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PARAPHRASE OF TELECRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 2, 1939, 9 a.m.

NO.: 1

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FROM COCHRAN.

The Parliamentary session lasted 31 1/2 hours. During this time the 1939 budget bill was shuttled back and forth between the Senate and Chamber. At 1 o'clock this morning the bill was finally adopted, in spite of obstructionist tactics by the Left, a majority of 281 to 16 being given in the Senate. The budget in its final form anticipates sixty-six and a third billion france in receipts, with about fiventy-three million france surplus. Parliament was adjourned and will meet again on the tenth of January. Yesterday noon the Premier left for Tunisia and Corsica.

This evening I am leaving for Brussels. I will visit Belgium, the Netherlands, and Switzerland, as approved in telegram No. 960 of December 23 from the Department. The morning of January 10 I will return to Paris, after having visited Basel for the BIS meeting.

WILSON.

EA:LWW

GRAY London Deted January 2, 1939 Rec'd 1:40 p.m. 2

Secretary of State

Washington

1, January 2, 5 p.m.

FOR TREASURY FROM BUTTER', ORTH

With the New York and Paris as well as London bullion and stock warkets closed, foreign exchange dealings have been small. The British authorities have held the pound at 4.63 7/8 but it was only during the early part of the morning that there was any dollar buying pressure.

They have had to give some francs and the one month's forward franc has gone to a premium.

CSB

JOHNSON

### January 2, 1938

# Hy dear Mr. Presidents

I thought you would be interested in the inclosed chart showing how much cotton is held against loans by the United States Government.

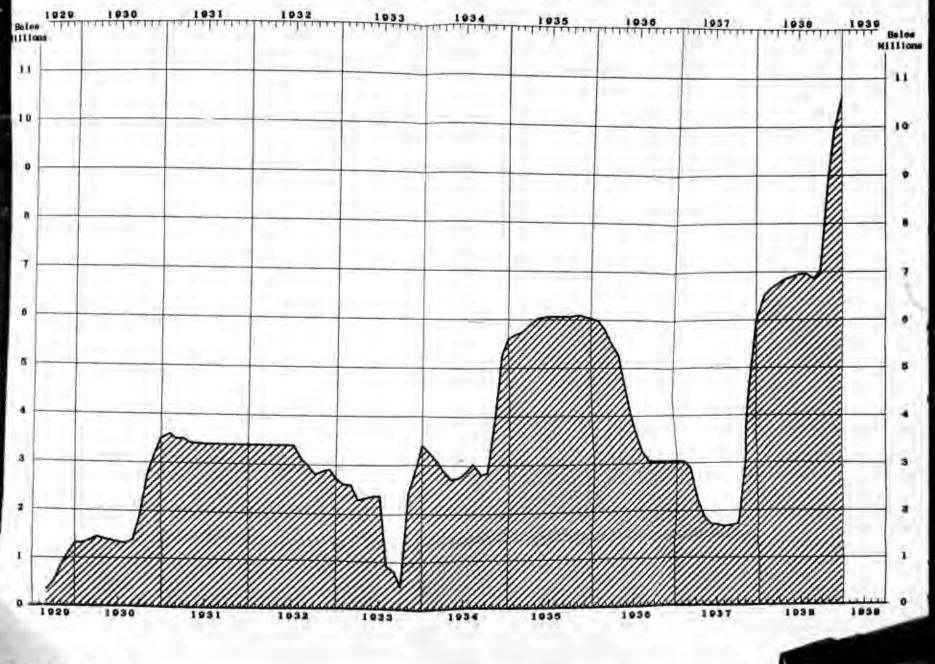
Yours sincerely,

The President, The White House.

Regraded Unclassified

# COTTON HELD BY U.S. GOVERNMENT

Includes Cotton Held Against Loans



raded Unclassified,

CONFIDENTIAL HONG KONG VIA N.R. Dated January 2, 1935 Received 8 a.m.

INFO SECRETARY OF STATE

Washington

2. January 2, 9 a.m.

The Department has instructed this office to send you monthly a orief telegraphic summary of, and events at, or near, Hong Kong which have relation to China. The following is our summary for December.

One. Improvement in frontier relations of which our telegraphic reports to Department were repeated to Peiping.

Two. Continued speculation with no definite developments as to reopening of Pearl River to connercial traffic to and from Hong Kong. British gunboat and occasional American gunboat maintain fairly frequent wall and restricted passenger communication with Canton.

Three. Active reshipment from Hong Kong to Halphong and intermediate ports of supplies for Chinese destinctions with motor vehicles leading cargo item.

Four. Esturn in progressively substantial numbers to Hong Kong of Japanese men, women and children which were evacuated last year to Japan and Shanghai.

Five. Beginning of irregular Japanese steamer service between Macso and Canton for carrying mails and merchandise and passengers

SDA

on commercial basis. Official statement of such service rumored but not yet confirmed.

-2-

Six. Much speculation about Wang Ching Wei and other Chinese officials who are reported bound from Chungking via Indo-China to Hong Kong to promote support of Chinese here to acceptance of peace proposals from Japan. Wang rumored to be due in Hong Kong today en route Europe but no confirmation obtainable.

Sent to Peiping.

#### SOUTHARD

RR

(OVER)

January 2, 1939. 4:25 p.m. 7

Monnet:	Hello.
"perator:	Mr. Monnet1
121	Ves.
01	no shead.
"Jr:	Wello.
12	Hello. Yow nre you, Mr. Secretary?
Hijr:	I'm all right, how are you?
224	Well, I wish you a Happy New Wear again.
HJr:	The same to you.
Mr.	I've had a telepram from Foris
শাঞ্জন:	Yes?
-114	And they say that two things. On the various quest tions which we discussed, they say they will telegraph be immediately after the holidays.
HATTE	Pardon me?
<b>E:</b>	They say that they will telegraph immediately after the holidays; meaning that they will telegraph me tomorrow or the next day.
ant wi	Yes.
-111	Apparently the they say that they are very busy with the budget discussions and so on, and and the Minister there wants to speak to Daladier before he leaves for Corsics.
Hijr:	Yes.
-12	Now, on the other question which we discussed on Satur- day morning, which I did not raise with them, but they say that they are disturbed at the late delivery.
WILTER	Yes.
2:	And that they are conquering that, but they isubt whether the late delivery will meet them.
Hijri	Yes.
11:	So it looks it looks from that cable that the ques- tion which worried you on Saturday morning

.

HIJr:	Yes.
M:	Hello?
HUJE	I'm listening.
¥1	light well be disposed of by we discussed.
PHJr:	I don't follow you.
23	"ell, they may not they may not want
·HIGT:	Any planes.
11:	No, no, no. They may not want the Douglas.
PhJr:	I see.
23	You see?
-Wr:	Uh-huh.
45	And from the reading of the cable which is general my impression is they may well concentrate on the Curtis which they can get
Hlfr:	Yes.
м:	And on the Martin, and leave the Douglas alone.
HMJr:	Well, what about publicity?
и:	I can't hear that. And as to the publicity they say that they will I raised I did not raise the question that you raised on Saturday.
HUJr:	About publicity?
Mr	Not the one that you raised on Saturday for immediate publicity.
HIJr:	Yes.
М:	I had raised the question of the public statement to be made sh as you raised it with me on Thursday.
HMJr:	Yee.
M	And they said that they will welcome the public statement the French Government has bought planes, but they say that they would like to have that publicity solely when the orders have placed.

8

- 2 -

וידענא	Well, I don't think they are going to be able to get into any more plants until they get about a public statement. That is, as far as we are concerned.
¥:	You think they will not be able to get any more planes unless immediate publicity.
SUTT	No, they won't be able to visit any more plants.
111	oh?
HMr:	They will not be able to visit any more plants until this mission is a public matter.
(1) (1)	No. Well, I left I did not mention the the sugges- tion of immediate publicity that you hade on Saturday.
Higri	Well, I just these are the instructions that I am leaving with Mr. Hence
222	Yes?
HUTI	As far as the United States Treasury is concerned, we cannot cooperate any further until the French Government makes a public statement.
	I see.
Http:	Now that's my position.
25	Yee.
SMr:	Now ah the United States Treasury can offer no more cooperation until a lublic statement is made in regard to this mission. I I I want to make that very plain.
18a	Yes. Well, now ah all right. Well, that's your that's your
HMJr:	That's my ultimatum. I'm sorry but that's
<b>1</b> :	I understand fully.
HWr)	But I mean as far as the United States Treasury is concerned, until the French Government announces publicly that you have a mission here ah we can't offer any more cooperation. I'm sorry, but I have to take a stand.
21	No. I do I do understand fully the the difficulties of the position.

HNJr: Now, if the United States Army wishes to offer you that cooperation that's their business, but as far as the

United States Treasury is concerned -- ah -- we are out, until your Government makes a public statement.

- Well, I see that, and I appreciate the difficulties.
- HMJr: Yes, well -- well, I'm very sorry, but I'll have --I have to take that firm position.
- I: I do -- I do understand --
- HUT: And that's the instructions that I'm leaving with Mr. Hanes.
- I see. I do appreciate your position and the difficulties --
- HMJr: So ---
- And I sopreciste all thet you've done, so you don't --
- HMJr: So if you want further cooperation from the Treasury, you'll have to ask your Government to make a public statement.
- M: Yes. And your position is that the public statement be made at once?
- Hildr: Yes, please. As far as the Treasury is concerned.
- W: Yes.
- Hillr: All right?
- M: Well, I do -- I do --
- Hijr: Well, I mean, that's just my position, and your Government can do whatever they see fit, but that's the position that I'm taking as Secretary of the Treasury.
- I: I do appreciate fully the reasons and -- I -- I'll do my best to convey to them the necessity of it, and I do appreciate fully --
- HMJr: All right, Mr. Monnet. I'll be back on the sixteenth of January.
- 11: Well, now, Mr. Secretary, -- just one thing --
- Hur: Yes?
- M: If during your holidey -- ah -- would you give me the fevor of being able to communicate with you?

No, I'm sorry, you'll have to communicate with Mr. HMJr: Hanes. Mr. Hanes? 10. John Hanes, Under-Secretary, and for two weeks Acting HMJT: Secretary. John Hanes? M: Yes. HMJr: All right. Then I'll -- I'll do that -- I suppose he 11: will be in Washington from tomorrow on? He's here now. He knows all about this. He's entirely HJr: familiar. Well. I hope to see you when you come back. M : You'll find him very sympathetic, provided we get the Hill r: publicity. I understand fully the position. M: HIGT: Right ! All right. Thank you very much, and good bye. 11: Thank you. HiJr: 11: Good bye. HUT: Good bye.

STRICTLY CONFIDENTIAL PARAPHRASE

January 5, 1939.

The following information has been received from the Naval Attache Feiging under date of January 1, 1939:

Anglo american loans have stiffened the attitude of the provisional government heads toward Jap advisers which is feit at present is causing postponement of the united council meeting. From an excellent source I have learned that Wang-Kehmin and Liang-Hung-Chih on recent return from Tokyo expressed the opinion that Japan was tending toward Fascist military dictatorship with General Apaki and Frince Chimsibu leading lights with Konoye as the mouth-piece.

Chiang-Kai-Shek as an endeavor to probe the Konoye slate statement initiated the CW declaration made by Wang.

Estimate of political situation Wang was selected because he is known to be pro-Japanese, therefore when negotiations start Tokyo will save face; actually Wang is considered loyal but is playing a shrewd game with the knowledge that the Japs earnestly desire peace and are willing to make concessions; trap is pleasantly baited by suggestion that China join the anti communistic aris providing Nippon with an easy way out. The Chinese will most likely prolong the discussions on purpose hoping to dissipate Japanese financial and economic strength in order to secure better terms.

STRICTLY CONFIDENTIAL



NORESS THE COMMANDANT. U. S. IDNET GUND. AND REPORT TO NO.

## TREASURY DEPARTMENT UNITED STATES COAST GUARD WASHINGTON 3 Jamery, 1939.

HEADQUARTERS

From:

T. V. Boong.

To I Mr. Micholson.

Wang Ching Wei defection has proved complete fissle. He is repudiated by Kuomintang government and military as well as people, and lends weight to Japanese belief which I previously cabled that no sconer does any Chinese join Puppets than he at once loses anthority with his own people. Koncye wants to negotiate peace with Wang Ching Wei as member of government but not as solitary individual. Believe no reverberation need be feared. Many hope government will eliminate all defeatists within own ranks.

14 Supp Pla sceep there Its together file as of 1/3/2 en **Regraded Unclassified** 

January 3, 1939.

By dear Senators

I have your letter of December 6th before me and I am glad to supply such of the information you request as the Treasury has available.

The figures you cite of our cilver acquisition are substantially correct. The table below shows the exact amount and composition of our estallic reserves on the day the Silver Furchase Act was passed and on Nevenber 30, 1938.

		June 19, Menetary Talue	Cranese .	Vouetary				
1.	Gold held in the Treasury	\$7,834	224	114,312	409			
2.	Total silver in mometary stocks (in Treasury and in sirculation)	997	606	3,263	2,524			
3.	Ratio of milver to cold and eilver in mometery stocks		.3%	10	.64			

yern Ri-

As you point out, the propertion of silver to silver and gold in our nonstary stocks, at 18.6 percent, is loss than the ratio specified in the Silver Parchase Act as its ultimate objective. The goal can be reached (aside from alterations in the mometary value of either notal) in one of two ways-either through an increase in the mount of silver purchased, or through a decrease in the mount of gold in the meastary stocks. It is therefore impossible to may at this time when the ultimate objective of 25 percent will be attained.

There appears to be a misuaderstanding on the part of the Financo Counities of the New York State Chamber of Conmerce with respect to the procedure under which our Treasury's silver purchases are finance Purchases of silver do not increase the public debt, nor require

#### Senater Vandenberg - 2

expenditures to be made out of funds obtained from tax revenue. The purchases are financed in much the same way that purchases of gold are: gold certificates and gold certificate credits are issued (sconer or later) against the gold sequired; similarly, silver certificates are issued against the silver bullion sequired (in an amount not less than the cost of the bullion to the Treasury).

Needless to add, I will be glad to furnish you with any additional available statistics or information that you may desire in connection with your further study of this problem.

#### Sincerely,

(Signed) H. Morgenthau, Jr.

Henereble Arthur H. Vandenberg, United States Senate, Washington, D. C.

#### UNITED STATES SEMATE

Comittee on Finance

December 6, 1938.

Monorable Henry Morgenthau, Secretary of the Treasury, Washington, D. C.

My dear Mr. Secretarys

Instead of submitting the following questions in the form of a Senate Resolution in January, it occurs to me that all of the information may be elicited by an exchange of latters. Therefore, I take the liberty of embracing this simpler and more direct contact. If not deemed inappropriate, I should appreciate a latter from you indicating the Treasury's attitude toward the demand (Cotober 30) of the Finance Committee of the New York State Chamber of Connerce that the Silver Purchase Act of 1934 be repealed and the purchase of silver bullion be suspended "to save further useless expenditures of public funds".

In this connection I should like to inquire whether this Committee's statement is justified that -

"The United States now holds one-sevent of all the silver the world has produced in 450 years silver which it cannot use and could not dispose of without causing a collapse of world prices and panic".

The Silver Purchase Act of 1934 instructed you to buy silver until (1) the price reached \$1.29 per ounce, or (2) until our silver heard is equal to one-third the monstary value of our gold heard. Silver is now selling in the world market for 43 cents an ounce - although you are paying an additional premium of 21 2/3 cents an ounce for American-mined silver (which could be purchased 21 2/3 cents an ounce cheaper in the world market). Therefore, the first objective does not appear to be remotely attainable. As for the second objective, although you have purchased approximately 1,750,000,000 cunces of silver, there appears to remain a gap of nearly 1,000,000,000 cunces (which you must still purchase) - and the gap constantly widens as more and more gold flows to the United States. If these facts are approximately accurate (and I ask to be corrected if they are not), I beg respectfully to inquire how it is possible, in reasonable anBor . IL.K.

pectation, for the Treasury over to fulfill the mandate of the ilver Purchase Act?

If the asserted objectives are unattainable, I should be glad to have the Treasury's view whether it is advisable for the government longer to pursue this hopeless "storn chase". Are there any collateral compensations to the nation in maintaining these wast silver expenditures? I am not unsware of the license in the law which permits the Treasury to coin 43 cants worth of silver into 11.29 of monotary value, and which allows the President to devalue the silver dollar 50% (which I suppose would give 43 cents worth of silver a monetary value of \$2.58); but I take it that no such gross inflation is contemplated, despite its easy invitation to a fictitious bookdeeping profit of several billion dollars to a hard-pressed Treasury. Neither an I unaware of the claim that this silver policy could enhance our foreign trade with silver countries; but any such advantage seams, on the face of the record, to have disappeared in thin air. Possibly the unilateral "good neighbor" policy with Mexico is involved since I understand that large silver purchases continue from that quarter. If compensations are found in these or any other directions, it would be helpful if they might be pointed out.

I shall welcome any general discussion, in addition to these specific inquiries, which you may care to undertake in facilitating an authentic understanding of the whole problem.

Respectfully yours,

(and) METHUT H. VARDENHERG

AllY-D

# FEDERAL RESERVE BANK

OF NEW YORK

January 3, 1939.

Dear \_r. Secretary:

Except for one large private sale by a utility company, there is little to report on corporate financing in the final week of 1938. The Cities Service Gas Company sold \$35,000,000 of 3 1/4 per cent and 3 3/4 per cent first mortgage pipe line bonds of 1940-54 to a group of banks and insurance companies. This issue, along with one or two smaller changes, requires revision of the preliminary total of corporate issues in December (the preliminary estimate in my letter of December 23, 1938, was \$205,000,000 of which about \$40,000,000 was for new capital) to \$250,000,000, of which \$45,000,000 was new capital.

On Thursday, December 29, dealers offered an additional \$13,556,000 of Metropolitan Water District of Southern California 4 per cent bonds of 1946-86. These bonds were ecquired from the Reconstruction Finance Corporation at 108, as against 107 for a block of \$60,000,000 last June. Priced to yield from 2.50 to 3.55 per cent, the new offering was well received in the market. Various other municipal bond awardsduring the week made the total of such awards \$26,900,000.

The schedule of prospective offerings this month is still very slim. It continues true, of course, that a lot of the necessary and possible refinancing has already been done, and that increased borrowing of new money depends upon both the need for expansion of existing productive facilities and the possibility of doing an increased volume of business at a profit commensurate with the risk.

JAN

Yours faithfully,

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

Regraded Unclassified

Allan Sproul, First Vice President.

137A

January 4, 1939.

"ear Mr. Sproul:

In the absence of the Secretary, who is away from Washington on a brief vacation, I am acknowledging your weakly letter dated January 3, 1939.

Your comments will be noted by the proper official in the Secretary's office.

Sincerely yours,

H. S. Klots, Private Secretary.

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

GEF/dbs



# TREASURY DEPARTMENT BUREAU OF ENGRAVING AND PRINTING Washington, D.C.

January 3, 1939.

The Honorable

The Secretary of the Treasury.

Sir:

In compliance with Section 7 of the Legislative, Executive and Judicial Appropriation Act, approved March 2, 1895, I respectfully report that the work of this bureau was, at the expiration of the quarter ended December 31, 1938, substantially up to date.

Very truly yours,

A. W. Hall, Director.

#### NATIONAL POWER POLICY COMMITTEE INTERIOR BUILDING WASHINGTON

January 3, 1939.

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

Dear Mr. Secretary:

I enclose herewith your file copy of (m block 12 - 19-38)the report of the Fiscal and Monetary Advisory Board, of which I have taken the liberty to make a copy.

With kind regards,

Yours sincerely,

Ben V Cher

Benjamin V. Cohen

Enclosure.

c/o Board of Trustees, Liang Lu Kou, CHUNGKING, 3rd January 1939.

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

Dear Mr. Morgenthau,

I am enclosing material which I had sent Miss Saunders but which she could not forward you on account of an attack of appendicitis. For some unknown reason, there was a delay in this material being forwarded to me from Kunming which has only arrived today through the Consulate.

Respectfully yours,

J. hurring Buch

11 5

-AUTOTADOPDETET TIL

Encls: JLB:MC

Chengtu, December 7th, 1938

To Secretary Morgenthau From J. Lossing Buck

#### JAPAN'S DOMINATION OF CHINA

1

Japan's desire to dominate China is best illustrated by leaflets dropped by Japanese bombers in Chengtu on November 15th. A copy of the original leaflet and a rough translation by a member of Central Aircraft is enclosed.

RECEIVED 1 FT3 C האסיישע הבסאסדעראד per l' AMERICAN BALLER ME

£.,

#### JAPANESE EMPIRE'S DECLARATION

2

Under the order of the Emperor of Japan, the Empire's Army and Navy captured Canton and the three cities of Wuhan, in order to overcome all Chinese vital cities. The Government of the Chinese Republic is being descended as a local reign. If the Government still follows up her old policies of "Anti Japan and Join the Communist", the Empire shall chasten her by force until her ruin.

What the Empire expected is to establish a new organization, to build up a foundation of the permanent peace for the East Asia. This is also the utmost sim of the war.

The establishment of the new organization is based upon the relationships in political, financial and culture, which are accomplished by the union of three nations: Japan, Manchukuo and China. The international arbitration of the East Asia will be obtained, the union of "Anti Communist" will be functioned, the new cultivation will be invented, and the cooperation in finance will be performed. This is the best way to obtain the peace in East Asia and improve the world's cultivation.

The Empire wished China to take partial duties of establishing the new organization in East Asis. Chinese people are expected to understand the real idea of the Empire, and render their semistances to the Empire. The Empire shall not refuse to cooperate with the Covernment of Chinese Republic if she will give up the old policies, alternate the personnels, revise the construction, and join the establishment of the new organization.

25

Regraded Unclassified

Having recognized the real purpose of the Empire, all the nations in the world should choose their best policies to meet the new situation of the East Asia. The Empire trusts them. Amongst all, we are much obliged to the nations who are in union with us, of their kindest assistances offered.

3

The great achievement of the establishment of the new organization for the East Asia is extended from our spirits of building our mation. It is the most glorious and greatest duties of modern Japanese people to accomplish this achievement. The Empire decides to improve the mation in different points by her sovereignty, to enlarge the mations' unit power, to overcome all the difficulties, and to accomplish the achievement. This is the Empire's permanent policy as well as her motionless decision.

RECEIVED TATHTALGAN VOIDATOT and here will be because --- with

西水下動こ方針、小国、推之快意也。特比声明。	医国家にる、振見雅の邁進い期野堂、達成之市	最重え而最有光常を責将也帝國項新行國内会方を改新、凡	大葉、遙由我達問い精神而来、完成比葉、安為現代日を国人こ	不起就中、粉塑用み風を加力浮風其誼·惟建改東西新秩序を	帝國う真志、對此東臣之新情势、在施最適了方家。帝國信三而	寶而今小新秩序:建設:帝國以府固不敢拒:。 要到團認識	九時中与ち若國氏政府抛其送来:故策、更故其人を構成、更生其	沒理會帝國真意;而在,此與國民共居帝國;加了,是帝國;	帝國希生中國山分招建於果臣新秩序:任物,中國國民之,		了養法也。	减法会~实现,是实為安定東至~良策,而進展要要文化	期在東日國際百豪之雅之、共同污共、達成、新文化、創送、经	五相提携、而樹主政法經濟文化五助運南、南峰為根幹、而	次征戰完極了目的出在此美好新秩序了建設、時四日滿中三團	帝國之所水方、在建設新秩序、以期確保東豆水遠、安室。此	国執抗の容共ら政策、別市國公司武者膏惩、川期其價減。	宅中國:要域,國氏政府現し朝露而成一也才政權。該政府仍若	現依陛下御陵威、帝國陸海軍、政略廣東暨武漢三鎮、川武	大日本帝國政府声明
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Changtu, December 7, 1938.

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To Secretary Morgenthau From J. Lossing Buck

#### THE BURMA ROAD

Mr. C. W. Hunter, Fectory Menager of the Central Aircraft, left Yunnanfu on November 2nd, meaning to drive to the Burma border. He was obliged to turn back shortly after Paoshan, and reports that between the Salween and the Surma border the road is impassable. This is due to land-slides, bad bridges and wet verther. He stated that thousands of coolies are at work, but that he considers the road will need constant labour for years. Land-slides will be a constant menace, and the road bed is narrow, and turns are very sharp. He found it extremely dangerous as far as he went. He met Mr. Ling of the Southwest Transportation Company on route and Mr. Ling very kindly lent him some gasoline. Mr. Ling is the man I am scheduled to travel with on his second trip. Mr. Ling was scheduled to return to Yunnanfu November 20th, but has still not returned. The Chinese estimate that the road will be usable by the first of the year, but Mr. Hunter considers this very optimistic for trucks, putting the date forward by at least a month.

1070-00501-00447

Chengtu, December 7, 1938.

To Secretary Morgenthau From J. Lossing Buck

#### MILITARY ACTIVITY AT YUNNANFU

My secretary writes from Kunming:

"Kunning shows much more evidence of military activity lately, especially at night - military trucks in great numbers on their way some place, and many more soldiers. The Ministry of Communications has at last taken over the telegraph office: the forms have the Central Government chop, not the Yunnanese form, and the personnel is changed, the new people being much more modern and intelligent."

0.000510

Changtu, December 6, 1938.

To Secretary Morgenthau From J. Lossing Buck

### CENTRAL AIRCHAFT COMPANY'S REPAIR SHOP CHENGTU

Today Mr. Schultze of Central Aircraft escorted me to his company's repair shop. It is located in temple buildings amongst a large grove of trees near the air field. The trees form an excellent camouflage. One part of the temple is still used by monks and the contrast of singing monks and repairing of bombing planes was indeed great.

The company is busy repairing Blanco planes; four are finished and on the field and the others will be ready soon. This work has all been accomplished since the factory moved from Hankow in July.

On the sir field I sew the Generalissimo's 14 passenger Douglass plane ready to take off for Lanchow, piloted by Allison, a pioneer of aviation in America and then in China. The passengers were pilots to bring Russian planes to Chengtu and among them were the three ace pilots of China.

Changtu, December 7, 1938.

or J. Lossing Buck.

#### Nanking

Treas, November 27, 1958.)

irty thousand people - one-eighth of the population of Nanking tre sing slowly poisoned today by heroin, supplied by Japanese controlled drug rings.

Every month a minimum of \$5,000,000 are being squeezed from the every being the region by dope traffickers, belonging to this with the Japanese Army.

These figures, indicating Nippon's policy in China, were conveyed to The Unina Press yesterday by Dr. M. S. Bates, an American missionary enumeror of Manking, in a lengthy statement, entitled, "An Open Letter on the Marcotic Problem."

Tr. lates gathered the material for his careful report through rescal investigation, observations by reliable friends, statements ands by dealers and officials and from regulations issued by the pupper similatration of Nanking.

br. Bates in the past has made a number of other reports of this ippe, one of the most important being a statement on the "Rape of Inning" last December.

The conservative estimate of 50,000 persons, - including small colligen, - already gripped by the hercin habit does not include the thomas under the deadly influence of oplum and other illicit drugs.

#### Army's S.S.S. Active

Dr. Sates' statement indicates that the strongest of the four drug-trafficking organizations active in the city is directed by the Second Service Section of the Japanese Army.

And following four groups are named by Dr. Bates as closely connected with the trade in narcotics:

- (1) The Special Service Section of the Japanese Army.
- (2) The puppet administration of Nanking.
- (3) "Independent" Japanese and Korean Drug runners.
- (4) Japanese business firms.

According to information given to Dr. Bates by "an agent of considerable standing," the Special Service Section of the Japanese array has recorded monthly sales above \$3,000,000 in the area of which familing is the center.

The puppet administration has provided for the "regulated" sala of spium, according to the statement. Seventeen, retail stores are nown to be in full operation and others are reported to be in the recess of organization. these stores are taxed in three grades, it is alleged, presumship scoording to the amount of business done - at \$4,200, \$2,840 or \$1,400 per quarter.

twer 40 dens are said to be doing business as from November 15. These are taxed according to the number of lamps employed; nine lamps, they six larges, \$100 and three lamps, \$50.

Ample indication is given in Dr. Bates! report to show that

#### Official Reason Given

"The official reason for the provision of public dens is that of the bardships of poor laborers,' " states the report.

the molic from exploitation for the easy and cheap supply is to protect the molic from exploitation by private trade - "which does not pay oness ints to the right office."

Murerous hotels and brothels are said to be engaged in the traffic.

"Within the past few days, one organization of Japanese and Wrean "hostesses" and romin brought in SO cases of opium," Dr. Bates declares.

The statement further reveals that a good deal of the wholesale trais is carried on by Japanese firms which outwardly deal in tinned tools or medicines, but handle heroin through rooms in the rear. The news and addresses of certain of these firms are not-orious, the state and addresses of certain of these firms are not-orious, the

Fatty trade also is carried on by runners who bring loads of family from Shanghai.

Although the exact source of the heroin consumed is unknown, its while is said to be based on the Shanghai price for the Dairen pro-

#### Opium From Dairen

"There is abundant testimony that the major oplum supplies none of the through Shanghai," Dr. Bates' report reveals.

"intil recently," the letter continues. "there also has been to drude Anhwei opium on the market. Each the more efficient promotion in 'Manchukuo' and the recently improved transportation and intribution facilities for the opium trade make it possible to sell which end at \$11.50 per ounce in the retail stores (said to be \$11 from the imreau, and \$9 in quantity from the Datren-Shanghai organization) which eliminates the Anhwei article and the recent price of 14-15."

the rapid spread of heroin is closely connected with the inmeiss of thieving and difficulty of social control in Nanking, says the statement.

A recent police report declared that in Nanking there now are w,ood persons to be classed as thieves, and that the basic cause for the conduct is the use of heroin by 140,000 persons, mostly in the same families with the thieves, who are themselves addicts.

In. lates, however, believes this figure to be exaggerated.

#### Practice Condemned

a strong condemnation of a government which permits this ruinous use of drups is contained in Dr. Bates' letter, He says:

"One cannot imagine a shorter sight and a narrower greed than that which exploits the war-time ruin of a relatively decent society, to draw the hungry and sick and hopeless down the false road that leads only to destruction. ...

"To make cheap supplies universally available, and to increase their use through advertising, and the building up of a vast public and private financial interest in the extension of sales, is a policy based either on stupidity or on inhuman greed.

"Do oither Chinese or Japanese interests require for the future " drug ed people, short-lived and infecund, physically indolent and morally presponsible? That is the kind of people who are being de-veloped in the Nanking Area today by the Opium Suppression Bureau and by the heroin merchants of all types.

"leve is a flat test of the statesmanship and the character of the Meformed Government and its sponsors. No Chinese of real worth will trust or assist an administration which ruins society before his eyes.

"And conversely, if the new administration wants the support of the batter elements of the population, the first step to secure it is an instant and resolute stoppage of the flood of narcotics.

"These words are written not as supercilious advice to officials who presumably understand what they are doing, but to emphasize the original appeal to Japanese and Chinese friends who are not yet aware of the urgency of the problem. In the hope that they may exert con-structive influence at once."

The full text of Dr. Bates! Open Letter on the Narcotic Problem follows:

## Full Text Given . \*

"To Japanese and Chinese who Care for the Welfare of the Peo-1010 ple of the Nanking Areat

Regraded Unclassified

"As an old resident of Nanking, long observant of the progress ind well-being of its people, I am interested to learn this week of movement in the 'Legislative Yuan of the Reformed Government'. Inoxing toward a revision of policy in the supply of nercotics. Per-dit so use this opportunity to make an appeal for recognition of the prest will now in process, and for the prompt efforts of men of high character to secure not merely some small adjustment, but a significant + . ter .

friends, and to other visitors from outside Nanking, that the monthle problem was becoming serious. Several of them said they ned not heard of it, and asked for information.

"I began to observe more closely, and in the rapid developments of the current month became convinced that the attention of public-apirited persons ought to be drawn to the matter at once, if the people if this city and surrounding districts are to be saved from irreparable DESTRICT

"The following report has been prepared with care. For mino proof in detail or form of statement, the compiler must be blamed. The is convinced that the main picture is true beyond question. For minor

"The information here presented comes from these sources:

"A.) The direct observation of myself and reliable friends. B.) 'Regulations of the Tupan's Office (governing the Nan-king area) Establishing the Opium Suppression Bureau'; and 'By-Laws of the Cplum Suppression Bureau'; 'Provisional Regulations for Colum Supply Establishments and for Retail Stores'. 'Provi Amgulations for Special Licenses and Sales in Smoking Dens'. Provisional 'Application Blanks for the Registration of Domestic Smokers (covering daily issue of opium, with taxes). C.) Statements from dealers

Statements from dealers and officials, secured of course through personal connections.

legort on the Narcotic Trade in Nanking

I. Sharp Reversal of Conditions. "The present generation has not known large supply and con-Mintion of opium in Nanking, nor open sale in a way to attract the neor and ignorant. Opium was used in a private and semi-private mar by certain members of official and merchant groups, usually of the older type, and by few others.

"Particularly during the last five years has the use of opium from slight, due to fairly consistent and cumulative government presthe scalnet the trade, plus the result of educational effort during

" eroin was practically unknown, and shormously expensive (Leur - \$1200 per ounce).

Volution. Today opium and heroin are sbundantly supplied by the

public authorities, or by those who enjoy their favor and protection. Tens of thousands of persons have become addicts, including children and numberous young people of both sexes.

"Thousands are engaged in the business. The interests already dependent upon the trade for livelihood of for profit are so powerful and extensive that it would require a determined will among the military and civil authorities to crush them.

"A new generation is beginning with the weight of ruling autho-

"Some officials are notorious and open consumers. Public revenues are being built upon the ruin of human bodies and spirits. It is made possible for every one to becure narcotics conveniently and cheaply.

" More than that licensed dens in the public system advertise upon the streets that their products increase the health and vigor of those who use them; and the one newspaper in Nanking, official in character, invites citizens to places of doom.

II. The Nature of the Trade.

## 1. Opium

"A. The Public System: For administrative purposes in general Muniting City (including Hsiakwan) is divided into five districts, each with its own subordinate administration and budget. The opium system is closely tied up with this political organization, although the variation in size and population of the various districts is such as to make mechanical use of such divisions unreasonable.

"Each district is supposed to have one Opium Supply Establishment (T'u Kao Hang) authorized to sedl up to 750 ounces per day. But there has been some difficulty in organizing these establishments, perhaps because of conflicts of vested interests in the supply and distribution as previously conducted, perhaps because of the relatively high initial deposit required. Actually, the Opium Suppression Bureau is issuing colum directly to the subordinate sales agencies now to be described.

"Each district may have five retail stores (T'u Kao Tien), say the basic Regulations, of which 17 are known to be in full operation und others are reported to be in process of organization.

"They are taxed in three grades, presumably according to the amount of business they do, at \$4,200, \$2,840, or \$1,420 per quarter; and of course they must buy, according to the plan, only from their superiors, and sell only at the fixed pricess."

"Each district was supposed to have ten Smoking Dens (Shou Hsi 50), of which forty-odd were doing business as of November 15.

"They are taxed according to the number, of lamps employed; nine lamps at \$150, six lemps at \$100, and three Namps at \$50. But while this report is being written, the official Regulations have been manued to permit in each district ten Retail Stores and thirty Smo-Englens. I observed several opening for the first time on November 13.

"One friend has secured at my request the names and addresses of hi stores and Dens which he found in one day in the southern half of the selled City only. Further, single lamps in homes must be registered, have in principle at \$4, \$3, or \$2 per month. In practice, a certilists for one-tenth of an ounce per day is issued at \$2.20; and for more than that amount of domestic use, at \$4.40 aside from the cost of the prium.

"B. Observations on the Public System: The present scheme is hardly in full working order and the inevitable irregularities have not been hardened into custom. Hence it is not possible to report the elements of graft that extend or modify the official arrangements.

"But it is known, for example, that the Bureau is so anxious to get the trade into its own channels that bidders for the right of operating Stores and Dens are permitted to use part of a required denomit as cover for the initial purchases; also, that certain Stores and Dens are selling to unlicensed persons.

"The Opium Suppression Eureau is under the Municipal Finance Drice of the Tupan's Administration. Recently there has been some calles ressure, associated with interest in fines, upon users of narcotics other than opium. The Bureau's Regulations and By-Laws are concerned mainly with bringing all private trade and consumption into the revenue net.

"There is vagae and kindly mention of a possible institution for breaking the nercotic habit; but more specific are the measures to control expected crockedness within the system, and to ensure remisite secrecy in this 'public' enterprise. The broad social view of the Opium Suppression Bureau is indicated by the arrangements for simplying hotels and brothels with special icenses, and even by the rivate licenses (for a seven-day limit, which is surely generous) to sover marriages, funerals, and social entertaining.

"C. Private Trade. Sources of Opium Supply. Price, Volume of maintast From examining the official scheme, one might think that this some 75 (now 300) establishments would be dealing in opium in Taking. But one must recall the large number of hotels and brothels of all sizes and names, plus the fact that a host of domestic lamps licensed and unlicensed are doing more than domestic duty.

"One very small neighborhood, near my own home, and not in a thickly populated portion of the city, is found to have fourteen ob-"lows centers of distribution and consumption. Both for the Governint and for the people, private trade is thus a matter of great contern.

"Within the past few days, our organization of Japanese and "Crean 'hostesses' and ronin brought in SO cases of opium. An impertant dealer in the public system says that Japanese agents a fort-

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"However, there is abundant testimony that the major opium subclies come from Dairen through Shanghai. Until recently there has not some crude Anhwei opium on the market. But the more efficient production in "Manchukuo" and the recently improved transentation and distribution facilities for the opium trade, make it enable to sell Dairen opium at \$11.50 per ounce in the Retail Stores isaid to be all from the Eureau, and \$9 in quantity from the Dairen-Danghai organization) which eliminates the Anhwei article at the secent price of \$14-\$15.

"The daily sales under the hands of the proper officials are in rinciple limited to 6,000 ounces. But for some time this allowance has teen insufficient to meet the application from the Stores and Dens, and proportional allotments are necessary. Not a few of the sales go out to the surrounding country. Actual totals must be much greater than the legal limitation. But 6,000 ounces alone represent \$66,000 per day wheleaals, or \$2,000,000 per month.

### 2. Heroin

"Destructive and alarming as is the trade in opium, it is overmhadowed in viciousness, perhaps roughly equalled in monetary volume, and robably surpassed in number of persons affected by the totally new development of heroin.

"Mercin is more convenient to take, and a very small quantity is effective. It is commonly said that at present prices a moderate addit's daily use on a low plane costs fifty cents to one dollar in cplum, but only thirty or forty cents in heroin. (Portions of opium or lamo-privileges in the official Smoking Dens run from 20 cents to 15, according to quantity, quality and the style of the establishment).

"The rapid spread of heroin is closely connected with the multiplication of thieving and difficulty of social control in Nanking. A present police report declared that in Nanking there are now 40,000 persons to be classed as thieves, and that the basic cause for their conduct is the use of heroin by 140,000 persons, mostly in the same families with the thieves who are themselves addicts. These figures seen to me to be absurdly worse than the reality; but they are repeated here as giving some sense of the vast scale to which the evil has risen, and of the significance that it should have to authorities really "Oncerned for the welfare of the people of all classes.

"A sensible private estimate is that 50,000 persons, one-eighth of the Vanking population, are now users of heroin. Others put it also the

"The trade in heroin is private, widely scattered in retail peddline, and conducted through agents who work under a hierarchy of intities. One friend knows of 72 places of sale. "It is commonly reported that the Special Service Department of the Japanese Army has close and protective relations with the semiorganized trade in heroin. An agent of considerable standing says that the Special Service Department has recorded monthly sales above 5,000,000 in the area of which Nanking is a center.

"There is general testimony that a good deal of the wholesale trais is carried on by Japanese firms which outwardly deal in tinned cods or medicines, but handle heroin through rooms in the rear. The names and addresses of certain of these firms are motorious. In at least one case known to me the prominent sign and premises of the comment may represented no other business than the occasional arrival and mistribution of fresh stocks of heroin from Shanghai.

"There is also a petty trade carried on by runners who bring loads of goods from Shanghai on the trains and boats, supplementing their trivial profits by a little herion, and assisting the process by a musil bribe to military police when necessary.

"The price of heroin fluctuates, but is often about \$120 per monce, said to be based upon a Shanghai price of \$80 for the Dairen product.

#### III. Conclusion.

"One cannot imagine a shorter sight and narrower greed than that with exploits the war-time ruin of a relatively decent society, to draw the hungry and sick and hopeless down the false road that leads only to destruction. In most cases the first use of narcotics is through decention or lack of comprehension of the real nature of the ster taken.

"To make cheap supplies universally svailable, and to increase their use by advertising and the building up of a vest public and private financial interest in the extension of sales, is a policy based either upon stupidity or upon inhuman greed.

"Do either Chinese or Japanese interests require for the future integred people, short-lived and infecund, physically indolent and morally irresponsible? That is the kind of people who are being iveloped in the Nanking Area today by the Opium Suppression Bureau and by the heroin merchants of all types.

"Here is a flat test of the statesmanship and the character of the Reformed Government and its sponsors. No Chinese of real worth will trust or assist an administration which ruins society before his eros. And conversely, if the new administration wants the support of the batter elements of the population, the first step to secure it is an instant and resolute stoppage of the flood of narcotics.

"These words are written not as supercilious advice to officials "ht unesumably understand what they are doing, but to emphasize the original appeal to Japanese and Chinese friends who are not yet aware of the urgency of the problem. In the hone-one they may exert constructive influence at once.

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ill educated persons, and even some who are illiterate, can istimute between deceptive words and the reality of a policy. The reant hypocrisy only increases the contempt of decent persons for in vils trade.

"In the accres of newly licensed dens are opened, advertising all some if bandfits for twenty cents and forty cents, the very Regulations that provide for getting extra revenue, even from the domestic smoker, model while "All users of opium who because of sickness or of age

"Ins form on which the individual applicant signs declares that signs of sickness he is unable to break the habit and therefore supplies as an act of grace.

"The official reason for the provision of public dens is that the asion for the hardships of poor laborers, expressed more than unde is the documents. Another justification for the easy and cheap supply is to protect the public from exploitation by private trade is the user not pay assessments to the right office). Then there is the harden having to save the people from 'the powerful poisons with a life-long clutch from which no escape is possible,' meaning of ocurse inclusion which distributed in every streat, even among children but the heroin profits go to another gang).

"Finally, what do legitimate economic interests, Chinese and incomese, think of a policy that takes away from the impoverished regulation of this region a minimum of \$5,000,000 monthly, reducing take upping power for decent goods and their ability to do productive liter of any kind?

"Surely there are men who will reverse the present judgment to first and greatest achievement of Sino-Japanese co-operation in the hoortant region, is the poisoning of the common people. Is in the Far East! the deadly dream of an opium den?

"If I, as a foreign guest and friend, have spoken badly, let internal Japanese come forward to speak more effectively for the all re of the plain persons who do most of the productive work. It have waste breath or ink in declaring that the purpose of the buppression Bureau is misunderstood.

M. S. BATES.

www.sing ovember 22, 1938.

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Regraded Unclassified

Changtu, December 7, 1938.

to Secretery Morgenthau Next J. Lossing Buck

## Nanking

A latter from Dr. M.S. Bates, a professor in the University of Nanking. no has remained in Nanking all through the period of occuation. The latter is a Christmas one to his friends, but it does not make one feel like Christmas.)

## November 29, 1938

## Dear Friends:-

Lost of you received our letters of just a year ago and of January 10, but nothing since. This report will go by China Clipper to San Francisco, while I continue toward the International Missionary Sonference, which meets December 13-30. After two additional weeks in India, I will return to Shanghai, arriving about January 29; and will go to Nanking immediately if I get the requisite military pass.

The criminal misery of Nanking has at last become general knowledge, though there are few who grasp its despairing total. Timperley's book "What War Means: The Japanese Terror in China", is straight stuff. Unfortunately there are some people who shrink from confronting the evil of the present world, by refusing to believe what they term "atrocity stories". The first necessity of work for peace or for any other improvement, is to face the facts honestly. Then the interpretation of the facts, the formulation of program, and the going forth to action, are further steps -- all subject to modification as new facts require. Certain friends take a position, and then dismiss or arrange facts in defence of the position, which buts them in illusory ether.

Our final estimate of the number of civilians killed in Nanking was 12,000, nine-tenths of them apart from military operations, and including many women, children, and aged men. That figure is in the ratio of one to every four families then in the city. We have specific reports from resident families, given with some reluctance and concealment because retaliation was feared, of one member in every five families killed, injured, or taken away not to return. More than 50,000 military prisoners who had abandoned their arms, were mercilessly butchered, most of them tied in long lines and machine-gunned on the river-bank. Many thousands of women were raped (8,000 was a carefulfigure set early in the process, and the most conservative given by any observer).

Immediately outside the wall, there was extensive burning by the Chinese army in preparing its poor defence. Within the wall, the buildings and their contents were practically intact at the time of transfer; but during a period of six weeks, beginning one week after antry, the Japanese military burned several thousand buildings (over 4,000 street numbers). These all belonged to the ordinary citizens whom they have come to "liberate", and none to the Government or Party whom they exercate. For the whole city, 24 per gent of the buildings were burned. An additional 63 per cent suffered serious locting, primarily by soldiers, which stripped almost all the people of their unburned tools, stocks, clothing, even food. The foregoing figures are from the Manking International Relief Committee's survey (printed as "War

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in the Nanking Area"), which inspected every one of the 40,000 neuro numbers in the city and investigated in detail every tenth one. > losses were the more shameful because less than two per cent were incurred by actual military operations.

Nor was the fearful injury limited to Nanking. The investigations directed by our trained sociologist, Dr. Lewis Smythe, to estimate the remaining resources and the relative needs for various types of relief, found that in a wide area of country 40 per cent of farm buildings had been burned, nearly half the implements and animals lost, and one resident in every seven families killed. The brutal instruction of villages still continues spasmodically but on a considerable scale, often because infuriated farmers have attacked a small patrol that seized their women, or because local people have been caught between the conflicting demands of guerillas and Japanese for annelies and labor.

Can you think what life was like among defenceless people in long periods of such terror and danger, when the appearance of a soldier in the street, or a rap at the door, or a false report by disreputable police hirelings, meant immediate risk to person and almost certain loss of humble possessions? Three weeks were intensely bad, and not until June did gradual easing off end in reasonable security of life and limb. There is still confiscation of land and buildings at will; more than 20 per cent of the real property in Manking has been taken by the military, by their Chinese servants of varying titles. and by the 5,000 Japanese civilians and 302 Japanese shops not set up in the city in the best buildings that escaped burning. I do not know of the case of free commercial transfer; and among scores of instances with which I am familiar, the only actual compensation was W per family given to some thousands of persons in a large area saired antire. That is "economic cooperation", about which diplomate ake after-dinner speeches. One side provides the property and labor; the other, gun in hand, takes control and profits with only nominal investment aside from the gun. In our experience it works just the same from electric power plant to corner store and private residence. Attlie was a simple greenhorn.

Politics as such are not our business, but we are deeply conterned with the life and welfare of the people of our city. A year's work on relief enterprises, with especial attention since June to investigation and observation of economic conditions (losses and injuries, crops, village situations, fuel, clothing and bedding, employtent), fives we a large body of chill facts and a continual flush of indignation that plain folks should have to suffer so deeply to no food purpose. In the winter and through May, I did my part in the international Committee's general work, but was required to give a food sell of attention to problems of personnel and property in the alternative's extensive plant, which received 30,000 refugees at one time and hept an average of over 15,000 till late spring.

This autumn we (University) are trying out the needs and the cossibilities of educational service by running on various sites a cood-sized primary school, a training course for young farmers, a few clusses in languages and mathematics for stranded boys of junior middle school grade, and a little work for illiterates. So far we have only visits from military police, but no interference. Limitations of staff and funds, with the expectation that by spring the "Reformed Government" will have to show to their masters some results of "the new education", require us to be cautious about enlargement (though the nerveless municipal system and the total of Christian schools provide for only a fraction of the children and young people who should be receiving some training).

But I have wandered from relief, in the mixed duties common to lost days. The International Committee in December of last year provised 550,000 people with housing (in highly relative security), including 70,000 in 25 refugee camps. It was necessary to supply food for many of the latter, even until May, though numbers had gradually dwindled with partial restoration of order. \$345,000 in Chinese currency has been expended to date, mainly in food (exchange was \$3.40 to the American dollar until spring but now is more than six to one). Cash relief, conduct of the camps, work relief projects, clothing, sanitary and health work, and small loans for starting trade or production, have been the other chief forms of aid.

Werk, which confronts a people with absolutely no reserves, private or public. That sounds like a lot of money. But even in terms of the low-valued Chinese currency, it is about one dollar per person for the abject poor in Nanking city alone. It will feed that group for about two weeks on cereal alone; or buy them each one of the cheapest winter intents of cotton. The larger part of the Committee's resources ince from rice and money turned over by the old Municipal Government, and from a grent by the National Government's Relief Committee in May; there have also been useful contributions from various American organizations, from a fritish relief fund, and from a group of Chinese bankers and ot er cld residents of Nanking now in Shanghei. The Committee has initialized high standards of investigation of applicants for relief, and has passed its accounts through well-known auditors in Shanghai.

This bare account gives some idea of the scale and difficulty of the international Committee's responsibilities. The romance of the local struggle to carry on relief, which has literally cost life and blocd and imprisonment and tears; the story of the cooperation of imman Nazis and British businessmen with us American missionaries who have hed to do more than our national share; the part of Mohammedans, Buddhists, and Catholics in our inner groups the remarkable qualities shown by many of our hastily gathered Chinese staff; the actual achievement in the face of guns and of a still potent distrust exressed in repeated "dissolutions" and orders to Chinese to have nothing to do with us; all these require more space and skill than are now at "Gir service.

Nanking's population has now done up to practically 400,000 (an compared with 250,000 in the Safety Zone period and just 1,000,000 before the war). Recent additions are largely refugees from the contry, some of whom went there from the city in search of safety, but ave now used or been deprived of all their money (and often of their clothes) in the precarious hinterland of guerillas and punitive raids. There has been a remarkable effort by farmers, small merchants, and scie makers of household necessities, to reestablish themselves. Yet even now we can scarcely tell how half the people keep alive, and are undertaking a specific investigation of occupation and income in order to find out.

There is a good deal of common labor in the military supply and transport services, and a socially unhealthy provision for soldiers requirements of all sorts. But I am long past blaming a coolie for serving his country's enemy in order to feed his crying children, or a girl from doing anything to avoid starvation, if they don't bring too much direct injury to others (such as joining in armed extortion rackets, or spreading herein and opium). For a good deal of comfortable morality can hardly stand against the basic needs of life itself, and the war has already brought down scores of millions of us in economic and social ruin. Incidentally, we now have large open brothels, sizertising in the official newspaper; and an entire new class of braren girls as waitresses in restaurants, a complete revolution in menutry for Tanking.

One of the grim features of life for an American pacifist in hanking is the experience of seeing squadrons of bombing planes through humirade of successive days, some with American equipment and almost all fed with American gasoline. In the river an extensive navy propelled with American oil; on the roads hundreds of military trucks from energi otors and other American makers. Plus the realization that any of his pacifis friends in America are condemning the weaker nations of the world to destruction by resolutely opposing international cooperation in the first weak step toward world government, and by about all-Capone nations should be displeased. Does good will have any ractical meaning toward other than Great Fowers? The "haves" should the sconomic adjustments for the benefit of all, rather than toss their weaker neighbors to armed greed.

There are a hundred more things pressing to be said. But this thus is heavy enough, and I am tempted to add a recent summary of the war situation in China as a whole, with outtings from an Open Letter rontaining a report on narcotics in Nanking. The past year and a half ron't have to analytical mind much remainder from certain conventional slifes in a benign providence, and I can see little indication of dod in the tremendous wave of cruelty and greed that has engulfed a big plete of our world. Yet the worth of human character, and the need of an for the life and vision that Jesus gave, have never loomed so great. The invisoration of fighting unarmed for the lives of persons in pressing danger, and the thrill of standing for truth and humanity when you how that any moment you may be wiped out by unregarding force -- may be that's life sternal, if we lose our slavery to time. There is a new state of freedom to go ahead according to the light that's given, take matever comes. If life stopped new, iff still would have been worth while, and the investment of others in nurture and opportunity, which to weigh heavily, would not have been lost. So far an open procenter in the immediate struggle, and an attempt to keep clear of narrow artisanship, have been rewarded by continuance. But one vindictive military policeman, one narrow reader of suspicious clippings, can relically tear out a lifetime's work. "Peace on earth, good will to men." But can the peace before us be a peace of good will? Every spiritual concept seems drawn irresistibly to the test in this awful situation, though I know it should not be misplaced or twisted. "Be not overcome of evil", is a call right to the heart. "Overcome evil with good", requires a more powerful "good" than is visible to most eyes, but there's no doubt of its being the right way to work. So that will have to do for faith this Christmas. There is not much hope in the ordinary sense, butthere's a good deal of love, some of it found in unexpectedly rough and desperate places.

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GROUP MEETING

January 3, 1939. 9:30 A. M.

(Held in Mr. Hanes' Office.)

Present:

- Mr. Hanes Mr. Taylor Mr. Foley
- Mr. Duffield
- Mr. Haas Mr. Lochhead Mr. White
- Mr. Bell
- Mr. McReynolds

Who else is coming? Hac was just here this morn-Hanas: inc.

Duffield: Gaston is away.

Tanes: Has he gone?

Yes. You want anybody from that office? Duffield:

No, I don't think so. Hanes:

(Mr. McReynolds and Mr. Bell come in.)

Good morning. Happy New Year. I apologize for Bell: not calling you.

IcReynolds: I heard your wife bawled you out to beat the band. Of course, you weren't there to hear it.

- That's been happening since the twentieth of Bell: December.
- Mcheynolds: Boy, she was sore last night: "I'd be better not to have a husband; he's just no use at all; I can't find him; he never comes home."

I ate one meal at home last week. Belli

Well, the Secretary asked us to have a meeting Hanesı here every morning, so that we can keep in touch with each other and keep in touch with him if we had anything to report.

Bell: Keep tab on each other.

- Hanes: Keep tab on each other. I told him we wouldn't bother him unless we had to bother him. So, if anybody's got anything to talk about, I'll listen. I've got something I want to ask you for some advice on.
- Bell: I haven't got anything.

Hanes: Is the Budget, like it is, going to stay, or is it going to be amended some?

Bell: It is like it was yesterday.

Hanes: Was that the last change?

Bell: That is final.

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Hanes: Can it be changed?

Bell: No. It's in the binding.

Hanest When the Secretary got on the train, he thought you could do some changes.

Bell: It's in the binding.

Hanes: How many of you have seen the thing? I think it's a darn fine piece of work, on the whole.

Bell: I think it came out very well; not like I wanted it, but it's all right.

Hanes: You never get it like you want it. I think you did a dawn fine job.

Bell: He accepted everything - all but one recommendation.

Taylor: Which one was that?

Bell: The suggestion that the appropriate committees in Congress study the whole thing.

Hanes: I wouldn't take that.

Bell: I can see his point, but it's still there, inferentially.

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Mames:

The only thing I was sorry about - not the only thing, but the chief thing I was sorry about, was, he wasn't specific in asking for some amount of taxes. Of course, you can lead him to it that he's asking for five hundred million dollers. was sorry I didn't.

That is the other thing that went out. We had in there, originally, five hundred million dol-lars the first year and a billion dollars each Bell: year thereafter. It was after the study was made they thought that that should be done. So that went out.

Did you see it, Harry? Innes:

No, I haven't seen it. White:

HO.DME C On the whole-of course, it's awfully hard to take a cabbage and make it look like an orchid, and that is what that damned Budget thing is, when you look at it. Any way you look it, by God, it's an awful looking sight.

Weynolds: That's pretty well stated, I should say.

"ones: Harry, you got anything?

White:

This is a slight thing here. This is a letter which you sent to me, from Mr. Frank, which relates to Janeway's study. He says here that that Harry White is most enthusiastic about the Janeways. Shall I say that is putting it a little strong. Somebody who was competent to do so should investigate the staff to see how much was in it. I spoke to George about it; George has seen him at least once, to my knowledge. He saw him the same day, and to my knowledge is studying 1t.

I talked to him a couple hours. You know him, Hans: John?

I've only met him. Jerry Frank sent him to me, 4210 51 and said that Harry White was crazy about him.

He probably says now that I am crazy about it. Ransz

It's two brothers; they have got some new formula Hanes: for telling you what has happened, or is going to happen.

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Willte:

They have a new method of approaching the ascertainment of three sets of data; an over-all production figure, an over-all consumption figure, and what presumably is an inventory figure.

Meleynolds: Haven't got any multipliers, have they?

White:

Not yet. Now, if the data upon which they base their services - and it's a lot of complicated calculations and computations - is accurate sufficiently to justify a feeling of improvement after a critical examination, then they've got a highly interesting and important service, which several organizations are trying to approach.

I went into it enough to know they are not "cranks;" I spent, at one time, a couple of hours with them, which is just enough to say it is worth while for somebody to investigate to see what there is in it; and since I knew George's outfit was interested in that sort of thing, and we ought to be interested in it, I turned it over to George, and I presume George is studying it.

Manes: You think it worthwhile for them to meet George?

White: I did think so, and I think he's interested enough to understand it.

Hones: All I want to do is answer this letter. If you don't think it's worthwhile .....

Huas: I think it's worthwhile. What they have done, John, is to work out a series which show the relation between the equilibrium between production and consumption. They've got - we made a study a long time ago which we are improving all the time, which gives us about the same thing; and I would -I spent about two hours and a half with the two of them, and I asked if they would send me down their work sheets. That is really the only way you can tell. They haven't sent those down, but they sent their total figures. He wants to see me; he wrote me a letter while he was ill last week; he wants to see me sometime. He will be in Washington between the first and the seventh.

Hnnes:

Is it all right if I answer this letter and say to Frank that we are in contact with the Janeways and are going to see them? You are handling it here, and are going to see them again?

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Fine. They seem all right. I couldn't make out what they were driving at. I thought they were working up a consulting business. People come in, wanting to get Treasury approval of certain things; I wanted to avoid that.

Hanes:

This:

- My understanding was they wanted to come in here and work for the Treasury - wanted to be on our staff, and wanted us to make available to them, through our contact with the other Departments put them in contact with such information we haven't got, so they can get all the figures together.
- white: It is not an scademic, scientific, analysis which is available for everybody. These fellows have worked this idea up. One is an engineer, and the other a newspaper man. I first thought they were cranks.

Hanes: He writes for the New Republic.

White: I didn't pay much attention to it until somebody else had gone over it, whom I thought was a competent statistician, and mentioned it, and said he thought it was good. Then I went into it a little more. If they've got what they may possibly have, then it is very valuable.

> Then I had one of the boys, who is a fairly competent statistician, spend a couple hours with them; he came out and said as far as they were able to go, they may have something, but you couldn't possibly tell unless you went into all their data, which they hesitate to let us do. I told them they ought to take it up with George, and if they gave him all the data .....

Hangs: You follow it around and keep me posted, so I can in turn, tell Jerry what we are doing over here.

Have you got anything?

Lochhead: The pressure on sterling is developing according to schedule, and it is about 4.63. Of course, the market lost a lot of gold this morning. There are several editorials on the publication of exchange in the Stabilization Fund. The Journal of Commerce, this morning, made very pessimistic comments on sterling. So I imagine we'll have to continue pressure on that. The franc, on the other hand, is being rather steady.

With the news that our silver price for domestic silver is unchanged, the foreign market is tightening.

Hanes: What is this, about you being put on notice about sterling?

Lochhead: Well, they have been rather pessimistic about sterling, on the other side. They consulted several times, on the Tripartite, and pointed out they are having heavy pressure. There's been no question of any price at all; that's been kept away from very carefully. The idea is, it is not meant to go to any figure; it is still a "floating" pound.

Minnes: What happened on the silver on the thirty-first?

Lochhead: Left unchanged for the six months period. That is as far as they can set it, under the law they buy silver under.

Hanes: The time expires June 30?

Lochhead: June 30.

White: Then purchases will have to be under some other Act.

Manes: Does Congress have to pass a new Act?

Lochead: Not necessarily. They could extend the present Act, but even if they didn't, as long as the Silver Act is in effect, we still could buy silver.

Hanes: What is the price now?

White: 6.042.

Lochhead: On the other hand, the price we're paying for foreign silver is forty-three cents an ounce.

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How much gratuity?

Lochhead: As I understand it, we are stealing sixty per cent on the price. I understand - I have been reading Mr. Pittman again; this last week he says we are penalizing the boys fifty per cent - I understand we are skinning the silver producers fifty per cent each time.

White: They had the most effective, concentrated campaign in the last two weeks that they have had since I have been here. Somebody sent word around, and everybody got going, and had stuff to show that our decline in the last instance resulted in the increased unemployment of a couple hundred thousand, which is about ten times the amount engaged in silver mining. That is why they had to have a seventy-seven cent price.

Taylor: They've got the postman included in that, that delivers the mail.

Hanes: George, you have anything?

Hugs: No, I have nothing.

Duffield: I have noting.

Foley: I want to talk to you, or somebody, sometime about my conversation with Stam on Internal Revenue.

Hence: Stam sent me a telegram down in North Carolina, and said they were disappointed they didn't get the cooperation from us that they got from the Department of Justice. But I'd like to hear about that, Ed.

> While we are here - while we are on this thing, there is something I want to ask you about. Here is a letter - Mac knows about it - that goes to the Speaker of the House of Representatives, which says:

"In accordance with the provisions of section 148 (d) of the Revenue Act of 1936, there is submitted a report disclosing the names of officers and employees of corporations subject to taxation under the provisions of Title I of the Revenue Act of 1936, and the respective amounts reported by the corporations as having been paid to such individuals as salary, commission, bonus, or other compensation for personal services rendered where the aggregate amount so paid to the individual was in excess of \$15,000. This report includes payments made by corporations which filed income tax returns for the calendar year 1937 or for periods as otherwise indicated."

In the Revenue Act of 1936, the last sentence:

"The Secretary of the Treasury shall submit an annual report to Congress compiled from the returns made containing the names of, and amounts paid to, each such officer and employee and the name of the paying corporation."

That is, in salaries paid in the aggregate in excess of \$15,000.00. In the 1938 Act, I note here that it says, ".... bonus, or other compensation for personal services rendered, if the aggregate amount so paid to the individual is in excess of \$75,000. The Secretary of the Treasury shall compile from the returns made a list containing the names of, and the amounts paid to, each such officer and employee and the name of the paying corporation, and shall make such list available to the public."

Now, which is the law? This says \$15,000.00 - the '36; and this (1938Act) says \$75,000.

Voley: I should think that the later enactment is the law, but I'd like to take it and let you know.

Hames: If that is so, this .....

"Cleynolds: I sent it back for an answer, and they said it was unchanged. I didn't have the industry to do what you did, Johnny, to look up the law.

In nest:

It struck me-in the first place, I want to get rid of doing that, because it's a hell of an expensive job, and no God damned use to anybody except to just a damned hold-up game. There was a woman here last year that took this list and compiled every name, and sold it at a hundred dollars a piece. That sort of a racket - Good God! If we've got any conscience at all, we'll stop that thing. \_cTeynolds: We don't make it available here.

Woned: The law says we shall make it available.

Mcheynolds: I don't know what the effect is.

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It seems to me the whole thing is changed. "The Secretary of the Treasury shall submit a report to Congress, compiled from the returns," and it doesn't say anything about making it public. And this says, "The Secretary shall compile a list of each such officer and employee and the name of the paying corporation, and shall make such list available to the public." It doesn't say we shall send it to Congress. We ought not send it to Congress, according to that.

- Molegnolds: That report there is not responsive to that particular provision. It is responsible to the other,
- Hones: That is what I am asking Ed, which Act do we work under. Work under the '36 or the '38?
- "energolds: I sent it back to the staff down in Revenue for an answer to that particular question, "Is this '36 Act provision still in effect?" and the answer is Yes.
- What I want to know I don't understand this damm thing at all; I'm confused about it - when does the 1938 Act go into effect? Does it go into effect? That was passed June 2, 1938.
- Voley: Let me take it and I'll give you an opinion.
- While: They are not mutually exclusive in any case. It seems you would have to do both.
- McReynolds: I took it for granted that was the decision.
- Hence: Let's see what the Codification. let's see what they did in the Codification. Ed, have you got a copy of the Codification?
- Folcy: Yes, I have, John.

Boll: It says .....

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Fully:	It's a question of statutory construction. We'll have to give you an opinion. It's a tough question of construction. We'll have to look into it and give you an opinion.						
Dirate 1	If you can construe it so as to cut the work down here .						
purfileld:	You know what the answer is, you are to bring in.						
Horizat :	It doesn't make a bit of difference this year, because the work is all done.						
Nell:	Of course, if he construes it that the '36 is in effect, he will have a hard time getting around it next year.						
none:	Old for Doughton asked Ros Magill last year to make that thing public up here, and Ros refused to do it.						
WcRdynolds:	I locked the thing up and wouldn't let them have it; I said the Constitute could have it.						
a anorold;	It went down to the Committee and Old Man Doughton just gave it to the press - the newspapers.						
Tugios:	They had it in mind for weeks - just had that one copy, as I recall it.						
Monada -	Is that true about that woman that copies them and sold them for a hundred dollars a piece?						
-inynölds:	No doubt of it. Of course, we had people come here and try to get access to it, so they could make copies, or try to get cooles made. We turned them all down, wouldn't let them see it - kept them under lock and key. We did give it to Congress, and if they wanted to do it, it wasn't any of my business, but we wouldn't be a party to it.						
Manes:	Ed, you got anything else? You say you wanted to see me, about that?						
Foley:	No, I have nothing else, John.						

Hanes: Wayne?

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Tiglor:	No.				
Hariss:	Mac, you have anything?				
"cleynoles:	Not E thing.				
Toniva:	Danny, did you				
Bell;	Gave them seven hundred thousand dollars,				
Hanas:	God Almi hty:				
Helleymolds:	They are just tickled pink.				
Пация:	I was hoping they'd get five.				
Dell:	What a pall (Hearty laughter.)				
Hames :	Well, Guy was crying about that thing so hard, I wanted to see him get it. He had a pretty good case, though.				
Bellt	That's been going on since 1920, that good case stuff, and they had fifteen hundred employees last year that they switched to Social Security they should have done something with. They haven't fully explained yet just what they did with all that.				
Hends:	I've got a boy I mant to get a job for, and I'll tell Guy now				
Bell:	Oh, that was your interest in this million four.				
Admes:	My interest was, he did have a pretty good cause. These fellows they were putting on were fellows really going out to collect more taxes. What was it, twenty-three or twenty-four thousand dollars per man, last year - about twenty-five thousand dollars.				
AcReynolds:	On that Social Security, don't forget, Dan, that we refused to take a considerable sum of money that was available for use on Social Security.				
Bell;	We didn't need it.				

McReynolds: Because we didn't think it was reasonable and fair. We turned back and refused to take what the Budget had promised the Social Security Board for turnover

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to Rovenue, to the extent of something over half a million, three quarters of a million dollars because we weren't ready to use it - were in no position to use it, and I didn't want to get them banked up and over-manned. But my theory on that is when you can use it, when you've got a place there you can use them, and all, it's silly not to give them the employees. I am just as prejudiced against over-manning as anybody, but, damn it, when you can get people on and get more taxes, I think it is silly to refuse it. And we will undertake to see that they are cut down when they are over-manned. We are getting a pretty fairly strong hold-administrative control in that outfit. We are throwing them down - I've got these fellows on my neck. We are throwing out the drones and the incompetents, in the field, and have been for the last nine months. We had three session: on

it. We've got to hire people who are qualified to do this field work, and certain other technical aspects of it that some of these old birds couldn't do.

Dw11: You didn't convince Congress.

WHeynolds: We may not convince them again. You know I don't go around and squawk.

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Bell: We'll give you two chances, and if you don't do t this year, you better keep still after that.

Tribeynolds: You fellows can turn us down, and I am not critical of you, the Eudget, or Congress when they turn us down, but when I think we need something and we can use it, and we ought to have it, I am going to ask for it and make as good a case as I can. Then the responsibility is on the other guy if we don't get it.

Hinsp: That's it.

Ens anybody here got any suggestion to make on this Social Security legislation? Has anyone here got any definite convictions on the thing as to what stand the Treasury ought to take? Altmyer - he asked me, and I asked the Secretary, but the Secretary just literally didn't have time to go into the Social Security thing before he went away, and we are going to have to give an answer as to whether or not we approve or disapprove, in general terms, of the provisions or proposals made by the Social Security Board for recommendation by the President in his message to Congress, which, I understand, is going up the eighty or nineth.

Beil: Have we seen them?

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Tana: Yas, we have seen them.

- Recognoles: Russ Reagh has got them, and he's nearly as had off as Wilcox. He said, you just as well pass a Townsend plan; it will cost you about as much.
- "Illa: I am a minority of one here, gathering from the general tender of conversation. I'd like permission to tender a memorandum. I think I am in the minority.
- We hey noles: I think you ought to, because the trouble with this thing is, if you keep it out of the selfemployed, you wouldn't get into so much trouble; then you give them leevay to do whatever they please.
- Hans: John, why con't you have a conference or two on it, because you can take and write a book on it and then you may not get the thing across.
- The only place we come into this thing, they want to have the Treasury take a stand and take some stand on the cost of the thing, the manner of collection, and so forth - the administrative way.

So far, I have been asking the last thirty days, what is the definite proposal made by the Social Security Board, and what will the costs be, and what is the method of financing that cost, and so far, I can't get an over-all figure. One figure was reported down there at the meeting of that Cabinet meeting - Miss Perkins, and Harry Hopkins, and Henry Wallace, and Altmyer, and the Secretary and I attended the meeting for him. And Henry Wallace reported that he understood from his economist that the cost for one of these plans would take a hundred per cent of all the income of all the people of the United States over five thousand dollars a year, leaving the cost of Government up to people of five thousand dollars and under - the cost of income. He said, so far as they were concerned they were a little bit opposed to that.

- Dell: Just a little bit.
- Well, it is not those crazy plans, obviously.

Have we got, George, anywhere, a table showing the cost?

Fans: Yes, we have, John.

Ennes: As well as I could figure out, the cost of the thing, the maximum any person could get in 1942 under the present Act, assuming he has a maximum salary of three thousand dollars, all the way through the five year period, would be twenty dollars a month.

- Joheynolds: They are not worrying about what could happen right away.
- Manua: What is worrying right away is this: What they desire to do is this; is to move their time up from 1942 to 1940, and double that maximum, making the maximum \$37.50 instead of \$20.00. Now, the cost of that thing, as well as I can figure out, will be about five hundred million dollars.
- They never will be able to spend that; they will never be able to get going quickly enough. It might be the second or third year.
- Fines: That is what I want to know. I can't tell what the thing is going to cost, and know how they are going to finance it. All I've gotten out of the Social Security Board is that this will not take any money out of the Treasury. It will take it out of the Reserve Fund. That Reserve Fund will last two years, maybe. What is it, a billion collars?

Bell: A little over.

Lochcead: Then you'll have to raise the money.

Incheynolds: It will take a balance, too, to carry itself. You're going to run out of the Reserve Fund the first thing you know, and it's going to be a straight out and out appropriation. Russ Reagh can give you the best estimate.

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You ought to meet, I think, John. You've got something in the annual report - statutory requirement of the valuation of the account, given in the report. Reagh has to do it - the Government Actuary, and he's already done it, and it shows, on the basis of his estimate, the present system, no change. He's out - an over-all figure of nine billion dollars.

- Hames: What do you mean in a forty-seven billion dollar reserve, he's out?
- Hees: You take the over-all figure of all benefits and all taxes, and bring them down today and he gives his assumption. He's out about nine billion dollars.
- Hell: Out on the wrong side?
- Haas: Deficit already.
- Acheynolds: Under the present system, you'd run that much short?
- Over what period?
- Hes: Over the whole period, if you reised you tax rete thirteen per cent. It is a present worth - the whole thing.
- white: The reason why there can be those differences .....
- Taylor: Well,....
- Haas: It runs out indefinitely; you can calculate it.
- White: There are a lot of assumptions in there.
- Hans: The Social Security Board has a figure of twenty billion dollars.
- Taylor: They have to have sometime that they will get the nine billion dollars in.

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You can get the present worth.

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Under the present plan, they show now that the benefit payments will cross the line of net payroll tax collections in 1964; in other words, there will be a deficit between the amount collected and the amount paid out in 1965. The new proposal brings that date back to 1955, 1956; the proposed blan brings that payment - they proposed to increase the payments, but not increase the tax payments because all the way up to 1956 and they cross the '56 they just flatten out net payroll tax collections; just flatten out and stop in 1950. Then they go along in a straight line, relatively, and the proposed benefit bayments increase very sharoly. There is a wide differential from 1955 on.

- Doil: It's a question of whether the interest payments on these investments will take up that gap.
- That should be in the calculation.
- Tonget this plan, they propose not to have a big reserve fund, so you won't have that.
- MULL: You won't have to worry.

White:

There is an underlying difference, that I don't think can be reconciled. It represents a difference of the point of view. One, whether this insurance fund shall be operated on a salf-liquidated basis; whether it shall pry its own way out of the taxes collected. And the other is the entirely different point of view, which was presented at the time this thing was originally created; namely, that it should come out of General Expenses and that view will constantly pop un every single time, every single time any suggestion is unde, and if you accept the position which the Treasury has accepted, up to now, I take it that it ought to be on a real insurance basis; then there will be differences of opinion, depending upon estimates made, depending on population growths, old age unexployment. There is room for differences of opinion.

Innes:

It seems to me, Harry, the Treasury has got to take some position, and, so you fellows go ahead.

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- The Treasury has taken a position up to now. I have a minority position which I'd like to suggest.
- Alary

I don't know what the Treasury position has been. The only thing I understand is that the Treasury insisted on a plan that would pay for itself.

- "cheynolds: That is its position; that's slways been its position.
- Well, there is a difference of the point of view. Viner opposed it at that time; there are a lot of very competent - I don't mean to include myself among them - there are a lot of competent men in the field, but there is a difference in the point of view.
- I noticed in the summary, in the recommendations and e by the counsel that has been published this is a final report on December 10 - they recommend in Section 2 that the eventual annual cost should not be increased under the 1935 Act. Should not be a greater percentage of cost under the payroll than the present system is. That doesn't jibe with all the things which have been recommended down below.

Hans: That is right.

McKeynolds: Not by a hell of a lot.

Waas:

One thing about it is Harry's point of view. I think, over the period, the law will have to be changed, because of certain fundamental economic difficulties as it now stands. As it now stands, it covers a limited portion of the population. You can't take and pay out benefits to a limited portion of population; you make it an over-all coverage. The Treesury, on an over-all coverage, stood steadfast because nobody could convince lac and the administrative group that the thing could be administered.

Tolor: What do we do in Agriculture?

385:

I think you can get the arguments down to shout five, and then I think you are making progress. The points of contention down to about five. John, I'd like to see you today, because we are up against it on the annual report, and on that point it is very important; it goes over the it's about that.

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Hanes:

About this thing. George, why don't we do this: this afternoon, any time that buits you - set a time down - and get Reagh, if you can - get somebody to get down on a piece of paper, in simple language so I can understand it, what the Social Security Board is proposing to the President, in one, two, three, four, five - specific provisions, and some estimate of the cost of those things, so that we will know; so we'll have some basis upon which the form will - reasonable judgment as to the attitude we could take. After we have this meeting, I'd like for the rest of you to hear, just in general outline, what these plans are, and tell me what position we want to take here. I think it's a hell of a responsibility; I don't want to assume it without all of you knowing about it.

- Foloy: Do you have to write a letter? Do you have a formal request?
- Hanes: We've got to go on record. Altmyer wants us to go on record.
- Foley: Has he asked us for suggestions?

Henep: George, you've got a copy, haven't you?

Haas: We took your copy and made photostats.

- I think the Treasury decision on this will almost be decisive; it's a great responsibility because there is a great deal involved. It does raise a social question. That, we all agree, is extremely important, and for that reason I think when you do make up your mind, one ought to be cognizant of both sides. I think both sides ought to receive the best presentation, so when you make up your mind, you will have seen what both sides are.
- Foley: We'll have to submit our views to the legislature.
- Taylor: Wouldn't that be the normal thing to do? Say, if Congress asked you for an opinion, you will give it: that's the way it is usually done.

finnes:	The point is that the subcommittee of the House Ways and Means, I understand, is going to take this job first; they are not going to monkey with the general tax job right away; they are going to take this job on immediately and try to get it out of the way. Old Man Garner told me last week that he thought that thing was necessary to get down, and get finished. I think probably the legislators feel that that Townsend thing is so strong in Congress they've got to do something about it, and do it quickly. So we ought to be prepared, and if you fellows will agree to a session, and really give this thing some thought, I'd appreciate it like the dickens.
regiber;	The thing I was thinking, John, you don't have to tell Altmyer.
Thinks I	Yes, we do. The President is going to make a recommendation to Congress and if we've got some recommendation, opnosed to it, we certainly ought not wait until the President makes his suggestion to make our views known.
Poler;	Did the President send the suggestions over to us?
Homes:	No, Altmyer did.
Bell:	I think the Secretary dictated a letter to the President, asking him not to do anything on Social Security until the Treasury had given him their point of view.
flands:	Could we see a copy of that letter?
Iluua:	It was dictated, anyway.
Weiners:	That makes it worse.
aalt:	I know that Harry Hopkins is busy urging this report to go up early. Yesterday he said at the White House that that report ought to go this week, and he was going to get in touch with Altmyer.
Taylor:	The report can go down, except for a specific recommendation. If we are not ready to make a positive report one way or the other, in the nature of events, Congress will ask us to do it. We

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don't have to report to Altmyer.

Hapes: I don't want to be put in the position - the Secretary writing it - when the President says, "I am ready to send this to Congress; I want an answer," I don't want to be in the position of saying, "We don't know what we think." We ought to be - we ought to stand back of that decision.

Taylor: We don't have to write Altmyer; we can do it to the President direct, or we can do it to Congress, as the case may be.

Where are you, and where have you been?"

Ball: Furthermore, you don't want the President to be out on a limb, recommending these proposals.

McReynolds: That was the reason for the Sacretary writing the President.

Tomes: I get your point, Wayne.

Thylor: I don't mean to stall at all. In all the circumstances it is better not to write Altmyer; you can write the President or use the regular manner of doing it. I think it is very unusual to write to the head of a specific agency, just as you would to a specific Congressman, to say the Treasury is opposed to this. Ordinarily we would clear it through the Budget. We would write the Budget, but we wouldn't write the other people direct.

Munes: Ed?

Foley: I was going to ask for someone to get the legislative suggestions and get copies of them.

Monus: George, if you will get copies of this.

Mans: Yes.

Hanes: This is the Advisory Counsel, and it isn't violently different that the proposals that this Board has decided to make. There is a difference.

(Mr. Rademacher comes in.)

**Regraded Unclassified** 

John, get a copy of this and send it to Mr. Bell, will you, and also a copy of Mr. Altmyer's letter

to us, stating what the Board is going to propose. I'll check one to every member of the staff.

Hnas:

Duffield: I just want to say, Mr. Gaston feels very strongly about this, and asked to be included in any group. I suppose he's out by default. I think he will be

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icReynolds: He doesn't expect to get back until the Boss does.

Hands: Does anybody know what he thinks?

gone until the tenth.

Duffield: He lines up with Mac.

Hanes: Let's do it. It will be a hell of a help to me. I don't want to get out on a limb without everybody being with me. If they saw us all off together I don't mind falling.

McReynolds: I talked to Altmyer; he said, "I'm going to give complete coverage this year, in spite of your objections."

Hanns: I think Altmyer has changed, don't you, George?

Haas: He may still stay the same way but I doubt if the rest of the Board will. Of course, that solves some of these broader problems. It doesn't solve the administrative one. You've got this conflict of administration.

McReynolds: It's a complicated thing. It needs a lot of fixing before it will be made to work. You've got a coverage that there is no philosophy that will affect the limitation you now have on your coverage; not any. Not from a social service standpoint; a standpoint of humanity; a standpoint of the needs of that sort of thing. You are leaving off the most needy. I don't know the answer; I can't see any sense in the Government starting out on a program that isn't financed; there's no plans for financing.

Hanes: Well, Mac, let me tell you, the Counsel only went so far in recommending coverage. "(1) The employees of private, non-profit, religious, charitable, and educational institutions now excluded from coverage under Titles II and VIII should immediately be brought into coverage under the same provisions of these Titles as affect other covered groups."

"cHeynolds: That is totally unimportant.

Tames: But here is the important thing:

"The coverage of farm employees and domestic employees under Titles II and VIII is socially desirable and should take effect, if administratively possible, by January 1, 1940."

White: They know it is impossible.

McHejmolds: It costs you more money to collect it than you'd get.

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White: That is, as far as 1940 is concerned.

Haas: They inow that because Reagh argued with them.

"references: That's the reason why you've got to change the whole basis, to make it work.

Haas: I think, John, you might take this approach, to make it simplified a bit. Start out and say, "Irrespective of political considerations, administrative considerations, what would you ideally like to have?" Disregard those. You say that won't work; administratively, politically, it is impossible; and then you finally come down you come to an agreement quicker that way than by taking the different points that are now at issue, because then with that background the different points of issue come up, you have a background in which to set it in.

Hines: Have you got a figure showing the total number of people now under the plan and the total number that would come under?

Heas: That is right.

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- I have heard a statement given by some people who are very familiar with it; it proves that they are studying this thing. They claim they won't spend more than fifty million, though they say it is over five hundred million. They can't administratively do it.
- You are talking about time limitization now, licheynolds: Harry. Just what they could get done. I agree with that.
- White: I am speaking - that is right.

(Everybody talks at once.)

I was speaking of 1940. White:

1941 is just as important as 1940. Bell:

- Ickeynolds: Your liability is there.
- Well, get ... . Haas, this afternoon on that, and Hanes: you will report.

I can see you any time. HEAS:

Hanest I haven't got a thing.

- HAAST Let's say two thirty.
- Thet's fine. You will have your figures ready Hanes: by then?
- I'll have all I've got; I think it will be Haas: plenty to start you going on that.

### GRAY

LONDON

Dated January 3, 1939 Rec'd 7:09 p.m.

Secretary of State

Washington

10, January 3, 7 p.m. FOR TREASURY FROM BUTTERWORTH. STRICTLY CONFIDENTIAL.

In the course of a conversation Sir Frederick Leith-Ross referred to Schacht's recent visit to London and Montague Norman's return visit to Berlin and implied that Schacht had desired to come to London for two reasons: (one) to attempt to break the deadlock about the German refugee problem and (two) because he personally has been losing ground so fast with the powers that be in Germany that he wished publicly to capitalize one of his remaining assets, namely, his connections with and acceptability to the Bank of England and the British financial community.

Leith-Ross quoted Schacht as stating that he came "with the approval of General Goering and the consent of Hitler" and said that Schacht undoubtedly understood that the proposals that he made could only serve to break the deadlock to permit of further discussions taking place.

Leith-Ross said he had talked to Montague Norman yesterday about his visit to Berlin. Norman had stated that

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### 2-#10 From London Jan 3, 7 p.m.

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he had made a long standing promise to pay such a visit to Schacht and become godfather to Schacht's grandchild and that due to his illness the visit had been postponed from last spring until now. He intended to be in Berlin little more than a day and a night and then to go on to Basel with Schacht. He has an engagement to lunch at the Reichsbank but contrary to rumor no engagement to see Hitler or any other politican. Leith-Ross said that while Norman was feeling a little unhappy about what the characteurists would do to him on this occasion he was glad of the opportunity to make a show of the community of central bankers. I have no doubt that also Norman had Schacht's reason number (two) clearly in mind.

Incidentally I understand from a wholly reliable unofficial source that Montague Norman who has always stood, in season and out of season, for an understanding with Germany and has always regarded as inevitable the unification of the Germanic parts of the Austro-Hungarian Empire with Germany, nevertheless is now becoming dissatisfied with Chamberlain's leadership. While he favors in general the Chamberlain policy he feels that Chamberlain's procedure is based on a misconception of German psychology. An incident is illustrative. When Lord Baldwin recently appealed for funds for the relief of German refugees Montague Norman planned

## HRE 3-#10 From London Jan 3, 7 p.m.

planned to start it off by heading the TIMES list with contributions from the Bank of England and the joint stock banks. Simon was so informed and at Chamberlain's instigation this plan for a united banking front was abandoned and the several checks were sent in from day to day. Chamberlain did not wish to place an unnecessary obstacle in the path of appeasement while Norman conceived that the Germans would respect such an attitude if unaccompanied by polemics.

In these circumstances I should say that Montague Norman will not hesitate to respect to any other German officials he may see in Berlin, at the luncheon or otherwise, the blunt things about German policy and Nazi attitudes which he is alleged to have said to Schacht. Ferhaps that is a further reason for Schacht wanting him to come.

JOHNSON

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CONFIDENTIAL FILES

DATE JEDUETY 3, 1929. TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

Mr. Bolton called at 10:20 this morning. The pressure against sterling had continued pretty general and so far they had today lost 53,000,000 in gold plus additional \$6,000,000 in exchange. Since they had started dealing for January, that is since December 27, their daily losses had been from £3,000,000 to £4,000,000. He knew, Bolton continued, that there was a big speculative account open against sterling and he also knew that that account was growing. The predominant factor was the belief that there was going to be another war scare in the near future. One weak step taken to counteract that in the near future was Chamberlain's visit to Mussolini and nobody believed that this visit would bear any fruit. The improvement in the French picture might eventually out-weigh the present feeling of despondency and pessimism but that was a long term factor and one which would not have any effect on current events until a change in the general political news bad seeped down into the minds of the people.

March 1 Container

Meanwhile they had decided on the following programs a letter was going to be sent out by them tonight to the chairman of the Clearing House Committee of the Foreign Exchange Committee, Bankers Association, asking their members to prohibit completely all advances against gold end all forward gold transactions. Similarly, they would be asked to scrutinize and reject any transactions in exchange which they believe to be speculative in origin. There was thus going to be a complete embarge on forward gold dealings which would mean the closing out of a

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CONFIDENTIAL FILEE

L. W. Knoke

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DATE January 5, 1989. Subject TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

very substantial gold account. To some extent the banks might also be able to limit speculative transactions in foreign exchange but as to the success of that he was not very hopeful. Nevertheless, they were doing the best they could. This program was going to be communicated to the central banks of the tripartite countries by letter tonight and they were going to be asked to inform their banking institutions and to give their support. Furthermore, towards the and of the week a substantial transfer of gold would be made from the issue department to the exchange account. As to the exact amount to be transferred, no decision had as yet been made. Once these steps had been taken, there would be (1) a complete embargo on foreign lending (previously reinstated), (2) a complete embargo on forward gold operations, (3) a supervision of exchange transactions, and (4) a re-endowment of the exchange account. Everybody had agreed to this program and Mr. Worgenthau would be duly sivised by cable. No reference would be made in this cable to Mr. Morganthau of gold operations because these were illegal in the United States. The only Alternative to this program was complete restriction (I suppose he meant of the German kind) and that, they thought, was politically impossible under present conditions and would be complete frustration of all they had done. For the time being they were inclined to mcourage the growth of the bear account now open and to weit for some new factors with which to fight it back. This would at least

PEDERAL RESERVE BANK

CONFIDENTIAL FILES

DATE JANUARY 3, 1929. SUBJECT TELEPHONE CONVERSATION WITE

L. W. Xnoke

BANK OF MOLAND,

technically weaken the bear position and give them a better chance to combat it with success later on if and when the political outlook had improved, for one thing was clear to everybody, that the basis of the present problem was primarily political.

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PLAIN

London

Dated January 3, 1939 Rec'd 4:27 p. m.

Secretary of State,

Washington.

9, January 3, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened bid at 4.63 3/4 and went quickly to 7/16 at which rate the British authorities sold dollars. After a reaction to 13/16 the dollar was bid to 5/8 at fixing time when 330 bars were sold, 25 being married and about 300 supplied by the British fund. The price was 1508. 1/2D. giving a premium of 1D. After fixing the dollar went to 4.62 3/4 where it was held under steady but not heavy pressure, by the British authorities who went out later and the rate closed 4.62-1/2 to 5/8 on a normal market. The three months forward dollar was bid 2-1/2 premium and the one month 1-7/8 with more business in the latter.

The franc improved from 176.67 to around .55, the Bank of France having obtained small amounts of sterling Especially

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2-#9, London, Jan.3,7p.m.

especially at .62. The forward franc was at a premium for the one month of 1/16 and the three months discount narrowed to 3/16.

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PARAPHRASE OF TELEGRAM RECEIVED FROM: American Embassy, Paris, France DATE: January 3, 1939, 5 p.m. NO.: 5

FOR THE TREASURY.

Today there was a continuation of the weaker tendency in sterling. The exchange fund was able to acquire an important amount of that currency in meeting the demand. for france. The rates varied from 175.70 down to 175.60. One month forward rate is about par; for three months it is 25 centimes. Firm dollar at 38.17.

Rentes and variable revenue securities showed no important changes on the security market.

The Bank of France decided to reduce the discount rate from 2 1/2 percent to 2 percent this morning. Thirtyday advances were reduced from 2 1/2 percent to 2 percent. The rate of advances against(?) was reduced from 2 1/2 percent to 3 percent.

END MESSAGE.

WILSON.

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PLAIN London Dated January 4, 1939 Rec!d 3:58 p. m. 77

SECretary of State,

Washington.

15, January 4, 6 p. m.

FOR TREASURY FROM BUTTERNORTH.

The dollar opened bid at 4.62-1/4 and after early support of sterling by the British authorities reacted to 4.62-5/8 at fixing time. The price fixed was originally 1508. 2 1/2D. but the dollar dropped to .62-3/8 and the 300 bars under offer were all withdrawn and the fixing started a second time. Ultimately the 187 bars were sold 61 of which were married and 78 furnished by the British fund at 1508. 5D. which was quoted as giving a premium of 2D. There was very little after fixing dealing in gold. The dollar remained steady around 4.62-1/2 until New York opened when it went to 13/16 and the British authorities again supported sterling for a short time after which the dollar became offered from New York at 4.63 and in London later at 4.63-5/8 at which rate the British authorities began buying dollars and continued to do so until the close as the rate moved gradually to 4.64-1/8. The

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2-#15, From London, Jan.4,6p.m.

The market is puzzled at the turn the only explanation offered being that a few large speculators with heavy dollar positions began a profit-taking movement in which smaller operators followed.

A similar movement towards strength of sterling followed somewhat later in franc dealings the franc having opened at 175.58 and after going to .52 moved back in the afternoon and closed offered around .75.

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GRAY

London Dated January 4, 1939 Rec'd 4:40 p.m. 79

Secretary of State,

Washington.

13, January 4, 5 p. m.

FOR TREASURY FROM EUTTERWORTH.

y conversation with Leith-Ross reported in No. 10, January 3, 7 p. m. was interrupted last evening and resumed today at lunch. Leith-Ross went on to say with respect to Schacht's visit that although the latter had stated that he had been instructed to confine his discussions to the German refugee problem in fact he did discuss other matters but in general terms. In particular Schacht had tried to draw him out about the possibility of Germany moving towards a freer currency system and had expressed the opinion that the conditions permitting such a step to be taken were becoming more favorable than they were a year or more ago. Schacht maintained that although the German financial arrangements were working satisfactorily at the present time an increasing number of persons were realizing that there was a limit to the amount of funds that the state could put into circulation and that at some point

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2-#13, From London, Jan.4,5p.m.

point the nettle of change would have to be grasped. Furthermore, Schacht said that one of the things that he had always feared if German currency restrictions were relaxed was the flight of German-Jewish capital and that, for better or for worse, and he emphasized he thought for worse, difficulty was being eliminated. He tried to smoke Leith-Ross out as to the British Government's attitude and the latter countered by pointing out that the initial benefit in any such move would accrue to Germany and inquired whether he was asking the British Government to help the German Government in the given circumstances to strengthen itself and its position. Schacht then indicated that not a large but only a small external credit would be needed but what would be really required was a scaling down of Germany's external obligations. To this Leith-Ross countered by emphasizing that British obligations had already been scaled down and the scaling down embodied in the Anglo-German transfer and payments agreements of July 1. last.

Leith-Ross felt that Schacht was not making a serious proposal but wished to indicate that his ultimate sims remained

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3-#13, From London, Jan.4, 5p.m.

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remained unimpaired by recent events and desired to keep the question of Germany returning to a freer currency system in circulation.

Schacht did not appear to know that the discussions also arranged for in the July 1 arrangements bearing on cartel (particularly coal) and other matters had been going on and Leith-Ross asked him to do what he could to promote agreement. Incidentally, I learned from another source that Hudson's statement in Parliament on November 31 (about which the Secretary of the Treasury commented) to the effect that Great Britain was prepared to fight subsidy with subsidy to protect its export trade against German competition was made without reference to the board of trade. No such remarks formed part of the speech which the board of trade prepared for Hudson but nevertheless it is hoped that this line of talk may help to bring about the required results.

Leith-Ross also said that as Schacht was leaving he had asked him where there were any reasonable dazis with whom one could deal and was Goering one such. To-which Schacht replied "sometimes". Leith-Ross also (#) that some one else (presumably Montague Norman) asked Schacht who really ruled Germany

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4-#13, From London, Jan.4,5p.m.

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Germany to which he replied "four people -- Hitler, Hitler, Hitler and Hitler; the man has four distinct moods or personalities". Leith-Ross felt this was about the size of it.

Leith-Ross particularly requested that the above information be treated in the strictest confidence in view of the press speculation which the Schacht-Norman visits have evoked.

JOHNSON

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(#) Apparent Omission

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PARAPHRASE OF TELEGRAM RECEIVED FROM: American Embasey, Paris, France DATE: January 4, 1939, 5 p.m. NO.: 15

FOR THE TREASURY DEPARTMENT.

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The market was quiet, with sterling fluctuating within narrow limits. It was again possible for the exchange fund to acquire a large amount of sterling, particularly in early trading. The rate varied from around 176.58 down to 176.50. Slight discount for one month sterling, and premium of around 35 centimes for three months sterling. Today some offering of the dollar.

There was not much activity on the security market, which was dull and showed some nervousness over international political affairs. At the close of the market rentes showed fractional losses. There had been a general lowering in French variable revenue securities and internationals.

The financial press is giving a certain emount of attention to the continued weakness of sterling. Today the predominating view expressed is that economic factors do not explain the weakness of sterling. In this respect it is pointed out that for 1937 the trade deficit was only 35,000,000 pounds and that it is not likely that for the year 1938 the amount will be greater. This situation is looked on as being of comparatively little importance, in view of the fact that British holdings

abroad

abroad amount to around 4,000,000,000 pounds. London attracts capital from all parts of the world, it is pointed cut. Sterling has been the most favored of international currencies since 1931, and has served as a world-wide medium of payment. Sterling was a refuge at the time of the flight from the franc and the dollar and from the "gold bloc". In view of the foregoing, it is held that sterling's present weakness is in the main due to foreign capital withdrawal, and due to failure on the part of the British authorities to do anything effective to stop such outward movement.

END OF MESSAGE.

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DE NEW YORK

CONFIDENTIAL FILES

DATE JENDERY 4, 1989. SUBJECT TELEPHONE CONVERSATION WITH BANK OF FRANCE.

Mr. Cariguel called at 11:20 s.m. They had done very well lately, he said. Their gain in foreign exchange had been steady and, very confidentially, since the beginning of their "revival" they had gained about fr. 10 billion. His only difficulty was to get dollars for which the demand seemed to continue and since he would only embarrass London if he joined the rank of the other dollar buyers, he was confining his purchases to keep up with his sales but on balance he had actually lost dollars.

Sterling he thought was now at a level where some little resistance second to appear. Altogether Cariguel was very cheerful and hopeful that the recent improvement in the French picture might continue.

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CHIDUN IDETING

January 4, 1939. 9:30 A. M.

(Held in Mr. Hanes' office.)

"resent:

Mr. Hanes Hr. Taylor Mr. Bell Mr. Haas Mr. Schwarz Mr. Foley Mr. Lochhead Mr. Duffield

#### (Telephone rings. H.M.Jr. calling from Boca Grande, Florida.)

Hanes:

Hello. Yes. Hello. Good morning, Henry, how are you? I see you couldn't wait to telephone. (Laughs) What have you got on your mind? We're just having a meeting. Well, I'm glad; there's nothing here to worry you with; so far as I know we are getting along beautifully. I see, you are - there is no - as a matter of fact; wait a minute; I'll tell you what the headlines are, if you are interested. There is nothing of a great interest - ah - there is - this is Wednesday morning's paper - the Tribune says "Democratic Committees Attack Relief and Labor Administration as 76th Congress Opens Session." There is a bad story charged to Roper and his aids. Well, it Just says, in effect, that they used the Government boats and charged flowers and candy as "provisions or supplies." That was the Acting Comptroller that made that statement. Yeah. Roper and his son and some Congressman from Pennsylvania, and some woman named Renn - I think her name was, I don't know. (Laughs) I don't know whether she's part of that other stable or not. Ah, that; then there is another headline that says there is a bill to impeach Miss Perkins that's going to be ready soon. That comes out of the Dies Committee, apparently; and then another headline is, "Senate Report Assails Political Use of W. P. A." "Senate Report Assails"-4-s-s-a-i-1-s "Political Use of W. P. A." That is the Sheppard Committee; says relief funds were

abused in three states. Well, that's all they mentioned. Pennsylvania, Kentucky, and one other state, I forget which one it was, now. And the Navy urges defense chain of forty bases.

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There is a cab strike on in New York, and the Prince Premier of Japan quits, and it looks like the military Government is coming in. Yes sir.

Well, here is Archie right here. Do you want to speak with him? All right. Fine. Have you any other thoughts, anything you want us to do here that you can figure? (Leughs) Well, you start resting now, and forget this place for a little while, will you. Wait a minute; here's Archie.

Lochhand:

Good morning. Well, sir, you sound good. Well, Old Man Sterling took an expected dip over the weekend - went down as low as 4.62 3/4; this morning it's a shade better - 4.631. The Bank of England called up yesterday and gave us their report. They have been losing three to four million pounds a day since December 7. They are sending out a letter tonight to all clearing houses - to banks over there, telling them they're not allowed to make loans on gold. That's a complete embargo - supervision of exchange transactions. It is rather interesting - getting around toward that. Sometime toward the end of this week they are going to take out of the Bank of England three hundred fifty million pounds. But they are taking those four steps, they claim, and they are going to write all the other Central Banks in the Tripartite, telling them what steps they are taking and asking for their cooperation. That message will also come through Bewley, I presume.

Today, sterlin, is 4.63<sup>1</sup>. Right, sir. Silver was rather interesting; on the news we didn't change the price, it went up in London about two cents on a temporary squeeze. It was selling at about forty-four cents, but there is no activity at all. Not the razor (?) - only on one side, talking to them.

O. K. Now, are there any of the other ones you want to speak to? They are all here. Mr. Hanes? All right.

Hanes:	Yes. Hello. There is going to be a Cabinet meet- ing right after the meeting at the house, you see, today. Yes sir; that's right, isn't it? Yes. Well, that - that was the message I got back. That's right. He's the aviation manufacturer; yes. Did Monnet know he was here? Yes. Yes. Yes. Yes. Where Kieley is? Uh huh, yes. I'll get ahold of Mac as soon as I can and find out about it. All right, sir.	
	How's the weather? Is it warm down there? You like the place all right? Oh, well, you'll be quiet at any rate. Well, have a good time. Goodbye.	
Hanes:	Ed, here is all we've been able to find on that.	
Foley:	Oh, yeah.	
Hanes:	Hello, Danny.	
Bell:	Hello, Johnny. Looks like you might be going to the Capitol.	1
Hanes:	Don't I look pretty?	
	What have we got on for today?	
finast.	Is this all we've got?	
Bell:	I've got another package upstairs, too.	
Manes:	Did everybody get a copy of this?	
	Where is Mac? I haven't seen him. Is Mac sick?	
Schwarz:	I haven't seen him this morning.	
Hanes:	What have you got, Danny?	
Sell:	I haven't got anything but an order that goes to the President, that is required by the Budget Accounting Act. It doesn't mean much; we send it over and he sends it right back.	
Hanes:	It has to be signed?	1
Bell:	Yes, signed as Acting Secretary.	

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Things: All right. No change in the Budget message?

Hell: Not that I know of; it's too late now. We have our big conference this afternoon at four o'clock press conference.

- Henes: Who is it with?
- Bell: The President. He has a regular class, you know about two hundred reporters, I guess. He reads the message and then they fire questions at him.

Hanes: Do you get in on the questions and answers?

Rell: Once in a while. It's about a two-hour ordeal.

Hanus: That message hoes up tomorrow?

The stories go out tomorrow afternoon at twelve o'clock.

Minnes: Wayne, anything new?

Tarlor: (Nods "No.")

Eddie?

Poley: Shall I bring up the report of salaries paid by corporations?

Mones: Yes.

Faley: The '38 Act applies only to returns affected by the '38 Act which are the ones filed subsequent to December, 1937; the '36 provision requires the submission to Congress of salaries paid by corporations in excess of \$15,000.00 - the '36 and '37 returns, which was covered by the three volumes over there on the shelf. Tommy Tarleau and O'Brien, who drafted the provision frankly admit that they slipped, and that it was intended that the provision of the '38 Act should apply to the entire situation. The '38 provision, as you know, provides that only salaries in excess of \$75,000.00 shall be reported to the Treasury by the Corporations paying the salaries, and the information should be made public by the Treasury and not submitted to Congress. I understand from Tarleau and O'Brien that Doughton is very, very anxious not to repeat the situation he had last year, where for weeks reporters were lined up outside his office and he found it almost impossible to carry on his work. If any of this information is given out, Doughton wants it given out by the Treasury, as I understand it, and not by the Committee.

As the statute stands, the Secretary is under a mandate to submit this information to Congress. It seems to me the only consideration this group has is to determine whether or not we would want to withhold that information until such time as Doughton could, perhaps get a joint resolution through - a Senate resolution through both Houses.

Now, there was a fight last year, as you know. Part of the minority group in the Senate were against upping the figure from \$15,000.00 to \$75,000.00. La Follette and some of the Liberals in the Senate believed there should be full disclosure and they would block a joint resolution, I believe, that would attempt to apply the figure of \$75,000.00 to the '36 and '37 returns. If anything is done in the way of legislation, it seems to me it could only be done by consent, if it merely removed the requirement in the '36 Act that this information as to the salaries in excess of \$15,000.00 be submitted to Congress, and provided, as the '38 Act provides, that that information be made public by the Secretary of the Treasury.

Now .....

Hinad :

Did you find anything?

Foley:

The general statute provided this information must be made available when Congress convenes, but that's subject to a reasonable interpretation. There is no definition as to when Congress convenes and if we got it down within a reasonable time after Congress convenes, it seems to me we couldn't be criticized.

I don't know, frankly, what the policy attitude of the Treasury would be, as to making this information public, out of the Treasury. It seemed to me that for the same reasons Doughton doesn't want to have it made public down there, we wouldn't want to have it made public down here.

Lochheid: I think McReynolds said that same thing. Does that mean this is the last time you have to give this out? Next year you don't have to make these up?

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Foley: No, you have to continue.

Hunes: This goes down to \$15,000.00. Next year you go down to \$75,000.00?

Foley: I - I - I think that - ah - ah - this report that we would send down now, includes payments by corporations which filed income tax returns for the calendar year 1937, or for periods otherwise indicated. Since the Revenue Act of '36, as amended, - by returns ended November 30, 1938, a final report will be made subsequently as to such returns that have not yet been filed, so there will be one more.

- Hance: Unless we get it amended so as to make the Act apply as it was intended.
- Foley: He's perfectly frank about it; he said he just oulled a boner.
- Manage: It was their intent to make the statute read as I read it?
- Foley: That would be the proper legislative construction of such a provision, but your Revenue Act - where you don't change the law and the law continues until all the returns have been gotten out of the way, that applied to that, are affected by that law, and when you adopt a new law, you don't amend the old law at all, but you just provide a complete rode for that year. There is no relation between the two laws, and one doesn't affect the other. They affect the returns governed by the respective laws.

Hunes: The words "taxable year" and definition of taxable year in Section 1,45 which brings about the complication? Soley: In the 136 Act.

Muno8: All I suggest we do with it is hold it here till we discuss the matter with Old Man Doughton and find out what he wants to do with it.

Pulsy:

My only caution about that, John, is we determine whether or not we would be willing to be placed in a position that discussion with Doughton and subsequent action by Congress might put us in; namely, disclosing this information from the Treasury. I think we have to decide that before we decide whether we take this up with Doughton at all. Otherwise, we send it down and when he says, "What the hell," we tell him why.

- Finnes: Well, I think, unless there is some difference of opinion, everybody that I have talked to about it is highly opposed, for the same reason that Doughton is, for making it public here. Apparently they want it made public somewhere, and the question - "Is the Treasury going to take it on the chin or is Doughton?"
  - Schwarz: There is a stronger reason for the Department taking the rap than Congress. They've got to take the rap.

Hanes: The bill is changed now.

Foloy: We have no right to make it public. What we are talking about, Archie, is the result of our discussion with Doughton; a joint resolution which would change the 136 Act requiring this to be submitted to Congress, and substitute in lieu of it, a provision that it be made nublic by the Treasury. It seems to we that is what will happen if we went to Doughton with any kind of a conciliatory proposal, and I think we want to make up our own minus first, whether we want to be placed in that position.

Lochteza: Does the 138 Act ....

Poley: The '38 Act says, insofar as salaries in the '38 return, in excess of \$75,000.00, are concerned, that information must be made public by the Treasury. Does the Treasury object to making them public? I mean, as long as you have to do it next year,

would you object to making them public this year,

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Fulcy: That is the problem.

down to \$15,000.00?

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If you don't, then I think it might be remedied by a resolution of the Committee. You think the Speaker of the House at least constructively and the Committee, passing a resolution, can give it back to you to make public?

- Hanes: That is what I said yesterday, but Ed says they couldn't.
- Faley: They can't, technically. It's a question of whether or not we'd be willing to act on a formal resolution of that kind. They can't change the law.
- Hell: They're not going to change the law, with respect to your submitting it to Congress; there isn't anything in the Act that says who shall make it public. All the Committee's going to do is ask you to use your facilities to make it public for them. I should think they'd have plenty of authority to do that.
- Taylor: There is no requirement that they make it public in any particular place, is there? They make it public over there; they may take it down there and give it .....

Mones: Give it to the corner policeman if they want to.

- "Wylor: Or give it to the corner policeman, or put a tent out by the monument, but they could also ask us to take it back and make it convenient for them. Put it down in the boiler room, or wherever you want to put it.
- "Thes: It's all right, Ed, as far as you are concerned, if we discuss this thing with Doughton, tell him why the 1938 law doesn't apply?
- Poley: I see no objection to that.

Repeat the are going to have to do some explaining anyway,

because he is laboring under the impression he won't have to do it, and when he finds he's got two more years of it - the last two years of his time in Congress - he's not going to be glad about it. I think we'll have to tell him that his legislative draftsman and ours made a mistake in the law. So we are all right if you have no objection to that. That's what I'll do. If he says, "O. K., let it come on," why, let it go forward.

Gene?

- Duffield: Nothing.
- Thes: George?

Haas: I have Nothing.

Loculum: Sterling is steadled up a little bit this morning; it's 4.634. As I repeated, the Bank of England is sending out letters to all their banks, first of all asking them to prohibit loans against gold. That is something that should have been done long ago. They did do it once, and slipped up. They have also asked me'to supervise foreign exchange; they have also put an embargo on over foreign markets.

Huns: What does that mean, Archie?

Bochnand: For a while they had a committee - if anybody was going to lend to foreign countries, they had to get permission from this committee.

Manes: Did that apply to big securities?

Lochhend: No, not in the ordinary sense. Take that Woolworth issue you had there; they bought that and paid dollars for it; they won't allow that kind of thing to go on. They can't stop the ordinary individual buying. I think they will frown on France's purchasing American .... This week they will take gold out of the Bank of England and out it back in the Stabilization Fund. They did it once before, about sixty million pounds of the old valuation. That would be about five hundred million; they are going to take part of that out and replentish the Stabilization Fund this week. The only trouble with all of them, is that it is a sign of weakness. The market interprets those things as a sign of weakness. It is a political situation over there - very pessimistic; all of this is a very pessimistic attitude. They think that when spring comes Hitler is going to make some other kind of a move. It is not a very pleasant situation.

- Henne: Will you give me a short momorandum, as short as you can make it?
- Loddhendi I think the best memorandum is a copy of this telegram the four different thinks they are going to do.
- Henes: Will you take it out for me, and also give me the market on gold, silver, and everything.
- Lochhend: You are going to leave here, when?
- Hanes: I'll leave here at four o'clock. Is that all Archie?
- Lockhead: That's all.
- Hanest You got anything?
- Schwarz: You might want a little further information on the Sheppard Report, including a few paragraphs of criticisms of the Secretary. All it amounts to is to say the Treasury allowed Magruder to violate the Department's own regulations.
- Hones: It is hidden away very carefully.
- Holl: It's about the last thing in the article, in the Post this morning.
- Echwarz: It is a breakover (?).
- Innes: What did they say, the Secretary of the Treasury?
- Schwarz: That we allowed Collector Magruder to violate the Treasury's own regulations. It seems to me the Department is the one to best decide that.
- Bell: Well, in all fairness, he should have published the Treasury letter.

- The Secretary was the only fellow that answered Taylor: back. He got himself down at the bottom. Hanes: I see there is an attempt to refer that Committee Bell: report, which committee will pass to the on the nomination of Harry Hopkins. There is a resolution in Congress? liames: There is an attempt; I don't know whether it is .... Bell: The papers gave Aubrey Milliams hell. Taylor: That is what I got out of it. Hanes: We'll be asked for comments, but I don't think we Schwarz: need say anything about it. Was that letter published? Hanes: Yes. We have a copy of it in the file. Schwarz: Could I see that letter, and also this think you Hanes: are talking about? Schwarz: Yes sir. That is all I've got. Hanes: George, what is this thing?
  - Haas: That is the copy of the report sent to you by Altmyer.

have something to report.

Schwarz:

They are just straining the whole situation to .

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

Jonuary 4, 1939

Secretary Morgenthau

TO

Idanti H. Foley, Jr., Acting General Counsel

#### For your information

Furnment to your suggestion, I went to Bob Jackson's office at 4:30 today and talked over the purchase of the Homer Cummings' property in addition to the Post Office site at Stamford, Connecticut.

After listening attentively, reading the letter carefully and slincing casually through the file, he came to the conclusion that our stated method of handling the matter, i.e., by bringing all the facts in the attention of the Comptroller General, was not only undebateble, but to mis mind was the only feasible method from your standpoint.

As near as I can recollect them, I think his exact words were, "If the sale is entirely proper, Homer can have nothing to fear from a full disclosure of all the facts to the Comptroller General. On the other have, if there is something that doesn't meet the eye, or is improper, dortsinly Secretary Morgenthau is entitled to the protection of a com-

Bob was of the opinion that no useful purpose would be served by taking up the matter with the new Attorney General. While former chator Brown of New Hampshire may be the new Comptroller General in a two dive, I don't think it is worthwhile holding the letter for him. Secondingly, having complete approval from Bob, I dated the letter as of last bridgy and dispatched it to the Acting Comptroller General.

E.N. 7%.

Io: The Secretary

From: Mr. Hanes

# JOINT SESSION OF CONGRESS TO HEAR PRESIDENT'S MESSAGE:

The Cabinet met in the office of Speaker Bankhead at 12:30. Present were: Acting Secretary of State, Welles; Acting Secretary of Treasury, Hanes; Secretary of War, Woodring; Attorney General Murphy; Pistmaster General Farley; Acting Secretary of Navy, Edison; Secretary of Interior, Ickes; Secretary of Agriculture, Wallace; Secretary of Commerce, Hopkins; Secretary of Labor, Madam Perkins.

The Freedent arrived at about 12:55, and at 1:00 P.M. the Cabinet went into the House chamber, taking their seats at 1:05 P.M. The President came in immediately and began his address on the state of the Union.

#### LEINET MEETING:

The Cabinet left the Capitol at 1:45 P.M. and went directly to Not White House for a meeting, arriving there at 2:00 P.M.

The President opened the meeting with a discussion of the refugee problem, relating to the Cabinet the following facts concerning Ambassador Phillips' mission to Mussolini: Mr. Phillips returned to Italy with instructions from the President to go directly to Mussolini with the suggestion that he take the lead, independently of Hitler, in the matter of aiding refugees from Italy in getting away with enough assats for their maintenance over a reasonable length of time, and until they could become established in new homes. Otherwise the difficulties involved in persuading other countries to take such refugees, who might become public charges, would be insurmountable. Mr. Phillips has reported that he has held such a conference with rescolini and found him to be in a very receptive mood. Mussolini stated to Mr. Phillips that he understood the problem thoroughly, and that he would take the matter up with Hitler immediately in the hope tost he might be able to persuade him to allow refugees from Germany what to leave that country with enough possessions to guarantee a livelihood for a reasonable length of time. Mr. Phillips further remorted that Mussolini appeared very favorable to the idea of finding a country for refugees from all parts of Central Europe to which they could go and establish permanent residence. However, he is quite alive to the difficulty of finding such place of refuge. The President seemed encouraged with the progress made thus far.

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The President maked me to have letters prepared for both houses of Congress requesting a renewal of the Stabilization Fund. This must be passed prior to June 30, 1939. The President is desirous of having these letters state the full position of the Fund, and some history of lit operation from its inception. (I am having such letters drafted together with letter of transmittel to the President, for the signature of the Secretary of the Treasury, which should be ready when the Secretary returns on January 16th.)

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There was a good deal of general discussion concerning the President's descage on the state of the Union, and the President seemed quite

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pleased with the effect it appeared to have upon the Congress.

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Mr. Hopkins reported to the Cabinet that the statement appearing in the press today regarding former Secretary of Commerce Roper, and given out by Mr. Elliott. Acting Comptroller General, was a blatant lie. Mr. Sopkins recommended to the President that Elliott be removed, and it seemed to be the general consensus of opinion that he should be either removed or superseded by the appointment of a Comptroller General without further delay. The Vice President was especially anxious to mave the President move in that direction. The discussion seemed to center around the appointment of former Senstor Fred Brown of New Hammahire as Comptroller General.

The Vice President reported that there was a far-reaching demand in Dongress for continued investigation, and he was very much exercised over the great strength which the Dies Committee had gained in the House, and that that Committee was seeking an appropriation of \$150,000 in order to continue their investigations. The Vice President believes that would be a bad thing as far as the Administration is concerned.

The Vice President also asked the President to have his Cabinet whilers become more active in their contacts and relationships with Congressmen and Senators, even to the point of having them come down to the Capitol and actively participate in discussion of legislation as the various bills are presented to Congress. The President made the specific statement that he would now release his Cabinet members (until all strings, as he put it) for any contact work they cared to do on the Hill.

The Secretary of Labor reported at length on the Bridges case, stating that the reason she was doing so was because she thought the

Cabinet should be in possession of all the facts in view of the violent criticisms of her conduct of the case in the newspapers. A general discussion was participated in by the Vice President and the Postmaster General, it being their feeling that the Secretary of Labor should make a very clear and concise statement to the public, with full disclosure of all the facts surrounding the case.

The meeting adjourned at 4:10 P.M.

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GROUP MEETING

#### January 5, 1939. 9:30 A. M.

(Held in Mr. Hanes' Office.)

Present:

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Mr. Hanes Mr. Taylor

- Mr. Foley
- Mr. Duffield
- Mr. McReynolds
- Mr. Bell
- Mr. Lochhead
- Mr. Haas
- Mr. Schwarz

Hanes: Good morning, Mr. Bell.

Bell: Good morning.

Fanes: What did you think of the message?

Bell: All right, I guess. I am a little - I was somewhat surprised at some of the passages in it. After the Secretary spent two or three days over there, and thought he had eliminated those remarks about spending.

icReynolds: I think they kind of had another session after he left.

Bell: That is what I am thinking.

McReynolds: That's what I'm thinking too.

Haas: If they had any more, I don't know what it would be.

Taylor: It read that way, that they put back some stuff.

McReynolds: It is perfectly obvious that they added about twenty-five per cent to the damn thing after the Boss left.

Bell: I think undoubtedly it went back in.

Hanes: Just on the spending part. The rest of it wasn't changed from the original part, that Henry told me. I thought, on the whole, it is the best thing I have ever heard him do. As a matter of fact, when you come right down to it, looking at it from a political standpoint, there is not a hell of a lot else that he could say; he couldn't go up and say, "Well, we've been a lot of crack-pots here for the last six years, and we have done a lot of things which we now don't agree with," and so forth. He almost had to bend that thing, it seems to me. I mean, just from a political standpoint, or say nothing about it; one or the other. He couldn't say it was wrong.

- nell: He couldn't say it was wrong, but he did sort of jump from the sublime to the ridiculous when he talked about the religious aspect.
- Poley: There were a couple ministers down there that liked that religious part. One of thum took Jones! seat.
- Boll: He got in a nice wisecrack at the Budget conference yesterday. Do you remember 1t?
- Scimitz: Which one?
- He talked about the trap. The boys bated the trap and then stepped right into it. He paused at the sentence - at the group that thought there ought to be reduced expenditures and balanced budget. Then they Just applauded and applauded.
- icReynolds: I don't know whether that was applause or razzing, Dan.
- Fole: It looked like misplaced applause. All that came on the Republican side. Then they got very enthusiastic; nobody on the Democratic side moved. Then - it's just like playing a fish - he let them run to the end of the pool and then he yanked them. When he came back with the other thing, then the other side just raised up and cheered.
- There is a sharp line of demarcation here; they just applauded like hell and nobody on this side said a thing.
- Polcy: He just stood there and smiled all over, just waiting for them to stop. Then he let them have it.

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Schwarz:	Then the trap closed; if they wanted an answer to the Veterans and Persion groups, those were the items he said they could cut. I guess it was deliberate. At first it
Poley:	Over the radio it looked like a slip.
Lou Nead:	That's what you get over the radio.
tines:	If the people on the radio could get the same impression you got by being there it would have the
Lochinead :	We needed television yesterday, because up to the time of the shot, when he made that speech, and you heard him come on with that big applause - you said that was entirely Republican; it sounded like a general applause.
Faley:	I have never seen a man more complete master of a situation than he was yesterday. You could sense they were waiting for him to slip. They thought they had him when he spoke about balancing the Budget. Then he threw it right in their faces.
Taylor:	You could tell he'd gotten out of it all right, but you couldn't tell the other way. It was a very peculiar impression you got.
Faloyı	Well, he enhanced his prestige considerably down there yesterday.
manes:	I think so too, damned if I don't.
Poley:	You could see these fellows that weren't for him at all just shook their heads and said, "The son of a gun is still good."
Bell:	There isn't any question about it.
Loclused:	There is one thing we wanted to object to. Mr. Ickes blotted out Mr. Hanes on the radio. They got Welles, but couldn't get the other fellow; "he's blotted out by Mr. Ickes."
Tannis :	I almost didn't get in at all. I was right at the foot of the line; a hell of a crowd in front of the door. They got the crowd back for the first part - Miss Perkins and all the higher-ups, and

they got in and the crowd got in all right; Christ, I had a hell of a time. I hollered, "Hey! Don't leave me out; let me get in too." I thought I wasn't going to see the show for a minute.

- Hell: You should have been second in line, shouldn't you?
- Reynolds: No, he ought to have been behind Welles; Edison behind you.
- Hange: The crowd cut him and me off; they got him in front and me behind; I couldn't get by. God, there was an awful jam out in the corridors, trying to get in; I don't know who those people were.
- Folsy: They couldn't very well, because they shut off the crowd. You couldn't get upstairs unless you had a ticket. There was no pushing and crowding upstairs. It was all down on the main floor. They had temporary fences at the bottom of the stairs, and you had to give them your ticket before you could get upstairs.
- Manua: Well, Danny, you got anything startling and new this morning?
- Dell: Not a thing.

Hanes: How's your Budget?

Bell: Well, it's on its way to the Capitol. I guess it will be able to hobble up there.

Hones: It will get a good airing today.

- JeReynolds: That will be read by the clerk, won't it?
- Bell: Yes, about one o'clock.

Tanes: Did you get any impression from the newspaper boys?

Schwarz: It will be partizan; the opposition papers will play up the figures; I think they were well impressed with respect to recoverables and Public Work. I think that was - they commented considerably about that - favorably. Bell: It was a good press conference. It was good. It ran from about a quarter after four to about six, didn't it, Schwarz?

Schwarz: Yes, I think so.

Hanes: What line of attack did the questions take?

Bell: There was no real attack. They were right sensible questions they asked; they asked about definitions and different things meant what, and how they tied in.

"eReynolds: Looking for information, I think.

Schwarz: It was cooperative.

Ethnos: That table impress them - that showed each individual item? Were they impressed with that?

Bell: Yes, they spent quite a lot of time on that.

Hanes: I think that is the best table I have seen anywhere. I don't know how you felt about it; I got one awful shock when I looked at those figures on one item. I kind of had the impression that the C. C. C. camps were a damn fine thing, and I think this country generally accepts the C. C. C. as a fine thing, but when I looked at the thing, and I saw it costs as much as all the good roads we have built in the last ten years, I am not too sure that it is worth as much as all our good roads.

Bell: Well, I think that table, this year .....

Taylor: Congress thinks so.

Hands: The country doesn't know - if they are as ignorant as I am about a thing that costs two billion five hundred million - that's what it costs.

Bell: I think the totals, this year, will be a very great help. I think the total for the ten-year period will shock a great many people.

Hanes: As I say, it is exactly the same item as carried in all the good road construction. If you ask anybody - I have asked several, "How do you think C. C. C. camps compare with all the good road construction in the last ten years?" They say it is not comparable, but, Hell, it is comparable, because it is the same.

commark: Some of the bay goes to the family which makes it a form of relief.

- imes: It is all a form of relief. But I am just thinking about the aggregate cost of the thing. It gave me an awful shock when I saw it.
- others: It will be wholesome to have the total show.
- Foll: It's a wonder to me that someone didn't raise the question about putting the C. C. C. cost in that statement of durable improvements. Not one raised a question about that. But we had to assume that everything that the C. C. C. boys have done in the nature of durable improvements and the total cost as a durable improvement, although part of it goes to education.
- Did anybody ask about the change of setting up these individual agencies, putting them on their own?
- bull: There were some questions yout that.
- bolterrz: Two of the afterward suggested to me I think they are going to go into this possibility that if we go into some of these agencies, let them finance themselves; that will solve part of our problem of reaching the peak of the debt.

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Tull: Yes. That question wasn't asked, but it's a wonder to me it wasn't.

Manes: They didn't catch the important factor at all.

Bell: No.

...ckeynolds: The first - the boys hadn' . seen that.

Be : The trouble is, they only had the Budget Message an hour and a half - some not that long - and hadn't had a chance to study the whole set-up.

Hanes: Did anybody hit upon the two hundred ten million dollar item for national defense? Did they pick that out?

- Oh yes, it was picked out. I thought the President was going to get out on a limb a while; I couldn't Bell: stop him, and finally he got straightened ground. He insisted the two hundred ten million dollars was the amount of the appropriation; we said it was a two ten expenditure appropriation out of the five hundred million dollars. He had forgotten about that for a minute. They asked some questions about that - what was in it. He told then this was all he was going to ask for at this time, and he wasn't starting out on a five, ten, or fifteen year program at all, and he couldn't tell them what would be in the five hundred million. They'd have to wait for the special message for that. One fellow did raise the question about the forty-four million dollar debt - whether or not the Treasury wouldn't have to have the limit raised, and he said, yes, that was a possibility, and that would be taken care of latar.
  - Duffield: What is the limit?

Bell: Forty-five billion is the limit.

Hanes: What limit - what - new do you mean?

Foley: All the authority we have to borrow.

Bell: The total public debt is limited to forty-five billion, of which thirty billion could be bonds, and this budget will bo up to forty-four billion five. l

	While we may get by with a limitation of forty- four billion, we'll need a flexibility on the forty-four thirty. If they take off the limitation on bonds, I think we might get by with the forty- five.	
Hanes:	Does that forty-four billion item include all obligations, contingent and otherwise?	
Bell:	No, it is just the formal public debt; it does not include that.	
Hanes:	Then you have exceeded the legal limit if you take into consideration all the obligations and commitments?	
Sell:	No, it is definitely confined to public debt issues.	
Manes:	It is? I see.	
	Wayne, you got anything this morning?	ð
Taylor:	No, I haven't.	
Hanes:	Ed?	
Foley:	Is there anything new on Bank of America?	
Hanes:	Have you seen the answer?	
Foley:	No, I haven't.	
Hanes:	I haven't read it; I just got a copy of it. I didn't take time to read it. Do you want to hear it.	
	(Mr. Rademacher comes in.)	ľ
	John, give me a copy of that thing that Delano sent me, that just came in.	
Foley:	I understand they were sending Sedlacek back this noon.	
Duffield:	That has been changed.	1
Foley:	I think he ought to stay here.	1

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inffield: He will be here until the middle of next week.

Felsy: I wanted to have here the criminal angles on the Bank of America, and also the Anglo-California, before he leaves.

Duffield: That is why he is staying.

Panes: I'll give you a copy of this. I don't think you need this in the record. Just refer to is as a letter to the Honorable Preston Delano, dated December 31, 1938, from L. M. Giannini, beginning, "Your letter of December 22, ....."

> A letter from P. E. Warner, San Francisco, Headquarters, Accounting Department. I don't know what that is. These are those letters from Gough, 1931 - copies enclosed - an analysis of the profit and loss. That is all the correspondence there, that you haven't succ. Do you want this?

Folgy: (Nods "No.")

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That is the first time I have read that letter, but I think, in answer to our letter, which broke it off rather sharply in stating to him that language used in that document there took away from the Comptroller his right to exercise the functions which were given him by Congress. I think in answer to that, it is a pretty good letter, on the whole.

Foley: It is thoroughly consiliatory.

DuTTeld: Do we want to so into a general discussion of the Bank of America? There is one other thing afoot. It is none of our particular business; it does bear on the seventh point. The seventh point says, "The Bank of America will not take over the absets or assume the liabilities of any other bank."

Hames: Without the consent of the Comptroller.

Luffield: That was the one to stop the expansion of the Bank of America. As I understand the arrangements are now being made for a loan of three million dollars from the Bank of America to the old national corporation in Spokane, collateral of which is stock in the National Bank in Spokane. The loan is not one the old national corporation can pay off. The Old National is just a shell.

Welleyholds: In other words, the stock is not worth a damn, and that is what they are taking as collateral?

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Duffield: It is .....

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The Old National corporation is getting stock from the bank, and in return, borrowing money from the Bank of America for it.

Duffield: And the only way that loan can be paid off is through liquidation of the bank stock, probably. Well now, true enough, they aren't taking over the assets or assuming the liabilities of any bank.

Bell: In theory they are not, but practically, they are assuming complete jurisdiction.

Scheynolds: That is just another sanction of their bank activity in that territory.

Inffield: The only reason I am mentioning this, if it is consummated, it won't take this group by surprise. It is on the fire.

Billing; Have you anything this morning?

Welly, nolds: No, I think not.

Thes: (Nods to Hr. Lochhead.)

McTernolds: Of course, that Old National at Spokane is an old story. They have been on the Secretary's Committee and he turned them over to me about two or three years ago. While it was being liquidated in an orderly way, the Twohy outfit were being jibed - being permitted to manage it. They have been trying to get that ever since, and give it ..... (speaking too low to hear) .... one of Harry Hopkins' - an Administrator of Harry Hopkins, on W. P. A. out there, was a son-in-law of the Twohys'. He has been working on it two or three years. He was in two or three months ago when this thing first started, and he apparently is a friend of the Comptroller; the Comptroller came in to see me after Griffith did. The Comptroller came in to see me immediately after Griffith came in here

	to notify him of the negotiations for this loan. He said he thought he'd have to disqualify himself from deciding on that, because of the fact that Griffith and the Twohys were personal friends of his. He thought he would not be - he couldn't ethically make a decision on it. That is just a sentimental side of it, of course. I told him then that he'd have to come in to see you; that I wouldn't have anything further to do with it.
Hamasa	This was last week, when I was away?
Scheynolds:	No, no; this was a couple months ago.
100000:	I never heard of it, I guess.
defleymolds:	I didn't know when he came to see you. I wouldn't do anything on it, of course. It would have to be handled by the Committee, of which you were Chairman. I told Delano the same thing when he came in to discuss it. I told him he'd have to discuss it with you.
Thinks 5	Did I understand you to say they had already made the loan, or were contemplating it?
Univiald:	As I understand it, Giannini, in Spokane, yester- day or the day before - I don't like to take up the time of the whole group on a lot of little ends.
Pallost	I wouldn't bother with it now, but we'll have a meeting on it, if it is important enough. I don't know a thing about it myself. It is the first time I have heard about it. Suppose we have a meeting, and get Ed. I suppose you'd like to get up to this - to date on this thing?
	and have a

- I'd prefer not to hold up the group, and have a meeting of the banking group because it is strictly in the Comptroller's Office.
- Ichernolder My opinion, while I am not participating in the group, have no desire to, merely because of the thing, I had that old national thing on my neck a couple years, and as a result of that, the information came to me through the Comptroller, and through Griffith, that they were negotiating the loan from Giannini's group of some three

- 11 -

million dollars, I think it was, in order to reopen as an active institution, and the loan was to be made with the stock of the Old National, and that other bank up there that they were to take in as a branch, as the basis for the loan, and I - considering the soundness of the Giannini group as a banking institution, I don't see how you can conduct that kind of a transaction, because it is an - ah - it is - it - it - it looks to me that it wasn't financing it at all.

- 12 -

Hames:

It looks to me like it is cutting around the spirit of the agreement, don't you?

(H.M.Jr. calling on telephone from Boca Grande.)

Hello; yes; all right. Yes. Good morning, Henry. How are you? Oh, that's too had. Well, you're getting some rest anyway. Are they? Really? Geel That sounds good. Yes. Yeah, that was very impressive, that part of it. The press has been fairly good on that part of it. They - the press has been fairly good on it. They jumped on the spending part of it, which was rather unfortunate. Right. Well, I think the thing wen't over; it went over very well. The general impression around here is, it is the best thing he's ever done. Yes. Oh, didn't I? I thought I did. I liked it very much, indeed. He had a press conference on that yesterday afternoon. Did he tell you about that? Well, he had a press conference that lasted from four fifteen, I guess - the Cabinet meeting lasted till four ten, and after that he had this conference to explain to the press the Budget message in detail; it lasted, Danny told me, till about six o'clock. Well, Danny said it was a very good press conference, as a The only thing I've got of any interest, at the Democratic caucus today they are going to elect the Ways and Means Committee and I understand the slate is Boland from Pennsylvania; West from Texas; Maloney from Louisiana; and McKeough from Illinois. They are the new Democratic members. The Committee is going to divide fifteen Democrats and ten Republicans. There is another; there are three other men running, but they are not on the official slate. The other three men are Ford of Mississippi; Harrington of Iowa; and Hare of South Carolina. Yeah. Well, this Committee is divided

up now with two liberals and two very strong conservatives; that is where these new men come in; they are just half and half. Yeah. Yeah. Well, he was in a very good humor after the speech yesterday, too. There was a very interesting meeting at the Cabinet, Henry. I have written some notes on it; would you like to have me send those down to you? It was really, I think, e very interesting meeting. Yes. Well, all right. I wasn't going to bother you with it, but if you'd like to see it, I'll send it on. On no. (Laughs) No, not a thing. O. K.

- 13 -

The group is all here; we're just finishing our morning meeting. Do you want to speak with Archie about the market? What is sterling, Archie? 1'11 let him talk to you.

Lunc head;

Good morning, Mr. Secretary. The speech didn't have any particular effect on the market. The ex-change - they have been a little bit nervous, and sterling is, at the moment, about 4.64. It was down around 4.63%, and it is 4.64 after the speech, and at London this morning it was down as low as 4.623. Hello. Hello. No, you're not on the air; We're in Mr. Hanes' office. Right. Yes. Fight. Yes. I know about that, yes. Incidentally he also has gotten a cable as to the general situation there; I'll do that now. There is one other thing in regard to that; after their general clean-up, their silver in London - they have about ten million ounces free that they'd like to sell. You want to hold it off for a while or ...... 0. K. Well, I'll take it up. We'll just handle it regularly here. O. K: Then you are on vacation, and I won't ask you any questions. Well, well, we might well try to do a little bit better, possibly. (Laughs) All right. We'll take care of anything like that.

Now, just a second; if you want another social chat with Mr. Hanes, he is still here.

Rames :

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Henry, hello. Yes. Well, I hope it is. Henry, listen, there's one thing I want to both you a minute about. Your letter to the President asking him not to commit himself on the Social Security thing - the Social Security recommendations are going to press this morning; I mean, the message is going to press at 9:45 this morning, and they asked us to look over these recommendations and find out if there is anything in there that is objectionable to the Treasury. They haven't been very specific in their recommendations in so fur as financing is concerned. I don't think we ought to get out on a limb on that one, and I'd rather let them go along like they have got it and make no comments on it, and let it go on the way they've got it. They change about every thirty minutes, it seems to me. Yes. I think it's all right if we let it stay like it is. We are not ready to make any other specific recommendations other than the fact I have maintained right along in all the conferences I have had; I wanted to keep your position of making it a selfsustaining proposition all the way through. I understood that to be your position with the Cabinet Committee, so I have stuck with that right along and haven't varied from it. No siree, this is one you're clear of.

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And there is one thing more; you told me to find out about Wertheimer. I haven't heard a thing about Wertheimer. Monnet has gone over to meet Bill Bullitt somewhere. I talked with Secretary Woodring and Summer Welles; neither of them had heard of him, but he had no credentials, insofar is they are conderned.

Taylor:

He is a race track boy.

Hands:

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That is what Harry Woodring told me yesterday afternoon. He told me three different times they didn't know a thing about it. It's your impression that Johnson had given him permission to see any of the planes? He said it was entirely erroneous; that Johnson hadn't given him any permission of any kind. Well, Johnson was sitting there while I was talking to Harry Woodring, and he said that Johnson said he hadn't given him any permission to do anything. I think the thing is all straight now; Woodring was excited yesterday, but the Commission has gone to Buffalo to see the P-36. He was fussing because somebody he got somebody - had told him in his Department that the Navy Department had had a transport stand by to take this crowd to Buffalo, and that Woodring wanted to know why we gave those instructions to send a Mavy transport - to send a Navy transport for this Commission. It was just a mistake. Somebody in his Department is not telling him what is going on over there. That is all I can find out. McReynolds and I were both very familiar with the situation from our side of it, but apparently Woodring wasn't from his side. On yes. Yes. I-'ve - I've got that. Not a bit. Not a bit, and Monnet, as soon as he comes back, he is the only man I can find out anything about Wertheimer from, apparently. I can't find out anything in the Government. Well, I don't think he can. I think we are covered on that, and I've got transcripts of all my telephone confersations with Woodring and our boys too, so the whole story, I believe, is complete.

Well, catch a lot of tarpon, will you? O. X. Goodbye. (Hangs receiver up.)

welleynolds: Bad weather down there, was it?

He said it was fine weather, and believe it or not, the tarbon were striking. He said, "I wasn't going to start fishing until tomorrow. He had a headache three or four days. Tomorrow he's going to start.

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doll: I didn't know he was a fisherman.

Hanes: Harry, and Archie, those things you gave me a list of, I reported to the President that they had actually taken place yesterday morning. Is that right?

Lochherd: They were transferring the gold from the Bank of England; that's not taken place, but the decision has been made. Everything there has been decided on. The transfer is a book entry.

lianes: Has that been made public?

Lochhead: No. The Bank of England transfer will probably come sometime during the end of this week; then it will show on the Bank's statement, Tuesday probably. They don't usually make much publicity on these embargoes.

#### - 16 -

Hands:

#### You got anything else?

Lochhead:

Nothing special. Well, we might as well take it. The Chinese have offered us ten million ounces more of silver, after they cleaned up London loans, and it is just a question, as I say, we have been taking it, generally, when they had it free. The trouble is, if we don't take it, as long as we don't maintain the forty-three cent price, we take it in the general market and don't get any thanks for it. That's the .....

Hanes: Is it something you've got to answer on .....

Loridusad: Oh no, no, no.

Hanes: ..... right away?

Lochhead: No, no, no, unless I give him .....

Hance: I don't see may difference whether you take it in the open market or take it privately.

Loc'mend:

That is the same thing we get on the Mexican market. We officially don't want Mexican silver. You can't damage that on silver, because you can't distinguish between different types of silver, if silver comes up. When once it is melted down you can't tell which is Chinese silver and which is Mexican silver. I imagine this is all going to come in, in the sessions a little bit later.

leilor: I think it might.

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By the way, at this Budget conference yesterday, goin, over that statement in the Budget message concerning durable improvements, where we have at the bottom "Stabilization Fund" somebody raised the question, also, about the profit and I guess the President volunteered that information; he said he's seen in the press the last few days the losses sustained by the Stabilization Fund in England, and in France. Here, not only the fact that the Stabilization Fund is intact, but we have a right nice profit. They tried to get him to tell, but they didn't; he wouldn't give any amount. I didn't see a thing in the papers this morning. Mangest That Stabilization Fund's got to be renewed by June 30, hasn't it?

Hell: They asked about that, and he said they would ask for it.

Lochlead: In other words, the profits motive should never have been brought up.

Hous: Because someday you might have a big loss.

Lochiend: Sometime if you really got up against it, you might have to face the question, whether you wanted to take a loss in the Stabilization or something else. You might have to face that, someday.

Taylor: Week after next or ..... (Laughter)

- Hance: Archie, the President wants a letter to the Chairman of the two Committees, House and Senate, requesting the renewal of the Stabilization Fund. This is not something I am pressing, but sometime in the next two weeks, I'd say when the Secretary gets back, we ought to have prepared for his signature, a letter of transmittal to the President, enclosing two letters, one for the Chairman of the Finance Committee .....
- ball: That ought to go to the Speaker and the Vice President.
- Funct: To whomever it goes, two letters one to each House stating he wants the condition of the Fund, as at present, stated, and some reason for asking for the renewal.

Bell: Follow the one two years ago.

Ennas: This time, he said, he wanted to state publicly the condition of the Fund.

Bull: Oh, really?

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Names: Yes. So, if you get up some draft of that thing and let's have it ready when the Secretary gets back. I am not going to do anything about it till he gets back, other than to have it prepared for him when he gets here. C

Lochiead :	Those letters, do they come out of the Legal Division?
Bell:	Weive got copies of them around here someplace that we used last year.
Foc prend:	That is something that will have to go over for discussion.
Bell:	The Secretary won't want to give anything later than June 30.
Loc'r and:	He won't want to give anything later than June 30, for last year.
Schwarz:	Nothing.
Hans:	Nothing.
Duffield:	Just for your personal information, the Anglo- California annual meeting is on the tenth, on the management question.
Hanes;	They haven't jot any.
Duffield:	I have stayed out of the situation. I had it on my calendar, on the tenth.
Foley:	Is that on fondey?
Durlield;	Tuesday.
Foley:	Tuesday.
Hanes	All right.

January 5, 1939. 5:10 p.m.

Hello.
Yes.
Mr. Morgenthau, Lochhead calling.
Yes.
I just finished a call from Butterworth
Yes.
And Wayne thought you'd be interested in it.
Yes.
You know they mentioned that they were going to take out sixty million pounds of the Bank of England and put it back into the exchange fund.
Yes.
Now, they've decided that they are going to not only take out sixty million pounds, but every bit of sterling that they every increase in gold that they had since they went off the gold standard in September, 1931.
Uh-huh.
That means that they will transfer out, as far as we can figure, about two hundred million pounds instead of sixty million.
"ell, I'll be darmed.
They are going to transfer that over into the exchange account.
I see.
Now that is that is going to bring down their the Bank of England's issue, of course, is down very low again.
Yes.
But tomorrow afternoon at four o'clock this announcement is going to be made.
Yes.

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Now then, on Saturday, they are going to make another announcement, and that is that they are going to increase their fiduciary issue up to four hundred million pounds, and that is an increase for about two hundred and sixty million.

#### our: Yes.

Lt

At that time there will be -- they will have new banking legislation, and this banking legislation, they won't be able to say very much about. All they are going to say is they are going to increase the issue, because Parliament doesn't convene for about a month. So they say -- what they may do at that time, they may revalue what gold remains in the Bank of England at a different price than the present statutory price of eighty-five pounds.

- H Jr: I see.
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And -- so they may -- they may make a change to that nature and they say they naven't made up their mind yet though if they revalue it what price it will be revalued at. It's not to be considered a new fixed price for sold.

-Ur: Un-huh.

La In other words, they may revalue to the market and then change that according to the market from time to time.

"lift: Where is Wayne?

L: An -- Wayne has gone up nome now. He'll be none this evening. He was in though when we got the cell in.

- Tirt Oh.
- T:

And so, the only point that the British said was that on Saturday when they make this announcement that they are going to increase their fiduciary issue, they ask us not to make any comments on it at all, because they are going to be rather a cryptic -- ah -- message they are going to give out, and it's going to be a month before Parliament can get in and they are afreid there is going to be a lot of conjecture, and they presume they better not say much of anything until Parliament gets in. But it seems to be a very strong move they're making.

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It's a move to the good.

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Lt.

Oh, yes. The fact that they take out two hundred million and put it in the exchange fund, that strength ened the fund much more than was hoped for.

"Jr: "ell, I think that's very bullish.

L:

I would say it's very bullish. They apparently had more meetings. Butterworth said that they had been meeting all day, and that's the first news that we had they were going to do anything as drastic as that. The mere fact that they are going to do much more than the market expect, I think, should be a bullish argument.

Eur: Does Hanes know about this?

L: No, Hanes wasn't here when the call came.

Fistra Oh.

L: Now, the only point that we are calling up on, we thought possibly it was important enough that you might want to let the White House know, or maybe if you wanted somebody else to let them know in the morning.

- Pur: No. "hat I would do in the morning is this -- I would -- I would have a non -- I mean, senontechnical explanation as possible, you see?
- Li Yes?

WJr: Drawn up on one page.

L: Right,

-Jr: What it means and everything else, and send it over. Have Hanes sign it.

L: Yes.

HUT: Let McReynolds take it over to Forster, and Forster to the President, you see?

L: Right,

HUJr: You see?

L: Yes.

HUr: I mean, that's the way I would do it.

- Lt Right. Then we can -- we'll let them know that you know about this also.
- Wijrt: Yes, that I know about it.
- Lt Right.
  - -Jr: And -- at -- well, that's the way I would do it. Have him draw up just a -- well, as untechnical as --
  - Yes, yes. Don't make it worse, because after all there was only -- it's only a question of giving them a little advance notice.
  - -Jr: Yes.
  - L: Because the whole thing will be out in the paper to-
  - Jr: Well, I'd let them know.
  - L! Right.
  - "If: "ell, it just shows that when they are pushed egainst the wall they'll do something.
  - b: Well, they -- it surprised me that they would come across is hard as this. To tell the truth, I'm a little bit surprised that they are doing it this much, and I think it should surprise the market.
  - EUr: It's the best news that's come my way in a long while.
  - L: Oh, it's -- as I say, up till now they have been simply siving more or less excuses, and this time it's really action.
  - "Wr: Well, I was going to give you hell for calling, but as long as it's good news I don't mind.
  - Ut "ell, I thought you wouldn't kick about this one. If they weren't going to transfer anything, I'd be afreid to call you. (Laughter)
  - Filr: If it would have been bad news I -- oh boy, I'd have taken a couple of pounds off your stomach .
  - La Good thing. You just -- you just go on out tomorrow and take a couple of tergon on top of this.
  - " Jr: Well, it's all right as long as it's good news. Did you get that?

news I'll let somebody else call. (Laughter) O.K. Lt If it's bed news, you fellows hancle it. - Jr: Right. 14 By the way, as long as I have you, what did the market E.Jr: Sysbot of "ell, the stock market broke towards the end. L: Yes. - Jr: It didn't seem to have any particular reason. The eviation stocks went off a bit, and the sterling was Бt. .... a little bit strong. It got up to eround four sixts-four and a half. Not very much to it. I mean, they've -- it strengthened up a little bit because they got the news out of the restrictions. Good. 2. 321 But the market hasn't got any news out yet of the --5.5 of the sold trensfer. How are commodities? P.Jr: Commodities went off. Went off, if I remember rightly, L: around twenty-sight to thirty points. Well, this will help a lot. H.Jr: Ah -- I think this is going to help -- I -- I certainly hope it is going to be given a bullish interpretation 14 and not a sign of weakness. I -- after an hour or so -- I think that -- I'd like SUR Hanes to do this with Taylor and yourself, see? L: Yes? Ah -- to send for the Charge as well as Eewley. HJT: lake it quite formal, you see? L Ves. Whoever is Charge. DJT: L: Yes.

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∃Jr: And tell them that -- I want Penes and yourself to be there as well as Taylor.

Absolutely. If enybody else calls -- if there is bad

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L:	Уев.
⊧µJr:	Speak to the Charge and Bewley and say that you phoned this message and that I am very much pleased and I'd like Sir John Simon to know that.
L:	Fine. I'll do that we'll arrange that the first thing in the morning.
WiJr:	Yes, but I want the Charge, as well as Sewley.
L:	The Charge and Bewley, and then you want Hanes, Taylor and myself.
myr:	Yes, and ah the Charge his name is Mellet.
L:	Yes.
H.Jr:	But I I want to get a word off to Sir John Simon that I'm very much pleased.
13	Yes. Well, we did here tonight. We told Butterworth thet this would be transmitted to you.
Hilr:	Yes, but I'd do it this way tomorrow.
L:	Fine. lake it formal tomorrow.
HUTT	I have reasons for doing it that way.
L:	I see. All right then, we'll take care of that in the morning.
HUJr:	Remember now, It's a one-way traffic good news only.
L).	Good news only. Well, the wire is plugged that way
HUJr;	All right.
34	All right. Good bye.

### TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 5, 1939

to lir. White

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FROM Mr. Fine

Subject: British and American Revenue Systems Compared (Tax Administrators News, November 1938).

# 1. Relative Importance of Various Taxes

Analysis of total tax bill according to types of taxes indicates that the backbone of the British tax structure is the income tax.

The United States still relies on property taxes as the largest tax source. Dne-fourth of all United States tax revenue was derived from excises of various kinds, a figure over twice as large as the comparable dritish percentage.

Propartion of Tax R	eccipts Derived from Various	s Sources
TTONOL CALL	United States	United Kingdom
access)	20.8%	34.5%
Income	38.0	16.8
Froperty	4.1	21.9
Custons	24-5	11.3
Excise	3.4	8.9
Death and Gift	2.5	3.2
Vehicle Miscellaneous	6.7	3.4
	Tax Receipts 1937 Per C	Capita Taxes 1937
United States United Kingdom	\$11,838 millions \$ 4,908 "	\$91.77 \$109.06
	T towns collected by the V	arious levels of
II. Proportion of tot	al taxes collected by the v	
	United States	United Kingdom
managed framework	40.9%	83.2
National Government State	22.4 36.7	16.8

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Mr. White - 2

The local authorities in the United Kingdom derive practically their sole revenue from the "local rates", or property tax. In the United States, however, State and local tax revenues, which approximated \$7 billion in 1937 run the whole gamut of taxation.

Note: Pounds are converted to dollars at 1:4.69, the New York rate on Harch 31, 1937. Prepared by Lawrence H. Seltzer 28

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### TREASURY DEPARTMENT

### INTER OFFICE COMMUNICATION

DATE Jan. 5, 1937.

Secretary Lorgenthau T. Haas

FROM

Septent: "An Economic Program for American Democracy" by Seven Harvard and Tufts Economists

This is a smoothly written and persuasive political permittet, highly liberal in tone and thought, and thoroughly in sympathy with the New Deal. It is not the product of is mous research, and it rarely descends to the use of flures. On the other hand, it is a stimulating and intelident presentation of one theory of economic events since 103, together with a program of political-economic action. In thesis of the book may be summarized as follows:

Frior to 1929, private capitalian worked well in the United States because the geographic and economic frontiers news being pushed back, thereby opening up new investment on prunities almost continuously. Contributing to the same result was the high rate of population growth arising out of both high birth rates and heavy immigration.

This era definitely came to an end in 1929, and we have whose been in a period of economic stagnation. Businessmen us, blame governmental policies and labor disputes for their led of confidence and their resultant indigposition to invest savings; but these are only whipping boys. The real but hidden reason for the plight of businessmen and other investors is the structural stagnation brought on by the meeting of the frontier -- economic and geographic -- and the declining rate of population prowth. New inventions in recent years have not been of the kind that require great abouts of capital for their exploitation. On the contrary, inters is evidence that most of them have been capital-saving the than capital-using. In consequence, there has been it set to opportunity for private business to absorb and is the country's savings. These savings take place year by there at a relatively inflexible rate; and it is the idleness of these savings that gives rise to unemployment and economic ategnation.

# Secretary Horgenthau - 2

The underalleled severity of the depression that began in the was due to the fact that a cyclical business reaction was superimposed upon the onset of this period structural stagnation. In the absence of governmental intrvantion, this stagnation will be indefinitely prolonged: for revate enterprise can no longer make full use of the controls savings and can therefore no longer provide full a loyent. The Government must now take over the function flow sting much of the country's savings if a high level of notional income is to be achieved and meintained.

The experience of the past five years demonstrates the of this thesis and indicates the way out. The failure to of this thesis and indicates the pump has been due, not to often governmental policies, which have been soundly indicated, but to the inadequacy of private investment outtr. This inadequacy must now be regarded as permanent. In the words, we must give up the hope of bringing about a cli-sustaining recovery.

In mining, agriculture, and manufacturing, a healthy could of conital outlays accompanied and followed the Conternaent's deficit spending. But the neavy users of that -- the railroads, electric utilities, and the housing Lichtly -- responded feebly. The railroads constitute a fedining industry, losing traffic to pipe lines and trucks one hand, and imprisoned by bad financial structures on the other. The electric utilities have passed their in of yorthful growth; their equipment depreciates slowly; Their retes are not low enough to tap the large volume in tential demand which could justify rapid expansion of anthy samital investments. In the field of housing, the soring down of the population growth; the depression-created -1 r tion from urban to rural districts and postponement of Ticles; the high-cost methods of single dwelling construction; and the unattrectiveness of slup clearance and low-cost mains to private capital, have been responsible for the failurs of housing thus far to absorb its former share of the country's savings.

The comprehensive remedial program proposed by the authors

(1) A continuance of the new deficit spending program until the national income rises to prosperity levels.

# Scovetary Morgenthau - 3

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(2) A permanent policy of increasing consumption inroid a redistribution of income achieved by both taxation and expenditure. Among the specific recommendations are (a) the abandonment of the Old-Age Reserve Account and the consencement of full benef." payments to the present aged in ediately; (b) Federal subsidies for education, health, and other social security services, and a liberalization of membrys ready to give useful work to all the unemployed. The consenction phase of the program is to be financed by "the consenctive texation of undistributed corporate earnings"; the consenctive texation of tax-exempt securities; the plugging of all means of tax evasion; and a moderate increase in surfer ry tes in the middle brackets, as well as by the increased revenues arising out of the expected growth in the plicinal incode.

(5) A Federal investment program with a core consisting of a 50-year plan for rehousing and rebuilding the country; and including slum clearance, conservation work, the provision of additional facilities for education and health, and the "irclusse, recomposent, and operation of the railroads. This program is to be financed by Federal borrowing.

#### Comment

The book obviously covers a wide and controversial field. Among the various issues related, only one will be commented upon here - the indefinitely prolonged expansion of the Federal debt contemplated by the authors.

The ancient Hebrews minimized the problems of private indebtedness by their practice of the Jubilee Year every neventh year when debts were forgiven. In more recent times, infault, bankruptcy, and the writing down of debts have interated powerfully to reduce the burden of private indebtedneed to tolerable proportions. Governments have frequently net the problem of their own debts by sweating, clipping, otherwise reducing the metallic content of gold and silver poins, and by other means of inflating prices, such as the Stingion of large amounts of paper money.

Governmental debts differ from private debts in the bespect, among others, that public debts cannot be defaulted or "adjusted" downward without involving the stability of the currency or the good faith itself of the government. The

## Secretary Morgenthau - 4

Government debt cannot move steadily upward for an indefinitely long newiod without growing to astronomical proportions. The suthors of the subject pamphlet write in terms of several billions a year of Government investment, most of it to be reised by borrowing. If the present Federal debt of about SHO billions were to rise each year by only 3 percent, our ennual interest charges alone would exceed \$23 billions in 100 years, and \$443 billions in 200 years. The authors neglect this among other aspects of the subject; and fail to see just why the Government cannot take what it needs for investment purposes by taxation, as it has done in the past, reiner than by borrowing.

RAY			
Paris			
Dated	January	5,	1939
Recid	2:25 p.	m.	

Secretary of State,

Washington.

22, January 5, 5 p. m. FOR THE TREASURY.

The exchange market has been very erratic today. Sterling opened around 176.60, and at the close of the official market stands at 176.65 after 176.75 high. It seems that the fund operated both ways, in London but that it did not enter the market here. The forward rate is at par for one month and at 30 centimes for three months.

The security market was more animated and cheerful and rentes gained about one franc.

The Bank of France statement dated December 30 published today shows practically no change in the gold reserves. Commercial advances are up 440 millions. The note circulation increased 2,404 millions. Deposits are down 1,543 millions. The Treasury account is down 831,000,000. The percentage of gold cover is 61.63 compared with 62.01.

(END SECTION ONE)

RGC

WILSON

REB

GRAY

Paris Dated January 5, 1939 Rec'd 3:15 p. m.

Secretary of State,

REE

Washington.

22, January 5, 5 p. m. (SECTION TWO)

Referring to the depreciation of sterling regret is expressed in the financial column of the FIGARO that the franc has been allowed to fall in relation to the dollar and the view is put forward that in order to encourage the further repatriation of capital the franc should on the contrary be kept stable "in relation to the only standard of value, namely, to gold, and therefore, to the dollar". The LONDON TIMES carries a message from its correspondent at Paris drawing attention to this statement in connection with his impression that the exchange policy of Daladier and of Reynaud differs. This correspondent states that some of the new technical advisers attached to Reynaud's office contend that the franc is now so strong that it ought no longer to be too intimately associated with sterling on account of the "evident" weakness of that currency. These advisers he states contend that de facto

2-#22, From Paris, Jan.5,5p.m.

de facto reattachment to gold, through the dollar is the only wise policy. On the other hand, according to this correspondent "the authorities associated with the Ministry of Finance are convinced that this view is fallacious".

WILSON

CSB

135

REB

GRAY Paris Dated January 5, 1939 Rec'd 3:39 p.m.

36

Secretary of State,

Washington.

22, January 5, 5 p. m. (SECTION THREE)

• Three decrees were published in the JOURNAL OFFICIAL today granting tax relief to assist the investment of capital in home industry and to assist the export trade. The first decree authorizes a 50% exemption for 2 years from the coupon tax on all bonds issued before August 1 by companies for the purpose of renewing or expanding their plant. The second exempts from the payment of income tax all interest on loans raised to discount bills issued by foreign governments in payment of French goods or services. The third provides that companies which the their plant is under, an end this year but which nevertheless continue in being, will pay a reigstration fee of 1/4% instead of 3-1/4% on capital increases made during the year.

WILSON

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REB

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GRAY London Dated January 5, 1939

137

Rec'd 3:30 p. m.

Secretary of State,

Washington.

RUSH

20, January 5, 6 p. m.

FOR TREASURY FROM BUTTERNORTH.

Reports have begun to circulate in the city today to the general effect that the Eank of England will shortly make further restrictive requests of London financial institutions. The rumors vary as to whether they will include a closer scrutiny of forward exchange transactions as well as apply to spot and forward gold dealings. In this connection reference is made to Catterns' statement to be found in paragraph eight of my 1471, December 28, 7 p.m.

I understand that the Bank of England has summoned the financial editors this evening and it will be in connection with the above and also probably in connection with the transfer of the pounds 60 million of gold from the fiduciary issue of the Bank of England back to the equalization fund. I know that it has been planned to take this step as soon as possible.

REB

2-#20, From London, Jan.5,6p.m.

138

In this atmosphere of rumor the dollar has fluctuated within a wide range -- 4.62-7/8 -- 4-1/4 and despite considerable bidding from New York and some covering has on balance been offered. The market has been jumpy and large dealings have been difficult to accomplish. The three months! dollar moved in to 2-1/4 closing at 2-3/8. Gold was fixed at 150 shillings 1 penny and of the 225 bars dealt in 42 were married and 60 supplied by the British fund.

The franc has fluctuated between 175.65-68 with the Bank of France bidding for sterling at .65 and obtaining small amounts.

JOHNSON

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GRAY Paris Dated January 5, 1939 Rec'd 5:18 p.m.

139

### SECRETARY OF State

Washington

22, January 5, 5 p.m. (Section Four)

A statement is published in the financial press that during the last few days the Governor of the National Bank of Yugoslavia has had several conversations with Reynaud and Bonnet, and that the Governor has left Paris for Saint Noritz to inform the Prime Minister of Yugoslavia, who is staying at the Swiss resort, of the results of these conversations. It is added that the negotiations concern the intensification of commercial exchanges between France and Yugoslavia and the connected question of the service of the debt of Yugoslavia to French holders which is now governed by an arrangement which expires next October.

It was also announced in the press today that representatives of the Rumanian Government will soon arrive in Paris to resume negotiations with respect to the loans of the autonomous monopolies fund, and that similar negotiations are to be undertaken with Germany, Great Britain, and the United States.

WILSON

(End of MESSage)

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January 5, 1939. 5:45 o.m.

Archie	Walla Wello
	Hello. Hello.
Operator:	Hello, Mr. Butterworth.
W. J. Butterwort	th: Hello.
Lt	Hello, Walton.
39	Hello.
L:	Hello, this is Archie.
B:	Pello, Archie. How are you?
Ŀ:	Fine, Wayne is here with me. The Secretary is on a vacation down in Florida.
В:	Who is?
Lă.	The Secretary.
в;	I see.
L:	So, Wayne and I are here just now on the wire.
8:	stopped at the White House
L	I see, yes.
в:	In the first place, as you know, the market has been filled with rumors about this request.
L:	Yes?
В1	It's gotten the speculative group-the third and fourth hands and and and there's been a lot of talk about it. The request has been made though.
L;	I see. Now, just at this moment, I tell you on January third the Bank of England called up
B:	Yes.
L:	Federal, and gave them these different things they were going to do.
в;	Yeah.
L	And then they said they would be confirmed to Mr. Morgenthau by cable.
B:	Yeah.

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So in the mein we have, I think, the -- the three different things.

Yes, quite. Now there's -- there's another thing though, I have just been in touch with the British Treasury, and they have told me that tomorrow they are taking all the gold in the Issue Department of the Bank of England with the exception of the hundred and twenty-six million pounds whic. was in British possession after they went off the gold standard in September, 1931 --

tt Yes?

Lt

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- B: All the gold -- all the gold, with that exception, will be transferred from the Bank of England to the Equalization fund.
- L: I see, what does that mean roughly, about sixty million pounds at the old rate?
  - At the old rate it's about two hundred million bounds.
- 1: They are taking everything -- they are taking not only the sixty million, but they are taking -- I mean, but +they are taking everything.
- It You see, on -- on -- in their statement on December 29 -
  - ht Yes.
- B: Had at the old rate, three hundred and twenty-eix million pounds in the Issue Department.
- In the Issue Department, yes.
- B: And they are Laking -- they are only leaving a hundred and twenty-six in there.
- L: I see. They are taking out two hundred million pounds?
- H: Yes, at the -- at the old rate.
- L: At the old rate. So that's really -- you will have to add on about another sixty million. That's pretty near -- well more than that.
- B: Hillion.
- Li Yes.
- Yes. That is going to be announced at about four o'clock tomorrow afternoon.

L: About four o'clock tomorrow afternoon --

B: Until then it's a secret.

- L: I see,
- Fine object of the transfer of such a large amount is to make it clear beyond any doubt that the exchange fund will be in possession of sufficient resources to meet any call on it.
  - L: Yes, I think that is going to be rather a surprise to the market, that they are taking out so much. It looks like a good idea.
  - And -- well, that's the idea. They want to make a play for -- that all the resources that they have acquired since 1931 are right there at their discosal and they propose to use it.

I think that's a very strong step.

- B: "by, then, on -- on Saturday morning -- Archie?
- Ld Yes?
- 5: An -- it will be announced that the Treasury has made a increasing the fiduciary note issued to four hundred billion pounds, and it will also be added that the Government intends to introduce legislation to amend the Currency and Bank Notes Act of 1928 when Parliament reconvense.
- L: I BOE.

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- It is announcement will be made as to the terms of the legislation.
- D: As to the terms!
- a: As to the terms,

L: Yes. Oh, the terms, yes.

It will be -- it will, in fact -- could be fiduciary issue on a freeh permanent basis. That is to say that the valuation of gold at eighty-five shillings an sunce will be changed and the normal fiduciary issue of two hundred and sixty millions will be revised.

I see. And that's going to be announced on Thursday'

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8:	What?
L	On Saturday?
Br	That's on Saturday morning.
L	On Saturday morning.
B:	Hello?
L:	Yes.
B:	Hello? Now, they expect that this reference to new legislation will provoke a great deal of dis- cussion and a great deal of speculation in the press as to what it means.
LI	Yes?
B:	You got that?
L:	I got that.
B:	And it will be about a month before the matter comes up before Parliament.
L:	Yes.
в:	And they've they've particularly asked that we keep "mum" about it.
L:	To make no comments at all about it.
B:	No comments at all, because they'd be merely embar- rassed if a recap to their attention should have come from Washington.
L:	I see. Well, I think you can be sure of that.
в:	Give them all the assurances we had in the box on that.
Lt	That's right.
Б:	Ah now I asked them a couple of questions about this, and I said was their intention to fix it to come to a fixed gold price.
Lı	Yes?
в:	And they said definitely not.
L	Even though they are going to change the valuation.

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25	That's right. They said definitely not.
14	I see.
H:	He has decided exactly what they would work out about it. They were going to do that in the course of this next month.
14	I Bee.
21	But one suggestion to him, for instance, would be to value the gold remaining in the Bank of England at at a market value of which could be subject to periodic change, if any, you see?
La.	Yes
3:	And
L:	Hello.
31	Hello, wait a minute. (Pause) And I also asked them sh what about the gold profit and so on, and they said there was no question of the gold profit beyond the expenditure of undertaking any pro- cedure that could be interpreted as discretionary.
14	I see.
9:	Right <sup>2</sup>
14	I get it, yes. Well now, as far as I this is just advance notice as to this gold transfer, and the main thing is they are letting us know but they want to make absolutely sure that we don't make any comments on it.
=:	Chat's right.
L:	That's understood.
-11	and particularly as to the the most confidential part is as to their intention of legislation.
L:	Ýes.
3;	This rather cryptic statement will be issued on Satur- may morning saying they are going to amend the Currency and Banking
53	I see.
31	Note Act, and I gather between purselves that there's there's they've had a meeting which has been lasting

all day today, and, in fact, I aidn't get over till -to the Treasury until about a quarter past eight myself.

540

L: Yes, I see.

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showed complete agreement as to the wisdom of coming out with such a statement without any explanation, but anyway that's the decision.

- L: I see, but the main thing is, say tomorrow morning or tomorrow afternoon they are going to announce the transfer of the two hundred million pounds?
- B: At four o'clock tomorrow afternoon they are going to announce the transfer of the gold.
- L: I see.
- Saturday morning they are going to make this statement about -- about subsequent legislation.
- L: Yes. Yes.
- B: Subsequent legislation, they don't -- they want particularly to guard against any comment coming around about what their intentions are because they know that's going to provoke a lot of speculation in the press.
- L: Yes.
- B: Right?
- L: Yes, just one second, please. (Talks aside) Hello.
- B: Yes?

- L: Wayne wants to know, have they given any indication whether on Thursday or Saturday they are going to mention the -- the increase in their fiduciary issue to four hundred thousand -- to four hundred million?
- B: Ah -- yes.
- 5: They will -- they are going to mention that?
- B: That's on Saturday morning.
- L: On Saturday morning they are -- they are going to mention it -- they are going to increase the fiduciary issue to four hundred million pounds?
  - The fiduciary note issue to four hundred million.

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54	I see, they will announce that?
91	Announcing at the same time about new legislation.
Le	And making other legislation, I see.
61	That's on Saturday morning.
L:	Saturday morning, right. Well, that's that's quite a quite a big decision they made this week then? Hello?
91	Hello.
L:	I think the market here you see is prepared was prepared for them to take out the sixty million pounds.
8:	I know. That's what they are here to.
ri	Yow that they'll pay it, but I think it's going to be rether a surprise when they take out this other large amount.
8;	I agree.
4:	But I think it may be interpreted they are taking a gamble. Of course, if they this will show strength.
Ξ:	Yes.
Ľ;	And I hope it comes that way, because to tell the truth, the rumors that came over today about the restrictions
Э:	Yes.
L	Strengthened the market a little bit.
э:	Yes.
L;	Now, the theory was here, of course, that they might weaken. It would be because there would be a sign of weakness.
St.	Yes.
L:	But they did strengthen that.
B:	Yes.
L:	Now, there is one thing I want to ask you when the Bank of England mentioned that they were going to have the complete embargo on foreign lending and and on gold operations and supervision of exchange transactions

#### I couldn't hear that, Archie. 31

- The Bank of England told the Federal that they were going to take these steps: to put an embargo on -- the 14 embargo on foreign lending, which has already been texen, and then that they would scrutinize and reject any treneaction of exchange which they believed was speculative in origin.
  - Hight. Bf
  - And also complete embargo on forward gold dealings. 10.
  - Right. 15
  - "ow -- sh -- they mentioned in that case that they -let's see, somewhere along there, that they were going to write to the other centrel banks. This program was 2.8 going to be communicated to the central banks of the tripartite countries by letter tonight, and they were sping to be seked to inform their benking institutions ne to -- an' to get their support.
  - Yes. 31
  - Now there are certain rumors coming out -- one of --unsuthorized here that the Treasury knew about this and 1 anid that we were going to do certain things.
  - Yes. 51
  - Now, of course, there's no doubt that we will give support and cooperation, but we don't want to go into any 14 terus se to what -- what form that will take,
  - 51 Right.
  - Because I think we'll look it over, but as far as you know they haven't asked us anything definite on that? 11 They didn't out anything like that us to you?
  - 10. 3:

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All right, well, that's O. K. 1

the rumor that came over on you see, which said that they -- the countries were all going to take the same the

step.

- Yes. L:
- Which, of course, is nonsense, because we don't have a free gold market. 13:

L: Right. Right, we don't have a free gold market. Not only that, but of course we probably -- we always scrutinize every transaction, but I doubt whether we would want to put out letters to all the banks telling them not to do it. I think we'd rather do it informally if necessary.

- 3: Ah -- because -- between ourselves, when the squeeze when I got back here, I gethered that -- in talking around that a couple of our banks had been pretty -pretty active in bidding her sterling deposits
- L: Yes.

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- Particularly the Chase.
- L: Yes. Well, the point will be then that if we -- if we looked up -- if we find enything definite, we'll probably go after it, but I don't think we want to go but and but out any regulatione or anything just now.
- Bt No. Possibly Whoke can page the word around to them then.
- L: If necessary, yes, but the Federal has -- is not doing anything yet, you see, because we haven't anything direct.
- B: Good !
  - L: Ah -- just a second. (Pause) Wayne was saying -- he just mentioned that he -- he interprets this new move to be so broad that it may not be necessary to take some of these other steps.
  - B: Yeah.
- L: And this question about putting all the gold into the fund and --
  - 5: On these two things as rather jointly -- as joint sections.
  - Le Yes, yes,
  - they are inter-related.
  - L: Yes. Well, they are inter-related. As I say, the hope will be that this -- that this transfer of gold on such a big scale will probably stop --
  - S: Yes.
  - Lt Some of the speculation,

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Bt	Yes.
L:	Well now that we have taken note of this all, and I don't know of anything else to ask you and if there's anything further we'll get in touch with you, and naturally we will give out nothing here at all - or no comments.
9:	Right. Dh. Archiel
Li .	Yes?
91	There are things, while I have you on the phone, that I might mention.
1:	Yes?
91	Ah Clay, you know, who is the sconomic
1.	Yee.
91	Of the Bank of England
tr	Yes.
91	Is seiling on January 27th.
L.	Yes.
81	He is going for a couple of weaks to Canada and then he is going to be in Princeton on a month or so.
4	I see.
в:	He will go to New York and come down to Washington, and He will go to New York and come down to Washington, and when in Washington he will get in touch with Goldenweiser
L:	I see. That's right. That will be the proper channels.
91	Which all means that you and Wayne and possibly the
L;	I see. Well, if he's down here, and if he sees Gol- denweiser they can arrange whatever is necessary at that time.
в:	the make his
L:	But I think it's the best thing for him to make his contract with the Federal Reserve as long as the Bank of England

	that he's coming,
84	PUGG HG & Comment
L.	Yes.
8:	And be sure not to miss him.
t.s	J. X.
31	Now there is one other thing sh if this exchange warket settles down I think if you if you and Wayne have no objection sh I don't know when, in three or four weeks, or a month, or so I may go us and take a look at the north of England.
44	At the north of England.
81	Hello?
14	Yee.
é,	Ah Clay succested that, and also to give me letters to some of the leading people up there
l.Lat.	I see.
ê:	Their situation is pretty spotty and pretty mixed, and I would always be within about three hours of London, and of course could always telephone.
5: 3:	Yes. "ell, that's something, as I say . It's nothing that you are going to do within the next week or so.
81	Oh, no. I don't intend to do thet.
La:	Yee.
31	Just as soon as there's a pause.
t.	Yes.
я:	I think I may nip off there and just so around Livergool and Glascow a little bit and see what
Jä	Yes, well, you might get a little different elant on things.
8:	Hello?
Li	I say, you might get a different slant on things.
31	Does that sound sense to you?

- h: No, that sounds all right here.
- 5: I just thought I d -- I'd tip you off that I've got that ides in my find, and naturally I'll consult you easin before I move out.
- 5: Fine, that's right. Before you -- before you go shead. Let us know. "e can always give the authorization if necessary --
- B: Fine. I just thought I'd put it in your eyes so you could think about it.
- L: Right. Mow, just one second.
- Anything else?
- L: Just a moment. (Pause) Hello. Wayne said that this will be passed on to the Secretary in person because we'll have him on the wire in the morning.
- B: Yes.

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- L: And in the meantime we want to pass along -- I mean, neve you give the usual thanks to the Treasury for giving us this advance information.
- 3: All right, I will.
- L: And to say that the reaction here -- the first reaction seems to be very favorable.
- B: Good, good.
- L: All right then, "elton.
- B: Right.
- S: Fine.
- -: Give my best to "ayne.

L: We'll do that. O. K. Good bye.

GRAY London Dated January 6, 1939 Rec'd 8:50 a.m.

Secretary of State,

Washington.

TRIPLE PRIORITY.

21, January 6, noon.

FOR TREASURY FROM BUTTERWORTH. Strictly confidential.

One. Confirming our telephone conversation of last might, the British monetary authorities informed me last evening of the following steps which they are taking: (a) It will be announced at 4 o'clock this afternoon London time the transfer from the issue department of the Bank of England to the exchange equalization account of some pounds 200,000,000 of gold valued at the old statutory price of 85 shillings per ounce. There will remain in the Bank of England some pounds 126,000,000 valued at 85 shillings an amount which is roughly equivalent to the amount of gold in the possession of the Bank of England when it abandoned the gold standard in 1931.

The object of the transfer of so large an amount instead of the contemplated pounds 60,000,000 is to attempt to impress the market that henceforth the account possesses ample

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-2- #21, January 6, noon, from London.

ample resources to meet the call upon it and that all the gold resources acquired since 1931 are available for that nurpose.

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(b) On Saturday morning it will be announced that the British Treasury has made a minute increasing the fiduciary note issue to pounds 400,000,000. It will also be added that the British Covernment intend to introduce legislation to amend the Currency and Banknotes Act of 1928 when Farliament reconvenes. No announcement will be made as to the terms of such legislation.

The primary objects of the contemplated legislation are as explained by telephone. The British Treasury realizes that its enigmatic announcement will provoke much discussion and speculation in financial centers and in the press during the month which will ensue before such legislation is introduced and therefore they are most anxious that no inadvertent leaks should occur. I took the liberty of giving them every assurance on this wint on our behalf but to indicate how important they deem it I might mention that the British Treasury telephoned me again this morning "to make sure they had made clear how crucial secrecy was".

JCHNSON

HPD

FEBRUAL OCIUMIE DANK

TELEPHONE CONVERSATION WITH BARK OF FRANCE.

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B(f)

CONFIDENTIAL FILES

I called Mr. Cariguel at 10:07. Sterling was 4.64 1/s in Paris at the moment after 4.65 5/8, evidently because people on the Continent were skeptical as to the steps taken by England although he himself heartily welcomed them. I asked whether, in accordance with the British request, the French authorities had approached the French commercial banks and suggested that they refrain from speculative operations in exchange and gold. People in France, Cariguel replied, did not make loans against gold, that business being done entirely in London. The French authorities had not taken any steps yet because Governor Fournier only came back this morning and Cariguel had not as yet consulted him. I suggested that I would like to keep in touch with Cariguel and learn what they ultimately decided to do and Cariguel promised that he would let me know.

LIKIK

FEDERAL RESERVE BANK

JANUARY 6, 1929. DATE TELEPHONE CONVERSATION WITH SUBJECT BASK OF INGLAND.

DE 19(0)

L. W. Enoke

CONFIDENTIAL FILES

DEPUTE JORRESPONDENCE

It. Bolton salled we at 12:25. There was a certain emount of excitement in the London exchange market; he had pushed the rate up to the present level of about 4.66, spending about \$4,000,000. There was one thing on his mind, he continued: would we carry on and prevent sterling from falling below 4.66 after London had closed, by buying any amount offered, for their account, at 4.667 He was going to give a similar order to Switzerland, which opened two hours sheed of London in the morning, as he was very enxious to have the dollar open in London tomorrow morning at 4.66 or weaker. On the selling side he would leave it entirely to our discretion is at what level we should operate. Would we also give him in our cable tonight an indication of the reaction in the New York market which the news from London had brought on?

LWKIXW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France DATE: January 6, 1939, 5 p.m.

NO.: 34

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FOR THE TREASURY. STRICTLY CONFIDENTIAL.

A member of the Embasey staff saw our friend at the Bank of France this morning, and in view of the interest attaching to the story published in the TIMES and summarized in my telegram of January 5 (No. 22), he mentioned the matter to him. Our contact said that the indications given in the story were substantially correct. He also said that for some time the Paris correspondent of the TIMES had been au courant with the campaign which certain of Emladier's technical advisers had been carrying on for a new policy as regards exchange. Our contact had received a telephone call last evening from the TIMES correspondent who explained that in the interest of sterling he had decided the time had come to publish the information he had.

Then our contact indicated very confidentially that a powerful group of speculators with Mendelssohn at the head had for some time been using all the influence they could in order to bring about a change of attitude on the part of the French officials who have charge of French exchange policy, and to abandon sterling for the dollar. He added that about a month ago strong efforts had in fact been made by the aforementioned group to bring about the

removal of our contact because he was determined that he would hold the franc to sterling. He was firmly convinced, he said, that had the French left sterling, this currency would have suffered a vertical fall. This he felt sure would have been a calamity for all the powers, not for Great Britain alone. He was determined he would support his policy as long as he held his position at the Bank of Trance. He added that the Governor of the Bank of France as well as the Finance Minister entirely agreed with him in this respect.

Our contact explained that the Figaro article (to which I referred in my telegram) had been published at the instance of the financial editor of that paper, Legueu the latter being one of the technical advisers to Daladier who received his appointment through the influence of Mendelssohn and Rueff (the Paris representative of Mendelssohn had no connection with Rueff of the Treasury) because he might aid them in their campaign of speculation. The opinion was expressed by our contact that Daladier was not in agreement with the tiews of Legueu and certain others of his advisers regarding a change in exchange policy, and that Legueu had taken advantage of the absence of Daladier from Paris to publish what he thought should be done.

END SECTIONS ONE AND TWO.

WILSON.

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GRAY Paris Dated January 6, 1939 Rec'd 4:08 p.m.

#### Secretary of State,

Washington.

34, January 6, 5 p.m. (SECTION THREE)

After referring to the renewal in London of unofficial embargoes on speculative transactions in gold and foreign exchange with a view to combating the weakness of sterling, the TIMES of today editorially refers to "a fresh outbreak of continental pessimism" towards the British currency, and observes that the combination of European political anxiety which has been driving European funds to New York for almost six months past and the revival of domestic confidence in France which has caused the withdrawal of French funds from London to Paris provided fertile soil for the spreading of pessimistic talk regarding sterling's prospects. The Editorial stresses the unfortunate consequence which weakness of sterling in terms of the dollar might have at the present juncture in addition to the effect a sharp fall in starling might have on the Anglo-American trade

EG

-2- #34, January 6, 5 p.m. (SECTION THREE) from Paris

trade agreement. The editorial goes on to say that "the weak trend of sterling is leading to the emergence of a school of thought in Paris which favors the abandonment of the stable link with the frane and sterling in favor of link with the dollar; and it would certainly be a damaging setback for both countries since their economic and other interests are so closely bound together, if their currencies should once again become divorced."

WILSON

JRL:EMB

GRAY Paris Dated January 6, 1939 Recid 4:20 p.m.

### Secretary of State,

Washington.

34, January 6, 5 p.m. (SECTION FOUR)

The effectial then suggests that not all the talk in Paris in favor of abandoning the sterling link can be regarded as wholly disinterested as such a development would certainly have a depressing effect on sterling and would be strictly in accordance with the interests of the speculative fraternity. On the other hand, the TIMES points out that there is another school which is genuinely disturbed at the fall which has taken place in the frane in terms of the dollar, and thus of gold which contends that this deters Frenchmen from repatriating their funds and that the adoption of a stable link with the dollar would encourage them to do so. The TIMES does not consider this argument very cogent contending that facts show that French repatriation is primarily governed by the degree of confidence in the French Government's domestic policy.

WILSON

ROW:EMB

EO

#### GLAY

PARIS Dated January 6, 1939 Rec'd 4:30 p.m.

### Secretary of State

Washington

34, January 6, 5 p.m. (SECTION FIVE)

The exchange market under the influence of the new measures taken in London to protect sterling was hectic and irregular. Sterling opened at 176.80 and is now quoted at 176.64 after 176.93 high. It is at a discount of about ten centimes for one month and at par for three months.

The security market was unsettled and nervous, being influenced to some extent by reports of serious disorder on the Hungarian-Czechoslovakia frontier.

In connection with the measures decided upon in London, AGENCE ECONOMIQUE of today announced that it is authorized to state "that the Bank of France, in complete agreement with the Minister of Finance, will continue its effective and confident collaboration with the Bank of England as in the past and that furthermore the principal French banks will join their efforts with the central bank so as to provide the London authorities with a united cooperation."

(END OF MESSAGE)

WILSON

ROW :EMB

TIRE

January 6, 1939

Under Secretary Manes

A. Lochhead

Testering evening Butterworth called free London and advised that he had been requested by the British Treasury to convey the following information to Secretary Morganthaut

(1) At 4 o'clock this afternoon they will announce a transfer of geld from the Bank of England to the Equalization Fund. They had originally intended to transfer 60 million peumds, but have now decided to transfer all the gold acquired by the Bank of England since they want off the Gold Standard in 1931. They are taking all the gold in the issue department of the Bank of England, with the enception of 126 million pounds which was in British possession after they went off the Gold Standard in September 1931. This transfer will meannt to 200 million pounds at the old rate, or roughly 350,000.

(2) On Saturday it will be announced that the Treasury intends increasing the fiduciary issue from the present level of 260 million pounds to 400 million pounds and it will be added that the Government intends to introduce legislation to amend the Currency and Bank Note ict of 1928 when Parliament reconvenes. They will probably revalue the gold in the Bank of England at that time from the old statutory gold rate to something near the present market level, but this will not mean that they have established a fired price for gold.

is they believe there will be a great deal of commont and speculation they have requested particularly that we make no comment on it on this side, as it might embarrase then to have various interpretations placed on their actions before Parliament meets. PARTIAL PARAPHRASE OF TELEGRAU RECEIVED FROM: American Embassy, London, England DATE: January 6, 1939, 5 p.m. NO.; 24

FOR TREASURY FROM BUTTERWORTH.

One. British Treasury supplied the following text of the press communique which will be published in Saturday morning's newspapers:

"In connection with the retransfer which took place yesterday (Friday) from the issue department of the Bank of England to the exchange equalization account of pounds 700 millions of gold (i.e. pounds 350 millions at current price) the Treasury, on the representation of the bank and in conformity with the Currency and Bank Notes Act of 1928, nave made a minute increasing the fiduciary issue to pounds 400 millions. This minute in accordance with the law will be laid before Parliament. The Government intend to introduce legislation when Parliament meets to emend the above act of 1928."

Two. At the same time, I was apprised of a telegram which is being sent Bewley, the substance of which is for communication to you. He is instructed to ask among other things for the cooperation of the Treasury in ensuring that the American banks, both here end in the United States, cooperate in reinforcing the forward exchange "request". The following is confidential: It will yield results if, during the course of your conversation with Bewley, you

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ask him how the British fund fared during the period November 22 - December 31.

- 2 -

Three. Following the meeting of press representatives called last night by the Bank of England as reported in No. 20 of January 5, 6 p.m. today's newspapers announce the "request embargoes" as applying to all financial institutions (one) to desist from forward gold dealings, and (two), to withdraw loan facilities against gold, with the added request, (three), to scrutinize foreign exchange dealings to eliminate what are rather vaguely oalkd "undesirable transactions". These requests are characterized as merely a reimposition of the "embargoes" imposed in 1935 to assist France and removed in May 1938.

The nature of the announcements and editorial comment indicates that the press is complying with the British authorities' desire that the measures be launched in a favorable atmosphere, the steps being generally characterized as desirable and not unexpected, the only editorial criticism being that the action might well have been taken earlier.

That cooperation from other parties to the tripartite agreement is assured is emphasized. The two financial dailies quote the Washington Dow Jones correspondent's statement that details of the United States Treasury's steps are not disclosed but that it is assumed that use will be made of the

the Treasury's banking connections and the close supervision of foreign exchange operations by the stabilization fund.

3 -

Four. The dollar opened at 4.65 3/8, hit a low of 4.64 1/4 and after the gold transfer announcement it closed at 4.66 1/2 with the bears being squeezed. The volume of trading has been fairly large and the initial reaction to the gold transfer announcement among exchange dealers is favorable.

JOHNSON.

EA:LWW

#### Treasury Department Division of Monetary Research

Date\_\_\_\_\_January 23, 1939\_\_\_\_\_1938

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> MR. WHITE Branch 2058 - Rocm 200

#### TREASURY DEPARTMENT

#### INTER OFFICE COMMUNICATION

#### DATE January 6, 1939

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To Secretary Morgentheu

FROM Mr. White

guoject: The Johnson Act and its significance in our capital market.

#### 1, The Act:

Section 1. That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the mus, securities, or other obligations of, any foreign overnment or political subdivision thereof or any organization " issociation acting for or on behalf of a foreign overnment or political subdivision thereof, issued after the massage of this Act, or to make any loan to such foreign overnment, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations. In the provisions of this Act shall upon any person violating the provisions of this Act shall upon any person thereof be fined not more than 310,000 or imtrisoned for not more than five years, or both.

Section 2. As used in this Act the term "person" includes individual, partnership, corporation, or association other than cubic corporation created by or pursuant to secial authoriintic of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest brush stock ownership or otherwise.

#### 2. Section 1 prohibits financial transactions:

- (a) By: any person (individual, partnership, corporation, or association),
- (b) <u>Involving</u>: any loan, except a renewal or adjustment of existing indebtedness, or the purchase or sale of any bond, security, or other obligation,

Secritivy Morganthau - 2

- (c) <u>Taking place</u>; within the United States or any place subject to the jurisdiction of the United States,
- (d) In the case of: any foreign government or political subdivision, or any organization acting for or on behalf of such foreign government or political subdivision.
- (e) <u>When</u>: such foreign government (political subaidiston, organization, or association) is in default in the payment of its oblisations to the Government of the United States.

1. In fer as can be determined, the political entities in deequit in the cayment of their obligations to the Government of the inited States are the national governments of:

strie e ium genhoslovskie istinis roce rot Britain Greece Hungary Italy Latvia Lithuania Poland Rumenia Yugoslavia Germany Niceratus Armenia Mussia

. As Johnson Act does not present any serious obstacle to

The Firsterial transactions prohibited by the Johnson Act are fainer importance compared with the large variety of financial meetions which that Act does not prohibit, either because is deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted from the scope of the Act or the second deliberately exempted for the scope of the scoutry of the second deliberately exempted for the scope of the scoutry of the second deliberately exempted for the scope listed national the second deliberately exempted for the scope listed national the scout l/loth of the total flotetion would have the sout l/loth of the total flotetion of new foreign the second deliberates, and taking into consideration the second deliberates expited during that period the the second deliberates are scoled during that period the total of the Johnson Act would not have prohibited more the second deliberate total.

The types of financial transactions with foreign countries

(a) New borrowing (by flotation of new securities for direct loans) by a foreign government which

## Herilley Norgenthau - 3

has defaulted on its obligations to private citizens or corporations of the United States (e.g., Chile may float new losns in the United States).

- (b) New borrowing by foreign private corporations or persons who are in default on their serier obligations to private persons or corporations in the United States (e.g., a privately owned Argentine r ilroad in default on securities owned by American citizens may float new loans in the United States).
  - (c) New borrowing by subordinate foreign political entities when only the National Covernment is in default on its obligations to the United States Government (e.g., Paris, Bayaria, or Manchester may float new loans in the United States). (It is not clear that the foreroing is also true in the case of an organization or association acting for or on behalf of a foreign government or political subdivision thereof). The Act likewise sllows new borrowing by a Mat' mal boverment if only a political subdivision were in default on its oblightions to the United States Government. Hovever, this is unimportant as at the oresent there are no defoulted obligations to the United States Government of political subdivisions of foreign nations.
  - (d) The purchase or sale of securities issued by defaulting foreign polition 1 entities before the date of passage of this law (e.g., American citizens may freely purchase and sell English consols or Belgian 6 percent bonds of 1955 issued in New York in 1925, etc.)
  - (e) The purchase or sale of secrities which represent renewals or adjustments, made after the date of passage of this law, of securities issued before the date of passage of this law (e.g., Greek bonds issued in 1925 at 8 percent may be converted into a new issue of 5 percent bonds in 1936; American citizens may freely buy and sell the new converted bonds).

Scorffory Torgenthau - 4

- (f) The net creditor position of (citizens uf) the United States with respect to such defaulting foreign political entities may be increased by manipulating the purchases and arles of securities issued before the date of passage of the Act.
- (E) Transactions of American citizens who are not domiciled within the United States or any place subject to its jurisdiction.

ing to faulty wording of the Act, and to the fact that re we been as yet no judicial decisions interpreting the lot, there exists a certain doubt as to the meaning of certain rections of the Act, especially the phrase "within the United the decisions in the United

## The following types of financial transactions possibly

The authorization of agents outside of the (a) Jurisdiction of the United States, by persons who are themselves bodily within the t jurisdiction, to purchase or sell in foreign markets securities of foreign political entities in default on their obligations to the United States dovernment issued after the ressage of this Act, or the authorizing of such events to contract loans to such defaulting foreign political entities (e.g., American citizene meintaining balances in London or Faria banks possibly may be perwithed to purchase or sell securities of the French or English Covernments, issued after the date of the passage of the Johnson Act, such as the "Auriol bonds" or the prosrective Estimated Defense Loan, or the Tressury bills and certificates of either government. Or, en American firm meinteining large oel noes in London possibly mey make logns to the British Covernment from its balances without violeting the provisions of this act). 1/

ille it is entirely possible that the phrase "within the tiled States" in Section 1 of the Johnson Act may be so intrued by the courts as to permit transactions of this intructor, it is not inconceivable that such transactions 'ill be regarded as prohibited, particularly in view of e urpose of the Act to penalize defaulting debtore.

### Secondry orgenthau - 5

- (b) Such purchases or seles or loans by persing who are ordinarily domiciled within the jurisdiction of the United States, but made while they are temporarily outside that jurisdiction (e.g., on trips into the dereulting nations). 1/
  - (c) The export of goods by private firms in the United States, consigned direct to foreign (overnments in default on their obligations to the United States, with provisions for short - or intermediate-term book credit (e.f., the Italian Government, without the use of any intervening privite Italian import theory, might buy United States cotton and the United States exporting house might stipulate that bayment be made after thirty or ninety days. Such a transaction might be held not to involve either the surchase or rile of securities, or the making of a loan within the meaning of this Act.)

# section 2 exempts povernment corporations from the opera-

Hection 2 excludes from the provisions of the Act eny lie curpor tion created by special authorization of Coniny corporation in which the Covernment of the seles has or exercises a controlling interest. Such tions at the AFC, the Export-Import Banks, the FCA, i.e.c., presumably may under this suthorization make foreign covernments in default on their obligations United States Government.2/ In the House debate it was out that Section 2 was inserted by the Administration pair to permit loans to Buests; however, it was slep

while it is entirely possible that the phrase "within the "nited States" in Section 1 of the Johnson Act may be so served by the courts as to permit transactions of this more ter, it is not inconceivable that such transactions "ll be reparded as prohibited, particularly in view of It is to be noted that while the Johnson Act apparently dies It apply to the Government or to certain governmental agen-TIME, and while the provisions of the Neutrality Act may it apply to the Government since it is not specifically therein, edvances of credit by the Government to celligerents in time of war probably would constitute a violation of international law. Moreover, it is to be ob-merved that the immunity of the sovereign from legislation not making it ordinarily would not be asserted except for unusually pressing ressons, particularly in a case where such Ection would be in contradiction of a national policy Regraded Unclas ernneselv declared hy Congness.

## Becruitery Morgenthau - 6

or thit out that the State Department and the RFC had given units which escurances that no loans would be made to Bussia until some satisfactory a reement had been reached with reset to Russian debts to the United States and its citizens. The first Export-Import Bank, founded on February 2, 1934 inte on which the revised Bill passed the Senate - wis of mally intended to finance United States firms desiring terrorb to the Soviet Union. In keeping with the assurance to Con-ress, however, active operation was postponed, owing the magence of any settlement of the Russian debt.)

in securances were given that new loans would not be the countries other than Bussis, while they were in debut on their obligations to the United States G vernment. Is second Export-Import Bank, originally founded on March 9, 171, to make loans to Cubs, later had its authority extended is ver the financing of United States trade with all counivies other than Soviet Bussis.)

#### GROUP MEETING

January 6, 1939. 9:30 A. M.

(Held in Mr. Hanes' Office)

Presenti

Mr. Hanes Mr. Bell Mr. Duffield Mr. Foley Mr. Taylor Mr. Haas Mr. Schwarz Mr. Lochhead

Hhines :

Three of them called me up.

Bell: On what?

Hanes:

On the thing I called you about; you remember, that the - the confusion that arose in their minds when the President sent up his message about the W. P. A. It was eight hundred seventy-five million; you remember I called you on the phone. And about three of these newspaper fellows called up and said, "What in the dickens is going on here? Seven fifty million in the Budget and eight hundred twenty-five million dollars - they just stepped it up a hundred twenty-five million." I called Danny and Danny explained it to me, and I called Steve Early and Steve Early said to explain it to you and try to get it corrected.

Schwarz: The boys made it clear, but some of them apparently didn't attend.

anes:

Is McReynolds coming in? Does anybody know whether he is here? Never mind; don't bother.

Ed, Mr. Hathcock has been promoted, and he is perfectly delighted with the promotion; thinks it is perfectly wonderful of you and the other lawyers down there to be so kind to give him this promotion, so I thanked him very kindly for his cooperation; told him how happy we were to be associated with him and how much we expected from him in his new job. Bu11:

That sounds like the Budget - necessary that the business men are entitled to know there isn't going to be any drastic reductions.

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The state

Mr. Hathcock has given the Bureau of Internal Revenue one series of headaches. I think Mr. Oliphant would probably get up and walk right out of the hospital and come back here and go to work immediately if he found out Mr. Mathcock had been promoted. He is the fellow - I wanted McReynolds; I wanted to have all of you know just what this thing was, because I have talked with the Secretary about 1t on at least two occasions; I have talked to Herman about it at great length; Herman and Herbert Gaston, and I had a meeting on it one night that lasted for two hours; I guess it was out at my house, and they were awfully discouraged about this fellow, because he seems to have had some - I don't like the word 'political influence,' but I guess that's probably the word that fits best - and he's been running down to this political influence, and saying things about the other members of the Department; that they were thieves, and so forth, and told what was said about Phil Wenchel; that he was just a damned incompetent. Anyway, what he has been - he has been on these cases down there that Phil and Ed Foley and Herman too all say they can't get anything through the Department. It comes up to him and there it stops. We have got cases down there - we've got, oh, I guess eight or ten railroad cases down there which Herman gave me a list of - some of them eight, nine, and ten years old, and he is fighting with the engineers, and the engineers now are so and at him, there is one engineer down there that ou have to go out of your way not to get along with, he is such a nice fellow. He is all out of sorts, and every time he sends a recommandation to him, he says it is no good, and sends it back, and back,

You've got twenty million dollars - admittedly four million due the railroads. Jesus Christ, the railroads are in bad enough shape without our adding to their troubles; so we can't get any work done.

Ed Foley and Phil Wenchel thought this fellow needed a promotion. We've got a seven-man board down there - what is it called? Yoley:

Hancs:

Processing Tax Board of Review, which pays seventy-five hundred dollars.

So we found he is only getting seven thousand, so they suggested we give him a promotion. I called him up yesterday and told him how happy we were to give him this diploma, and he is really pleased to death.

Fole7: It's a bad situation; he's been in the Bureau twelve or fifteen years; he is an honest fellow, and he believes well, but this thing is becoming an obsession with him. He is just a cancer in the Bureau; he has one theory and the engineers have another. It's gotten to the point where the engineers won't speak to him. It's getting to where nothing is being done. We have to pay six per cent on the refund from the time the tax is paid until the time the refund is paid. We are borrowing money at two and a half, and two and three quarters, and paying six per cent.

Hanes:

I signed one the other day for a hundred and forty thousand dollars for interest. Juda's Priest, I said to Commissioner Helvering, I said, "Listen, Guy, fun is fun, but this is carrying a joke too far; this is the last time I am going to have anything to do with it. I am - I won't have anything to do with it; I am not going - it's the last one," and Guy said, "Well, we can't get the work through; here is the stoppage." I said, "Let's clean it up. We've got to go on; we can't wait for somebody here for ten years; that is robbing the Government."

On that basis, I'd like to give the Government two or three thousand dollars over-payment of taxes and get a good six per cent investment.

- Taylor: That is one of the best trades I ever heard of; five hundred dollars a year for two hundred forty thousand.
- Bell; When the Ford tax suit was on, some lady in Detroit had an assessment against it; she's the only one that over paid a tax. She paid the tax, and then got her three million, with interest. She was smart.

- 4 -

Hansot

I tell you who told me about it; you know Randolph Paul?

Foley: Yes.

Handot

Mandolph Paul, and Ros Magill, and that crowd of tax lawyers that meet at some tax dinner; I don't know what they call themselves; they've got some name; they got up and one fellow started the thing by saying he was advising his clients to under pay the Government where there was a doubt. They said "Why?" and and he told them, "If we pay an over-tax and are entitled to refunds, the Government won't pay us back; you can't get a refund from the United States Government. Why? Because they've got a fellow down there, named Hathcock, who doesn't believe in that fort of thing.

Bell: He'd make a good Budget Director. (Laughter)

Hanes: That did you cay?

Bell: He'd make a good Budget Director.

Taylor: I don't know, his mathematics don't seem to be so good.

Bell: You know, it's funny what kind of a hunch you have sometimes; when I added the expenditures on this Pudget, they came to nine billion nine million. The President said it's got to be under nine billion. I had cut it to twenty-five before I added up my 9,005, so I said, off of processing taxes - and we've got that down now to fifteen.

Haus: I think your fifteen is an over estimate now. (Laughter)

You will probably have a profit in that account now.

Foley: If we can help you like that again, Danny, let us know-

Hance: Well if there is any political repercussion from this thing, I wanted you all to know about it, so now you know.

- Foley: It is going to be awfully hard for them to complain about the promotion he got.
- He can't go to Congress and say, "Those bastards down in the Treasury have given me a promotion." And the Secretary of the Treasury has the appointment.
- Foley: I think the record ought to show he is from North Carolina.
- Hines: I told him, inasmuch as he came from North Carolina, I wanted to meet him personally.
- Foley: Johnny told him he'd been watching his services very carefully. (Laughter)
- Sanas: Archie?
- Lochiend: Nothing very much in the market. The Bank of Sngland is going to make a transfer from the Issue Department into the Stabilization Fund sometime. That is one thing I wanted to go over with you when you have a few moments.
- linus: Right after this meeting.
- Lochhend: They apparently are going to go along strong.

Sterling is around 4.65.

- Trylor: They are not going to announce it until four o'clock, their time?
- Lochhead: Four o'clock, their time. I hope it is going to do some good; the fact they are taking funds out of the Issue Department - they probably are going to have a lot of new legislation over there on banking.
- Bell: Over in England?
- Lookhend: Yes. It's more or less congested. They probably are going to go over their Banking Act of 1928.. I don't think they know themselves the exact details.

Manes: Anything else?

Luchhand: That is all.

Echwars: (Nods "Nothing.")

Hauss: George?

Thes: Do you have anything else for us to do at the moment on that Social Security?

Tenne: Well, I tell you what I did yesterday. Altmyer sent over the final draft.

ibid: I have seen it; he sent a copy of it.

Dence: Good, and he asked us to go on record with three or four specific answers to questions which he asked there, and I discussed it with Harry White just before he went away; I wanted to make sure -Harry, you remember, asked that he but in a memoranoum before we made a decision. I also discussed it with Ed Foley before I answered the letter. I decided first I wasn't going to get the Secretary, in view of the latter he sent to the President, committed to anything; I don't think that would be fair; in the first place, I don't think any of us are far enough along in our thinking to comait ourselves even if we wanted to commit him. So I just wrote Altmyer and said that the Secretary had been interested in this thing and would be back on the sixteenth of January, and as far as the Treasury was concerned, we'd rather wait until he came back and had a chance to go over final draft.

Hass: It is too general.

Panus: And they have changed this thing - this is about the mineth time they have changed it. Every time we get up to date on one draft, they send us another one. Today is the last chance we would have; if we wanted to make any corrections in the thing today would be the last chance.

Fill: You have any idea when it is going up to the President?

Manues: I sald, it's going up next week.

Fell: We got a letter from Altmyer, in the Budget. Some of the boys have been running down the recommenda-

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tions to see what they can find, and everything is so general they can't put their teeth in anything.

teac!

That is right, but they have something specific in their own minds. That probably will go around the other way.

Ball: In the back door.

Hanes:

They have something specific, but they don't tell it. They wanted us to enswer this specifically: "Do you approve the benefits starting in 1940? Do you oppose the general principle of larger benefits in early years? And would the financing plans which the Treasury favors fit the recommendations of the Board?" Gee whiz, I don't see how we can onswer those questions. I don't see how we can.

Heast Do you favor the income tax, you know.

Hanas: Yeah. But at any rate, that is what we did.

Edns: That suits me a hundred per cent.

- Tenes: We wouldn't do anything further until the Secretary came back, and at that time I knew he was interested in it, and would want to enter the discussion.
- Duffield: Was the President going to send it up with a cover message, or a recommendation?
- Manes: I don't know. You remember the Secretary's letter to the President asking him please not to commit himself until he had a chance to talk to him about it? I know before he went away he never discussed it with him.

Wayne, you got anything?

Taylor: Well, this thing that Archie will talk about we'll talk about after this meeting - which is the big news of the day. It means they are absolutely shooting the works.

Bell: The British.

Duffield: Have they got anything left after they do that?

Taylor: Well, they are transferring the equivalent of a billion seven, dollars, into their Stabilization Fund.

Lochhead: The biggest guess in this market was five hundred million. The Bank of England was discussing a five hundred million, and when they transferr d the billion seven, they are shooting the whole works.

Taylor: It is revalued at about three fifty, which figured about a billion seven.

Duffield: Do they have anything left?

Lochhoad: They will have what they had back in September, 1931, when they went off the gold standard, which is about a hundred twenty-one million pounds.

Dell: That is less than thirty per cent coverage now. Five hundred million pounds.

Tarlor: That still is at the old value.

Lochena: Of course, they will have to have new legislation; it's a new set up.

Bell: Uh huh.

Taylor: But it is certainly laying it all on the line.

Hauds: Anything else, Wayne?

Trylor: Yes. I had quite a talk with Pittman last night, and it was mostly legal conversation, in which he completely disagreed with our General Counsel's Office, it seems to me with some justice, on this question of whether the silver - newly mined silver had to be actually delivered. Bernie is reviewing the situation, and it seems to me the best out is to agree with Mr. Pittman. One thing that didn't develop in that, which was interesting, is that we felt we would unquestionably go - say - well, you could do this under the Silver Purchase Act. And he said, "No." His interpretation of that was that the Silver Purchase Act was intended to maintain the market, and that you - that is, it could be worded that the Secretary had a right to purchase domestic silver above world market. He said he didn't interpretate it so. Well, that either means that they are going .....

Lochhend: It is - there is a deal on, Wayne; there is a deal on.

9 -

Taylor: Well, as I say, I got ....

Lochhend: The Gold and Silver Purchase Act.

Taylor: I gather he thinks the Silver Purchase Act is going out?

Lochnetd: He is taking darn good care; he is not going to the his silver up.

Foley: "hy doesn't he go to the Thomas Amendment?

Taylor: Don't worry, kid, he is.

Foley: What is he cropping about, the delivery date? He can amend it, and it won't be any problem.

Lochhead: He might not get it through.

Poley: That is the only reason why we did it.

Taylor: You got what you asked for?

Lochnead: That confirms my impression there is a deal on to get rid of the Silver Act. That is what it looks like, the last month.

Taylor: Well, you've got about, I would say a maximum of two weeks to move around in. And I think you will probably decide that maybe the Senator is right. Delivery Act, amended, means a good contract for newly mined silver for delivery. I don't - I can't interpret the law, but that seems to me the way it will come out.

Minus: Anything else, Wayne?

Taylor: Ah - I think Bank of America is going to go through. That is what I gathered from talking to Jesse last night.

Hanes: What do you mean, "go through"?

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Taylor:

They are going to adopt Ginnnini's recommendations.

- Hands: That is that letter that you got a copy of in yesterday's minutes, and that was his recommendation to the Board that the Board accept the seventeen points that were discussed when they were here for that meeting.
- Taylor: His impression was that there was no hesitation to do that, whereas they would just as soon as keep on arguing that it was probably better to do it and then forget about it.
- Duffield: Did he have any idea when they were going to do it?
- Taylor: Right quick.

Luffield: Right quick? A day or two?

Hames: The truth of the matter is, the Board passed it before Giannini signed it. He called A. P. on the telephone and read it to him; that was when it was passed, and the rest of it was formality.

Eddie, you got anything this morning?

Foley: Not a thing.

Duffield: Not a thing.

Henes: Danny, you got your Budget in good shape?

Bell: I hope se.

Going back to this limitation on the debt, I think the legal section should do a little work on it. The Act that went through last year said that you have outstanding at any one time under obligations usually issued under the Second Liberty Bond Act, as amended, an amount not to exceed forty billion dollars, of which thirty billion can be bonds. There are several questions involved in that; one is as to whether matured debts, about a hundred million dollars, comes under it. Another is as to whether the First Liberty Bonds and Fifth Liberty Bonds come under it; that is, your Victory notes, come under that. There are still some of those outstanding, and whether we have to carry United States Savings Bonds at the face value or maturity value, or at their principal value, if they were now cashed. It makes a difference of about four hundred million, and it seems to me that ought to be studied. It makes quite a difference. Get a legal opinion on it.

Nonabi-

Apparently there is not going to be any trouble, Danny, in getting the debt limit increased. Τ talked with a member of the Finance Committee last night. I might just say why I was talking to him, because it is a very interesting sort of a situation. We've got a Senator from North Carolina by the name of Josiah Bailey. You may or may not have heard of him, but Bailey and Harry Hopkins had a personal encounter. It is one of the few cases on record, I guess, there a member of the Executive Department was going to sock a Senator, and almost oid, and vice versa. At any rate, Bailey is - he's a queer old fellow; I'm fond of Bailey. Identice with all of his ideas, but he is a fine old gentlemen, and I have known him since I was a child, and get along well with him, so I don't want Bailey to attack Harry Hopkins, and I went up to see him last night to ask him not to. Not because I think Harry Hopkins would probably be highly offended if he knew this, but nevertheless I think it is a damned bad thing for the whole business world to have a fellow come in as Secretary of Commerce and have a Senator who claims to be all for business, going out and destroying the confidence of business people in the man to show they must look for guidance. And he and Harry Hopkins want to help, and will if he's given the opportunity.

So Bailey - oh, he was as und as a hornet, and still is mad. I didn't do enything to get him over that mad, because he is still as sore as hell at Harry. He says Harry insulted him, and reflected on his character and integrity - something that the dignity of a United States Senator wouldn't permit to go unchallenged. So I said, "Well, what are you going to do?" "Well," he said, "what do you think I ought to do?" I said, "I think, in the first place, it would be an outrage if you let that committee of yours hold any hearings and cent Harry down there and put him on the mat for meanness. That is all it would be, just for pure cussedness; I think if you let the committee do that, you will suffer. You are my Senator, from North Carolina; I want to see you conduct yourself ......

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Bell:

Bubes:

Johnny, you ought to be on the State Department.

He said - well, I had gotten a lot of business men in North Carolina to write his a letter, prior to my going, just to sny to him, "We think Hopkins is going to do a good job; we want you to help him," and so forth. He said, "I'll tell you what I'll do; I'll confine myself to a few personal remarks on the floor of the Senate; I'll say what you have said to the Committee; that this is no time to discuss him. The President has a right to choose his own associates; it is none of any business. For my part, I don't want any investigation; I don't want any bringing him down here and having a circus at Harry Hopkins' expense; it is not going to do the country any good."

He said he would do that, but not to ask him not to make a few personal remarks on the floor of the Senate. I said, "If I were you, the dignified thing to do is to say you have had a personal altercation with Mr. Hopkins and you will not let personal difficulties come into your office, and for that reason you will stand aside and do nothing. That would be the dignified thing to do." He said that sounds pretty good.

I don't know what he's going to do. I talked to him for about three hours. During the course of the thing, I said, "We were going to have to ask for a consideration of the increase of this debt limitation." He said, "There will be no trouble about that; we recognize that and there will be no trouble about it." I don't know... He told me that there were about ten Senators that were going - he said there were about twenty that were going to vote against Hopkins, but now he thought it had narrowed to about ten. I said, "Are you going to vote against him?" He said, "Oh, yes; I can't vote for him." So he and nine others are going to vote against him, apparently, but that is about all. Schwars:

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Danny, did that foreign dominion figure - was that intended as a total of those you listed, or the savings bonds? We had been talking in terms of a billion yesterday.

Bell:	Weii, it's - I think it's seven hundron fifty million dollars.
Schwarzt	Total now?
	If you include savings bonds at a billion eight seventy-five, and it comes out a billion one eighty-three; if you put them in at their present value.
Schwarzı	About seven fifty altogether.
Bell:	I'll give you a copy of these statements.
žehwarz;	You still want to check with the legal division before we
Bell:	I think we should. I think somebody should look into that.
	I want to show you a thing, just as a matter of interest. The Treasury has a lot of records. We've got the original account books of George Washington, and Morris - Robert Morris. They ran across yesterday a personal letter from the Pope to Jefferson Davis, asking for his stand of peace. It is interesting; it is all in Latin.
Furfield:	We can all read it.
Sknes:	It is written in the Pope's own handwriting.
∂eli:	It is a reply to a letter, apparently, which Jefferson Davis sent him.
Thnes	I should think a thing like that ought to be in the Smithsonian.
Bell;	We have a lot of the old seized records, cotton records, and so forth, and once in a while we run across something like that. What date was it? 1863. Given at Rome, at St. Peters, December 3, in the year of 1863, in the year of our Pontiff. Darn interesting, isn't it?

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Hanes: It is.

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Foley: Where do you find ....

Bell: The accounts - expense accounts are in the hand writing of George Washington, and so are the ones of Robert Morris. Someday we will have to turn it over to the Smithsonian.

Hanes: If you don't turn this one over pretty quick, it will fade out on you.

Bell: That hasn't been out of the envelope until yesterday.

Schwarz: I'd get that photostated right away.

THE ACCASTAGE OF STATE



DEPARTMENT OF STATE WASHINGTON

January 5, 1939

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My dear Mr. Secretary:

With reference to your letter of December 31, 1938, I have taken pleasure in informing Mr. Austin C. Brady, American Consul at Rangoon, of your kind commendation of his despatch No. 129 of December 1, 1938, entitled "China's Sea Route Through Burma".

Sincerely yours,

For the Acting Secretary of State

Assistant Secretary

The Honorable

 Henry Morgenthau, Jr.,

Secretary of the Treasury.

# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JANUARY 7, 1938.

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I am enclosing a redraft of the memorande on cotton and wheat dointy. Flack sent we yesterday. I am still not in entire agreement is to the method of presentation but I think that the two stories as in momented are at least adequate to show the range of the problems connected with each of these crops. I particularly recommend that you read the memorand an on cotton. If this is not National Headache No. 1, it corneinly ranks as Agricultural Headache No. 1.

I lon't tish to disturb your holiday but thought that during the second of the second se

wet

January 1939.

#### DELORANDEL ON COTTON

## - warli Cotton Situation

- world cotton consumption for this marketing season is expected to be about 27<sup>1</sup> million bales. World supply is more than 50 million bales, this year's production accounting for about 26 million bales. World carryover at the beginning of this marketing season was 22<sup>1</sup> million bales, of which more than 13<sup>1</sup> million bales were U.S. cotton. The 10-year average world warryover, 1928-37, was 14 million bales. The 10-year average carryover of U.S. cotton, 1928-27, was 8 million bales. The sverage carryover of U.S. cotton for the preceding 5-year period, 1923 through 1927, was 4,550,000 bales.
- Noch U.S. and foreign production of cotton have been increasing steadily over a long period, with foreign production gradually gaining on U.S. production. Forty years ago the foreign crop was about 4 million bales and the U.S. crop was about 11 million bales. The 10-year average of the foreign crops from 1928 to 1937 was 13.3 million bales, and the 10-year average of U.S. props for the same period was 13.6 million bales. Large crops in the U.S. have had little effect in checking the persistent, long-range upward trend in foreign cotton production.
- World consumption of ection also has shown a long-range upward trend, but world consumption has not kept pace with world production. For the 10-year period, 1920-29, the average annual world production of cotton was 22.7 million bales, and from 1930 to 1937, the world production average was 27.2 million bales, a gain of about 20 percent. On the other hand, the average world consumption of cotton for the 10-year period, 1920-29, was 22.6 million bales, while from 1930 to 1937 the average consumption was 25.8 million bales, a gain of about 14 percent.

## The United States Cotton Situation

- The 15,600,000 bale carryover of U.S. cotton at the beginning of this marketing season was 400,000 bales more than the previous record in 1932. It is estimated that another million bales will have been added to the carryover at the beginning of the next marketing season.
- The 1932 ootton carryover of 13,200,000 balws was reduced to 6,200,000 bales by August 1, 1937, before the large crop of

that year was marketed. The present oction carryover which is more than 7 million bales above the August 1, 1937, figure is largely the result of a combination of big screage and big yields in 1957 when cotton producers had no effective control program.

- There was a 22 million acre increase in cotton production in 1936 following the Supreme Court's invalidation of the production control features of the original Agricultural Adjustment Act. There was a further increase of another 4 million acres in 1937.
- This year, under the New Farm Act, cotton acreage was reduced 71 million acres under last year, but the big surplus produced last year seriously depresses the price for this year's crop.
- A world carryover of American cotton at the end of the marketing year (July 31) of at least 5 million bales is needed to permit an unrestricted movement into consuming channels. This amount of cotton would need to be in the regular channels of trade; that is, not owned or held by the Government.

# Prospects for Increased Domestic Use of U. S. Cotton

- The outlook for maintaining the recent average of domestic consumption is favorable. But, even if domestic consumption should reach the 1936-37 record of 8 million bales, it would be only 1.7 million bales above the average of the last 5 years.
- Any normal increases in cotton consumption in the United States may be expected to depend largely on increased industrial production. The price of cotton appears to have relatively little effect on the amount consumed domestically. Competition of reyon in the United States has been increased by increased production and lower prices.
- A study being made of the possibilities of expanding domestic use of cotton by subsidising domestic consumption indicates that a maximum increased annual consumption of 2,000,000 bales might possibly be achieved if cost were not a factor. Normal consumption is about 6,500,000 bales. If consumption were increased 2,000,000 bales above the normal, it would then be about 8,500,000 bales.
- An estimate of possible percentage increases under subsidy, classified according to three general uses, is as follows:

	Horma	1 Consumption	Possible Maximum	
Clothing Household Industrial Tot	Percentage 40% 20% 40%		3.2 million bales 2.3 million bales 3.0 million bales 8.5 million bales	

- anide from industrial uses, consumption might be expanded through the sale of cotton articles to low income groups at reduced trices and the distribution of cotton articles free to families or relief.
- War articles such as mattresses which require comparatively small manufacturing expense, the total cost, including materials, would probably be around \$75 per bale. For fabrics of the cheaper rades the opet would probably be \$150 to \$150 for each bale of notton consumed. On items for which the manufacturing expense is relatively high, this cost is as much as 10 to 20 times the yslue of the raw cotton consumed. Thus it will be seen that an extensive program of increasing domestic consumption could be Financed only at tremendous cost.
  - I temporary increase in domestic consumption could be achieved by providing for prospective requirements of regular covernment a oncies such as prisons, hospitals, and the army and navy. The Tavy, aside from the field service, purchased 22,000 mattresses in 1937 and 10,000 in 1938. Purchases for the Army by the guartormaster have averaged about 33,000 mattresses per year aside from the purchases made by the medical and hospital service.
  - Twyelopment of new uses for cotton is a long time program which parmot be expected to be of much immediate assistance in meeting the present surplus situation.

# Ditlock For Increased Foreign Use of U.S. Cotton

- Note: See supplemental statement on Foreign Cotton Situation, by Countries, on pages 9, 10 and 11).
  - the outlook for increased foreign consumption is not favorable. The foreign trade situation continues to be unfavorable to treatly expanded exports because of trade practices of and efforts toward self-sufficiency by the totaliterian states, and because of difficulties of foreign countries in obtaining dollar exchange with which to buy commodities in the United States.
  - United States oottom faces greater competition on the world market because of increased foreign cotton production and increased competition of rayon and other competing fibers, especially in Gormany, Italy, and Japan.
  - Exports of cotton so far this season are 1,300,000 bales behind last season. The maximum of exports that could be expected at the rate for the first three months of this season would be 5 million bales, but at this time it seems probable that sx-ports will not exceed 4 to 42 million bales.

The biggest experts in the last 10 years were in the 1931-32 marketing season when 8,708,000 bales were shipped abroad. Net foreign consumption of American cotton in the same season amounted to only 7,784,000 bales, which was a million bales less than we exported. The problem of a 13,600,000 bale surplus would not be solved even if it were possible to increase exports to the highest point reached in the last 10 years.

# That Can be Done About the Cotton Surplus Problem?

- The present situation, with low price and income and increased supplies points to the need of effective production adjustment and adequate payments to compensate for the low world price.
- The present legislation contains provisions for: (1) Production adjustment and marketing control, depending upon supplies and the desires of farmers; and payments through a special appropriation to compensate for part of the sacrifice made in adjusting production; (2) Increased use of scil-building crops and practices with payments to provide a substantial portion of the cost incurred; (3) Cotton loans at not less than 52 percent of parity; (4) Use of part of funds svailable for expanding demostic and foreign markets and removing surpluses; (5) Development of orop insurance for cotton which would insure against losses in yield resulting from unavoidable production hazards; (6) Dealing with the problem of discriminatory freight rates; (7) Establishing regional laboratories for research in developing new and expanded uses for farm commodities.
  - The potton program, under present legislation, also includes previsions for increasing production of food and feed crops for home consumption.

## Additional Legislation Needed

- Legislation to provide a continuing source of funds for adequate payments to compensate for low world price and permit a sound loan programe
- Legislation to release cotton now under loans which make cotton unavailable for export and temporarily support price while building up price-depressing surpluses. (About 10 million balos are now held under Government loans.)
- Experience with loans during the past six years indicates that loans which are too high anable foreign competitors to undersell

imerican producers and take away part of the normal export market for U. S. oction.

Some reduction in carryover would be possible through legislation that would release cotton under Government loan. Under present legislation, cotton under loan must be sold only at a price which will reimburse the Government for the amount of the loan plus the carrying charges. On any loan cotton prior to the 1938 crop, the loan rate plus carrying charges would be above the market price. Legislative restrictions on sales of cotton held under Government loan provide that after July 31, 1939, the Government shall not sell more than 300,000 bales in any month and not more than 1,500,000 bales in any year.

Reduction of loan cotton could be brought about by releasing loan cotton to borrowers for sale at a specified price.

How Serious Is the Cotton Income Problem and How Long Has it Been Recognized?

- Since 1929, cash income from cotton has been 21 percent less than for the 1910-14 period, while the index of prices paid by farmers has been 29 percent above the pre-war level. While substantial improvement has been shown in the purchasing power of cottom since 1932, it is still far from adequate. The per capits purchasing power from the sale of cottom in 1932 had dropped to 42 percent of its pre-war average. It has not been less than 66 percent of its pre-war average in any year since the AAA cottom programs began, but the ratio of total cottom income to per capita non-farm income is little more than half what it was before the war.
  - Estimated income of \$865,000,000 from cotton this year including AAA payments will be almost brice the 1932 income of \$464,000,000 but it will be far below the 10-year average of \$1,375,300,000 for the period 1920-21 to 1929-30.
  - While the purchasing power of cotton has been declining the number of people dependent upon cotton for a living has been increasing.
  - There are a million more people on cotton farms than before the Mar. One-third of all the people on farms in the U.S. depend wholly or in part upon cotton for their living.
  - The ootton problem has long been recognized as a serious problem. This is illustrated by the fact that during the period between 1900 and the Farm Board are there were 5 years - 1904, 1908, 1914, 1921, and 1926 - in which compaigns were carried on in the South to reduce acreage planted to actton.

# Frograms Which Have Baen Proposed As Substitutes For The Present Program

- Price Fixing -- This plan proposes a fixed price for the domestically consumed portion of the crop, with the remainder to be exported for what it will bring on the world market. It would make necessary levying tariffs or increasing tariff rates on cotton, cotton goods, and competing fibers. This plan would also make necessary Government control of handling, probably through licensing in order to enforce payment of fixed price. A fixed price on the domestically consumed portion of the crop with no production control would act as an export subsidy. This plan would also tend to subsidize increased production.
- Domestic Allotment -- Under this plan the producer would receive a payment on the domestically consumed portion of the crop which would be the difference between the market price and parity, and the whole crop would sell at the world price. Since this proposal does not contemplate production control and with the big supplies and heavy carryover, it would probably require a subsidy rate equal to twice the world price to provide parity on domestic consumption.
- Farmers are now receiving parity on the domestically consumed portion of the cotton crop if present payments are applied only to this portion of the orop. The affect of the Domestic Alletment Plan would be to reduce the price for the entire crop. This plan would be one form of subsidizing exports. It would not provide parity income. It would be excessively costly.
- Export Subsidy -- Under this plan exporters would receive a subsidy on the emount of cotton exported which would enable them to meet any kind of world price situation. This proposal would invite retaliation and embargoes and would start an unprofitable trade war. It would subsidize foreign consumers at the expense of the United States treasury.
- This plan could succeed in increasing cotton growers' income only if it were possible greatly to increase exports and to eliminate the excess carryover so that the domestic price level would fise. There is no assurance that exports could permanently be greatly increased even under an export enbaidy.

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#### SUDMARY

## Situation

U. S. cotton supplies are excensive.

World ootton supplies are excessive.

Unauhsidized domestic consumption cannot be expected to increase greatly.

Prospects for increasing exports are unfavorable.

- If both domestic consumption and exports could be increased to the highest probable point, it would still take several years to reduce the 13,800,000 bale carryover sufficiently to improve prices materially, even if production were kept in line.
- Source of funds for payments were provided, the lease could be eliminated. In the long run this would be less expensive and would fit in with maintenance of exports.
- An export subsidy would start an expensive trade war and would not solve the problem of low income and too much cotton. Price fixing would encourage increased production, would necessitate tariff increases, would result in increased competition of competing fibers, and would not must the need of greater total income from cotton nor the problem of reducing the excessive carryover.

# Essentials in a Long-Time Cotton Program

- Reduction in present carryover, and release of stocks of cotton under loan.
- Expanded domestic consumption in the field of present uses and development of new uses.
- 3. Regaining of U. S. share of world ootton market.
- Production adjustment in line with prospective markets and adequate reserver.
- 5. Conservation of moil resources.
- Payments for cooperation in conservation and adjustment to compensate for low world price and provide parity income.

 A continuing source of adequate funds to provide adequate payments and insure effective conservation and adjustment.

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- Marketing quota machinery, for use when supplies are excessive and at the option of producerse
- Increased production of food and feed crops for home use to improve standard of living.
- 10. Continued marginal land purchases, to retire some less efficient acreage.
- Legislation to provide official standards for ginning and packaging, and to provide grade and staple services to farmers.

# Supplemental Statement on Foreign Cotton Situation,

#### by Countries

# Decreased Imports from the United States

- During the 10 years ending with the 1932-33 season total U.S. Cotton suports averaged slightly more than 8 million bales per year. In the 1937-38 marketing season, U.S. exports were slightly less than 6 million bales.
  - During the period when U. S. total cotton exports declined 2 million pulse, total imports by five foreign countries - Germany, Japan, China, Bussis, and Spain, declined more than 2 million balas.
  - If U. 5. cotton exports to these countries in 1937-38 had been as large as in the 10 years ending 32-33, total U. S. cotton exports would have been larger than the average for the 10-year period.
  - The decline in exports of U.S. cotton to the United Kingdom, once the best customer for this country's cotton, took place terore the depression. Exports of U.S. cotton to the United Kingdom reached a peak of more than 4 million bales in 1911 and then followed a downward trend until 1930. Since 1930 they have averaged somewhat less than 1,500,000 bales. Until the 1937-38 seeson, this loss was largely offset by increased exports to Asia.
    - I rmany-German imports of U.S. cotton were a million bales less in the 1937-38 season than the average for the 10 years ending 1932-33. At the same time, total German cotton imports declined schewhat less than 500,000 bales, and German imports from Brazil in 1937-38 were somewhat more than 400,000 bales, compared with almost no imports from Brazil in the 10-year period.
    - The net decline of almost 500,000 bales in total German motion imports has been compensated for, in part at least, by a remarkable expansion of artificial fibers substituted for raw cotton in the manufacture of textiles.
    - The large increase in German imports of Brazilian cotton were made possible through barter agreements and it does not appear that the price of American cotton has been important in this situation.
    - Super-Exports of American cotton to Japan averaged more than 1,300,000 bales for the 10 years anding 1932-33, increased in the years following through the 1936-37 season, and fell to only about 700,000 bales in 1937-38.

- It seems probable that in the future Japan will endeavor to obtain more of its cotton supplies from Dhing, and may further expand its rapidly growing production of synthetic fibers.
- China-In the 10 years ending 1932-33 the United States exported an average of nearly 300,000 bales of oction to China. This was in the period of the rapid expansion of the Chinese cotton spinning industry, when this industry was expanding more rapidly than Chinese cotton production.
- It seems probable that Chinese production, dominated by Tapanese interests, would expand as rapidly as the tertile industry expande.
- Spain-Spein formerly took about 300,000 bales of U. S. action annually. Since the start of the civil war, imports of all kinds of cotton by Spain have practically disappeared. Because of the deterioration of the textile industry it will probably he several years after the war before Spain will consume as much cotton as formerly.
- Russia--Russia formerly took more than 200,000 balas of D. S. cotton annually. Russian cotton production has been expanded and Russia has taken virtually no U. S. cotton in recent years.

# Increased Foreign Cotton Acreage

- Increases in cotton acreage have occurred chiefly in Brazil, China, Russia, and Uganda. There have also been acreage increases in many minor producing countries. In India and Egypt, two of the most important foreign cotton-producing countries, the trend in cotton acreage has not been upward.
- The great increase in foreign competition is due partly to long-time foreign production; partly to special stimulation in certain areas after 1929 resulting from the depression; and partly, perhaps, by curtailment and loan programs in the United States.

In Brazil, enormous surpluses of coffee lead to expansion of cotton production. This expansion was accomplished by governmental currency action in maintaining the price of cotton relatively higher than the world price of Brazilian cotton and coffee.

foreign expansion is to an appreciable extent not directly influenced by U. S. cotton acreage and price policies.

Brazil -- Cotton acreage in Brazil has increased from less than 2 million acres prior to 1930 to 6,672,000 in the 1937-38 season. The increased Brazilian production has been marketed largely in Germany, the United Kingdom, Japan, and France. A Large part of

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the increased production in Brazil has gone into domestic consumption, increasing from 327,000 bales in the 1929-30 season to 813,000 bales in the 1937-38 season.

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Uganda Prior to 1930, the largest cotton acreage in Uganda was 663,000 acres. In 1937 it was 1,737,000 acres. Increased Uganda production has gone largely to the United Kingdom.

- China-Prior to 1930 the peak in Chinese cotton production was about 6 million acres. Last year it was 9,300,000 acres. The increase in China has been absorbed by the Chinese textile industry.
- Russis-Peak cotton production in Russia prior to 1930 was 2,600,000 acres. In 1937 it was 5,163,000 acres. The increase in Russia has gone into domestic consumption.
- Minor countries For the minor cotton producing countries, the peak production prior to 1930 was 4,534,000 acres. In 1937 it totaled 7,180,000 acres. A large percentage of the increase in the minor producing countries has gone into domestic consumption and some of the increase has been marketed in the United Kingdom.

### CONFIDENTIAL: Not for Publication.

## Table 1

## Cash Income from Marketings 1/ of Cotton, including Seed, and National Income Produced, 1910-14 Averages and Calendar Years 1920-1938

Calendar Years	Cotton 1/ (Including Seed)	National Income Produced 2/	# Cotton of Nat'l Income
	(M11110	n Dollars)	(Percent)
1910-14 (average)	E31	30,700	2.71
1920 1921 1922 1923 1924 1925 1926 1926 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938	1,476 852 1,148 1,569 1,663 1,762 1,222 1,500 1,453 1,512 824 497 461 578 863 712 905 864 710	72,600 51,400 60,300 68,200 68,000 75,300 75,400 75,400 75,400 78,700 81,100 68,300 53,800 40,000 42,300 50,100 55,200 63,500 68,500	2.03 1.90 2.454 1.99 1.856 1.92 1.856 1.92 1.17 1.12 1.12 1.12 1.12 1.12 1.12 1.1

1/ Published BAE figures. No Government payments included,

2/ 1929-37: U.S. Department of Commerce: 1910-28: National Induetrial Conference Board estimates reduced by 2.3 percent, the 1929 difference between that series and the U.S. Department of Commerce estimate.

## Table II

# Ferm Value of Cotton Production, Including Seed, and Government Payments CROP YEARS, 1938-1938\*

1933	1934	1935	1936	1937	1938
	V	alue of Prod	action (\$1.0	(00)	
746,024	744,596	737,619	947,797	946,298	600,000*
	g	overnment Pa	yments [\$1,0	(00)	
179,700	115,226	160,210	86,381	68,672	277,000
Ve	lue of Frodu	ction Plus G	overnment Pa	ymente (#1,	1000
925,724	859,822	697,829	1,034,178	1,016,970	B77,000*
Contract Cont		Parity Inco	me (\$1.000)		
1,121,956	1,173,075	1,136,925	1,201,740	1,078,325	1,194,277
Va	lue of Produc	ction and Pay	ments as Pe	rcent of Par	rity Income
82	73	79	86	94	73

\* Freliminary estimates.

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COTTON, AMERICAN: ACRAGE, TIMID, SUPELIES, AND DISAPPEARANCE, 1919-20 to 1938-39

				Supply		Mill Consumption		on	Form	Supply
Groy Year at	Acreage	Yield	Production	World Stocks Aug+ 1	Total	Domestic	Foreign	Total	Price	Mill Consumption
	1,000					A Day T A UM			Cents	Description
	ACTOR	ibs.	T	hous:	ands .	of bal	<u>e s</u>		Per 15.	Percent
the data sea		200.0	13,664	6,338	\$0,002	4,677	5,591	10,268	15.9	194.8
1920-21	34,408	186.7	8,285	9,674	17,959	5,613	6,596	12,209	17.0	147.1
1981-22	28,678	132.5		5,680	15,804	6,322	6,124	12,449	22.9	126.9
1922-23	31,361	148.8	10,124	3,318	13,648	5,353	5,564	10,917	28.7	125.0
1923-24	35,550	136.4	10,330	2,711	16,717	5,917	7,394	13,311	22.9	125.6
1924-25	39,501	165.0	14,006	3,380	19,561	6,176	7,834	14,010	19.6	139.6
1925-26	44,386	173.5	16,181	5,501	23,663	5,880	8,868	15,748	12.5	150.3
1926-27	14,608	192.9	18,162		20,802	6,535	9,041	15,576	20.2	133.6
1927-28	38,342	161.7	12,957	7,845	19,761	6,778	8,448	15,226	18.0	129.8
1928-29	42,434	163.3	14,555	4 517	19,233	5,803	7,218	13,021	16.8	147.7
1929-30	43,232	164+2	14,716		20,060	5,084	5,972	11,056	9.5	181.4
1930-31	42,444	157.1	13,873	6,187	25,853	4,744	7,784	12,528	5.7	206.4
1931-32	38,704	211.5	16,877	8,976	26,224	6,004	8,381	14,385	6.5	182.3
1932-33	35,891	173.5	12,961	13,263	24,521	5 553	8,227	13,780	10.2	177.9
1933-34	29,383	212.7	12,712	11,809	20,277	5,241	5,965	11,206	12.4	180.9
1934-35	26,866	171.6	9,576	10,701	19,536	6,221	6,782	12,503	11.1	156.2
1935-36	27,640	184.2	10,495	9,041	19,373	7,768	5,325	13,093	12.3	148.0
1936-37	30,028	197.6	18,375	6,698	24,647	5,615	5,315	10,930	8.4	225.5
1937-38	34,001	265.9	18,412	6,235	24,047	0,010		-14-24	100	1000
1938-39 1/	26,449	219.7	12,000	13,652	25,652					

1/ Preliminary Source: Compiled by Bursau of Agricultural Economics from reports of the New York Cotton Exchange.

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January 1939.

### FEMORANDUM ON WHEAT

The United States has been a set exporter of wheat every year since the signing of the Constitution, except in 1837 and the years 1934-1936, when the country experienced unprecedented drought. All wheet programs undertaken by the United States have recognized this fact, and plans have included production of supplies for export. This means that the United States wheat problem must be considered in the light of the world wheat situation.

Because several different types of wheat are produced commercially in the United States, the production, demeatic use, export, and carryover problems of the different types must be considered in connection with the whole wheat problem. A brief supplemental discussion by wheat types, and a suggestion as to how carryovers should be carried, are given on pages 7 and 8 of this memorandum.

# Present World Wheat Situation

This year's world wheat crop of 4,395,000,000 hushels is the largest on record.

- The indicated world carryover on next July 1 is about 1,223,000,000 bushels, compared with a carryover of around 600,000,000 bushels on July 1, 1938, and an average world carryover of about 700,000,000 bushels during the 1920's.
- Supert nations have a surplus of more than 900,000,000 bushels for export, while import countries will require only about 550,000,000 bushels during the year ending June 30, 1939.
- World production is up, both in export and in import countries, practically all of which are siding their wheat producers directly with some form of subsidies or price-firing laws.
- This means keen competition among the world's experters for their share of the world market. The world wheat trade is now characterized by numerous restrictions in the form of import quotas, duties, domestic milling or mixing requirements, monopolistic control of mills, and exchange limitations. There is no really free world wheat market of any consequence.

# The United States Situation

This year's U.S. wheat supply is nearly 1,100,000,000 mishels. This is made up of a 930,000,000 bushel drop, and a carryover of 154,000,000 bushels.

This supply is around 400,000,000 bushels above our sverage annual domestic consumption.

Soon if the United States succeeds in exporting around 100,000,000 bushels of wheat this year (the announced goal of the present export subsidy program) we will still have about 300,000,000 bushels to carry over when the 1939 crop comes in. This will be about double the July 1, 1938 carryover, and more than double the average for the decade of the 1920's.

### ment Income

The direct result of this heavy supply situation is that United States farm wheat prices this fall have been around 50 cents a bushel, as compared with more than 90 cents in the fall of 1937. Even with Government payments to farm program cooperators of around 12 cents a bushel this year (27 cents, including price adjustment payments, next year) on their allotments, prices to our wheat farmers will still be far below the 1909-14 parity level.

and total wheat income is down, leaving wheat producers at a relative disadvantage.

Wheat income represented 8 percent of the gross United States farm income in the pre-war years 1910-14. Wheat income now represents but 5.3 of the total farm income.

In relation to per capita nonfarm income, wheat income has fallen to little more than half its 1910-14 level.

The wheat teriff, 42 cents, does not hold up prices, since it is not effective except in the rare years when the United States is a wheat importer, and then primarily only with respect to the best classes of spring and hard winter wheat.

The nation needs buying power on its wheat farms.

# United States Export Possibilities

During the post-war years up to 1932, the United States exported an annual average of more than 150,000,000 bushels, or about 20 percent of the world export total. During the 1920's, world import requirements were around 750,000,000 bushels annually. This outlet for export wheat has now shrunk to 550,000,000 bushels or less.

Sargaining treaties, trade barriers, and production policies make it increasingly difficult for the United States to expand exports.

- Even the British Trade Agreement, removing the empire preferential tariff against U.S. wheat, cannot provide very greatly increased export markets.
- It is taking effort to hold about 20 percent of the available world import market for the United States under the present export subsidy program. The goal of this program is an export of 100,000,000 bushels this year. It does not seem likely that the United States can in the near future reasonably expect to export materially larger quantities of wheat.

# Possibilities for Increased Domestic Consumption

Consumption of wheat, a staple food, is relatively inslastic.

- Sven in times of depression, our people generally have bread-bought by themaslves or by relief sgencies for them.
- No materially effective increase in domestic consumption of United States wheat in food channels can be expected. Some permanent. increase in consumption of wheat cereals by children in low income groups might be possible, especially in the South.
- There is a definite limit to the amount of purchases by the Dowernment for relief distribution which are possible without simply replacing other outlets for wheat. (Note: The Federal Surplus Commodities Corporation purchased flour and wheat products equivalent to 23,539,000 bushels of wheat during the period from October 1933 to July 1, 1958.)

Note: See supplemental statement on page 9 of this memorandum.

# Brief Review-U.S. Wheat since the Wer

- In the 1920's, the United States had reasonably favorable weather and satisfactory export outlets, made possible in part by the foreign lending policy in that period. Annual wheat acreage during this decade averaged about 65,000,000.
- The large wheat crop of 1928 started piling up surpluses, and ruinously low prices came during the following years.

decrease of exports during this period added to the adverse situation.

- the Farm Board attempted stabilization, but lacked means of adjusting production. Acreage in 1928-32 was no lower than during the decade of the 1920's. Prices reached record low levels.
- Under the Agricultural Adjustment Act of 1933, a wheat program was designed to reduce surpluses and bring up wheat income, at the same time seeking to increase exports and to improve the world situation through an International Wheat Agreement.
- Then came the unprecedented droughts of 1934-36, with resultant adjustments in production and supply which went beyond the adjustment sims of the AAA. Surpluses were reduced.
- Higher prices which followed the drought stimulated greatly increased plantings at a time when there were no positive production edjustments. The conservation programs of 1936 and 1937, following the Supreme Court decision, placed emphasis upon conservation and had only indirect adjustment features. United States wheat acresse passed 80,000,000 in both 1937 and 1938. (The Agricultural adjustment Act of 1938 was passed too late to be effective for the 1958 wheat crop.)

The big crop of 1935, like the earlier one of 1928, has resulted in excessive wheat supplies and the consequent drop in prices.

The Present Government Wheat Program

- The Government is taking steps under its authorizations to assist the wheat producer and to improve the domestic and world situation, These steps include:
- Acreege allotments (linked with conservation program) large enough to produce adequate supplies for domestic requirements and normal exports, but low enough to prevent piling up burdensome surpluses. The national wheat acreage allotment for 1939 is 55,000,000 acres.
- (2) Payments to cooperating producers who keep their seedings within their acreage allotrents. Conservation program and parity payments total about 27 cents a bushel on allotments for 1939.
- (3) Losns to cooperating producers to enable them to hold surplus stocks for limited periods. The whest louns average about 60 cents a bushel this year.
- (4) Wheat crop insurance, the reserves adding to the ever-normal gradery.

- (5) An emergency export program designed to hold a fair share of the world market for United States wheat in the face of direct intervention by the Governments of all other wheatexporting and most importing countries. It is hoped that the financing of exports by the Covernment is only a temporary measure, and that some international acreement can be reached whereby such action will not be necessary.
- (6) Purchases, within practical limits, by the ESCC for relief distribution of flour and wheat cereals.
- Hote: Marketing quotas, as provided in the act, may be needed for the 1939 crop.

# Some General Conclusions

- With average yields, 63,000,000 acres can produce the 750,000,000 bushels needed for average should U.S. domestic use and a possible export of up toward 100,000,000 bushels.
- Continuing acreage adjustments are necessary to prevent piling up burdensome wheat surpluses, but no reasonable program of adjustment of U.S. supplies will, under present world conditions, bring about parity prices for wheat. The necessary adjustment in acreage and production would be too drastic.
- Payments to cooperating producers, apert from and in addition to prices received on the market, are therefore necessary. In addition to conservation program payments, a "parity" payment is needed to bring the price of the domestically consumed portion of the wheat crop up toward fair income.
- Loans are helpful as a means to hold part of the crop for limited periods, but should not be handled as a "price-supporting" method which would interfere with any possible wheat exports. Wheat should be permitted to flow freely into export channels.
- "Price-fixing" plans, without machinery for production adjustment and in view of limited export outlets, would stimulate production of more crushing surpluses, would be prohibitively costly to the Government, and would inevitably break down. Rather than attempt this, the Government might better buy the antire crop at a fixed price and re-sell freely in domestic and world markets.

Every effort should be continued to secure stabilizing international wheat agreements.

# Essentials for a Sound Long-Time United States Wheat Program

- (1) . fair share of the world market for United States wheat.
- (3) Full domestic distribution to meet the food needs of all our people.
- (3) Adequate ever-hormal granary reserves.

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- (4) Acreage adjustments aimed at balancing production with our export, domestic consumption, and reserve needs—and linked with long-run soil conservation and land use programs.
- (5) Payments to cooperating producers to give our wheat growers a fair share of the national income.
  - (6) Loans to cooperating producers to enable them to hold surplus stocks for limited periods.
  - (7) Wheat crop insurance, serving as part of the ever-normal granery.
  - (8) Marketing quotas, for use only when needed and wanted by wheat growers to meet smergency surplue situations.

## SUPPLEMENTAL DISCUSSION BY WHEAT TYPES

Armss There Principal Market Classes of U.S. Wheat are Produced

- Hard red winter wheat produced in the Southern Great Plains. Some hard red winter wheat also produced in Illinois and in the Pacific Northwest.
- (2) Hard red spring wheat produced thisfly in the Dakotas, Minnesota, and Montana.
- (3) Durum wheat produced chiefly in the Dakotas and Einnosota. High quality durum comes from a small area in Forth Dakota.
  - (a) Soft red winter wheat produced chiefly in the Corn Bolt, Eastern States and Southern States.
  - (5) White wheat produced chiefly in the Pacific Northwest, although about half of the wheat of lichigan and most of the wheat in New York State is of this class.

Undert Situation by Wheat Classes

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- (1) Soft red inter wheat not in demand because most of the importing countries of the world produce this kind of wheat. Importing European mations require hard wheats to mix with the soft wheat produced by their farmers in order to produce a bread flour. Exports of soft red winter wheat have been negligible since 1927. When United St tes produces large erop of this wheat an increased amount is fed to livestock.
- (2) Hard red winter wheat is the principal cless for which there is a strong export demand, but United States has tended to export the poorer qualities of this wheat. Domestic milling demand results in promium for the better qualities.
- (3) Hard red spring wheat premium paid by domestic millers results in prices in excess of export level for this kind of wheat. Practically no exports have taken place since 1924. Because of location of mills at Minneapolis and Buffalo, United States uses almost all of our domestic supply of hard red spring wheat, and surplus of hard milling wheat exported consists of hard red winter wheat which is closer to the Seaboard than the hard red spring wheat,

- (4) White Wheat. The United States consistently produces a substantial surplus of white wheat. Exports of this class of wheat some into competition with wheat from Australia, as well us from the Danubian countries. It is, accordingly, very difficult to find market under present world conditions. Principal customers for white wheat in the past have been China, the Philippines, Ireland, and other countries where wheat is consumed in the form of moodles, crackers, and biscuits, rether than in the form of white bread.
- (b) The united States ordinarily produces a surplus of durum wheat. However, exports are not large and because durum is produced in a very limited area, imports were necessary in 3 recent drought years. In the past most of our exports of durum have gone to "taly. It is the kind of wheat used in the manufacture of macaroni and spaghetti.

### shoot Carryover by Classes

- "Normal carryover", as defined in the Agricultural Adjustment at of 1938, could be regarded as a desirable minimum carryover figure. Set at 15 percent of the normal domestic consumption and emports, this "normal carryover" would now be 113 million bushels.
- "bioretical distribution of this carryover by classes of wheat, based on the July 1, 1936 carryover which was about the "normal ourryover" figure, and representing a general minimum below which it would not be desirable for the carryover of the different classes to fall, would be:

Hard red winter	 57 million
	 10 "
Soft red winter	25 1
Bard red spring	 5 1
Thir um	 
10.11a	 10

Total ..... 113 million

"Firstly uniformal poserves for the over-normal gramary should preferably he in the hard red winter and hard red spring ulastes.

### an should Carry the Carryover?

The carryover should be carried by producers, frain elevator operators, and frain merchants, and millers -- partly under loans, waitly under erep insurance, and partly under several trade,

### DUPLY STAL STATEMENT DEGARDING POSSIBILITIES OF INCREASED DOMESTIC USE OF WHEAT PRODUCTS

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Regraded Unclassif

The nor capita consumption of all food products in the United States since 1920 has remained remarkably stable whether measured in counts, salories, or acreages required for production. This stability is the in part to stability in the consumption of individual products; in eart to upwerd and downward trends which offset each other.

There has been a definite tendency for the per capits consumption of some products to decline. The most important element in the sereal from is wheat flour, the per capits consumption of which, as estimated include Research Institute, declined from an average of 176 pounds in the 5-year period 1920-24 to 154 pounds in the period 1934-37. This domtward movement appears to have been due to deep-seated changes in consulption habits among countries with generally high standards of line, including the United States, the British Isles, Canada, and worth.

The possibilities of increasing the per capita consumption of wheat in the inited States in the near future are not large. Preliminary studies that in the Eureau of Home Economics indicate that if low-consumption facilies could be brought up to the average, the consumption of all grain fractices would be increased approximately 10 percent. Such an increase, however, presupposes a better income distribution than exists at the product would be increased approximately 10 percent. Such an increase, however, presupposes a better income distribution than exists at the product time. Given the present distribution of income, as estimated by attrict covering; the year 1935-36, better spending habits with respect to form might result in an increase of approximately 4 percent in the per its consumption of grain products. The most desirable increases in its consumption of grain products, butter, milk, eggs, and out by meats.

In a bulletin issued in 1936 by the Eureau of Home Economics (MC 75' Euletin 1757) dists at four different cost levels were listed for illustrative purposes. These were: (1) A restricted dist for improves dist, and (2) a minimum-cost adequate dist, (3) a moderate-cost anotate dist, and (4) a liberal dist. The amounts of flour and cereals remainmended for inclusion in these four dists decline sharply as the remainmended for inclusion in these four dists decline sharply as the remainmended for inclusion for the second for the "liberal dist" af the dist increases, the amounts subjected for the "liberal dist" is less than half those suggested for the "restricted dist for "In less than half those suggested for the possibility that better dists or our people might in many instances actually result in a lower per state consumption of wheat products.

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#### Table 1

C(S) Income from Marketings 1/ of Wheat, and National Income Produced 1910-14 Averages and CALENDAR YEARS 1920-1938

1

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dar dar	Wheat 1/	National Income Produced 2/	of Natil. Income
	(111110)	n Dollars)	(Percent)
1010-14 (Ave	orage) 520	30,700	1.69
1920	1,368	72,600	1.88
1:21	866	51,400	1.68
1922	661	60,300	1.10
1523	305	68,200	0.89
1924	799	68,000	1.17
1925	844	75,300	1.12
1026	845	76,700	1.10
1027	895	75,400	1.19
1926	770	78,700	0.96
1029	727	51,100	0.90
1030	451	68,300	0.66
1931	266	53,800	0.49
1232	200	40,000	0.50
1933	304	42,300	0.72
1934	317	50,100	0.63
1935	372	55,200	0.67
1175	451	63,500	0.71
1537	603	59,800	0,86
1:000	425-50	58,500	0.73-0.77

1/ Confidential from EAE - Not for Publication. No Government payments included.

1929-37: U.S. Department of Commerce; 1910-28: National Industrial Conference Board estimates reduced by 2.3 percent, the 1929 difference between that series and the U.S. Department of Commerce estimate.

BET	Value of Wh			mont Paymer	ite
		CROP YEARS,	1999-1998		
1933	1934	1935	1936	1937	1938
	Ve	lue of Produ	etion (\$1,00	(00)	
410,291	446,367	521,315	643,183	869,140	476,566
	Ge	vernment Pay	ments (\$1,00	(00)	
33,305	95,009	111,921	55,000	30,000	60,000
	Value of Proc	luction Plus	Government 1	eyments (\$1	,000)
504.096	544,376	633,236	698,183	899,140	536,566
		Parity Inc	come (\$1,000	)_	
122,000	868,500	842,250	882,000	875,250	849,000
Value	of Producti	on and Paymon	nts as Perce	nt of Farity	Income
61	63	75	79	103	56

### Table II

	T	-		Ŧ.,		1		Su	pply	-		1		D	isap	earar	108		1 3.A	veruge		Supply
Crop Year			anted		ield Per Acre	:P	roduction		tocks uly 1	1	Total	-1	Dome	sti		Net		Total	1	Frice	Di	ance
10. State 1	I		Const.	1	Flanted	1	the state of the s	1 .	ury r	÷					1	-	1			Cents	-	and search
	1	1	1,000	:		1		N 3	111	2	<b>n</b> s o	÷e.	bu		h	1 6			\$	Per Bu.		Percent
	1	14	Acres	1	Bu-	1				-	1 2 0	-		-	1		1		1	Contraction of the	2	1.11
			1.1.1.1	1	1.2.2.1	3	14.44	2		2	1,029	1.2	6	67	24	217	4	884		216.3	1	116.4
1919-20	1.1		77,440	1	12.3	1	952	1	77		988			48		313	4	861		182.6	1	114.8
1920-21			67,977		12.4	٤.	843		145				-	66	2	266	12	832		103.0	٤.	113.7
1921-22			67,681	2	12.1	4	819	1	127	1	946			24	2	205	6	829		96.5	1	115.9
1922-23			67,163		12.6	1	847	1	114		961			22	10.1	132	1	754	1	92.6		118.2
1923-24	- 24		64,510		11.8		759	1	132	3	891			16	. 12	255	12	871	1	124.7		112.4
1924-25			65,706		15.1	4	842	4	137		979				120	93	.2	677	- 2	143.7	1	114.8
1925-26			61,738	-	10.8		669	1	108	:	777			84		206	12	822	-2	121.7		113.4
1926-27	1	1	60,712		13.7		832	4	100	3	932			16		191	1	875	-3	119.0		112.8
1927-28			65,661		the second se		875	έı	110	1	985			82			1	798	12	99.8		128.6
		20	71,152		12.9	1	914	1	112	-	1,026			556		142	1		10		21	137.9
1928-29		۰.	65,840		the second se		823		228		1,051	1.1		522		140	1	762	1	67.1	- 10-	136.3
1929-30		1.	67,150				386	2	289	;	1,175	5 1		150		112		862		59.0		142.5
1930-31		5.	65,998			1	942	2	313	1	1,255			157	Ŧ	123	1	880		38.2		150.1
1931-32		5	65,913			14	757		375	1.4	1,13			722		32	4	754	- 7			141.8
1932-33		з.	68,485			1	552	1	378	1.1	930			630		26	1	656		74.4		122.7
1933-34		۰.	63,562			1	526	1	274	14	80	0	•	557	1	- 5	1	652	- 1	84.8		122.5
1934-35		•				12	626	1	148	14	77			563	1.1	- 31	1	632	:	83.2		115.5
1935-36			69,207			1	627	1	142	1.4	76	9	: (	691		= 26		666	. :		Ð	
1936-37			73,724		the second second	1	874		83	2/			: 1	704	1.1	99		803	1.3	96.3		119.2
1937-38	12		81,36		-		940	14	154	2/	1,09	4	1		4		1		13	1		
1938-39	1/		81,08	9	1 1110	1.5		1	(dec)	-	1.				1		1	1	- 1		1	-

sheart: Atorwes, YICLD, BURDLING, with DISAPPEARA CH. 1919-20 to 1938-59

Preliminary estimate. Includes stocks of old wheat only. 1/

> Revised 12-6-38 VIE

Janu ry 7, 1939. 9:30 A. M.

(Held in Mr. Hanes' Office.)

Prusent:

THOUP TELTING

Mr. Hanes

- Mr. Taylor Mr. Lochhead
- ir. Duffield
- Mr. Foley Mr. Haas
- Ir. Schwarz

Enliest

(Reading U. P. broadtape.) (Laughs) He can't resist. This is a broadtape about Bailey.

That's a topic about Bailey? Loc Mond :

- "Mr. Hopkins' theory to use relief money to create purchasing power is an unsound theory." Mr. Bailey said. He is going to vote against him. He said he couldn't vote for him - wasn't IU under going to. He said he was just going to make a terse statement on the floor of the Senate to sum up in a few words his viewpoint, but beyond that he'd do no fighting.
- Well, I gather that there might be a fight if there is any leadership, and everybody up there Dufficield: says, "Well, I'd be willing to go along with the boys if somebody wanted to start " fight," but nobody wants to start it. That's what Bert Wheeler sald.
- The general attitude is they have a pretty strong block and no use fighting over the things you Humos: can't win at. You might as well let it go. I think that is the attitude of most of them. That's Byrd's attitude. He said, "I like Harry Hopkins personally, but I don't like his viewpoints, and I am not going to fight over that; hell, that's a trivial thing; we've got other battles here."
  - By the way, did you happen to notice, on this subject, did you notice in the Herry-Go-Round 7nylorr this morning? Well, it's all about Harry Hopkins, and it quotes him as saying that he wants just

three things. One is the business end of it; he wants to have an understanding between business and Government, and so on, and work that out. The second is transportation in all forms, and the third is Latin-American Trade. I think that is probably right. Have you talked to him about the other two?

Hauas:

Talked to him about Latin-American Trade. I told him that I folt that the domestic problem was so tragic that we'd better confine our efforts at house for a few days until we fly off to South America. We've got enough to do right here at nome. If he does the job before his, which is to get the Public Utilities and the Government in some better understanding, if he gets the railroad situation to - even to be considered, he could be tremendously helpful there, and getting our own heavy and durable goods industries on their feet, with some feeling of more confidence in the business mind that the Administration is not just going to knock the living hell out of thes every time they turn around, your end will be solved, and the South American probels will be infinitesimal to the problem right here. Also, the relations between the National Labor Relations Act, and he thinks the business man thinks that no matter what he does in his labor relations, he can't talk; he just can't open his mouth. There is a fellow out - Guy Helverin, told me of his little flour mill in Kansas. They had a dispute; they had three men in their flour mill which they fired; one man they fired because be was taking flour home; he had a sack made to fit around his waist, and every day held take the flour to a grocer and swap it for groceries. They caught him at it and fired him. The National Labor Relations Board seid, "You fired this man because he was a union man, and an organizer." They said they didn't know he was a union man and didn't care; by God he was stealing - taking samples home with him at night. The National Labor Relations Board said, "You've got to put him back on." He said they wouldn't put him back on; he'd close up the shop and they could go to the devil. "Also, you have been accused of saying you don't ..... You can't say that." He said, "I didn't know I was living in Germany or Russia yet; I am going to say it; I'll go out on

- 3 -

the streetcorner and say it, and you can put me in jail with it."

Buy said he'd been voting the Democratic ticket for life; "now," he said, "to hell with the Democrats." It's silly not acting like grown-ups when you do that sort of thing. There is a job I think Harry Hopkins can and will do a hell of a good job.

Also, the employer ought to have the right to ask for an election, just the same as the employee has a right to ask for an election. This fellow Bridges, out on the Pacific coast, said, "We were the first company that ever asked the National Labor Relations Board for an election. They said, 'You can't do that.' We said, 'Why'? They said, 'There is nothing in the Act which says you may,' and I said, "There is nothing in the Act which says Ne may not. ' We don't care who represents our men, whether it is C. I. O. or A. F. of L. Every time we put on a C. I. O. man the A. F. of L. fellows walked off, and every time we put on an A. F. of L. man the C. I. O. fellows walked off. We can't put the ships out. We had a ship held up in San Francisco for five or six weeks; it cost us a million two hundred fifty thousand dollars. It is purely a jurisdictional dispute; they had no argument w th us, none whatsoever, but they are fighting as ong themselves."

That is destruction, pure, simple, destruction. Finally, neither of the unions wanted to have an election. We tried to get the C. I. O. to ask for an election; we tried to get the A. F. of L. to ask for an election. They wouldn't, because they thought they were going to lose. The National Labor Relations Board had so much publicity they had an election because of the publicity.

Here, an employer is perfectly willing to abide by the rules if he only knew with whom he could deal. They finally gave us an election, and the C. I. O. won, and we began sailing the ships again.

Duffield:

Doesn't that transportation thing grow out of the reorganization bill?

I think that is true, though.

That I don't know, but I was particularly interested in that because that is a new idea, to have transportation over in Commerce.

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Taylors

Seimerz:

Taylor:	I think it is too. I heard it the day before that is one of the things.
"(anes:	Wasn't transportation in Converce? Aviation was.
Taylor:	They - aviation was, but they took that but. They also had shipping stuff in there.
∃anas:	The Maritime Condission is still over there.
Taylor:	It is actually out. It is physically in, but it is actually out.
Hanes:	I thought it was still in, under the Secretary.
Schwarz:	A separate Commission.
Jaylor:	Separate Commission, just the way the Aeronautics is; you've got the C. A. A. for aviation. Then you've got the trucks, wherever they happen to be.
rur leld:	I. C. C.
Taylor:	Apparently the idea is to concentrate an over-all policy in Commerce.
/isld:	The President's reorganization bill idea was so- called 'administrative functions' in connection with those things, would be best in a judicial department.
Teylor:	There's been all this talk about a Transportation Department. I would gather this is a substitute for the Transportation Department. I am just guessing, but that is the way it sounds.
Schwarz:	I had this new press man over here yesterday; he wanted to see our set-up, and get some ideas. I gather they would want a Bureau in the Department. It was the political editor of the Tabloid in

Chicago, which is the only New Deal paper.

unprisid: fle said that is what he gathered.

remark: That - that is what they are after.

Duffield: You don't know what 'administration' covers.

Hanes: George, you got anything this morning?

Haas: I have nothing this morning.

Hanes: Eddie?

Foley: I've got nothing, John.

Honsa: How is Herman?

Foley: I haven't heard anythin, from him this morning; he had a very good day yesterday. He's been asking for me to come up a week, and the doctor wouldn't let him see me, but he was so much better yesterday the coctor thought I could go up, so I told him about everything that's going on except what is going on in the office. I told him about the appointment. He said, "They've been keeping things from me." He was interested. Then they chased me out. I told him everything was routine here. He wanted me to know that I could come up and talk to him, if I wanted to, but not to feel I had to. I told that to Mac and Mac said, if I did he'd kick me right down Pennsylvania Avenue.

Does he look pretty good, Ed?

Foley: He looked much better than I expected him to look. He's in apparently no pain at all; all the lines are out of his face, and his face is much fuller; he's got some color now, and he is rested. He looks much better than I expected; he is not drawn at all.

Hanva: Is he still laboring under the impression he is going to be back at work in a few days?

Poley: I think so; he told me it was fortunate for him the Secretary was away because it would give him a chance to get some rest. I was afraid he was going to ask me. - 6 -

Taylor: That is the best he's had, sitting up and talking like that. We'll see how he gets through the day.

Hones: Wayne, anything new?

Taglor:

No. If we got Bewley coming in again at ten; he says it isn't caything particularly important, but it is some message in connection with what they did yesterfay.

Ah - I want to go over and see Welles on a lot of stuff at eleven o'clock this morning. It is all backed up in a lot of these South American things; I don't know whether to do anything about it or not. I have been tryin, to get hold of him for a week, and it hasn't been easy, so ......

. B. D. S. S.

Archie, have you get snything?

Locifierd:

Well, the exchange market has three that transfer pretty well. There's a lot of question as to whether it is a sign of weakness or strength, but naturally, they wouldn't have taken the money out unless they needed it, and the fact that they took it all out ..... The market has been as high as 4.68 this morning; that is four points over the 4.64 points before this action was taken. I wouldn't say there's been any decided movement of carital back to London at all. The selling has stopped; at least that is a gain, and they've got four points to work on. But generally, I would say the background is 4 little bit better; I think a lot of people like the ides that England is taking a little more aggression than they have done. A lot of people figure England has been drifting the last two or three months with a hopeless spirit. This shows more of a fighting spirit, which they like.

The French still gaining?

Lochilead:

Unus:

The French are still gaining; yesterday they went a little hit in the background, with all this. They weakened a little bit against sterling. They have been feeling quite cocky, you know, this last month. There's all the difference in the world. Cariguel was just talking - not feeling very much. 100000

How much have they actually gained over the last thirty days? They must have gained a hell of a lot.

Lac's wind :

They probably doubled their figures. What did they say in that last cable, Wayne? They had gotten back altogether, ten billion francs, wasn't it? Of course, they, themselves, have not gotten back anything like the money that's gone out. You see, you've got a peculiar thing, that since the Tripartite started, even since that time, the franc is just half its former value, so st this rate, a three cent franc, if they gained back half the money which went out of the country, they'd have just half the money that they started with.

Don't you figure they've gotten back somewhere between two fifty and three hundred thousand dollars?

hod mind: Yes, that is pretty good for France. That makes a lot of money in france. It cases off the money situation very much.

Daylor:

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The best thing they have been doing in there, they have been gradually getting down their current rates, which were the things holding them back more than anything else. They were<sup>a</sup>very, very dear money country. They couldn't finance their Government; they couldn't finance industry, and so on, and that is easing up quite nicely. If they can go a little further, they will be able to refund some of this Governmental debt at a decent figure, give them another three or four months, and once they are able to do that, why, it is the biggest single economy they could make, because their carrying charges for their debt outside of the military debt is the biggest figure in the budget. Outside of their military figure, it would average around five per cent.

Lochman: That was taken with all the old stuff. They were paying six and seven per cent. But the other important thing over there is their labor situation has died down considerably the last four or five months.

linnes:

I saw in the paper this morning Bonnet is having a rough time.

One thing you'd be interested in is their taxation; I don't know whether you noticed that or not. There are certain types of things - why they have weighed them in favor of doing that kind of a thing, for instance, certain export industries, why they are giving them rebates - cash rebates, or the equivalent of it, and new capital for certain types of industry, why they are giving them a rebate on it.

g .

Pana: Chick, anything this morning?

Lolastz: No, thank you.

- by "IFIG: I don't know why I bring this up; I don't feel particularly mean; I found some unfinished business on that Banking Committee. We didn't get around to your Industrial Bank.
- No, we didn't. Tomay Corcoran's talk to Preston Delawo about a week ago. Frankly, I haven't done anything about that. I read all those plans, and I am familiar with them. Any time you want to discuss them I'll be available.

Ind'ield: I think we - I don't like to bring it up.

- I think we ought to do it. If you will follow it up. I spoke to Preston Delano about it; he wants to get an answer for Tommy Corcoran.
- The Secretary asked Mr. Oliphant to get together some sort of a bill on consolidation of bank examinations for this group to look at. And the third one, also under the head of unfinished business; and that was the question of whether we wanted to insist on consultation of these new preferred stock banks; the question of what we should do in the Anglo-California Bank, and these others. On the Management, whether we wanted them to put in a section on consultation for Management.

I just mention them because I'd like you to tell me if you want me to do anything on it.

1 sum!

I think, perhaps, we'd better have a meeting of that banking group and at the same time I've got one other suggestion. Are you familiar with the Glass Bill of 1938, the holding company bill? Daffield: Tes.

Leave: Are you familiar with that, Ed?

Toley: Cenerally, yes.

Till tell you what I think we ought to do. The Lecretary has asked Mr. Glass to wait till February first before introducing that bill. He is going to introduce it February first, and I don't think the Secretary has studied that particular bill, or his thoughts crystallized as to the type of bill he'd go for, and I think we ought to be in position to express an opinion to his; at least be familier with that Glass Bill, and see if there is anythin, in the Glass Bill which we would recommend to him from the Comptroller of the Currency's Office here. That is, I guess that is where our interests in it comes, is it not? Through the Comptroller of the Currency?

pur deld: Yeah.

Tislor: Well, there is some history there that has a bearing on that.

Tonos: The Secretary is calling me. He spin he wanted to talk to me alone, so I'll go in his office.

Unifield: Why don't we adjourn?

Tarlor: I'll just tell you what is on that, because the Secretary has got a point of view on that, and if you will just .....

Times: Listen, if you - Eddie, I tell you what you do. Will everybody connected with that banking study get a copy of that; I think there are two - the House and Senate Bills. I've got both copies of them - and start studying those, and see if we can make any suggestions. I've got a lot of suggestions to make on that bill, and I'd like to suggest them.

Duffield: Can I talk to you later on in the morning?

Yes: Yes.

At the time last year, I think you were in on that when we went over to Jesse': office. There was a subconditive of the so-called leming agencies committee, which was specifically shoolnted to look into that situation. They made a report to the Secretary. If you will look up that report, and the Secretary - that represents the Secretary's point of view also, which is the Glass bill does not go far enough, and he should not only have a freezing, which this thing does, but you ought to have a liquidation.

unffield: Yeah. Well, Sherbondy has gotten solething that embodies the Treasury idea.

Tylor: That is a formal thing, and that is what the Secretary .....

- 10 -

Tur isld: Do you have a copy of that?

Taylor: I don't know whether I have a copy of thet or not. I might have, but it is in the Secretary's files, I am sure. It is a formal report of Jesse's as Chairman of the committee, and they had the Federal Reserve; they had the F. F. I. C., they had the Comptroller's Office, and they had the Treasury in on thet, and they went into it very completely and came out with this recommendation.

Inffield: Ye

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Yeah. All right.

January 7, 1939

To: The Secretary

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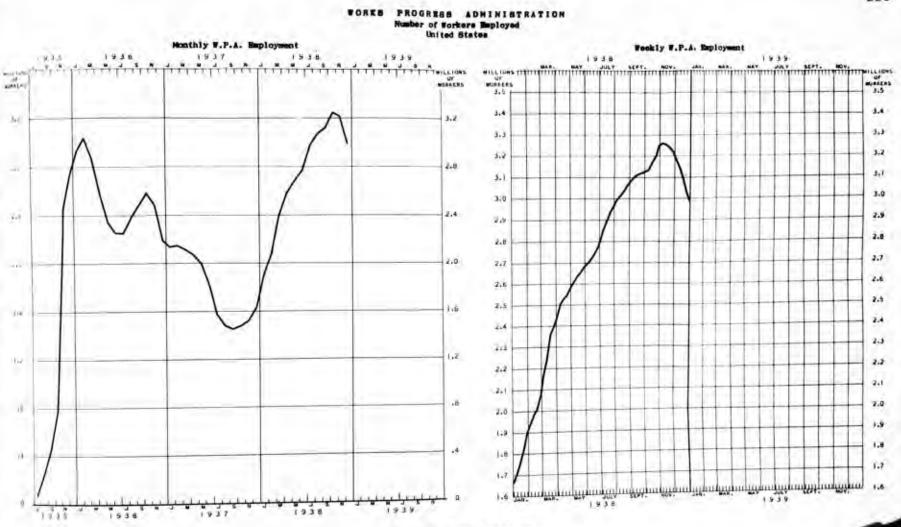
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From: Miss Lonigan 62

The total number of WPA workers on December 31, 1938 is 2,985,875.

The decrease during the week from December 24 to December 31 was 35,358 workers. However, WPA employment is still higher in December of 1938 than in December of any previous year.



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SQURGES MORES PRODRESS ADMINISTRATION

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Office of the Secretary of the Treasury Disease of Research and Restance

## WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Monthly

United States

1936 January February March	Number of Workera (In thousands) 2,926 3,036 2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October November December 1937	2,581 2,483 2,192
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 February March	1,901 2,075 2,395
April	2,562
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986 e/
a/ Confidential Monthly figures are latest week of th	ress Administration weekly figures for the e month. ied and non-certified

workers.

Regraded Unclassified

WORKS PROGRESS	ADMINISTRATION	
	Employed - Weekly 1 States	228
Week ending 1938 March 5 March 12 March 19 March 26	Number of Workers (In thousands) 2,167 2,244 2,357 2,395	
April 2 April 9 April 16 April 23 April 30	2,445 2,504 2,531 2,534 2,582	
May 7 May 14 May 21 May 28	2,607 2,626 2,650 2,678	
June 4 June 11 June 18 June 25	2,693 2,712 2,736 2,767	
July 2 July 9 July 16 July 23 July 30	2,807 2,853 2,859 2,938 2,967	
August 6 August 13 August 20 August 27	2,993 3,017 3,039 3,067	
September 3 September 10 September 17 September 24	3,086 3,102 3,114 3,120	
October 1 October 8 October 15 October 22 October 29	3,129 3,137 3,167 3,201 3,245	
November 5 November 12 November 19 November 26	3,263 3,258 3,244 3,216	1
December 3 December 10 December 17 December 24 December 31	3,185 3,139 3,083 3,021 2,986 <u>B</u> /	
Bource: Works Prog	reas Administration	

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED FROM: American Embassy, Rio de Janeiro DATE: January 7, 1 p.m., 1939 NO.: 8

Reference my telegram 299 of December 31, noon.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for daily quotas and maturities from December 1 to December 7 inclusive during the week of January 9th.

The selling rate for compensation marks was increased on January 2 from 5.980 to 6.000 by the Bank of Brazil. The buying rate of 5.6000 remains unchanged.

Please inform Commerce.

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EA:DJW

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# Federal Surplus Cosmodities Opportion Summary of Dosmodities Procured -Flocal Year 1936 and Fiscal Year 1939 to date

(Figures in thousands)

20-mod1ty	i Datt i	1 6/30/38*	Total 7/1/36 50 3/29/36	9/30/361 20/5/3811	10/6/38 1 10/12/38 1	10/13/38:1	10/20/3813	10/27/38 56 11/2/35	11/1/1811	11/10/3811 te 11/16/3811	1/17/34:1 1/23/36:1	1/24/36:1 1/30/36:1	12/1/30 1 50 12/7/30 1	12/6/38 11 10/14/38:1	12/15/38:1 12/21/36:1	12/22/3811 12/28/3811	12/29/381 10/29/381 1/4/39	Tetal : fiesel : year : 1939 : tu dale :
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\* eachy figures reported by Federal Surplus Connodities Corporation are based on telegraphic reports and are correvised. Figual year 1936 fotals have been revised to include all contrast cancelistichs and other adjustments.

#### January 7, 1939

Mr. Bewley, Financial Counselor of the British Embassy, called this morning to transmit a message from the British Treasury. Messrs. Taylor and Lochhead were present. The message he conveyed was similar to that telephoned by Butterworth on Thursday evening, January 5, and confirmed in Butterworth's Cable #21 of January 6, 1939.

Mr. Bewley explained the measures the British authorities were taking to prevent speculation against sterling by way of gold and stated that they would be grateful for any help which the U.S. Treasury could give by way of advice to American banks which do such business through their offices abroad. An exact memorandum of this portion of his message is attached hereto.

It was explained to Mr. Bewley that the Treasury would be glad to cooperate with the British on this point but we thought that this cooperation would be most effective if handled in an informal manner rather than by the issuance of any regulations or publicity. The number of American banks with offices abroad is limited and it was decided to request Mr. Harrison, President of the Federal Reserve Bank of New York, to explain the situation to the American banks with branches in London, and request their cooperation. If this action was not found to be sufficient, additional steps could be taken as the situation developed. Mr. Bewley expressed his matisfaction with these measures and stated that he would notify the British Treasury accordingly.

Mr. Morgenthan called on the telephone at this moment, and after advising Mr. Bewley of his personal satisfaction of the recent steps taken by the British Treasury with respect to the defense of the pound, confirmed these arrangements.

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The British authorities are hoping to prevent the renewal of speculation on any large scale against sterling by way of gold. To this end they have carnestly requested the banks and bullion market to refrain from transactions in forward gold and not to facilitate advances on gold and to continue scrutinizing foreign exchange transactions with a view to avoiding any undesirable transactions being carried out.

For this purpose the Bank of England has formally asked for the cooperation of the anthorities in Paris, Brussels, Zurich and Amsterdam in limiting speculation against sterling by way of gold.

While the question does not arise in the same form in the United States the British anthorities would be grateful for any help which the U. S. Treasury can give by way of advice to American banks which do such business through their offices abroad.

GRAY London

Dated January 7, 1939 Rec'd 11 a.m.

Secretary of State,

Washington.

26, January 7, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

The transfer of gold and increase in the fiduciary issue have been received with unanimous approval by the London press which emphasizes that the steps involve no inflationary action as they imply no increase in the total note issue while the strengthening of the exchange Equalization account's gold reserves is universally approved. Most writers point out that the gold has been there all the time but that the retransfer to the exchange equalization account is a bold and judicious means of making clear to the world the full amount available to defend sterling. Such phrases as the MANCHESTER GUARDIAN'S "reserves are being moved up to the front for a firm defence of sterling" and the FINANCIAL TIMES' characterization of the "Maginot Line for the pound" are typical. Though frequent reference is made to the possibility that in continental centers the

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#### -2- #26, January 7, 1 p.m. from London

the increase in the fiduciary issue will be misunderstood the effect of this is not generally considered of permanent importance.

There is little speculation as yet regarding the intentions of the Government in bringing new legislation before Parliament evident in the press. It seems to be generally assumed that it is merely a question of making the increase in the fiduciary issue more than a temporary measure.

The FINANCIAL NE.'S editorial however concludes as follows: "as the MacMillan Committee was pointing out over seven years ago the only effect of a fixed fiduciary issue" is to forbid the Bank of England to use by far the greater part of its gold for the only purpose for which it is held or could be used". It might even be argued that it is merely as a concession to convention and prejudice that any gold has been left in the bank at all. In any event since 1931 the bank return has never revealed even the true gold position of the bank itself for existing legislation compels the bank to value its holding at the old statutory price of roughly 85 shillings per fine cunce. For some years there has been much speculation about whether the bank might

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-3- #26, January 7, 1 p.m. from London

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not revalue its holding at a figure approximating more closely to actual prices. It now seems possible that the authorities may now at last seek powers for such a revaluation. To seek Parliamentary endorsement of so large a change in the fiduciary issue as that announced yesterday is admittedly right and proper but it is not legally necessary and certainly does not need the umendment to the 1928 act which is to be sought when Parliament resumes. Even if powers are taken it would probably now be desirable to keep them in reserve as a last shot in our locker though the account's present position should make it unnecessary for that bolt ever to be used."

The city Editor of the DAILY MAIL concludes his comments as follows: "The currency situation as between the bank and the exchange fund is now so complex that I should not be surprised if steps were taken when Parliament considers the question next session to clear up the somewhat confused relations now existing between the two institutions. Already New York is forecasting the revaluation of the bank's remaining gold reserves and the guess will not be far short of the mark".

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ThE

-4- #26, January 7, 1 p.m. from London

The dollar opened at 467% offered and moved to 468% before returning to the former figure at fixing time. The British authorities gave some dollars to steady the rate and have since fixing been supplying a few. Gold was fixed at 148 S 9% d and of the 139 bars dealt in 47 were married and the market supplied all the gold. The exchange market is uncertain and in the process of evaluating the recent measures.

JOHNSON

CSB

ORAY

PARIS Dated January 7, 1939 Heo'd 2:50 p.m.

Secretary of State

Washington

41, January 7, 1 p.m.

FOR THE TREASURY

Trading was fairly active in unofficial dealings between banks this morning but the turnover was not important. Sterling fluctuated between 177.20 and 177.50. It is at a discount of about 7 centimes for one month and at par for three months. We are told by our market contact that the fund limited its action to the purchase of a small amount of dollars. The dollar held steady at around 37.90.

The announcement of the transfer of 200,000,000 to the British exchange fund was received with marked enthusiasm and favor by the French financial press. Briefly the press stressed the unquestionable importance of assisting the British authorities in maintaining sterling. First of all because the monetary alliance of the two countries should meet and the political alliance; secondly because of the franc followed sterling in a possible decline it would depreciate in relation to gold, French 2-#41 From Paris January 7, 1 p.m.

French prices could find themselves at a disadvantage in relation to the sterling bloc prices; and thirdly because the general interest in behalf of monetary instability would be disastrous. AGENCE ECONOMIQUE observes that the financial strength of the British Empire is the basis itself of the protection of a regime of liberty, and that to maintain it London should be able to count upon Paris and upon New York.

WILSON

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PLAIN London Dated January 9, 1939 Reald 3:25 p.m.

Secretary of State,

Washington.

40, January 9, 5 p. m.

FOR TREASURY FROM BUTTERVORTH.

It may be of interest to have details as to the changes which will result in the Cank of England's statement from the transfer of gold on Saturday to the exchange equalization account. This week's statement will show a reduction from £326.4 million to £126.4 million in gold in the issue department and an increase in securities of 1200 million which were transferred from the exchange equalization account to the issue department of the Bank of England. The total note issue will be 1526.4 million which will show a reduction of 130 million on the previous week's statement which included the increase in the fiduciary issue by that amount which was made in the first week in December to meet the Christmas note demand. In other words the total note issue will return to the figure of 1526.4 which held throughout 1937 and 1938 except for the two temporary increases at Christmas time. This will be backed by 1400 million

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2-#40, From London, Jan. 9, 6p.m.

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million of securities and E126.4 million of gold instead of E200 million of securities and E326.4 million of gold. Other items connected with the note issue will remain the same except for the usual fluctuations in the notes in mirculation and in the reserve in the banking department, but the latter will be affected by the decrease of E30 million and there will be a corresponding decrease in securities in the issue department representing the retransfer to the banking department of the securities transferred in December to the issue department to back the increase in the fiduciary issue over the Christmas period.

The fiduciary issue, being the amount, fixed at any given time, of notes issued which are not backed by gold, was fixed in the Currency Notes Act of 1928 at 5260 million. Under provisions contained in that act the fiduciary issue was raised to 5275 million in August 1931 where it remained until March 1933 being then reduced to the statutory level of 5260 million. In December 1936 the fiduciary issue was lowered to 5200 million at the time when 565 million of gold (at 855. per ounce) was transferred to the Bank of England from the exchange equalization account. The fiduciary issue memined

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3-#40, From London, Jan.9, 5p.m.

remained at \$200 million throughout 1937 and 1938 except for the Christmas increases. Saturday's increase to \$400 million therefore raises the fiduciary issue by \$140 million over the statutory level of the act of 1928.

Though the British note issue is not based on a gold backing of any stated or fixed proportion it may be of interest to have calculated the proportion prevailing at various dates. In general between 1925 and 1931 when the gold reserve stood around \$150 million which was the level mentioned in the Cunliffe report as suitable, the proportion of gold to the note issue was around 40 per cent. It fell in August 1931 to about 33 per cent and was as low as 30 per cent in December 1932. After the considerable increases in the Bank of England's gold reserve the proportion of gold to the total note issue rose to a marked degree standing throughout 1937 and 1938 at around 60 per cent. Today with the Bank of England's gold reserve reduced by \$200 million the proportion stands at 24 per cent. It should be noted, however, that this is on the basis of the Bank of England's gold being valued at about 85S. per ounce. If the current market value is taken of 150S. the proportion of gold to the total note issue would be about 42.3 per cent. ThE

REB

4-#40, From London, Jan.9, 6p.m.

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The present ratio of gold at 150S. to the notes actually in circulation (that is the total issue minus notes held in the reserve of the banking department) would be about 46 per cent.

2. Naturally it is by its long-term influences and effects that the recent actions of the British monetary authorities to strengthen the technical and psychological position of sterling must be judged but today's market reaction has not proved decisively favorable. The dollar which opened at 4.67-3/4 has been on balance bid but the emounts dealt in have not been large. Most of the bidding is said to have come from the Continent and the dollar closed at 4.67-1/4.

Gold was fixed at 1485. 7 1/2D., A 1/2D. premium, and of the 161 bars dealt in 72 were married and the British fund supplied the remainder.

JOHNSON

HPD

REP

PARAPHRASE OF TELEGRAM RECEIVED FROM: American Embassy, Paris, France DATE: January 9, 1939, 4 p.m. NO.: 47 FOR TREASURY.

Today the exchange market showed a cautious tendency. No important turnover. At opening sterling was around 177.40; on the official market it was around 177.25 at closing. One month forward rate is par; three months, about 15 centimes. This morning at 37.90 the fund purchased about \$1,000,000.

The security market was unsettled and rentes lost about 1 franc 50.

The adverse trade balance for December is 922,000,000 france compared with 812,000,000 for the preceding month and 2,217,000,000 for the corresponding month 1937. Therefore the adverse trade balance for the year 1938 totals 1,539,500,000 france compared with 1,845,200,000 france for the year 1937.

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2-#47, From Paris, Jan. 9, 4 p. m.

The view is expressed in the FINANCIAL PRESS that the recent monetary measures taken in London are adequate and justified. The financial editor of LE TEMPS writes that to an important degree the recent outflow of capital from London is the result of vacillation and obscurity surrounding the monetary policy pursued by the British authorities but he believes that the recent decision shows that the policy has been modified. Unless international situation again becomes serious he does not see why the effort now being made with respect to sterling should not succeed.

"/ILSON

CSB

REB

## January 9, 1939 (approx)

While the Secretary was in Boca Grande, the President cut out the appropriation for the three cutters and fifteen airplanes, even though he had originally approved the request as contained in the attached memorandum. The President said, "He would go down to Boca Grande. He wasn't around, so I just cut it out."

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#### KINCRANDON FOR THE PRESIDENT,

The Secretary of the Transmit has transmitted to this office, for advice as to the relation to your program, the attached draft of latter to the President of the Secate with a draft of legislation muthorizing appropriations for the following:

20 1388 178	-01010
mit Cost	Total
	istimated

166,000

1.	To construct and equip three	0	
201	Coast Quard sutters, of ap-		
	proximately 2000 tons dis-		
	placement such and designed		
	to have a speed of not less		
	than twenty knots	\$3,000,000	\$9,000,000

- 3. To purchase or construct, and to equip, fifteen samplanes having a cruising range of not less than 2000 statute miles ......

2.733.000

and lifes

247

2.490.000

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Total ......

It will be noted that the proposed legislation refers to the mational defense aspect of the new equipment and familities, and in this connection I invite your attention to our conversation of Desember 12 or 13 regarding outtors and planes for the Coast Guard. At that time there was under consideration the matter of including a reference to these items in your means to Congress on mational defense, but the message, as transmitted, did not contain such reference. You will recall also that your memorandam of December 27, 1936, transmitted for my information a note from Secretary Morgentham with a memorandam from Admiral Massake of the Const Guard which indicated that the Mavy Department favored the establishment of combined Havy and Const Guard facilities at Kodiak, Alaska, said Const Guard facilities to include an air station and a base for Const Guard vessels.

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In view of the fast that the matters included in the Coast Guard proposal have had your attention previously. I shall ammit your instructions before advising the Secretary of the Treasury as to the relation of the proposed legislation to your program.

S/s & Buce

Aoting Director.

- Gibbons: I found you had gone all over the situation as far as Bennet Field, on the airplane failure to get flown there, is concerned.
- F.S.Jr: Yes. Well, the less said about that the better; I told Admiral Waesche the Coast Guard let me down, all right.

Gillonns: Yes.

- And the President had the memorandum from Bell usking for these three cutters and fifteen planes, and he brought it up yesterday in front of McIntyre, and Mac said, "Didn't you want to take up with the Secretary?" And he said, "He would go down to Boca Grande. He wasn't around, so I just cut it out."
- That's about the story.
- H.J.Jr: It was the story. He said, "You will go down to Boon Grande; how do you expect to get your three outters and fifteen airplanes?" It is the truth.

... denymolds: I don't even think it's funny.

What?

cheynalds: I don't think it's funny,

He said, "You were away."

fell: It wasn't brought to his attention.

H.J.Jr: He certainly didn't place the blace on you.

Gittond: Ah --

H. .Jr: You mind if I keep moving? Is it important?

Gibbons: No. I'll talk to you sometime again about Const Guard.

H.J.Jr: No use talking; it's your people, and those people down there are just not on their toes. Now, I told this fellow Waesche, and I told him over a year ago to take von Paulsen off active flying duty, and he hasn't done it. He is still flying people. divbons: I didn't know that.

Just because he is a pal of his, he doesn't do it; and these people up there - if they had been on their toes they'd have gotten a plane down there. The only reason I didn't say anything more is because those people were saved. If those people had been drowned, it would have been nobody's fault but Coast Guard's. It's the most outrageous performance I ever saw. Waesche doesn't defend it.

- He can't defend it.
- Linbons: I know it is, but I didn't know about putting Paulsen off.
- I. ..... Paulsen was supposed to have been taken off.
- Gibbons: I didn't talk to you about it on account of your throat condition.
- P.J.Jr: I did it the same day, the same night. I wanted to know where was Coast Guard. The only reason I haven't fired somebody is because the people lived, but if those people had drowned, it was nobody's fault but Coast Guard's; absolutely nobody's fault but Coast Guard's.
- Giabona: Of course, they haven't got -- they just had that one old plane there; they should have some more.
- Gibbons: They had one brand new plane. They didn't even find out how many people were to be rescued.
- H.I.Jr: Well, the people lived; there's no use getting excited, but I hope - I mean, if they had died, then we'd had a nice investigation and we couldn't have excused ourselves at all.

Gibbons:

All right. Well, the only thing that annoys me, I didn't know about Paulsen.

H. I.Tra

The story was, he was attached as Aide to Secretary Ickes, and Mr. Hopkins, when they had that boat, and Paulsen was so drunk they had to put him to bed - while he was attached as Aide. I said, "A man who drinks like that when he is an Aide to a Secretary, a member of the Cabinet remove him from active flying." And when they went to acce, of course, Hopkins backed down on his story.

## Gibbons: Does Waesche know that?

H.H.Jr: Oh, he knows all about it. I said, "If the man is so drunk he can't show up for lunch," I said, "take him off flying because," I said, "the first thing you know, he will be flying when he's drunk and kill some people." Then Hopkins will say, "I told Morgenthau the fellow was drunk." GROUP MEETING

January 9, 1939. 9:30 A. M.

(Held in Mr. Hanes' Office.)

Present:

- Mr. Hanes Mr. Taylor Mr. Lochhead Mr. Schwarz Mr. Duffield Mr. Bell Mr. McReynolds Mr. Foley
- Thrus: Good morning, gentlemen.
- Ball: Good morning.
- How you feel?
- Soll: Pretty good.

Immus: (Telephone - H.A.Jr. calling from Boca Grande.) Hello. Hello. Hello. Yes. (Aside: Anybody got anything for him? (No answer.))

Hello. Hello. Good morning, Henry. How dre you? You had any fishing? No? No tarpon? I see. (Laughs) That's good. That's god. Have you got anything on your mind especially? Yeah. Yes. Right. Yes. Well, I wrote Altmeyer a letter last week; they were going to press on Friday, and he wanted us to commit ourselves as to how we felt about the recommendations they were maxing, and Herry white, Ed Foley, and I got to ether and wrote a letter back to him, and asked him to delay I mean, asked him to go right shead with his plans but so far as the Treasury were concerned we were not ready, in your absence, to make any committment for the Treasury, but the minute you came back we would take it up with you. We thought you were interested in the situation and wanted to express an opinion.

Brown? Yes. Yes. Well, I think he would be a good man and I'll be thinking about that anyway; I'll talk to the group about it to. Yes. No, I have not. I haven't done anything at all with it. We - we haven't gone any further; we've got the charts made, and that's about all we've done. All right, I'll do that. Yes. After you get through, Wayne wants to talk to you for a mimite, and then I want to say a word to you I'll have to say in the other room, about the matter you called me about the other day. Yes, I'll go in your room and when you get through talking to Wayne, I think I've got the story. Wait a minute; I'll put Wayne on, and I'll tell Wayne as soon as you are through to put me in on the other side. Yeah.

Invior: Hello, Henry. Well the pound is still good, but not quite as good as it was Saturday. As Archie says, they are looking it over pretty good.

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Lochhend: 4.671.

Top Lorg

4.672. The thing I want to talk to you about is a message the State Department h s on China. You remember some time ago they sent over this message which is rather mysterious about a stabilization operation? Yeah. That's right. Well, they are back with that again, and say that the Chinese have been approaching them for three million pounds; that they want very much to do something, and mention again legislation that they will have in connection with exports, credits, and so on. But on this particular one, they say they den't want to do it unless we will go joint account. We don't feel that we ought to to joint account. Well, he's not insisting. He is doing it the other - he's taking it the other way, that, in other words, parallel rather than joint. Yeah. Well, we are - the answer that we are going to suggest is that we expect to continue our cooperation but do not think a specific joint account is desirable. Yeah. I will. Well, I'll have news for you on that.

Aranha is going to be asked by our President, through President Vargas to come up here the week the first week in February. Ah, they had several conversations back and forth, and their President approved the idea, but then, in order to make it doubly good, he's decided - to make it doubly good, is to have it on the President-President basis. It starts out that way anyhow. Ah, well, the other is, I guess, will wait. They are covered - what to do about Cuba, and we are going to have a meeting with Eccles before we do snything on that, with the idea of havin, the Secretary of the Treasury of Cuba probably come up here. Ah, yes, I guess. Yeah. Right. All the boys are here. Yes. All right. (Hangs up.)

vior:

(To Hickman - reporter:) Will you mark down in your record there that I called the Secretary of the Treasury, in regard to a message which had been received by the State Department regarding the establishment of a joint account with the British Treasury, amounting to three million pounds for a stabilization of the Chinese currency; that he and we agreed that we should not enter into a joint account operation, but that we should give a message to the State Department to the effect that we would expect to continue our cooperation but do not think that a specific joint account is desirable.

(Discussion re various golf scores and games while Mr. Hanes is out of the room.)

Danny, got anything this morning?

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Ehnes: Bell:

I haven't anything. As a matter of interest, Mac got the Comptroller General's - 1 copy of the got the original Comptroller General's report to Congress, and the boys looked it over, over the week-end, and here is a balance sheet that everybody's been hollering for, for a long time. He sets up the assets in the Treasury - mostly gold and cash, accounts receivable - and puts in a cash shortage in the public debt of a hundred eighteen thousand as an asset, and then puts in the foreign obligation of thirteen million seven, fixed value, plus interest, and went down to the Treasurer's office and took interest obligations at forty million dollars for the Russian Government, which we more or less ignored as an obligation. He took the accrued interest off our books and there is a duplication of forty million dollars. Comes to assets of twenty-two billion nime hundred million. On the liability side he sets up the Stabilization Fund, Appropriation Funds, unadvanced, of Thout five million; Public Debt of thirty-seven billion; it comes to forty-six billion collars of Hability, and has a national deficit of twenty-three billion dollars.

Monon: Better not give that statement out to the press, I wouldn't think:

- ndil: I guess Cochran is having quite a time holdin, it away from the boys.
- Dejution of the don't think he can. It is wirt of the report of the Comptroller General of the United States to the President. Jack Cochran was avfully good about this; he got that thing end hid it until our boys got a chance to look at it, and he told me last Wednesday that we'd have somebody up there at eleven o'clock Saturday, and he'd see it was turned over to us, and he'd lock his office up and go away for the week-end so the newsboys couldn't get at him.
- Sell: It's going back this morning.

We'd know what they were tolking about.

There isn't much in it which the Treasury can take action on. There is this shortage of public Bell: debt of a mindred eighteen thousand dollars, which is largely old war savings stamps and so forth. That ought to be explained, eventually. Probably we will have an opportunity. And then they've got quite a section in there on endorsement of checks, dealing with the correspondence we have had between the Treasury and banks, and he maintains that we don't sufficiently examine the endorsements on checks. Of course, we rely on the bank and guaranty, and if we undertook to endorse - I mean examine - all the endorsements on the checks, we'd have to get a lot more people in the Treasurer's office. Just to send a check back because I would sign "Dan Bell" instead of Dan ". Bell" or "Dan Bell" instead of "Dan Bell, Jr." - those things are what he is calling to attention. Where a witness signed, one man will give his address and the other one won't. Just a lot of stuff like that, he criticizes - just minor things; that's all. - 5 -

Lochlend: That is one of the biggest headaches the banks have, on Government checks.

Enned: Dan, it seems to me the press have handled this Budget report of the President's awfully badly. I don't know why it was such a shock to them in the first place. I don't know why they weren't more familiar with the fact before it came out or whether they were familiar with it and just acted as though they weren't.

. community it's deliberate; play acting.

- Nobody, in the wildest imagination, knowing what the seventy-fifth Congress had done, would know they weren't goin, to have any less figures to deal with.
- They have taken it as a distinct shock. Of course, as Schwarz said, they knew it.
- Henen: It seems to me it was universal. It got an awfully bad press. I wonder if the story given to the press might not have been given to them a lot better than it was. I don't know how it was given to them.

Sell: I thought it was a good press conference.

Schwarz: I thought it was a good press. I don't think it is necessarily universal. You will find it surely anti-administration papers.

innes: I don't know what papers it was, of course; it seems to me the Times, and papers like that, that generally treat matters pretty fairly.

Doll: The Times has always been against this spending, though. The last three years they have been against the spending.

Schwarz: I don't think there's been any departures from it. I think it was pretty consistent.

Bell: As you said the other day, can't make it look like an orchid. Hanes; Gene, you got anything this morning?

Duffield: I haven't got anything except that meeting at eleven o'clock.

Hedge: Going to talk about it?

Duffield: Industrial credit,

These: Tave you gotten - has everybody gotten a cony of those last bills; have you started to think about that yet?

Infield: I think they have been around. I know your boys have worked hard.

Soley: There is quite a typing job for that; copies to be available. That won't be ready this morning. Have the meeting tomorrow? I think we'd have a consolidation of the examining agencies. I think we'd better take three bites of it.

Hones: Who in the Treasury does the drafting of bills? Have you got a drafting department?

Foley: Yeah, but they are not working on this bill.

Tanes: Who did this job - the ones you've got cone?

Foley: It was started by Clarence Opper. I took Clarence's place when he went to the Egard of Tax Appeals. There is an Assistant General Counsel with bill drafting under him. That is Larry Bernard. But this banking legislation - bank holding company legislation - has never been in the legislative unit. It would be turned over to the legislative unit. It would be turned over to them whenever the legislation is perfected and them whenever the legislation is perfected and they'd handle it on the Hill. We wouldn't handle it. We have actually drafted it. The same is true on the consolidation.

Hanes:

Does anybody want to sit in on this so-called Glass Bill? All I was trying to do is get all of us familiar with it before the Secretary comes back on account of the fact he asked Glass to wait until February first before introducing his bill; to get us all prepared to be in position to say to the Secretary, before he comes back - to

say we have examined all these bills. There is another bill, I understand, over in F. D. I. C.

Foley: The Glass Bill came from the F. D. I. C., probably this year it will be a modification of the bill last year.

Durfield: You mean this year's Glass Bill?

Toley: This year's Glass Bill, which will be the F. D. I. C. Bill again.

Hanes: Excuse me; don't you think it is important that we get the Comptroller - everybody who is interested in banking legislation - that would be the F. D. I. C., the Comptroller's Office, the Federal Reserve, and the R. F. C. Is anybody interested in the banking legislation?

Duffield: That is the group that worked on it last year.

Henes: I was thinking if we could get in accord with those four people, get them in accord, and have them unanimous in suggesting a type of bill to Glass, that we could get Glass to introduce a bill not as it was, but as they think it ought to be today.

Foley: I think that would be ideal if we could do it, but certainly we're in no position to go to the Comptroller, the R. P. C., or Federal Reserve at the present time. We've got to do a good deal of home work right here before we can go outside the Treasury.

danus: That is the point, exactly; I think we ought to be doing that. He apait have but fifteen days when he gets back.

Foley:

What we are going to do at tonorrow's meeting is a comparison of the Glass Bill, introduced last year, with the Treasury draft. The Treasury draft won't be acceptable to any of the people at this meeting tomorrow, probably. And on different points, everybody is going to have ideas, so what we will have to do is try to get some unanimity of expression on different points, and then take the concensus insofar as thet is possible, of the opinion

	on those points and get up a draft. Then if we can have that ready by the time the Secretary gets back, and the draft in that shape is agreeable to him, then we'd be in position to start to talk to some of the other agencies.									
ines:	Do you see any objection to having the Comptrol working with the other three agoncies independe of us?									
jey:	I - I - I - I would see objection to that, yes.									
1188:	You would?									
oley:	Yes. I think we'd better get our own ideas clarified first and get the Comptroller to agree and then start outside of the Treasury, with the Treasury and Comptroller in agreement.									
1163:	Will you set a time?									
alsy:	I'll be ready tomorrow, if you will fix a time.									
NU (192	1:11 fix a time now, if you want. Suppose by don't we say right after this meeting tomorrow morning. Ten o'clock.									
hiery:	Eleven o'clock.									
oneā:	Eleven o'clock, would you rather have it? Well, we'll say that it is eleven o'clock tomorrow morning.									
uffield:	I'll call the roll.									
1000	while we are - before he to up, have jou ot									

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While we are - b Han S: anything, Ed?

No. Polcy:

Before we go past here, the Secretary was just before we go past ners, the Secretary was just talking about Social Security. He wants to not a group of outsiders; he would like to have some-body outside come in and advise him on this Social Sanes: Security problem, and he said we would like to have that either the first or second day he's back here; he'd like to have us think about the names of people he should invite, and he suggested -the only name he had in mind was one darry White

had in mind; he was a man by the name of Brown. You know him?

Countities.

Tell: The Secretary doesn't want him, does he? He wants somebody that wasn't connected with Bocial Security. He was the head of the Social Security Board.

Enned: He suggested that name.

- prographics: Brown is a nice fellow and we all liked him find, but they've got his ideas in the Social Security Board's report.
- Linnes: Let me put it this way; will all of you think about names to suggest to him when he comes back here, because this is foreign to my field; I haven't the faintest idea of anyone to suggest, myself. The fellow who impresses me more than anybody else I have talked to the ut this thing is a fellow by the name of Folsom.
- Bell: He's from Kodak (?). They've got nome prote Lund fellows; Folsom's good; Brown is good.

Cohward: It is a well balanced council.

Hones: Folsom. He impresses he more than anyhody I have talked to.

dell: Does he go along?

Hands:

Yes, pretty generally; I think he is more inclined to go along with the Board than he is with the council. He likes the Board's surjections. He thinks definitely that the benefit payments should be moved up to 1940; thinks there should be some increase in the benefits. I think he agrees practically in toto with the recommendations made now by the Board. He didn't agree with the ones they were about to make. They have chraged several times; they have modified and modified, and modified. I think now he is pretty well in agreement with the Board. Personally, I can't -I don't know - maybe I'll change my mind; I'll reserve that right, but I am pretty well inclined to agree with the Board recommendations in their present form. Well, will all of you be thinking about that and give me some names and get ready to suggest to Henry when he comes back.

He also asked me, Mac, if you and Wayne and Herbert well, Herbert's away now - he was working on this new chart in the Treasury; he's working on. He asked me if you'd get together and have something on that for him. You might have a little meeting on that tomorrow morning, to suit you, after the banking meeting, say around twelve o'clock.

cReynolds: Suits me.

Hanes: All right with you, Wayne?

Taylor: (Nods "Yes.")

Tancs: Nayne, you got anything?

- Ta lor: (Nods "No.")
- Hanes: Mac?
- dcReynolds: No.

Lochbead: The exchanges are steady, not quite as high as they were - about 4.672 against 4.68. There's quite a lot of discussion in various markets as to the motion of sterling after that transfer. I think you will notice Amsterdam seemes to be rather critical of the position, and kind of ties in, somewhat, with that talk that this Mendelssohn group are kind of bearish.

Taylor: Affecting their position.

Lochhead: According to the Amsterdam News, they are critical, thinking the Mendelssohn group are bearish.

Hanes: Was all that stuff you gave me made public?

Lochheud: Yes, it's all a matter of public record now.

Taylor: Well, all except part of that about the form the legislation might take.

Lochhead: Well, of course, even that - they didn't say what form the legislation may take.

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Trylor:

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They have told us several of the things they have in their minus.

Why was it the British didn't know anything shout ilanes: that over here? We had the information before they did. How is that?

- We got it by telephone, you see. Their cable was Taylor: then being - I have talked to mallet about that. When they came down here there was a cable over there in their office that was being deciphered, you see, so the time element wasn't very great except for the telephone aspect. We had botten that cable just the minute we walked in the door. That' the reason I had it there and it saved me a little That's trouble by showing them the coble.
- They will not telephone, as a jeneral rule. They have, once or twice, used the telephone, but they still stick to the traditional form of using the cable and codes, so, therefore, we had butterworth calling the might before; as soon as he heard he came to the office and telephoned, so we had but LoeWssad: advantage of a telephone conversation.
  - If you code and decode, why, I submose that takes a minimum of what - two hours each way? Thy Lor:

At least two hours each ag. Locitishd:

It would be four hours altoyet'er. lor:

They were using the heavy code, the triple confidential code. In fact, Butterwort' insisted on getting the diplomatic channel so it would be Loc de d: secret - secret telephone.

No evidence ..... (several talking at one time) ..... Hanes:

None at all. It was decided Friday hight, ground eight o'clock, so the second part was coming out Saturday morning, so there wasn't very much time. Loch sead :

What has sterling been since? Unnes:

Well, it want up to 4.68. Today it is about 4.672. It's stopped; it hasn't promoted any return. France, on the other hand, is still steadily main-ing; not to any great amount, but they are still Loch lead:

getting some funds back.

Maylor: -

We had one funny thing on this time element, because Sandy "line came in, I guess it was that same day, and he said he had been talking to somebody - some Washington official here, and he said, "Oh, we've known about that for at least fortyeight hours," and I said, "Well, wheever tald you that is a God dammed liar," so that's the kind of stuff you run in to there.

reimarz: They didn't know it.

"Wylor: Of course they didn't know it; they couldn't have. The British did know it.

Wennes: Chick, you got anything?

Schurz: (Nocs "No.")

Tuffield: I am petting ready, just for my own information, a chronology - that hus hopened on this mand holding company. You want a cony of it?

Neren't you getting a digest?

Diffield: Yes sir.

Fanes: I am prepared on the class Bill. So far as that goes, I don't need anyt in: on the Blass Bill.

Duffield: I am daing this for my own information, but if you want a calendar I'll make you a copy.

Taylog: I con't know it by heart, but I've get a fairly good ider.

Hands: I wonder if it will suit the banking, from as well at twelve o'clock? I've just got a message that Bullitt is coming in. Monnet is coming in. I am not going to be through at eleven o'clock with those two coming in.

Dufrield: It will suit me; I'll ask Mr. Delpho.

Hanes: Ask him if he can shift it, because it is going to take more than an hour, anyway.

Schwarz:	What	wi11	It	:e11	the	boys	when	they	ask?	The
	boys	will	ask	abo	out	Bulli	tt.			

Hanes: I don't think you can say a thing in the world.

Bell: That he is paying his respects.

Hanes: He is here on a very secret mission, and you certainly can't tell them what he's here for.

Duffield: They won't recognize him.

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Hanes: He came to see the Secretary, and the Secretary wasn't here, and he's calling around the Treasury. He is just here today for the first time since he's been back.

Shanghei, January 10, 1939.

165

NORTH CHINA SITUATION AND GENERAL TENAUCHI'S

## RECALL

According to information secured from a Chinese puppet official of the "Provisional Government of China" in Peiping, who is in Shanghai on an "official" mission, the recent recall from his post of Gen. Tenauchi ( , 內 ), Commander-in-Chief of the Japanese Expeditionary Forces in North Chine, has a very complicated background. Aside from the fact generally known to the public that he has not been on good terms with the Japanese Ewantung Army represented by Gen. Doihara, and that the latter was instrumental in his removal from office, there are several other reasons. In the first place, the fact is known in Tokyo that in the past six months no less than 400,000 armed Chinese red troops and guerillas have sutered Jehol and Manchuris through the areas under Gen. Tensuchi's gerrison. These irregulars entered Jehol and Manchuris through Rupeikow (友 Jt 12), Sulyuen, and other Great Wall pesses. They are the forces of Con. Soo Ping-wen (弟. 休雨 文), Gen, Me Chen-shan (唐 写 山) and the Righth Route Army. Secondly, recently on army godown in Tientsin containing sround 500,000 suits of new winter uniforms for the Japanese ermy was entirely destroyed by fire. These uniforms were intended for Japanese soldiers in North Chine, especially for those assigned to invede the Northwestern provinces of Shensi, Kansu, Ningshia and Sinkiang this coming winter. Other ermy godowns in Tientsin in which were stored gesoline, cotton, foodstuffs and munitions also caught fire one after the other. These fires incurred great losses to the Japanese in the North and also demoralized the army's spirit to a great extent. Investigations conducted by the Special Service Organ of the Army revealed the fact that these fires were not started by Chinese government egents or guerilles, as generally expected, but by communist elements and those opposed to war

**Regraded Unclassified** 

in the Japanese army. Thirdly, the growing resentment amongst Japanese soldiers egainst the present war in China has resulted in a large number of desertions every day. It is conservatively estimated that no less than 100 Japanese soldiers have run away from their berracks in North China every day. The anti-war propagands in the army carried on by peace elements is becoming very widespread. Lastly, the growing influence of Chinese guerilles in Japanese-controlled ereas is gradually turning out to be a real threat to the Japanese army. On the advice of Chinese guerillas, the fermers in Hopei, Shantung, Chahar and Suiyuan are cultivating no more cotton this season, to be sure that no such war materials may fall into Japanese hends. They are growing only enough rice and wheat for their own consumption and in case the Japanese soldiers do try to take it from them they will not hesitete to rise up and fight for their own living. These measures employed by Chinese irregulars are causing great difficulty to Japan's aggressive campaign in North Chine.

PARAPHRASE OF TELEGRAM RECEIVED FROM: American Embassy, Paris, France DATE: January 10, 1939, 10 a.m. NO.: 52

FROM COCHRAN .

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This morning I got back from Basel where on January 8 and 9 the BIS directors held their meeting. On my way to Basel I visited the Governor of the National Bank of Belgium and the Belgian Ministry of Finance. In the Netherlands I visited the President of the Netherlands Bank and the Ministry of Finance. I also saw the President of the Swiss National Bank at Zwich; I did not go to Bern to visit, because Meyer, the Swiss Finance Minister, retired effective the thirty-first of December and his successor does not assume his duties until the first of February. I called on Ambassadr Davies in Erussels, and on Minister Gordon in The Hague.

In all three countries visited - Belgium, the Netherlands and Switzerland - I found that my friends were perturbed over the present situation of sterling. In the autumn there had been renewed agitation, after the depreciation of sterling, for a change in the belga's status involving leaving gold and undergoing further depreciation. The Netherlands Government was being urged to move towards florin depreciation to bring it more in line with the sterling level. Considerable influence to this

this end was brought to bear by shipbuilding interests, as well as others, which are experiencing sharp competition from Scandingvian countries. Such action was favored by at least one member of the Government, i.e., the Minister of Economics. It had (7) understood <u>why</u> that some step should be taken when a cross rate of 4.655 was reached. At the time I was visiting in the Netherlands this point was reached, and the subject was a live one then.

- 2 -

Economic repercussions from sterling depreciation were suffered by Switzerland also. The textile industry particularly was affected in Switzerland.

I told my friends of the personal impressions I had picked up on my recent visit to the United States with regard to the attitude toward sterling in my country. I said that it was my personal opinion that no one should take hasty or isolated action lest a new series of competitive devaluation be begun thereby. Reference, my telegram No. 2193 of December 30: I let my friends know about the information I had obtained in Paris to the effect that Great Britain was thinking about taking early steps toward control of gold operations and a transfer of gold to the equalisation account from the Bank of England. The Belgian, Netherland, and Swiss officials decided that before they took action they would await their weekend meeting at Basel.

END SECTIONS ONE AND TWO.

WILSON .

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PARAPHRASE OF SECTIONS THREE, FOUR, FIVE OF TELEGRAM NO. 52 OF JANUARY 10, 1939, FROM PARIS

After I had seen the Governors of the three central banks mentioned above, but before they left for Basel, each one had received a letter from Governor Norman of the Bank of England, in which was enclosed a copy of the communication to the Bank of England from the Chancellor of the Exchequer. The Bank of England was asked by Simon to take steps toward control of gold operations and toward watching over transactions in exchange. In Governor Norman's letters to the governors of the central banks he asked that they cooperate as to gold transactions on the markets in their countries. Governor Norman erplained in these letters that he had sent similar communications to all of the continental members of the Tripertite, but that since private gold transactions were not permitted on the American market under existing law, no letter had usen sent to the United States. The central bank governors had been told of the transfer to the equalization account of 200,000,000 pounds of gold from the Bank of England.

On January 6, before President Trip of the Netherlands Bank left for Basel, he issued a confidential request to the main banks and bankers in his country, effective until further notice is given -

"One.

"One. To refrain from making advances or granting credits against gold whenever they have to take it that the advances or credits are asked for the purpose of flighting from or speculating against sterling; two, not to act as counter party in gold dealings for forward delivery whenever they have to take it that the transactions are proposed for the purpose of flighting from or speculating against sterling; three, to refrain from facilitating by any means whatsoever transactions as referred to sub one and sub two".

- 2 -

On the seventh of January President Bachmann of the a communique Swiss Bank had released to the Swise press/indicating the steps taken by the Bank of England. He included a reminder that Swise cooperation toward the desired end was already required by the Swise Federal decree of June 19, 1936. This law prohibits the purchase or sale of gold at <u>term</u>, granting advances against gold or foreign exchange, and obtaining forward foreign exchange if commercial operations do not justify it.

The Governors of the Belgian, Netherland and Swiss Banks and the Governor of the Bank of France, when they arrived at Basel, discussed this matter with each other and with the Governor of the Bank of England and Mr. Cobbold (of the Bank of England). Governor Fournier (Bank of France) told

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told me that he had received a request similar to the one received by the other governors. He said that Governor Norman had explained to him orally that he preferred to leave to the Bank of France the working out of the details of cooperation by the French. Therefore, it was Fournier's intention not to issue a written circular to French bankers, but he would call in the main ones who would ordinarily be involved and ask them to cooperate. It was his belief that if too much formality were given the matter, it might excite suspicion as to sterling's strength - just as such steps have increased concern about the franc in the past.

- 3 -

I had a talk with Janssen of Belgium, who said that before he left Brussels he had not taken any definite steps because he felt that the measures which he instituted last May for keeping watch over exchange and related transactions would meet fully the request for cooperation by the Bank of England. When he got back to Brussels, however, it was his intention to remind his bankers of the existing regulations, and he would specifically mention his desire to cooperate with the Bank of England.

END SECTIONS THREE, FOUR AND FIVE.

TILSON.

EA: LWW

PARAPHRASE, SECTION SIX AND FOLLOWING. (TO SEC. 17, INCLUSIVE) TELEGRAM NO. 52 of JANUARY 10, 1939, FROM PARIS.

The governors of the three junior partners in the Tripartite - the Banks of Belgium, the Netherlands, and Switzerland - agreed that letters of acknowledgment of the communication from Norman would be prepared today upon their return to their respective banks. The sense of all the letters will be the same, although they will not be identical. Generally, it will be stated that they are glad to see that measures to strengthen sterling have been taken by the British authorities, since the depreciation of sterling has caused suffering in their respective sconomies, and since they would have had to take action regarding their own currencies if the recent trend had continued. The letters will state that these banks feel the Tripartite Agreement needs strong effort toward maintaining currency stability; they would not want to be forced to take measures in self defense which would contribute to general deterioration of the state of international monetary affairs. In general circumstances, the efficacy of such measures as have now been taken by the British is doubted; but the measures should be effective in the present case, since these bankers are convinced that speculation against sterling is the cause of that currency's current weakness. They are glad to cooperate since the cooperation envisaged is toward checking such a movement.

ment. The Governors will inform Norman in their letters that the matter has been discussed with their respective governments, and that they have no objection to Governor Norman bringing their replies to the British Government's attention since the views set forth therein express the official government's viewpoint. The fact that a large gold transfer had been made to the equalization account was particularly pleasing to the Governors. They expressed the hope that this indicated and would be interpreted as a move toward strong defense of sterling.

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Since things turned out as they did, I felt it fortunate that I had had the opportunity to make my visits in Belgium, the Netherlands and Switzerland at the time I did. The interested Governors talked to me freely at Basel about the matter, and have promised that in the future they will keep me informed. The improvement which had taken place in sterling after the announcement of the various measures was encouraging to them, and they hope now that a stronger pound can be maintained.

Of those outside the Tripartite group, I found Jacobsson Father critical of the measures taken by the British. It is his firm belief that since Great Britain has such a strong gold position it should have before this demonstrated force. He believed it was misleading to have published in the recent British statement the fact that the equalization account had such a small amount of gold, when in reality

all of the gold resources of the Bank of England should be taken into account. Jacobason thought that the British should not have stopped foreign lending, as they have the resources to do it and such practice is an important source of income for them. He feels that it would have been unnecessary to resort to the technical measures mentioned above if they had exhibited greater strength. He has less and less faith in the operation of secret stabilization accounts. On the other hand, Trip of the Netherlands condemned the British practice of publishing their statements about their equalization fund, as bear pressure on sterling had been greatly augmented by such recent publication. In his country he said he had successfully resisted agitation toward publishing any statement. As had been announced, he had even been successful in securing Government regulations which excuse his Bank from indicating how much gold is held abroad. Trip expressed the hope that the United States would not do as the British have done and publish data on the stabilization fund of the United States.

- 3 -

During a long private conversation which I had with Governor Norman, he told me the following:

Norman had visited Schacht in Berlin, and had just come from there. He had made this trip on his own initiative, he said. "Combustible" topics had not been discussed. Neither the Jewish problem nor credits had been brought up

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in their talks. The refugee problem would be discussed by Rublee, who was expected in Berlin shortly. Governor Norman told me that no one disapproved more thoroughly than did he of certain things done by the German Government; he said he was sure that these acts were condemned by over 90 percent of the Germans themselves. A wide gulf had developed between Germany and other countries, and this gulf was becoming wider still. This did not seem to matter much to the reckless German leaders, who seem to be proud of their success in isolating their country. In Norman's opinion, for this to continue was very dangerous. He is convinced that if eventual serious trouble is to be avoided, the policy of appeasement begun by Chamberlain should be pushed forward with the idea of seeking some sort of an eventual four-power arrangement. With the present friction between Italy and France, he expressed the hope that Chamberlain's coming visit to Rome will accomplish something toward getting Italy more into line. Norman expressed pleasure over the progress recently made by France, and he said France should now be more able to play its proper role internationally.

Governor Norman told me that he had always believed the most helpful and hopeful contact between Germany and the rest of us was Schacht; in the past he has consistently tried

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tried to work with Schacht. Norman had arranged for Schacht to visit London in December and had now repaid that visit in Berlin in order to help Schacht in his present situation win more influence from the German Government. The significance of his own visit to Germany was modestly minimized by Norman, but he hoped that visits of "weightier" men from London would be facilitated. He believes that with care and negotiation a conflict in Europe can be avoided, but that it might be disastrous to fight intolerance with intolerance.

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Governor Norman said he thought sterling weakness was mainly psychological, being the result of lack of confidence by other countries in Great Britain and sterling since 1934. He said he realized the disadvantages to Belgium, Switzerland, France and the Netherlands from a depreciation of sterling, and he understood the concern of the American Tresury over the recent decline. He stressed the expenditures which had been made by the British equalization account in order to check this drop; the fund's resources had been almost depleted by the December effort. Therefore they had taken the technical measures to restrict foreign lending and operations against gold, and followed them up by transferring to the fund gold from the Bank of England. Some helpful results from these measures had already been noted, and there had been improvement in the pound. This first improvement was the result

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of short covering, he said; a tremendously large speculative position against sterling had previously been built up. It would be foolish, he said, to try to guess at the amount of this speculation because statistics were not available he thought that it certainly passed 80,000,000 pounds. and this speculation was in addition to heavy withdrawal of funds actually on the market in London. All sources except British were involved in such speculation; the British had not withdrawn their funds nor speculated against sterling. The Bank of England was in a position to promptly and effectively take measures to stop such tendencies had they developed. Governor Norman, as it was, had wanted to take a step toward stopping foreign speculation against the currency by raising his Bank rate and making it too expensive to speculate. So far such action had been disapproved by the Chancellor of the Exchequer, since the Government was set upon continuing its easy money policy. Outside the field of armaments, Norman said, there had not been much there industrial pick-up in England and he believed that it/would be just as good or even better opportunity for industry to improve with interest at 4 percent as at 2 percent, the present rate. Armament expenditures are heavy, he said, but he insists not enough to hurt the pound. If only the Central European problem could be cleared up, he said, the budget situation and other economic factors [omission]. For this reason Norman had extended a helping hand to

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Schacht even though he realized he would be criticized for it. I asked whether the British control, now that it had enlarged resources, would follow its past policy, or whether it would fix a line beyond which the pound would not be permitted to decline. Norman replied that he believed it would be a perfect target for speculators if they should peg the rate. On this point I talked further with Cobbold, who said that the British definitely regretted the drop in the pound, and wanted to see it recover, but they had not fixed any limit either top or bottom for their currency.

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Both Norman and Cobbold were hesitant to give any assurances to their colleagues which might later prove disappointing should there be a decline in sterling. However, they were visibly encouraged over the pound's improvement, and especially by the opinions of other central bankers regarding the sterling outlook. Norman was told by Trip particularly that it should be possible for the British to stop speculation since the political factor was just as important to the four Continental Tripartite countries as it was to Great Britain - as their currencies would be just as vulnerable in case of a war in Europe and strength against sterling had been shown by all these countries.

On Sunday Jacobsson and I had lunch with the German representatives. Schacht talked quite frankly with me

alone

alone and to some extent later on when Jacobsson was with us. I was told by Schacht that there was not just one but many leaders running Germany. He expressed regret at the extent to which Goebbels and some of the other party chiefs had gotten out of hand; at present there was nothing he could do to hold them back. The best and only means offering some hope, he believed, would be for foreign economic and financial officials to develop some balance against Germany which would bring about a more cooperative attitude on the part of the German Government. When he approached Hitler and Goering with the idea of the London trip, he had to do it on the ground of possibly starting some solution of the Jewish problem rather than that it might improve German-British relations. It was not his particular wish to become involved in the Jewish problem, but he had gone to London on this errand and had taken advantage of the occasion to see as much as possible of Governor Norman and other prominent officials in the Government. He had most genuinely appreciated the return visit of Norman, and German officials and the press had received it well. If only more official visits could be exchanged, he said - even for christening purposes there would be so much less opportunity for exchange of bitter recriminations between nations and particularly between le\_ders

- 8 -

leaders and journals which are inclined to foster ill feeling. Schacht hoped that there might be more visits in the future, but several of his friends at Basel gave him to understand quite clearly that it is generally thought that some disposition to talk things over with foreign officials would have to be shown by Hitler himself before such foreign officials could go much further in their undertakings for appeasement.

As always, Schacht insisted to me that Germany is not going to break up financially or economically in any foreseeable future, that difficulties along these lines can be met. He thought that the ability of Germany to capture foreign trade abroad had been reduced. Funk's travels in the Near East were mentioned by Jacobsson and myself, and we spoke of the substantial accomplishments of these trips. Schacht said that nothing would do more to debunk Funk than to have him be seen in Washington, that he had not been nearly as successful in his trips as reported, and his ineptitude for commercial negotiations has been lamentably demonstrated particularly in Bulgaria. Schacht assured Jacobsson and me that neither he nor any of his associates had developed any mystic process for perpetuating the present trade policies of his country; the political and debt situation are largely responsible for Germany's inability to drop her present methods.

Jacobsson

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Jacobsson argued that a much more profitable and extensive trade would be Germany's if she reverted to the mostfavored-nation system. Schacht immediately agreed, saying the no one desired such a policy more seriously than he did, and adding that he would welcome a twelve-year contract with the United States even involving an excess of imports by Germany from the United States if he could be definitely assured of foreign exchange from some other source to take care of the adverse balance.

It was Trip's belief that the Dutch system begun in the twenties of giving Germany credits for purchasing raw materials, which were to be paid back from export proceeds of the goods made therefrom, was a good system and that it could be extended.

A number of my friends talked about the financial strain on Germany just now because of military preparations, the expense of taking over Austria and part of the public works of Czechoslovakia, depreciation of sterling involving increased subsidies for German exports, and so on. Since a high levy has already been placed on Jewish capital, some observers think that next Germany will move against either Catholic church property, foreign holdings in Germany, or the large estates of the German nobility. It is thought that most likely the move will be against foreign holdings

- 10 -

in Germany.

Neither in Belgium nor in the Netherlands did I find any interest in extending loans to Latin American countries. However, in February Belgium is sending a trade delegation to various South American countries. The delegation is to be headed by Forthomme, who I believe was in Washington for the negotiations on the Belgo-American trade agreement. It is possible there may be applied some system of guaranteeing commercial exports just as is done by the American Export-Import Bank.

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VILSON

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I was told by Bachmann that none of the Swiss banks had approached him regarding loans to Latin American countries. On the Swiss market there is such an abundance of capital that if good borrowers could be found he would not object to such transactions.

When I talked with Cobbold he denied the report that when Chamberlain visits Italy he will attempt trade negotiations. Later on he expects that there may be some discussions between qualified British and Italian officials looking toward a better clearing agreement, since the British have to wait such a great length of time at present for payments due them from Italy. Some exchange of visits between British and German private industrialists had taken place, Cobbold said, but as yet they had accomplished nothing specific.

END OF MESSAGE.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: January 10, 4 p.m.

NO.1 25

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Number One. For Treasury from Heath.

Montague Norman had left before I returned to Berlin. According to the British Embassy there were no monetary or other negotiations during his trip here which was to return Schacht's visit and to obtain financial and economic impressions. The Reichsbank gave a lunch for him which was attended by members of the Directorate and a few German bankers and industrialists.

In the several weeks interim since my last telegram there seems to be increasing opinion and evidence of economic and financial strain and deterioration and little belief that the leaders of the Government will relieve this trend by sufficiently modifying their ambitious programe. The trend seems to be gradual, no informed observer here believing that any real break down of the economic machine is at all imminent or that effective public opinion against restrictions on the standard of living imposed by the necessities program will develop for some time, barring unforeseen occurrences.

I was told on apparently good authority, although I accept the story with considerable reserve, that at the end

end of December the Finance Minister asked Hitler's permission again to raise taxes, stating that present revenue and proceeds of loans were insufficient to meet budgetary expenditures and that he had borrowed 500,000,000 marks from the Arbeits front funds which had to be returned in April. According to the story, the Finance Minister stated that he would have to resign, since his request was met by flat refusal. Hitler is then supposed to have stated that he would consider the matter. It is my understanding that certain English papers published a story to this effect.

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Reference my No. 32 of November 20; personal subscriptions for the fourth 1938 loan of one and a half billion marks closed on January 9 and according to certain local bankers were unsatisfactory. These bankers assert that the consortium banking houses will be saddled with the greater part of the issue.

The foreign trade outlook is increasingly pessimistic. It is to be observed that coffee'is now being rationed in Berlin. In addition, there are unconfirmed reports of rationing of meat in certain parts of Germany. Any restriction on this commodity would seem to be directed toward building up stocks, since the Agricultural Attaché Beserts that there is a plentiful supply at the present rate of consumption. The British Commercial Attaché believes

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believes that the gold and foreign exchange resources acquired from the Austrian National Bank (65 million marks in claims on clearing countries and 197 million marks in gold and free exchange) have now been used up. November figures show a net gold export of about 26 million marks which brings the total net gold exports for the first eleven months to 76 million marks. The published trade feficit for greater Germany for the first eleven months amounts to 425 million marks.

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The November adverse balance for greater Germany was 69 million marks as compared with 36 million in October. The increase was almost entirely due to a falling off of exports. Imports in November 1938 were 3 percent under the value of imports in November 1937 but due to lower prices about 10 percent greater in quantity. It is to be noted that the adverse foreign balance is almost entirely accounted for by the acquisition of Austria and Sudetenland. For old Germany alone the adverse balance was only about 9 million marks.

GILBERT

ZA: DJW

GRAY LONDON Dated January 10, 1939 Received 4:47 p.m.

Secretary of State

FDA

Washington

42, January 10, 6 p.m.

FOR TREASURY FHOIL BUTTERWORTH .

One. With reference to the final paragraph of my 1479, December 31, 5 p.m., market estimates of the British fund's gold losses between September 30 and January 1 only range between \$50,000,000 and \$100,000,000. Incidentally the London financial press takes the line that the now augmented assets of the British fund are ample to meet a full exodus of hot money including foreign holdings of readily salable securities but excluding the London balances of sterling in the central banks and other semi-permanent investments. Nost financial writers continue to reiterate that British capital is not likely to flee the pound but Einzig for instance told me yesterday that while he did not wish to publish it he was convinced that considerable amounts of British capital were moving out.

Two.

EDA - 2- #42, January 10, 6 p.m. from London

Two. An important result of the increase in the fiduciary issue is that the \$200,000.000 of Treasury bills transferred from the British fund to the Issue Department of the Bank of England (my 40, January 9, 5 p.m.) can now be gradually replaced with longer dated securities, and the money market's depleted supply of Treasury bills thus replenished. This would also lend support to the gilt Edged market and prices of British Government bonds have begun to harden chiefly in anticipation of this development. It is my impression that the Bank of England wishes to see the Treasury bill rate remain around 10 shillings per cent a level which was threatened by the reduction in the volume of Treasury bills resulting from the British fund's heavy sales of gold followed by the seasonal contraction during the heavy revenue collections of the first quarter of the calendar year. Thus the increase in the fiduciary issue offers a means of insulating both the money market and the gilt edged market from effects of the capital outflow. The insulation of the cash basis and the volume of credit available for industry and trade is a somewhat different problem which gives rise to two questions, (a) how far the British authorities have and will effect insulation

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EDAc - 3 - #42, January 10, 6 p.m. from London and (b) the wisdom of such a policy in view of the general economic situation.

The answer to (a) is confused by the squeeze policy ursued at the year end to lend support to sterling. The process of restoring to the market, during an efflux of capital, sufficient cash to keep the bank's cash ratios such that they neither contract nor expand their loans to trade and industry takes a certain amount of time and, as in May during the repatriation of French balances following the establishment of the Daladier franc, the British authorities appear not to have hurried themselves. The May capital outflow was, however, eventually neutralized and there is no reason to believe that the process could not again be carried through.

(b) An abrupt change in the cheap money policy would give a very definite shock to business activity. Nevertheless it is increasingly recognized that most of the present trouble with the British economic machine lies in the sigh livel of British costs. The only criticism of the British Government's bold move to defend the pound that I mave heard has come from a discerning few in the city who question the advisability of moving up the last line of defense for sterling without at the

Same

EDA - 4 - #42, January 10, 6 p.m. from London same time taking steps to bring some pressure to bear on the cost structure.

Three. The foreign exchange market has been fairly active today. The dollar which opened bid at 4.67 1/8 moved down to 4.66 7/8 with the British control supplying dollars which the market required as a result of gold sales. When New York came in the Bank of France switched its operations and the continent turned a seller of dollars and the rate moved to 4.67 1/2 to close at 1/4. To date the recent action of the British authorities has borne little positive fruit and as yet no great sense of confidence has been engendered that the pound will not in time tend to depreciate. However, it is assumed that the British authorities are committed to offering strong resistance during the next few weeks.

Of the 164 bars sold at 149 shillings at gold fixing 46 were married and the British fund supplied about a dozen. There were considerable dealings after fixing.

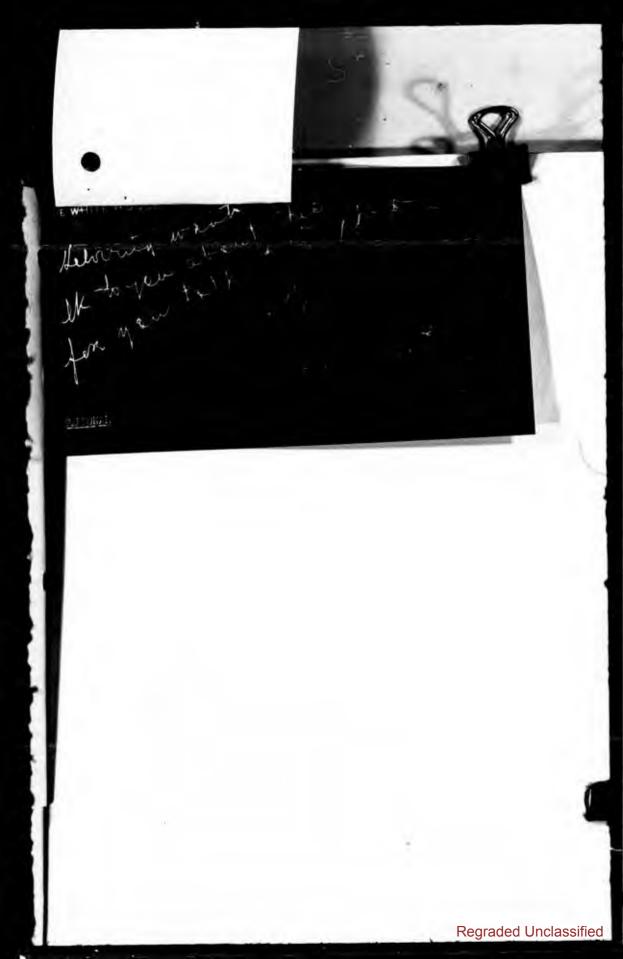
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#### TREASURY DEPARTMENT

WASHINGTON January 18, 1939

TRAL PEVENUE

nd for Secretary Morgenthau:

ive of various states have contacted this office making inquiries regarding the record of Collectors of Internal Revenue in their Districts. In each the velocities advised them that the Collector was a Presidential appointee and the would take no steps to initiate procedure towards his removal so long the conducted his office in a proper manner. In my opinion, many of these removalions are based upon personal or political considerations.

The regulations of the Treasury Department concerning political activity is parage more stringent than the regulations of any other Department. In is size those regulations, I know you had in mind the duty of the Treasury Department and particularly the Bureau of Internal Revenue to treat all tarpeyers with absolute feirness and in such a manner that there could be no basis of a charge that tax laws were being administered from the viewpoint of political expediency. The holding of political positions by Treasury efficials and employees has been prohibited by Treasury regulations. The Department and the Bureau have given employees the assurance that their status would not be affected nor their positions endangered by carrying out the regulations. Any attempt at coercion of employees or tarpeyers by officials of the Treasury Department has been treated in no uncertain manner.

It is my opinion that if a Collector of Internal Revenue is administering the affairs of his District in an efficient manner, is cooperating with the Bureau, and is sup orting the policies advanced by the Administration, and Collector should not be replaced because of a change of an elective of the lin his district or because of his refusal to viclate the resulations reading prohibited political activity. To fail to protect an officiel of the reasury Department unler such circumstances will result in a general the for respect for and observance of the Tressury regulations. Inasmuch as interimental effect upon the Service will not stop upon the appointment of Collector but will be carried down the line by the removal of experienced collectors. The changes would be predicated upon the same considerathat prompted the change in Collectors.

This subject is such an intertest ope, if we are to adhere to our regulaand continue to render that class of service which the tarpayer has right to expect, that I feel it apouty to bring the matter to your stranfor consideration.

Commissioner.

### TREASURY DEPARTMENT

WASHINGTON

TERNAL REVENUE

Junuary 18,1959.

MEMORANDURA for

The Secretary of the Treasury:

In connection with the memorandum which I have addressed to you concerning the policy relative to the replacement of Collectors of Internal Revenue who are performing efficient services but the termination of whose services is now being recommended, I desire to bring to your attention the stached telegram addressed to Honorable Tom Corcoran by Senator Pepper of Florida, which telegram has been submitted to me by the White House for a report concerning the Senator's recommendation. You will note that the Senator refers to the fact that the present incumbent is a lawyer and for several years has been Collector of Internal Revenue for Florida, and that he is young and capable.

It seems to me this is a case of the very character discussed in my memorandum.

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Enclosure.

## ELEGRAM

# The Mhite House Mashington

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## THE WHITE HOUSE WASHINGTON

January 7, 1939

ORANDUM FOR:

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Honorable Guv T. Helvering, Cormissioner, Bureau of Internal Revenue.

or Mr. Commissioner:

Could you give me a report on this

ter at your convenience?

With all good wishes, I am

Very sincerely yours,

JAMES ROWE, JR., Executive Officer

January 10, 1939. 10:30 A. M.

(Held in Mr. Hanes! Office.)

Present:

GROUP MEETING

Mr. Hanes Mr. Taylor

Mr. McReynolds

- Mr. Foley
- dr. Duffield
- Mr. Schwarz
- dr. Lochhead

#### Innes:

## Mac, how do you feel?

in the world the matter with me except these dammed doctors won't let me eat anything. I am on a soft diet. The last meal I had was the one when I had lunch with you about a week ago. They hadn't fourm out about my eating then. Since then I haven't had a meal.

(Annual Content)

Can you get something to eat tomorrow - before tomorrow at two thirty? We are going to have a meeting with Guy tomorrow and I'd like to have you, and Ed Poley there. He's got salaries of State officials to decide, on which he's just been taking a meeting, at which we decided at that time it was a good policy to hold up our sleeve for a trading point after the question of retroactive tax on State officials. Now we have just held it about as long as we can hold it, so Guy says, and they are just hollering for rules in every Internal Revenue Department around the country, and he says something has got to be done, and we've for to get our heads together and find out how we are going to save our trading points and find out what we are going to do.

Foley:

I understand Brown is getting ready to start his tax study. Frank Mechem, who is working on that assignment for the General Counsel's office is leaving January 26, which means we will have to put somebody else on it.

### acheynolds: What's Frank going to do?

Foley: Going to become tax counsel for Firestone. I spoke to Phil last night; I don't know how you want those hearings handled, whether you cant Tarleau to handle them or whether you want Phil (Wenchel) to handle them.

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Theres:

- I talked to Phil last night on it; we are morking on a statement, both from Roy Blough's department and Tarleau's. We've got an awful lot of statistical information; we used up quite a book for the use of the President on this same subject, and we are going to have - as a matter of fact, Tarleau and I, last might, discussed this thing. Tarleau is going to bring the memorendum up to date, and have that ready. He will have that ready, of course, in the next forty-eight hours. I think maybe you'd better sit in with us and help us decide. I don't want to get caught manping.
- Foley: That is why I am bringing it up. Normally we don't have anything to do with these matters, but Mechan was working on this thing by special assignment.
- Hanes: Anybody workin with him?

Foley: He was doing it primarily blone.

I nest He could bring Tarleau and his group up to date.

Toley: Yes, I spoke to Tarleau and he said, "Frank's done most of the spade work, and worked on the memos and so on that he has," so it is just a question of deciding what we are going to do from here on. Kades knows as much about it as Frank Mechem, but I don't want him to go down on the Hill. If it is necessary for anybody to so on the Hill from the General Counsel's office, I think it ought to be Phil Wenchel, but that is something you will have to decide.

Hunes: Mechem is not going till the twenty-fifth?

Foley: Yes, but I don't want to start him on the Hill with that; it's going to be a long drawn out affair, so we might as well start with the fellow who will go all the way. It's a question of determining 3 -

whether or not you want Phil, who helped with the appearance before the Committee.

Hanes:

When Tarleau gets the memoranda ready, will you sit in with us and help us decide what course we will pursue on it? I am not familiar with it, myself; you know a good deal more about it then I do. I don't know just what is expected of us. They will probably ask for an expert to come down both on the statistical side and on the legal side. I think we have got everything in pretty good shape.

- Lovey: I think if we mend our fences right now it won't make any difference, but we've got to decide very soon just what we are going to do and how we are going to handle it.
- Hanos: Tarleau said he'd be ready in forty-eight hours; in fact, he is almost up to date right now, but he wants to do a little more work on it. He'll let you know. That is two thirty tomorrow. You and Mac join us here. Cuy is joing to bring Phil.
- Foley: I'd like to bring Kades.

ochwarz: Have they asked us to make the openin :

Ranes: They haven't said a word to us.

Schwarzi They told the press they were boin; to wall on the Treasury.

Hanes: That way, we are going to be ready; we are preparing for an opening statement.

Schwarz: You want to have those mimeographed in savance.

Hanes: Chick, I don't know what the practice is.

Echwarz: If it is an important enough hearing, and your statement is important, and has good meat in it, we'd want to have it prepared in advance.

Hanes: That is what we are working on now; maybe you'd better work along with Tarleau after he gets the memo and dress it up.

Archie, you got any coin exchange left?

#### - 4 -

Lochnead:

Yesterday the British were meeting pressure on sterling; they lost about fifteen million dollars in their market and in our market the end was a little weak and we had to support for them. This morning they kept the raise up, but are losing gold. Sterling is around 4.67. Sterling has gone up from 4.67 to  $4.67\frac{1}{2}$  without any tangible evidence of action. I think that is perfectly natural in a market like this. At least they are trying to hold the gains they have made.

Hanes: What was it, 4.67?

Lochhead: 4.672. They had to support it on 4.672 yesterday afternoon and this morning.

Hanes: Looks like they are doing a little betker.

Lochhead: It is not so much pressure, but they are showing a little more courage in defending it; instead of letting it slide out they are pushing it up and holding it a point. It shows they've got a little more courage. That's all I've got.

> One thing, with reference to the Chinese thing, I notice you've got this morning. Chen is in there now with Buell; they have taken this man Buell this morning - demeritting him in the company. This is quite a good sized Ferdinand. They decided he will be a good man for him. I think it is a good thing to have one of our men.

Foley: I think it is an excellent thin; I talked with him in Mac's office. He is a well-headed, competent fellow.

Lochhead: So many people are going to be jumpin, on him for business; he can make a good front. Secondly, I think you should look in the New York Times this morning. The London Dispatch says, "American Ambassador Johnson tripped down the Burms road." He is very enthusiastic about it, apparently, from the dispatch. It's very interesting. You remember a month or so ago I thought the State Department was inclined to throw a little cold water on that: now, apparently, they think it is a pretty good group. Taylor: The State Department. And Frazier was here; he felt bad about it.

Lochhead: I know they felt badly. I told them General Johnson was going over that road and if they didn't give him a good ride, they have damned fools. But I understand he went over that thing all the way from Chungking down there in thirteen days in a connercial car and didn't have a detour and didn't have a puncture. That's pretty good.

Manua: That's excellent; it's porfect.

Waylor: If it doesn't rain, it's all right.

uoc head: Haybe they had unbrellas over them all.

Panes: Chick, anything?

Echwarz: 1 - I expect you saw in the morning papers that your Senator is expecting to call in the newspaper men and asking these about Hopkins.

The hearing on that thing was pretty well bottled up until Saturday night. The thing broke loose on Saturday night after the Jackson Day Dinner. The thing all broke loose spain, and he sale, "If we are going to have a fight, we might as well have it how as later, so let's drew the line now." That is the reason why they've got a hearing. They wouldn't have had a hearing otherwise.

Schwarz: The guage of battle was drawn.

Three: He said, "Let's fight it out now," and they seid, "All right, we accept that challenge, if that's the way you all feel; we'd like to draw the bird now; let's see who is boss here."

Schwarz: I don't guarantee these, but toese are some Social Security names.

Hanes: These are the people that you know?

Schwarz: I know of them. They are supposed to be scientific, impartial experts. - 6 -

Hanes:

Wayne, there is going to be a meeting this afternoon on this Social Security; the President has asked the Fiscal and Monetary Committee to have a meeting and give him some indications of opinion or advice on the monetary and fiscal side of this Social Security thing which is point to be at two thirty this afternoon here in the Secretary's Office. Marriner, the Danny, and gr. Delano will be here, and who from the Treasury? The was - George Pass is sirk, isn't on?

icRepuolós: He was yesterday, yeah.

Hanes: He was yesterday I know.

\_encynolds: Harry . Mits is suproved to be tidre, one he is out of torn.

aning :

I called Harry white on the phone because before Harry went away be dictated a letter to be sent to Altmeyer and Harry said if the thing was imminent be wouldn't go away, and I told him it wasn't imminent; in view of that letter I saw no reason why he shoulan't go away, and he said, "I won't prepare a memorandum until I come back." "Well," I said, "you shall have your day in court; if you have got any submestions to make, they certainly will be heard before we render any decisions."

Having made that statement, I thought I owed it to him to call him on the phone and tell him about this thing going to happen this afternoon. I told him if he would dictate to me what he wanted to say, I would say it in his own words to this committee this afternoon.

He is in favor of pushing the date up, or the benefits up from 1940 to 1943; to increase the benefit payments, and he is also in favor - marking that "A" - and, "B", he is in favor of postponement of the increase of one-half per cent tax on the employer and employee. He said, however, "I mark them A and B because if I had to take a choice between A and B, I would take A, but I still think that the tax ought to be postponed."

That statement, I told him, I would report to the Committee, and Marriner is going to bring Curry with him, and Delano's going to bring Ruml, and we ought to have, I should think, - George Haas isn't here - we ought to have those boys working with George - Ray and Murphy; they're the two I have been talking to; and, perhaps, Roy Blough, who has been sitting in these Committee meetings with the Social Security group, and Advisory Committee, for me. And Wayne, I don't know whether you want to go - wasn't Herman in most of those meetings? Mac was, I know.

- BeReynolds: Oliphant was too. Herman's shop wasn't represented. I think, st all, on the Fiscal and Monetary Commitee.
- Hanes: So far as I'm concerned, leave it this way: If you (Mr. Foley) want to come, you are invited. I don't want to make you come, and I don't think anything will happen.
- McHeyrolds: I don't know why they shouldn't have been, except pressure on other things.
- Mac, I want to ask you about this. Here is the Hines: history of this thing. Henry, two or three times, said he wanted to discuss this Social Security business. We never did get an opportunity to discuss it thoroughly. I went to his house and spent an evening with him, but we didn't get a chunce to go into it as fully as we might have; and then he wrote that letter, which you know about, which went to the white House. Then Altmeyer asked us to express an opinion; then we wrote another letter to Altmeyer, which you all saw; it went over said it was 0. %. In that letter we said we thought we wanted to wait until the Secretary came back before expressing his opinion; we didn't want to express an opinion until he went over the thing thoroughly. That is still my opinion.

Now, the President asked for an opinion by the Fiscal and Advisory Committee. I think the opinion whatever they render - will have to be rendered without the Treasury. I don't see how it is possible for us to make a statement that we do or do not agree with the record, as I have just cited it. Am I right or wrong?

Foley:

So far as I understand it, you have told Altmeyer you didn't want to express any opinion to him on these proposals. There is a letter from the Secretary to the President, saying he'd like to have an opportunity to be heard before the President commits himself.

Homes: That is right,

Folcy: I still think the thing is open; I don't think it is closed.

Hanes: bo we close it up if we - of course, we can't; we haven't any right. There is no - there is nothing said about an alternate for any member of this Committee. Now, the reason they are meeting over here is because they have met over here in the past, so far as I can see, and there is no alternate for Henry to act on this Committee, and I don't see why the Committee, if they want to send in a recommendation, shouldn't send it in from the three members who are available.

Scheinelds: On the other hand, the Committee is composed of the Secretary of the Treasury, as Chairman, and these other men, and while there is no alternate provided for the Secretary, there is no Vice Chairman, either.

Hanes: No.

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- IcReynolds: So, as far as 1 can see, the only thing they can do is, as individual members of the Committee, is to express an opinion to the President, in the Boss' absence.
- Hanes: I am certainly not willing to express Henry's opinion. I don't know what his opinion is; I am not willing to get out on a limb, saying what he says, and I don't know.....

Schwarz: Has the President siven them a deadline?

Hanes: He wants an answer back now.

Schwarz: As Mac says, as individuals they can point out that the Chairman is absent, and, therefore, the Committee is unable to give an opinion as a Committee.

McReynolds: All they've got is Dan Bell and Delano, and Eccles, and they can express whatever opinions they choose. Taylor:

I don't think they are going to be able to get a Committee opinion this afternoon under any circumstances.

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None of them are familiar with - as familiar with it as we are, of the details. I understand from Altmeyer, last night, that Altmeyer objected to sending over the full draft of the message because he just - Altmeyer is coming too, by the way. He said, "I hope we won't have to engage in a complete discussion of all the verbiage and language of the message, and all that sort of thin; I think if we can confine it to just that thing which affects the Fiscal and Monetary policy of the Government, then lat's be very short and concide."

And there, you've only got the consideration of these three points which Harr; White brings up, you see. That is practically all the suggestion they are making. If the President confines himself to that perticular recommendation, why I don't think the Secretary would have any objection to moving the time up to 1940, and increasin, the benefits. I - I don't think - I say I don't think -I haven't any right to say that; I just feel that way myself. I don't believe he would oppose it. That seems to be pretty nearly unnimous opinion of everybody I've talked with. I haven't talked with anybody who thinks that shouldn't be done. Still, feeling that way, I am not tilling to say so in the Secretary's absence.

Foloy: Well, maybe you man tell after the mottin .

Hanes: Is that all right to take that position with this Committee?

Duffield: I should think it is the only one you could take.

Hanes: Of course, if the President insists on having a Treasury opinion, in Henry's absence, in that event we can say, "Here is what each individual in the Treasury states," and state that position to him. Treasury thite's position down very definitely We've got Harry White's position down very definitely from him. I think I know what George Hars' position is.

Mckeynolds: Of course, all three of those items Harry outlines makes a definite change in the financial picture of that fund. Not the two first ones alone, lac.

icheynolds: Yes.

Those alone, too. Unffield:

Names:

Hanes:

Weil, I am wondering now - I have been figuring on this thing a long time. It changes in point of years. It changes 1965 to 1955; it moves the period of the crossing of the lines; in other words, moves the period of tire when the flovernue t has got to come in with more revenue to pay the benefits because the tax doesn't aget the benefits; it moves that period up ten years, but, in minciple, the whole Social Security System, at the present moment, according to our ectual areal figures here, show a deficit now of nine billion dollars. That sopeared in the Secretary of the Treasury's report.

If you move the payments up a counte year, start ScReynolas: paying out before you would nor cally start paying out, then you take away the interest factor in the development of your funds.

You are right about that. What you loke .....

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You are bound - ave tually it will cost more money to the Government. You've got the other side of Tekes polas: it. How much is the Government going to pay out? Are you going to pay out more in other ways in your relief and direct benefits, and all that sort of thing. That will more than offset it, as you are probably aware.

ilaneS:

I was wrong in the first statement I made, because you do lose the benefit of the interest on the reserve funds, because you don't keep it in reserve. That is true, so your deficit becomes much larger than nine billion dollars. It becomes larger by three per cent.

There is another thing; I don't know and the figures are, but the mere fact you've bot oblightions of Loc i end: the Treasury in the statement when you use those, it means you've got to go out in the market and borrow more money; you can't use those oblightions to pay it. The mere fact you've got listed op so many millions of dollars - if you are going to spend that, you've got to so out in the merict and

borrow it. It's only a bookkeeping figure. You've got to go out and do public borrowing.

Finds: It seems to me I asked Danny Bell about that and I got the understanding - I got the impression maybe I'm wrong - but I got the understanding we'd issue bonds for the money in the reserve account.

Lochhead: But if you get the money you'd have to borrow from the market. It does make a difference of goin into the market and borrowing more money.

Taylor: To the extent the funds are not accumulating; that actually increases the amount of the public debt.

Lochhead: Instead of phying interest to yourself, you start paying it to the other side.

Duffield: It considerably classes the financial micture of the Government, it seems to me.

Hones: It changes in the fact that you accumulate reserve at a lower rate, and thus, you lose the amount of the lack of accumulation or the interest on that amount each year.

Duffield: And you have to borrow the money.

Lochhead: Excuse me; I have to go. (Leaves the room.)

Duffield: You have to borrow that money for current running expenses, which, otherwise, you would have paid from the payroll taxes, to go out again.

Hanes: Well I - Mac, you will be there, will you?

McReynolds: At two thirty.

Hones: And Wayne?

Taylor: (Nods "Yes.")

Hanes: All right. I think we'd better get Ray and Hurphy to represent George Haas, if he's not here. Is it all right?

McReynolds: Yes, I think so.

Duffield: On that list of Social Security people, I don't know what the Secretary wants, unless he wants this kind of information. There was a man by the name of Tom W. Phelps, who did a very good job of the only study I ever saw of how the setup affects individual industries - oil, motors.....

Henes: How do you spell that? P-h-e-l-p-s?

Duffield: Yes. 011, motors, and that sort of thin . If that is not the sort of thing the Secretary is after, that name is no good. He knows him; the Secretary knows him.

Tanes: Well! submit it to him anyway.

Wayne, you have anything? We've got to hurry a little bit too - another meeting.

"Taylor: On Saturday - it's going to be in the record; I don't want to have to write a memorandum (bout it.

> On Saturday, the British ested us to so over and talk to the American Banking Institution, who have branches abroad, to ask them to cooperate in steps which are taken by the British Government to stop speculation against the pound through the medium of gold transactions. I took that up with Governor Harrison, who, in turn, reported back yesterday that he'd spoken to all the American agencies in question, and that with the excention of two, there were none who had been engagin in those transactions which would be remotely considered as affecting the gurgoses of the British fund. Those two banks asked him whether he thought the transactions which they take it up with the British authorities through their agencies in London, which they are going to do. Period.

McReynolds: Presumably if the British disagreed with what they are doing?

Taylor: Oh yes.

Hanes: Eddie?

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Foley: (Nods "Nothing.") (Mr. Hanes: Gene? Dufrield: No.) Hanes: Well, the meeting is adjourned and the next meeting (Bank Holding meeting) is called to order.

January 10, 1939

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## To: The Secretary

From: Mr. Hanes

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Senator Robert Wegner celled me on the telephone and told me that you had appointed, at his request, to the Processing Tax Board of Review a man by the name of Willis. Schwartz. This Board has been functioning without a permenent Chairman and Senator Wagner sivises on that Lr. Schwartz has been serving as Acting Chairman.

Senator Wagner made the request that I take up with you the appointment of Mr. Schwartz as permanent Chairman of this Board. I will discuss this matter with Mr. Foley and Mr. Wanchel and will be prepared to give you a recommendation upon your return. I think this promotion would carry an increase it salary of \$500.

January 10, 1939

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310

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JWH: JR