, you would denounce it for "incurring debt".

Do not the same general economic considerations apply to both private and public debt? Is it not true that the creation of too much debt relative to the creation of real wealth is inflationary and, therefore, bad, whether that debt be created by public or private activity, or both? Can it be said that the creation of debt, either public or private, that utilizes productively otherwise unused human and material resources, that creates real wealth, that adds both to existing real wealth and to national income, is an evil? Is not the exact opposite true?

While you say that everyone in need should be provided for, I find this statement hard to reconcile with your broadside attack on the organization that has carried most of the task of seeing to it that those in need are kept from want and starvation. You assert that "millions of able-bodied citizens rely upon the Government for support and have ceased to exert their efforts for self-help to obtain private employment". So far as I know, there is not the slightest evidence to support such a sweeping assertion. Any honest American citizen must resent the insult this implies to millions of self-respecting men and women.

You stated that you are concerned about "the character of the individual citizen" and "the dignity and the rights of the individual". So am I. I believe, however, that the most basic right of all is the right to live and next to that, the right to work. I do not think empty stomachs build character, nor do I think the substitution of baloney and beans for useful work relief will improve either the dignity or the character of the people affected. We cannot expect to preserve our free institutions in this country if we condemn a substantial proportion of our people to prolonged idleness on a bare subsistence level of existence. Further than the right to eat and the right to a position, I think the individual, whether rich or poor, has a right to a decent place to live. I think he has a right to security in old age and to protection against temporary unemployment. I think he has a right to adequate medical

attention and to equal educational opportunities with the rest of his countrymen. The government expenditures which you condemn have in large part been the means of translating these basic rights into realities. Anyone who is genuinely sincere in his concern about the rights, the dignity, and the character of the individual citizen, far from seeking to tear down what has already been done, will want to have a hand in expanding and improving this work for the future.

There are many other questions which it seems to me your address and your attitude leave unanswered. I do not profess to know all the answers to the many complex and difficult economic problems confronting the nation, but I am convinced that if your program of sudden, drastic retrenchment were followed, we would witness another sharp reversal and renewed deflation. And I, for one, am not prepared to believe that this nation is doomed to stagnation, to a low level of national income, to a wholly unsatisfactory standard of living instead of the high standards, the achievement of which depends only upon our correct understanding of the operations of our economic system. I am convinced that your program is not only a defeatist one, a program of retrogression and not of progress, but that it would jeopardize the salvation of our democracy which I know you are as sincerely desirous of preserving as I am.

We disagree fundamentally and completely on how best to accomplish that end, but of one other thing I am also persuaded, that we will not find the answers by indulgence in name-calling, such as marred your Boston address. We will find the answers by recognizing clearly what the problems are, by understanding how our economy functions, and by working out practical solutions in an atmosphere of calm reason instead of intemperate denunciation.

Very truly yours,

(signed) M. S. Eccles.

Chairman.

Honorable Harry F. Byrd,
United States Senate,
Washington, D. C.

GROUP MEETING

December 28, 1938.
9:45 a.m.

Present: Mr. Taylor
Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. Duffield
Miss Chauncey

H.M.Jr: Well, Mr. Taylor.

Taylor: I have a report for you, sir.

H.M.Jr: Yes, sir.

Taylor: Mr. Monnet called up again this morning and confirmed what he told us late yesterday afternoon.

(Gaston comes in)

H.M.Jr: Yes.

Good morning.

Gaston: Good morning.

H.M.Jr: Come in and join the shrinking family.

Gaston: It is shrinking, isn't it?

Taylor: First, that the reason for forming the Canadian corporation was because the impression that he got when he was first here was that there was a real desire to keep this a little out of the front line; that that was his only reason for handling it in that way, with the possible exception of some eventualities which might show that if trouble developed, why, having a Canadian corporation in existence....

(Chauncey comes in)

Chauncey: Good morning.

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H.M.Jr: Good morning.

Did anybody tell you ...

Chauncey: I inquired.

Taylor: ... might be useful. As far as he is concerned, and he is sure that his government would feel the same way, they would infinitely prefer to have what he describes as an open mission.

H.M.Jr: He called you this morning?

Taylor: He said the same thing last night and said he'd been thinking it over and he wanted to confirm that.

H.M.Jr: Well, I spoke to Mr. Welles at 9 o'clock last night and asked - told him a little bit of what was happening; that I preferred to have this thing out in the open, and did he see any reason for not having it. And he said he would infinitely prefer to have it out in the open. But I think I'd better bring it up at Cabinet.

Taylor: I think so too, because

H.M.Jr: Well, I think if there is one F.D.R. keeping very - naturally Monnet or Bullitt, I don't know which - maybe Bullitt gave him this idea that if they had a Canadian corporation it might be better.

But you know the little talk I gave you at lunch.

Taylor: Yes, sir.

H.M.Jr: Anything that I have to do in the next two years - I want to try to simplify a lot of these things and bring them out, and let each one of these - our own domestic financial projects stand on their own feet.

Taylor: Well, he was very strong in his feeling....

H.M.Jr: Good.

Taylor: ... that the open mission - as far as his government want, they'd just jump over themselves to do it that way.

-3-

- H.M.Jr: Well, I think that after Cabinet I'll have an answer "Yes" or "No," but I think I better bring it up.
- Taylor: And the other point, which is the financial aspects, - he tells you not to worry about that.
- H.M.Jr: Well - yes - well, that's what he keeps saying, that's what he keeps saying.
- Taylor: If the Government is the buyer and is the buyer out right in the open ...
- H.M.Jr: Then I wouldn't worry.
- Taylor: ... then you don't have to worry at all. We had quite a talk with him on various points, and emphasized to him that the Government itself wouldn't face the difficulties that a Canadian corporation would, because any purchaser - I mean any seller to the Canadian corporation would want to have it double-riveted so as to - as to who this crowd was and whether they had the money or not; whereas the French Government itself, why, could make possibly better arrangements.
- H.M.Jr: We know they don't have the money.
- (Hearty laughter)
- There wouldn't be any doubt there. What?
- well, I'll get him an answer, and then I think the whole thing ... I think by this afternoon we'll have an answer, Wayne.
- And then, to bring you people up to date, I had Peoples and his crowd over here, and they're making progress. But the kind of planes which they could give any kind of delivery on the fellows don't want.
- (Secretary holds a conversation on the White House phone)
- The President's better. Going to the office. He didn't snow up last night.
- Taylor: Oh, he didn't?

-4-

H.M.Jr: We were there chaperoning the chaperons. I stayed until twenty minutes of two, sitting there with a broken toe and a swelled hand. That isn't what I call my idea of having a good time. I saw all three of your children.

Taylor: I saw them when they left, but I heard them when they came back.

H.M.Jr: (On white House phone) Mr. McIntyre, please. - Please, thank you.

Taylor: Did they behave themselves?

H.M.Jr: while I was seeing them, they behaved themselves very well. And your daughters looked particularly beautiful.

Taylor: Good.

H.M.Jr: I was worried because last time - last year at this time the President got intestinal grippe. He called Bell and me off. He wasn't at the party last night. They were afraid he was going to have intestinal grippe. He's all right.

where were we?

Taylor: You were sitting in front of the band.

H.M.Jr: And what they have to offer - any kind of production they don't want; so that's where the situation was last night. So we'll see. Is that right, Mac? Isn't that boiling down the story?

Mac: question of combination of models that they could make and get production on. Haven't decided on

Gaston: They want a fighter, do they?

Mac: want a fast fighter.

H.M.Jr: they want a fast bomber and a fast fighter.

Mac: The ones they want are not yet in production.

H.M.Jr: So that's where it stands.

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Herbert, I looked carefully through to see about Mr. Kennedy in the papers this morning, and I gather you did a good job.

Gaston: Well, didn't seem to be able to get a follow on it.

H.J.Jr: No.

Gaston: The Times ran a little piece just quoting the President directly, what he said, at the end of the story.

Chauncey: The Baltimore Sun, in their story, said it was discounted at the White House.

Gaston: It was discounted at the White House.

H.J.Jr: You did a good job, Herbert.

Taylor: The Times had a pretty good story on it.

H.C.Jr: (To Kieley) would you get me a Baltimore Sun please?

What else?

Gaston: You asked about that editorial in the Pilot - the C.I.O. Marine Union. The only copy that's anywhere about - they had it in Coast Guard and they sent it over in memorandum to you from Waesche, and I haven't been able to get track of it.

Chauncey: Gibbons sent it to you yesterday.

H.J.Jr: where is it?

Chauncey: I have it.

H.J.Jr: Would you bring it?

Chauncey: I'll get it. (goes out)

Gaston: I understand the substance of it was general approval of the maritime service and advising their members to enroll.

H.J.Jr: Go ahead. what else?

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Gaston: I don't know of anything else.

H.M.Jr: Gene?

Cuffield: Not a thing.

H.M.Jr: Gene, I wish you and Herbert would talk over today - really, for two years now I've been talking about getting out a statistical bulletin, and I never make any headway, see? And possibly between you and - if Gene hasn't got too much to do, maybe he might take that on, or something.

Gaston: Well, we've got a complete dummy and a rough estimate of cost. It was - it is a question of money.

H.M.Jr: Well, maybe right after this - I'm just sitting here waiting for the President on our appointment. So I'd like to take a look at it right afterwards.

Gaston: All right, I'll send to George Haas's shop and get it.

(Miss Conancey returns)

(H.M.Jr hands Gaston the Baltimore Sun)

H.M.Jr: See if you can find it, Herbert.

Conancey: The bottom of the column.

Taylor: That's probably in the middle in there, isn't it?

Conancey: Excuse me - (Points out story)

Gaston: Here's the story right here about Roosevelt....

H.M.Jr: I'd like to take a look at that dummy; I'd like to push that.

Gaston: Yes. Yes.

"Asked to comment on reports that new Cabinet vacancies may be created by the retirement of Henry Morgenthau, Jr., Secretary of the Treasury, and Harry H. Woodring, Secretary of War, the President smilingly asserted that that was just another story. He told reporters they could select their own adjective to describe it." That's all.

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H.M.Jr: Thank you.

Foley: Do you still want to suggest Paul Wendels as counsel for the Spanish Loyalists? Meana came down yesterday from their office and said that the name that had been given by your office had been misplaced, and he wanted to know what it was. Well, I knew what it was, but I stalled and told him that I'd have to check the files, because I thought you might have some other ideas.

H.M.Jr: Well, I don't even know this man.

Foley: Well, I think you asked Mr. Oliphant to suggest the name of - names of lawyers. He suggested several. I think Henry L. Stimson was first. They went to Stimson; as I understand it, he didn't want to take it because he thought there might be some conflict of interest between representing the Treasury and Federal Reserve in New York and representing the Loyalist Government. And the other name that was suggested was Paul Wendels, who was corporation counsel of New York under LaGuardia.

H.M.Jr: Yes.

Foley: He's resigned now. Chandler is the corporation counsel. He's a competent lawyer.

H.M.Jr: Couldn't they find the name Wendels?

Foley: They misplaced it.

H.M.Jr: This has been going on for four months. What do you think of the propriety of our suggesting it anyway? We've done it once.

Foley: Having done it, I see no reason why we shouldn't recall it to their memory.

H.M.Jr: O.K. Let's do that, then drop it.

Foley: Yes. I'll tell them the name we gave them over the telephone was Paul Wendels.

H.M.Jr: Then drop it. If they misplace it again, I think that's their trouble. But this has been going on for four months now. I mean if they need a lawyer, I can't

-3-

imagine getting on without one for four months.
Can you?

Foley: Not if they need one.

H.M.Jr: What else?

Foley: Last Friday morning you gave to me the letter that Mr. Oliphant had prepared to Doughton - I guess it was Thursday morning - to Doughton.

H.M.Jr: On this

Foley: And to Harrison - on the codification of the revenue laws.

H.M.Jr: God, let's get that finished one way or the other. Here's Hanes's memorandum.

Foley: That's right. Well, it's a long story, Mr. Secretary, and I find myself a little disturbed. Apparently there has been a difference between the Undersecretary and Mr. Oliphant as to how this thing should be treated.

Mr. Oliphant has always thought, as any student of the law would agree, that the thing ought to be done, but it ought not to be done as absolute law, it ought to be done as prima facie law. Now, the difference is that if there is a dispute between the law as it appears in the code and the law as it is enacted, the law as it is enacted controls.

Guston: That's if it's taken - if the code is taken as prima facie law.

Foley: That's right, if the code is taken as prima facie law. If it is taken as absolute law, you don't have to go to the original statutes in order to determine what is the law.

Now, the United States Code is prima facie evidence, it is not absolute law; and the Internal Revenue laws appearing in the Code at the present time are prima facie, they're not absolute. Now what this would do, if it goes through this way, would be to repeal that body of law that we have at the present

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time and substitute at once this codified law, and it would have effect upon cases pending before the board of Tax Appeals, upon cases pending in the courts; and if in the process of going through Congress, having the thing printed up, having it published, errors appear, and they're bound to appear, it may cost the Government hundreds of thousands of dollars, because there is nothing that you can go back to, you've wiped out all that law that's on the books at the present time.

Now, Mr. Magill appeared before the Committee and he said that he thought it was a fine thing and said the Treasury was interested in it. And then they had - and Jim Morris, the Assistant Attorney General in charge of taxes, wrote a letter saying it ought to be adopted as absolute law. We have never gone on record formally as approving the thing from the absolute law standpoint.

The thing was printed up last winter and Mr. Oliphant gave it to the people over in the Bureau, and they turned up some fifty or sixty errors in it right away, and that shook Mr. Magill. As I understand it from Tarlesau, Magill took the position that he wouldn't oppose the enactment of the thing as absolute law, but he wouldn't formally approve it.

Then Mr. Hanes came in and, being a layman and not understanding the difference between absolute law and prima facie law, I understand from Tarlesau that he has led Stam to believe that we would endorse the thing formally. Now, Mr. Oliphant feels very strongly on it and he wrote this letter himself, and he gave it to Mr. Hanes as his last act before he was taken sick. And I agree with him as an original proposition and I don't feel that I can take a position inconsistent with the position he's taken.

Now, Mr. Hanes looks at it from the practical side. He feels that Mr. Stam will consider - and Mr. Doughton and Mr. Harrison, I suppose - that this is a - that we've walked out, we've welched, and I think he looks upon it as something we ought to do because we've got to get along with these fellows down there, he has to appear before the Committees, and so forth. But, knowing how Mr. Oliphant feels about it and

having thought about it myself, I certainly don't want to take a position inconsistent with Mr. Oliphant and ask you to send this letter down - I mean send a letter down approving the thing as absolute law. Mr. Oliphant's letter says that we think it's a fine thing and it undoubtedly will help lawyers and accountants and taxpayers, and it ought to be done, but he says substantially all of these practical objectives which I have mentioned could be attained by the enactment of this code not as absolute law, but, like the Code of the Laws of the United States, as prima facie law; "and at the same time we would not be inviting the serious dangers of numerous errors which have characterized the most careful previous attempts at comprehensive codification. In this connection, I attach a memorandum which states more fully the considerations of practical convenience and legislative experience upon which this view rests."

H. J. Jr: Now, will you wait a second while I read Henes's memorandum?

Foley: Yes, sir.

H. J. Jr: That memorandum please; I haven't read it.

(Reads portion of memorandum)

How would you think of this? Supposing I call up Ros Magill and tell him, in view of Mr. Oliphant's illness, in view that he's being quoted all over the lot, I'm going to ask him to give me a formal opinion as to what I should do in this case - and giving you a chance to give Oliphant's side of the picture.

Foley: All right. The only thing is, Otam is very, very anxious

H. J. Jr: Well, I'll ask him to

Foley: ... to have us tell him one way or the other today.

H. J. Jr: Well, I'll ask Magill whether he can do it today, and if he can't it's just too damn bad - I mean for Otam. But let me get - let me see if I can get

-11-

Magill on the wire and ask him whether he could have half an hour conference on the phone.

(On phone) See whether Dr. Magill - whether I can talk to him on the phone up at Columbia, please.

- Foley: I tried to get Magill and I couldn't get him, on Friday, to find out what commitments he had made. I talked to Tarleau and Tarleau told me substantially what I've told you about the background.
- H.C.Jr: Well, I'll ask Magill please to take a firm position. As I understand it, it's a question that we think that the thing should stay as is?
- Foley: We - our position is that it ought to be done, but it should be done as prima facie law, not as absolute law.
- WCH: Same status as the United States Code.
- Foley: Same status as the United States Code.
- WCH: Any lawyer would say the same thing. It's a lawyer's field.
- H.C.Jr: It's a lawyer's field. Inasmuch as Magill is one of the outstanding tax lawyers in the country and he's available - if he is available - ...
- WCH: Excellent thing to consult him. But I'd be very much surprised if you get Ros to endorse the absolute law feature of that.
- H.C.Jr: but if he'd write a letter backing this up, that would make Hanes's position easier too, because he could say, "Well, the former Undersecretary and the General Counsel think this should be on a prima facie basis." I mean they can't, in other words, quote Magill against us.
- Foley: In the letter of submittal Stam quotes Magill - doesn't quote him, but he says this: "Undersecretary of the Treasury Magill stated in the hearings before the Committee on Ways and Means that the Treasury is vitally interested in this work and expressed the hope that the staff would be able to complete

-12-

the work in time for the codification to be approved at this session of Congress. In the preparation of this work he made available the services of the personnel of the Bureau of Internal Revenue, who have shown splendid cooperation and rendered valuable assistance."

- H.S.Jr: Wayne, if you're busy you can skip this.
- Taylor: No, it's all right.
- H.S.Jr: What? I mean stay or not, just as you want.
- Taylor: I don't think I'll add very much to it one way or the other.
- H.S.Jr: I mean if this
- Foley: It's an important thing, this
- H.S.Jr: I mean are you interested? I hate to tie you up. I'm going to ask McReynolds to stay, but as far as the rest of you go, you're invited unless it bores you.
- Waffield: The only thing I could contribute is, I understand John O'Brien and Mr. Beaman, who usually draft the revenue acts when they're enacted, agree with the Treasury and don't trust this compilation.
- H.S.Jr: Anybody would say that.
- H.S.Jr: Well, as I say, wait or not, just as you people - suit yourselves.
- Herbert, if you would get that stuff together, and I'll see you in a few minutes. But Mac, I'd like you to stay and I want Foley to stay.
- Taylor: I'd better call off Monnet at 2:30, hadn't I, because I don't think there's anything to talk to him about.
- H.S.Jr: Tell him to wait, yes - tell him until I've had a chance to talk to the President - huh? Stall.
- Taylor: All right.

-13-

Men: Did you get the R.F.C. 500 million comment from eccles? He promised to send it over right away.

H.A.Jr: (On phone) Hello. - Well, get him in Havana. Get him. Do you know where he is? - Well, get him in Havana for me. - Yes.

CENTRAL HOUSING COMMITTEE

907 SIXTEENTH STREET
WASHINGTON

December 23, 1938

MEMORANDUM TO THE PRESIDENT

Through the Secretary of the Treasury

Re: Central Housing Committee

In order that you may be informed of the progress being made by the Central Housing Committee a brief outline of the present and contemplated activities of this Committee is given below.

Pursuant to your letter of July 5, 1938, designating me as Chairman of this Committee, a meeting was held July 30th, at which time Mr. Frederick A. Delano relinquished the Chairmanship and I assumed the duties attached to the office.

I immediately appointed a Ways and Means Committee, composed of five members representing the Agencies most directly interested in the various housing activities of the Government, including a representative of the Procurement Division, to develop a concrete program of action for the coming year that would at once be practicable of accomplishment and produce what I believe to be the most useful results. The main objective of the Central Housing Committee should be to promote coordination of effort on the part of the various Agencies interested by cooperative effort through contributed service.

The Chairman of each of the seven committees and fourteen reference or special assignment groups was requested to call his committee or group together and develop, for the consideration of the Ways and Means Committee, an outline of what they believed to be the most profitable subjects for specialized study by the technicians of each group. These reports were all submitted promptly and seven meetings of the Ways and Means Committee have been held at which they have been discussed and welded into a coordinated program for the Central Housing Committee itself, a meeting of which will be called shortly after the first of the year.

The present membership of the Central Housing Committee is made up of principals and one alternate designated by each principal of the following Agencies: Department of Commerce; Public Security Administration; Federal Reserve Administration; Federal Home Loan Bank Board; National Emergency Council; Reconstruction Finance Corporation mortgage Company; U. S. Housing Administration and the Procurement Division.

There is general agreement that the work of the Central Committee can be of great value, and attention is directed by members of the Central Committee, committees and reference groups for a continuation and intensification of work.

11/22/38

Without too much detail, the work of the central committee is taking the following general directions: methods of appraisal and mortgage analysis; studies of the problems of land use and site planning; subjects of law and legislation, including preparation of Model Mechanics' Lien Act, Land Title Registration Act, Tax Collection Act, etc.; study of the problems of rural housing; comparative studies of design and construction affecting adversely the problems and costs of operation and management; discussions of accounting methods for housing projects to develop certain common practices; luncheon discussions in the field of research and statistics; the development of a bibliography of housing information and consideration of the factual information that could be profitably developed by a Housing Census for 1940; the broad subject of design and construction participated in by ten specialized reference groups dealing with subjects of structure, mechanical equipment, costs, etc., directed toward improving design technique and cost reduction. The research facilities of the Bureau of Standards, the Forest Products Laboratory and other authoritative research organizations are being availed of.

It is my belief that the meetings of the Central Committee and of its related groups affords opportunity for free discussion of common problems for the mutual benefit of all, and broadens the participants' knowledge and stimulates their interest in the many problems of housing, and that the conclusions developed by technical study and comparative analysis by representatives of the various Federal Agencies and contacts with private agencies or groups cannot fail to be of value, not only to the agencies of the Government, but to private enterprise as well.

Respectfully submitted,


Chairman, Central Housing Committee

December 28, 1938

(Mr. Gaston and Mr. McReynolds present when HM, Jr dictated the following.)

Hopkins called on me. He said there were two things; (1) he thought the head of the Bureau of Fisheries was a crook and he wanted to get a new man and (2) the only thing he could see in the Department of Commerce was the Foreign Service and he finds there are about 18 non-Civil Service appointments around Washington and that all the people in the field are non-Civil Service.

What he wants to do is get half a dozen big business men to come down to help him. What did I think about it? Did I have anybody to suggest? He was going to go after business with hammer and tongs in South America and get orders for the American business man in any way he saw fit as long as he got the orders. What did I think of that? Did I think they were going to transfer the Foreign Service over to State?

He thought he could get Mooney, of General Motors, who is getting \$300,000 a year, to come in and head up the Foreign and Domestic Service. I told him that what I knew of Mooney, I did not like. Could I suggest anybody? I said I would have to think it over.

I told him before I would go after business the way he was suggesting, particularly as the law said that the Foreign and Domestic Service should not do just that, I would sit down and talk it over with Mr. Hull, also the President. Well, he said, you know the President; he likes to have two or three avenues of approach and if he finds himself in a hole three months from now he may want to use Commerce. I said, "I still think I would talk it over with Hull and that Wallace had an interest and so did I."

I told him something about the Brazilian situation. I said, "If you want to get in on something red hot, get in on Brazil."

He asked me whether Hanes could be helpful and I told him I thought he could be very helpful. He said he just lived across the street from Hanes and could drop in and see him.

To sum up, I think Hopkins is going to put on a drive to get business in South America. I found him

-2-

looking very badly and rather listless.

Mr. McReynolds: I had the same impression about his physical condition because he talked to me and to Herbert. He talked to me about Kerlin and to Herbert about a Public Relations man.

HM, Jr: Why don't you (Gaston) suggest the man over at the Federal Reserve?

Mr. Gaston: He had a man of his own he wanted to hire and Steve Early and Lowell Mellett wanted him to hire somebody else and I told him I would hire the man in whom I had confidence. He has a man named Dave Sholters who is a Chicago Times man working under Louis Ruppel.

HM, Jr: I did not find him in an aggressive mood. I thought he looked very badly.

oOo-oOo

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



OFFICE OF THE CHAIRMAN

December 28, 1938

Memorandum to: Secretary Morgenthau Subject: Proposed Reconstruction
Finance Corporation
financing
From: Chairman Eccles

It has been suggested that the Reconstruction Finance Corporation sell a \$600,000,000 issue of notes during January or February.

I wish to recommend for your consideration that the proposed issue of Reconstruction Finance Corporation notes be delayed until April or May, but that, if it should be decided to float it at an earlier time, the proceeds be not used further to reduce the available supply of Treasury bills. A reduction in the supply of bills would further disrupt the bill market and would seriously add to the difficulties of managing the System Account.

One consideration in connection with the proposed Reconstruction Finance Corporation issue is that, if the Treasury wishes to keep its balance above \$1,000,000,000 at all times between now and the end of the fiscal year, it will need to raise about \$600,000,000 of cash before the end of May. The period of March financing may not be propitious for raising this cash, because it is likely that you may wish to refund the \$1,300,000,000 of June notes at that time. Two alternative ways of raising these funds would be through a Reconstruction Finance Corporation issue or through additional Treasury bills. Either of these alternatives would have the advantage of providing short-term securities for bank investment, of keeping the Treasury's interest cost at a low figure, and of preventing a further pressure of funds on the already over-loaded short-term market. From the point of view of facilitating the replacement of maturities in the System Account additional

Memorandum to Secretary Morgenthau - #2

Treasury bills would be more satisfactory. The System Account has found it impossible to complete its weekly replacements in bills and has been forced to take notes in each of the last three weeks.

As regards the timing of these flotations, it would seem that the issue of either the Reconstruction Finance Corporation notes or the Treasury bills should be postponed until April or May. If a Reconstruction Finance Corporation issue of \$500,000,000 is floated in January, the working balance will rise to \$2,500,000,000. Such a large balance does not seem either necessary or desirable, as it might be interpreted as an indication of nervousness by the Treasury.

Of course, it would be possible to use the proceeds of the Reconstruction Finance Corporation issue to retire an equal amount of Treasury bills, but in view of the low level of outstanding bills this would not appear to be a wise thing to do. To be sure, it would represent a replacement of one kind of short-term Government security with another, but the two markets are not identical. While 85 percent of Reconstruction Finance Corporation obligations are held by member banks, less than 25 percent of outstanding bills are held by member banks, the Reserve banks holding 45 percent and individuals and corporations most of the remainder. Individuals and corporations would be unlikely to purchase the Reconstruction Finance Corporation notes. The Treasury bill market consequently would be squeezed further and the System would have even greater difficulty in replacing its weekly maturities without driving up the note market.

COPYBOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM
Washington

Office of the Chairman

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Memorandum to Secretary Morgenthau - #2

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341
DEC 28 1938

My dear Senator Harrison:

There is before me the request of Mr. Stan, which he made of Under Secretary Hanes, that I, as Secretary of the Treasury, express my views on the desirability of the enactment of the Internal Revenue Code, now in revised draft form.

Legislation of this sort cannot fail to be useful as is all competent codification since it puts into readily accessible and convenient form a multitude of diverse and scattered enactments helpful to public officials, lawyers, accountants, and individual taxpayers alike. I therefore hope for early enactment of the proposed Internal Revenue Code.

Substantially all of these useful practical objectives which I have mentioned would be attained by the enactment of this Code not as absolute law but, like the Code of the Laws of the United States of America, as prima facie the Law. And at the same time we would not be inviting the serious dangers of numerous errors which have characterized the most careful previous attempts at comprehensive codification.

From the Treasury standpoint, therefore, the enactment of the Code as prima facie the law would be adequate. However, if the Joint Committee on Internal Revenue Taxation, after balancing the practical conveniences against legislative experience in these matters, prefers to recommend to the Congress its enactment into absolute law, the Treasury will offer no objection.

Very truly yours,

Samuel H. Boardman, Jr.
Secretary.

Hon. Pat Harrison
Chairman, Joint Committee on
Internal Revenue Taxation
United States Senate
Washington, D. C.

12/30/38
+ 100

EHF: Retyped 12/28/38

DEC 28 1938

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Very truly yours,
(Signed) W. C. Clegg, Jr.
Secretary.

Hon. Robert L. Doughton
Vice Chairman, Joint Committee on
Internal Revenue Taxation
House of Representatives
Washington, D. C.

RRF:s Retyped 12/28/38

*Received by
Mr. Clegg with
1-3-39
although of the
understanding
with Mr. Clegg
at that time*

*Decided
not to
send -*

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON
December 28, 1938

SECRET

From: Campbell, Hongkong, China.
To : Secretary of the Treasury.

Message from Professor Buck dated Chungking, December 20.

T. V. Soong arrived Chungking from Rangoon over new Yunnan-Burma road with twenty trucks munitions. Caravan two hundred trucks proceeding to Rangoon two weeks later when road more nearly ready for regular traffic. Public reaction to loan very favorable; effect on morale excellent. Leaving next week for Burma trip.

RECEIVED

DEC 28 1938

TREASURY DEPARTMENT
Office of the Secretary
Telephone Assistant to the Secretary.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

December 28, 1938

From: Campbell, Hongkong, China.
To : Mr. Nicholson.

T. V. Soong advises British ambassador Clark Kerr informs him Japanese consul general Tientsin sent memo marked number one dated November 15 this year to British consul general Tientsin re Chinese silver stored British and French concessions Tientsin. British consul general sent this memo to London and revised formula was suggested by British. This appears herein as memo number two undated and which Japanese have not yet presented. Soong states Japanese putting strong pressure on British French interests Tientsin in order obtain silver. Soong wishes to know if U. S. A. government can do anything re this and his idea is could U. S. A. also place herself along with British and French governments on silver as this would prevent British French giving silver to Japanese under further increased pressure and cause Japanese to hesitate in plan to obtain treasure. Soong feels this very important and will be thankful if Secretary can render any aid. There follows memo from Japanese consul general Tientsin, Number 1, Dated November 15, 1938: "Japanese authorities will have no objection silver at present stored in godowns in British and French concessions in Tientsin in being sealed on following conditions: First, that consent of Bank of China and Bank of Communications to plan will have no binding effect in regard to Japanese authorities, who merely consider sealing as a measure to prevent silver from being carried out of two concessions. Second, that Japanese authorities together with British and/or French authorities, according to the case, will inspect contents of cases before putting them under seal, which will also be done by both British and/or French and Japanese authorities. Third, that sealing will not at all change Japanese view on silver. Japanese will firmly maintain their claim for right to dispose of it and they request to be given necessary facilities for its transportation". Revised formula memo Number 2 undated: "First, that consent Bank of China and Bank of Communications to plan will have no binding effect in regard to Japanese authorities, who merely consider sealing as a measure to prevent silver from being carried out of two concessions. Second, that Japanese consul general will be given opportunity of seeing where silver reserves are stored and of viewing cases and of verifying fact that seals affixed by reserve fund custody committee to doors of vaults in which silver is stored remain intact. The seals of French authorities and British consular authorities will then be affixed to doors of vaults in their respective concessions. Third, that sealing will not at all change Japanese view as regards silver reserve".

SECRET

THE WHITE HOUSE
WASHINGTON

Henry - Here is one for you

Exact date of your birth	May 11, 1899
" " " marriage	1916
" your age	47
" number of years married	24

Add up - 287 6

Will tell you the total
without cooking.

HSC

REB

PLAIN

London

Dated December 28, 1938

Rec'd 4:15 p. m.

Secretary of State,
Washington.

1469, December 28, 6 p. m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

I think you would wish to know that this type of story is appearing in the London press: DAILY TELEGRAPH December 28 Washington dateline. "Attempts are being made to undermine the solid position which Mr. Henry Morgenthau, Jr., Secretary to the Treasury, occupies in the Roosevelt cabinet. Rumours are being spread that he is about to resign.

Similar rumours have been given currency before. They are usually traceable to the same source -- a small group with access to the White House whom General Hugh Johnson has named "the palace janissaries", and who are the successors of the "brain trusts" and "kitchen cabinets" of former years.

Mr. Morgenthau is unpopular with this group because of his opposition to their theories about finance and extensive government spending.

In

REB

2-#1469, From London, Dec. 28, 6p.m.

In general, Mr. Morgenthau, who is a close friend of Mr. Roosevelt, is regarded as representing the conservative influence within the President's cabinet.

Mr. Joseph P. Kennedy, the Ambassador in London, is also understood to belong to the conservative wing of the new deal, and rumours of his retirement from London have been circulated.

That the two rumours should coincide and appear in the press as a report that Mr. Kennedy is about to succeed to Mr. Morgenthau's post is a development which could hardly be welcomed by those who originated them.

Other resignations which are being similarly "encouraged" at the moment are those of Mr. Swanson, Secretary of the Navy; Mr. Woodring, Secretary of War, and Miss Perkins, Secretary of Labour."

JOHNSON

CSB

REB

PLAIN

London

Dated December 28, 1938

Rec'd 4:15 p. m.

Secretary of State,
Washington.

1470, December 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The exchange market was quiet with the dollar rate almost stationary around 4.66-3/4. Owing to the tightness of sterling, the British authorities bought 183 of the 241 bars of dehoarded gold at the fixing. The price was 149S. giving a premium of about 1/2D.

The feature of the market was the forward dollar, the one month premium being bid at 1-3/8 and the three months at 2-3/4 in the morning but dealings believed to be official brought these rates in the afternoon to 1-3/32 and about 2-1/2 respectively.

The franc touched 177.13 but was mostly around 177.10, the Bank of France having acquired a small amount of sterling.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 28, 1938, noon

NO.: 2175

FROM COCHRAN.

I refer to my telegram No. 2167 of December 27.

The Finance Minister, in order to improve the atmosphere for the debate in the Senate on the budget which begins today, last night gave a radio address in which he released earlier than he had originally intended to the announcement of conversion of certain French railway loans issued abroad on markets in the Netherlands, Switzerland and the United States. This announcement was made to give evidence of the real progress which has been made by the Government in restoring the credit of the state and in bringing about economies.

It is anticipated that the counsel of Morgans will send a written opinion, due here shortly from New York, that under the Johnson Law the French State could not substitute itself for the French railways which have outstanding loans from the American market. Therefore it has been decided that a loan sufficiently large to take care of the two dollar issues be issued by the Dutch-Swiss banking syndicate, at the terms given in my message referred to above.

According to the Ministry of Finance announcement

the

- 2 -

the amount of the loan will be 175 million florins whereof a tranche of 100 million florins will be placed in the Netherlands and one of 75 million florins in Switzerland. The amount to be offered to the public in the Netherlands will be 70 million florins since 30 millions have been already placed firm. The bonds will be specified in Dutch florins and Swiss francs at a fixed parity and the coupons payable in either currency at the choice of the holder. The French Government will have the privilege of redeeming the loan in any way after three years.

I am told by Paris Morgan partner that as yet no definite details of handling the dollar tranches under this European conversion have been worked out. Progress is being made in the formation of the international banking group which is to participate in the loan.

I talked by telephone with the Bank of France at noon today; my friend told me he does not yet know whether it will be necessary to raise dollars to pay off the American tranches of the railway loans. He expressed the hope that such necessity will be obviated to a large extent by the conversion arrangement. Favorable foreign exchange market. The French control had gained the equivalent of 300,000 pounds by noon.

END OF MESSAGE.

WILSON.

December 22, 1938 151
5:29 p.m.

WJr: Hello.

Operator: Chairman Eccles. Go ahead.

WJr: Hello.

Eccles: Hello. Hello, Henry.

WJr: How are you?

E: Ah -- we are having a full meeting of the open market committee on Friday --

WJr: Good.

E: Ah -- this bill situation is -- is causing us some difficulty and some of them felt that we ought to have -- ought to have a meeting to decide what we could do about the situation that exists at the present time.

WJr: Right.

E: Now, before meeting with them, I'd -- I'd like to come over. If you've got a few minutes --

WJr: Sure.

E: Give them to me tomorrow just to -- just to come over alone and chat over with you just what the situation is as I see it before I meet with the committee.

WJr: How would three o'clock suit you?

E: That would be fine.

WJr: Well, that's subject to call from the White House on my part, but as far as I know we will be through in the morning.

E: Yes, well, and if you can't meet me at three, could I meet you later?

WJr: Sure.

E: Well, let me -- I'll -- I'll keep my -- I'll keep all... afternoon free then, and I'll be able to come any time at your convenience.

WJr: Is three all right?

E: Three will be fine, and if there is any change I'll meet you later, but I do want to see you before I meet with the committee.

- HMJr: And you tell the committee we are thinking of cutting the bills in half.
- E: Yes -- well --
- HMJr: Make them feel good.
- E: I'd just like to -- to point out the problem. After all it is a question of alternatives here, and I just like to give you what the -- the thing is and then we can discuss it because -- ah -- I'll feel better prepared to go into the committee after -- if I could have a talk with you before-hand.
- HMJr: Did Ronald Ransom tell you how I kidded him?
- E: Well, I saw him just a moment, and he said he saw you over at the White House, and he -- he said that -- that you had kidded him about going to pay off -- going to pay off another five hundred million of bills, and well, you kidded me the other day about it. I don't know as you kidded me, but you -- when you said you wished I'd give you a memorandum -- did you get it?
- HMJr: No, but I haven't got anything.
- E: Well, I sent one over to you.
- HMJr: Well, I mean -- everything is piled up. That's what I mean.
- E: Yes, well, -- you -- I got -- I got a memorandum over to you today covering the thing. It's only two pages.
- HMJr: Well, they -- they are bringing it up to the house tonight.
- E: Yes. Yes.
- HMJr: Well, thank you.
- E: All right. Good bye.

December 28, 1938.
5:34 p.m.

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Aubrey
Williams: Hello.

HMJr: Hello, Aubrey.

W: Hello, Mr. Secretary.

HMJr: How are you?

W: Well, I'm pretty good. I want to ask you if you would be interested and willing to sit down with me -- ah -- give me a little time to tell you what this thing is that we've got here.

HMJr: Sure, I always have been in the past.

W: You sure have.

HMJr: Ah -- how much hurry is there?

W: What's that?

HMJr: How much hurry is there?

W: Well, no great hurry. I know that you are busy as the dickens this week.

HMJr: Well, the point is this -- ah -- we run over --marched over yesterday to see the President on the budget --

W: Yes.

HMJr: I wasn't feeling well, and today we went over and he didn't have time, so we're scheduled tomorrow, but just the minute we get this cleared I would be delighted to sit down.

W: Well, that's -- that's fine, and --

HMJr: Will you be here Friday and Saturday?

W: Yes.

HMJr: Well, you'll hear from me one day or the other. We'll make it a time that is mutually agreeable.

W: I don't like for you to work in the evening, but --

HMJr: Neither do I, but I do.

W: Ah -- I -- I just planned the idea that maybe it would be more leisurely for you. I don't think it will be work -- I mean, I think it is the kind of thing you

would love, and then later on I want you to go with me and see some of these places.

HMJr: Well, Aubrey, give me a chance, and between now and Saturday night I'll call you.

W: Grand!

HMJr: Thank you.

W: Thank you, Henry. Good bye.

HMJr: Good bye.

Confidential

P A R A P H R A S E

A telegram (No. 744) of December 29, 1938, from the American Embassy at Peiping reads substantially as follows:

Since receiving notification from the Department of the authorization by the Export-Import Bank of credits to the Universal Trading Corporation Mr. Lockhart (Counselor of Embassy) has seen officers of the Japanese Embassy including the Counselor several times but no one of them has mentioned either to Mr. Lockhart or to any member of his staff the matter of these credits.

893.51/6749

(COPY)

THE VICE PRESIDENT'S CHAMBER
WASHINGTON

December 29, 1938

Personal

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

Dear Henry:

I am just in receipt of your formal note of December 27th, enclosing the copy of Fortune magazine for December, containing an article on the Treasury Department. I have read it with the greatest of interest.

I was hoping yesterday to make some observations about the Treasury Department in connection with the agricultural policy, but it was too late. I had wanted to say that if it adopted the agricultural policy I suggested, the Treasury would be saved more than \$700,000,000.00 and I hoped that that would interest you, since I had known in the past that you had hoped for the day when the books would be balanced.

However, since Mr. Ecoles has expounded the doctrine that the deeper in debt we get, the richer we will be, I am all flabbergasted and hardly know what to think, as some of the boys grasp the idea that our "Boss" saw the letter and has the same view. I just hope to God that that is not so.

Pardon this kind of a letter in reply to your formal note.

I wish you long life, health and happiness.

Sincerely yours,

W. N. Yerkes

JWG/1

December 29, 1938

(CABLE) THROUGH NAVY DEPARTMENT

Please endeavor to contact Professor Buck at Chungking and give him the following message: Secretary Morgenthau wants you to go to Haiphong and remain two weeks sending him frequent cables through Navy channels concerning the movement of freight on the French Indo China Railroad especially the volume of traffic moving up and down the road and the quantity of new freight arriving for the Chinese. Secretary Morgenthau wants you to cancel your proposed Burma trip.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 29, 1938, 4 p.m.

NO.: 3187

FROM COCHRAN.

Today the French stabilization fund gained an important amount of sterling while the pound has been much under pressure. London was a large purchaser of dollars. Day to day money in London was so scarce there that in order to meet end-of-the-year requirements banks have been borrowing heavily from the Bank of England. Yesterday dollars were acquired by French control through Chase and Morgan, but today the rate is prohibitive. There were no important changes in the Bank of France statement as of December 22. There was a rise in coverage from 61.87 to 62.01.

END SECTION ONE.

WILSON.

JR

GRAY

Paris

Dated December 29, 1938

Rec'd 3:20 p.m.

Secretary of State,
Washington.

2187, December 29, 4 p.m. (SECTION TWO).

In listening to Reynaud yesterday defend his financial program the Senate, which has consistently opposed exchange control, welcomed his condemnation of such a measure as constituting only a part of a necessarily complex system of closed economy which would be incompatible with French democratic institutions. Reynaud's program including the foreign loan for the conversion of railway bonds is receiving much praise in the European press. Conversion of French rentes is expected to come in the not too distant future if present progress continues.

Press reports that French Schneider Creusot subsidiary Union Europeenne has sold its majority interest in the Skoda works to a Czech group backed by the Czechoslovak Government.

WILSON

CSB

EDA

GRAY

PARIS

Dated December 29, 1938

Received 5 p.m.

Secretary of State

Washington

2187, December 29, 4 p.m. (SECTION THREE).

Schacht is reported to be planning early trip to Finland, Sweden and Denmark on trade and financial questions.

Following the resignation effective December 31 of his good friend Meyer as Swiss Minister of Finance it is expected that President Bachmann of the Swiss National Bank will shortly retire from that position perhaps to remain Chairman of the Board and later be succeeded as President by one of his present collaborators, Weber or Rossey.

Evidence continues to appear in the press that British may eventually achieve some working arrangement with the Germans on exports rather than precipitate a trade war.

WILSON

RR

PARAPHRASE OF SECTION FOUR. TELEGRAM NO. 2187 OF
DECEMBER 29, 1938, FROM PARIS.

The Paris representative of the Bank of Italy believes that the Italian expansionist demonstration against France as staged in Parliament went much further than had been anticipated by its backers. He is still of the opinion, expressed before I went to Washington, that the Suez Canal and the Ethiopian Railway are the two important questions for Italy. He told me he thinks that eventually it will be possible to negotiate both questions, especially after Chamberlain has the generous reception planned for him in Italy.

END OF MESSAGE.

WILSON.

EA:LWW

ML

PLAIN

London

Dated December 29, 1938

Rec'd 3:43 p. m.

Secretary of State

Washington

1474, December 29, 6 p. m.

FROM TREASURY FROM BUTTERWORTH.

(1) Another pounds 1.7 million of notes in circulation brought the Christmas note withdrawals to about pounds 27 millions which was within pounds 2 millions of the figure for last year when some notes were in hoarding. Bank of England return also reflects the beginning of discount market borrowings, the item "discounts and advances" being up on the week by pounds 13.6 millions. Estimates place the total by which the market will be "in the bank" by the end of the week at over pounds 30 millions reflecting the year-end squeeze which has carried money rates to the highest levels since the crisis week in September. The Bank of England reserve stands at pounds 52.5 millions and the proportion at 34.13 percent. Bankers' deposits rose by pounds 2.7 millions to pounds 101 millions and public deposits by pounds 3.4 millions to pounds 15.9 millions; these were pounds 19.6 millions less and pounds 4.5 millions more respectively than a year

ML -2- London Dec. 29, 1938 3:43 p.m. #1474

year ago. Government securities in the banking department were pounds 69.2 millions, a decrease on last week of pounds 2.9 millions and on last year of pounds 45.4 millions.

The dollar opened bid at 4.66-1/2 and went to 3/8 where it remained steady until New York came in as a buyer of dollars and the British authorities supported sterling at 4.66-15/16, around which rate the market closed, the pressure having been fairly steady but not heavy. 172 bars of gold were sold at the fixing, 65 being married and small portion taken by the British fund. The price was 149s. and 1/2D, being shipping parity. There were practically no after fixing gold dealings. The forward dollar closed around 2 for the three months and 15/16 for one month and there were no indications of dealings by the British authorities and little business done.

The franc was fairly steady, the Bank of France gaining small amounts of sterling, the spot rate closing at 177.03. The one month forward franc went to a small premium and the three months' discount was around 3/8 to 1/2.

JOHNSON

BOARD MEETING

December 30, 1938.
9:30 a.m.

Present: Mr. Taylor

Mr. Gaston
Mr. White
Mr. Foley
Mr. Duffield
Mr. McReynolds
Miss Chauncey
Mr. Seltzer (for brief period)

H. J. Jr: Where's George? Harry, what does this red line mean here (on a chart)? Does this mean the average - a six-months moving average?

White: I couldn't say.

H. J. Jr: Take a look at it, will you please? Most likely something there ... - if it isn't clear, send for Miss Michener. I mean whether that thing

White: Do you want it right now?

H. J. Jr: Just... Yes. Can't you tell? The figures are attached there.

White: I can. ---- Twelve months. (S. 8-177)

H. J. Jr: What?

White: Twelve months moving average.

H. J. Jr: Well, I can't read - I didn't see - that's twelve months?

White: Twelve months. Red line is the twelve months moving average.

H. J. Jr: Well, the point - just look it over, because the point in the President's message - he makes the point that cash expenditures dropped so in '37 - these black lines are the actual cash expenditures - and they didn't. It's the receipts that went up, didn't they?

White: That's right.

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- H. S. Jr: This doesn't show any drop in cash expenditures
- White: President used the word "cash expenditures"?
- H. S. Jr: "Expenditures."
- White: Dropped sharply in '37?
- H. S. Jr: well - and Hopkins said - I said that wasn't so, at least I didn't think it was so. Hopkins said they didn't drop at all, it was receipts which went up.
- White: receipts which went up. President used the wrong term.
- H. S. Jr: What he's got in his message is that it was the drop in expenditures which brought on the last
- Winston: There wasn't any such drop. The only big drop was when they finished paying off the bonus in '36.
- White: I think the President probably, in the first place, used the wrong term; in the second place, even had he used the correct term, there is a difference in the interpretation of those two figures. Supposing I run it down and
- H. S. Jr: well, it doesn't do much good, Harry. I'll
- White: well, won't you have a chance before it's given out?
- H. S. Jr: well, I'm going over again. Don't think I'll have any chance.
- Keylor: That particular one, I think, certainly is a point that has to be made.
- H. S. Jr: what's that?
- Keylor: That the expenditures stayed up. It was simply the net deficit - I mean what you might call the net contribution, if any, that declined.
- H. S. Jr: well, you see, they got Eccles's - what's the term that Eccles used?

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- White: Net contribution; that's different from the expenditures.
- W.C.Jr: I know. Well, I used the word "net cash deficit."
- White: which is a third term.
- W.C.Jr: well, isn't the net cash deficit and net cash contribution - aren't they almost synonymous?
- White: It isn't by virtue of the fact that net contribution has quotes on it and they interpret it in different ways. They think that figure is more significant than the other and it will show different peaks and different declines. I can very quickly get a description for you before you go over.
- W.C.Jr: Do what?
- White: write down the difference between the three concepts. Very briefly.
- W.C.Jr: well, the point that I made is this: that in July of '36 the net cash deficit started to go down and that the New York Times business index didn't fall off until the following August, or there's 13 months' lag, and I just don't see - I just don't see how you could charge that the net cash deficit is responsible for business falling off in August.
- W.C.Jr: The new orders fell off a little sooner, didn't they, along in March, April?
- W.C.Jr: well, there's just so many things that - but I thought the New York Times was as good a business index... well ...
- White: How much time do you have to go into it, or do you want to go into it at all?
- W.C.Jr: It's useless. They've got the Eccles speech there and they're using that as a Bible, and so there isn't much
- White: So far as what the deficit is, it appears to me they're dealing with facts there, and that's something you ought to be able to stand on, so it ought to meet

-4-

with your approval - not a matter of opinion.

H. J. Jr: Well, I got the net deficit here.

Warton: There's a wide-spread impression that the expenditures were cut down sharply in 1937; it just isn't true.

White: When are you going over?

H. J. Jr: I'm going at 10:30. There's no use, Harry. I mean with all due respect to you and Currie and all the rest of them, you've plowed the field and now we're all going to reap it, and it's just the work you've done and it's being harvested, it's in the process of being harvested.

And the unfortunate thing is that I have nobody in the Treasury - I wish Haas was here - that takes the trouble to see whether this one school is accurate, and I've got to do my own digging. And I just don't believe it, that's all, and I think that as time goes on they'll find the Federal Reserve and their economists were wrong on this and will say, "We were wrong on increasing reserves." I mean you can't overlook sit-down strikes, you can't overlook a multitude of things, railroad troubles and public utility troubles and troubles between the business man's state of mind and - all the rest of that. And in this whole thing to say that government contribution to business is the one and only way to get recovery I think is one of the tragedies of this Administration.

White: I don't think that's quite a fair presentation of our views.

H. J. Jr: I haven't got anything else from anybody in the Treasury, and I think that's the tragedy: nobody has had the nerve to send me a single thing, not a thing; nobody in the Treasury has sent me anything different. I only get one kind of thing, or silence. Now, is that fair?

White: That's true.

H. J. Jr: You bet your life it's true. I get nothing but

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complete silence.

Walter:

Well, it's going to be broken.

Wilson:

If somebody would write a one-page memorandum of the facts of that fluctuation of expenditures and receipts, and the cash expenditures, wouldn't they take a look at it - if you just put down the bare facts and figures?

Wright:

You've got it on that chart there.

H. J. Jr.:

What chart?

Taylor:

I think it shows on that chart.

Wright:

Give it to Sam.

Walter:

There's a difference of opinion and interpretation. I may say if you will only give us a chance to explain both differences and come to a conclusion as to which you feel is right, and then let the other go entirely, we'll be very glad. But I don't think in the past you yourself have given an opportunity to examine the basis for both. I'm speaking merely of the factual - not the interpretation of it because of the decline, but merely the question as to what is a cash deficit, what is the net contribution, which of those two figures is right, and now they arrive at them.

H. J. Jr.:

but this discussion has been going on for over twelve months and nobody's - anybody can write me a memorandum and send it to me. I haven't got any memorandum. I mean I went all through this thing with Ruml and all the rest of this business and everything else, and I mean nobody around here gives me anything. They're all - I don't know, I don't think they're afraid of me, but I think they're afraid of the rest of the people, the rest of these economists around town; I don't know.

The only thing I had was this document yesterday which I showed the President. That's the only thing that I've got - net cash deficit and the Times business index. Business didn't fall off for thirteen months

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after the net cash deficit began to sharply fall. I got nothing else.

Wise: Well, I'll promise you'll get something.

H...Jr: Hun? I say - I wish that George was here, but he isn't; I don't know, Mac, what George's people do down there, back there. I mean I don't - at least I don't know how they feel. Maybe they agree.

(On phone) Tell Larry Seltzer to come in here, please.

W...Jr: I think if Sam is about to make an absolute misstatement of fact that he'd listen to the figures on the thing. If he is about to say that expenditures dropped off sharply and we can show him it isn't true, he wouldn't make that statement.

H...Jr: You've got three lawyers writing an economic document. There's no use. You can't argue with them.

Taylor: Larry's got all that you're talking about.

H...Jr: Who?

Taylor: Larry Seltzer has what you're talking about. I was talking to him yesterday morning about it.

H...Jr: Well, again, as I say - that section gets how much money, Mac? Plenty.

Wise: About

H...Jr: I mean you can't rush in - I mean it isn't fair to the President for me to rush in the last minute and say - the time is when these things keep coming and coming. Immediately after Eccles's speech, somebody - I mean there's plenty of statements been made; if somebody would take Eccles's speech and say, "Mr. Morgenthau, this is where it's right, this is where we think it's wrong." Or "It's all right, everything in it is right."

But it's - the whole point is that nobody does anything unless I get angry. As I say, I wish George was here to take it.

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Herbert?

Gaston: I don't know of anything.

Duffield: Power group has got a rough draft of a bill.

H.S.Jr: Who?

Duffield: The power people.

H.S.Jr: Oh.

Duffield: If you want to see them.

H.S.Jr: I haven't got the "power" or the energy left.

Duffield: All right, we'll let it go over then.

H.S.Jr: I think you'd better.

Duffield: Yes. That's all.

Taylor: Have you made a date with Sumner yet?

H.S.Jr: I'll answer that in a moment.

(To Kieley) What about Mr. Welles?

Kieley: He's unable to come to lunch; has an engagement of long standing. Mr. Straus is coming.

H.S.Jr: I don't know, I'm not - I just won't be able to see Welles. I asked him to come for lunch; he can't come. If he's so busy, the hell with it, that's all.

Taylor: We've got this Munitions Board business up again for a meeting which has been called while you're away.

H.S.Jr: Yes.

Taylor: Have you (Foley) sent this through to the Secretary yet, about the various points, and so on?

Foley: No. I haven't got it with me.

Taylor: One of the difficulties is that you alone are empowered to appear on this thing. Of course, you're not going

-8-

to be in town, so ...

A. J. Jr: well then, nobody go.

Speaker: I don't know whether we can do that or not.

A. J. Jr: well, you fellows decide it.

(Seltzer comes in)

Taylor: Pretty big.

A. J. Jr: Good morning.

Seltzer: Good morning.

A. J. Jr: Larry, in the absence of George Haas, you'll have to take this. Is there anybody in your section that does anything about studying, for instance, the speech that Mr. Eccles made, and his theory of spending and his question of deficit and net contribution? I mean is there anything in your shop to show whether this is right or wrong?

Seltzer: Yes, I think that's all my baby.

A. J. Jr: Why the hell don't I get anything out of you?

Seltzer: You're busy all the time with these meetings. George is a member of your committee on just this subject.

A. J. Jr: I don't get a thing. After all, Taylor is available, Mr. James is available, Mr. Bell is available. I mean as far as I know, your section back there thinks it's all swell.

Seltzer: Well, we - I've been writing a budget message for the last month for Danny Bell. I don't think he used very much of it, of course.

A. J. Jr: Well, that was through at least a week or ten days ago.

Seltzer: Uh-huh.

A. J. Jr: But is there anything in your place - I mean to show

-9-

that the decrease in the cash deficit or decrease in that contribution is what caused this last depression?

Belmont: well, I don't believe it, but it isn't the sort of thing that anybody can demonstrate. That is, you had too many factors working at once.

W. J. Jr.: Yes, but is there anything that it's possible to get out of your section to show whether it is or isn't so?

Belmont: You remember, we wrote a long, very long story on the causes of that depression for you. We went over - we canvassed about every factor that anybody could mention, including this one, some time ago.

W. J. Jr.: Well, in the meantime - that must be at least a year old, isn't it?

Belmont: That's right.

W. J. Jr.: Well ...

Belmont: That is, if you're referring to that particular depression.

W. J. Jr.: No, what I'm referring to is this, and I'm saying this to you and I mean it for George Haas; that I sit here and you people - I take it your group back there costs me around - I don't know, a couple hundred thousand dollars - and why can't I get something on my desk that you people intellectually believe; and say, "Mr. Morgenthau can take it or leave it, but here we are; we're being paid by the United States Government. Here's a theory of spending and deficits which is being evolved by this administration, by these groups, and we feel that intellectually and professionally if we differ with that it is our job to get it to him."

Belmont: Of course, our contact is through George.

W. J. Jr.: Oh, all right. Well, have you laid it on George's step?

Belmont: Sure. We've talked about it to George, we've had

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conferences on this subject several times every week.

H.A.Jr: All right. I don't want to be unfair to you, Larry. I want George Haas, but he isn't here.

Seltzer: Of course, on this particular viewpoint, my personal opinion is that that story is being exaggerated in the same way that a few years ago people exaggerated the influence of banking policy. They thought that they could run the whole economy by open market operations and the discount rate. And so now you have a new panacea because the other failed, that you can make the country and the whole economy what you want by deficits.

H.A.Jr: Well, how long would it take you to put down what you honestly think as to whether net contributions, deficits - how much weight that had in the '37 depression? How long would it take you to put it on paper: what you personally think. Never mind what anybody else thinks.

Seltzer: I'd say about half an hour.

H.A.Jr: Go ahead and do it, will you? I'm going over to the White House at 10:30. Please. What you personally think.

(Seltzer goes out)

Wayne, you

H.A.Jr: I'm going to stick my foot in this, Mr. Secretary. If he's going to make a statement as to what he thinks - like to have him do it and you should see it; but before you give that to the President, if that's what you contemplate, I should like an opportunity of getting in a statement. If they're the same, fine; if they differ, you'll make your decision. But I think both points of view should be presented, with an opportunity to exchange the memoranda.

H.A.Jr: If he can't do it in a half hour - each of you do a statement and when you've got it, go in to see Wayne Taylor, see if you can work it out and give

-11-

me something. It's too late anyway. It's too late anyway. I'm not going to shoot over a memorandum. Think it would be silly, don't you?

- Winton: Yes, but I think a statement should get into Sam's hands that opens with this sentence, or substantially this: that there seems to be an impression that expenditures were sharply reduced in the calendar year '37 and that this contributed to the recession; that is not true, there was no drastic reduction of expenditures in '37.
- A. W. Jr: I'm going to take that chart over. I'm going to give them the figures. They're right there. He can write his own statement.
- W. W. Jr: But I think you have to protect him against making the statement that he apparently has in mind.
- Winton: That's a plain misstatement of fact.
- A. W. Jr: I mean on the top, Wayne.
- W. W. Jr: Well, that's both figures and charts. This one shows the cash expenditures, and there they are.
- A. W. Jr: Sure. And here's the figures: "net cash...." - what's this?
- W. W. Jr: Expenditures.
- A. W. Jr: What's this?
- W. W. Jr: Net cash deficit.
- A. W. Jr: What's the difference?
- W. W. Jr: This is by classes. But this chart there is the one to use.
- A. W. Jr: Well, let me see what they have over there, see? But I mean you can't - it isn't - the President is perfectly He said to me, "If you don't agree, why didn't you get me out something a long time ago?"
- Winton: Well, I take it there are two different - there are

-12-

two different points in the discussion that you're raising. I'd like to say this even though you may want to close the subject. One is the question which relates to the facts, which the Treasury certainly is in pre-eminent position to have; namely: what are the cash expenditures, and so on. Those are facts. The other is about interpretation.

H. S. Jr: Now, Harry, look, old man; you're not to blame or credit on this, see? Now - and I - this other section - that's their responsibility and they get a quarter of a million dollars for what?

White: Well, I wasn't thinking of the responsibility, Mr. Secretary. I was thinking of what I should like or should not like you to give to the President at this moment. That's what I was thinking of. I'm thinking merely to protect you against - if you give certain things and if there's going to be a blast against it later.

H. S. Jr: I'm going to give him this chart.

White: Not the top one.

H. S. Jr: Not what?

White: Not this one.

H. S. Jr: He's got that one, leaving this off. He's got it.

Taylor: The important one is the big one underneath.

White: That's all right. Those are matters of fact.

Taylor: Those are matters of fact. That's all we're trying to protect the President from.

H. S. Jr: What's the matter with this?

White: First place, that lower line - I haven't dipped into it, I'm only second-hand on it - first, the selection of the curves and the juxtaposition, and the way in which the things are selected. But there will be a memorandum on it that will come forth soon. The other is a matter of fact. I imagine they're accurate.

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Taylor: He can't make a statement, Harry, that expenditures were curtailed in '37; that's all we're talking about.

White: I advise the Secretary to stop him on that - I agree with you - if he uses the word "expenditures."

Gaston: That's what I'm talking about.

Taylor: Absolutely.

H.L.Jr: As a matter of fact in June '37 the expenditures reached a peak, they went up to 764; then 524, 650, 578, 522, 697.

White: Is that the right one?

H.L.Jr: Yes. There's no

Listen, you two fellows (Taylor and Foley) decide about the Munitions Board, will you? You, you, and Mac. And anything you three fellows sign, I'll sign. Is that fair enough? Whatever you decide to do. One, two, three.

Foley: The meeting is held while you're away. The question is who represents you at that meeting.

H.L.Jr: Well, Taylor.

Taylor: And what you want them to do

H.L.Jr: And Taylor - what he does - he's got his own head; let him make up his own mind. If he will just talk it over with Foley and Mac before he goes over, whatever you decide will be agreeable to me. Just got to spread this responsibility, that's all. Do you mind taking it?

Taylor: (Nods no)

Foley: I have

Taylor: Certainly not for this particular one. After you get back, I may say, "Let's do this some other way."

H.L.Jr: That's all right. Just two weeks.

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Foley: I have two things, the silver proclamation and the memorandum on that suggestion of Eccles - for the message.

H.S.Jr: Oh, there's nothing in the message on banking.

Foley: O.K.

H.S.Jr: There's nothing in it.

Foley: But that shows you how insidious that suggestion was. Here are the two alternative

H.S.Jr: Do you mind hanging on, and between you and McReynolds, and so forth, see that before I go to the White House - I mean be around about ten minutes of two, walk over and explain it to me.

Foley: Be here ten minutes to two?

H.S.Jr: If you please.

Foley: Ten minutes to two.

H.S.Jr: If you please, ten minutes to two.

White: Harry?

White: Nothing. But you asked for something; you're going to get it.

H.S.Jr: What?

White: I say you've asked for something. We're going to stick our noses out.

H.S.Jr: You're not sticking your noses out. I go over - the only reason I'm of any use to the President, when everybody sits around and hasn't got the nerve to say something... And I wish everybody's relationship to me would be the same, and I've said that again and again. And if you people can't work with me like that, you're of no use to me. That's what I'm complaining about this morning: that here's a section that costs the Treasury a quarter of a million dollars and they sit there - lady present - and I don't get anything out of them. That's - I'm complaining because they don't stick their neck out.

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I think I've got a justified complaint. And that's the whole thing that Miss Lonigan complains about continuously: that she won't write stuff that she doesn't believe in, that she isn't given a chance to write the stuff she does believe in. She's said that now for twelve months.

No, I want it. And you know by now, Harry, that I can take it too.

Kieley: Mr. Eccles.

H.M.Jr: Mac, I'll see you a little later.

December 30, 1938.
12:55 p.m.

180

WJr: Hello.

Operator: Secretary of War.

WJr: Hello.

Q: Go ahead.

WJr: Hello.

HERRY
Woodring: Yes. Hello, Henry.

WJr: How are you?

Q: Yes.

WJr: The President called me, see? Hello.

Q: Yes?

WJr: And I'd come over to see you, but I'm just up to my neck on this budget. I was at the White House from ten thirty yesterday until twenty minutes of seven.

Q: I know.

WJr: And we go back at two. Now, if you don't mind, I'd like -- I could talk frankly over the phone.

Q: Yes, I want you to.

WJr: Putting me on record that I should guarantee whether the French can or cannot pay for those planes puts me in an impossible position.

Q: Well, Henry, your letter -- your letter to me was just everything on earth that I didn't intend to do. I was confronted here with the -- these people telling me that Congressmen and Senators are -- are just ready to raise hell about -- sh -- all the taxpayer's money that we have had for develop and experiment being -- being given away in the -- in the criticism of the French having flown our other planes and all -- all I wanted to do, Henry, was simply to protect you in the matter.

WJr: Yes, but I don't -- I don't want to be protected. I mean -- I -- I don't want anything in writing. I mean here's this mission.

Q: All right, we'll withdraw that. I -- I wanted to call you on the phone --

WJr: Yes.

- 2 -

- W: And they said no -- ah -- my advisors here said no -- I think he'd rather have it in writing.
- HMJr: Well I mean, you could have asked me; would it be helpful to me to have it in writing.
- W: All right.
- HMJr: Now, I don't want it in writing, and the point is -- ah -- the President said that they can see these planes. Now he wants -- he wants them to see them. Now you have --
- W: Well, when he said that though, Henry, wasn't he misinformed on the -- on the thought that -- two things -- first that they could -- that Douglas or someone had informed you, or you had informed the President, or any way that he had the information that the planes could be delivered; the order given the first of January and be out of the way by March, or April, or May, or June?
- HMJr: No, what the French said was they wanted the orders within the first six months.
- W: Yes.
- HMJr: See?
- W: Yes.
- HMJr: And I told my people that -- ah -- unless the French could get what they wanted there was no sense in the manufacturer to deliver -- there was no sense showing them the planes -- ah -- that either the manufacturer couldn't deliver or we didn't want them to have.
- W: That's right.
- HMJr: Now -- ah -- I presented this thing to the President. Now, there is no question about the Martin, is there?
- W: About the what?
- HMJr: The Martin bomber.
- W: No, no. There isn't any question about the other, because I -- there is -- there is a question on the part of General Arnold and all that, but that doesn't make a damn bit of difference.
- HMJr: Well, in order to --
- W: The President wants them to see them -- he's -- they'r

-- and they're going to see them. The only thing I want you to be protected on, Henry, and all of us, is that -- that we haven't taken them out there and shown them and then find out that they have walked out on us. Now, that's what I want you and me to be in -- don't want us to be in that position. I want to work with you on it. I'm going to go through with this thing --

WJF: Well, let me just ask you --

W: All right.

WJF: As to what Martin has, there is nothing secret about it --

W: Not a thing.

WJF: Well, can't they start in and go and see that and --

W: Yes.

WJF: Then I come up for air and I can be a human being, you and I can thrash this out.

W: Absolutely!

WJF: Well, will you issue the orders?

W: Yes, I'll issue it today.

WJF: That they can go and see what Martin has got.

W: Yes.

WJF: Then let's --

W: And then, subject to further conference between you and me before they go any place else.

WJF: Right.

W: All right.

WJF: That -- that'll keep them busy for a couple of days.

W: All right.

WJF: Now just a minute -- let me --

W: Now this other thing is not a matter of our record. My letter will --

WJF: It will be destroyed.

W: It will be destroyed. There will be nothing -- no matter of record in our department.

HMJr: For your sake and for mine.

W: What do you say?

HMJr: For both of us.

W: Yes, that's right.

HMJr: I didn't -- I didn't send a copy of it to the White House, because I didn't want it a part of their records.

W: No. All right.

HMJr: But now, and furthermore, I'm going to have this mission announced. I'm going to insist that they announce it.

W: I think that's -- I think it's all right.

HMJr: So -- but in the meantime, you will issue the orders that they can go to the Martin and see. They've got two types, haven't they?

W: I'll issue it in five minutes.

HMJr: What?

W: I'll issue the order in five minutes.

HMJr: And then -- then at least the thing is going and you're going to be here Saturday and Sunday?

W: Yes, absolutely.

HMJr: Well, I'll ask what time is mutually convenient.

W: All right.

HMJr: And then they can go over to Martins and that will keep them busy a couple of days --

W: That's fine, and I'll -- and we'll -- I'll stand by them till -- and they'll stand by as far as we are concerned until we hear from you further.

HMJr: And your representative will be along with them.

W: Yes, sir. Yes.

HMJr: Fine.

W: All right.

HUJr: Thank you so much.

W: O. K.

HUJr: Good bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 30, 1938, noon

NO.: 2193

FROM COCHRAN.

On December 30 at the opening of business the French stabilization fund contained gold in the amount of 12,460,000,000 francs. At 11 o'clock I called at the Bank of France. At that time sterling had weakened sharply and one million pounds had already been acquired by the French fund. A decline in sterling at the beginning of the year has been expected by both Paris and London markets. Confidential information has been given me that at the present time the British Treasury is considering the early transfer of an important amount from the note issue department of the Bank of England to the account of the exchange equalization fund, and in addition, a formal prohibition against forward gold operations and against using gold for borrowing.

Officials at the Bank of France expressed pleasure at the progress made under the Reynaud program in the monetary and financial fields. However, they expressed fear lest Mannheimer and his Dutch-Swiss banking syndicate get too much control of the Treasury. There has not been a good impression from the story that the Mannheimer group charged 1 1/2 percent commission on the new 175,000,000

florin

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florin loan for conversion of French railway bonds. It is still doubtful whether a large percentage of French holders of the railway bonds may convert rather than ask for payment, because French investors can at present obtain a better return on this market than the 4 percent rate carried by the bonds of the new loan.

WILSON.

EA:LWW

REB

GRAY

London

Dated December 30, 1938

Rec'd 3:25 p. m.

Secretary of State,
Washington.

1477, December 30, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The first effective business in the dollar was 4.65-1/4 at which level it has remained all day with the British authorities supplying the dollars. The turn over was fairly large because sellers do not have to put up the sterling until Monday. When the forward rates moved in, the one month's to three-quarters and the three months to 1-3/4 the market quickly bid them back to 15/16 and 2-1/8 respectively.

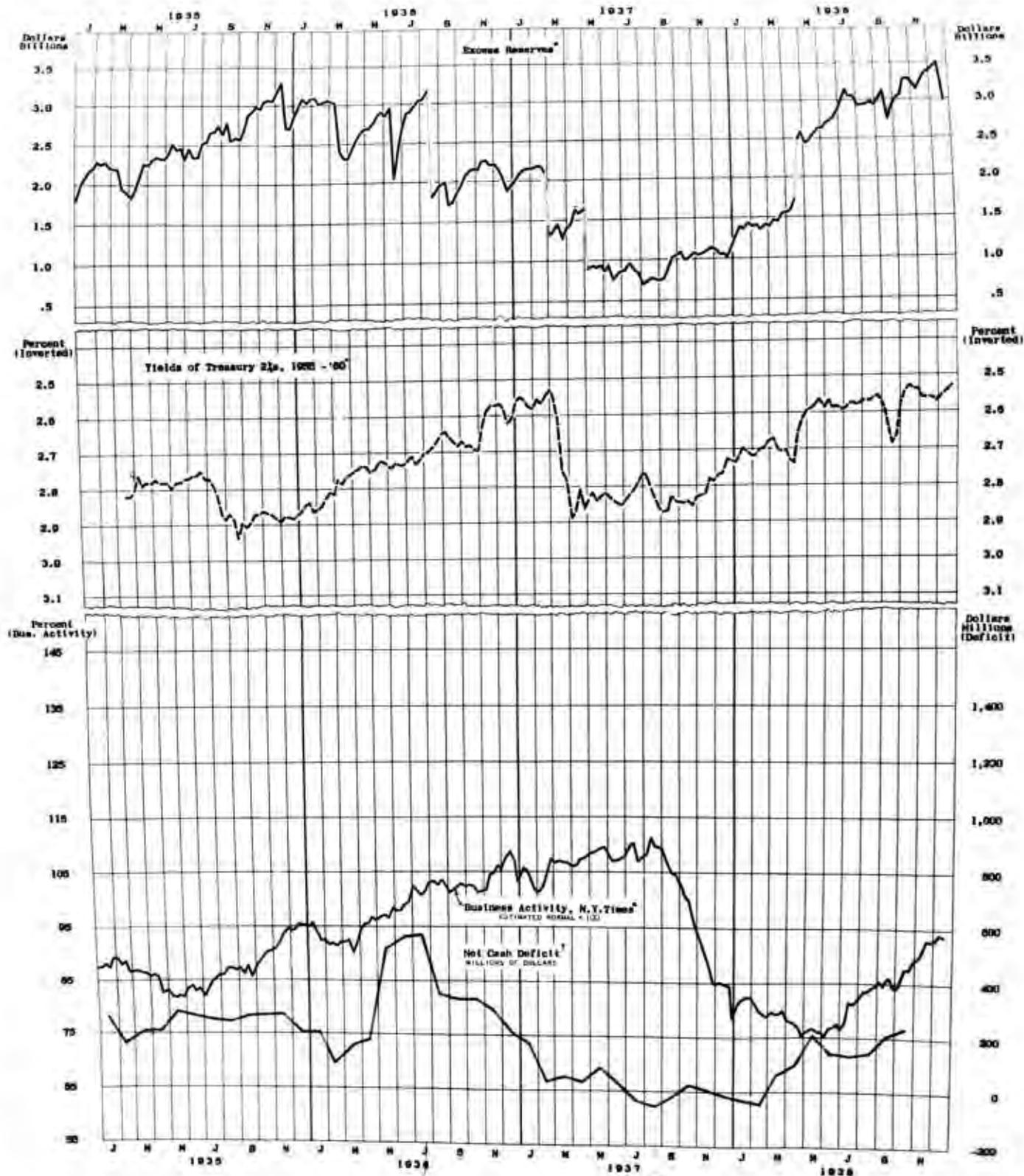
278 bars were dealt in at gold fixing at 149 shillings one-half pence of which 23 were married; the British fund supplied a small amount of gold. Incidentally the bullion market will be closed on Monday.

The franc has been bid all day, the rate moving from 177.03 to 176.85 and the French fund again acquired a not inconsiderable amount of sterling.

JOHNSON

CSB

EXCESS RESERVES. BOND YIELDS.
PRODUCTION AND NET CASH DEFICIT



Office of the Secretary of the Treasury
Division of Monetary and Securities

* MONTHLY (NET CASH DEFICIT IS THREE MONTH MOVING AVERAGE)

TREASURY DEPARTMENT

119

INTER OFFICE COMMUNICATION

DATE December 30, 1938

TO Secretary Morgenthau

FROM Mr. Seltzer *L.H.S.*

Subject: Limitations upon theory that the maintenance of a high level of deficit spending is essential to the continuance of business recovery

1. A few years ago -- right up to the trough of the depression in 1932 -- a great many younger economists, and some older ones, believed that the stabilization of business, prices, and the national income could easily be achieved by appropriate central banking action. When prices and business were falling, all that was necessary was a lowering of the rediscount rate and the purchase of securities in the open market by the Federal Reserve banks. Conversely, when prices and business were threatening to get out of hand on the upside, the Federal Reserve banks need only raise their rediscount rates and sell securities in the open market.

This theory, while it was not given a prompt trial in this country, certainly did not work when it was tried. Federal Reserve rediscount rates were reduced to the lowest levels in history by 1931 and their open-market purchases of securities during 1932 aggregated \$1,000 millions net.

2. The earlier idol of banking policy having conspicuously failed as an all-sufficient stabilizer, equally exaggerated worship is now being accorded Federal fiscal policy, and particularly a Federal cash deficit, as the dominant factor in making prosperity and depressions.

Although, as in the case of the influence of central banking policy, some significant measure of influence must be accorded Federal fiscal policy, I think it urgent that the Administration be warned against erecting the new theory into a principal guide to public policy in the absence of far more convincing evidence of its practical importance than has been adduced to date.

3. The principal limitation upon the efficacy of variations in fiscal policy in the United States in bringing about significant changes in the business picture is to be found in the relatively small economic scope of the Federal

Secretary Morgenthau - 2

Government as compared with the American economy as a whole. If the Federal Government owned the railroads, the telegraph companies, and perhaps the electric light and power industry, as is true in some foreign countries, the annual variations in the capital and operating expenditures of the Federal Government might be of sufficient magnitude to compensate for opposite variations in private industry.

The actual situation in the United States, however, is quite different. A \$4-billion deficit on the part of the Federal Government, continued for a number of years in a row, is enough to swamp the Federal finances without being big enough in relation to a \$60-billion to \$80-billion national income to provide a sufficiently powerful stimulus to compensate for deficiencies in the volume of private spending. One of the principal reasons for the inadequate stimulating power of the Federal deficit under present conditions, apart from the matter of size, is the loss of long-term investment confidence that accompanies it. Such a loss in long-term investment confidence is not necessarily attributable to the fact of a deficit as such; but to the fact that the public is not convinced that the deficit arises out of capital investments or that it is likely to be succeeded in the near-term future by a balanced budget.

4. Much of the present vogue of Federal deficit spending as a panacea arises out of the widely publicized, but undemonstrated, contention that the business recession of 1937-38 was directly caused by the decline in what Mr. Currie calls "The Net Contribution of the Federal Government to National Buying Power."

Unfortunately for purposes of analysis, the economic situation, like all living things, is the product of a myriad of interacting forces operating simultaneously. It is almost impossible to isolate and assess the weight of each contributing factor. Nevertheless, such evidence as we have does not support the doctrine in question.

Attached hereto is a chart showing the movements of excess reserves, a representative series of long-term interest rates, the Federal Reserve Board index of industrial production, the New York Times index of business activity, the Treasury index of new orders, and the net cash deficit of the Federal Government. This chart clearly shows

Secretary Morgenthau - 3

that the volume of new orders — the most powerful determinant of the business trend — rose very sharply during the last half of the calendar year 1936 and the first few months of 1937, despite a rapidly declining net cash deficit, until the rise in new orders was sharply reversed by the wide breaks in the bond market in the spring of 1937. These breaks, as is well known, were caused by the liquidation of Government and other high-grade bonds following upon the fiscal increases in reserve requirements; and by the widespread apprehensions accompanying the sit-down strikes in Michigan.

5. It will also be noted that the trend of the New York Times index of business activity was strongly upward in the last half of 1936 and the first eight months of 1937 when the net cash deficit was declining.

6. It should be observed, moreover, that the decline in the net cash deficit during the last six months of the calendar year 1936 and the calendar year 1937 was not, as is popularly supposed, due to a substantial decline in Federal expenditures. On the contrary, except for the natural cessation of bonus disbursements, the cash expenditures of the Federal Government remained on a higher average level than had been true in the calendar years 1935 or 1934. In other words, there was no real decline in Government spending; there was an increase in Government receipts. It was this increase in Government receipts that diminished the Government's cash deficit. And this increase in the Government's revenue was primarily due to the high level of business activity, though additional taxes also contributed.

7. In the light of these facts, it would seem that the proponents of the new doctrine must advocate a reduction in taxes every time that we approach normal prosperity; for otherwise, the growing receipts of the Federal Government would so reduce the net cash deficit, in their opinion, as to jeopardize the continuance of active business.

8. My conclusion is that the net cash deficit of the Federal Government is only one of a number of important factors operating upon the business situation; that its influence is not paramount; that its stimulating mechanical effects may well be nullified under various circumstances by its depressing psychological effects; that the widespread belief that the decline in deficit spending caused the 1937-38 recession is altogether undemonstrated and subject to a large measure of doubt; and that, in any event, the whole doctrine is as yet on too insecure a theoretical and practical foundation to be accepted as the single guide to fiscal policy.

EXCESS RESERVES, BOND YIELDS, NEW ORDERS, PRODUCTION AND NET CASH DEFICIT



* WEEKLY † QUARTERLY (NET CASH DEFICIT IS THREE MONTHS' AVERAGE, DEFERRED)

Office of the Secretary of the Treasury
Economic Research and Statistics

Index of New Orders Confidential

NET CASH DEFICIT AND CASH EXPENDITURES AND RECEIPTS, MONTHLY

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Current Estimates as of Dec. 1938

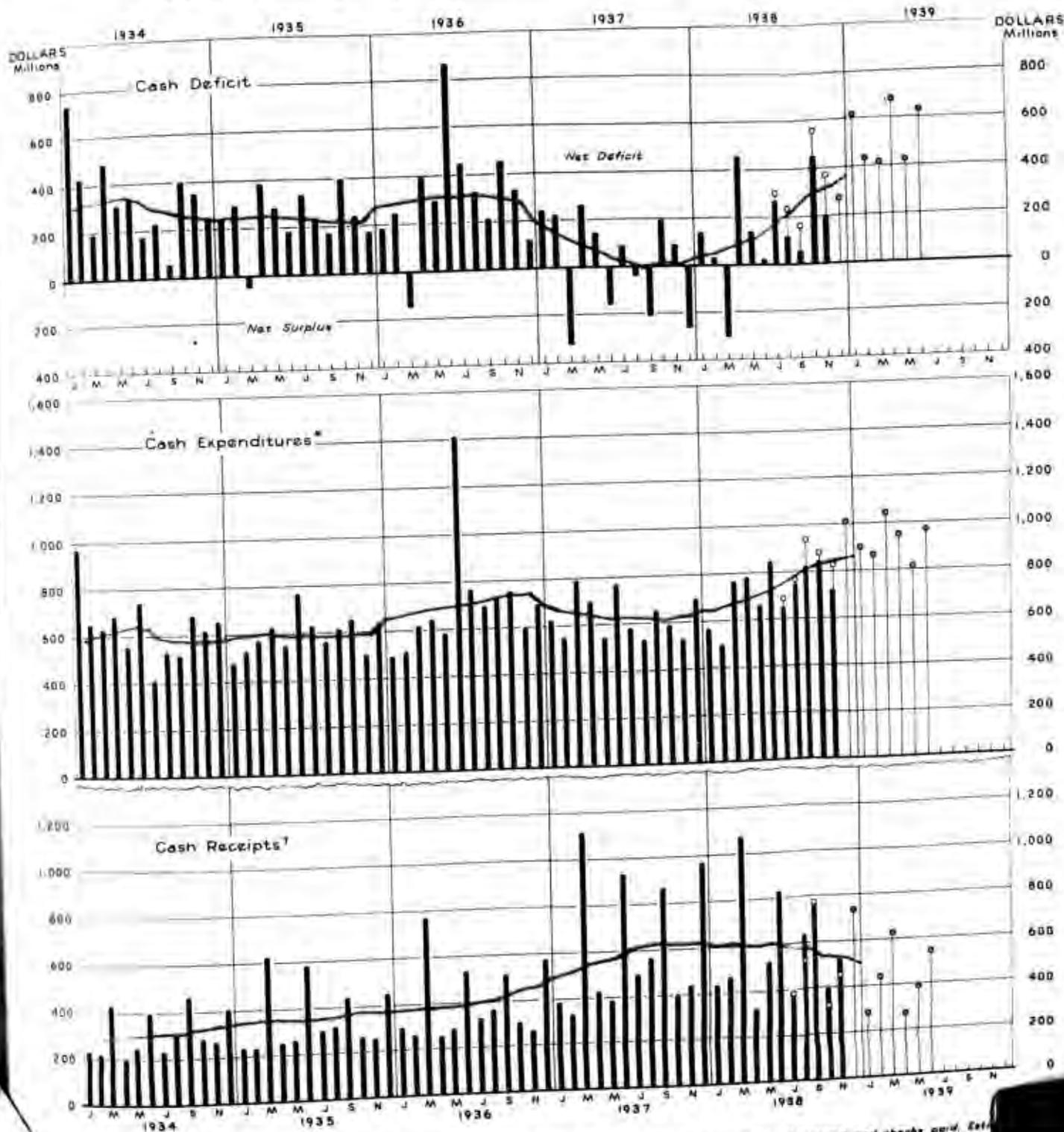
Fiscal Year 1939
to date

July Est-
Actual-

Current Estimate
Dec. to June Fis. Yr. 1939

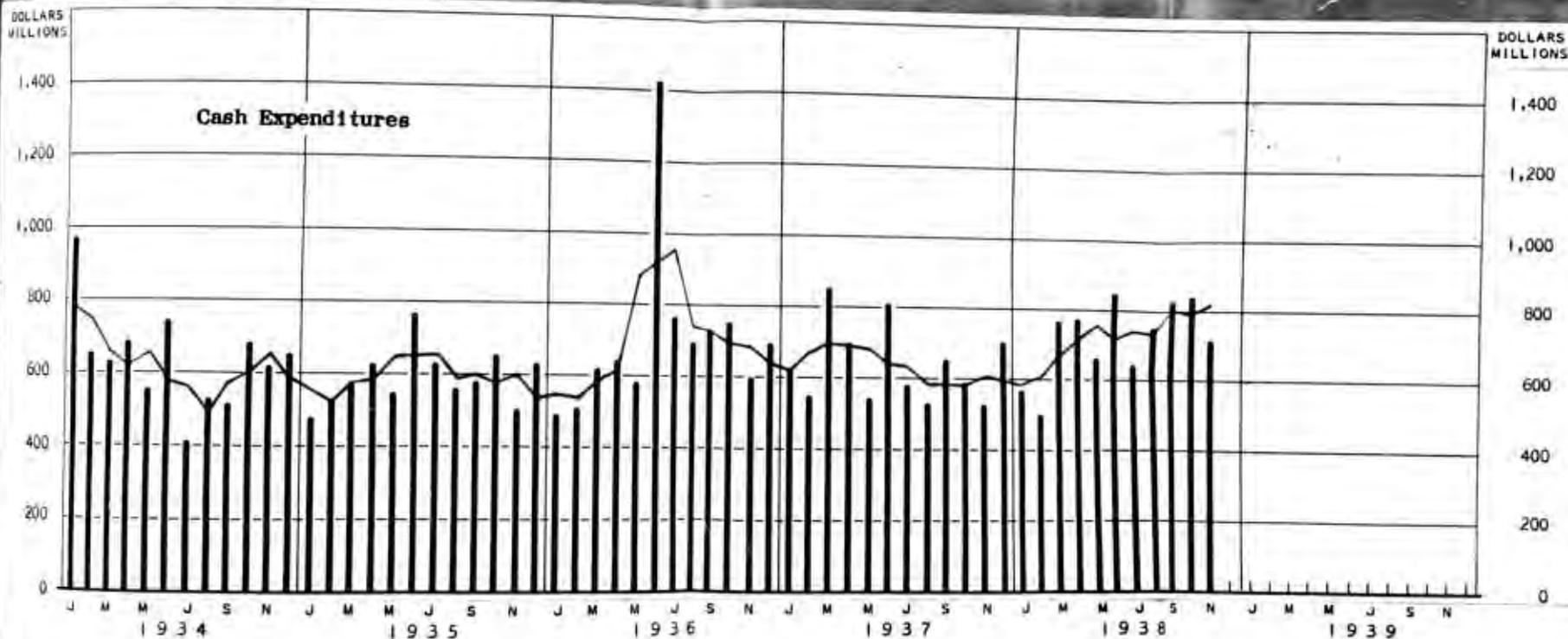
12 Month Moving Av

Actual
Estimate



* Excludes debt retirement and bookkeeping transfers to Trust Accounts. Includes bonus bonds cashed and checks paid. Est. as reported to Accounts and Deposits by the various departments and agencies.
 † Includes Trust Accounts; Estimates as of budget summation.

CASH EXPENDITURES*
Daily Treasury Statement Basis
(With Three Month Moving Average)



*EXCLUDES PUBLIC DEBT TRANSACTIONS, TRANSFERS TO TRUST ACCOUNTS, INVESTMENTS BY TRUST ACCOUNTS, SEIGNIORAGE AND INCREMENT RESULTING FROM THE REDUCTION IN THE WEIGHT OF THE GOLD DOLLAR. INCLUDES TRANSACTIONS IN CHECKING ACCOUNTS OF GOVERNMENTAL AGENCIES ON A NET BASIS. BONUS PREPAYMENT INCLUDED ON BASIS OF BONDS CASHED AND CHECKS PAID.

December 30, 1950.

Dear Mr. Chen,

With reference to cables recently exchanged in regard to the prospective visit of your friend, I shall attend personally to him when he arrives, and will try to help make such connections and arrangements as he deems necessary. The following general information on the transportation conditions of Indochina might prove of some interest.

Via Hanoi: The available cargo accommodation between Haiphong and Hanoi has been extremely limited, and the accumulation of undepatched cargo at Haiphong has risen steadily. A recent estimate of cargo lying in Haiphong is almost 10,000 tons, whereas, through special efforts and contrivances on the part of the railway officials, the traffic per day has been less than 100 tons. The heavy pressure for space has caused a great deal of discussion over the problem of assignment and led to many attempts to obtain accommodation through illicit channels.

Via Hanoi: Efforts are being made to make use of the Indochina-Kwangsi route, by transporting cargo to Dongkang, which is only 168 kilometers from Hanoi, as against 781 for Hanning. This journey can be cheapened by utilizing the river route between Haiphong and Phu L. Thong, which meets the railway line to the east of Hanoi. Truck connections between Dongkang and Chungking (via Chengdehuan, Hanning, and Duiyung) are less regular and more hazardous, taxes are higher, and the line may eventually be intercepted by the possible fall of Pukhai and Hanning, but it is considered worthwhile to utilize this route as far as possible, in order to relieve the congestion on the Haiphong-Hanning line.

Transport of arms and motor vehicles: Arms and ammunitions were freely transported through the territory (by both routes) until diplomatic pressure was brought to bear, after which an official ban has been published, activities have been hushed, and amount much reduced. The authorities have shown willingness to continue admission of these articles to the extent of not jeopardizing their own position, but the Chinese government is seriously preparing the new channel through Burma, in the apprehension of changeable instructions from the French government.

The ban on military articles has caused much spontaneous trouble in regard to the shipment of motor trucks and cars, which are in great demand in the interior. Early in November, the ban was placed on all motor vehicles, but was later lifted on those "for genuine commercial purposes". This led to certain individuals familiar with inside ropes undertaking to ship vehicles at considerably inflated prices, and for a while amounted to a virtual monopoly at one or two hundred percent surcharge. In due course, however, traffic became comparatively open to all and the freedom grew gradually, until at the beginning of December landing at Haiphong was again refused on the ground of "the heavy accumulation at that port and the lack of warehouse space and unloading facilities". It is stated that there are now over 1,500 trucks in Haiphong, which are being gradually driven into China, during nocturnal hours. Just the last few days, however, permission for landing is available once more, but it is not known how long this will last.

In addition to the above, I presume you have received the enclosure to Dr. P.W.Tsao's letter, which is a summary of the Indochina transportation conditions and legal status, prepared by a Mr. Wang for Mr. Lu Tsch Fu. Your friend will probably have to make a trip to Indochina for personal study of the situation, in which case I shall arrange for Mr. E.L.Pan to accompany him there incognito, to assist him generally.

Yours sincerely,

Regraded Unclassified



石拱橋橫跨厄河
Stone Arch Bridge Across Eri River.



於厄河之東色鐵橋正在積極
重建中。

Reconstruction of Wei Tung
Suspension Bridge across Sai-
ween River in active progress
Aug 2



於厄河之東色鐵橋正在積極重建中。

Reconstruction of Wei Tung Suspension
Bridge across Salween River in active
progress Aug.



於厄河之東色鐵橋正在積極重建中。

Central View of Temporary Gau Gau
Suspension Bridge across Mekong River.



於厄河之東色鐵橋正在積極重建中。

Front view of Temporary Gau
Gau Suspension Bridge across Me-
kong River.



沿湄江路之一角

A Short Stretch of Roadway along Mekiang River.



沿山路之路面

Road Surface on Hillside Sections.



竹筒之溪沿江橋其後多臨時木架橋以便村野交通中

The Yangpi Bridge in progressing with the temporary trestle at the rear to serve for the early opening of traffic.



建橋路中之民工

The native people in contributing their labor on earthwork.



沿山路幾及巖岩

Hillside Alignment with overhanging cliff.

(1) Present Conditions:

The Yunnan-Burma Highway commences at Kunming (Yunnan Fu), Provincial Capital of Yunnan Province, and terminates at Anting on the Burmese border. The total length of the highway is 973 kilometers and passes through mountainous regions. The road-bed at the highest altitude is over 2,600 meters above sea level.

The Yunnan Provincial Highway Bureau started work on this highway in the autumn of 1937 and up to December 24, 1938, the entire road surface was covered with loose stones except for 100 miles in the western section which had a temporary road surface. With the exception of two suspension bridges, all bridges will be of stone some of which are now operating with a temporary timber flooring. Where these permanent bridges are not quite completed, the highway is being serviced by temporary wooden bridges which have been strongly fortified. Motor trucks of 5 ton weight can be safely operated over the present temporary wooden bridges. It is estimated by the end of April, 1939, all permanent stone bridges will be completed and trucks of 10 ton weight can then be used for all traffic.

At the end of October, 1938, the Ministry of Communications established a Special Bureau for the administration of the Yunnan-Burma Highway. This Bureau will have charge of maintenance, improvement, engineering work and transportation of all goods. The Special Bureau is now functioning along these lines.

(2) Transportation Facilities in Burma:

(a) A 190 kilometer highway connects Anting with Lashio which is the terminus of the Lashio-Rangoon Railway running direct to Rangoon via Mandalay.

(b) Another highway of 170 kilometers runs from Anting 199 to Bhamo connecting with the Irrawaddy River. This river is navigable by steamers of 1000 to 1200 tons direct to Rangoon. Transportation can also be effected on the Irrawaddy River from Bhamo to Mandalay and thence by train to Rangoon.

(3) Preliminary Traffic Plans of the Yunnan-Burma Highway.
Administration Bureau.

(a) Transportation Facilities on the Yunnan-Burma Highway.

1. By motor car: For transportation of passengers and merchandise according to a fixed time table requiring a fleet of 700 cars.
2. Mule-drawn carts: Wooden carts equipped with rubber tires and drawn by mules or horses can move 1-1/4 tons each over this highway. This mode of transportation may be useful for the transportation of oil and heavy goods.

(4) Inter Transportation.

Up to December, 1937, there was no bus service between Anting and Lashio for accommodation of passengers. The Special Bureau, however, intends to inaugurate a through service from Kunming to Lashio thus avoiding change at Anting. Through transportation to Rangoon has been negotiated with the Burma Railway.

(5) Necessary Stations Along the Road.

The Special Bureau intends to erect between Kunming and Anting warehouses for the storage of goods along the road; 22 bus stations; 6 repair shops; 7 store houses; 17 oil storage and service stations; 7 wireless stations; 6 stop-over inns and possibly 5 eating places. Land for the above is being acquired.

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(6) Future Prospects.

Up to the present time all exports and imports to and from the Southwestern Provinces depended upon the French-Indo China Railway direct from Haiphong to Kunming. Owing to recent special restrictions and also to the limited capacity of this railway, goods cannot be freely moved. Therefore it is believed that before the completion of the contemplated Yunnan-Burma Railway, the Yunnan-Burma Highway will be a very important means of transportation for both imports and exports to and from the Southwestern Provinces. However at this time it is difficult to estimate the ultimate volume of transportation which can be operated over this road until a sufficient number of trucks are available.

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oo O oo

TREASURY DEPARTMENT

202

INTER OFFICE COMMUNICATION

DATE

Dec 20. 1938

TO Secretary Morgenthau
FROM Mr. Foley

The following is a copy of a paragraph which Eccles has suggested for inclusion in the President's message:

"Rehabilitation of the American banking system, which has been brought about since the declaration of the bank holiday by Presidential proclamation on March 6, 1933, has been a notable achievement in which both the Congress and the Executive can justly take pride. The proclamation has remained in effect but, in view of national recovery and of the great improvement in the condition of our banks, I feel that it would be appropriate to remove the restrictions of the bank holiday."

It is not clear what Eccles means. If he means simply that the bank holiday proclamations should be revoked, then there is no need for additional legislation; the President can, without finding that the emergency has ended, revoke the Proclamations of March 6 and March 9, 1933. The revocation of such Proclamations would not seriously curtail the powers of this Department. It would mean the cessation of the issuance of licenses to new member banks; this, however, is entirely formal since the licenses are always issued. There are also certain provisions in such licenses prohibiting the banks from paying out gold and gold certificates. This, however, is of little importance since other legislation, orders, and regulations adequately deal with the control of gold and gold certificates. If these proclamations were to continue in existence, at some future time when we wanted to regulate banking transactions, perhaps in connection with international flow of capital, the President might be able to do so by amending these proclamations and thereby avoid making any new finding as to the existence of the emergency. All in all, although not a great deal will be lost by the revocation of these proclamations, it is not seen how very much would be gained by revoking the proclamations.

On the other hand, if Eccles is suggesting the repeal of the so-called emergency powers in the Emergency Banking Act of 1933 then it could mean a serious loss of power to the Treasury. Section 2 of this Act gives the President power, among other things, to control foreign exchange transactions and obtain reports relative thereto. Although at this moment there is a general license permitting all foreign exchange

- 2 -

transactions we might wish to reimpose foreign exchange control, in whole or in part, in a variety of situations and also to obtain information relative to foreign exchange transactions and foreign holdings in this country. These powers to control foreign exchange, etc., are important to the Treasury as supplementing the functioning of the stabilization fund. Sections 2 and 3 of the Emergency Banking Act also give the President and the Secretary of the Treasury extensive powers relative to gold, silver, and the export of money which are duplicated only in part in the Gold Reserve Act and the Silver Purchase Act. Under section 4 of the Emergency Banking Act during an emergency period prescribed by the President no member bank can transact any banking business except as provided in regulations prescribed by the Secretary of the Treasury with the approval of the President. This power is not being used today to any great extent but could be invoked at some future time to regulate member bank transactions in such a way as to meet problems of foreign exchange as well as domestic problems.

I assume that Eccles is not suggesting the repeal of all the so-called emergency legislation since the carrying out of such suggestion would have widespread ramifications not in any way related to banking problems. Among other things the stabilization fund powers and other emergency powers of the President and of the Secretary of the Treasury, as well as the power of the Secretary of the Treasury to appoint five assistants would be affected thereby.

EN 76

1534-28

Federal Surplus Commodities Corporation
 Summary of Commodities Procured -
 Fiscal Year 1938 and Fiscal Year 1939 to date
 (Figures in thousands)

Commodity	Unit	Total fiscal year ended 6/30/38*	Fiscal Year 1938												Total fiscal year 1939 to date					
			7/1/38 to 9/29/38	9/30/38 to 10/5/38	10/6/38 to 10/12/38	10/13/38 to 10/19/38	10/20/38 to 10/26/38	10/27/38 to 11/2/38	11/3/38 to 11/9/38	11/10/38 to 11/16/38	11/17/38 to 11/23/38	11/24/38 to 12/7/38	12/8/38 to 12/14/38	12/15/38 to 12/21/38		12/22/38 to 12/28/38				
Apples (Dried)	Pounds	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	588	(1)
Apples (Fresh)	Bushels	5,625	-	3	110	198	166	70	1	-	-	-	-	-	-	-	-	-	80	(2)
Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	(3)
Beans (Dried)	Pounds	56,600	-	-	-	-	-	-	-	-	-	-	3,430	6,360	2,670	4,360	3,750	-	20,590	(4)
Beans (Snap)	Bushels	33	38	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38	(5)
Beets (Fresh)	Bushels	11	119	65	11	46	67	20	-	-	-	-	-	-	-	-	-	-	328	(6)
Blackberries (Canned)	Cases	-	20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80	(7)
Butter	Pounds	15,035	6,186	5,109	3,783	3,804	1,719	2,463	1,938	924	576	1,773	1,618	2,794	2,718	67	-	-	35,680	(8)
Cabbage	Bushels	990	1,187	370	234	216	194	133	124	88	100	47	43	14	5	-	-	-	2,691	(9)
Cassia (Dry)	Gallons	237	107	-	-	-	-	-	36	25	45	30	28	-	-	-	-	-	270	(10)
Carrots	Bushels	-	101	6	1	18	17	5	1	2	1	2	1	-	-	-	-	-	153	(11)
Cauliflower	Crates	-	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21	(12)
Celery	Bunches	1,174	178	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	183	(13)
Cereal (Whole Wheat)	Sacks	408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14)
Cheese	Pounds	3,446	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)
Cocoa	Sacks	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8	(16)
Corn meal	Barrels	-	-	-	-	-	-	-	-	-	-	449	-	-	-	-	-	-	449	(17)
Cotton	Bales	-	10	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	25	(18)
Cotton Lint	Yards	1,133	147	3	22	1	-	40	22	19	16	-	250	-	20	1	-	-	527	(19)
Cotton (Wool)	Bags	-	-	-	-	-	-	-	-	-	-	-	500	-	150	180	-	-	830	(20)
Cracked Corn	Pounds	9,780	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21)
Eggs (Small)	Cases	270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22)
Flax	Pounds	3,577	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	279	(23)
Flour	Barrels	2,699	279	-	-	-	-	-	-	-	-	-	-	-	9	5	-	-	14	(24)
Fruit	Boxes	401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)
Guavafruit	Boxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26)
Guavafruit Juice	Cases	552	471	-	-	50	214	-	227	152	5	39	-	-	75	-	-	-	1,303	(27)
Grapes	Tons	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(28)
Labels	Labels	-	15,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,550	(29)
Mattress (Cotton)	Yards	-	2,550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,961	(30)
Milk (Dry skm)	Pounds	21,520	8,961	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31)
Oil (LIME)	Quarts	12,497	6,672	534	521	580	631	652	2,947	4,823	3,042	4,599	4,107	5,185	6,170	6,245	-	-	47,298	(32)
Onions	Pounds	3,000	674	78	120	74	-	-	-	-	-	-	-	-	-	-	-	-	979	(33)
Oranges	Boxes	1,932	639	54	47	44	35	12	-	-	-	-	-	-	-	-	-	-	831	(34)
Paper Bags	Bags	21,825	9,075	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,075	(35)
Peas (Dried)	Pounds	2,534	3,523	-	4,791	1,673	913	-	-	-	-	-	-	-	-	-	-	-	11,100	(36)
Peas (Fresh)	Bushels	8	6	-	-	-	-	-	-	-	-	11	3	-	-	-	-	-	292	(37)
Peas (Canned)	Boxes	316	229	-	-	-	-	-	-	-	-	-	-	-	19	24	6	-	6	(38)
Peas (Dried)	Cases	862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39)
Peas (Fresh)	Pounds	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	(40)
Peanut (Dried)	Bushels	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41)
Potatoes (Sweet)	Bushels	440	-	8	204	182	36	-	-	-	-	-	-	-	-	-	-	-	378	(42)
Potatoes (White)	Bushels	4,315	2,069	232	45	19	2	-	-	-	-	-	-	-	-	-	-	-	2,367	(43)
Potato Starch & Flour	Pounds	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(44)
Prunes (Dried)	Tons	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	(45)
Prunes (Fresh)	Bushels	-	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(46)
Raisins	Tons	15	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	(47)
Rice (Milled)	Pounds	73,190	-	-	-	-	-	-	-	-	-	-	-	267	411	533	-	-	1,011	(48)
Tomatoes	Pounds	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	145	(49)
Tomatoes (Canned)	Cases	50	145	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	114	(50)
Tomatoes (Fresh)	Bushels	282	114	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(51)

December 30, 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.

December 30, 1938

To: The Secretary

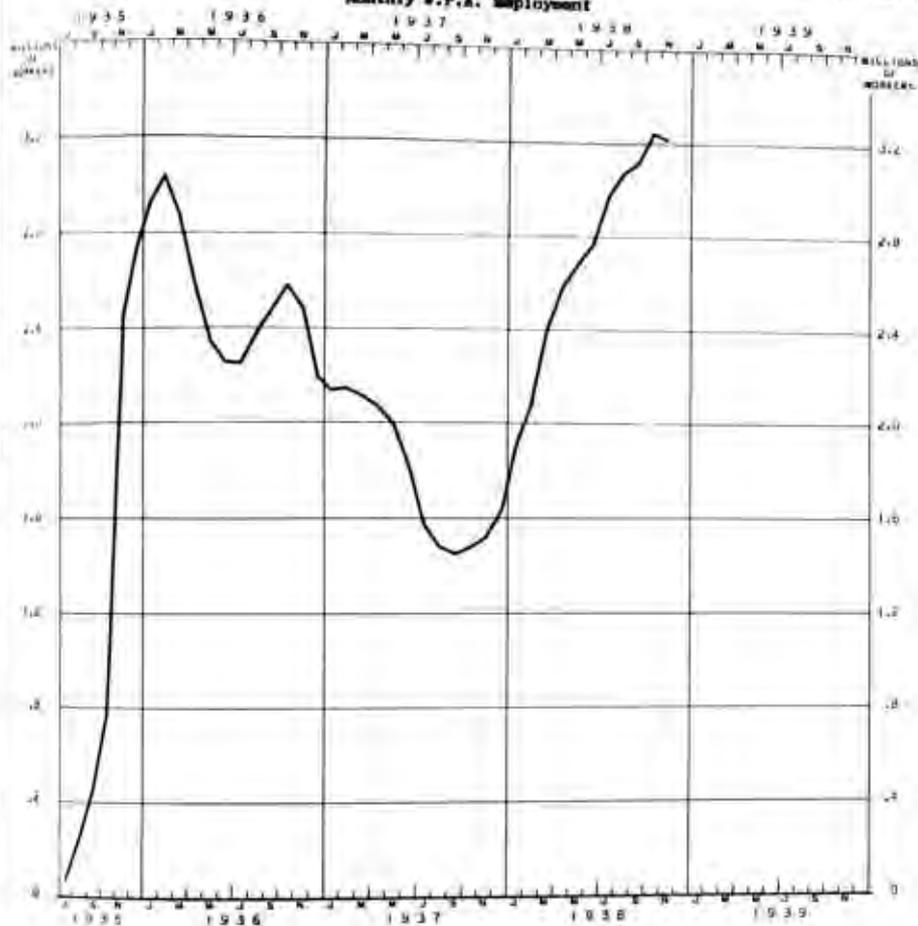
From: Miss Lonigan *ER*

The total number of WPA workers on December 24, 1938 is 3,021,177.

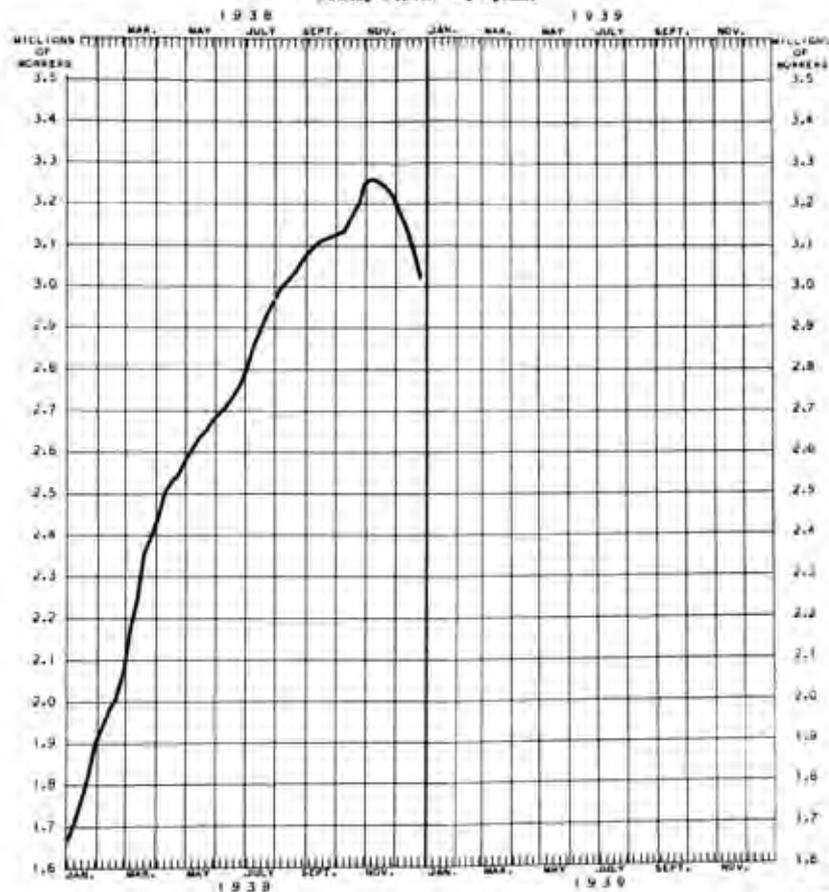
MA
The decrease during the week from December 17 to December 24 was 62,072 workers. However, WPA employment is still higher in December of 1938 than in December of any previous year.

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

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Number of Workers Employed - Weekly

United States

Week ending 1938	Number of Workers (In thousands)
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,445
April 9	2,504
April 16	2,531
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
December 17	3,083
December 24	3,021 ^{a/}

Source: Works Progress Administration
 a/ Confidential

WORKS PROGRESS ADMINISTRATION

208

Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
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.

please do
number 38.
number 30

OK

210

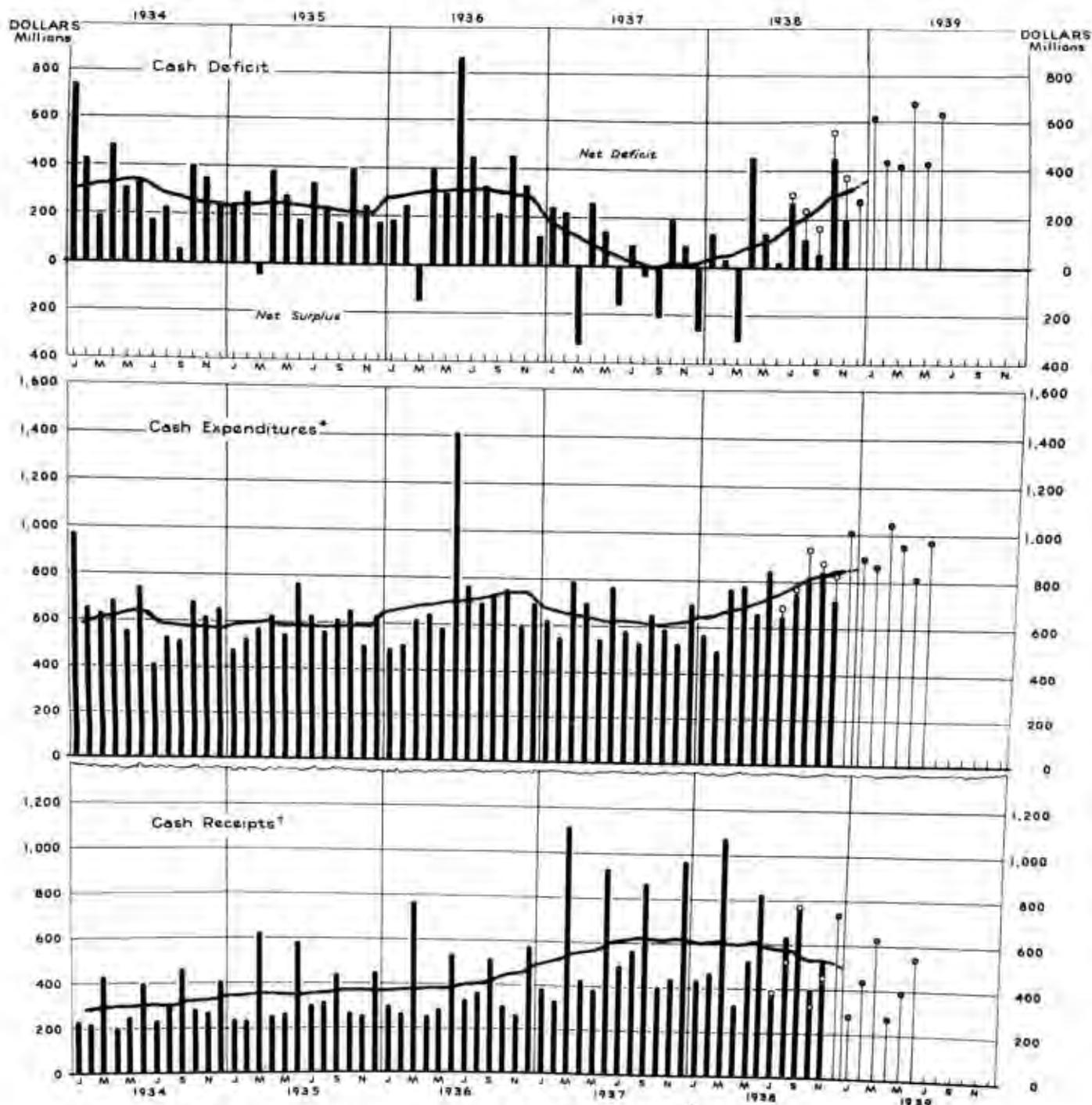
●
Used in conference at White House
on 12/30/38 in connection with Presi-
dent's message to Congress

12/30/38

NET CASH DEFICIT AND CASH EXPENDITURES AND RECEIPTS. MONTHLY

Current Estimates as of Dec. 1938

Fiscal Year 1939 to date
July Est-^o Actual-^o
Current Estimate Dec. to June Fis. Yr. 1939
12 Month Moving Av.
Actual
Estimate

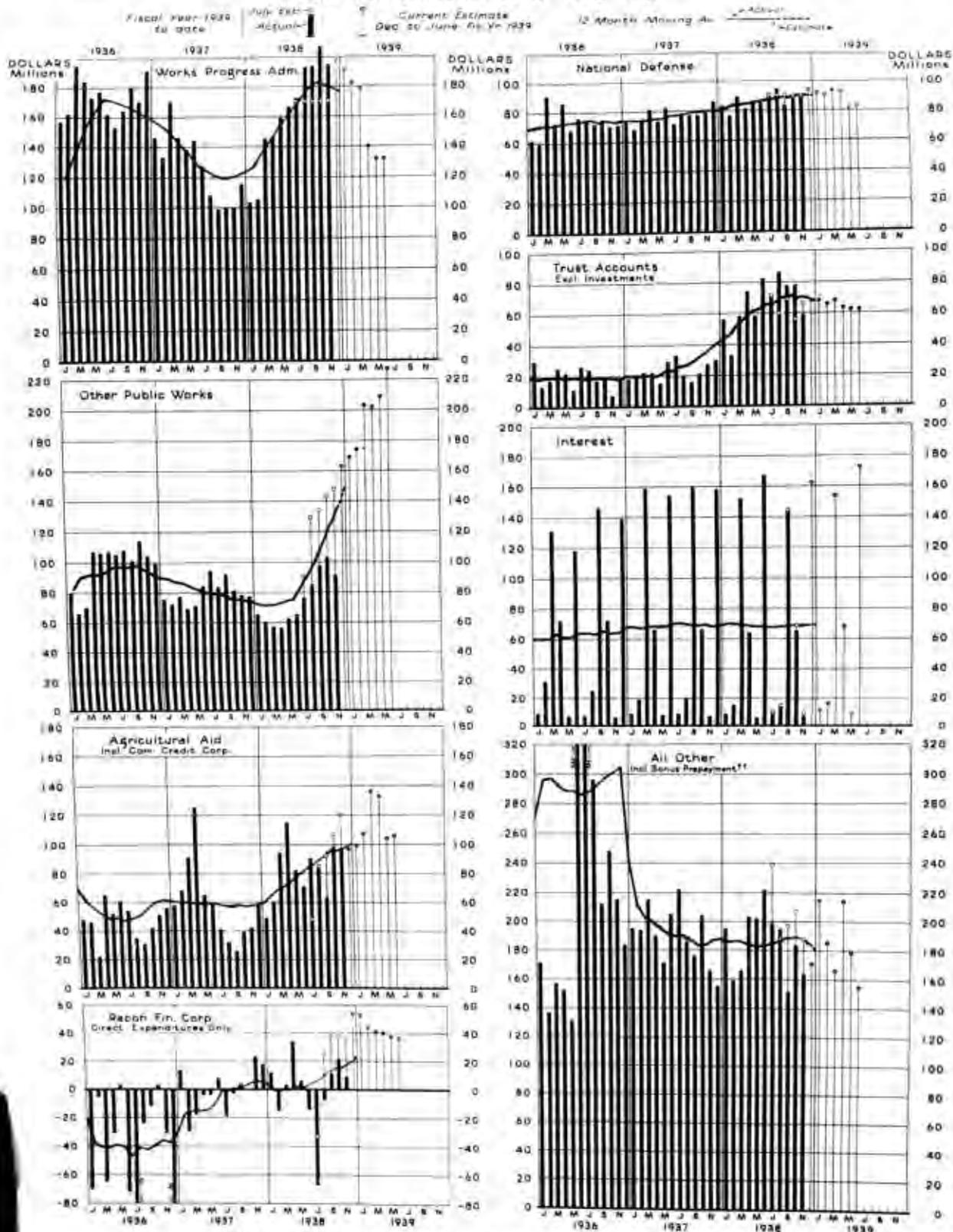


* Excludes debt retirements and bookkeeping transfers to Trust Accounts. Includes bonus bonds cashed and checks paid. Estimates as reported to Accounts and Deposits by the various departments and agencies.

† Includes Trust Accounts; Estimates as of budget summation.

MONTHLY FEDERAL CASH EXPENDITURES BY CLASSES*

Current Estimates† as of Dec. 1938

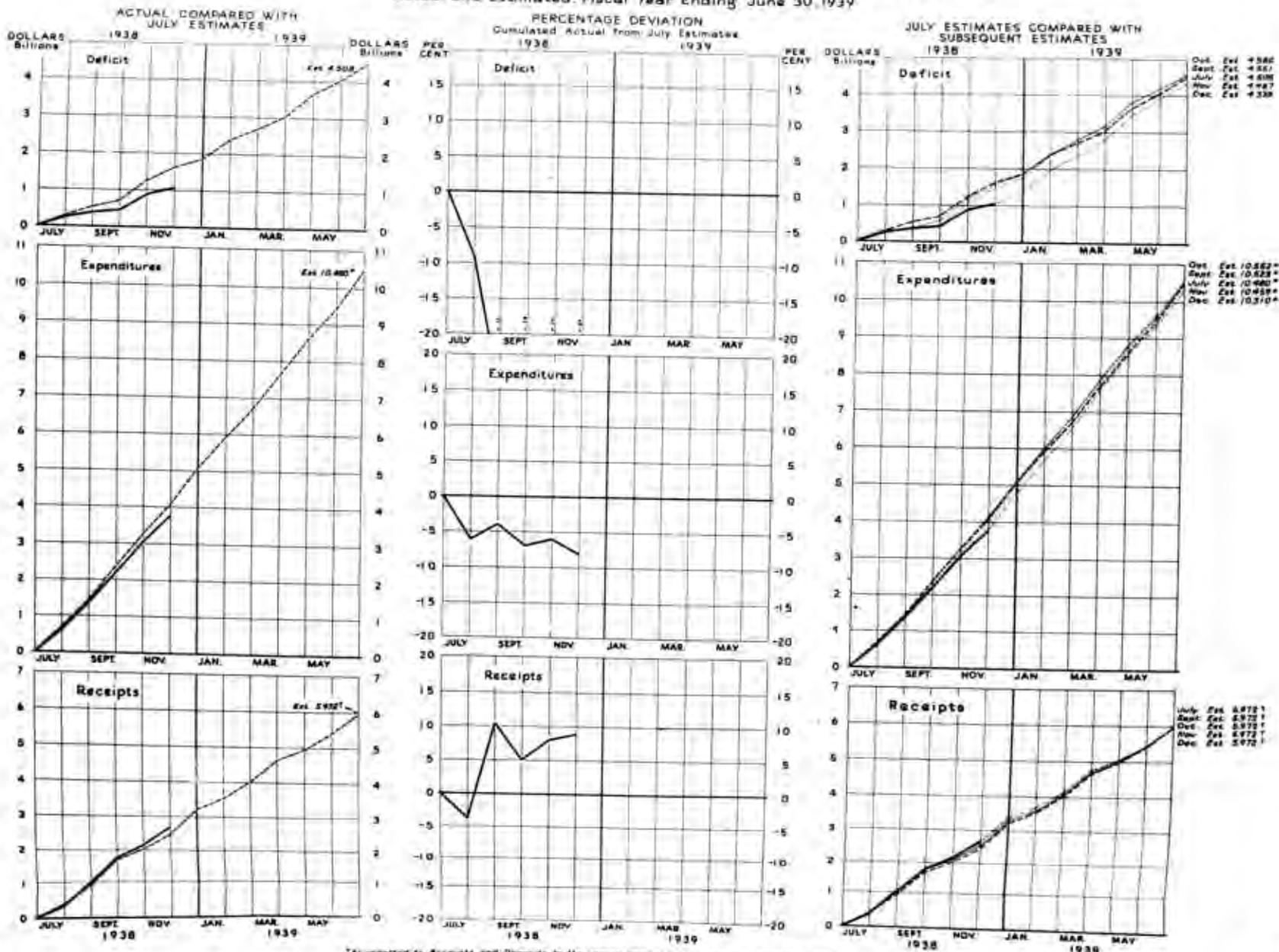


* Excludes debt retirement and bookkeeping transfers to Trust Accounts.
 † As reported in Accounts and Deposits by the various departments and agencies.
 ** Bonus Bond Cash and Checks Paid.

Office of the Secretary of the Treasury
 Division of Economic Warfare

CUMULATIVE CASH DEFICIT, EXPENDITURES AND RECEIPTS

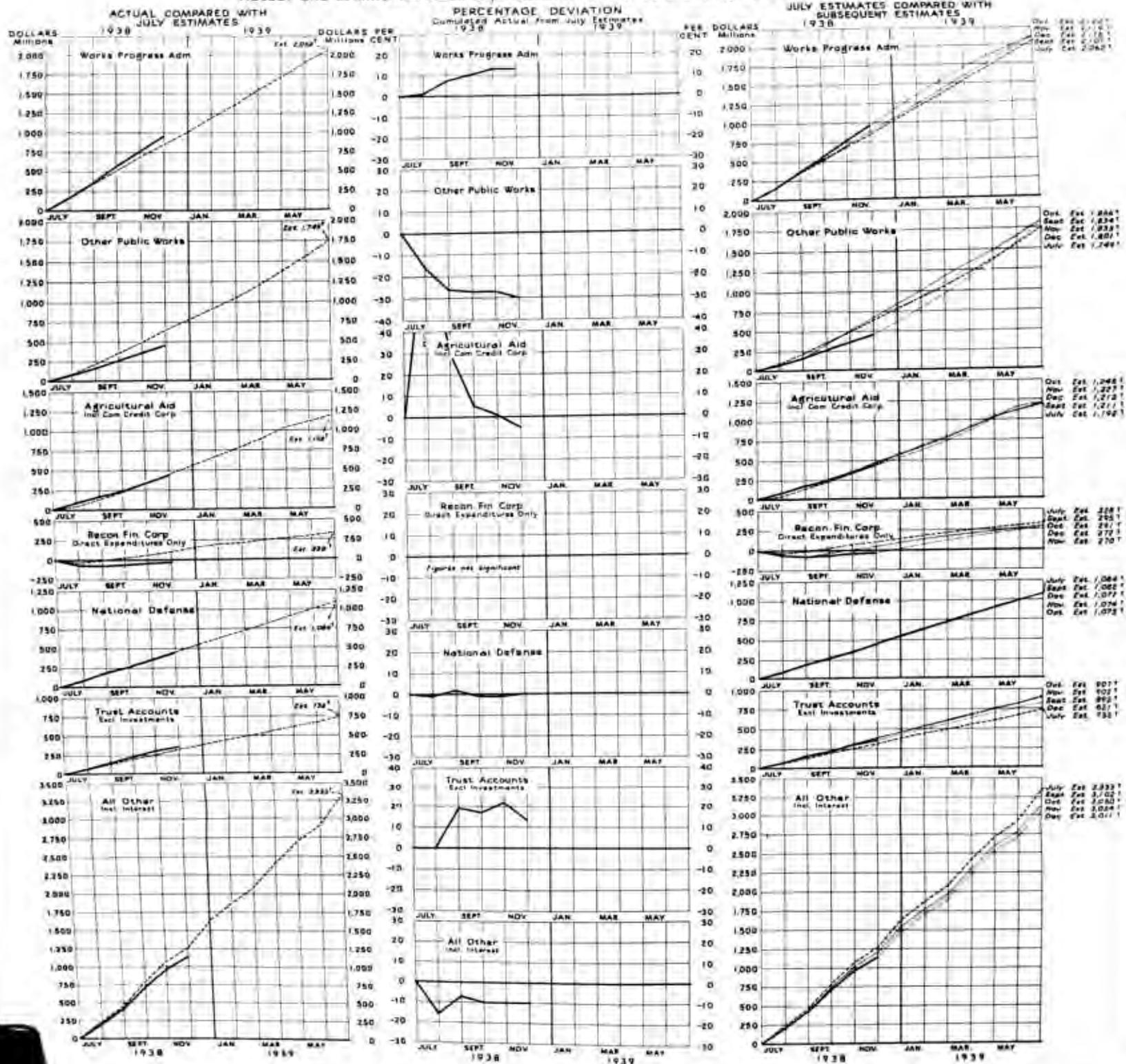
Actual and Estimated: Fiscal Year Ending June 30, 1939



*As reported to Accounts and Deposits by the various departments and agencies. Excludes mail revenues and bookkeeping transfers to Trust Accounts.
†Budget authorization estimate for Trust Accounts.

CUMULATIVE FEDERAL EXPENDITURES BY CLASSES*

Actual and Estimated Cash Expenditures, Fiscal Year Ending June 30 1939



Office of the Secretary of the Treasury
Bureau of Economic Warfare

* Excludes debt retirement and bookkeeping transfers to Trust Accounts
as reported to Accounts and Reports by the various departments and agencies.

Net Cash Deficit and Cash Expenditures and Receipts,
Monthly, January 1934 to June 1939
(In millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Monthly												
Cash Deficit												
1934	\$743	\$428	\$192	\$485	\$309	\$338	\$175	\$226	\$ 53	\$402	\$750	\$345
1935	242	295	- 49	381	287	183	333	237	168	395	245	177
1936	187	245	- 153	391	295	869	518	329	209	454	734	83
1937	206	217	- 327	266	148	- 159	88	- 38	- 211	190	88	- 258
1938	139	31	- 304	455	142	20	265	110	54	444	132	272*
1939	617*	432*	415*	680*	424*	432*						
Cash Expenditures												
1934	972	644	624	684	556	737	408	523	515	682	617	650
1935	475	526	572	630	548	758	632	557	608	655	496	650
1936	485	508	618	646	580	1,405	843	691	731	752	532	650
1937	587	544	790	695	537	764	578	524	650	589	522	567
1938	572	493	764	773	661	844	639	743	822	619	713	1,007*
1939	899*	667*	1,041*	952*	814*	973*						
Cash Receipts												
1934	229	216	432	199	247	399	233	297	462	280	267	407
1935	233	231	621	249	261	575	299	320	440	260	251	452
1936	298	263	771	255	285	536	325	362	522	298	258	575
1937	381	327	1,117	429	389	923	490	562	861	399	434	963
1938	473	462	1,068	318	519	824	374	633	768	395	521	735*
1939	282*	435*	626*	272*	390*	541*						
12-month moving average centered on 6th month												
Cash Deficit												
1934	306	315	319	333	339	329	287	276	256	248	246	233
1935	246	247	256	256	247	242	236	233	224	225	226	283
1936	298	305	309	314	322	314	315	313	298	289	276	191
1937	154	124	89	67	46	37	31	4	3	13	13	28
1938	43	55	77	99	107	152	191	225	285	304	327	361
Cash Expenditures												
1934	583	600	615	629	639	635	593	583	579	575	574	576
1935	594	597	605	603	593	591	591	590	594	595	598	652
1936	669	680	691	699	707	710	718	721	735	740	736	683
1937	660	647	640	626	620	623	622	618	615	622	632	639
1938	644	663	677	698	713	739	765	798	821	836	848	859
Cash Receipts												
1934	277	285	296	296	300	306	306	307	323	327	328	343
1935	348	350	349	347	346	349	355	357	370	370	372	369
1936	371	375	382	385	385	396	403	408	437	451	460	492
1937	506	523	551	559	574	606	611	622	618	609	619	611
1938	601	608	600	599	606	627	675	673	636	632	621	498

Note: Expenditures exclude debt retirement and bookkeeping transfers to trust accounts. Bonus included on basis of bonds cashed and checks paid. Negative figures denote cash surpluses. 12-month moving averages for last half of the calendar year are partly estimated.

* Estimates, expenditures as reported to Accounts and Deposits by the various departments and agencies, December 1938; receipts as of Budget Summation, July 1938, plus trust accounts.

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Federal Cash Expenditures by Classes
January 1936 to June 1939
(In millions of dollars)

Class of expenditure	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Monthly expenditures												12-month moving average of expenditures centered on 6th month											
Works Prog. Adm.	157	162	195	184	173	177	162	153	164	160	170	191	119	132	144	156	165	172	171	169	167	164	161	158
1936	146	133	170	146	138	144	127	106	99	100	109	115	155	151	146	139	134	127	124	121	119	119	121	123
1937	103	105	145	146	159	166	172	193	194	207	195	198	126	135	142	150	156	165	173	179	182	181	179	176
1938	191*	183*	179*	140*	132*	132*																		
1939																								
Water pub. works	80	66	70	107	106	107	105	108	101	114	104	99	82	91	92	92	93	97	97	97	96	95	92	90
1936	75	72	77	69	71	84	94	83	92	81	78	77	69	87	86	83	81	79	79	78	76	75	74	73
1937	65	60	57	56	62	65	76	85	98	104	91	163*	71	71	72	74	75	82	91	100	112	114	117	150
1938	169*	174*	203*	202*	209*	227*																		
1939																								
Agricultural aid	48	46	22	65	52	61	54	35	31	42	51	56	61	56	52	49	49	47	48	50	55	60	61	61
1936	58	68	91	125	85	58	51	32	26	40	42	58	60	60	59	55	59	59	54	57	58	60	61	61
1937	49	60	94	115	82	71	89	84	63	98	97	97	63	68	71	75	80	83	87	91	95	96	98	101
1938	99*	107*	136*	132*	104*	106*																		
1939																								
Recon. Fin. Corp.	-70	-5	-65	-31	3	-72	-176	-24	-12	3	-31	-95	-39	-41	-41	-39	-41	-40	-41	-43	-39	-37	-36	-31
1936	13	-30	-18	-4	-4	8	-19	-3	4	0	23	12	-13	-16	-15	-10	-1	-1	0	2	2	5	6	4
1937	12	-15	3	34	6	-14	-67	-8	11	21	9	54*	0	0	0	2	1	4	7	12	15	16	19	23
1938	53*	44*	41*	40*	38*	36*																		
1939																								
Nat'l. defense	61	59	91	72	86	68	76	74	72	75	70	71	70	71	71	72	73	73	74	75	73	74	73	74
1936	73	68	74	81	73	82	71	78	77	77	79	86	74	74	74	75	75	77	77	78	79	79	80	81
1937	83	76	89	81	86	85	89	95	83	90	91	94	82	84	84	85	86	87	88	89	89	90	90	90
1938	92*	91*	94*	93*	82*	83*																		
1939																								
Trust accts.	29	13	17	25	22	11	26	24	17	18	7	19	18	19	19	15	19	19	18	19	19	19	18	20
1936	18	20	22	22	15	29	33	20	16	21	27	30	20	20	20	20	22	23	26	27	30	31	36	42
1937	56	33	58	74	52	52	71	65	78	71	59	68	46	51	56	61	63	66	67	70	71	70	70	68
1938	68*	66*	66*	63*	62*	62*																		
1939																								
Interest	9	31	131	72	7	118	7	25	146	75	5	139	60	60	63	61	61	64	64	63	65	64	64	68
1936	9	19	159	66	8	154	9	20	160	66	7	158	68	67	68	68	68	70	70	69	69	69	68	69
1937	9	15	162	64	6	167	10	15	144	65	7	162*	70	70	68	68	68	68	68	68	69	69	69	69
1938	12*	16*	154*	68*	6*	172*																		
1939																								
All other	171	136	157	158	151	935	539	296	212	248	215	184	296	297	292	289	289	286	286	292	297	300	304	243
1936	195	194	215	190	171	205	222	186	176	204	166	155	212	203	200	198	192	190	190	187	183	184	187	188
1937	195	159	166	203	202	222	199	195	151	183	164	171*	186	187	185	183	183	184	168	188	188	189	187	181
1938	215*	186*	166*	214*	175*	155*																		
1939																								

Note: Debt retirement and bookkeeping transfers to trust accounts excluded. Bonus included in "all other" on basis of bonds cashed and checks paid. Agricultural aid includes Commodity Credit Corporation. Trust accounts exclude investment transactions. Negative figures denote excess of credits.

* Statistics as reported to Accounts and Deposits by various departments and agencies, December 1938.

Cumulative Cash Deficit, Expenditures and Receipts
Fiscal year ending June 30, 1939

(Dollar figures in millions)

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
<u>Comparison of Estimates</u>												
<u>Cash deficit</u>												
Dec. estimate	\$265*	\$376*	\$430*	\$874*	\$1,066*	\$1,338	\$1,955	\$2,387	\$2,802	\$3,482	\$3,906	\$4,338
Nov. "	265*	376*	430*	874*	1,305	1,563	2,187	2,619	3,027	3,679	4,070	4,487
Oct. "	265*	376*	430*	1,064	1,492	1,757	2,371	2,787	3,169	3,822	4,187	4,580
Sept. "	265*	376*	576	1,189	1,591	1,845	2,426	2,801	3,172	3,801	4,163	4,551
July "	296	534	698	1,255	1,627	1,850	2,383	2,695	3,034	3,659	4,036	4,508
<u>Cash expenditures</u>												
Dec. estimate	639*	1,383*	2,205*	3,044*	3,757*	4,764	5,663	6,530	7,571	8,523	9,337	10,310
Nov. "	639*	1,383*	2,205*	3,044*	3,918	4,922	5,840	6,733	7,767	8,702	9,506	10,459
Oct. "	639*	1,383*	2,205*	3,161	4,044	5,060	5,971	6,858	7,873	8,819	9,609	10,552
Sept. "	639*	1,383*	2,350	3,280	4,125	5,123	6,005	6,852	7,853	8,783	9,583	10,523
July "	685	1,447	2,381	3,261	4,088	5,061	5,911	6,708	7,683	8,614	9,444	10,480
<u>Cash receipts</u>												
Dec. estimate	374*	1,007*	1,775*	2,170*	2,691*	3,426	3,708	4,143	4,769	5,041	5,431	5,972
Nov. "	374*	1,007*	1,775*	2,170*	2,613	3,359	3,653	4,114	4,740	5,023	5,436	5,972
Oct. "	374*	1,007*	1,775*	2,097	2,552	3,303	3,600	4,071	4,704	4,997	5,482	5,972
Sept. "	374*	1,007*	1,774	2,091	2,534	3,278	3,579	4,051	4,661	4,982	5,420	5,972
July "	389	913	1,683	2,006	2,461	3,211	3,528	4,013	4,649	4,955	5,408	5,972

Percentage Deviation, Cumulative Actual from July Estimates

Cash deficit	-10%	-30%	-38%	-30%	-34%							
Cash expenditures	-7	-4	-7	-6	-8							
Cash receipts	-4	+10	+5	+8	+9							

Note: Expenditures as reported to Accounts and Deposits by the various departments and agencies, excluding debt retirement and bookkeeping transfers to trust accounts. Receipts as shown in Budget Summation, July 1938, plus trust accounts.

* Actual results.

Cumulative Federal Expenditures, by Classes
Fiscal year ending June 30, 1939

(Dollar figures in millions)

Class of expenditure	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Comparison of Estimates												
Works Prog. Adm.												
Dec. estimate	172*	365*	459*	766*	961*	\$1,159	\$1,350	\$1,533	\$1,712	\$1,852	\$1,984	\$2,116
Nov. "	172*	365*	559*	766*	961	1,155	1,350	1,546	1,727	1,864	1,994	2,119
Oct. "	172*	365*	559*	749	939	1,129	1,319	1,509	1,695	1,857	1,992	2,120
Sept. "	172*	365*	530	705	880	1,055	1,230	1,405	1,585	1,761	1,935	2,107
July "	170	340	510	680	850	1,020	1,190	1,360	1,540	1,716	1,890	2,062
Other pub. works												
Dec. estimate	76*	161*	259*	363*	464*	617	786	960	1,163	1,365	1,574	1,801
Nov. "	76*	161*	259*	363*	524	694	866	1,045	1,238	1,423	1,623	1,833
Oct. "	76*	161*	259*	418	533	756	926	1,106	1,281	1,456	1,656	1,866
Sept. "	76*	161*	329	503	670	835	1,007	1,176	1,335	1,495	1,666	1,834
July "	90	219	353	496	644	782	922	1,060	1,213	1,378	1,561	1,749
Agricultural aid												
Dec. estimate	89*	173*	236*	334*	431*	528	627	734	870	1,002	1,106	1,212
Nov. "	89*	173*	236*	334*	436	533	640	752	867	1,022	1,123	1,227
Oct. "	89*	173*	246*	355	473	587	692	804	936	1,069	1,155	1,245
Sept. "	89*	173*	261	361	465	568	670	780	912	1,039	1,124	1,211
July "	48	133	225	330	452	563	674	778	902	1,030	1,116	1,192
Recon. Fin. Corp.												
Dec. estimate	- 67*	- 75*	- 64*	- 43*	- 34*	20	73	117	158	198	236	272
Nov. "	- 67*	- 75*	- 64*	- 43*	4	51	98	137	173	207	239	270
Oct. "	- 67*	- 75*	- 64*	- 13	29	72	119	158	193	226	259	291
Sept. "	- 67*	- 75*	- 31	12	53	96	142	178	209	238	267	295
July "	- 33	- 8	30	68	104	147	186	216	244	272	300	326
Nat'l. defense												
Dec. estimate	89*	184*	267*	357*	446*	542	634	725	819	912	994	1,077
Nov. "	89*	184*	267*	357*	448	541	633	724	818	910	991	1,074
Oct. "	89*	184*	267*	359	450	543	636	726	820	911	991	1,073
Sept. "	89*	184*	277	369	460	553	645	734	828	919	999	1,082
July "	90	180	270	360	450	540	631	722	812	903	994	1,084
Trust accts.												
Dec. estimate	71*	156*	234*	305*	364*	432	500	566	634	697	759	821
Nov. "	71*	156*	234*	305*	385	461	537	610	683	756	829	902
Oct. "	71*	156*	234*	313	391	468	543	616	688	761	834	907
Sept. "	71*	156*	238	315	391	468	538	609	679	750	821	892
July "	71	131	200	256	322	379	442	495	558	616	674	732
All other												
Dec. estimate	209*	419*	714*	962*	1,133*	1,400	1,693	1,895	2,215	2,497	2,684	3,011
Nov. "	209*	419*	714*	962*	1,160	1,467	1,716	1,920	2,241	2,520	2,707	3,038
Oct. "	209*	419*	714*	985	1,179	1,505	1,737	1,939	2,260	2,537	2,722	3,050
Sept. "	209*	419*	744	1,015	1,206	1,509	1,773	1,970	2,305	2,581	2,771	3,102
July "	249	452	793	1,060	1,266	1,630	1,866	2,077	2,414	2,699	2,907	3,333

Percentage Deviation, Cumulative Actual from July Estimates

Works Prog. Adm.	+ 1%	+ 7%	+ 10%	+ 13%	+ 13%
Other pub. works	- 16	- 26	- 27	- 27	- 30
Agricultural aid	+ 85	+ 30	+ 5	+ 1	- 5
Recon. Fin. Corp.	**	**	**	**	**
Nat'l. defense	- 1	+ 2	- 1	- 1	0
Trust accts.	0	+ 19	+ 17	+ 22	+ 13
All other	- 16	- 7	- 10	- 10	- 10

Note: Estimates as reported to Accounts and Deposits by the various departments and agencies. Debt retirement and bookkeeping transfers to trust accounts excluded. Agricultural aid includes Commodity Credit Corporation. Trust account expenditures exclude investment transactions. Negative dollar figures denote excess of credits.

* Actual expenditures.
** Computation meaningless due to excess of credits.

CHART: COTTON HELD BY U. S. GOVERNMENT

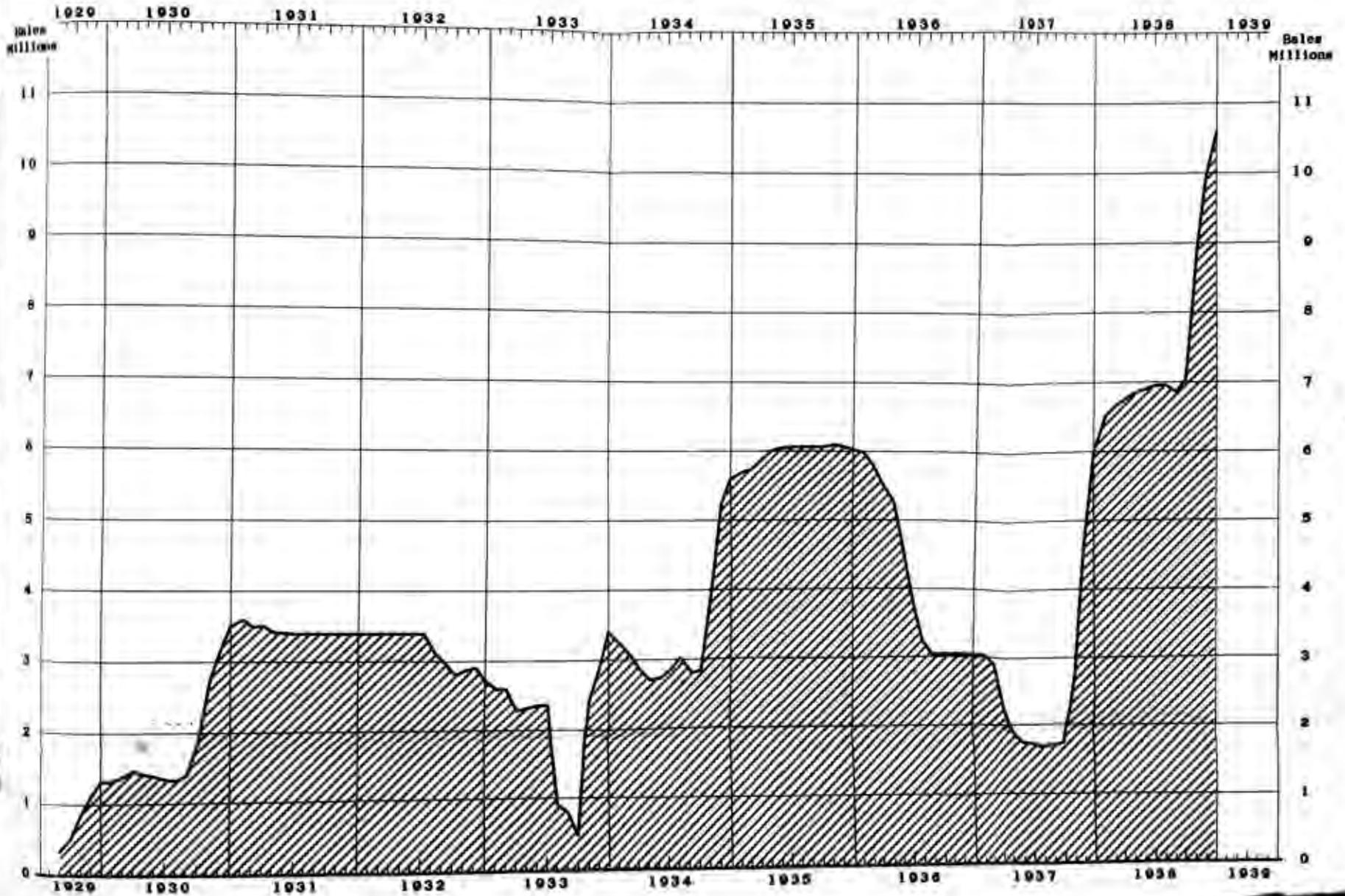
These figures include all cotton (spots and futures) held by Government agencies, both cotton owned by the Government and that held as security against loans, plus cotton held by lending agencies on which the Government has assumed liability.

The latest figure is that for December 29, 1938, which includes 4,791,564 bales pledged against notes held by the Commodity Credit Corporation under various loans of this and prior years, and 5,785,086 bales held by lending agencies with contract to purchase, on which liability is assumed by the Government, making a total of 10,576,650 bales.

By years, the figures include cotton held by the following agencies (in addition to private lending agencies mentioned above):

- 1929: Cotton Cooperatives, under loans from the Farm Board.
- 1930: Cotton Cooperatives, under loans from Farm Board and Cotton Stabilization Corporation.
- 1931: Same
- 1932: Same, plus seed loans.
- 1933: Cotton Cooperatives, Cotton Stabilization Corporation, Farm Credit Administration, Agricultural Adjustment Administration, and Commodity Credit Corporation.
- 1934: Agricultural Adjustment Administration (Producers' Pool cotton) and Commodity Credit Corporation.
- 1935 to 1938, inclusive: Commodity Credit Corporation.

COTTON HELD BY U.S. GOVERNMENT
Includes Cotton Held Against Loans



December 31, 1938

My dear Mr. Delano:

I beg to acknowledge receipt of your letter of December 21.

As you undoubtedly know, Mr. Daniel W. Bell is Acting Director of the Budget. In this capacity he is directly responsible to the President. I, therefore, suggest that if you desire Mr. Bell's services as Deputy Comptroller of the Currency that you take the matter up with the President.

Sincerely yours,

Honorable Preston W. Delano,
Comptroller of the Currency.



THE COMPTROLLER OF THE CURRENCY
WASHINGTON

December 21, 1938

My dear Mr. Secretary:

Confirming our phone conversation of some few days ago, may I ask your consideration of Mr. Daniel W. Bell for appointment to the position of Deputy Comptroller of the Currency to fill the vacancy caused by the resignation of Mr. Oppgard.

Very sincerely yours,

Frederic W. Bell
Comptroller of the Currency

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

December 31, 1938

My dear Mr. Stimson:

It was kind of you to write me about the credit to China. I have been confident that our course was the right one, but it is none the less heartening to have my opinion confirmed by one for whose judgment I have the greatest respect.

I should be happy to have a talk with you and would be delighted if you could have lunch with me at the Treasury on your next visit to Washington.

I am planning to go away for a short rest on Monday, but will be here continuously after January 16th.

Wishing you a very happy New Year, I remain

Yours sincerely,

Hon. Henry L. Stimson,
32 Liberty Street,
New York, N. Y.

THIRTY-TWO LIBERTY STREET
NEW YORK

December 27, 1938.

Personal

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

Dear Mr. Secretary:

At this time when you may be receiving criticism as to the action of the Export-Import Bank in making the loan of \$25,000,000 to China, I think you are entitled to the strong support of those citizens who believe that that action was wise and necessary. I am one of those.

I have been told confidentially that you have read my book on "The Far Eastern Crisis". If so, from the views which I expressed in that book you probably already understand why I am cheered at your action and thoroughly approve of it. In the book I said (at p.91):

"The future of the Far East will be very largely dominated by the future of the four hundred fifty million people of Chinese blood. For several centuries Eastern Asia has owed its character mainly to the peaceful traditions of this great agricultural nation. If the character of China should be revolutionized and through exploitation should become militaristic and aggressive, not only Asia but the rest of the world must tremble."

The possible danger to ourselves which I then foresaw has now become more imminent. Possibly we are at the very crisis of such a history today. The Chinese government after an heroic

struggle has been driven from her capitals of Nanking and Hankow, and her eastern seacoast is being blockaded. If by these reverses she should become appalled at the prospect of the long hardships involved in sustaining a guerrilla warfare which now confronts her and should accept a surrender to Japan under the mediation of Germany, Japan would undoubtedly seek to carry through the economic and military transformation of China which her fanatical militarists have long had in view. While I still believe that Japan will ultimately fail in the accomplishment of her full aims and be driven out of most of China, that would involve a long and very difficult period for the United States which lies nearer to the trouble and its repercussions than any other great power except Russia.

I know from my correspondence that the Chinese have felt bitterly disappointed that Japan should have been allowed to draw as she has so much of her raw materials from our nationals. Therefore I believe that this loan coming at a most critical and opportune time will be a great encouragement to her government and I hope a discouragement to the military faction which now controls Japan. I am very glad that you have done it. I hope that it will be the first of a consistent policy of friendly encouragement to China which may go far to save her morale.

Very sincerely yours,

Henry L. Stimson

December 31, 1938.

Dear Mr. Chen:

I appreciated greatly your friendly letter of December 21st and I thank you for the good wishes it contained.

It was a source of real gratification to me to be able to contribute something to strengthening the good relations between our countries.

You may be assured of my continued good wishes for you, your people and your government. I wish for them and you a brighter and happier New Year.

Sincerely,

✓

Secretary of the Treasury.

Mr. K. P. Chen,
The Ambassador,
Park Avenue and 51st Street,
New York, N.Y.

HEG/mah

cc to H/S

ms

"sent to Carlton Hotel
on instructions of N. H. Chauncey"
Mell.

1/3

Hay 226
21



MANAGING MANAGERS
HOBBS AND J. J. ATKINSON

The Ambassador

PARK AVENUE

51ST TO 52ND STREETS

NEW YORK

TRAVEL AND TOURS REGISTRATION
"AMBASSADOR NEW YORK"

New York
Dec. 21st 1938

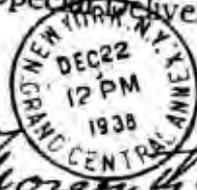
Dear Mr. Morgenthau:-

At this time when a new year is coming in I want you to know that I feel China has been helped toward a new year indeed by what you have done for us. Without your help we could have done nothing. With your help our country is encouraged to go forward anew. My words can not express all my thankfulness - but my heart is very full.

May all your New Years bring you and Mrs. Morgenthau and your whole family strong health and deep happiness.

With good luck always from
W. Chen

227
Special Delivery



Mr. Henry Morgenthau Jr.
2211 30th Street,
Washington D. C.

Special Delivery

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: December 31, noon, 1938

NO.: 299

Reference my 297 of December 23, noon.

I'am informed by the Director of Exchange that the Bank of Brazil will close exchange for maturities and daily quotas from November 24 to November 30 inclusive during the week of January 2.

The marked improvement in the Bank's exchange position, as contrasted with January 1, 1938, is very encouraging to the Director of Exchange. He says, however, that due to the heavy Government commitments for armaments, a conservative policy in exchange matters must be continued by the Bank. He still has confidence that it will be possible for the Bank to avoid a third frozen credit situation.

At the close of the year the Bank's credit position in compensation marks approximated 10,000,000 marks.

Will you please inform Commerce.

SCOTTER

EA:DJW

December 31, 1938

My dear Mr. Welles:

I wish that you would inform Mr. Austin G. Brady, American Consul at Rangoon, that I was particularly pleased with his Letter No. 139, and I hope that he will continue to send us as useful information.

Sincerely yours,

Hon. Sumner Welles,
Acting Secretary of State.

TRIPPLICATE

NO. 129.

230

STRICTLY CONFIDENTIAL

AMERICAN CONSULATE

Rangoon, Burma, December 1, 1938.

Subject: China's Sea Route Through Burma.

Strictly Confidential.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to report that H. C. Maux, whose card reads "Chief Engineer of Public Works, France, Civil Engineer of the League of Nations attached to National Government of China", arrived in Rangoon on November 26th after having traveled over the new motor road in Yunnan from Yunnanfu to the frontier, and over the connecting road in Burma from the border to the railhead at Lashio. He reported on arrival here that he had made the road journey by car in six days, that it would now be possible for trucks to get through to Yunnanfu over the Chinese highway, and that the Kutkai-frontier stretch of road in Burma was still one of the worst sections. Work is still in progress on the Burma side, the road from Lashio to Muse, via Kutkai, being closed to traffic during the daytime, from 6 a.m. to 6 p.m.

It is said that Monsieur Maux made the inspection of road facilities at the instance of the Chinese Government. He saw the Chinese representatives now in Rangoon and called at the Defense Department of the Burma Government.

He

- 2 -

He left for Hanoi on November 29th.

While in Rangoon the French engineer indicated to American oil company representatives interested in the possibility of supplying asphalt for surfacing the new road in China that it would not be possible to block the road for permanent surfacing operations during the period of emergency shipments of war materials, and that the only way of keeping it in condition for traffic would be to have thousands of men available to repair any damage as soon as it occurred.

Rest Houses Along New Road.

A short time before Monsieur Maux traveled over the new Yunnan road the journey was made by Joe T. D. Chow, who represents the Chinese Travel Association and who is in Rangoon. He likewise traveled by car, but his car had to be carried around several landslides, which were being cleared away. He took sixteen days to make the trip, but he spent part of that time looking for satisfactory sites for rest houses, six of which are planned. It is expected to make some arrangements with the oil interests that are given the concession to supply gasoline to trucks and other motor vehicles on the new road for the construction and maintenance of the rest houses. The Burmah Oil Company, Limited, the British concern which produces and refines most of the Burma petroleum, is seeking the concession, as is also the Standard-Vacuum Oil Company, the only American oil company maintaining offices in Burma. It is said that T. L. Soong, brother-

in-

in-law of Marshal Chiang Kai-shek, who is still in Rangoon, favors the British company as a matter of policy. Only the extremely limited and often impossible accommodations of small Chinese inns are now to be found along the new road.

Transport Company Opens Offices.

The Southwestern Transportation Company, which formerly operated in Hong Kong in connection with the shipment to China and the distribution there of war supplies, and for which T. L. Soong is acting, has leased an entire floor of a building at 71 Lewis Street, Rangoon, as offices, and will have charge of shipments of war materials through Burma and Yunnan to Yunnanfu, and distribution from that center. It is understood that the company will have to be registered in Burma in order to operate the proposed motor-transport services, from the railhead at Lashio and the Irrawaddy River port at Ehamo to the Chinese frontier.

Mineral-Oil Supplies Needed.

It is reliably stated that estimated requirements for war purposes of gasoline and Diesel oil in Chinese areas to be supplied through Yunnanfu are 480,000 gallons monthly of the former and 12,000 barrels monthly of the latter. Unless part of this can be obtained over the French railway from Haiphong, all of the supplies will have to be shipped from or through Burma. The estimated quantity of gasoline needed represents about 75 percent of the entire monthly consumption in Burma. It is understood that the Burmah Oil Company, Limited, and the

Standard-

- 4 -

Standard-Vacuum Oil Company are competitors for contracts covering the oil supplies, and that if the American company is successful the supplies will be drawn from refineries in Sumatra.

A representative of the Chinese Central Control Commission for Liquid Fuels, which concern controls the trade in mineral oils for ordinary uses, is expected here from Hong Kong within a few days.

Motor Trucks Available.

Mr. Soong has asserted here that approximately 4,000 motor trucks are available to his company for motor transport in controlled areas, and that 1,000 trucks could be made available for the transport of war materials passing in transit through Burma. It is indicated by a member of the General Motors organization at Bombay who is now in Rangoon that 300 trucks are to be delivered at this port. The question of the establishment of a General Motors assembly plant in Rangoon is to be examined further by a representative of that concern who is coming to Rangoon from Hong Kong. The fact that the Burma market would not justify operations after the war-time demand for trucks in China ended, and the capacity and relative proximity of the assembly plant at Bombay, are said to be considerations against the establishment of a plant here.

Aircraft Factory at Border.

A letter received here from H. F. Gourlie (despatch no. 124, of November 17, 1938), written from Kunming (Yunnanfu) on November 22, 1938, says that it has been

decided

decided to erect the proposed aircraft (Curtis-Wright) factory at Panhkan, just across the China-Burma border, about 70 miles east of Shamo, the frontier port on the Irrawaddy River. The operating concern is the "Central Aircraft Manufacturing Company, Federal Inc., U. S. A."

As reported in the despatch under reference, the equipment formerly in use by the company at Hankow, China, which is now at Hong Kong, will be shipped to the site of the new factory. The company is considering the opening of an office in Rangoon. Mr. Gourlie will return to Rangoon within a few days, accompanied by C. W. Hunter, an American member of the organization.

To Investigate Trade Possibilities.

To investigate the possibilities of trade between Burma and China as a result of the opening of the new motor road, a traffic official of the Burma Railways and a representative of Steel Brothers and Company, Limited, the largest mercantile concern in Burma, have left for Yunnanfu, and possibly may go beyond that point. They will travel over the new road, and will have a military escort provided by the Chinese Government. The hope is that it will be possible to ship Chinese products from the interior, including tung oil, wolfram, and tin, to foreign markets over the new road and through Burma, and that Burma rice and some other products can be marketed in China.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

- 6 -

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to Consulate General, Calcutta.

800

AGB/leh

A true copy of
the above original*leh*

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secy. Morgenthau

DATE: December 31, 1938

FROM W. H. Hadley

Re: TREASURY PROFIT ON NEW TREASURY BILL OFFERING

The Treasury will make a net profit of \$ 577 on the \$ 100,722,000 Treasury bill tenders accepted yesterday. About 19% of the accepted bids were at par and the balance of some \$ 81,000,000 were at slightly above par. As a result the Treasury will be paid an average annual rate of premium of 0.0023 % on this issue.

REB

PLAIN

London

Dated December 31, 1938

Rec'd 12:45 p. m.

Secretary of State,
Washington.

1479, December 31, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

The statement of the position of the exchange equalization account issued for publication this morning shows a loss in the six months period ending September 30th of 20,862,000 ounces of gold which, if computed at dls 35 an ounce, totals dls 930,170,000 the holdings of the account totalled 21,684,000 ounces on September 30th and those of the Issue Department of the Bank of England 76,844,000 ounces, making a grand total of 98,528,000 which, if computed at dls 35 per ounce, amounted to dls 3,448,480,000. For previous figures see my 578, June 30, 6 p. m., 814, December 30, 1937, 9 p. m. and 412, June 28, 1937, 7 p. m.

The London financial press in general plays down the gold losses as much as the facts permit; no doubt at the suggestion of the British authorities.

For

REB

2-#1479, From London, Dec. 31, 5p.m.

For example the TIMES particularly emphasizes that, "It will be noticed that the September 30 holding, while substantially reduced in comparison with the high levels at which it stood in March last and in September, 1937, is still approximately the same as it was in March, 1937, before the large scale influx of funds to London began. The fact that the accounts gold holding declined heavily during the six months March-September and has undoubtedly suffered some further encroachment since September 30 need not blind us to the fact that total gold reserves are still at a very satisfactory figure judged by the standards of past years."

The FINANCIAL TIMES entitles its editorial, "Reassuring gold statement", and emphasizes the augmentation in gold resources since 1932 when the account was established.

Even the FINANCIAL NEWS states, "The most volatile of the foreign balances has now left London, and the fundamental position of sterling on trade account now seems considerably healthier than it was a few months ago, for our own trade balance is improving and it is difficult to believe that the American figures will continue to show the same large
export

REB

3-#1479, From London, Dec. 31, 5p.m.

export surpluses now that the peak of the export season has been passed". However, the editorial does point out that, "In spite of all this it still seems doubtful whether the authorities were wise to miss the opportunity afforded by the seasonal increase in the fiduciary issue of transferring some additional gold to the exchange account. The recent crisis showed clearly enough how easily a substantial gold stock may evaporate within a few weeks."

Incidentally the FINANCIAL NEWS estimates the gold losses since September 30 at only 50 million; it will be interesting and not unimportant whether the market will accept this figure as a reasonable estimate.

JOHNSON

EMB

240
December 31, 1938.
10:10 A.M.

HMJr: Hello.
Sumner
Welles: Hello.

HMJr: Sumner?

W: Good morning, Henry.

HMJr: How are you?

W: Fine.

HMJr: Sumner, I don't know whether Wayne Taylor showed you the telegram I got from Souza Costa in which he has asked us whether we wouldn't send a couple experts down there --

W: No, he has not.

HMJr: Well, this is what I wish you'd think over -- in view of the letter which you wrote me -- I don't know, about a week ago -- my own feeling is that I'd like to have Souza Costa come up and see me. I'm not going to send any experts down there, and I wish you'd think it over, because we are getting no where as far as --

W: Yes.

HMJr: As far as --

W: Well, as I told you, I have been hopeful for the last three or four days to have a chance to talk to you and to show you the methods I have.

HMJr: Uh-huh.

W: And --

HMJr: I'm leaving town Monday night.

W: You're leaving?

HMJr: Yes. I'm going away until the fifteenth of January.

W: Monday night?

HMJr: Yes. Monday afternoon.

W: Well, could I see you sometime Monday afternoon?

HMJr: Ah -- yes.

W: Will you --

HMJr: I'm going to be at the Treasury.

W: At the office.

HMJr: Yes.

W: Fine. Well, suppose I drop in to see you about four o'clock, would that suit you?

HMJr: That's too late. I -- I don't want to let it go that --

W: Too late?

HMJr: Yes.

W: Well, how about three?

HMJr: Three would be all right.

W: All right, I'll drop in at the office at three o'clock Monday afternoon.

HMJr: Right. Will you give serious consideration to this?

W: Yes, I already have been.

HMJr: I know, but your thought is and that's -- that doesn't help me any.

W: Yes.

HMJr: See?

W: That is my thought, because that means getting something done. With the other man you won't get anything done.

HMJr: Well -- ah -- you do -- you do agree we ought to bring somebody up here, if they'll come?

W: I think so.

HMJr: What?

W: I think so, yes.

HMJr: Uh-huh. Well, ah --

W: In other words, if we send anyone down there it ought to be as a result of somebody coming here.

HMJr: Well I -- it is useless to the Treasury to send anybody there at this time.

W: Yes.

HMJr: I thought you'd be amused. I got a glowing telegram from Dr. Suarez, the Minister of Finance of Mexico, wishing my country happiness, etc. I thought that would amaze you.

W: Fine.

HMJr: Happy New Year to you and your --

W: Happy New Year to you, Henry, and to your family.

HMJr: Thank you, and I'll look forward to seeing you.

W: Yes, I'll -- I'll be in there 3 o'clock Monday afternoon.

HMJr: Thank you.

W: Good bye.

HMJr: Good bye.

December 31, 1938.
10:55 a.m.

HMJr: Hello.

Operator: Secretary Woodring. Go ahead.

HMJr: Hello.

Harry Woodring: Hello, Henry.

HMJr: Are you at your office?

W: No, I'm at home. It doesn't make any difference, I'm all there.

HMJr: Harry -- ah -- this is the situation as I understand it -- ah -- the French mission head cabled back giving the date of the possible delivery of the various planes, see?

W: Yes.

HMJr: Now, they don't know yet whether they want that Douglas B-7 or not, see?

W: Yes.

HMJr: On account of the delay in the delivery.

W: Yes.

HMJr: So, they're satisfied over the weekend that they can go and see the Martin, which is, I think I'm correct -- that it's all right with you people.

W: Absolutely.

HMJr: And they also are considering a Curtis, I think the call it the thirty-six --

W: Yes, Curtis thirty-six.

HMJr: Ah -- which they already have a hundred on order.

W: Yes.

HMJr: See?

W: Uh-huh.

HMJr: They doubt whether they want that new one with the Allison motor, because they can't get delivery fast enough on that.

W: Yes.

EWJr: So he's going to have some work for me Monday, and if it works out that they will be satisfied with these, but I think you call it improved Martin. Is that what you call it?

W: Yes, that's right.

EWJr: And they may be satisfied with that, and they may be satisfied with the Curtis P-38.

W: Yes.

EWJr: And if that's the case, then I take it everybody in the Army would be happy.

W: Yes, grand.

EWJr: Is that right?

W: Yes, that's right. We'll be happy on the other if it works out. Satisfactory to all of us.

EWJr: Well, that's the way she stands, and I'm to hear from them Monday.

W: When do you plan on leaving, Henry? Weren't you going away next week?

EWJr: I'm going Monday night at five or six o'clock.

W: Uh-huh. Well, in the meantime, I told -- I told the boys to be ready to go over it, stand by and report to them as they were ready to go to Martins.

EWJr: I think they're over there today, I think.

W: Well, I told them yesterday and I -- and I don't know whether they went today or not, I didn't know.

EWJr: Yes.

W: But, then -- I'll just stand by until I hear from you Monday.

EWJr: That's right.

W: Anything that you hear.

EWJr: Will you be available Monday?

W: Yes. Yes, I'll be available. You may have to reach me here at the house --

HWJr: Yes, I mean -- but you are --

W: Oh, yes, right here.

HWJr: Well, as long as that's the situation, then I told him this, that -- ah -- if I -- if they want to continue on this thing they've just got to give me publicity.

W: Yes.

HWJr: I don't mean me, but I mean the mission.

W: Yes. Now Louis Johnson yesterday in discussing this thing wanted to know if he had my permission to discuss with you the -- ah -- the fact that someone has told him that there is a -- a private manufac -- perfume manufacturer over here, a Frenchman, who is talking -- visiting all the plants and is talking about establishing -- building a plant here in this country.

HWJr: I don't know anything about that.

W: I don't know either, but then he looks with suspicion on it and wanted to know if it was all right for him to talk to you about it, and I said, "Why certainly talk to him about it if you want to. Tell him anything you want to know and anything you think he ought to know." So he may call you today, because I think he said he was going to call you today and tell you about it, so I'm just telling you what it is; I don't know anything about it.

HWJr: Well, he must have called the President and told the President unless you told the President. I understood them to say that Johnson had called him.

W: Yes.

HWJr: And told him about the French building a plant here, and the President said there was nothing to it. So that's all I've heard about it -- what the President told me yesterday.

W: Yes. Well, I think maybe -- ah -- there is something to the fact that this manufacturer is talking about building a plant here. Whether he is going to or not, I don't know, and --

HWJr: Well, that would be something separate from this.

W: Yes.

HWJr: Because this group are doing only -- ah -- what we tell them they can do.

W: That's right.

HMJr: See?

W: But he has some -- he's suspicious of -- about this man in some way, he wanted to give you the information and he asked me if it was all right, and I said certainly.

HMJr: God, I can't be responsible for fifty million Frenchmen.

W: Well, if you could you'd be -- you wouldn't last very long.

HMJr: No. Well, now -- I think over the weekend it's all right.

W: All right.

HMJr: And we'll see -- the next move is up to them to tell us -- they've got all the information back now and the next thing is for them to say in view of the delivery date what do they want.

W: Yes. All right, Henry. I'll stand by.

HMJr: Thank you very much.

W: Good bye.

December 31, 1938.
2:10 p.m.

Operator: Mr. Knoke.
HMJr: O. K.
O: Go ahead.
HMJr: Hello.
A. W. Knoke: Hello.
HMJr: Hello, Knoke?
K: Mr. Secretary?
HMJr: Yes.
K: May I just interrupt long enough to wish you a prosperous and successful new year?
HMJr: Well, that's terribly nice of you. I wish you the same and many more of them.
K: Thank you, sir.
HMJr: I had nothing. They just said that you wanted to talk to me. Is that what you wanted to say?
K: That's all I wanted to say.
HMJr: Well, how nice. That's very nice indeed.
K: You know we've had rather an active day this morning.
HMJr: I know. You've -- you've been gambling in the pound again.
K: And the franc!
HMJr: And the franc?
K: There were twenty-three million francs offered.
HMJr: Oh, for heaven sakes!
K: At the -- ten minutes before the close.
HMJr: Golly! Who did that?
K: The French-American Banking Corporation, but I couldn't find out just -- it was an order from Paris.
HMJr: Uh-huh.

K: Probably of no consequence, but one of these late things that came on an empty market.

HMJr: I see. Well, listen, I -- I hope that the pound isn't going to behave as badly as they are forecasting.

K: Well, it can't be a heap much worse than they are forecasting.

HMJr: No. I think they are very silly about it.

K: Well, did you see today's figures of the fund?

HMJr: Well, I just -- I haven't had a chance. No.

K: That's really -- that's two hundred million worse than we had figured here.

HMJr: Oh, really?

K: Yeah.

HMJr: I see. No, I'll have to look at it. How much did they lose in six months?

K: They lost seven hundred and thirty million dollars.

HMJr: In how long?

K: In six months.

HMJr: Well, they gave us a figure here secretly of over seven hundred million. They gave us that figure.

K: Yes, I see.

HMJr: So we knew that.

K: Well -- I see. Well, we had in our calculations figured about five hundred and fifty.

HMJr: They gave us a figure of over seven hundred.

K: Uh -huh.

HMJr: Well, let's hope that next year will be no worse than this.

K: Well, let me also wish you a pleasant stay down south.

HMJr: I -- I appreciate all the help, Knoke, you've given me this last year.

K: Not at all, sir.

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HMJr: Well, good luck.
K: Good luck. Thank you, sir.
HMJr: Good bye.

December 31, 1938.
3:57 p.m.

HMJr: Hello.

Operator: Mr. Jackson.

HMJr: Hello.
Robert
Jackson: Hello.

HMJr: Bob?

J: Yes.

HMJr: Henry talking.

J: Yes, how are you today?

HMJr: Fine.

J: How is Herman?

HMJr: Well, I saw him this morning, Bob, and, while he's been getting better every day, he's a pretty sick man.

J: That's what I understand.

HMJr: But the Doctors say he's improving every day.

J: I suppose he's pretty impatient to?

HMJr: Well, of course, they keep him under the influence of drugs so that they keep him quieted down, but they told me this morning that he doesn't know. He just thinks he's going to be there a couple of days more. They say the earliest he could be back is six months. Ah -- Bob -- hello? Can you hear me?

J: Yes.

HMJr: Are you at your office or at your home?

J: At the office.

HMJr: Oh! Well, I'm going to -- I asked Ed Foley to come over and see you on Tuesday, see? There's a very important document that involves the -- some personnel over there, see? Hello?

J: Yes.

HMJr: And before I send it I -- I -- I'd like your -- your advice, see? Hello?

J: All right.

HMJr: So Ed will look you up on Tuesday, if that's acceptable to you.

J: Yes. Well, I'll have to be in court on Tuesday, so -- ah -- if he doesn't find me here I'll be over at the court.

HMJr: Well, will you be around -- well, he'll just have to -- he'll have to wait until it's convenient for you that's all.

J: Well, I'll see him whenever it is -- whenever he calls --

HMJr: Yes. Well, I -- I -- we can wait until you are ready. If it isn't Tuesday it will be Wednesday, but I don't want to let it go out until you've seen it.

J: All right. That's fine.

HMJr: I just want to let you know -- after you've seen it you may want to take it home and study it yourself.

J: Yes. All right.

HMJr: But I would appreciate your informal advice.

J: All right, I'll be glad to give it.

HMJr: Thank you so much.

J: All right.

HMJr: I want to wish you and your family a very happy New Year.

J: Well, thank you very much, and the same to you.

HMJr: Thank you.

J: The children have been having a great time, I guess.

HMJr: Oh, yes.

J: All right.

HMJr: Good bye.

J: Good bye.