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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

1

DATE January 11, 1939.

TO Secretary Morgenthau
FROM Mr. Haas 

You telephoned me at about 6:45 yesterday evening and explained to me that the President felt that the recession in 1937 was largely due to the decline in deficit spending and that he was going to hold to that belief until someone convinced him otherwise.

You said that you considered this one of the most important problems with which you were confronted and you would like to have this contention - that the decline in deficit spending was the cause of the 1937 recession - either disproved or substantiated. You said you were anxious to have the best thought in the country applied to the problem.

You told me that you had discussed this matter with Professor Viner, and asked that I call him this morning and arrange to go out to Chicago and discuss with him this matter and its related problems.

I mentioned that sometime ago we had prepared a rather comprehensive report concerning the 1937 recession and its causes. You could not recall having read it but asked that I take the document along with me to Chicago.

You asked that I inform Messrs. Hanes, Taylor and McReynolds with regard to the trip and its purpose.

January 11, 1939

To: The Secretary
From: Mr. Ranes

Under section 148 (f) of the Revenue Act of 1938, the Secretary of the Treasury is charged with the responsibility of compiling, from the returns made, a list containing the names and the amounts paid, in excess of \$75,000, to officers and employees, as well as the names of the paying corporations, and it is further stipulated that the Secretary of the Treasury shall make such list available to the public. Under the 1936 Revenue Act, all amounts in excess of \$15,000 so paid to individuals had to be reported to Congress, and Congress was charged with the responsibility of making such list available to the public. It was the intent of Congress that the 1938 Act should apply to the data which was to be furnished by the Secretary of the Treasury upon the convening of Congress in 1939. However, in the opinion of our counsel, the law does not read so. We must still operate under the 1936 Act until the returns are in from incomes payable under the 1938 Act as the data to be furnished in 1939 is derived from information on taxes paid under the 1936 Act. The information is now ready and letter of transmittal addressed to the Speaker of the House of Representatives has been dictated and was signed by you on January 3d.

I have been asked by the Chairman of the Ways and Means Committee, Mr. Doughton, to hold this data here until such time as he has an opportunity to present a joint resolution for passage by both houses of Congress making the provision of the 1938 Act applicable to information furnished upon the convening of Congress in 1939. I am advised by Mr. Foley that it is not unreasonable to hold the information until your return on January 15th, but beyond that he is unwilling to recommend our going. It is Mr. Foley's suggestion that the information be transmitted to Congress and if they choose to withhold it, it is their decision. I have the information in my office ready to go forward.

J. W. H.

4

DB

January 11, 1939

To: The Secretary
From: Mr. Hanes

Under section 148 (f) of the Revenue Act of 1938, the Secretary of the Treasury is charged with the responsibility of compiling, from the returns made, a list containing the names and the amounts paid, in excess of \$75,000, to officers and employees, as well as the names of the paying corporations, and it is further stipulated that the Secretary of the Treasury shall make such list available to the public. Under the 1936 Revenue Act, all amounts in excess of \$15,000 so paid to individuals had to be reported to Congress, and Congress was charged with the responsibility of making such list available to the public. It was the intent of Congress that the 1938 Act should apply to the data which was to be furnished by the Secretary of the Treasury upon the convening of Congress in 1939. However, in the opinion of our counsel, the law does not read so. We must still operate under the 1936 Act until the returns are in from incomes payable under the 1938 Act as the data to be furnished in 1939 is derived from information on taxes paid under the 1936 Act. The information is now ready and letter of transmittal addressed to the Speaker of the House of Representatives has been dictated and was signed by you on January 3d.

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JWH:JRC:m

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 11, 1939.

TO Secretary Morgenthau
FROM Mr. Taylor

Bewley called on Monday, January 9th, to ask me to convey to you a message from Sir John Simon, to the effect that Sir John Simon thanks the Secretary most warmly for his message.



January 11, 1936

Today at lunch with the President I delivered the auditors' report of the Stabilization Fund to him and he took a look at it and expressed himself as entirely satisfied with it and the report has been filed with the previous audits.



TREASURY DEPARTMENT

WASHINGTON

January 16, 1939

My dear Mr. President:

Section 10 of the Gold Reserve Act approved January 30, 1934, establishes the Stabilization Fund in the amount of two billion dollars out of the increment resulting from the reduction in the weight of the gold dollar, and provides that an annual audit of such fund shall be made and a report thereof submitted to the President. In accordance with this direction, there is transmitted herewith a detailed audit of the fund covering the period July 1, 1937 to June 30, 1938.

The administrative supervision of this fund has been under my immediate direction, and all transactions thereunder have had either my approval, the Under Secretary's or the Fiscal Assistant Secretary's. Of course you know the financial transactions in this fund are not subject to review by any other officer of the Government. In view of this fact, I have appointed a committee of three Treasury officials, who are not connected in any way with the office having supervision of the administrative accounts, to make an independent audit. The report is, of course, strictly confidential, and I suggest that when you have looked it over it be returned to the Treasury for safe-keeping until the fund has served its purpose, at which time the complete record may be made public.

Faithfully yours,

A large, handwritten signature in cursive script, which appears to read "H. Maymuthan", is written over the typed signature line and extends to the right margin.

The President,

The White House.

Enclosure

JR

PLAIN

London

Dated January 11, 1939

Rec'd 3:10 p.m.

Secretary of State,
Washington.

46, January 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

With the growth of the feeling, reported yesterday, that by reason of their recent measures the British authorities are committed to offering fairly strong resistance during the next few weeks and pending the outcome of Chamberlain's talks with Mussolini the foreign exchange market has been inactive. The range of the dollar was 4.67-1/8 - 3/8 and the forward dollar has remained steady at 3/4, one month, 2, three months. Foreign exchange dealers state that whereas the amount of covering of speculative positions to date has not been extraordinarily large there is at the moment a reluctance to embark on new commitments.

Gold was fixed at 148S. 10D. and of the 167 bars dealt in 100 were married and the British fund supplied a small part of the remainder. There were but few dealings after fixing.

Barings were just able to put over a pounds 7,500,000 Southern Railway Company issue at 98-1/2, 1970-80 at 4 per cent.

JOHNSON

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 11, 1939, 4 p.m.

NO.: 59

FROM COCHRAN.

While yesterday witnessed an actively fluctuating exchange market today there has been little trading. French rentes weakened in spite of better tax returns for November. Guaranty bought seven and one-half million belgas yesterday and three and a half million today for French official account. Press giving considerable publicity to cooperation of Dutch bankers with British effort to strengthen sterling.

Today I had lunch with a small group of French and American bankers, Governor Fournier of the Bank of France being among those present. Governor Fournier told me that he was being particularly careful not to give publicity to his efforts here to supervise the sterling market so as not to increase suspicion of the pound. He does not want to help the campaign of the Leftist papers, such as HUMANITE, which are asserting that Great Britain is moving toward exchange control as evidenced by the recent British action.

There is a tendency today on the part of traders to await the outcome of the visit to Rome by Chamberlain, which, Governor Fournier said, is responsible for part of today's dullness.

There was no evidence of suffering from a European war scare on the part of Fournier and most of the other

central

central bankers who met last weekend at Basel, in the center of Europe - and these bankers enjoy rather intimate knowledge of the policies of their governments. Governor Fournier and some of my other friends, while respecting the right of every person to his own opinion, said this noon that they regretted the publishing of such pessimistic forecasts regarding the outlook in Europe as were attributed to the two American Ambassadors who appeared yesterday at a secret hearing of a Congressional Committee. This incident is said to be responsible for some of today's market discouragement and hesitancy.

WILSON.

EA:LWW

JR

PLAIN

London

Dated January 12, 1939

Rec'd 3:25 p.m.

Secretary of State,
Washington.

SO, January 12, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened bid at 4.66-7/8 with the British authorities offering the dollars; consequently when the pound became bid in Paris the dollar moved to 4.67-1/4 but on practically no business. It remained at that level until New York came in as a seller of pounds which resulted in the dollar appreciating. The volume of trading has again been small.

Gold was fixed at 148S. 9 1/2D. and of the 159 bars dealt in 77 were married and only a few of the remainder were supplied by the British fund.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 12, 1939, 4 p.m.

NO.: 71

FROM COCHRAN.

There has not been much activity on the Paris market today, as the outcome of the Rome visit is still awaited. Another three million belgas for official French account were bought by Guaranty. The statement of the Bank of France as of the fifth of January showed that the French Treasury began the year with an account of 2,886,000,000 francs. The percentage is 62.07 versus 61.63. No other important changes were shown on the statement. The heavy subscriptions to government bonds since Reynaud became Premier are largely responsible for the easy position of the Treasury.

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE, SECTIONS TWO, THREE AND FOUR, NO. 71
OF JANUARY 12, 1939, FROM PARIS.

This morning I visited the Bank of France. A small amount of sterling was yielded yesterday while the fund was buying belgas for Treasury account, presumably for expenditure for armaments. However, this was the first time the stabilization fund has lost on balance for the day, and it now has more than 14,000,000,000 francs in gold holdings.

Press report from Amsterdam states that the portion of the Mendelssohn credit granted to the French Railways maturing January 15 will be converted into a new credit amounting to approximately twenty million florins and granted in the form of three month bills renewable twice. The original credit maturing in installments from November 1938 to February 1939 totalled 138 million florins. It was partly redeemed from the proceeds of the Dutch bankers' credit to the French Treasury amounting to 100 million florins granted in November 1938.

I had a talk with the Bank of Italy's Paris representative at noon today. The first reports of the Rome conversations delighted him, as well as the British Press's friendly interest regarding Italian problems, and particularly with the prospect of improving Italo-British trade relations after the present exchange of political views. Italy is not seeking credits from England, he said. My friend reminded

me

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me of the reply made to Funk, German Minister of Economics, by the Italian Minister of Exchange, Guarneri, to the effect that while Italy is desirous of strengthening certain domestic resources it is not dedicated to isolated self-sufficiency and that it wants trade with other nations.

On Saturday the French delegation, with Alphand at the head, leaves for Berlin to talk about Franco-German trade again.

I should report, in connection with British and French interest in trade with the totalitarian states, that recently when I visited in Belgium, the Netherlands and Switzerland, I was impressed by the desire of the responsible financial and monetary officials of these countries to carry on commerce on the best possible terms obtainable with their neighbor Germany. It was their feeling that trade competition from Germany even in a form which for the present at least is aggravating was far preferable to military aggression from Germany. War experiences are especially remembered by the Belgians.

I was told by Rueff of the French Finance Ministry that the address, in English, which Reynaud will broadcast at 12 o'clock tonight to the United States will not have anything new in it.

END MESSAGE.

WILSON.

EA:LWH

GROUP MEETING

January 12, 1939.
10:30 A. M.

(Held in Mr. Hanes' Office)

Present: Mr. Hanes
Mr. Taylor
Mr. McReynolds
Mr. Lockhead
Mr. Haas
Mr. Duffield
Mr. Foley
Mr. Schwarz

Hanes: I think the first thing we ought to discuss this morning is this official representation of the Treasury at Herman's funeral, so if anybody's got any ideas about that situation now.... We thought we'd want to tell the Secretary definitely what the group has decided to do, what to recommend to him to do.

Duffield: Has the Secretary finally decided?

Hanes: I hope not.

McReynolds: He has decided.

Foley: He called Mac this morning, and then he spoke to me, and said that if it was in Washington he'd come right back, but he had to call in a doctor when he got the news. He thought it would be an overdue tax on his strength to go way down there and then come back and face next week. He said he thought either you or Wayne should go, as an official representative, and me from the General Counsel's Office. Mac and I talked it over and we thought the five Assistant General Counsels, Miss McGuire, me, and the Under Secretary should go, if agreeable to the Under Secretary.

The family wanted no appearance of ostentation of a thing of this kind. I think it is important, in a small place like Frankfort, Indiana, for public relations, that there be a credible showing. Mrs. Oliphant said last night she would not make it private, so I think there ought to be a good

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official representation from the Treasury. I also understand from Leon Henderson that Hatton Sumners wanted an official representation from the Temporary Economic Committee. O'Miley will be back this morning. He thinks O'Miley, or is it Lubin, and himself, Leon Henderson, will represent the Economic Committee.

Now, that is not official, John; that is subject to confirmation this morning, but that is what they thought about it last night.

Hanes: Your suggestion is that one of the Secretaries and five Assistant General Counsels, Miss McGuire and yourself?

Foley: That is right. And I think if it suits the convenience of the Under Secretary, that the Under Secretary ought to go.

Hanes: I'll leave that entirely to you all. I am not only ready and willing, but anxious to go, and I would suggest that Wayne go if he wants to, but I think Wayne has planned to go on his vacation, and I don't think - I mean, I haven't got any plans that I can't break.

Taylor: I think it is better if you go, John, from every standpoint.

Foley: I was thinking of it from the public standpoint.

Schwartz: Not personally but formally.

Hanes: Has anybody got any different thought than that?

McReynolds: What the Boss said, from that end of it, concerned Wayne and Johnny. He said, "Let Johnny and Wayne decide among themselves." He thought one of them ought to go.

Hanes: If I were going on my vacation I would ask Wayne to go in my place, and I think Wayne's got a perfect right to ask me to go in his place if he wants to.

Taylor: I think there are other reasons for it too; I think you are the ranking person here; if you

- 3 -

want to give scenery, you want to give all that you can.

Schwarz: Is there anybody else?

McReynolds: I agree with that. If Johnny's willing to go.

Hanes: I am not only willing, but I am anxious to go. I think you all know the very great affection I had for Herman, and the respect I'd like to pay him; I'm anxious to do it.

McReynolds: I think that is so, and the Boss has already given his approval, specifically. I told him tentatively; he said - "Entire approval."

Hanes: That would be Hanes, Foley, Wenchel, Cairns, Bernard, Bernstein, McGuire.

Schwarz: You want to add any others to that?

McReynolds: That is the official delegation. Anybody else that wants to go, of course.

Schwartz: That is official.

Hanes: The funeral service will be at three o'clock.

Foley: Three o'clock. They haven't told us where. We'll know that later in the day. Charles Oliphant went last night to make the arrangements. I'll either go by train or fly. The train leaves here-- you can either go to Chicago or Indianapolis by train; the train to Chicago leaves around a quarter of five, making connections in Chicago that will bring you to Frankfort about one o'clock. The other way, by going by B & O to Indianapolis, you leave here around a quarter of seven in the evening and get in there around twelve o'clock Saturday. I think it is possible to fly from here to Pittsburgh, Cleveland, to Indianapolis, and it takes about three hours and a half.

Schwarz: Pittsburgh to Columbus.

Foley: That is right. That's the regular main line; I don't think there will be any difficulty about

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plane connections in the morning. I am having somebody look the schedules up and bring it down as soon as they have checked it.

McReynolds: As far as Indianapolis is concerned, for flying, we'll arrange to have some of our boys pick you up in a car.

Hanes: We can fly from here to Indianapolis in three hours.

McReynolds: Of course, you've got to have a preliminary report that your air reports are good.

Hanes: The only danger about that is, we might get left on the ground here Saturday morning; that is the difficulty about flying.

McReynolds: I think the safe way is make your train reservations, then if you are satisfied, if there is no question about the weather reports for the next morning, which there may be in view of the weather reports that are now out.

Hanes: The weather's bad now?

McReynolds: Well, the weather is predicted to be bad.

Lochhead: Rain tomorrow. Don't know what the section is in the mid-west.

McReynolds: You may not be able to fly. That, of course, is details you can work out. And it's a question, I think - some of them may not want to fly. Eddie wants to.

Foley: I want to; Bernard wants to; I gather you want to. Miss McGuire is going with Mrs. Oliphant. Cairns, Wenchel, and Bernstein want to go by train; they don't want to fly.

Hanes: Well, Ed, while you are looking up the plane connections, you might look up the commercial planes coming back. Maybe we could catch a plane coming back and get back here Saturday night.

Foley: I think that is the best way you can get back here Saturday night. Can't make it by train until Monday morning. You've got to go back to Chicago,

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spend the night in Chicago, and come back Sunday afternoon.

Hanes: Do the Transcontinental planes come directly?

Schwarz: Some schedules do.

Hanes: We could change at Pittsburgh.

Schwarz: T. W. A. - some of their schedules come by way of St. Louis, Indianapolis, Pittsburgh.

Foley: If we could get back to Pittsburgh Saturday night, we could get a train into Washington.

Hanes: While looking up the trains you might look up the transcontinental planes coming into New York. If we could catch one of those maybe I'd go to New York and spend Saturday night in New York rather than spending it on the train.

Well now, that's that. Is that all right with everybody?

McReynolds: I think it is very good.

Hanes: Is there anything else anyone wants to discuss this morning? I haven't got a thing.

Foley: I understand from Miss McGuire that Mrs. Oliphant is seeing people this morning out at Othalia's, and I was wondering if anyone wanted to go.

Hanes: I wanted to go; I asked them to notify me if I could go. I didn't know whether she wanted to see anybody; I think we ought to have somebody go as a representative of the Treasury. I would want to go.

McReynolds: Ed wants to go; I should like very much to go.

Hanes: Let's get together right after this meeting. Maybe we'd better telephone and see if it's O. K.

Foley: I'll ask Miss McGuire.

McReynolds: I'd very much like to, since I am not going to the funeral.

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Foley: The notice in the paper said up until five o'clock; arrangements to be by Gawler, up on Pennsylvania Avenue; I am checking to see if it's possible to go up there and see him. If anybody - I'll have the information, if anybody wants to go.

McReynolds: Well, that is something I don't agree with.

Foley: I don't either. You might be interested to know that Gutzon Borglum came in yesterday afternoon to take a death mask last night and take it back to North (South) Dakota with him and make a bust and present it to Mrs. Oliphant. He did the same thing for Oliver Wendell Holmes when he died five or six years ago.

Hanes: Anybody got anything else? If you haven't, Eddie, you find out when it will be convenient for us to go and let me know, and we'll go right out there.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

1-12-39

TO: Mr. Hanes

FROM: Mr. Foley

In re: Mr. William Schwartz,
Member, Processing Tax Board of Review.

Mr. Schwartz was appointed to the Processing Tax Board of Review on February 16, 1938. Under the law the Members of this Board must be designated by the Secretary of the Treasury from personnel in the Treasury Department. For that reason Mr. Schwartz served as Head Attorney in the Office of the Chief Counsel from February 1, 1938, to the date of his appointment as a Member of the Board on February 16, 1938.

Mr. Schwartz graduated in 1921 from Fordham Law School with the degree of LL.B. and was admitted to the New York Bar in 1922. He has practiced law in New York City and has served as Deputy Assistant District Attorney for New York County, New York. He has served four consecutive terms in the New York Legislature as Assemblyman, his last term expiring December 1, 1937. He was then elected a delegate to the New York State Constitutional Convention. The investigation made at the time of his appointment indicated good professional standing and fine reputation. During the summer of 1938 he participated in the New York State Constitutional Convention on leave of absence from the Board.

Members of the staff of the Chief Counsel who represent the Commissioner before the Board of Review who have appeared before Mr. Schwartz state that he disposes of the work in a lawyerlike manner but so far only jurisdictional motions have been argued before him. Only one case has been heard on the merits and Mr. McDonald conducted this hearing, which was also participated in by Members Crewe and Geay.

Attached is a copy of the report of the Intelligence Office made at the time of his appointment. This should be returned to Mr. Elmer Irey, Chief of the Intelligence Unit, from whom it was borrowed.

F.N.F.L.



INTELLIGENCE UNIT

New York

(Name of Division)

SI-Unjacketed.
LIK:LE

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

New York, N. Y., January 27, 1938.

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: William Schwartz, Attorney,
2 Lafayette Street (Business)
315 East 88th Street (Residence)
New York, N. Y.

Applicant for appointment as
Member of the Board of Review,
U. S. Treasury Department.

This report relates to my investigation of the qualifications and fitness of William Schwartz for appointment as a member of the Board of Review, United States Treasury Department, at Washington, D. C.

The applicant was interviewed by me and stated that he was born on January 6, 1897 in New York City. He is single and resides with his father and older sister at the above address.

Mr. Schwartz makes a good appearance, dresses neatly and appears to be in good health. He has a quiet manner and a pleasing personality.

After completing his elementary school education, Mr. Schwartz then attended the High School of Commerce in this City for one year. He also attended the Packard Commercial School, where he studied stenography and typewriting. He attended the New York Preparatory School, completing its academic course. He attended Fordham University Law School, graduating therefrom in June 1921. He was subsequently admitted to practice law in the State of New York by the Supreme Court in this City.

Mr. Schwartz established his own law office in 1922 and has continued in the general practice of law since that date.

SI-Unjacketed.

He has had some criminal practice, but most of his legal work has been in connection with civil cases, including some Surrogate's Court practice. Mr. Schwartz states that he has never handled any income or other tax cases.

While carrying on his law practice he also served as a Deputy Assistant District Attorney of New York County, New York, N. Y., from January 1, 1926 to December 31, 1929, for which he received a salary of \$3,000 per year. During this period he represented the District Attorney in the Magistrate's Courts of this City. He resigned this position, as he had been elected to the New York State Legislature as an Assemblyman. He served four consecutive terms in the Assembly. He did not seek reelection to this office at the last general election, and his term of office expired December 31, 1937. He was, however, elected as a delegate to the New York State Constitutional Convention at a salary of \$2,500. This convention, it is expected, will be held at Albany, New York, in April of this year.

The following persons, who know Mr. Schwartz, have been interviewed for the purpose of ascertaining their opinions as to his character, reputation and ability as an attorney:

Mr. Joseph T. Higgins, Collector of Internal Revenue, Third New York District, advises that he served in the New York State Assembly with Mr. Schwartz and has known him for a number of years. He states that Mr. Schwartz has a quiet manner, enjoys a very excellent reputation among those who know him and is a very competent attorney.

Mr. Joseph Burns, Assistant Collector of Internal Revenue, Second New York District, advises that he has been acquainted with Mr. Schwartz for a number of years and, like Collector Higgins, states that Mr. Schwartz has a fine reputation as an attorney and enjoys the confidence and respect of all those who know him.

Mr. Martin Klein, Assistant United States Attorney for the Southern District of New York, states that he has been acquainted with Mr. Schwartz for approximately fourteen years and that Mr. Schwartz is an attorney of considerable ability and enjoys a fine reputation among those who know him. He also advises that Mr. Schwartz is a member of the Congregation of Kahileth Jehusurum, located on East 85th Street between Lexington and Park

21-Unrecorded.

Avenues, New York City, and that he is very active in Jewish charitable organizations in this City.

Mr. Charles J. Wagner, Special Attorney of the Department of Justice, New York, N. Y., who is a nephew of United States Senator Robert J. Wagner, informs me that he has known Mr. Schwartz for about ten years; that he is reserved and unassuming; that he enjoys an excellent reputation as an attorney and is well respected by all those who know him.

Mr. Benjamin B. Gold, Assistant Corporation Counsel of the City of New York, advises that he has been acquainted with Mr. Schwartz for about fifteen years; that Mr. Schwartz is considered a very fine lawyer and enjoys an excellent reputation among those who know him.

Mr. John A. Mullen, an attorney, who is counsel for the New York State Banking Department, states that he has been acquainted with Mr. Schwartz for at least ten years; that he has represented clients before the Supreme and Surrogate's Courts of this City; that he is considered a very competent, thorough and ethical practitioner, and that he enjoys an excellent reputation among his fellow members of the Bar of this State and other persons who know him.

Inquiry at the offices of the New York County Bar Association reveals that Mr. Schwartz has been a member since 1925, that there have never been any charges against him and that he is in good standing before all the courts of this State.

Mr. Schwartz states that he owns a Willys-Knight automobile, 1931 model; that he owns no real estate, mortgages or securities; that he has a commercial account with the Chase National Bank at North Street and Broadway, and savings accounts with the Indigrant Industrial Savings Bank, 61 Chambers Street, and the Borey Savings Bank, 42nd Street Branch, all of these banks being located in New York City.


He also states that he has never been arrested nor has he ever been the defendant in any law suit, and he has no judgments against him. As far as can be ascertained by me, these statements of Mr. Schwartz cannot be disproved.

He stated further that for the past four or five years

SI-Unjacketed.

his gross income, exclusive of his salary as an Assemblyman, was approximately \$6,000 yearly. He and an attorney named Louis Zimmerman have occupied the same suite of offices since 1922, and although they have not been associated as partners, they have shared equally the expenses of maintaining the offices, together with the salaries of their employees. Mr. Schwartz' portion of this expense has been applied to his gross income in preparing his income tax returns each year and he has taken the exemption as head of a family with two dependents, namely, his father and elder sister. The reason for this explanation is that the records of the Collector of Internal Revenue for the Second New York District indicate that Mr. Schwartz has filed non-taxable returns for the years 1923, 1924 and 1925 and a return for the year 1926 showing a tax paid of \$1.45.

From the foregoing facts and my personal interview with the applicant, I am of the opinion that he is qualified by training and experience for an appointment as a member of the Board of Review, United States Treasury Department. It is therefore recommended that he be appointed to the position for which he is being considered.


Leo I. Kaye,
Special Agent.

January 12, 1939

Coast Guard Communications

A. Lechhead
Technical Assistant to the Secretary

Please transmit the following to Secretary Morgenthau:

"The following is the message we propose sending to
Brasil. Taylor"
(Message attached)

See Mr. Morgenthau 1-12-39

"This Government believes that Minister Arakawa should be prepared to discuss in detail all aspects of the subjects included in the communication which Minister Souza Costa sent to Secretary Morgenthau on December 2, 1938.

It is our impression that these subjects fall into three general but closely related groups.

Group I. Steps contemplated by the Brazilian Government to alleviate the existing exchange position. Specific action which this Government could take to assist the Brazilian Government in clearing up the existing affairs.

Group II. Steps contemplated by the Brazilian Government to establish a Central Bank; an estimate of the amount of reserves in gold, foreign exchange or the equivalent which the Central Bank would require, either in the form of Central Bank reserves or a stabilization fund. Methods by which the Brazilian Government plans to create and maintain these reserves. Specific action which this Government might take to help create immediate reserves or to assist in the gradual achievement of the desired objectives, including methods providing for continuing cooperation between the two treasuries.

Group III. The long range development program of the Brazilian Government. Estimate of amounts of foreign materials which will be required to carry out this program. Estimate of the effect on the Brazilian balance of payments position. Proposed methods of financing purchases of foreign materials. It is understood that the contemplated methods are those which would have the smallest immediate impact on the external position of the milreis. Specific action which this Government might take to facilitate the development of this program.

In order for this Government to have a complete understanding of these problems, the balance of payments position for 1939 and ensuing years should be thoroughly discussed as well as the anticipated effects of the proposed measures on future years.

This Government understands that in order to carry out the various aspects of a comprehensive program, large amounts of money will have to be contributed locally. For example, a long-range development program will doubtless require large expenditures for local materials and labor. It would be desirable to have information as to the methods proposed by the Brazilian Government to finance both the external and internal portions of the program because of their joint effect on the budgetary and governmental indebtedness position of the Brazilian Government.

GRAY

Rio de Janeiro

Dated January 12, 1939

Rec'd 2:15 p.m.

Secretary of State,
Washington.

11, January 12, 3 p.m.

My 8, January 7, 1 p.m. The Bank of Brazil today lowered the buying rate for German compensation marks from 5.600 to 5.500. This action, which should tend to reduce the sale of Brazilian products to Germany, voices the displeasure of the Bank of Brazil because of a recent press despatch from Berlin to the effect that the German Government is threatening to reduce by 40% the consumption of Brazilian coffee on account of the alleged measures adopted by the Bank of Brazil to curtail the importation into Brazil of German products.

Please inform Department of Commerce.

SCOTTEN

EA:DJW

GROUP MEETING

January 13, 1939.
9:30 A. M.

(In Mr. Hanes' Office)

Present: Mr. Hanes
Mr. Foley
Mr. Taylor
Mr. Duffield
Mr. McReynolds
Mr. Lochhead
Mr. Schwarz

Lochhead: isn't going to give up anything, and it was more or less a courtesy call, because neither one is saying a word about what happened, so I imagine it is going to be a disappointment, that visit; it is not helping out the exchanges at all. It is not helping out the situation. The feeling is still there must be something cleared up over there before there can be any improvement in the exchange basis.

Hanes: What is sterling, you say?

Lochhead: 4.67. They have been doing a little supporting, unnecessarily.

Hanes: There hasn't anything come out at all, of any import, about this conference?

Lochhead: No. That's why I think it is a disappointment because neither one is saying anything at all. They have a nice long meeting; they talk an hour and forty-five minutes, and that is all the information given out.

Taylor: They didn't have any schedule when they went there.

Lochhead: They didn't have any schedule, but if there was anything to be given out they'd be awfully glad to give it out. The reports are that Italy asked for certain things and England countered by asking for certain things. I think Italy asked that Spain be allowed belligerents, and England countered by asking Italy to take their troops out of Spain.

- 2 -

McReynolds: The news man on the radio at nine o'clock said Italy had asked for the recognition of belligerents and two or three other things, and England refused it, and England asked for withdrawal of troops and two or three other things, and Italy refused it, but they were all in a good humor and had a very nice meeting but everybody refused what everybody wanted. That is as far as anything on the news is concerned.

Lockhead: I think it interested currency here. The German Ambassador was received by the Italian Foreign Minister immediately afterward, and secondly, this thing - the New Year's reception there. Hitler devoted quite a little time to the Russian Ambassador. Quite a lot of people think this whole thing may be a tie up between Germany and Russia, and those interested have been watching them pretty closely.

Hanes: Anything, Chick?

Schwarz: Nothing.

Hanes: Wayne?

Taylor: Did you talk to the Secretary?

Hanes: I didn't talk to him last night; I wasn't ready to talk to him because I didn't have this other memorandum I got this morning. I thought I'd spring it on him at the same time.

Taylor: The only two things I have will wait on what we hear from him. That was one of them. The other I sent a message down to him yesterday, a suggestion of what Aranha might talk about when he comes up here, - what he may be prepared to talk about. Archie and I went over that.

Hanes: What is his name?

Taylor: A-r-a-n-h-a - or words to that effect.

Lockhead: He was the former Ambassador.

Taylor: He was up here for, I guess it was two years; he's smarter than hell.

- 3 -

Lochhead: He is more of a financial man than an Ambassador.

Schwarz: When is he due?

Taylor: He's due the first week in February.

Schwarz: They're linking that story down there....

Taylor: I don't think we can give anything out on that until - until the President gives it out.

Schwarz: I just said, maybe there is something happening in Brazil.

Taylor: The formula is that President Roosevelt is asking President Vargas to send this guy up, and that has been done.

Hanes: Do I understand, just to change the subject a moment, before I might get the Secretary, do I understand the memorandum is to go to the White House today?

Taylor: It doesn't go to the White House. Oh! You mean the other one that is to go to the President.

Hanes: The Fiscal and Monetary policy. They are awaiting an answer from us on that.

Taylor: That goes immediately.

Hanes: We weren't going to send it until today.

Taylor: I thought it was very important that we agreed.

Hanes: There is nothing in there - I'll read that memorandum to you - there is nothing in there, I see, that anybody would hesitate to agree to because it is all negative.

This is a report of the Fiscal and Monetary Advisory Board, relating to the specific report of the Social Security Board.

"At your request, the Fiscal and Monetary Advisory Board has considered the Special Report of the Social Security Board at two extended meetings. In addition, the technical staffs of the various agencies represented held a meeting to explore the fiscal aspects of the problem.

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"As a result of this study, the Advisory Board makes the following recommendations:

"1. That the Report be submitted directly to Congress rather than to you, and by you, to Congress.

The basis of this recommendation is two-fold. In the first place, the Board found that the Report raises highly controversial questions with respect to the monetary and fiscal aspects of the old-age insurance program. Transmittal of the Report by you would imply your acceptance of one view of a problem on which, in the opinion of this Board, definite commitment on your part is not at this time necessary or advisable.

In the second place, the statute creating the Social Security Board does not state that reports with respect to modifications and amendments of the Act should be made to the President and the implication is that they should be made directly to Congress. This has been the practice of the Social Security Board to date. There appears no good reason why a departure from this practice should be made in the case of this Special Report. It is, therefore, appropriate that a report recommending changes in the Act should be addressed to Congress.

"2. It is desirable that the Fiscal and Monetary Advisory Board be kept currently informed by the Social Security Board of specific recommendations which it proposes to present to Congressional Committees so that the monetary and fiscal aspects of new social security legislation may be kept under continuous study by your Advisory Board."

Now that doesn't seem to me that commits anybody to anything.

McReynolds: I am sure the Boss will have no objection to that being forwarded.

Hanes: The way they had it before, there was an objection on the part of Danny.

Taylor: One line there that didn't seem to me to be terribly important, which - I think it says the

- 5 -

same thing anyway, leaving it out.

By the way, after you left, Marriner produced another memorandum which he thought might be presented, not in the form of a report of the Board, but pointing out what some of these implications were. Mr. Delano said he thought it would be extremely inadvisable to try to present such a memorandum, and.....

McReynolds: Good for Delano.

Taylor: What?

McReynolds: Good for Delano.

Taylor: Then the way it worked around, we had a little conference about the freedom on the part of any member of the Committee as people, assisted by the Secretary, to say anything he wanted to at any time. Marriner is writing that over again in the first person and he will either slip it in as an individual or, if there is a meeting on it, why, he will talk about it.

Hanes: Uh huh.

Taylor: It isn't anything very startling.

Hanes: It is not anything we are going to sign?

Taylor: Oh no.

McReynolds: Well, he will talk about it anyway, if he has a chance.

Hanes: Gene, you have anything?

Duffield: I have only one matter, which needn't be taken up unless you want to, but I told the Secretary when he left I would try to have ready for him when he came back, a bill setting up this Power Financing Agreement. Ed's lawyers have got a bill, let's say in semi-final form. Now, just depending on whether you want to do it or not, I would like to

Hanes: Has Ed got a copy of it?

Duffield: I don't think he's gone over it; that is why I bring it up, subject to his confirmation. I told the

- 6 -

Secretary I'd try to let you and Ed see it.

Hanes: Why don't you let me see what you've got. I'll have plenty of time to read it, going out on the train.

McKeynolds: Ed and Johnny will have lots of time to read it, going out on the train.

Hanes: He can't fly. Ed's going out on the train with me.

Duffield: Since it comes out of his division, I didn't want to sneak it out around him.

Hanes: Let Ed bring it with him.

Foley: I'll bring it with me.

Hanes: I've got a lot of stuff from Ed. Going way out there, I was going to do it in the plane.

Lockhead: John, you're going to be terribly outnumbered.

Duffield: Yes, you've got five lawyers.

Hanes: I'll take them on one at a time.

McKeynolds: I don't know; I think I'll have a talk with the General Counsel boys before they start, to see whether I can neutralize any of their ideas.

Hanes: Ed, there is a Mr. Boehme, from Indiana, the Congressman, who is on the Ways and Means Committee, came here to see me this morning, and said that a man by the name of John Rheinhard, who is in the Income Tax Division of the Alien Property Custodian's Office - he says the work over there is about to come to a close - it should have come to a close long years ago but they have hung on for some reason or other. This fellow is getting a little nervous and he wants to be transferred to some legal work in the tax work of the Bureau of Internal Revenue. He is going down to see Phil Wenchel about it. I told him to ask Rheinhard to come over here sometime next week and we'd have a discussion with him. I'll put that in the form of a memorandum and send it to you, and I guess we'll have to see this fellow when he comes over.

* * *

January 13, 1939

To: The Secretary

From: Mr. Hanes

Cabinet meeting - Friday - January 13, 1939 - 2:00 P.M.

Those present were: The President, Vice President Garner, Messrs. Hull, Hanes, Woodring, Jackson, Farley, Swanson, Ickes, Wallace, Hopkins, and Madam Perkins.

There was only one formal matter brought up for discussion and that was the letter from the Secretary of the Treasury to the President, which I read, recommending that the proposed drafts which I presented with the letters to the Speaker of the House and the Vice President be forwarded before the hearings on tax-exempt securities and salaries are begun by the subcommittee of the Senate Finance Committee. This matter had been cleared with the Department of Justice and Mr. Jackson advised the President that he was in accord with the suggestion of the Treasury that the letters be forwarded immediately. The President agreed to send both letters at once.

The other Cabinet officers made general reports on their departments. Nothing of importance was taken up at the meeting, the discussion being rather general.

T W H

Office of
SOLICITOR GENERAL

DEPARTMENT
OF
JUSTICE

Handwritten note)

I think these are important and proper steps -- entirely consistent with our position in the Courts.

(Initialed) R.H.J.

(This note accompanied the letter to The President together with the enclosed drafts of proposed letters to President of the Senate and Speaker of the House re legislation to include tax-exempt salaries & securities)

COPY

C O P Y

January 13, 1939

Acting Secretary Hanes

Mr. Foley, Acting General Counsel

I spoke to the Secretary and he suggests in the interest of expedition that you sign the attached letter and present it to the President at the Cabinet meeting this afternoon.

I read Bob Jackson's note to the Secretary and explained that he would represent Mr. Murphy at today's Cabinet meeting, and was prepared to support you when the letter was presented. He was entirely agreeable to handling it in this way.

(Initialed) E. H. F., Jr.

U S P I

Jan. 13, 1939

My dear Mr. President:

If the attention of the Congress is called to the practical situation created by the decision of the Supreme Court in the Port of New York Authority case, it should increase the likelihood of favorable action by the Congress at this session on the recommendations in your message of April 25, 1938, relating to the tax exemptions.

This case has greatly broadened the class of people subject to the Federal income tax but has left the outer limits of this enlarged category undefined. Moreover, the Court purports to declare the law as it always has been, with the result that the Bureau of Internal Revenue will, in the absence of new legislation, have no choice but to apply this decision retroactively.

Unless the Congress enacts remedial legislation prior to March 15th, therefore, the Bureau of Internal Revenue will have to assess and collect taxes for at least three years past against employees of many state agencies and the security-holders of many state corporate instrumentalities, who mistakenly but in good faith believed they were tax-exempt.

The attention of the Congress should be called to the present urgent need for such legislation to remove these new uncertainties as to the classes of people to which our income tax law is to be applied and to eliminate the hardship and inequities which would flow from the retroactive application of this last Court decision.

But in asking the Congress to relieve against these hardships I think the Congress should be asked at the same time to provide clearly for the prospective elimination of tax-exempt salaries and tax-exempt securities, as you recommended in your message last year.

I submitted last May for your consideration a draft of a proposed letter along these lines to the Vice President and to the Speaker of the House. I am enclosing with this letter a slightly revised draft.

Faithfully yours,

(Signed) John W. Hanes

Acting Secretary of the Treasury.

The President

The White House.

enclosures

THE WHITE HOUSE
WASHINGTON

My dear Mr. Garner:

In my message of April 28, I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments. I asserted that a fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds could not exist side by side. I pointed out that those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment. I suggested that the tax immunities heretofore accorded to private income derived from government securities or government employment were not inescapable requirements of the Constitution, but were the result of judicial decision. I stated that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities.

Decisions of the Supreme Court rendered since my message of April 28, particularly the decision in the Port of New York Authority case, have made an important and constructive contribution to the elimination of these inequitable immunities.

It is obvious, however, that these inequities can not be satisfactorily corrected by judicial decisions alone. Without legislation to supplement them, many individuals and corporations will be subjected to tax liabilities for income received in past years which they mistakenly but in good faith believed to be tax-exempt. It is evident, for example, that employees of many state agencies as well as the holders of securities of public corporations believed that the income they received from such sources was tax-exempt, in view of the opinions of eminent counsel based upon earlier decisions of the Supreme Court. In the interest of equity and justice, therefore, immediate legislation is required to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on these innocent employees and investors for salaries heretofore earned, or on income derived from securities heretofore issued.

In the light of these decisions there are, among the taxpayers of the Nation, inevitable uncertainties respecting their tax liabilities. There is uncertainty whether the salaries which they receive are not taxable under the existing provisions of the revenue acts; there is uncertainty whether the interest which they receive upon the obligations of governmental instrumentalities is similarly not taxable; and there is an uncertainty whether the salaries and interest which they have received for past years will create an unanticipated source of tax liabilities and penalties.

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mess of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Court.

Unless the Congress passes some legislation dealing with this situation prior to March 15th, I am informed by the Secretary of the Treasury that he will be obliged to collect back taxes for at least three years upon the employees of many state agencies and upon the security-holders of many state corporate instrumentalities, who mistakenly but in good faith believed they were tax-exempt. The assessment and collection of these taxes will doubtlessly in many cases produce great hardship.

Accordingly, I renew my recommendation for legislation at this session which will make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. The Congress will need also to consider what tax

- 4 -

treatment, from the Federal income tax, should be accorded the income derived from securities of governmental, corporate instrumentalities hitherto issued and to compensation for services hitherto rendered to the various types of public agencies.

Very truly yours,

The President.

Hon. John H. Garner,

President of the United States Senate.

CLK:FLM:ED
Retyped 2 1/11/80

41

THE WHITE HOUSE
WASHINGTON

My dear Mr. Bankhead:

In my message of April 28, I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments. I asserted that a fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds could not exist side by side. I pointed out that those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment. I suggested that the tax immunities heretofore accorded to private income derived from government securities or government employment were not inexorable requirements of the Constitution, but were the result of judicial decision. I stated that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities.

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- 3 -

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mass of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Court.

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treatment, from the Federal income tax, should be accorded the income derived from securities of governmental, corporate instrumentalities hitherto issued and to compensation for services hitherto rendered to the various types of public agencies.

Very truly yours,

The President.

Hon. William R. Rankinhead,

Speaker of the House of Representatives.

CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Knoke

January 13, 1939.

TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

I called Mr. Bolton at 11:20 today. The market here was very quiet, I told him, with business almost nil, and explained to him why, in view of the gold points which we had from him at the time, we had to let the sterling rate go down on Wednesday to 4.86 3/8 before intervening. Bolton replied that this was really their fault because their new cable giving us a new buying rate had gone out too late.

As regards the exchange market in London today, he said that a steady business was going on the whole time and that the pressure on sterling today was undoubtedly due to the result of Chamberlain's visit to Rome which now seemed to be completely negative. So far he had sold \$12,500,000 at 4.87 and he would appreciate it if after their closing we would carry on at the same rate, this on the assumption that the pressure against sterling would be transferred to our market during our afternoon. The apparent fruitlessness of Chamberlain's visit in Rome seemed to have caused with the French a sudden return to that peculiar state of anxiety and pessimism which one used to expect of them before last December. The French Bourse had turned weak with French shares selling off in the neighborhood of 5 per cent. As far as he knew the Bank of France had supported the money market as well as the rente market and had also sacrificed sterling in support of the French currency but he did not know to what extent Cariguel had lost. Quite apparently the French were having an attack

ICE CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Knoke

DATE January 13, 1939.

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

2

of the jitters; as a matter of fact that applied not only to France but to the whole Continent.

I made reference to Mr. Harrison's telephone conversation with Mr. Catterns yesterday and repeated briefly what we had done in this market and the reaction which we had had; also that as Mr. Harrison had told Mr. Catterns he, Bolton, should let me know if they found that American banks in London were carrying on gold business which it was the Bank of England's intention to avoid. Bolton mentioned that they had had to make it clear to some of these banks that a dollar loan against gold was just as objectionable as a sterling loan. That, so far, seemed to be the only point that had been in doubt. The Foreign Exchange Committee, which was now a very powerful committee and on which practically every element in the market was represented, was holding its final meeting next Tuesday and a number of questions might be raised at that time but so far he had seen no sign of any friction with any bank. Some French people seemed to have loans against gold and were evidently trying to continue these loans through American banks in London and in Paris but so far the Americans had been unwilling to assist them.

He had two bits of news for me, Bolton continued: (1) the guilder was weak, supposedly because the relations between Germany and Holland were strained and had given rise to rumors of German troop maneuvers on the Dutch border; (2) they had heard from quite a good source that Franco was expected to win in a few weeks now.

LWK:KW

REB

GRAY

London

Dated January 13, 1939

Rec'd 2:35 p. m.

Secretary of State,
Washington.

55, January 13, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. I had a word with Waley who expressed satisfaction at the reception given their measures and the resulting decline in activity in the foreign exchange market. He also said that to date they had had less trouble than anticipated regarding the announcement that legislation would be introduced to amend the currency and bank notes act of 1928.

Two. In addition to the changes resulting from the gold transfer and fiduciary issue increase set forth in my No. 40 of January 9, 6 p. m. this week's Bank of England return reflects the repayment of discounts and advances by the market of pounds 22.8 million reducing that item to 22.1 million and a further return of notes which reduced the note circulation by pounds 12.4 million to pounds 475 million, only pounds 5.2 million of the reflux having been neutralized by the sale of securities. Bankers deposits
WERE

REB

2-#55, From London, Jan.13,5p.m.

were pounds 118 million having declined by pounds 17.8 million which is a small decrease in view of tax collections and market repayments to the bank. Public deposits stood at pounds 19.2 million and government securities at pounds 98.2 million. Today's treasury bill rate was about 88 7 $\frac{1}{2}$ D as compared with 118 per cent last week.

Three. There was even less activity in the foreign exchange market today than on Wednesday and Thursday. The dollar remained steady at 4.87 and the British authorities also ceased to offer forward dollars. There was a tendency to sell the franc and the forward franc rate moved out slightly in a nominal market. Gold was fixed at 1488 11D and of the 204 bars 49 were married and the British Fund only had to give a few to complete the fixing.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 13, 1939, 5 p.m.

NO.: 84

FROM COCHRAN.

Today sterling was weaker against the dollar, and spot and forward franc in turn declined against the pound. Gold was lost today by the French control, and there was a drop in French rentes. The market situation was due principally to preliminary press reports of divergent points of view at Rome, and reports that concrete results have not been achieved. There was a depressing tendency on all European markets due to German protests against attacks on German diplomats in the Netherlands and reports of heavier trend at New York. The florin was hurt by the first of these factors. The dollar was particularly wanted by the continent; the belga, following the dollar, should be drawing gold from London to Brussels.

I am sending by mail the text of the speech broadcast to the United States last night by Reynaud. I am also sending the prospectus for the French loan to convert railway loans which was issued yesterday.

END OF MESSAGE.

WILSON.

EA:LWW

1/14/39

50

Note left by Bewley with Mr. Taylor

J 4 12 1945

31

One American bank in London recently enquired the views of the British authorities about a proposal that they should advance dollars against gold, a procedure which they thought might be permissible. The British authorities however thought the advance very undesirable and informed the bank accordingly. The bank was quite willing to accept the ruling.

It appears to the British authorities that the only real difference between an advance of dollars against gold and an advance of sterling against gold is that the man who gets an advance in dollars has to incur some slight expense in turning his dollars into sterling, but that expense would of course be considerably less than the profit which he hopes to make eventually by speculating against sterling.

making himself
wiser;

If Mr. Morgenthau agrees with the view that an advance of dollars or other currency against gold provides an easy method of evading the Chancellor's intentions and is no less objectionable in principle than an advance in sterling, perhaps he would be willing to include mention of this in the advice which it is understood is being given through the Federal Reserve Bank of New York.

EG

GRAY

London

Dated January 14, 1939

Rec'd 10:05 a.m.

Secretary of State,
Washington.

59, January 14, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

The foreign exchange market has again been inactive - even for a Saturday. Contrary to normal practice the British authorities let it be known in the market before the opening that they were prepared to offer dollars at 4.67, later they pushed it up an $1/8$ and this caused the market itself to offer dollars and the rate for most of the morning was either side of $1/2$, closing at $3/8$.

Gold was fixed 148 shilling $9\frac{1}{2}$ penny and of the 88 bars 43 were married and the British fund supplied a few.

JOHNSON

DDM:HTM

PARAPHRASE OF TELEGRAM
RECEIVED

FROM: American Embassy, Rio de Janeiro
DATE: January 14, noon, 1939
NO.: 14

Reference my No. 8 of January 7, 1 p.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for daily quotas and maturities from December 8 - December 15 inclusive, during the week of January 16.

The purchase of compensation marks for exports of cocoa to Germany has again been suspended by the Bank of Brazil. The confusion now existing in the Bahia cocoa market is alleged to be caused by the trading methods employed by German buyers.

Will you please inform Commerce.

SCOTTEN

EA:DJW

34

Columbia University
in the City of New York
SCHOOL OF LAW

14th January 1939

Dear Henry:

Following my telephone conversation with you, I spent a half hour with Foley; & I have since talked to a number of people about him. He graduated from Fordham Law School, a very large, second-rate school here in New York, after a year at Williams College, and a year or two at Fordham. Thereafter he practiced with Hawkins, Delafield & Langfellow, a first-rate Wall Street firm, doing largely municipal bond work. He went to Washington with the RFC in 1932, & has been there ever since.

I do not believe he has a wide legal background, or particularly good legal skill except in bond issue and similar work. I may well be wrong about this, but my impression

is confirmed by what others tell me. He is reputed to have good administrative ability, to get on unusually well with people, to be very ambitious, and to show marked political skill. I am told that he is very close to John Hanes, and that John would like to see him appointed. I did not speak to John on the subject, but of course you can get his views if you wish them. He is said to have no pronounced social or political views; he is sympathetic to the Corcoran crowd, and apparently to their opponents. All this may be because he is young and wants to go ahead.

In other words, by appointing him, you would evidently get a man who would run the office well, but who would not himself be much of a legal advisor. Possibly there are enough brains in the legal division, so that the information which filtered through him

to you would be quite satisfactory.

It will be very hard to replace Herman Oliphant. I should like to see you get a man of first-rate, all-around legal ability. I don't think you need a specialist, but I do think you need a man with first-class training and experience, good common sense and judgment, and a man whose loyalties run wholly to yourself and the President. I have puzzled my mind a good deal on the subject. Have you thought of Calvert Magnus, now counsel to Andrews? If he is available, I wish you would talk to him, for I think he is good. I have also been told that Marion Smith, of Atlanta, Georgia, might be good, but I don't know him. He is a brother-in-law of Ronald Ransom.

If I can help you in any way, let me know. I mainly hope that you can get a

really satisfactory man to help you, for I
don't want to see you wearing yourself out
even more on this job. It is a backbreaking
load to carry, even with all the equipment
in first-class shape.

Don't take a makeshift if you can keep it.

I hope my writing will be legible to you;
I didn't think we wanted to have a stenographer
on on this. With warm regards,

Sincerely yours -

Roswell Magill

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 14, 1939.

TO: Secretary Morgenthau
FROM: Mr. Taylor

The main points of interest in the foreign field constitute the carrying out of the request of the British Treasury that we ask American banks to have their foreign branches cooperate with the British Treasury and the Bank of England. George Harrison covered all the banks on Monday of this week and discovered that there were only two banks which were conducting operations which might fall into the questionable category. These banks asked him whether in his opinion these transactions were contrary to the interest of the British authorities. He did not express an opinion but suggested that the banks themselves instruct their branches to question the British Treasury on this point, and that if the British Treasury felt that the transactions were undesirable, that the branches should be asked to conform. We had a repercussion from this this morning. Bewley left with me a message which I turned over to Lockheed. The message described a method by which American banks had taken a position by advancing dollars against gold. Lockheed will give you the text of the message. I told Bewley that we agreed with the position of the British Treasury and in due course would pass the word along to George Harrison.

During your absence I have had several conversations with Sumner Welles and other members of the State Department on the question of our Latin American activities. You are familiar with the Brazilian matter. I believe that the message which you approved will go forward today.

- 2 -

I also asked Welles to send you a copy of the other agenda on instructions which would be forwarded to Aranahe. He said that he would do so immediately on your return.

I also discussed the question of ^{treaty}tax/possibilities and I left with Welles several memoranda prepared by Eldon King indicating six countries where there appeared a basis for treaty negotiations. Welles agreed with us in thinking that these negotiations were desirable and is taking steps to proceed. I don't think there is any immediate hurry about this question, as the preliminaries take quite a while.

We have received a series of inquiries through Bogdan of the Schroder Banking Corporation, as to the possibility of Treasury cooperation with the new Chilean regime. A message has gone forward to Ambassador Armour to indicate a willingness on our part to discuss any question of mutual interest. I do not think that we can use Bogdan or the Schroder people as intermediaries or in any other form, and so informed Welles, who agrees. I, therefore, told Bogdan that the matter would be taken up through regular channels. It appears that the new regime in Chile is a liberal one, ~~and~~ is seriously considering some pretty far-reaching reforms, and wants to lean very heavily on us in helping to carry them through. I get the impression that the major portion of the help which they would like to have us offer is in the form of financial assistance.

There are in addition two credit operations in sight involving Uruguay and the Argentine. Uruguay has approached the Export-Import Bank for a million dollar credit, the proceeds to be used to clear shipments of American merchandise. Welles approved the transaction in principle. The situation in the Argentine is similar but will involve larger amounts, possibly as high as twenty-five million dollars. I did not discuss this question with Welles, as it came up in a conversation with Pierson.

My impression is that all other things being equal, it is an extremely desirable transaction. Whereas our relations with the Argentine are not of the best, they happen to be very good pay, and this type of credit might do much to improve the other relations. We have had no formal request as yet from the Argentine.

In addition, we have the Colombian possibility about which Braden is very hopeful. The elements of the picture are quite similar to those present in the Brazilian situation, with the favorable additional factor that Colombia produces quite a lot of gold and can utilize its own gold production to help build up its reserves, or to pay off any advances we might make to help them establish their gold reserves immediately.

The Cuban situation has become more complicated. As the result of Ross Magill's trip he is not too optimistic about the possibilities of instituting effective reforms. He feels that the reforms can be made without much difficulty, but that collection of taxes under any system presents a major difficulty. Pierson feels very much the same way. While he believes that there are one or two public works projects, such as the Havana Water Works, which can be usefully financed, that their full program is far too ambitious. Collado has just returned from Cuba with the latest drafts of five basic laws affecting their entire banking and currency set-up. We were to discuss with Welles and Eccles one of these laws, but decided to wait until we have translations of all five before proceeding.

I also discussed with Welles the problem presented by the effort of this Government to actively cooperate with Latin American Governments in the financial field and the necessity for having competent men on

the ground who would devote their time to financial matters exclusively. He told me that the State Department was prepared to assign competent men - whom he said were as good as Butterworth and Cochran - in Mexico, Colombia, or Venezuela, inasmuch as the one man could cover both of these countries, in Chile or Peru, where the same situation exists, in the Argentine where the man could also cover Uruguay, and in Brazil, but that this move should not be made unless we in the Treasury were set up in such a way that we would actively and adequately service these men. I reported the gist of this conversation to McReynolds, and in the suggested organization chart I provided for this unit. You are so familiar with my views on this subject that I will not expand them further in this memorandum.

There has been considerable agitation on the question of our proclamation for silver deliveries. Ed Foley and Lochhead are fully familiar with the situation. I strongly recommend that we broaden our interpretation of delivery to take care of silver mined prior to June 30th but not necessarily actually delivered. The underground rumor is to the effect that the silver bloc wishes to stop all purchases of foreign silver and confine the Silver Purchase Act to domestic production. Incidentally I recommend that you read the Townsend Resolution -- he did not miss a thing.

I have had several conversations with Gene Duffield on the -- what for lack of a better term -- we can describe as Utility Financing and Yardstick Bill. I think that the principles which we have attempted to establish are the correct ones, and for the first time a yardstick will be presented which is fair to all concerned, including the Government which advances the money. This approach will meet with tremendous

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opposition from certain quarters, but I think will be welcomed by the rest of the country.

In conclusion, I earnestly recommend for your consideration a penetrating analysis of the fiscal and monetary problems facing this Government which appeared in this morning's Washington Post. I have followed this author's work for a number of years and consider this particular piece of exposition, while brief, a veritable masterpiece of clear, economic analysis. In fact, I believe that it marks the high point of his career and I recommend that you sound out the possibility of inducing him to join our staff of experts - at least on a consulting basis.

well.

January 14, 1939

To: The Secretary

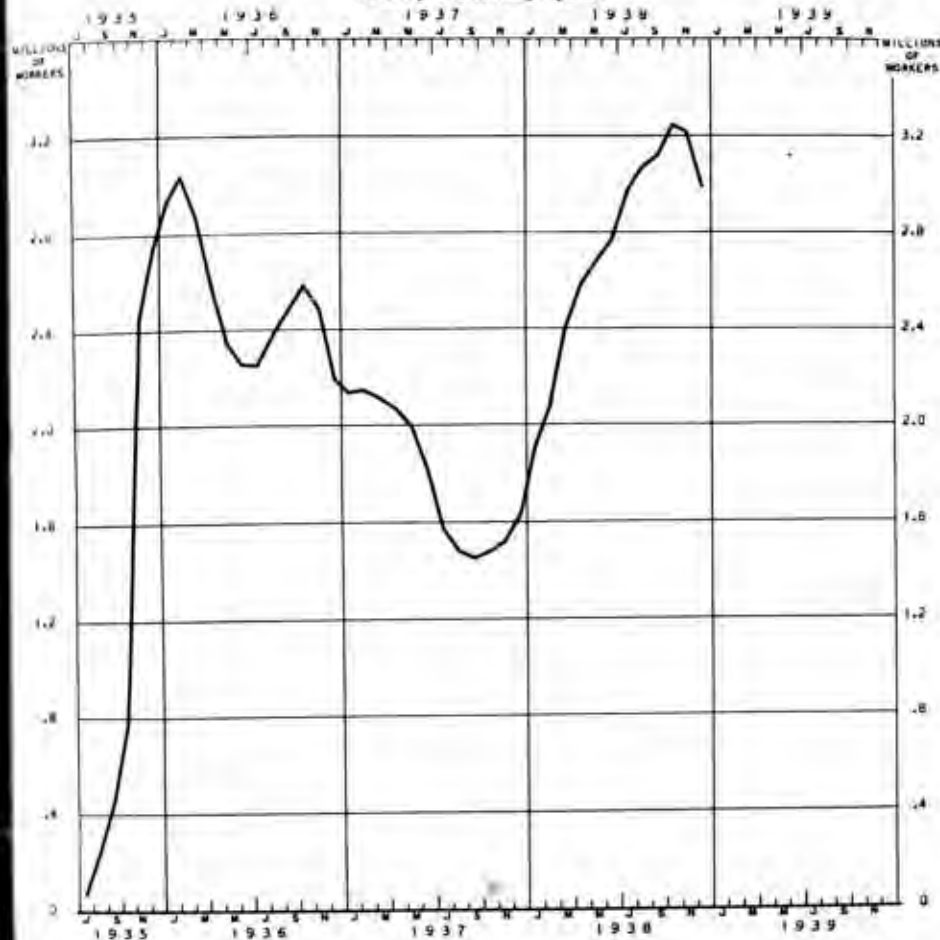
From: Miss Lonigan
EL

The total number of WPA workers on
January 7, 1939 is 2,967,389.

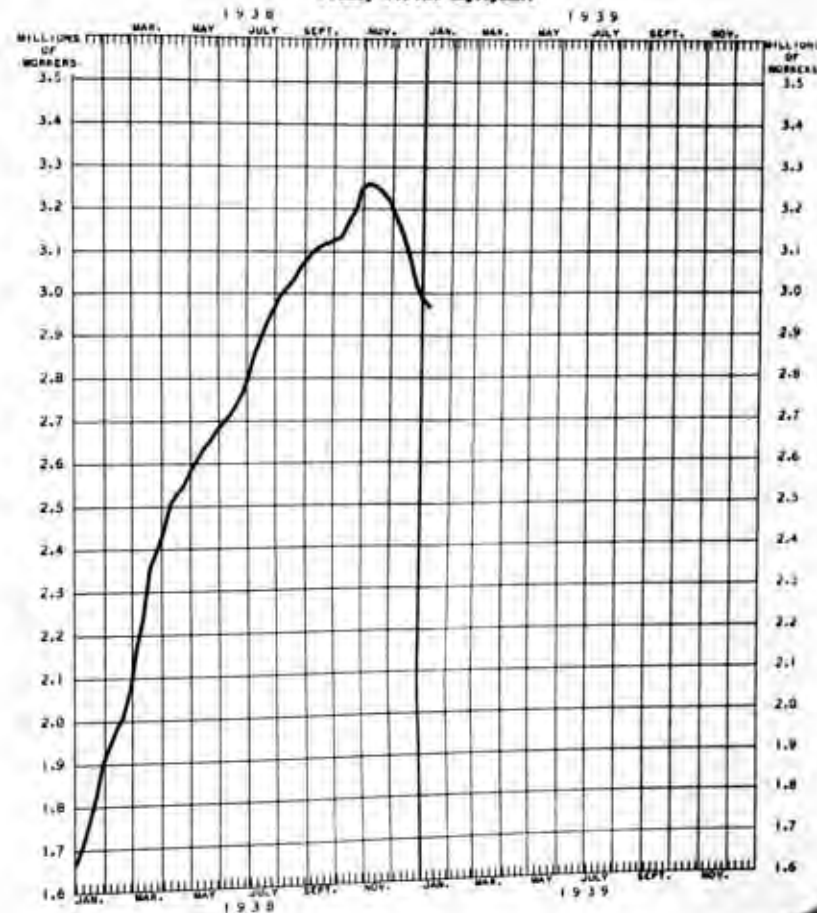
The decrease during the week from
December 31 to January 7 was 18,486
workers. However, WPA employment is
higher for the first week in January, 1939,
than of any previous year.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

25

Week ending 1938	Number of Workers (In thousands)
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,445
April 9	2,504
April 16	2,531
April 23	2,544
April 30	2,582
May 7	2,607
May 14	2,626
May 21	2,650
May 28	2,678
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939 January 7	2,967 ^{a/}

Source: Works Progress Administration
^{a/} Confidential

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

66

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986 a/

Source: Works Progress Administration

a/ Confidential

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

66
Confidential

For Treasury only.

WASHINGTON, D.C.
January 14, 1939

MEMORANDUM:

Loan Agreement: After prolonged discussions with the Export & Import Bank the loan agreement between the Universal Trading Corporation and Export & Import Bank has been drawn up. On the basis of this agreement and the principles indicated by the Treasury Department an agreement between Universal Trading Corporation and Foo Shing Commercial Company has been drawn up. Both drafts are attached herewith for your consideration and advice.

Progress of Purchases: Of the 1,000 trucks ordered delivery has begun. Six Dodge trucks arrived New York on January 12th and thereafter weekly arrivals of from 50 to 100 trucks will continue until the order is completed. General Motors advised us of their ability to advance their deliveries by three weeks' time. Shipments of all trucks have been tentatively booked on American steamers as follows:-

<u>Date</u>	<u>Name of Steamer</u>	<u>No. of trucks</u>
Feb. 3rd	Wichita (American Pioneer Line)	236
Feb. 10th	President Monroe (Amer. President Line)	226
Feb. 19th	Steel Trader (Isthmian Line)	264
Mar. 3rd	City of Rayville (American Pioneer Line)	274
		<hr/> 1,000 <hr/>

Since then an order for 6,000 rubber tires has been placed and will be shipped with the trucks.

Two orders for spare parts are being decided upon in consultation with Capt. Collins and will be placed presently.

Cable authorization has been obtained from Dr. A. H. Kung to purchase another 1,000 trucks to be used principally for the transportation of Wood Oil.

Permission is also obtained to retain the proceeds of sale of the new silver coins for the purchase of American products. Instructions have been received to purchase aeroplane materials with such proceeds.

Requisition specifications are being prepared for Gasolene, engine oil, cotton fabrics etc. for purchases out of the Export-Import credit funds.

Wood Oil: About 3,000 tons of Wood Oil originally consigned to Bank of China, New York agency, by Fu Hua Trading Company for sale in this Country are being taken over by the Universal Trading Corporation. Authority has been obtained from Dr. Kung to appropriate \$500,000 out of the proceeds of this consignment to be paid into Universal as its capital. So 3,000,000 lbs have been so appropriated and paid in. Balance of the oil will be transferred as consignment from Fu Hua Trading Company.

This oil together with future shipments from Foo Shing Commercial Company will be sold gradually through the usual trade channels as the market demand justifies and disturbance to market will be judiciously avoided. Sales policy will be decided upon at a later date in consultation and with your advice.

Office: Temporary office of the Universal Trading Corporation is now located at 630 Fifth Avenue, Room 1718. It is our intention to keep the expenses low and for the initial months we are trying to limit the monthly expenses to around \$2,500.00. Officers from China will not draw any salary from the Corporation. Capt. Bull has already reported for duty. The estimated income for the first year should range between \$260,000 to \$660,000 against which a portion may be kept as reserve for market loss on woodoil and after charging off the administrative expenses a portion may be devoted to make re-payment against the loan.

66 C
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Estimate of Income for the first year based on
Universal - Foo Shing contract:

	<u>Minimum</u>	<u>Maximum</u>
From Wood Oil	\$ 250,000	\$375,000
From Purchases	<u>9,375</u>	<u>287,500</u>
	\$ 259,375	\$662,500

For Wood Oil the difference between purchase price and sales price is 1 ¢ per lb. After paying off brokerage, commission we may net $\frac{1}{2}$ ¢ to $\frac{3}{4}$ ¢. Minimum is based on $\frac{1}{2}$ ¢ per lb. and maximum on $\frac{3}{4}$ ¢ per lb. on 25,000 tons of wood oil for the first year.

For Purchase - Minimum is based on charging $\frac{1}{4}\%$ on purchases and maximum is based on 1% on purchases. The first year's purchase will be \$25,000,000 plus \$3,750,000 ($\frac{1}{2}$ of wood oil sales proceeds).

THE NEW TREASURY BULLETIN

January 16, 1939.
3:00 p.m.Present: Mr. Gaston
Mr. Duffield

Gaston: Now here, as I said, we have had some difficulty reconciling things. Eddie Bartelt and his crew asked for some time to go over this receipts and expenditures end, and they brought out a presentation which neither Gene nor I like at all. That is, they've got a lot of textual material here which we think is out of place. And Gene has boiled it down to some tables there that give the main statistics.

(H.M.Jr. turns pages)

Duffield: That's Social Security.

Gaston: A few things we'd like to add. I'd like to put some receipts and expenditures on a calendar year basis after the summary of the first six months of the fiscal year.

H.M.Jr: Now, is this on the three-months moving basis?

Duffield: Six.

H.M.Jr: Six.

Gaston: I think that cash expenditures is very important there.

Duffield: I'm afraid we're going to have some trouble. Our Accounts and Deposits don't like to see that go in. It's not a budget basis.

H.M.Jr: Oh, nuts.

Duffield: The budget they're used to is gone.

Gaston: They've emphasized for the last couple years the cash income and outgo, and everybody watches that.

H.M.Jr: I'd go a step further. I'd put my bubble chart in.

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Duffield: I'm so glad to hear you say that.

H.M.Jr: I want my bubble chart. And I want the breakdown by activities.

Duffield: That's fine.

H.M.Jr: Well, that's the only news in that.

Duffield: I'm pleased at that.

H.M.Jr: I want the bubble chart and I want the breakdown showing what supports it.

Gaston: The bubble chart is the one that shows that net expenditures.

H.M.Jr: From now until June 30 it goes forward. Then there's a breakdown of it by ...

Duffield: By classes.

H.M.Jr: By classes.

Duffield: George Haas and I talked about that, and George says, "Sure, let's put them all in." And then the next day he says, "Well, we better be careful about that."

H.M.Jr: That's the only one that's any good.

Duffield: That's this one with the bubbles on, in addition to the big one.

H.M.Jr: Yes, and this is this - yes, it's just that with the bubbles, and then there is the consolidated one.

Duffield: There is the consolidated one with the bubbles on.

H.M.Jr: With the bubbles on. That's the only thing that's new.

Duffield: I'm pleased that that.

H.M.Jr: Well, well, we want some news in this thing.

Gaston: Now, another thing. I thought that we ought to make a feature - every time we ought to have some feature

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article to lead the publication.

H.M.Jr: Well, I very much want that bubble chart.

Duffield: I want it too. We didn't have it in a form that we could stick in this dummy for you anyway; so I was going to ask you about that anyway.

H.M.Jr: Now this is the way it's to be?

Duffield: Well, this is my tentative suggestion. Now, Mr. Gaston went through part of it. I don't want to commit him to it.

Gaston: I want to add to that tabular showing of receipts and expenditures for the first six months of the fiscal year - I want to have a similar showing on a calendar year basis for the whole of the calendar year 1938.

H.M.Jr: Why?

Gaston: Because the revenues as compared to national income are quite important. People like to know the total income tax yield in 1938 based on the calendar year 1937, for instance.

H.M.Jr: All right.

Duffield: Now, that's the holdings in those trust funds.

H.M.Jr: Yes.

Now, isn't there going to be any introduction to any of this stuff?

Duffield: Yes, there should be an introduction, and there has also got to be an explanation of the statistical basis on which it's done. We have an explanation for the statistics that goes in the annual report.

(Another page) That's a new table that Bell wants to get up. There are several new ones.

H.M.Jr: But I mean this, of course, is all statistics. I mean isn't there going to be anything

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Duffield: well ...

Gaston: Now here's - here was Eddie Bartelt's offering.

H.M.Jr: Just one second.

Duffield: We'd do it every month, but maintain a three-months line.

H.M.Jr: Oh, I see. Now, I'm anxious - I don't see why the Department of Commerce should get out the gold statistics every month. Make a note of that.

Duffield: I think we should have the gold and silver both.

H.M.Jr: Why should they get that?

Duffield: I think that's right. They come from the Customs Bureau.

Gaston: Of course, the gold statistics will be all Treasury receipts. Do we want to take any notice of the movements of earmarked gold?

Duffield: Some day I would like very much to see a table which showed imports, exports, net change in earmarks, domestic production, secondary sources - all on one table.

H.M.Jr: Yes, why not? I think so.

Gaston: Uh-huh.

H.M.Jr: But I don't see why - I mean it's so confusing to get up the Commerce stuff and our stuff, and I think it should be here.

Duffield: Only one thing you missed in here that's important, and that's the law enforcement statistics. You turned to the back. They're in there.

Gaston: Now, my idea was that we ought to have in each Bulletin a lead article. That can be on a different subject and a different class of subject each month. It should be a study of some sort, and I thought of a study of distribution of Government securities.

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They're keeping that up to date, and they have a new study, but they're going to give it to a Committee of Congress this week, and they may make it public up there. I don't know whether that would make any difference. I don't think it would. We might print that study. It's Blough's and George Haas's.

Duffield: It's going to Senator Brown's committee.

Gaston: Murphy and Tickton working with Blough's people.

H.L.Jr: well, why not?

Duffield: That's fine. I'm in favor of it. I'd counted on it.

Gaston: and then I thought we could call on Harry White for an original study now and then.

H.L.Jr: Yes. But this month's would be this one.

Gaston: Yes, yes, yes.

Now this was Eddie Bartelt's idea, that he would treat those budget figures in this way, in a running story; but I don't think it tells you anything except what is told in the tables.

H.L.Jr: No, I wouldn't

Gaston: And I don't see any point to it. I think when you run your figures that way, it's just confusing, takes up too much room.

Duffield: Takes ten pages.

Gaston: If we were going to make a business forecast or discuss the basis of our estimates, it would be a different thing.

and also I thought we didn't want to run now, for the present, anything that's taken from the daily Treasury statement; it ought to be summarized or charted in a different form. He's offering here various things taken directly from the statement, and so forth. We didn't want to use them. Harry

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white has some additional stuff to what we have there on gold.

H.A.Jr: Have you got the gold and silver tables there?

Duffield: Yes, I've got gold and silver statements, and I put them in here too.

H.A.Jr: You put them in there.

Duffield: He thought these tables on commodities imported under quota provisions were very important to the Treasury, so he put them in.

H.A.Jr: What does that mean?

Duffield: He said these things - sawed timber and lumber - says the Treasury always wants to know the status of - how full the quota is - import quota.

Gaston: We get out releases on them every month. The tariff laws provide import quotas for certain products. When the quota is up, they've got to stop importing, and they have to keep track of those quotas. We've been doing it in the form of press releases. No reason we shouldn't incorporate it in here.

H.A.Jr: Fine.

Now let me ask you this. Where are we getting the money from to pay for this?

Gaston: We just get it out of the general expenses of operating that Graphic Section for the time being.

H.A.Jr: I thought somebody said we were going to save five thousand dollars.

Gaston: Well, what I talked to Danny Bell about is this, and he's promised to get together with Spangler and with me - Spangler's of the Division of Printing - and the idea is to annul every periodical publication that we can that costs money that's printed, and incorporate the information into this Bulletin, and use that money; and there are a half dozen or more of those publications. And one of the things he's considering is that we reduce the daily Treasury statement to a single sheet embracing what is now on pages one, two, and

-7-

three - on a single sheet. And then all this occasional information that we put into the daily statement at different dates in the month - all of it would go into this Bulletin, and we would save quite a bit of money on printing the daily Treasury statement.

H.M.Jr: I've got an idea. You fellows may just throw up your arms in holy horror. I don't see why the so-called daily statement shouldn't come out every Monday. I don't think anybody looks at it.

Duffield: Oh, they look at it.

H.M.Jr: Every day?

Duffield: Yes.

H.M.Jr: Well, besides you, who does?

Duffield: I can only speak for myself; I always looked at it.

Gaston: The A.P. - the U.P. send out figures every day.

H.M.Jr: I know, but I mean just what good is it?

Duffield: That all depends. Some long stretches you don't use anything; some stretches ...

H.M.Jr: You think every Monday wouldn't do?

Gaston: One value of having it every day is to forcibly keep the bookkeeping up to date.

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

Gaston: But I do think we can cut that daily statement down to a single sheet. Would cost only a third of what it costs now to print it. Use all the rest of it here.

H.M.Jr: There's one thing that George sends me which isn't in here. I'd like to see it. That's his inventory figure which he's developed here. He has an inventory figure.

Duffield: That's - there's some of that material he felt we weren't free to ...

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Gaston: Are we free to use that material? Don't we get it in confidence?

H.M.Jr: We can ask - tell them - ask each of these companies, say we want to give it out as a composite figure, for instance.

This chart here

Duffield: Well now, you see, on charts, Mr. Secretary, Banyas's division is a bottleneck.

H.M.Jr: Whose division?

Duffield: Banyas. They're slow. They're very good, but they insist on taking their time. Especially on this first one, which we're going to get out as fast as we can, we've cut charts down to a minimum.

H.M.Jr: How many charts?

Duffield: Don't plan to have more than three. I know the trouble I'm going to have up there.

H.M.Jr: I think some of these things, especially on receipts and expenditures - take this one, for instance, you see.

Duffield: Yes.

H.M.Jr: Of course, if you have the bubble ... Just let's look once - think of something that's new.

Duffield: I'd like to put that table in some time.

Gaston: It's in the annual report.

Duffield: Yes, it's in the annual report.

H.M.Jr: I'm trying to think of something new.

Duffield: We've left out Savings Bonds figures just for the time being, because we have trouble putting them on a comparable basis.

H.M.Jr: (Turning through book of charts kept up by Mr. Neas's office) Those are other people's charts. Those aren't original with us.

Duffield: No.

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H.M.Jr: Those aren't original with us.
Now, financing, short-term money - that's all Federal Reserve stuff, isn't it?

Duffield: Yes. We can have a table very much like this sometimes.

H.M.Jr: well, that gets into their stuff.

Gaston: We ran into another thing: circulation of United States money. The Federal Reserve Bulletin shows that thing in all the detail we want to show it. They show it every month.

H.M.Jr: Prices - that's nothing - I mean the

Duffield: Now, Harry White has suggested several tables that would cover some of this stuff, but he said he didn't have it ready this month.

Gaston: Now, of course, there's a lot of information there that bears on the general economic situation that we're not - we haven't anything that bears on the general economic situation except our receipts and expenditures figures.

H.M.Jr: well ...

Gaston: And the trouble with this other is that it doesn't any of it belong to us and that inventory thing, you see, would be just one item in the general business picture.

H.M.Jr: There is a good chart.

Duffield: That is a good chart.

H.M.Jr: Now listen, I think really the silver - make a - will you make a note?

Duffield: Silver acquisitions and movements. We'll have the figures on it.

H.M.Jr: Now I'm going to ask for one chart.

Duffield: All right.

-10-

Gaston: You want that chart.

H.M.Jr: Well, I think so, with all this silver stuff. Yes.

Gaston: Then we want that bubble chart and supporting tables.

H.M.Jr: Now, this silver - I mean this half here, Herbert. I don't think

Duffield: This one here?

H.M.Jr: Well, I was really thinking of this one. I was thinking of that one there.

Duffield: Uh-hun.

H.M.Jr: I don't know.

Gaston: That doesn't show your ratio.

H.M.Jr: What?

Gaston: That doesn't show your ratio.

H.M.Jr: This does.

Gaston: No.

H.M.Jr: This does.

Duffield: That shows the sources.

H.M.Jr: This shows total acquisitions - Purchase Act - newly-mined

Gaston: It doesn't show the ratio to the total monetary stock.

Duffield: There is another chart like that; Archie's got it.

H.M.Jr: That's what I want.

Duffield: You want the ratio chart.

H.M.Jr: I want the ratio chart.

Duffield: Silver-gold ratio chart.

-11-

H.S.Jr: I want the ratio chart. That's the one I want.

Gaston: We could take a line chart and show them both, show both things, the acquisitions and the ratio.

H.S.Jr: Here we are: Monetary Stock of Gold and Silver - Ratio.

Duffield: Yes, this is exactly the one. That's exactly the one.

H.S.Jr: How about silver certificates?

Duffield: Yes. We've got figures on it.

Gaston: That's a question of circulation of United States money. But those two things ...

H.S.Jr: This is what I want. I thought I was looking at it. This one here.

Gaston: Yes.

H.S.Jr: That's the one I want.

Gaston: Yes, yes.

Duffield: We can do that for you. I know right where to go to get that.

H.S.Jr: Well, here it is.

Duffield: I mean in black and white.

H.S.Jr: Well, here it is. You're going to give me that and the bubble chart. I mean those are new.

Gaston: Yes, yes. Actually we ought to lead each section of the report with one chart at least.

Duffield: I hope some time we can do it. I don't know.

H.S.Jr: I think at that - now, when do you think this will come out?

Duffield: They told me that forty pages they could do in 48 hours. This is going to run closer to 60 now.

-12-

H.M.Jr: Who is "they"?

Duffield: Research and Statistics.

Gaston: Charley Bell, Haas's administrative assistant, under whom Banyas works. We're going to have about 60 pages, and we're going to give them some of the pages this week.

H.M.Jr: What method you going to use?

Gaston: Photo-lithograph.

H.M.Jr: Is that what they have upstairs? Have they got the lithograph? You're not going to use mimeograph?

Gaston: Can't mimeograph charts, and photo-lithograph is a better process - do it on better paper. And we can start

H.M.Jr: How many people are there up there?

Gaston: I don't know.

H.M.Jr: What I was thinking of is - is he going to use a photostatic machine?

Gaston: It's a photographic process.

H.M.Jr: You know, the biggest blueprint shop in the world is over at Procurement.

Gaston: Well, blueprint wouldn't do us any good.

H.M.Jr: I wonder if you couldn't divide up - if you had the chart blueprinted

Duffield: They may have photolithing over there.

H.M.Jr: The biggest plant in the world is over at Procurement. Why don't you try it?

Duffield: We may be able to use them.

H.M.Jr: I mean on the charts - a blueprint on a white piece of paper.

-13-

Duffield: Yes.

H.M.Jr: They can do it so it turns up black on white.

Duffield: Yes, that would be very fine.

H.M.Jr: and they have that. They could - they could do the chart part.

Gaston: I'm afraid that process is pretty slow when it comes to running them in quantity. This runs just like a press, an automatic press.

H.M.Jr: Why don't you look at it?

Gaston: Yes. Yes. Well, as to time, I should say that it will be the middle of next week before we can get anything out. That will be about the 25th, 26th.

Duffield: You told Harry he had to have his stuff all ready by Monday.

Gaston: By Monday, yes.

H.M.Jr: Let's try to do it - couldn't you get some of this stuff going?

Gaston: I think we can. It's a question of getting our paging accurately.

H.M.Jr: Have you got the dummy of the front pages?

Duffield: We just thought, at the time Mr. Gaston went away - just say: "Treasury Bulletin - Office of the Secretary - January, 1939."

Gaston: Yes.

Duffield: But we do think there ought to be an introductory statement of some sort or other, signed by you.

H.M.Jr: I think you ought to give an introductory statement.

Duffield: I think we mentioned it before.

H.M.Jr: That it's stuff we have at our own disposal; we'd like to have the public have it. In it, I would say

-14-

this: we'd be very glad to receive suggestions for improvement.

Duffield: Sure.

H.M.Jr: I'd put that in.

Gaston: Yes, yes.

H.M.Jr: See? How many copies you thinking of getting out for the first?

Duffield: We've mentioned 500.

H.M.Jr: I think better have a thousand. What?

Gaston: Yes.

I don't think we'll run into any difficulty with the Committees of Congress on this, especially if we outline a plan to them for printing it later out of general appropriations.

Duffield: You can tell them that it's going to come to them sooner or later so they can pass on it.

H.M.Jr: Whatever Committee - somebody ought to go up on the Hill and explain it in advance.

Gaston: But we'll have to have a thousand, because as soon as this thing comes out and there is notice of it in the papers, we will begin to get requests up on the Hill.

H.M.Jr: Make a note that somebody should go up on the Hill. Would you be willing to do that, Herbert?

Gaston: Yes. Yes.

H.M.Jr: Explain it to the Senate and House.

Duffield: I think I - I don't know whether we have to clear this thing with Central Statistical Board. But we ought to tell them what we're doing.

H.M.Jr: Well, why don't you?

-15-

Gaston: Yes. It isn't interpretation of statistics. That would be the Printing Committee we want to talk to on this.

H.M.Jr: I think I'd do that this week, before we get too far.

Gaston: I think so.

H.M.Jr: The bubble chart and the other, the silver-gold ratio - those things would be something new.

Suffield: There is one point on which some time we may want to ask your help. We don't have in this dummy that you looked at any good detail of revenue by sources each month, and that's because the collection figures are a little slow getting in for a bulletin that we want to try to get out some time shortly after the 15th; and I believe that if they - they'd do their mail, say, once a month, they could get something for us.

H.M.Jr: Fine.

Suffield: we'll see what we can do ourselves.

H.M.Jr: They can use Government telegraph.

Suffield: I'll see if I can work that out.

H.M.Jr: Government telegraph would bring that thing in. I mean all these cities are hooked up with the telegraph - you know, that's the whole system of Government telegraph, which is free: Army, Navy, Coast Guard - they've got it all.

Gaston: I think their system now - I'm not sure - I think it's the tenth of the month that they ^{have} to close that thing up and get it mailed to Schoeneman. Then they have to put it together here.

Approximately 1/16/39

I showed the enclosures mentioned in Arthur Sulzberger's letter to the President and the President said that he had seen it, but that there was nothing that he could do about it. I then mailed the inclosures back to Arthur Sulzberger without any comment.



Dec. 27, '39

Dear Henry -

I enclose a letter
in a sealed envelope which
I have marked "Personal and
Confidential". Please open
and read it and then if you
will be so good give it
personally to the man for whom
it is intended. I think
the person quoted in the letter
has sufficient standing to
warrant taking him seriously
even if his ideas seem bizarre.

Please advise me how I
should reply to Abund. His
relationship with the man
he quotes ^{should be} demands at least
some sort of acknowledgment

Please present my compliments
in p. 22, on the letter & give
my best to Elvira as is at Elvira
Up & I are leaving a grand
vac. in Oct. here with the
children & want to have a
Hole to see
of in Oct. Here after -

Up & joins in saying "Harkley
to year" to both & co

The writer of the letter is our
regular China correspondent.
Known to me for years as an
able & most sympathetic man.
I have met the man quoted
once or twice at luncheon in
my office.

You will note the suggestion
in the letter that I would use
my judgement as to whether or
not to pass it on. I do so
without the expression of any
judgement other than of the
man who is quoted or rather
the position that he expects
to take. If he's right ^{about that}, and he
is a blue blood it's an interesting

January 16, 1939.

For the record

The Secretary asked the President today how he could be of the most help to the President during the next two years.

The President replied that there were two major problems confronting the country - (1) reduction of unemployment, and (2) more equitable distribution of income, and that the Secretary could help most by contributing to the solution of these two fundamental problems.

In his conversation with the President the Secretary told of the plan Dr. Farran and he were working on. The plan was for the Public Health Service to "take over" Hagerstown, make a careful survey of the health of all the children, then to supply whatever food in quantity and variety was necessary to bring as many of the children up to a desirable standard of health with the aid of adequate food and medical attention; then to make repeated surveys and see what the program accomplished in the way of improved health of the children. The Secretary stated that the President thought the plan was an excellent one.

The Secretary, after giving careful thought to the matter during his recent vacation, and after talking with the President, decided to concentrate his attention upon ways and means of reducing unemployment. In pursuance of that objective, he was going to draw together carefully and gradually a small group of competent, sincere persons -- interested in obtaining results and willing to work without credit or publicity for their efforts. The group would examine, and possibly initiate, and help develop any plans or proposals designed to reduce unemployment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 16, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending January 14, 1939

Summary

(1)

Somewhat less optimism over the business outlook than was in evidence at the end of 1938 has recently become apparent. Speculative markets here and abroad have recently turned weaker but showed some improvement on Saturday; the volume of incoming orders is relatively low; and business activity currently is somewhat below the high level reached early in December.

(2)

A decline of several points in the FRB adjusted index for January is indicated as a probability by current levels of activity and new orders in steel and textiles, the two most important industries.

(3)

In the business outlook for 1939, the impact of the foreign situation on domestic prices and industrial activity remains the principal disturbing factor. Foreign deflationary influences apparently still persist, and exports during November, seasonally adjusted, continued to decline.

(4)

Corporation inventories at the end of 1938 are likely to be lower than at the end of any other year since 1935. Government spending under the PWA program, together with the increasing volume of residential building under FHA encouragement, will therefore be operating against an exceptionally favorable domestic background in counteracting unfavorable foreign influences.

The present business situation

The year begins with business activity somewhat below the peak reached early in December (See Chart 1), with speculative markets weakening in this country and abroad, and with somewhat less optimism over the business outlook for 1939 than was apparent near the end of last year.

Industrial production, after having increased to reach an approximate balance with demand at the end of 1938, now gives indication of a probable decline during January. New Orders, particularly for steel and textile products, fell off markedly during the latter part of November and remained rather low through December. (See Chart 2.) While this decline at the end of the year was partly seasonal, new orders have not improved in January so far and are not likely to improve so long as the action of the speculative markets remains discouraging. The recent low levels of orders will doubtless affect production during January, and tend to prevent the upturn in that month which would be necessary to maintain the FRB seasonally adjusted index at the December level.

Decline indicated in January index

A decline of several points in the FRB index for January appears rather clearly indicated by recent trends in the steel and textile industries, which together make up nearly 40 per cent of the total weight in the FRB index. The adjusted index of iron and steel production in December dropped to 101 from the November figure of 109. To hold at the 101 figure during January, the rate of steel operations would have to average about 59 per cent of capacity during January. The current level of new steel orders (See Chart 3) does not suggest a January rate of operations higher than about 50 per cent. This rate, if maintained during the month, would drop the FRB iron and steel index to about 87, which would reduce the combined FRB adjusted index by about 2.8 points.

Cotton mill activity shows inconclusive evidence of improvement during January, whereas a seasonal increase of 14 per cent would be necessary to maintain the FRB adjusted cotton index at the December level. Print cloth mills are somewhat overstocked with finished goods, according to trade reports; new

Secretary Morgenthau - 3

orders have shown but little improvement. If cotton goods production during January averages the December level, it would effect a reduction of about 1.2 points in the combined index.

A general decline during December in new orders represented in war index tends to confirm the outlook for some setback in business activity in January. The weekly index averaged 76.1 (preliminary) in December, as compared with an average of 94.3 in November. That part of the index represented by steel orders declined to 25.0 in December from 30.1 in November, while the textile component declined to 11.3 from 21.2. Some part of this reduction in new orders, however, may be attributed to seasonal influences.

Stock prices turn downward

A declining trend of stock prices during the first half of January, which carried the Dow-Jones industrial stock average down to the level of early December, has been rather unsettling to business sentiment. The decline was not confined to markets in this country, but was accompanied by a weakening of stock prices abroad. During the past week the decline extended also to the commodity markets in this country and abroad, but some improvement in both stocks and commodities occurred on Saturday.

In part, the downturn represents a reaction from the optimism prevailing during December, when a rise in stock prices was accompanied by a substantial increase in the volume of speculative buying. Security loans to brokers and dealers were expended during this period from a low of \$705,000,000 in the week ended November 23 to \$848,000,000 in the week ended December 28. A further sharp rise to \$884,000,000 occurred during the week ended January 4, when the recent peak in prices was established.

With the market foundation weakened by speculative buying, stock prices have become more vulnerable to foreign influences, particularly with respect to war uncertainties and weakness in foreign currencies. While recent emergency action by British monetary authorities should serve to strengthen the position of sterling in the foreign exchange markets, it has so far done little more than prevent further declines (See Chart 4), and in any event has not removed the underlying causes of the earlier weakness. The Dow-Jones index of commodity futures prices (shown on the chart) has turned downward this week after a period of firmness.

Secretary Morgenthau - 4

Export trend continues down

Exports from the United States declined more than seasonally in November, reaching a total of \$252,231,000 in that month, including re-exports, as compared with \$277,928,000 in October. Leaf tobacco, dried fruits, machinery, chemical products, crude petroleum, and copper headed the list of products showing greatest drops from the October export values.

This marks a continuation of the decline in the underlying export trend previously revealed by the seasonally adjusted exports index of the Department of Commerce. (See Chart 5.) The trend had been obscured in the actual dollar figures for earlier months by the usual fall upturn in exports of agricultural products, for which allowance is made in the seasonally-adjusted index. The adjustment factors used by the Department of Commerce, based on averages for the period 1921 to 1931, are nearly identical with those indicated by averages for the 5-year period 1933 to 1937.

British exports, in contrast to those of the United States, were a trifle higher (0.8 per cent) in November than in October, which the London Financial Times characterizes as "an unusual, though slight, gain." British imports were 1.3 per cent lower than in October. Our imports during November were slightly lower, but the decline was less than seasonal according to calculations of the Department of Commerce, hence the adjusted index (See Chart 5) showed a small upturn.

Low inventories, high construction awards,
favor business trend

An outstanding favorable factor in the 1939 business outlook is the current low level of industrial inventories, which will operate strongly against any extended business setback. Corporation executives in most lines seem to have made greater than usual efforts to show low inventories on their December 31 balance sheets, partly because of their unfortunate experience with heavy inventories a year earlier, and partly because the course of commodity prices during the second half of the year offered little encouragement for the accumulation of inventories.

Secretary Morgenthau - 5

Our tentative estimates (shown in Chart 6) suggest that total corporation inventories at the end of the year are likely to be even lower than those at the end of 1936, though the estimated figures have shown some tendency to flatten out in recent months. The trend is apparently confirmed by data on commercial loans, which are known to be closely associated with the volume of inventories carried by corporations. Loans, as shown on the chart, have also levelled out in recent months, after declining steadily during the earlier part of the year.

A marked increase in structural steel orders, expected to result from public works expenditures, is likely to be a strengthening factor in steel operations during 1939. It is estimated by the Journal of Commerce that Federal purchases of steel this year, expected to total above \$250,000,000, will account for about 8 per cent of the present steel making capacity of the industry.

Heavy construction awards during December (See Chart 7) rose to the highest level of any December since 1927, reflecting sharply increased awards for PWA projects. The upturn in heavy construction contracts during earlier months had already brought a rise in structural steel orders during October and November, as shown in the lower section of the chart. Orders have not yet reached the levels of early 1937, however, despite the larger volume of public projects, owing to a large part of the increase in projects coming under the classifications of streets, highways, sewerage, and water projects, which involve relatively little structural steel. While a seasonal let-down in structural steel orders probably occurred during December, judging from steel trade reports, the trade expects a rising trend of orders during January.

Paralleling the upturn in structural steel orders, new orders for lumber have risen during the latter part of the year in response to the marked improvement in residential construction. With lumber production relatively low in relation to new orders, similar to the situation in January 1937 and January 1938, a rising trend of lumber production seems indicated.

The F. W. Dodge figures for December show a marked upturn in total construction awards to an aggregate value of \$309,439,000, as compared with \$301,679,000 in November, partly reflecting the January 1 deadline placed on PWA projects. In comparison with December 1937, publicly-owned projects increased to \$279,403,000 from \$115,053,000, while privately-owned contracts increased only to \$110,036,000 from \$94,397,000.

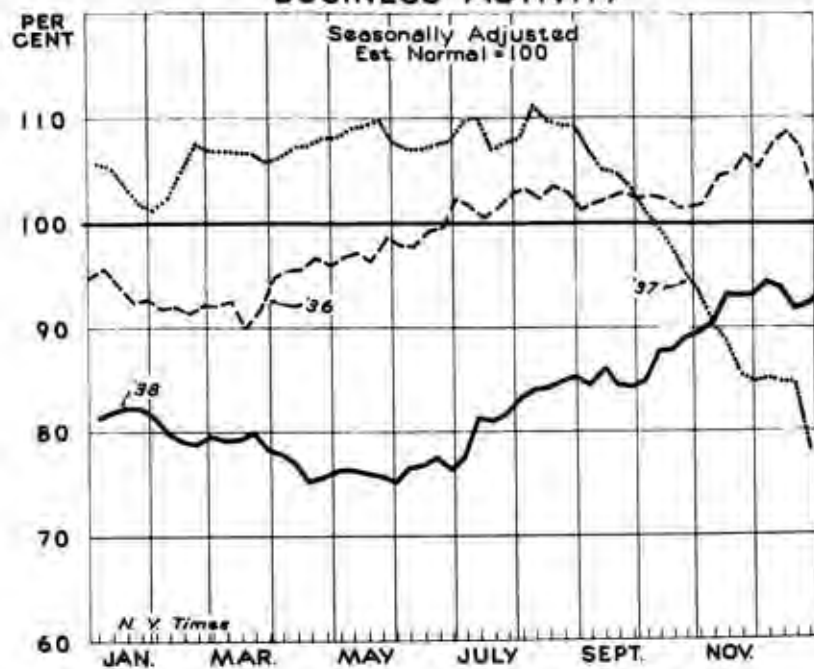
Secretary Morgenthau - 6

Residential awards in December declined somewhat, but probably less than the usual seasonal percentage. The total of \$91,539,000 for that month compares with \$95,253,000 in November and with a peak of \$112,673,000 in October.

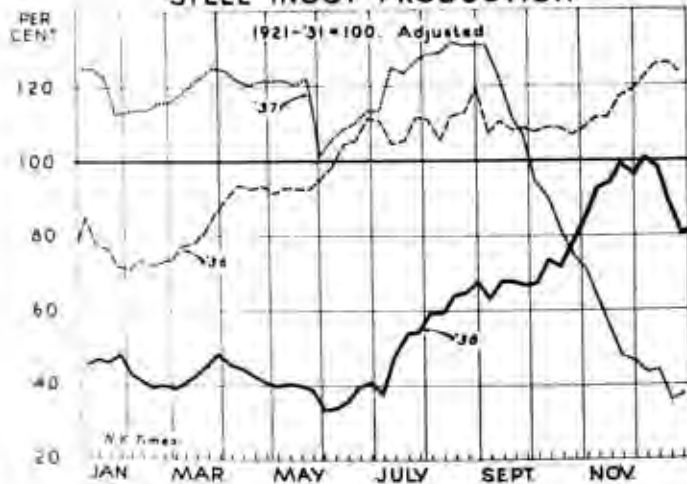
The current business trend

Business activity, as measured by the preliminary New York Times index, rose 1.1 points to 93.5 in the week ended January 7, gaining back most of its holiday loss, and approaching its 1938 peak of 94.4 for the week ended December 10. Marked increases in cotton mill activity, automobile production, and lumber production were partly offset by a large decline in "all other" carloadings. All of the other components of the index showed slight gains. That this rise may be temporary is indicated by the decline estimated for the adjusted index of steel ingot production, the only one now available for the week ended January 14. The preliminary figure stands at 78.0, as compared with 80.6 for the week ended January 7.

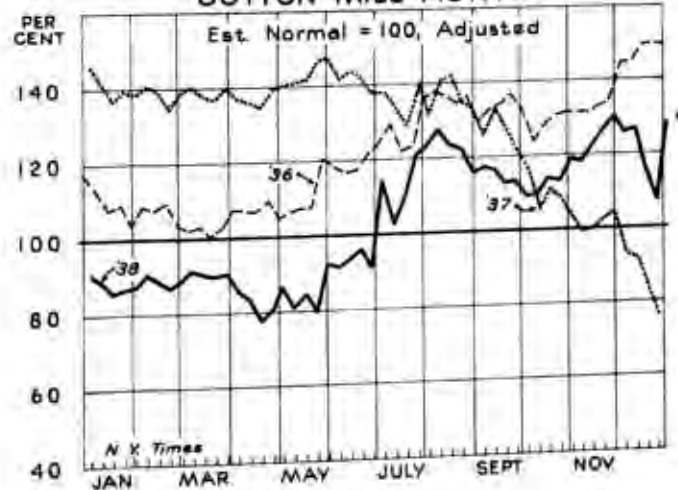
BUSINESS ACTIVITY



STEEL INGOT PRODUCTION

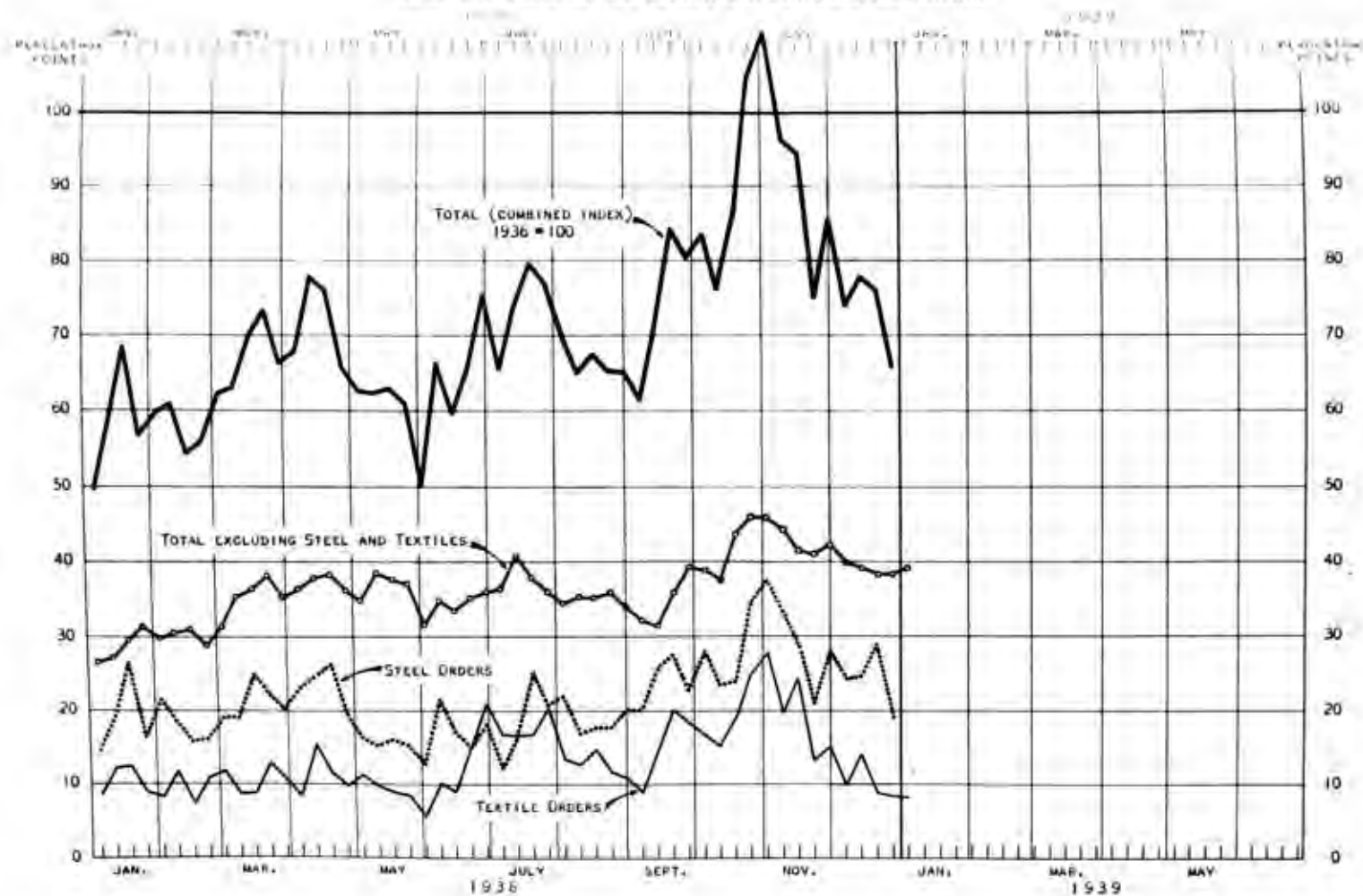


COTTON MILL ACTIVITY



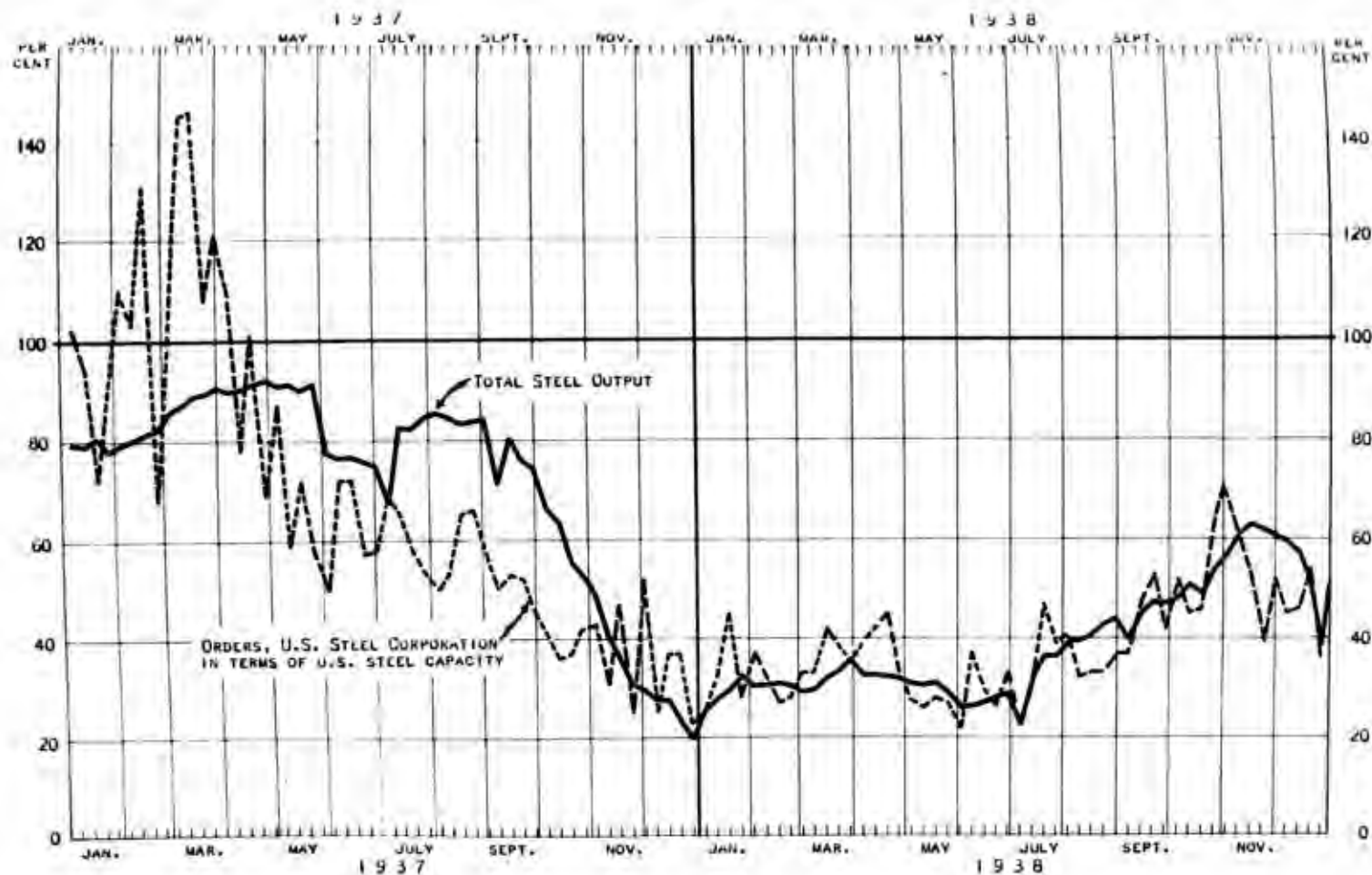
* Preliminary

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

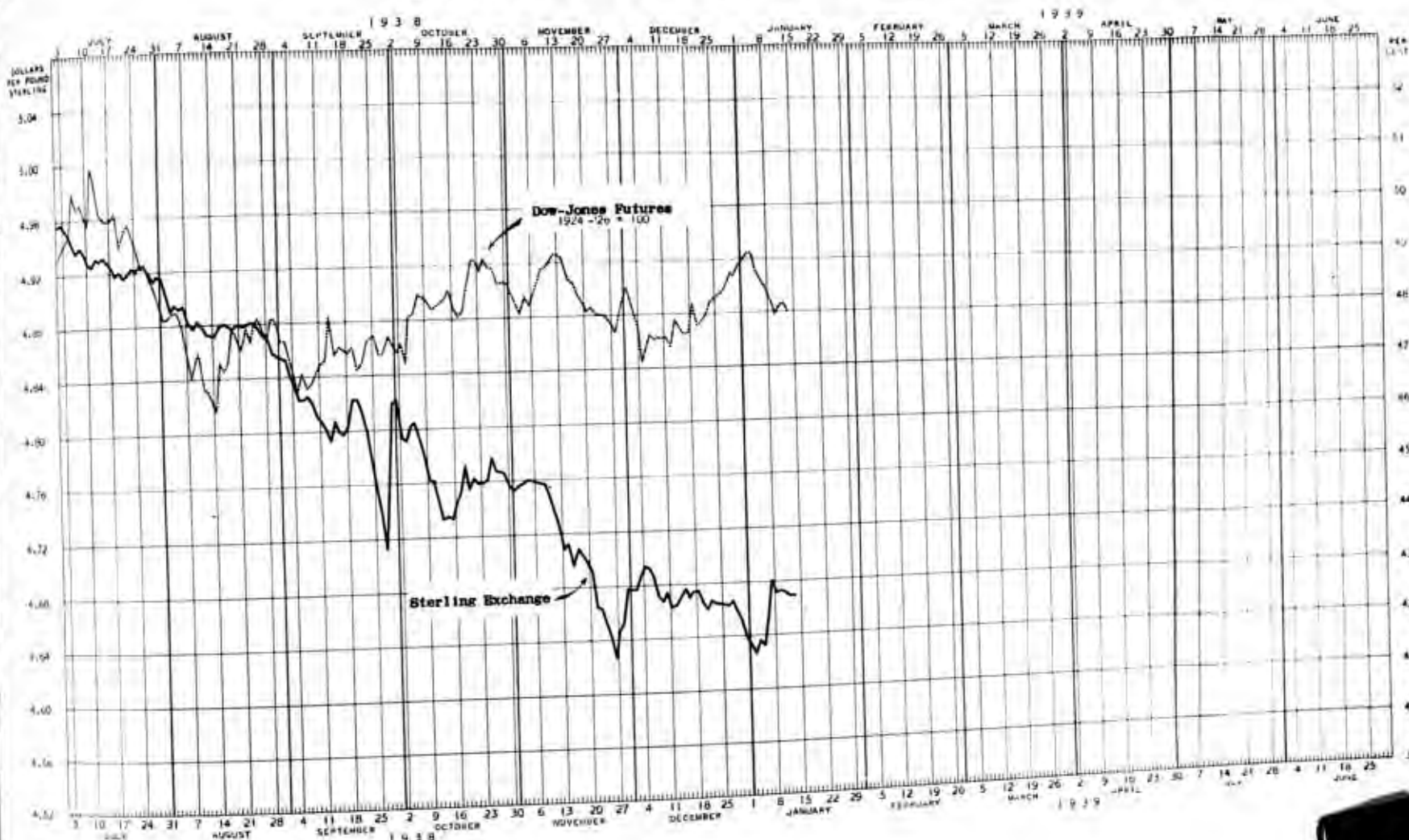


92
Chart 2

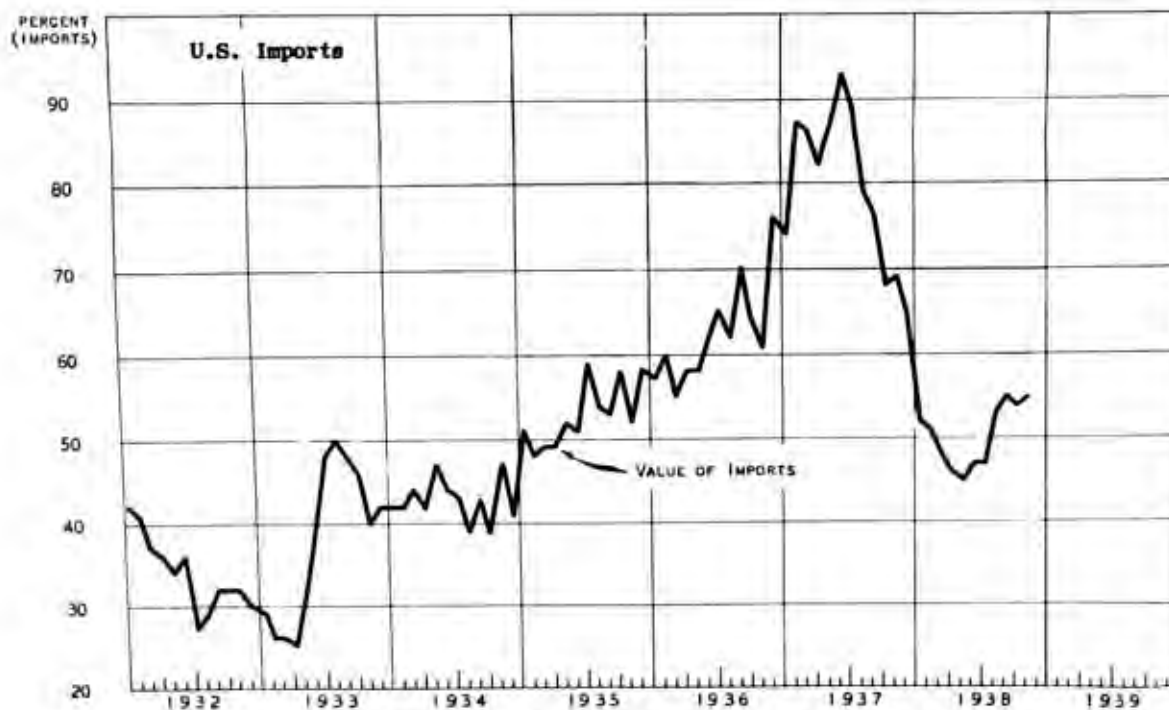
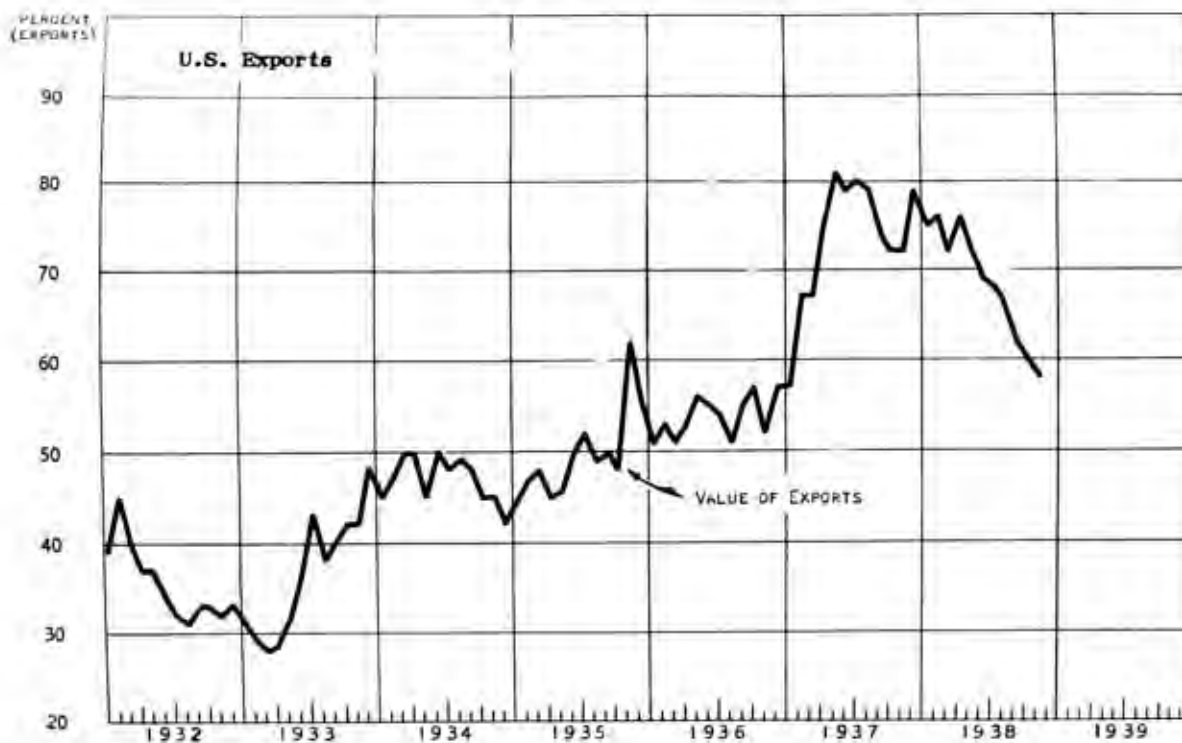
TOTAL STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity



STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES

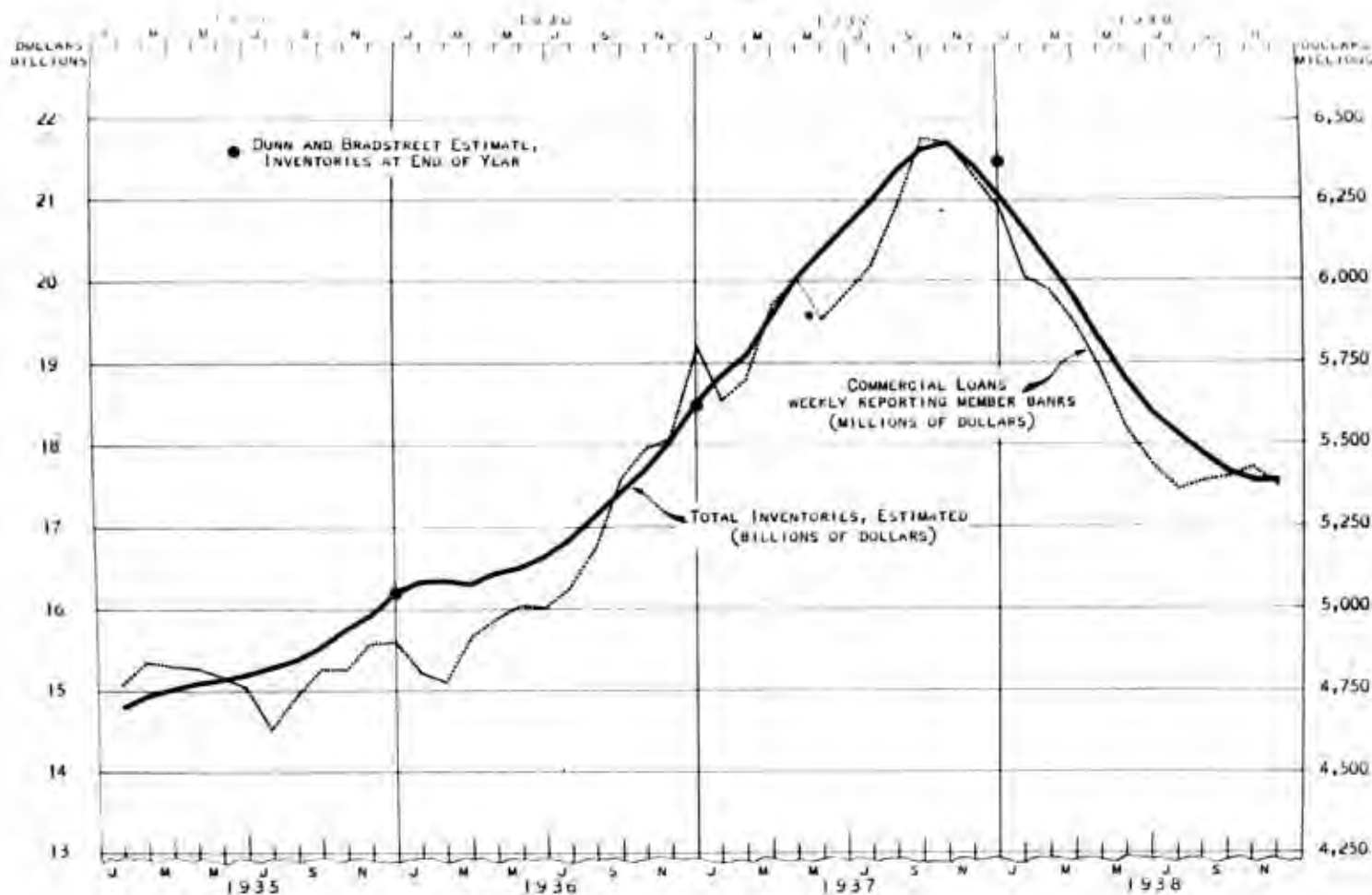


U. S. FOREIGN TRADE
1923 - '25 = 100, ADJUSTED FOR SEASONAL



Source: "Survey of Current Business", Bureau of Foreign and Domestic Commerce.

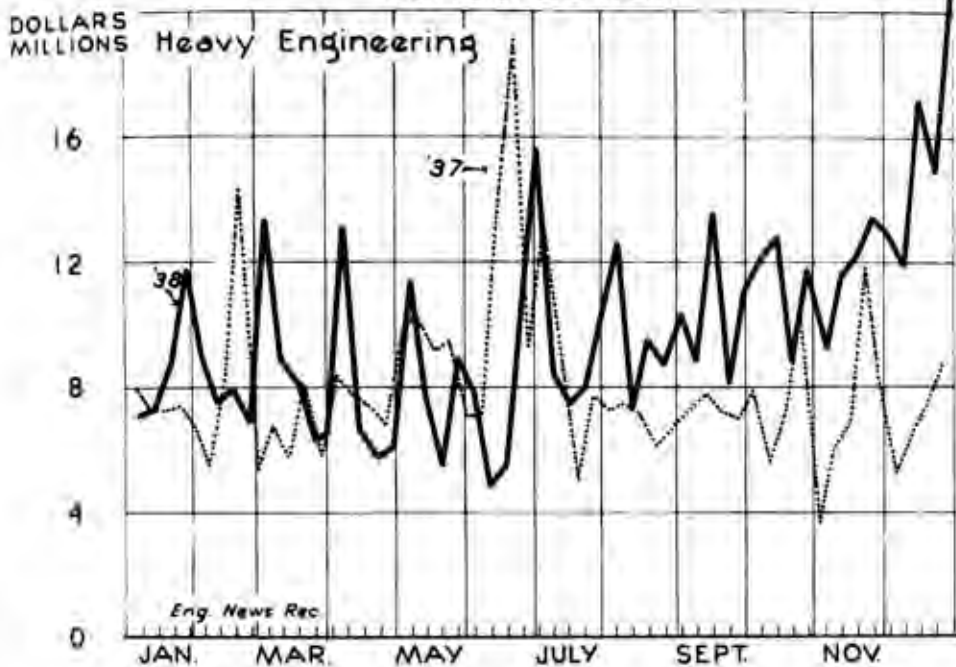
ESTIMATED CORPORATION INVENTORIES AND COMMERCIAL LOANS At End of Month



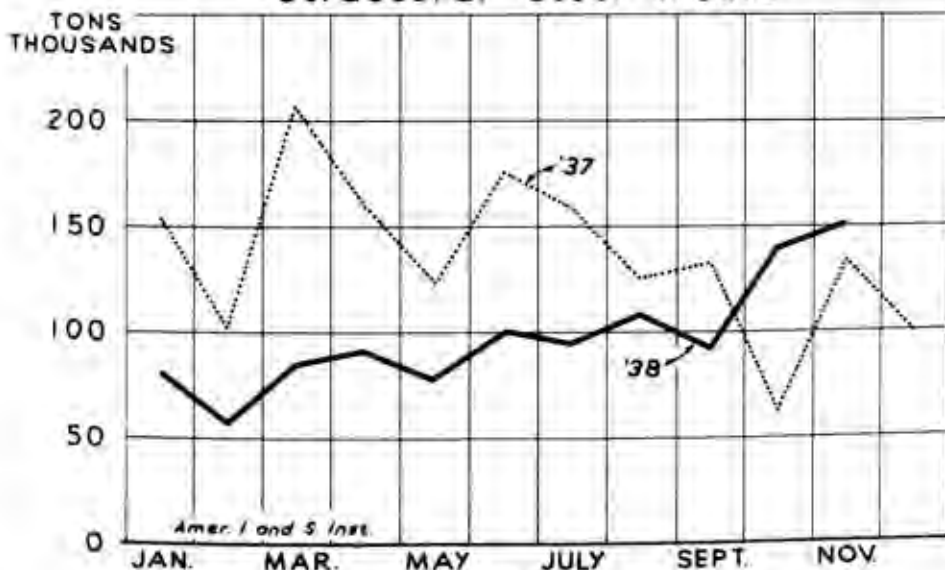
* CHANGED IN COMPOSITION OF SERIES ON COMMERCIAL LOANS BEGINNING MAY 1937

HEAVY CONSTRUCTION CONTRACTS AND STRUCTURAL STEEL ORDERS

Construction



Structural Steel Orders



January 16, 1939.

Dear Harry:

You probably noted the press report this morning of the purchase by the Chilean Government from Germany of 20 diesel-driven trains.

Since the Chilean Government plans extensive purchases of machinery and equipment for her elaborate public works program, it would be interesting to know why the United States manufacturers were unable to obtain these orders. I am particularly interested in learning whether the conditions which led to the business being given to Germany are such as will gravely handicap our manufacturers from obtaining a reasonable share of Chile's additional purchases of equipment and machinery. The press report stated that the Chilean Government placed the order with Germany in accordance with already existing "compensation" arrangements by which Chile bartered nitrate, copper and other products for German manufactured goods.

Since, as you know, the question of credits to Chile may come up for discussion soon, it occurs to me that it would be worthwhile to have a cabled report from your Commercial Attaché which would give us the background and the facts of the purchase of trains from Germany.

Sincerely,

The Honorable

The Secretary of Commerce,

Washington, D. C.

FILE COPY

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2/16/39

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 16, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Summary review of the government security market for the
three-week period December 27, 1938, through January 14, 1939

Continuing the upward movement which started at the end of November, the government security market maintained a firm tone during the three-week period ending January 14. The principal item of interest affecting the government market was the President's budget message. Just prior to the message, the market marked time, but continued upward immediately following. Aside from year end adjustments and switches for statement purposes and some profit taking during the first week of the period, followed by some investment demand by banks and insurance companies after the opening of the New Year, the market has been relatively quiet throughout the period.

During the last week (ending January 14), the market was unusually quiet the first few days but became moderately active and firm the last three. Trading was well balanced and dealers began to rebuild their portfolios which had declined to minimum proportions. Portfolios had been reduced in supplying customer demand and partly as insurance against any sympathetic reaction to weaknesses threatening in other markets as a result of the uncertainties of the foreign picture.

For the three-week period as a whole, Treasury bonds gained an average of 6/32nds, while Treasury notes (which had shown disproportionate gains just prior to December 24 as a result of operations by the Reserve System) lost 1/32nd point. Guaranteed obligations showed an average gain of 4/32nds.

The average price of all Treasury bonds is now at the highest level in two years (January, 1937).

Treasury bills continue extremely scarce in the market, and prices of all outstanding issues have been quoted above par during the entire period. Demand for tax avoidance and year end statement purposes, together with replacement requirements of the Reserve System, has been responsible for these record high prices. The last three offerings of Treasury bills by the Treasury have been awarded at average prices slightly above par.

Dealers' Portfolios

Dealers' portfolios have shown a net reduction of \$23 million during the three-week period. However, during the week ending December 31, holdings increased about \$30 million to a portfolio of \$117 million, from which point there was a steady decline through January 13. The dealers have again started to build up their holdings. The principal change during the period was a reduction of about \$16 million in Treasury bonds. One dealer (Discount Corporation) accounts for practically all of the holdings of Treasury bills and short Treasury notes which make up \$53 million of the \$63 million holdings of all the dealers.

(in millions of dollars)

	<u>Holdings</u> <u>Dec. 24</u>	<u>Holdings</u> <u>Jan. 14</u>	<u>Net Change</u>
Treasury bonds	22.3	6.0	- 16.3
Treasury notes (1 year)	40.3	33.0	- 7.3
Treasury notes (1-5 yrs.)	-4.8	-3.9	+ 1.1
Treasury bills	24.8	20.1	- 4.7
U. S. L. C. bonds	1.0	8.3	- 1.7
F. F. M. C. bonds	3.5	0.2	- 3.3
	<u>87.1</u>	<u>63.7</u>	<u>- 23.4</u>

-3-

Dealers' average daily turnover (purchases plus sales) has been about \$135 million, of which about \$75 million was in Treasury bonds. For the year as a whole, dealer volume was approximately \$40 billion, of which \$19 billion was in bonds, \$13 billion in notes and \$4 billion each in guaranteed obligations and Treasury bills.

New Security Issues

New corporate issues were confined almost entirely to private sales during the period. A \$35 million bond issue of Cities Service Company sold privately on December 30 made up the bulk of the three weeks' total. The balance of approximately \$7 million consisted of two or three small issues.

The only new financing of any consequence scheduled for the near future is a proposed \$70 million issue of debentures by North American Company, which may be offered during the week now current.

Corporate Bond Market

Corporate securities showed considerable advances in price during the first two weeks of the period, but leveled off in the last week with a slight tendency for second and lower grade bonds, especially rails, to sag. For the period as a whole, high grade issues reached new all time highs led by industrials and utilities, for which there was considerable investment demand. AAA rails attained the highest level since March, 1938. Second grade issues reached the highest point since September, 1937, but eased off slightly from this point in the last few days. Rail bonds showed average gains of about $1\frac{1}{2}$ points, utilities $1\frac{1}{8}$ points, and industrials $1\frac{7}{8}$ points.

-4-

Treasury Investment Accounts

The only market transactions for Treasury investment accounts during the three weeks ending January 14, 1939, were the purchases of \$350,000 and \$48,000 Treasury bonds for account of United States Housing Authority and D. C. Teachers Retirement Fund, respectively.

Additional investments in special 2 1/2 notes were made for account of Government Life Insurance Fund, bringing the total of these special notes now held by this account to \$7,900,000.

Federal Reserve System Account

Of the \$153,884,000 total bill maturities of the last three weeks, the Reserve bank replaced \$101,210,000 with various Treasury bills (all purchased at par) and the balance with \$52,674,000 various Treasury notes. Because replacement of Treasury bill holdings was proving difficult in view of the fact that the new Treasury offerings were awarded at par or better, the Open Market Committee made provision for permitting bill holdings to run off without replacement when such replacement becomes difficult. However, the System has not taken advantage of this authorization.

In anticipation of the \$56,830,000 Treasury bill maturity of the current week, the Reserve bk. has purchased \$17,000,000 of various Treasury notes.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

F. C. HARRINGTON
ADMINISTRATOR

January 16, 1939

Mr. William H. McReynolds
Administrative Assistant to the Secretary
Treasury Department
Washington, D. C.

My dear Mr. McReynolds:

In accordance with your telephonic request, I am forwarding herewith two statements, one showing the estimated Works Progress Administration employment in June 1939 under a deficiency appropriation of \$725,000,000. This is the list which you requested.

In addition, for purposes of comparison, you may be interested in the second list which gives employment figures on the basis of a deficiency appropriation of \$875,000,000.

Very truly yours,


B. M. Harloe
Assistant Administrator
Chief Engineer

BY SPECIAL MESSENGER

January 11, 1939

ESTIMATED WPA EMPLOYMENT IN JUNE 1939
UNDER DEFICIENCY APPROPRIATION OF \$ 725 MILLION 1/

assuming that Relative Distribution of Need in the Several States
Continues on Present Basis and That Arbitrary Discharge of
Workers Begins Immediately, without Regard to Seasonal Increases
in Need During Winter Months.

State	Employ- ment December 31, 1938	Estimated employment June 1939	
		Number	Reduction from De- cember 31
GRAND TOTAL	3,081,300	1,930,000	1,151,300
Alabama	61,500	38,500	23,000
Arizona	11,400	7,100	4,300
Arkansas	49,900	31,300	18,600
California	118,500	74,200	44,300
Colorado	31,800	19,900	11,900
Connecticut	28,900	18,100	10,800
Delaware	4,000	2,500	1,500
District of Columbia	13,800	8,600	5,200
Florida	52,400	32,800	19,600
Georgia	63,500	39,800	23,700
Idaho	11,100	7,000	4,100
Illinois	241,000	151,000	90,000
Indiana	85,800	53,800	32,000
Iowa	31,500	19,700	11,800
Kansas	36,900	23,100	13,800
Kentucky	67,000	42,000	25,000
Louisiana	53,100	33,300	19,800
Maine	10,900	6,800	4,100
Maryland	19,500	12,200	7,300
Massachusetts	127,900	80,100	47,800
Michigan	145,500	91,100	54,400
Minnesota	66,500	41,700	24,800
Mississippi	48,500	30,400	18,100
Missouri	109,100	68,300	40,800
Montana	20,600	12,900	7,700
Nebraska	27,800	17,400	10,400
Nevada	2,600	1,600	1,000
New Hampshire	11,200	7,000	4,200
New Jersey	103,000	64,500	38,500
New Mexico	11,800	7,400	4,400
New York City	179,600	112,500	67,100
New York (Ex-NYC)	66,000	41,400	24,600
North Carolina	53,900	33,800	20,100
North Dakota	15,100	9,500	5,600
Ohio	261,200	163,600	97,600
Oklahoma	69,500	43,500	26,000
Oregon	19,300	12,100	7,200
Pennsylvania	261,500	163,800	97,700
Rhode Island	16,400	10,300	6,100
South Carolina	43,600	27,500	16,100
South Dakota	16,000	10,000	6,000
Tennessee	53,500	33,500	20,000
Texas	112,300	70,300	42,000
Utah	14,900	9,300	5,600
Vermont	8,200	5,100	3,100
Virginia	31,600	19,800	11,800
Washington	53,300	33,400	19,900
West Virginia	50,200	31,500	18,700
Wisconsin	78,900	49,400	29,500
Wyoming	4,800	3,000	1,800
Hawaii	3,100	1,900	1,200
Virgin Islands	1,400	900	500

1/ Includes employment on projects financed by transfer of WPA funds.

ESTIMATED REDUCTION IN WPA EMPLOYMENT
UNDER DEFICIENCY APPROPRIATION OF \$875 MILLION 1/

Assuming That Relative Distribution of Need in
the Several States Continues on Present Basis

State	Total employ- ment De- cember 31	Estimated employment June 1939	
		Number	Decline from December 31
GRAND TOTAL	3,081,300	2,700,000	381,300
Alabama	61,500	53,900	7,600
Arizona	11,400	10,000	1,400
Arkansas	49,900	43,700	6,200
California	118,500	103,800	14,700
Colorado	31,800	27,900	3,900
Connecticut	28,900	25,300	3,600
Delaware	4,000	3,500	500
District of Columbia	13,800	12,100	1,700
Florida	52,400	45,900	6,500
Georgia	63,500	55,600	7,900
Idaho	11,100	9,700	1,400
Illinois	241,000	211,200	29,800
Indiana	85,800	75,200	10,600
Iowa	31,500	27,600	3,900
Kansas	36,900	32,300	4,600
Kentucky	67,000	58,700	8,300
Louisiana	53,100	46,500	6,600
Maine	10,900	9,600	1,300
Maryland	19,500	17,100	2,400
Massachusetts	127,900	112,100	15,800
Michigan	145,500	127,500	18,000
Minnesota	66,500	58,300	8,200
Mississippi	48,500	42,500	6,000
Missouri	109,100	95,600	13,500
Montana	20,600	18,100	2,500
Nebraska	27,800	24,400	3,400
Nevada	2,600	2,300	300
New Hampshire	11,200	9,800	1,400
New Jersey	103,000	90,300	12,700
New Mexico	11,800	10,300	1,500
New York City	179,600	157,400	22,200
New York (Ex. NYC)	66,000	57,800	8,200
North Carolina	53,900	47,200	6,700
North Dakota	15,100	13,200	1,900
Ohio	261,200	228,900	32,300
Oklahoma	69,500	60,900	8,600
Oregon	19,300	16,900	2,400
Pennsylvania	261,500	229,100	32,400
Rhode Island	16,400	14,400	2,000
South Carolina	43,600	38,200	5,400
South Dakota	16,000	14,000	2,000
Tennessee	53,500	46,900	6,600
Texas	112,300	98,400	13,900
Utah	14,900	13,100	1,800
Vermont	8,200	7,200	1,000
Virginia	31,600	27,700	3,900
Washington	53,300	46,700	6,600
West Virginia	50,200	44,000	6,200
Wisconsin	78,900	69,100	9,800
Wyoming	4,800	4,200	600
Hawaii	3,100	2,700	400
Virgin Islands	1,100	1,200	100

1/ Includes employment on projects financed by transfer of
WPA funds.


Return to Room 236

January 16, 1938.

Dear Mr. Spraul:

The Secretary has asked me to thank you for your letter of January 14th, commenting upon the new offerings of corporate securities since the first of the year. Mr. Morgenthau is always most interested in your weekly reports.

Sincerely yours,

↓
H. H. Klotz, 
Private Secretary.

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

GEF/dbs

**FEDERAL RESERVE BANK
OF NEW YORK**

January 14, 1939.

Dear Mr. Secretary:

The market has been quite bare of new offerings of corporate securities since the beginning of the year, and there are still no signs of an early increase in such financing. No sizable issues are in registration other than \$4,500,000 Central Maine Power Company bonds and \$105,000,000 North American Company debentures and preferred stock, and neither is being marketed at the end of its 20-day waiting period.

This week's activity consisted of a small stock issue and a private sale to insurance companies of bonds of a paper company, totaling \$5,350,000, and about \$11,300,000 of municipal bond awards.

Announcement was also made during the week of two more private sales of securities consummated in 1938: \$20,000,000 by the R. J. Reynolds Tobacco Company, and \$12,000,000 by the Sun Oil Company. These belated additions to the data for last year bring issues for new capital in 1938 to \$820,000,000 and for refunding to about \$1,305,000,000. The former is \$300,000,000 below; the latter \$30,000,000 above the corresponding figures for 1937.

While new corporate issues are not forthcoming at the moment, there is some belief that, when the results of annual audits are available for use in connection with registration statements, a substantial volume of financing will be ready. On the other hand, funds are still reported to be accumulating in the hands of insurance companies, savings banks and other potential investors, and this situation may be reflected in the government security market.

Yours faithfully,


Allan Sproul,
First Vice President.

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

A

TELEGRAM SENT

This telegram must be
closely paraphrased be-
fore being communicated
to anyone (Er)

January 16, 1939

8 p.m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

12

CONFIDENTIAL FOR SCOTTEN

In accordance with request contained in the
telegram sent the President by President Vargas, and in
accordance with my recent telegram to you with regard
to Arenha's visit here, I am sending you the suggested
agenda for the discussions to take place in Washington.
You will see that the questions outlined fall into two
general headings, those listed under heading "A" to be
taken up with Arenha by the Department of State and those
listed under heading "B" to be taken up by Arenha directly
with the Secretary of the Treasury.

A. (1) Consideration of the manner in which the
Government of the United States may be able to cooperate
with the Brazilian Government in such manner as the latter
may desire in connection with the Brazilian program of
national defense. These discussions may cover points
already raised by the Brazilian Government and such other
points as the Brazilian Government may desire to propose.

(2)

CA

--2--12 to Rio..

(3) Current trade. A review of trade relations in connection with exchange matters.

(5) Cooperation and development of Brazilian resources and complementary trade. The long-run possibilities in this field are substantial. They would include:

(a) the possibility of cooperation and assistance of agricultural experts;

(b) progress of the development of the hydrographic service by American technicians;

(c) possible joint study of the status of the growth and development of certain complementary products, such as rubber, oilseed oil, manganese and hardwoods.

(4) Shipping.

(5) Air mail; Pan American service and foreign competitors.

(6) Radio programs.

(7) Refugee problems.

(8) Cooperation between Brazil and the United States with regard to expediting a pacific solution of the Peruvian-Ecuadorian boundary dispute.

(9)

(9) The Brazilian debt situation (Federal, state and municipal.)

(10) The prospect of further investment of American private capital in Brazil and in that connection any specific problems that are current as regards the treatment of American enterprises in Brazil (legislative action affecting foreign banks, insurance companies, public utilities.)

B. Group I. Steps contemplated by the Brazilian Government to alleviate the existing exchange position. Specific action which this Government could take to assist the Brazilian Government in clearing up the existing arrears.

Group II. Steps contemplated by the Brazilian Government to establish a Central Bank; an estimate of the amount of reserves in gold, foreign exchange or the equivalent which the Central Bank would require, either in the form of Central Bank reserves or a stabilization fund. Methods by which the Brazilian Government plans to create and maintain these reserves. Specific action which this Government might take to help create immediate reserves or to assist in the gradual achievement of the desired objectives, including methods providing for continuing cooperation between the two treasuries.

Group III.

CA

--4--12 to Rio ..

Group III. The long range development program of the Brazilian Government. Estimate of amounts of foreign materials which will be required to carry out this program. Estimate of the effect on the Brazilian balance of payments position. Proposed methods of financing purchases of foreign materials. It is understood that the contemplated methods are those which would have the smallest immediate impact on the external position of the milreis. Specific action which this Government might take to facilitate the development of this program.

In order for this Government to have a complete understanding of these problems, the balance of payments position for 1939 and ensuing years should be thoroughly discussed as well as the anticipated effects of the proposed measures on future years.

This Government understands that in order to carry out the various aspects of a comprehensive program, large amounts of money will have to be contributed locally. For example, a long-range development program will doubtless require large expenditures for local materials and labor. It would be desirable to have information as to the methods proposed by the Brazilian Government to finance both the external and internal portions of the program because of their joint effect on the budgetary and governmental indebtedness position of the Brazilian Government.

Please

CA

--5--12 to Rio..

Please inform the Minister that this Government is looking forward with the greatest satisfaction to the opportunity which his visit will afford for the discussion of all problems in which the two Governments have a common interest. If there are any further points beyond those above indicated, and which in Apanha's opinion could be usefully taken up during the time of his visit, please obtain such additional suggestions from him and telegraph me accordingly.

HULL

SW

U S FIVE SS

24

--5--12 to Rio..

Please inform the Minister that this Government is looking forward with the greatest satisfaction to the opportunity which his visit will afford for the discussion of all problems in which the two Governments have a common interest. If there are any further points beyond those above indicated, and which in Apanha's opinion could be usefully taken up during the time of his visit, please obtain such additional suggestions from him and telegraph me accordingly.

HULL

SW

U. S. FIB SS

THE UNDER SECRETARY OF STATE
WASHINGTON

January 17, 1939

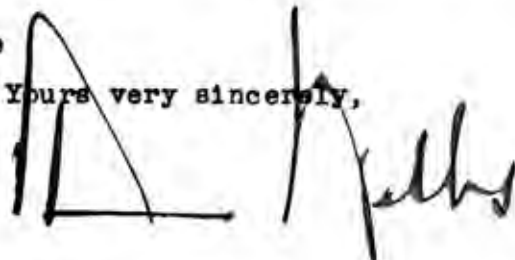
Personal

Dear Henry:

In accordance with your request I take pleasure in transmitting herewith a confidential telegram which was sent yesterday to the Embassy in Rio de Janeiro outlining the points which you suggested might be taken up for discussion during the time of Aranha's visit to Washington.

Believe me

Yours very sincerely,

A handwritten signature in dark ink, appearing to read 'H. Morgenthau, Jr.', written over the closing 'Yours very sincerely,'.

Enc.
Telegram
to Rio.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

January 30, 1939

Dear Sumner:

Thank you for your letter of January 17th
inclosing a copy of the message to the American
Embassy in Rio de Janeiro which contained suggested
items for discussion during Mr. Aranha's visit to
Washington.

Sincerely,

Hon. Sumner Welles,

Under-secretary of State.

January 20, 1939

Dear Sumner:

Thank you for your letter of January 17th
inclosing a copy of the message to the American
Embassy in Rio de Janeiro which contained suggested
items for discussion during Mr. Aranha's visit to
Washington.

Sincerely,

Hon. Sumner Welles,

Under-secretary of State.

January 20, 1939

Dear Sumner:

Thank you for your letter of January 17th
inclosing a copy of the message to the American
Embassy in Rio de Janeiro which contained suggested
items for discussion during Mr. Aranha's visit to
Washington.

Sincerely,

Hon. Sumner Welles,

Under-secretary of State.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 1-16-39

TO Secretary Morgenthau
FROM Mr. White

AA

1. United States exports declined in 1938; so did the exports of other leading countries except France and Switzerland.

Exports of Leading Countries
Percentage Change 1938 from 1937

January - November

France	+ 26
Switzerland	+ 2
United States	- 7
Sweden	- 9
Netherlands	- 11
Germany 1/	- 15
United Kingdom	- 19
Canada	- 41
Japan 2/	
Argentina	

2. But it should be noted that the decline in our exports in November from the same month of 1937 was larger than for any other leading country.

Exports of Leading Countries
Percentage Change 1938 from 1937

November

United States	- 20
Germany 1/	- 18
Argentina	- 15
Canada	- 13
Japan 2/	- 8
Sweden	- 7
Netherlands	- 6
United Kingdom	- 5
Switzerland	-
France	+ 28

1/ Greater Germany
2/ Ten months

Secretary Morgenthau - 2

1. Our imports in 1938 declined more than the imports of any leading country.

Imports of Leading Countries
Percentage Change 1938 from 1937

January - November

United States	- 38
Japan 1/	- 35
Canada	- 16
Switzerland	- 11
United Kingdom	- 9
Netherlands	- 9
Argentina	- 6
Sweden	- 3
Germany 2/	+ 2
France	+ 11

2. But the decline in our imports in November from November 1937 was much less.

Imports of Leading Countries
Percentage Change 1938 from 1937

November

Japan 1/	- 29
Canada	- 21
United States	- 21
United Kingdom	- 20
Argentina	- 19
Switzerland	- 9
Netherlands	- 9
Germany 2/	- 3
France	- 2
Sweden	+ 3

A detailed analysis and explanation of changes in world trade in 1938 will be prepared as soon as we receive December trade figures for several important countries.

1/ Ten months
2/ Greater Germany



DEPARTMENT OF STATE
WASHINGTON

January 16, 1934

In reply refer to
EA 893.51/6750

Dear Wayne:

I thought you might like to have for your records a copy of this cable relating conversations between Leith-Ross and Butterworth in regard to financial relations with China. I understand that the Treasury is already fully acquainted with its substance.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

No. 14 of January 4
from London.

The Honorable

Wayne C. Taylor,

Assistant Secretary of the Treasury.

STRICTLY CONFIDENTIAL

120

JR

London

Dated January 4, 1939

Rec'd 6 p.m.

Secretary of State,
Washington.

14, January 4, 6 p.m.

Embassy's 1389, December 3, 2 p.m.

Leith-Ross asked Butterworth to lunch with him and Hall-Patch to discuss the Chinese currency loan project and the following is his account of the conversation of which the Department may care to apprise the Treasury.

Leith-Ross began by referring to Bewley's conversation with Assistant Secretary Taylor just before Christmas and indicated that the Prime Minister had just given his agreement in principle to a note being sent to the United States which he hoped would clarify the British position somewhat but would again point out the importance of some parallel action being taken on the part of the United States.

In reply to a query I said that I did not feel competent to express any opinion on the question of policy involved in any parallel action by the two countries but I did point out the disparity between the
amounts

-2- #14, January 4, 6 p.m., from London.

amounts of financial assistance rendered to the Chinese by the British and the American Governments to date. Leith-Ross then said he hoped there could be embodied in the note the intimation that the two contributions need not be on a pound for pound basis; that the British Government was willing to go ahead with the project if both countries took a hand in it and in that case both he and Hall-Patch thought that the reaction in Japan would be restrained and the effect salutary. They then emphasized how the British had borne the main brunt of Japanese antagonism, how they had kept Hong Kong open despite French suggestions to the contrary, how likely was Japanese retaliation against their interests if they undertook this matter alone, and how strategically the Japanese were placed to retaliate. Leith-Ross further stated that the Chamberlain Government feared that if the Japanese became aggressive against them, for example, in the International Settlement there might be a further diminution of British prestige with consequent political repercussions at home. Both Hall-Patch and Leith-Ross felt that if the Chinese acquired six million pounds or more which would be skillfully administered, it would hold

-3- #14, January 4, 6 p.m., from London.

hold the currency position for some time without necessarily any losses occurring and that it would "back up" the Chinese enormously.

The tentative plan on the part of the British seems to be as follows: the Hong Kong-Shanghai Banking Corporation is willing to put up pounds five hundred thousand provided the British Government guarantees pounds two million five hundred thousand the Chinese banks to arrange for their pounds three million contribution. The Hong Kong-Shanghai Banking Corporation, which is already operating as a fiscal agent for the Chinese monetary authorities, will continue to do so or at least have a "supervisory say" in the use of the ensuing fund so as to prevent Chinese private manipulation. They asked if in the event we agreed to come in, we could follow a similar procedure with the American banks or, if that were politically inexpedient, we would make an advance to the Chinese Government or Bank of China and perhaps have Young or some one else designated to supervise the operations for our protection. This thinking out loud was followed by a "chance" suggestion by Leith-Ross as to whether, to obtain funds, we could make an advance against some of the silver

-4- #14, January 4, 6 p.m., from London.

silver held in the French and British Concessions in Tientsin.

I did not enter into any discussion on the political aspect of the United States acquiring an interest in the British and French Concessions which was already a source of friction with the Japanese but merely pointed out the desire of the stabilization fund justifying at some future time to consider purchases of silver the possession of which it could not acquire.

I asked about what other measures of assistance to China the British Government was prepared to undertake and Leith-Ross indicated that about a quarter of the new pounds ten million export credit which would shortly be passed by Parliament was being earmarked for China but that to date the Chinese continued to be slow and inefficient about putting forward workable projects. In fact they were still talking about long-term railway projects which seemed to him not really productive enough in the given circumstances. For example they needed oil badly. He had proposed to them that they fly oil from Burma, a matter of only 600 miles and by far the cheapest available method of transportation, but

-5- #14, January 4, 8 p.m., from London.

so far nothing had come of it. Incidentally Hall-Patch who has recently returned from Paris felt that the French might be induced to let more stuff through French Indo-China.

Leith-Ross said that the method of assisting China by penalizing Japanese trade had also been carefully considered. The Dominions would have to be brought into it and they would be the hardest hit by any trade war. The abrogation of existing commercial treaties and the imposing of certain punitive duties had not been entirely ruled out as a possible method but they were disposed to move cautiously in this matter and first see what could be done to help China to help herself.

I asked Leith-Ross about the attitude of the British interests in China towards measures which might provoke Japanese retaliation and he maintained that the more important British interests in China were coming rapidly to the view that it was better "to chance a harder kick in the pants now" than to endure the slow progress of attrition. He added that he had recently received a private letter from Keswick of Jardine Matheson in this sense. Hall-Patch indicated that while this was true of the large corporations, the smaller British interests, which might not be able to withdraw an immediate onslaught, preferred the ill

-6- #14, January 4, 6 p.m., from London.

they knew to those they knew not of; however their voices were not loud in Whitehall or Westminster.

Incidentally Leith-Ross mentioned he had had a recent telegram from Tokyo to the effect that the Japanese foreign exchange problem was growing more acute and expressing the view that within 6 months they would be in real difficulties. I did not gather that Hall-Patch had had necessarily modified the opinions he had expressed in Washington.

JOHNSON

RR:CSB

January 17, 1939.

Dear Dr. Feis:

In Mr. Taylor's absence I am acknowledging receipt of your letter of January 16th, with which you were good enough to enclose a copy of Cable No. 14 of January 4th from London. This communication will be brought to Mr. Taylor's attention when he returns about January 30th.

Yours sincerely,


Secretary to Mr. Taylor.

Dr. Herbert Feis,
Adviser on International Economic Affairs,
Office of Secretary of State.

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1/20/39

Mr. Hanes:

The Secretary would like you
to discuss this memorandum with
him.

2/1/39

nmc

W. L. Lawrence, Mr. Hanes advised us
to discuss with Secretary - no other
comment. Have made these

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 16, 1939

TO The Secretary
FROM Mr. Hanes

Pursuant to your recent request, I am attaching hereto a memorandum received from Commissioner Helvering, reporting on the progress made with respect to the status of exempt organizations to which questionnaires have been forwarded.

J W H.

January 16, 1939.

MEMORANDUM for Under Secretary Hanes:

Referring to your memorandum of January 13, 1939, requesting a report on the morning of January 16, 1939 on the progress made with respect to the status of exempt organizations to which questionnaires have heretofore been forwarded, I have to report as follows:

Questionnaires mailed to organizations previously held exempt			29,597
Completed forms returned by organizations	18,790		
Add forms received since last report	<u>34</u>	18,874	
Forms returned by organizations stating organizations dissolved		2,082	
Questionnaires returned undelivered by postal authorities	3,468		
Less forms subsequently delivered and replies received	<u>31</u>	<u>3,387</u>	
		24,343	
Number of questionnaires not responded to by organizations	5,257		
Less subsequent responses	<u>3</u>	<u>5,254</u>	29,597
Questionnaires completed by organizations			18,874
Huling affirmed or organization now out of business	17,845		
Exemptions denied	126		
Questionnaires not yet acted upon	<u>903</u>	18,874	

Of the 2,082 organizations reported as dissolved, 1,591 have been closed after verification of merger or dissolution. A balance of 491 still remains awaiting action.

The questionnaires returned undelivered by postal authorities (3,387 in the above tabulation) which have been listed in communications to the various collectors of internal revenue are in process

MEMORANDUM for Under Secretary Hanes:

of being closed on the receipt of replies from collectors as to the results of their investigations. Thus far of this number 1,438 have been closed on the records. Questionnaires not responded to by organizations and not returned undelivered (5,354 in the above tabulation) are still being held in the Bureau.


Commissioner.

JAN 16 1944

The Director of the Budget

Washington, D.C.

My dear Mr. Bell:

Executive Order 6166 creating the Procurement Division contains, as you know, certain specific provisions concerning the authority for consolidating the purchasing activities of the Government.

It appears that much duplication, particularly in the field, can be avoided by the utilization of the presently organized state procurement offices. In order, however, that a comprehensive knowledge may be had of the extent of purchasing and procurement activities, it would be very much appreciated if there could be obtained from each of the executive departments, through your office, a tabulation indicating the location of such activities, personnel employed, cost and, briefly, the types of commodities purchased.

If this information can be made available to me, I feel sure that consolidations may be effected which will result in a distinct savings to the Government.

Sincerely,

James M. Bell

Secretary of the Treasury

MB



HEADQUARTERS

FORWARDED THE COMMANDANT, U. S. COAST GUARD
AND NEVER TO ME.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 16 January, 1939.

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

Message from Professor Buck (Haiphong).

20 boxed Chevrolet trucks in freight yards Yunnan on January 10. Rapid survey Haiphong docks showed much larger tonnage than last September. Chiefly construction materials, rails and about 200 trucks assembled, including Studebaker, Ford, Chevrolet. One freight car labeled Szechmen. Rail material seen en route to Yunnan. Today agent shipping aircraft factory material refused space account nature material. Agent states construction material anyway related to war with exception trucks. Refused Standard Oil agent reports shortage bunker space for oil shipments. Oil also shipped by rail to Kwangsi border. Re Wang Ching Wei, public sentiment considers him traitor and his dismissal strengthens resistance. People feel his action taken with view becoming leader in case peace consummated. Dung states he was half honest and half own interest.

EXCERPTS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HIM



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 16 January, 1939.

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

Message from Professor Buck, (January 10 from Haiphong).

Tonnage freight Haiphong to Yunnan October 1938 6400 tons;

October 1937, 3300 tons. First ten months 1938, 40,000 tons; same
period 1937, 29,000. Yunnan to Haiphong October 1938, 1000 tons;
October 1937, 1300 tons; first ten months 1938, 11,200 tons. First
ten months 1937, 10,700 tons. First six days November 1938, 142
loaded cars arrived Yunnan and 27 loaded cars departed. Traffic
still largely inward. Sending more recent data as soon as possible.

CHINESE EMBASSY
WASHINGTON

TEXT OF A STATEMENT TO BE ISSUED BY HIS
EXCELLENCY DR. H. H. KUNG, PRESIDENT OF THE EXECUTIVE
YUAN, CHUNGKING, CHINA, ON JANUARY 16, 1939.

For over a year the Japanese authorities, despite their assurances, have been detaining all the revenues, pledged for debt service, that have been collected in the areas under their military occupation except for a single remittance from the Shanghai Customs last June. In order to make up the amounts that should have been remitted from those areas the Chinese Government has advanced about 175 million dollars. The Central Bank of China, moreover, has provided all the foreign exchange required, although the Japanese have been interfering with the Chinese currency and forcing the acceptance of several forms of Yen, military and puppet notes which has reduced the collections in legally valid currency on which obligations of the Government are secured.

Notwithstanding all difficulties, the Chinese Government has provided for service of China's debts thereby demonstrating the utmost consideration for the holders of its obligations.

Under existing conditions the Chinese Government very reluctantly has been forced to the conclusion that this situation has become too anomalous to be continued. The Government therefore has been obliged to reject the Inspector General of Customs' request for a further advance.

-2-

advance. As from this date, however, the Government is prepared to set aside in special accounts in the Central Bank of China a share of the long term debt service, proportionate to the collections in the areas not subject to Japanese interference, of the revenues pledged to all such debts outstanding before the hostilities. It is hoped that remittances of the share attributable to the pledged revenues from the areas under Japanese military occupation may similarly be forthcoming and that interference with Chinese currency will cease so that service of these debts may be duly effected. This measure is a temporary arrangement in view of present abnormal conditions.

The Chinese Embassy,

Washington, January 15, 1939.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 16, 1939

TO The Secretary
FROM Mr. Hanes

I attach herewith a memorandum, which is self-explanatory, concerning a subject which may be of interest to you.

J. W. H.

January 16, 1939

To: Mr. Hanes

From: Mr. Young *RY*

Re: Conference with Mr. R. F. H. Borden,
January 12, 1939, with respect to a
Home for Jewish Refugees.

Mr. Borden, knowing that the President and the Secretary of the Treasury were interested in the present Jewish refugee problem, has been attempting to secure an interview with the President for several days to discuss this matter. Not as yet having been able to secure this interview, Mr. Borden called upon the Secretary of the Treasury, who was out of town. Upon being referred to the Office of the Under Secretary, I met Mr. Borden for Mr. Hanes on January 12th. I presume that an ancillary reason for Mr. Borden calling upon the Secretary of the Treasury and upon Mr. Hanes was to expedite the securing of an interview with the President.

Mr. Borden owns ninety per cent of the stock of the Chiriqui Land Improvement Company, his attorney owning the other ten per cent. The Chiriqui Land Improvement Company owns a property known as the Chiriqui Estate or Grant, located in the western part of the Republic of Panama and comprising more than five million acres, extending from the Atlantic Ocean on the north, across the Isthmus of Panama to the Pacific Ocean on the south. This area, according to Mr. Borden, consists of mountainous territory on the Atlantic side, which is rich in coal, oil, gold and other mineral deposits, and of fertile rolling country on the Pacific side ideal for grazing and agricultural purposes. The climate is a healthful one, and, in fact, there is a health resort already established on the Atlantic side, which has been increasing in popularity and which has been reported favorably by Admiral Byrd, who stayed there for a period upon his return from the Antarctic.

Mr. Borden has been conferring with Dr. Rosen and other members of the Jewish Commission in New York, including Mr. Baruch, with respect to using this property as a home for Jewish refugees. Mr. Borden stated that he had been made

- 2 -

a handsome offer by this group.

The principal complicating factor in this situation, as I understand it, is that the Chiriqui Grant is the site of a proposed Atlantic-Pacific canal. Such a canal, according to Mr. Borden, who has made a complete report to the President and the members of the Foreign Affairs Committee and the Inter-oceanic Canals Committee of Congress, would be far superior to the proposed Nicaragua Canal. Mr. Borden did not wish to close a deal with the Jewish Commission if there were any chance of a conflict between that program and the proposed canal program if the latter should materialize.

THE *Carlton*
WASHINGTON, D. C.

Washington, January 16th 1939.

Mr. Archie Lockheed
Technical Adviser to the
Secretary of the Treasury,
Washington, DC.

Dear Sir,

Mr. Monnet has instructed me to send you the enclosed copy of a telegram received by him from our Paris office, in connection with the Indo China Railway, and related to the matter mentioned in our letter of December 22nd.

Very sincerely yours,



Monday, January 16th 1939.

Laurent arrived Indo China January 12th, has been instructed by Bank of Indo China to telegraph you direct any information or suggestion concerning railway and transit stop Transit free now for everything including motor trucks except specific war material Understand railway has ordered trucks deliverable two months do not believe America could deliver earlier.

January 16, 1936

Dear Mr. Greenbaum:

Mr. Morgenthau has asked me to thank you for sending him Mr. Rosen's letter with its inclosure. He read them with much interest.

Sincerely yours,

H. S. Klotz,
Private Secretary

Mr. Edward S. Greenbaum,
285 Madison Avenue,
New York, N. Y.

January 16, 1938

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Private Secretary

Mr. Edward S. Greenbaum,
285 Madison Avenue,
New York, N. Y.

MEMORANDUM FROM
EDWARD S. GREENBAUM
285 MADISON AVENUE
NEW YORK CITY

the 144

January 13, 1939

To Mr. Morgenthau:

The enclosed is self-explanatory.
When you get a chance to read it, I think
it will prove interesting.

E.S.G.

MR. J. A. ROSEN

82 WILLIAM STREET
ROOM 810
NEW YORK

245

January 3, 1939

Mr. Edward S. Greenbaum
Greenbaum, Wolff & Ernst
285 Madison Avenue
New York, N. Y.

Dear Mr. Greenbaum:

The enclosed copy of my memorandum to Mr. Jaretski on the Guiana project may be of interest to you.

This memorandum was written after Dr. Morton Kahn of the Cornell Medical College has shown us some motion pictures on Guiana. While his pictures were taken in Dutch Guiana, he claimed that similar conditions prevail in British Guiana.

I understand that Dr. Bowman has branded me as a definitely pro-Guiana partisan. This is far from being the truth, - my only contention is that the information available at present is not sufficient to justify the rejection of the British Government proposition, and that in view of the situation, a commission of qualified experts has to be sent there whose object it would be to determine in a practical way whether and what and how could be done there in spite of the obvious difficulties.

If at all convenient for you, I would like this information to be conveyed to the persons still interested in the subject.

Sincerely yours,


Joseph A. Rosen

JAR:EP

Enclosure

C O P Y

December 27, 1938

Mr. Alfred Jaretski, Jr.
Sullivan & Gromwell
40 Wall Street
New York, N. Y.

Dear Mr. Jaretski:

I must frankly say that I was greatly impressed by the pictures shown by Dr. Merton Kahn the other day on the Guianas.

I would, however, like to offer for your consideration a few of my reflections.

1. When I said that we still do not have sufficient information on the possibilities of British Guiana to justify the rejection of the offer of this territory by the British Government without further investigation, I had no desire or intention to cast any reflection on the accuracy of Dr. Kahn's information on the section of the country you have visited. But while he looks at the pictures through the eyes of a medical specialist, I look at them through the eyes of a technician, who has had some experience in carrying out settlement projects.

(a) When I see the rapids and waterfalls that hampered Dr. Kahn's progress, I want to know whether it may not be possible to use these very hindrances as a source of power that would enable us to clear the jungle and build the roads that would carry us across the country avoiding these hindrances.

(b) When I hear Dr. Kahn speak about the giant hardwood trees, I am wondering whether some of these trees may not become a source of income and supply useful materials for the settlers.

(c) When I see the tedious and exhausting work the natives have to do in clearing the jungle by the use of machetes or axes, I think of the thousands of giant trees we cut down in the Russian forests by means of mechanical motor saws and of the thousands of giant stumps we pulled out with tractors and stump pullers which do not require such exhausting efforts.

(d) When I see the natives scattering some rice seeds or scratching the soil with primitive hand tools, I ask myself whether it may not be possible, by use of other tools and other methods to grow in the partially cleared jungle not only a little rice and a few yams and beans, but also other grains suitable for tropical countries, such as several varieties of maize, a number of varieties of millets, sorghum, and other legumes, as Cajanus, arachis, cow peas, velvet beans, garbanzos, etc. etc., oil crops, as sesamum, root crops as sweet potatoes, cassava, taro, etc., and grow these crops of a better quality and with less manual labor. I would like to know whether it may not be possible to develop in the partially cleared jungle coffee, cacao, or tobacco plantations that require partial shading; whether it may not be possible to grow there a variety of tropical fruit, the soil in the cleared jungle being presumably of a much better quality than on the savannahs.

(e) When I hear of the razor grass on the savannahs, I would like to know whether it may not be possible to replace this by proper methods of mechanical tillage, by a variety of much more valuable forage grasses which also grow on poorer lands if planted or seeded there properly, as the Guinea grass, Para grass, elephant grass, etc. etc.

(f) When I am thinking about a starting point for settlement, I would like to

Dr. Alfred Jaroski, Jr.

Dec. 27, 1938

Now whether a clearance in the jungle may not be the better approach than a start in the Savannahs.

The feasibility of the transformation of a tropical jungle into fruit and tobacco plantations through the efforts of a white population, practically without the use of native labor, seems to be supported by the experience in the Queensland jungle in Australia. En passant it may not be out of place to mention the investigations made by Sir James Barrett, famous Melbourne physician, on the staff of Melbourne University. Sir James quotes statistics to show that tropical Australia, where 259,000 people live, is not appreciably unhealthier than the rest of the country.

This is what I mean by insufficient information, - and please note, - I am not saying that these things can be done. I merely say, that I would like to know whether they could be done. Real possibilities may depend on the scope of the operations. You obviously could not think of mechanizing your work when you want to make a clearance for a small settlement or of building roads or developing power resources when you contemplate settling a few hundred families.

Not by way of analogy but merely as an illustration, I wish to cite some of our experiences in our Russian settlement work. Water was one of our problems there. We often had to go down, for a good supply, 500-700 feet deep. In 1923/24, when our budget was \$400,000, and the plan called for four wells, we were forced to resort to the local method of digging the wells by employing peasants who had to be stimulated by a substantial daily dose of vodka, and it took us from five to eight months to dig each well. In 1924-27, when we had at our disposal several million dollars and our three year plan called for the drilling of 240 wells, we could afford to bring over American well-drilling machinery and our rate of production was 3 - 4 wells every month for each outfit, the quality of work being, of course, vastly superior.

2. While Dr. Kahn's experiences in the Guianas have undoubtedly been very discouraging from the point of view of the possibility of settling there European refugees, the following facts must also be given consideration:

(a) Dr. William Beebe emphatically states that at least in the section of British Guiana, where he carried on his investigations, he had less trouble on account of sickness with young inexperienced people whom he brought along with him from New York City, than he had with the same type of people in his Bermuda camp.

(b) Major E.W.G. Hingston, leader of the Oxford University Expedition to British Guiana, in his book "A Naturalist in the Guiana Forest", on page 16, speaking of the climatic conditions, says: - "The heat was never oppressive even at noon... It was quite unnecessary to wear a sun-helmet; indeed one could spend the whole day in the forest without any kind of head protection. This is a degree of comfort impressively pleasing to one who has lived in the Eastern tropics!"

(c) Mr. Leonard Kennedy in his article on British Guiana (Geographic Magazine Sept. 1911) states (page 848) "It is never insufferably hot in Guiana; in fact very rarely even uncomfortably so, if one avoids violent exercise."

(d) Official statistics for British Guiana over a period of years give the death rate at 23 and the birth rate at 33.4 per 1000.

(e) While there are plenty of rapids and other obstacles to transportation

Dec. 27, 1938

on the rivers, considerable stretches of same are navigable, some by large and some by small motor boats. One can penetrate considerable distances into the interior by motor boat, short stretches of single track railroads and a hundred miles of trail wide enough to come through by motor truck. These comparatively accessible spots may be suitable starting points for the extension of settlements.

(f) The composition of the population in British Guiana is different from Dutch Guiana where the pictures were taken, - there are no bush-negroes in British Guiana, and the number of aboriginal Indians is rather small, the majority of the population being Hindus and Negroes, but not of the bush type.

I am fully aware of the fact that British Guiana is very far from being an ideal country for refugee colonization, but I am also fully aware of the fact that up until the present time no other territory has been offered by any government for settlement on a more or less substantial scale. There are millions of acres of such more suitable vacant lands in this country, in Canada, in Australia, in New Zealand, in some Central American, and particularly in South American countries (Brazil, Argentina, Colombia) - but what of it? Nobody has as yet offered these lands even for infiltration settlement on a more or less substantial scale, not to speak of territorial possibilities.

3. When I think of the refugee problem, I am not thinking in terms of the few thousand of the more fortunate victims of the fascist regimes who have succeeded in getting out of fascist countries, but in terms of the many and many thousands who have no relatives abroad and no means to ever enable them to benefit through the infiltration emigration process.

When it comes to a choice between running the risk of dying from malaria or yellow fever in the Guianas, as a free human being in an effort to build a new life for themselves on one side, and the prospects of rotting away in a fascist concentration camp or slowly decaying from inactivity in the detention barracks in no-man's land, where epidemics of influenza, typhus and typhoid are a common occurrence on the other side, - I am convinced that thousands upon thousands of these refugees, particularly the younger generation, would not hesitate very much in deciding in favor of the Guianas.

I, therefore, maintain, that the offer of the British Government of a territory in British Guiana deserves at least a thorough investigation by a competent group of specialists whose primary object would be to determine in a practical way whether and what, and how, anything could be done there for the development of the country through the settlement of refugees on a substantial scale in spite of the obvious difficulties.

JAR:EF

Joseph A. Rosen



TREASURY DEPARTMENT

WASHINGTON

Haiphong, January 16, 1939

Mr. Archie Lochhead
Treasury Department
Washington

Dear Archie:

In the absence of a secretary I am sending you some memorandums to be typed for the Secretary. The Yunnan rail statistics are the latest I have been able to obtain so far but I am promised not only 1938 statistics but also weekly ones for January 1939. I have already cabled the totals for the statistics enclosed.

I have been informed very confidentially that C. C. Chien of the National Resources Commission is sponsoring a survey of war losses to be presented at the peace conference whenever it might take place. While in Chungking I advised on the type of schedule to use. The plan is to make the survey under the auspices of some Relief organization, or under the National Christian Council of China. These government people would like me to be in Shanghai early in February if the plan goes through in order to help initiate it. They even raised the possibility of my going to Tientsin too. What they want is a little assistance in making the connections with the organizations and advice on the set up, all of which would not require much of my time if I were in Shanghai. If you think it wise please pass this paragraph on as a memo to the Secretary.

I sent you an ~~air~~ mail letter via Air France which should reach you about the same time as this letter.

With best wishes,

Cassidy

**TONNAGE TRAFFIC ON THE FRENCH INDO-CHINA RAILWAY AS
REPORTED BY THE RAILWAY COMPANY**

Nature des Marchandises	Oct.1938	Oct.1937	Janvier to Oct. 1938	Janvier to Oct. 1937
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Haiphong to Kunming (Yunnanfu)

Allumettes	---	---	---	---
Armes et munitions	31	150	2,468	329
Articles d'alimentation	82	165	750	1,872
Articles de menage	---	---	38	60
Bimbeloterie, Bonneterie	1	---	76	22
Bois odorants	---	---	---	---
Boissonx et liqueurs	---	1	38	18
Bougies	---	50	292	330
Carbure, Petrole	386	410	9,650	5,157
Coton File	2,086	1,031	9,555	10,062
Effets d'habillement, Tissus	455	168	2,083	3,181
Emballages vides en retour	---	---	9	---
Huiles	76	---	274	---
Machines, Pieces de machines	337	32	1,424	383
Matériaux de construction	1,025	162	3,603	996
Matériel d'entreprise et divers	71	5	311	14
Matériel telegraphique	6	---	22	1
Mazout	300	350	1,890	1,600
Medicaments	94	5	277	95
Mobiliers, Meubles	7	---	17	11
Nattes	---	---	---	---
Papiers, Papeterie	213	256	1,649	1,100
Porcelaines	---	6	144	391
Quincaillerie	94	35	630	296
Savon, Produits chimiques	232	151	908	784
Sucre	18	---	198	173
Tabac et cigarettes	265	2	1,173	1,058
Tabletterie, Vannerie	---	---	---	---
Verrerie, Verre a Vitres	61	83	243	435
Divers	433	131	1,602	635
Total	8,406	3,253	40,313	29,326

Kunming to Haiphong

Antimoine(mineral)	---	---	---	---
Antimoine (regule)	---	---	61	---
Articles d'alimentation	1	---	29	23
Cire	---	1	24	5
Cornes	---	---	---	---
Cunao	---	---	28	13
Etain en saumons	627	1,004	7,093	7,259
Hile vegetale	213	101	1,546	248
Jambons	---	3	1	9
Legumes secs ou sales	5	2	109	74
Marbre outre	---	---	---	14
Medicaments	56	9	294	279
Mineral de porcelaine	---	---	---	---
Mineral de tungstene	---	---	586	684
Orpiment, Mineral pour peinture	---	---	---	10
Peaux brutes et preparees	38	112	790	1,465
Plomb en saumons	---	---	---	30
Plumes de canards	---	4	23	37
Poils en balles, Soies de porce	82	39	460	195
Sticklack	---	---	---	2
The	---	6	116	147
Zinc en saumons	---	---	---	106
Divers	2	3	32	52
	1,024	1,284	11,191	10,652

Nature des Marchandises	Oct.1938	Oct.1937	Janvier to Oct.1938	Janvier to Oct. 1937
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RECAPITULATION DU TRAFIC LOCAL TONKIN

Local Tonkin Proprement	8,897	4,806	57,736	33,888
dit Haiphong Docks-Tonkin	2,525	2,237	29,792	24,200
Tonkin-Haiphong Docks	<u>843</u>	<u>590</u>	<u>26,748</u>	<u>30,630</u>
total	12,265	7,633	112,276	88,718

Traffic Local Yunnan

total	11,814	11,935	119,925	114,445
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total general des tonnages commerciaux

32,927	24,603	291,309	245,828
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Recettes commerciales (Piastres) 466,385.08

3,438,424.42

To Secretary Morgenthau

From/ J/ Lossing Buck

INTERVIEW WITH GEROGE SHEPHARD ADVISER TO THE
GENERALISSIMO IN THE NEW LIFE MOVEMENT

Chungking, January 5, 1939

" The Russian military advisers whom~~e~~ have stepped into the shoes of the German advisers were accepted upon their own request chiefly because of Russia's policy of sending their air staff in relays ~~for~~ two months training in actual warfare. Actually the Generalissimo is holding the Russians at ~~arms~~ length and their advice is not being taken just as it was not in the case of the German advisers. The Chinese may have advisers but they don't usually take advice. As an adviser I know it only too well. I find, however, that after a while some ideas do penetrate. My observations and experience is that the Chinese are unwilling to consider the necessity of much foreign technical assistance which in reality they so greatly need.

" Concessions have just been granted for the China National Aviation Corporation to fly to Rangoon.

" I have been writing out for my only clarity the pros and cons of the chance of China's winning out in the end and I believe she can do so."

To Secretary Morgenthau
From J. Lossing Buck

AMERICAN DIPLOMATIC POLICY IN CHINA

Chungking, January 5, 1939

Captain Brandt of the U. S. S. Tutilla at Chungking remarked: " I consider that the American diplomatic officials have made a great blunder in their whole attitude toward the Sino-Japanese conflict. It was a great mistake for Americans to start running. Americans should seize every opportunity to put their stakes in China. American policy looks a little more favorable now but its time to give up the policy of waiting to see whether or not 'John Bull' will give approval".

one dares

press gangs drive coolies to seek safety in —

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VISIT TO MANCHUKUO

Fall, 1938

Mr. Assendorf,

Berlin Tageblatt

November 21st, 1938.

LOCAL FEELINGS: Manchukuo Japanese interested almost solely in Manchukuo, North China Japanese in North China; soldiers on the border in their border - no interest in the south, etc.

MANCHUKUO: will probably stay "independent" even if the rest of the country does get away from the Japs.

Value of Wang Tao - psychologically important, feeling of all working together. Includes the Chinese, socially, but insists that the Japanese must always dominate for racial reasons - the Japanese organizing power.

NORTH CHINA: Terrible currency situation. Federal Reserve Bank currency only used for day to day payments, the Japanese themselves don't want it. Inadequate reserves, great though clever manipulation. No evidences of wealth dare be shown in the country - e.g. no one dares keep a horse - the guerillas would take them. Guerillas' press gangs drive coolies to seek safety in Manchukuo. Customs working normally, money going into Yokohama Specie Bank. Strict with Japanese. Station just within the Wall on the Manchurian frontier where the No.1 is a Japanese with \$3000 per month, and the Chinese No.2 has \$300.

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CONDITIONS IN MANCHUKUO: The railroads well managed, but often out of order, too easily damaged by floods etc. their groundwork and bridges washed away because so hastily constructed. All safe from raids except the Jehol/Peking line which is often attacked by guerillas outside the Great Wall. (NB)

Real troubles with the Mongolians, not the Chinese, of whom only the lower class are left. The Mongolians in Heilar, Taihsitar etc. want independence. Special department for them.

Mukden: 400 births a month, 140 deaths among the Japanese. However Japanese like to go back to Japan to die so these figures not too indicative.

Hsingking: development entirely superficial - buildings etc.

Mu Tiang Shen: (Bo Tan Ku, Japanese name). In the northeast.

In the fall of 1936 had a population of 15,000, of whom 2000 were Japanese. Beginning of an administrative center. In the fall of 1938 had a population of 100,000, of whom 20,000 Japanese and 10,000 Koreans. (Civilians). Aeroplane assembling plant near and lumber works, but no industries in the town yet - only administrative. 96 cafes.

Chiamissu: Rapidly developing an industrial center here - new, to replace Harbin - rich field for it. A district of Japanese colonies. Japanese farmers rapidly increasing. One village increased from 700 - 1200 in two years - appalling birth rate. These farmers make Yen 1000 PROFIT oh yeah per year. Have a sort of cooperative system. The development possible because the J. military buy only from them, not from the Chinese, wanting them there as a bulwark against Russia. Otherwise they could not compete with the Chinese.

plans for bringing
from 13/18 here &
starting them as farmers.
They will eventually feel
their land, marry,
rent 25,000 brought
per year.

position of the Chinese in occupied territory, taking Central Hopei in March, 1938
an example of a representative political movement in an area of 150,000 sq. miles
75 million people. A general discussion of the Self-Defense Governments there.

Commanding Officers who have undergone Communist training have organized:

I. Mobilization Committees

Consisting of local people who are empowered to draft soldiers, propagandize the people, exterminate traitors, requisition money, food, clothing, technical skill and common labour. These people include every class in the village or town: landlords, tenants, etc.

a. Everyone is enrolled in some organization (this is the aim)

Organizations include womens' unions, students, young men, little boys, etc.

b. Village Self-Defense Corps

Guard the village, watch for spies, furnish spies, give military transport

(build a spirit of cooperation among the peasants, and awaken them to an interest in government activities)

c. Propaganda

Plays, posters, etc. schools. Not a word ever about "Communism" Anti-Japanese and anti-traitors. Making the traitor and villain no longer the landlord, which keeps the gentry sympathetic with the movement.

d. Agricultural reform

Very important, though designed as a minor issue. More land for the poor. 15 % of agricultural land given the peasants through action of these guerrilla organizations.

General program: land distribution, rent reduction, debt alleviation, tax revision, bandit suppression, care of refugees

CONCLUSION

1. Defeat of Japanese theory that the ignorant peasant would be easily won over About 30 % of the territory in the 5 Northeastern provinces nominally conquered by the Japanese now organized into Anti-Japanese Self-Defense Governments under leadership of Communists and Peiping students

2. Significance of Guerrilla's Mass Movement vs Chinese Revolution. Step towards the Socialist State, through democracy. Common peasant the new

GROUP MEETING

January 16, 1939.
9:30 A. M.

PRESENT: Mr. Gaston
Mr. Hanes
Mr. Haas
Mr. Foley
Mr. Duffield
Mr. White
Mr. Lockhead
Mr. Bell
Mr. McReynolds
Miss Chauncey

H.M.Jr: Where is Mac? I've seen the gentlemen. When did you get back, Herbert?

Gaston: I got back Saturday afternoon.

H.M.Jr: I've got a few odds and ends here I'd like to take care of. I've got all these clippings. Archie, I cut this out of the Times. Supposing you ask the State Department to send a cable to.....

Lockhead: We have a copy; we've got something from them now. It hasn't been taken up, but I have quite a few; I will sort that out.

H.M.Jr: Heath cables are so tremendous. I wonder if they can't be digested down.

Lockhead: That is a short - two pages. That's one of the ones I'll see goes to you.

H.M.Jr: (Short discussion re Dano) Now, the other thing I've got here, I see that United States Housing - evidently you have sent up some bill, that Wagner is going to make. I wonder if we can get a copy of that.

Bell: I think so. I'll look into that this morning.

H.M.Jr: Could you and Foley, between you, give me twenty-four hour service on it?

Bell: Yes.

- 2 -

H.M.Jr: I'd like to have an analysis tomorrow, showing how particularly does it fit into our so-called new pattern that we are trying to set up, like the Commodity Credit.

Bell: Commodity Credit.

H.M.Jr: See? Can I have twenty-four hour service on that?

Bell: Yes, sir.

Foley: Straus sent over, before you left, papers in connection with that proposed financing revised to meet certain objections that we raised when he discussed it with him first. I have a letter here - as far as the law side is concerned.....

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

Foley: I say as far as the law side is concerned.....

H.M.Jr: Law or loss?

Foley: Law. I gave it to Wayne Taylor; he didn't do anything on it, he wanted to wait until you got back. I think it ought to be checked by the financing people, in New York, to see whether it would have any effect on our financing. If they clear it then we ought to tell him we have no objection.

(Mr. McReynolds comes in)

H.M.Jr: Well let's - you all right?

McReynolds: I just got stuck in the ice by the curb, that is all - too far to walk and I had to wait until they could get me out.

H.M.Jr: Let's wait until tomorrow, and do this thing. Don't you think so?

Does anybody pick up the things Taylor leaves behind? Has he got a system in there?

White: He distributes them around.

H.M.Jr: But doesn't he have an assistant in there?

Gaston: Johnston.

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White: He has turned Johnston over to me.

H.M.Jr: Does he just let them drop for two weeks? Somebody ought to be able to pick up his things.

White: He distributed the international things to me, some of them anyway, to carry on. I don't know about the other things.

H.M.Jr: Makes it kind of hard.

"Chinese Government announced it had decided not to make any further advance for service of loans secured by Chinese Maritime Customs, but will set aside sums proportionate to revenue collected in arrears still under Chinese control."

Have you seen that?

Lockhead: I know about that; that's the thing they were trying to get your opinion on for some time. They gave a note to the State Department.

H.M.Jr: "United States Health Plan is ready for Congress. Eight hundred million dollars - new bill."

Does that clear through you?

Bell: No, sir. I don't know where that came from.

H.M.Jr: Dan, I don't want, in any way, to infringe on the prerogatives of the Director of the Budget, but if you care to have me join you, taking this and the Wagner Bill, for example, going over to the President and saying, "We are just entering a new session of Congress. How do you want to handle this?" I can't function if the Director of the Budget doesn't sit down and talk things over, and have a round with him on this thing, and on the Straus bill. It puts both you and me in an impossible position.

Bell: I had a conference with him and he said he wanted them handled like they have been handled in the past.

H.M.Jr: You want me to join you in a protest?

Bell: Yes.

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H.M.Jr: The point I am making, for instance, Dan had this Bill and he had the Straus Bill; he would give me a chance to see him.

McReynolds: I have no doubt he will get it before the President sends it up.

Bell: It's bought out.

H.M.Jr: One is eight-fifty and the other is eight hundred.

Bell: And another thing is the engineer's report on flood control. They are telling Congress that they can spend a good deal more money than is in the budget.

H.M.Jr: If you'd rather, don't get in on this.

Bell: I'd rather do it. I had this in mind to look up this morning.

H.M.Jr: Could we ask the President to see you and me, to find out how we are going to function? We can't function on this basis. I can't function on this basis. Either you, or John, or I have got to go up and make a fight before Wagner. He'd say, "Why don't you boys get together down there? Why do your fighting on the Hill?" He's got a perfect right to do that. I think we will do that. Huh?

Bell: All right.

H.M.Jr: Herbert, before the Comptroller of the Currency sends out his annual report, does that clear through your office?

Gaston: Yes.

H.M.Jr: Is that handled by you?

Gaston: It is written in there and heretofore, before this year, I have always had Cy look it over, and I have looked it over also. This year Cy saw it before it went out.

H.M.Jr: Are the wheels between your office and his office all right?

Gaston: Oh yes, O. K.

H.M.Jr: I see that I am going to be called on silver. I am a little rusty on silver. Before I go up there, you and Archie get together and think up the meanest questions that you can, see the way we have done before - round table. We sit around and the kind of questions that they ask - and then this fellow White, who is secretary to Pittman, is a pretty decent fellow. You might get ahold of him and say, "What kind of questions do you think are going to be asked?"

And Mac, would you call up Mr. Welles on this and say that Mrs. Morgenthau and I would like to give an official dinner to Dr. Aranha, on February 10, and communicate with him and see if that is satisfactory.

McReynolds: February 10?

H.M.Jr: Yes. And the other thing is this. Dan, if you could have your crowd take a look on financing again from now until the end of this fiscal year, and the thought that I had in mind, the next financing that I do, will be for Jones. And - ah - one check I forget about, is invitations. Last time we just squeezed under the three years. I wonder if we can still sell a three-year note for him.

Bell: We can if we sell it before February 23, can't we Eddie? If we sell a note for Jones before February 23, this year, we can sell a three-year note - '42, I think.

H.M.Jr: Give me twenty-four hour service on this, and also the maximum amount we could sell. What is the limit? I think it is five hundred million, but how much more?

Haas: Seven hundred something.

Bell: Are you thinking now of the notes we hold?

H.M.Jr: I mean, how much more could he borrow and use? And then I want also on this thing, a list of - of what his obligations are, and when they are coming due, and that will include both preferred stock and notes held by banks, and any obligations that Jones has, and their due dates and rates of interest. Is twenty-four hours pushing you too hard? I'll give you until Wednesday morning.

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Bell: I think I can get it.

H.M.Jr: Huh?

Bell: I think I've got most of it.

H.M.Jr: And based on that, we can sit down and talk about - I knew that that date was somewhere along in there, and I was just thinking.... And the other thing, Mr. Editor....

Gaston: To you, yeah.

H.M.Jr: when are you and your managing editor going to be ready to sit down on the publication?

Duffield: I promised I'd answer that, because I haven't talked to him since he's been back. I'd like to see him and Mr. Bell both. I guess both those things can be done today.

Gaston: Today.

H.M.Jr: Can you give me that?

White: I'd like to register a brief protest on that. I understand the Bulletin is to be limited to forty pages, which means that the technical tables are very limited. Now, if possible, I should like to see it expanded sufficiently to include at least so far as we are concerned, at least a dozen more tables. That is rather significant and important.

H.M.Jr: Will you see the editor?

Gaston: The idea was, we wanted to get one this month, and the idea was to get out one this month with the idea of expanding it.

White: The first Bulletin will attract a good deal of attention.

H.M.Jr: You see, I don't know how this paper is run, but in my paper we used to have at least fifty pages of advertising. We'd take the number of pages of advertising and multiply it by two.

Gaston: The smaller the paper.....

H.M.Jr: The way Harry, I gather, wants to do it, is fifty per cent tables.

Gaston: There is a little bottle-neck there on the start.

H.M.Jr: I'll see Gaston and you (Mr. Duffield) at three o'clock.

Gaston: Yes.

H.M.Jr: These fellows aren't so hard boiled Harry, if you come up on their right side. It's just a question of, have you got the money for the publication?

Gaston: No, we are going to save that.

McReynolds: Going to do it without money?

White: Is it clear that this Quarterly Bulletin is going to be stopped if this other Quarterly Bulletin on capital movements.... Do you understand that?

H.M.Jr: I don't know.

White: That was part of the stuff that.....

H.M.Jr: I think the first meeting I will have with the manager and managing editor, and you fellows have got from now until three o'clock to see them.

Herbert?

Gaston: We'll have a press conference, I suppose at four o'clock?

H.M.Jr: Yes.

Gaston: The new Chief of the Associated Press Bureau is in town; Bryan Bell, who came from the Pacific Coast. Some of these days, when you have time, it will be a good idea to see him - Bryan Bell.

H.M.Jr: All right, will you - I am letting Kiely handle these appointments now. If you will give him a little note on it.

Gaston: Yes.

H.M.Jr: We'll get Mrs. Klotz back soon. Incidentally, Mrs. Morgenthau and I went up and saw Mrs. Klotz last night. We found her very well, considering.

Bell: She's in town?

H.M.Jr:

She hasn't been out. She can't move around yet; she's well, but she hasn't been out of the house. She's just barely navigating. She's definitely on the road to recovery.

What else Herbert?

Ganton:

I don't think of anything else.

H.M.Jr:

Johnny?

Hanes:

I haven't anything this morning.

H.M.Jr:

Good. George, can you take a minute or two and tell us what you did in Chicago?

Hans:

All of it?

H.M.Jr:

No. (laughter)

Hans:

I was just joking about all of it.

H.M.Jr:

Well, tell what is fit to tell.

Hans:

I was too low to do much of anything else but this anyway. We had a long talk with Jake; I brought up a memorandum. The Secretary asked me if I'd go over with Viner, the business recession of '37, with the idea of determining, if possible, what were the elements which caused the business to recess. Well, as a working basis I brought up a memorandum which we prepared on the subject just a year ago, in January, 1938, and Viner went over that. His general reaction was he thought it was very good. He made some suggestions of certain things for us to look up, some of them were statements made by the - he wanted to see the exact quotations of statements made by the President, and so forth, and he'd like to have a little bit more details on some of the points which we didn't include in the memorandum, but we have it here in the shop. He said he planned on being down Friday.

H.M.Jr:

That is right.

Hans:

And he was in general agreement with our analysis of it. In fact he said he thought it was a very good job, so what we are going to do next, between

now and Friday, is to assemble some of the other materials which is quite easy, because we have them available. Our job was trying to keep the memorandum down in size. As we recall it was twenty-five or twenty-six pages. And he said that he might want to write an article about it himself. We could do some of it, fill out the material to go in there, you see, but he said he didn't think he'd be able to write an article - they couldn't get it until some time in March. He said he'd be thinking that over and discuss it with you.

H.M.Jr: How many hours were you with him, roughly?

Haas: Let's see.

H.M.Jr: I mean more than one day?

Haas: One day, one whole day.

H.M.Jr: Well, now George, I've got another thing along that line. You make a note. I don't know how many people there are like Moodys, statisticians organizations who make a business of that sort of thing, but I suppose, between the library and what we get, and - what is the name of this man that comes out under his own name here?

White: Goldsmith.

H.M.Jr: I wasn't thinking of Goldsmith.

Haas: Headey.

H.M.Jr: Headey. Lionel Heady. He and people like that, and so forth. Some way or other, I want you to go back and start in, I'd say, July first, '36.

Haas: That is what we have done on this memorandum.

H.M.Jr: And I want you two - oh, there must be ten or twelve of those different services.

Haas: There are more than that, but the important ones are about that.

H.M.Jr: Well anyway, and go through them with a fine tooth-comb and see if any of them have anything in the way of what were the contributing factors, - at

least what they think. Let's put it this way: What did they think were the contributing factors that brought on the recession of '37, and what brought the recovery of '38? Will you do that?

Hanes: Yes, sir.

H.M.Jr: Huh?

Hanes: Yes, sir. Uh-huh.

That is all I've got.

H.M.Jr: I want you to keep after this thing, see?

Hanes: Yes, we are right on top of it, working on it. Diggs started to talk a little bit about Social Security, then he got quite a big problem. He got tired, he thought he'd let that go until Friday.

H.M.Jr: Well I told these fellows I am going to have some other,..... (To Miss Chauncey: Will you set aside Friday morning for Social Security please?) And Johnny, I am expecting you to have a program ready for me, say 10:15 Friday morning. I will have somebody prepare the things. I am going to have different people down. I want our own classroom, for myself, Friday morning. Let them work Friday afternoon and go back to it again Saturday morning, and see whether we can't work out a program. We have been stalling with the President, at least I have, so I am going to have Jake Viner and some of the other people down. I want sort of an agenda - "This is the proposal" and so forth and so on, that will go into this thing, but will you take the responsibility of having that agenda ready? You know what I want?

Hanes: Yes, sir.

H.M.Jr: Just the way Harry White has had on this sterling. We can have this thing and we'll have it Friday, and I'll ask them to work on it Friday afternoon, and come back Saturday. I want to spend at least the two days with this group and if we can, at least make up our own mind, so if you can.

Hanes: Yes, sir.

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H.M.Jr: You have been saying you can give it to me. I don't know how you will, but that is up to you. Will you take that for me?

Hanes: Yes, sir.

H.M.Jr: Is that all, George? And while you are on this, George, this question of '37 and '38, I wish that through Rice Central Statistics, I'd like to get everything that is in the Government itself. I mean there is so much talk - this person or that person gave a memorandum on it to the President, factors causing the depression of '37, and so forth and so on. Either through Rice Central Statistics - did Agriculture have anything? Did Commerce have anything? Did Labor have anything?

Hanes: Anything that went across the street.

H.M.Jr: Anything that is in their shop. Has anybody got - have they got anything which shows what were the contributing factors, I should think through Rice and the Central Statistics Bureau you could say, "I want this thing." The question I am asking, Did anybody forecast what or have they any - I don't want what they think now, did they at that time have any idea as to what it was, the '37 depression or the '38 recovery? I have heard a lot - that there were a lot of people around town. I'd like to see if they exist.

Hanes: Uh huh. Not something after the fact, but what they said at that time.

White: Might not ask Agriculture because Mr. Wallace sent you something, his comments on it, that will get here tomorrow. We don't want to ask him because he will reply, "I gave you something". It is on my desk. I just want to suggest you don't repeat that to Agriculture.

H.M.Jr: Along this line?

White: Yes. Bean forecasted, according to the usual general over-all curve - that will give you a talk. If George were to ask him, they'd say, "We sent something to the Secretary last week."

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H.M.Jr: If anybody has any ideas - I am going to keep pounding on this thing.

Haas: Why not ask Agriculture anyway? The B. A. E. (Bureau of Agricultural Economics) might have something.

H.M.Jr: I thought they did, I thought the Bureau of Agricultural Economics did have something.

Haas: He was quoted as having it. That was in the Agriculture Outlook.

White: George, you might say, "In addition to what was sent to the Secretary last week."

H.M.Jr: I don't know whether you want to work through Rice or not. But you have got the idea.

Haas: I have some other things, after I get them assembled.

Foley: I tried to get ahold of Monnet.

H.M.Jr: What is his first name?

Chauncey: Jean - J-E-A-N.

H.M.Jr: What.

Chauncey: Jean.

Foley: He left the Carlton and had gone to New York; they said he'd be back either last night or this morning.

H.M.Jr: All right.

Foley: Do you want me to get ahold of him today?

H.M.Jr: Yeah, isn't that right John?

Haas: Yeah.

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- Foley: I have the regulation under the new silver proclamation which has to be approved by you and the President. I haven't shown them to anybody else. I got them on the train.
- H.M.Jr: Well get them cleared up to every point that everybody's cleared them but me.
- White: There's going to be quite a drive on. They are just beginning to ship that business about silver mines before you.
- Foley: While you were away, Pittman, Thomas, and King were in to see Taylor because, they said, the proclamation should have delivery on the 30th of June - said it was unfair to certain miners because the smelting process was leaner in some instances than it was in others, and they wanted the regulations that were issued under the new proclamation to provide delivery pursuant - contract for delivery entered into newly mined silver prior to the 30th of June. That may be done under the proclamation without making any change - just a matter of phrasing the regulations. I drafted the new regulations to take care of that.
- H.M.Jr: If you don't mind, come back to the longer resolution.
- I am going to try my best, with the help of you people to devote myself to policy and not to detail, so when a thing like this comes up, there are enough people around this room, and in this shop, to do the deciding. After all, the decision was made. We'll do it that way. We'll abide under the old '33 Act. Having made that decision unless there is some reason for change - all you want is my signature, so clear it with everybody in the shop and bring it to me then. I want to have it just as.....
- I am going to ask all of you to help me and keep me just as free from detail as possible

so I can do a little thinking and also stay well. I feel damn well right now and I want to keep that way. So it is up to you to get it through and give everybody a chance who is interested in seeing it, and then I will sign it. All right?

Foley: Yes.

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

Foley: I'd like to talk to you sometime about the legislation to extend the Stabilization Fund and the devaluation of the dollar, and newly mined silver. I have several alternative proposals.

H.M.Jr: I can see you at eleven o'clock.

Foley: All right.

H.M.Jr: I want to clear that. Who's interested in that particular thing? White, Archie, anybody else?

Hanes: I am interested, but I am - I think I'd better stick to that other job until I get prepared for that hearing on the Hill tomorrow.

H.M.Jr: Right. Let's say we'll do this thing at eleven o'clock. I think I want to get that moving. What else have you got?

Foley: The report to Congress on corporate salaries has been compiled and it's in Mr. Hanes' office. It was held until you got back because Mr. Doughton wanted us to wait until the first of March so that he could get a joint resolution through providing that no report had to be sent to Congress for salaries in excess of \$15,000, but as to salaries in excess of \$75,000. The information as to all prior years would be made available by you. There is a conflict between the provisions of the '38 Act and the provisions of the '38 Act. The '38 Act, while Doughton said it would make the publication of salaries - corporate salaries in excess of \$75,000.....

H.M.Jr: Excuse me, wait a minute. You clear that with Mr. Hanes. Whatever Mr. Hanes tells me to do I am not interested.

Hanes: I sent you a memorandum on it. I don't think you need to bother with it.

H.M.Jr: I am not interested. Let Mr. Hanes handle it. If you don't mind; you'll get onto the way I am going to do in the future. I'm not interested. You get it to Hanes, and let me sign it.

Foley: The reason I am bringing it up, we agreed to hold it until you got back.

H.M.Jr: All right. You make your recommendation to Hanes; Hanes will bring it in; I will sign it, and ask no questions. How is that?

Foley: All right.

H.M.Jr: I am not interested; I'll just sign it.

Foley: You have already signed it.

H.M.Jr: Well then, let it go.

Foley: That's the only question - we hold it until the first of March. I think we've got to let it go.

H.M.Jr: I am not interested; it's a detail. Whatever Mr. Hanes agrees on - let it go. He's got to decide it. We have just got to - I am not interested. You will find out I am not going to be barked down.

Foley: I don't mean to, Mr. Secretary.

H.M.Jr: All right. After while you will find there are certain things I'm not going to touch.

Foley: The Transamerica hearings are starting this morning. If agreeable with you, I thought we'd have Sam Klaus cover those hearings and keep me advised.

H.M.Jr: No. It is not agreeable. Have somebody else.

Foley: I am getting a copy of the transcript at the end of each day.

Duffield: I will go anytime you want me to.

H.M.Jr: I thought you were going to. I'd send somebody else.

Foley: We have a draft of the Financing Corporation for you whenever you are ready. We also have a draft of a bank holding company bill.

H.M.Jr: I am interested in both of those things, and.....

Foley: Mr. Oliphant was working on some national defense legislation, in connection with procurement of planes.

H.M.Jr: Yeah.

Foley: We sent the last draft to Bob Jackson, and I think he made it available to Louis Johnson, and he is waiting to hear from Johnson and he hasn't heard from him since it was made available. I thought you ought to know about that.

H.M.Jr: Would you mind calling on Jackson and asking him to bring that directly to the attention of Secretary Woodring? I mean see that it gets to Woodring and lets us forget about it until the President asks us to do something. Don't you think so, Johnny?

Hanes: Yes, I do.

H.M.Jr: Get it to Woodring and let's sit tight unless the President pokes us on it. I'd send a copy to both Secretary Woodring and Swanson, to both of them. Why not send one to the President, Woodring, and Swanson? Do it that way - to the President, Woodring, and Swanson, and then we sit tight. I think I'd do it that way.

Foley: I don't know whether the arrangements were for you and Bob to do it jointly.

H.M.Jr: Again, I am going - unless the President puts my nose in it, and it's not Treasury matters, I am going to keep out.

Foley: The contract between Export-Import Bank and Universal Trading Corporation is in pretty good shape and I think they will be able to get together and sign it sometime this week.

H.M.Jr: Good.

Foley: I have a wire tapping bill, pretty much in the same form as it was in last year, when it didn't get by the Senate. I think Chief Wilson and some of the people in the law enforcement.....

H.M.Jr: May I give you a suggestion on that? Will you ask to see the new Attorney General, and tell him I'd like his advice on it?

Foley: Yes.

H.M.Jr: The new Attorney General - I'd like his advice on it.

Foley: Yes. I think if you get a chance, this noon, you might mention to the President that nothing has been done about either extending, postponing, the taking effect of that civil service order that becomes operative on the first of February, or makes some provisions for the lawyers.

H.M.Jr: That is a matter which Professor McReynolds has been handling with Professor Cochran, and I hate to get between the two of them.

Bell: Well, I intended to send a memorandum Friday and I took sick, calling the President's attention to the fact that he had to have a conference before February 1, and suggesting Bob Jackson and somebody from the Treasury, and civil service, be present.

H.M.Jr: That takes care of that.

Foley: I brought it up

H.M.Jr: Don't misunderstand me, Edlie; I know there is a lot of stuff -- I hope it is a two-year resolution, and with the help of the rest of you, I think maybe I can stick to it. I think it will be more effective.

Are you all right?

Foley: I am fine.

Duffield: Mr. Taylor asked me to tell you of a conference he had with Bill Douglas Saturday afternoon. I happened to be in Mr. Taylor's office when Mr. Douglas got him and said they had a long letter from Mr. Richberg, requesting a delay of the hearing, and Mr. Douglas said there were a lot of things in the letter which might eventually concern the Treasury, but the one thing immediately concerned was that Richberg said they settled their difficulties with the Treasury and Federal Reserve Board. Richberg is representing Transamerica.

H.M.Jr: But they have settled it?

Duffield: That, therefore, for the S.E.C. to proceed with the hearings put it in the position of criticizing what the bank's examining agencies had done. Mr. Douglas said he proposed in his answer to Mr. Richberg - he had to send it right away - just to pass over that remark and say nothing about it. Mr. Taylor said he thought Mr. Douglas could do it that way, or say "For obvious reasons I am not making any reply to irrelevant remarks about the banking agencies," and he said it could be done either way.

H.M.Jr: All right.

Duffield: Mr. Taylor pointed out to Mr. Douglas that Richberg was in error, that the bank hadn't settled all the matters with the Comptroller and the agreement specifically pointed out there were very important matters not settled which were in the agreement. Mr. Douglas said, "That is fine," and he went ahead and wrote the letter.

H.M.Jr: Does anybody know of that last letter Herman worked on? The last thing he did. Did the Comptroller have an answer to that?

Foley: He had an answer saying, that is all right, they didn't think much of the idea anyway and they put it up to the board, and I understand that the board has accepted those seventeen points.

Hanes: That is right, the board passed on them. We haven't had any official notice of that, I believe, but I got it - the Comptroller got it from Jesse Jones the day Jesse talked with one of the officers of the bank and said they had a directors' meeting that day and had passed on all those seventeen points. The recommendation - the letter which we had in answer to the letter you are talking about, in answer to Amedeo Giannini - while he didn't think these things were necessary, still he accepted them in good faith and recommended to the board that they adopt them. And as a result of them we get an unofficial answer back through Jesse. He knows they had a meeting and adopted them.

H.M.Jr: The fact that we sent a different letter, they accepted it?

Hanes: They accepted it, and he said he would recommend to the board, the fact that the Comptroller couldn't

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give away any of his authority. That is what the effect was. He couldn't give away the mandate of Congress in his job.

Duffield: The only other thing I have is this power financing thing which I have cleared through Mr. Taylor, and Ed handles it as routine. We had it over the weekend, but we slept.

H.M.Jr: When Mr. Hanes has adjusted it he will bring it to my attention. How's that? The next move is up to you.

Duffield: I'd like to talk to you (Mr. Hanes).

H.M.Jr: Is that all?

Duffield: Except the bulletins.

H.M.Jr: Pretty good shape?

Duffield: I think it is just about as well as we can do it this time.

H.M.Jr: Harry?

White: I have a brief memo here on the review of capital movement for 1938.

H.M.Jr: Hang onto it.

White: And one other - gains and losses of gold during the year, and one on trade - world trade - who's lost and who's gained, and so on.

H.M.Jr: Can I have the world trade one? The other one you can hang onto. No, no. You hold those until I get a chance to see you.

White: There is a memorandum here which has been cleared with the legal department. We have gone over it, and spoke to Taylor about it and he left some comments for discussion. It is rather important. It relates to a request from the State Department with respect to extending the powers, that the President be able to do all sorts of things, to check up on countries that defaulted on their debts, and so forth. In the light of what you said this morning, I don't know whether Hanes has been over this or not, but I will take this up with him.

H.M.Jr: Good. What else?

Writer: Here is a report of which, if you haven't read - it's rather long, I'd like to ask you to read it. I think it's important. This is McHugh's report of the recorded conversation of Chiang Kai-shek and the Ambassador.

Lockhead: I am holding up quite a volume of cables until the Secretary gets around to it. I have been holding off quite a few cables. This is McHugh reporting on the conversation between General Chiang Kai-shek and the British Ambassador. It is rather long. I think you will have to mark out a couple points there.

H.M.Jr: Send it up to the house.

Writer: The Brazilian letter which went forward, we are working on - preparing a report on each one of the questions asked, so to be ready before it comes up.

H.M.Jr: Much before. On that, somewhere in the shop, I think I gave it to Taylor, is a letter that Hopkins sent me from his people, showing what the business needs were of Brazil. Somewhere he sent me a report - "What Brazil Needs to Buy." Will you find it? I'd like to read it, see? And then, the other thing in this month's quarterly foreign affairs - quarterly - if you haven't read it, is an excellent article by a man who calls himself the Economic Advisor of the Foreign Policy Association, on the whole Foreign Policy Committee. He used to be on the Tariff Commission. I thought I might - it is one of the clearest things I have read on South America and Germany; I thought I'd ask Jake - also, possibly, there might be somebody we could call in occasionally as an advisor. But the article is excellent, and, incidentally, the cables, on an eight-month basis he uses - and I think, if you bring that up to date.....

Writer: We have a report on that, but up to a ten-month date.

H.M.Jr: Read this thing. His opinion is up to date. Most of this stuff is talk, as far as trade goes in South America, and that we haven't lost hardly anything except two countries, but the people who have lost is Great Britain.

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White: That is the fact, in exception with the last couple months.

H.M.Jr: He just had the last two months. You have - read his article, and bring it up to date. I haven't seen anything quite so clear. He calls himself Economic Advisor to the Foreign Policy Association. Jake knows him, and he did his ground work with the Tariff Commission. That is where he came from. I say, there are some few people who seem to think clearly. It certainly impressed me anyway.

White: There is a report that is already made. I have to write a cover memorandum on Brazilian debts, which I think will be quite startling in its conclusions, and it's the best thing made on that particular thing.

H.M.Jr: On that, find out from the State Department, Mr. Thompeon, who used to be with Buell, and has gone over temporarily with the State Department.

White: Who?

H.M.Jr: Raymond Buell, and he, I think, is the man who is handling the broadcasting for him. He is in Brazil, there. You can address him at the Chamber of Commerce down there. I'd like to have him back up here. Raymond Buell says he is about the best man in the country. I want to get in the people to sit in and advise me. The State Department borrowed him; I think he's handling the broadcasts of South America.

White: And you'd like to have him back?

H.M.Jr: You don't spell it the regular Thompeon - I think it's T-H-O-M-A-S-O-N, but Buell said to me, he considers him by far the best man.

White: And you'd like to have him back up here by the first of February?

H.M.Jr: You read that article he wrote.

White: Oh yes. On Paraguay too.

H.M.Jr: I think he ought to be back.

White: You'd like him up there by the first of February?

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H.M.Jr: I'd like to have him here by the first of February, and I'd like to have the use of him.

White: And then we are also preparing something for Chile, and it will be ready.

H.M.Jr: The inflow last week was thirty-four million dollars.

Lochhead: The main thing on the exchange is that sterling has increased from 4.85; it is 4.87½, and the British fund has taken a much stronger stand; one or two days last week were uncertain on the other side but they stepped right up and held the rate up which is quite a departure from the old method. They have not gained any capital, in fact they have lost since the first of the year. I have quite a number of things on my desk and probably if we hold them long enough we can put them in the file.

There was one other thing in connection with money. I got to the forms used by the British in making purchases, and I have a memo on that; of course, I knew what would happen. The Federal Reserve doesn't want.....

H.M.Jr: Is it worth making an issue over?

Lochhead: I doubt it.

H.M.Jr: I can call up Harrison.

Lochhead: Harrison was away last week. I don't think so.

H.M.Jr: May I say, in strictest confidence, I have a letter here which is from an unimpeachable source, about Monnet, which is just terrible. It is just terrible, and I am so pleased - everybody that is working with Monnet, be triple confidential. According to this man he is headed for jail.

Hanes: Who, Monnet?

H.M.Jr: Monnet.

Lochhead: He's too smart for that. Monnet is not going to jail. Monnet can take care of himself very well.

H.M.Jr: That is what they say.

Lochhead: That is all right. I'll bet Monnet keeps out of jail and makes a good living.

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Duffield: Well say, he was once in Transamerica.

H.M.Jr: Not only was he once in Transamerica but they say further he ran off with the wife of Mr. Giannini.

Duffield: I don't think that is true.

H.M.Jr: Yes it is. A representative in Italy for the Bank of America - the Giannini in Italy.....

Vanes: He must be pretty smart in Italy, if he can get anything away from Giannini, he must be very smart.

H.M.Jr: Giannini still may be smarter.

McReynolds: That's what I say. Maybe that is the reason why Giannini likes him.

Fence: Mr. Giannini was in sympathy with the movement.

H.M.Jr: "And ventured the opinion that some day would land in jail." Is that all right?

Lochhead: (Nods "Yes.")

Vanes: Isn't he in business in this?

H.M.Jr: Put this in your pocket; don't let anybody see it.

Gaston: Monnet and Company.

H.M.Jr: So please, everybody, let's be extra careful. The old elbow is tingling on the thing, you know. Sometimes a fellow will come through a lot.

Lochhead: That is all.

H.M.Jr: Briefly, how did the English buy planes?

Lochhead: They apparently - we had to make a certain amount of guessing in the first part. Apparently, the American manufacturers went over on the other side and got contracts over there, then they sent over a couple officials on this side who are stationed right out in the plant for Lockheed and North America, and they watched these planes go through the line, and then they fill out certificates, and when they put the certificates in form and send them to the Federal Reserve Bank, showing the planes have been put on board, the bank simply debits the account of the English; and the planes in some cases actually

haven't been put on board, but payments are made as it progresses. The Fed simply pays out on forms which are signed.

H.M.Jr: I want to show that to the President at one o'clock so if I can have it back.

Loonhead: I made a memorandum on it; I am going to give it to Mr. Hanes.

H.M.Jr: Harry, there is an article in today's Times by your namesake from Chile, in which he says the Chilean Government either bought ten or twenty complete Diesel trains in Germany, and I thought we'd try something new; we've never done this before - if you would prepare a memorandum from me to Mr. Hopkins, and ask him to cable down there for us, to find out why the Americans didn't get the business, and under what circumstances the Germans got it. I mean, ten Diesel or twenty Diesel trains represent a lot of money. See? I thought we would try it. If you will write me, his representative down there, what were the circumstances, and so forth? I'd like to get that over today.

Loonhead: (Nods "Yes").

H.M.Jr: Danny?

Bell: The auditing of the Stabilization Fund has been completed and is available for you to take to the President if you want to. That is, the usual letter. The only thing I question about it is the last sentence. There is some indication the President wanted to make the report public, and ask for the extension of the authority.

White: Mr. Secretary, in that connection have you noted a couple cables, one particularly which contains a statement about some of the Central Banks, that they hoped you wouldn't make it public.

H.M.Jr: Would?

White: Would not, because they believe those operations should not be made public because if you make them public they might have to make theirs public. I thought if the question were going to be raised I thought we'd give you a brief memo in support of what their views are and yours, and in support of your position.

H.M.Jr: I thought I'd invite the Vice President and the Speaker to appoint a committee of three Democrats and two Republicans. I'd be glad to appear before them, in confidence, and answer any questions, and take the report with me.

Hanes: I think I wrote you a memorandum on a point that came up at Cabinet meeting.

H.M.Jr: I saw that; I'll take this over, plus the report. My thought is I agreed there is no request - the only thing - Vandenberg has told me himself - he said, "Henry this is what I want. Whenever the Stabilization Fund is finished....." he called me up last time to put that in the Bill. "Whenever it is finally bound up, I think we ought to have a public audit. Do you object to that?" I said, "No, I think it is reasonable." He said, "That is all I want. When the thing is finally finished, or would up, a complete public report." In the meantime he said, "I will take your word - whatever you say."

Hanes: I just wanted - wanted you to bear in mind the President.....

H.M.Jr: The President is wrong on this, John. All Vandenberg wants is whenever the thing is finished he wants a final public audit. He said, "I will take your word - whatever you say is agreeable to me." He said, "I don't want to look at it." If the most accurate Republican on the Hill takes that position, why go beyond it? This will bring it to a head with the President.

Dan?

Bell: That is all I have.

H.M.Jr: Mac?

McReynolds: (Nods "No").

H.M.Jr: Thank you all.

RE EMERGENCY POWERS

January 16, 1939.
11:00 a.m.

Present: Mr. Lochhead
Mr. White
Mr. Foley
Mr. Bernstein

H.M.Jr: What's this today?

Foley: Emergency powers. Gold, silver, stabilization.

H.M.Jr: Oh. Well, who's teacher?

Foley: Well, here's the

H.M.Jr: Now, hasn't this Act of '34 been extended once?

Bernstein: Yes.

H.M.Jr: Just have a little line ...

Bernstein: Yes, yes.

H.M.Jr: Simply say "extended...."

Bernstein: Substitute the word '41 for '38 in two places.

H.M.Jr: That's what I'd want. I know that's what the President wants.

Foley: Here, strike it out - those two - whatever you want in there - '41.

H.M.Jr: This is what it was before?

Foley: The one that

Bernstein: That's the one that's extended; that's shorter.

H.M.Jr: Well, isn't that what we did before?

Bernstein: That's right.

Foley: Strike this out, put '41 in there, if that's the date you want.

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H.S.Jr: Is this the bill?

Foley: No, that isn't the bill. That's the law at the present time. That's the provision - that's the only thing we have to do. Have you (Bernstein) got the draft there?

Bernstein: Yes, the drafts. This is the one that follows.

H.S.Jr: I know. I want - I just want - I want the whole thing extended. Who doesn't?

White: I don't think there's any question about it. There may be a little more opposition this time than before.

H.S.Jr: Well, we'll start early.

Foley: That would extend the whole thing until '41.

White: The recent action by Great Britain should make it easier.

H.S.Jr: Well, this is very simple. I would fix this thing up on the basis that the thing be extended for two years - complete powers. I would again clear this thing through the Attorney General.

Foley: All right. All right, I'm going to see him at a quarter after three on the wire-tapping. I'll take this thing up too.

H.S.Jr: Take this thing up too. Fix it up. If he'll write a letter of approval... I mean would this go to him - this wouldn't normally go to him?

Foley: No.

H.S.Jr: No. I wouldn't bother. This is just

Foley: Purely Treasury.

H.S.Jr: I'd fix this up for my signature to the President.

Foley: To the President. And then do you want a letter for his signature to the Vice President and the Speaker?

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H.M.Jr: Yes.

Foley: O.K., we'll have it.

H.M.Jr: Yes.

White: Are you going to be called before the Committee on this?

H.M.Jr: Oh yes. Ample time.

White: You'll have time to prepare.

H.M.Jr: Oh yes, I've got lots of time.

Foley: These are the

H.M.Jr: I mean that's an easy one; I mean I've got lots of time.

Now what's this?

Foley: Those are the new regulations under the proclamation of December 31. I've cleared them now with Arch.

H.M.Jr: Where do I sign on them?

Foley: Two things to sign. One is - this is just a

H.M.Jr: Now this is just what we said...

Lochhead: It's domestic silver. What you're doing on that - you're allowing them to deliver all the silver they mined up to June 30 at that price, whether or not it is physically delivered or not at that time.

H.M.Jr: Well, that isn't my understanding.

Lochhead: That isn't the original, but that's what we came around to.

H.M.Jr: Oh no.

Lochhead: I think that should be clearly understood.

Bernstein: Under the proclamation it had to be delivered by June 30, see - refined silver. We're spelling out

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"delivery" to mean two things: either physical delivery, or they sign a contract before June 30 which gives us title to the silver; before June 30 we have title to it.

H.M.Jr: well, where would the silver be?

Barnstein: It would be in their possession, and they'll deliver it, they'll make the physical deposit of the silver some time after June 30.

H.M.Jr: well, you changed.

Foley: That was the point I brought up, Mr. Secretary. You said

H.M.Jr: You said - nobody told me that when I took it over to the President, when I got him to fix the price.

Foley: No, and the question wasn't up at that time. Then King and Pittman ...

H.M.Jr: Yes, but now...

Foley: .. and Thomas came in to see Taylor.

H.M.Jr: Just a minute. Let me explain something, so - the way I want to work, so you'll always know. I mean it takes time. And then the both of you ... What you should do in a case like this is say, "Mr. Morgenthau, since you went to see the President the situation has changed and therefore we're changing the document along the following ways." See? But always be careful not to give me anything to sign which has changed, where I'd accepted the thing.

Now, when I went to see the President, this is what I told him. I said, "Mr. President, under this method of buying..." - this Act expires so that it's different; this is extended - "... we're saying that this silver physically must be delivered at the mint on or before June 30." And in my own mind and in our own discussion we said that means that this thing is really only good for three months.

Foley: That's right.

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- H.A.Jr: Now since then there's been pressure put on.
- Foley: Then there was pressure put on. Pittman, King and Thomas came in to Taylor.
- H.A.Jr: Do you get the fact? You want to be very careful, in dealing with me, to point out something you've given me is different than what it was I took to see the President.
- Foley: The proclamation is the same; no change in the proclamation. This is provided for in the regulations that would have been issued anyway under the proclamation. We're not changing the proclamation. The proclamation has enough elasticity to provide for - to change the construction.
- Lochhead: Making a different construction.
- Foley: And Pittman says that the smelting process for certain mines is shorter than for other mines and if you're going to be fair and if you're not going to shut down mines, then you've got to make this construction. And this is, as I understand it, what Taylor thinks ought to be done.
- H.A.Jr: Well now, what I want to see the President about originally was a three-months proclamation. I thought it would be good for him to have these people where, for the next three months, they wanted to see him.
- Foley: Yes.
- H.A.Jr: Now I don't know whether I want to change that.
- Whitel: That reason should still stand. This would give them virtually - would give them six months' mining, and more than that, I think.
- H.A.Jr: Well, let me ask you - I'm going to take the other side. I don't know anything about this thing. Now in the first place, how many people are there we'd have to make contracts with?
- Bernstein: The vast majority will be through the medium of the

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big smelting companies, which will come to about six or eight - will be covered by this contract idea; that is, we won't make a contract with the individual miner.

White: They'll be entitled to make a contract.

Bernstein: They will, but in fact the contracts will be made just as they have been in the past.

H.L.Jr: Doesn't this give them a wonderful chance for bootlegging?

Bernstein: No, because they've got to use - submit the same kind of affidavits we've been using: this instrument of transfer, this contract.

Lochhead: You changed the method when you signed this proclamation. Up to this time, under the old proclamation, they could deliver silver which was mined up to June 30 - as long as it was mined up to June 30. You changed it on this proclamation.

H.L.Jr: How do I know whether it's going to be mined? How do I know when these fellows sign it that this thing isn't a phony? How do I know that they're not going to bootleg the stuff?

White: You give them a longer time to deliver. You're asking a question: how do you know what they will subsequently deliver was mined ...

H.L.Jr: ... was mined ...

White: Is there any limitation on the date they must deliver after mining?

Bernstein: Presumably put a five-months limitation, which follows the formula that

White: Gives them five months to deliver silver which they presumably had mined

H.L.Jr: Let's put it this way. This thing had just expired on December 31. Now, what was the situation then, what was our contractual relation with the producer

or refiner?

Bernstein: At that time?

H.M.Jr: Up to December 31.

Bernstein: Up to December 31 they could deliver to us all the silver mined up to December 31, and had about five months' time in which to make delivery. In our own thinking we said they could make the delivery after December 31. Now we also had with all these smelting companies - they have six or eight of them that do well over 90 percent of the business - we had these contracts which provided for delivery within the five-month period. Now the reason they had asked us years ago for this type of contract was this. The processing of the silver takes maybe two to five months, and they want to pay the miner for the silver immediately. The miner wants the 64 cents right away. They're afraid that the President will revoke his proclamation in the two or five month period and they want this assurance from the Treasury that they wouldn't be out on the limb. So we've made that contract.

H.M.Jr: How long was that kind of a contract in existence?

Bernstein: Oh, I should say at least three years, three or four years.

H.M.Jr: And it worked all right?

Bernstein: It's worked perfectly.

H.M.Jr: What you're asking me to do is continue the same sort of thing.

Foley: That's right.

H.M.Jr: But the advice you gave me before wasn't right.

Bernstein: No, I think it wasn't, and I think I can point out what was

H.M.Jr: Well, you can't be right both ways.

Bernstein: And I think it turns on the word "delivery." In

order to comply with the statute, we suggested that the safer course was to insist upon delivery before June 30. Now we are simply defining the word "delivery" to include not simply physical delivery, but delivery by transfer of title. And we're using an old - this instrument of transfer, this contract, as the device to transfer title. Now, the difference between the present situation, that is, of June 30, and what's existed in the past - in the past we have actually enabled them to make delivery, both physical deliver and of title, after December 31, even though mined before that date.

H.W.Jr: But the fact remains that you didn't think of this until the pressure was put on you.

Foley: We thought of it, Mr. Secretary, and what we anticipated has happened, and I think the effect of that is very salutary, because it starts these Senators on the Hill thinking about continuing this power beyond the 30th of June. I think we've got the benefit of what we wanted.

H.W.Jr: Maybe. You haven't sold me. It's all right, but ... I mean I think that under the circumstances I better get out these kind of regulations, because I think our position is weak. I think our position is weak anyway - that we've found ourselves buying under the ...

Foley: ... Thomas amendment instead of the Silver Purchase Act.

H.W.Jr: I don't think our position is very hot on that; but that's all water over the dam.

Foley: Didn't Pittman indicate that the Silver Purchase Act might be repealed?

Lochhead: As I understand his conversations with Taylor, Pittman was very anxious not to bring in the question that domestic silver couldn't be purchased under the Silver Purchase Act of '34.

H.W.Jr: Didn't like that?

Lochhead: Looks like a general set-up that they're going to repeal the 1934 Silver Purchase Act; so therefore he

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wants to keep domestic separate from that Act.

H.A.Jr: Now look, I get you - so on that basis he'd give us our Stabilization Fund and the devaluation - on this ...

White: In order to extend this Act, under which he hopes you will continue to buy silver.

H.A.Jr: Now, is this the one?

Foley: That's the one. And then the regulations you have to sign. That's your memorandum to the President.

H.A.Jr: Which is the memorandum?

Foley: This one.

H.A.Jr: I'll sign this, but - I haven't got time, but tell whoever it is, your office clerk, not to put the President of the United States - to give me a sheet like that. Look. See? I mean it's a

Foley: Very well. I'm sorry.

H.A.Jr: I mean for me or the President. I'm very meticulous about having nice clean typewriters. Just as easy to. All the girls and all the machines.

But this goes to the President.

Foley: Yes, sir, together with these. Now, Bernie, where does he sign this?

Bernstein: Right here.

H.A.Jr: Together with this? What?

Bernstein: That's right.

Foley: That's right. Then the President approves it over on the left and puts the date in. And here's the deposition that we were just talking about.

H.A.Jr: Well, that's all right.

Foley: Approved form covering the silver.

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H.M.Jr: Now, what do I take for the President?

Foley: Take that and he approves there and dates it.

H.M.Jr: I see. And then what else?

Foley: That's all.

H.M.Jr: Now, do I understand - just so that I - this is fairly important ... Now what's this?

Foley: That's my memorandum to you.

H.M.Jr: On what?

Foley: On this.

H.M.Jr: What do I do with that?

Foley: Keep it for the record.

H.M.Jr: Now, what I want to know is this: that under this method, inasmuch as we buy under the Thomas amendment, which is the devaluation of the dollar thing, they could defeat the whole Silver Purchase Act and we still could continue to buy domestic silver under this thing, and that's most likely what will happen, isn't it, huh?

Lochnead: It looks that way.

White: Although, while ...

Lochnead: They may - there's some talk that they may try to amend the Silver Purchase Act of 1934 by saying you can't buy any foreign silver under it. Now, against that, Pittman very definitely tried to keep domestic silver away from the Silver Purchase Act of 1934.

H.M.Jr: (On phone) Senator Pittman, please.
Going to tell him I'm going to do this. This will please him.

Foley: Oh, it will please him to death, tickle him to death.

White: Except they'll still fight for the Silver Purchase

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Act - afraid if that's lost this will be more vulnerable.

A.M.Jr:

Here's the Dow-Jones. "A strong movement is getting under way in Congress for major revision of the Silver Purchase Law, with attention centering on proposals to ban Treasury acquisition of foreign-produced metal. Significantly, the drive for amendment of the Act has the backing of many members of the powerful silver states bloc which sponsored enactment of the original legislation. These members fear that continuing large-scale government purchase of foreign silver may have the ultimate effect of exhausting a ready market for the domestic output. Senator Pittman is planning a meeting of the so-called special Senate Silver Committee, and will call Secretary Morgenthau to attend meeting this week, a move preliminary to preparation of a report to Senate recommending possible changes in present silver program."

Incidentally, you know, we bought that Chinese ten million ounces.

Lochner: Yes, ten million, five hundred thousand ounces. They're negotiating a sale of forty million ounces around Tientsin. I referred them to the State Department.

H.M.Jr: Ten million.

Lochner: Yes.

A.M.Jr: Better get them in quick.

Lochner: We haven't heard anything more from Spain on silver.

A.M.Jr: (On phone) Hello. (Conversation with Pittman follows:)

January 16, 1939.
11:25 a.m.

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HJr: Hello.

Operator: Senator Pittman.

HJr: Hello.

Key
Pittman: Hello.

HJr: Key?

P: Yes, Henry.

HJr: This is Henry talking.

P: Yes?

HJr: How are you?

P: Pretty good.

HJr: Key, I was going to take over to the White House the following regulations on silver --

P: Yes?

HJr: And I wanted to see whether you thought it was all right. What we are proposing now is to carry out the same contractile relations with the silver mine or with the smelter that we had before; otherwise, they can give us a contract -- ah -- that they have so much silver mined up to June 30th, and they have five months after June 30th in which to deliver.

P: I think that covers it, Henry.

HJr: Will that be all right up there?

P: Yes, now you know I went down to treat Taylor --

HJr: Yes.

P: And his counsel down there about this matter --

HJr: Yes.

P: Because they were -- well, there was Hardy here from Idaho, and there was Wiles, the president of the Parkay mines -- and they had some facts there that I hadn't known about at the time, and that was that these smelter companies out there had refused to pay anything except the new -- the world market price by reason of the uncertainty as to when they would process it through.

WJr: Yes.

S: I called attention to the fact that the smelters out there got great ore piles, they call them flux ores; that is, if they get too much metal, they've got to wait until they get silica, or vice versa, but anyway they they had refused to do it. Well, of course those mining companies are dependent on those smelters. That's all there's left of it. If they won't take it, they won't take it.

WJr: Well, you think this is all right?

S: Well, it seems to me from what you state there, that if they contract --

WJr: Yes.

S: On or before the 30th day of June that they have so much current silver in possession --

WJr: Yes.

S: Going through the -- the course of processing --

WJr: That's right.

S: They can give you the exact number of ounces as far as that is concerned, because as I say she'd short and they will have months in which to deliver it --

WJr: That's right.

S: I think it will settle the whole thing, Henry.

WJr: Fine.

S: I'm much obliged to you.

WJr: Now, will you tell some of the boys up on the hill who are interested?

S: Yes, I'll tell those who are interested that have been around to see me.

WJr: Particularly Senator King and Senator Thomas.

S: I'll get them right away.

WJr: Thomas, of Utah.

P: I'll get them right away.

HMJr: I thank you.

P: Yes.

HMJr: Thank you.

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H.M.Jr: That's O.K. Might as well make a friend out of it.

Foley: Sure.

White: Just one point. This may come up in discussion with the President - I'm pretty sure you know it; I want to make doubly sure - that merely by way of interest, if they do not grant those powers, you still have the power to buy and sell gold at any price. You can move the price of gold up and down just the same way.

January 16, 1936.
2:55 p.m.

Reporter: Hello.

Mr. C.
Quinn: "We didn't get much further than the opening statements.

Mr. J.: Yes.

Q: And just about finished when Rionberg slapped an injunction, or stay rether, on us, against going into any of the bank stuff. That's returnable tomorrow morning in the District Court.

Mr. J.: I see.

Q: And -- they were -- the morning was made up largely of -- of speeches upstairs.

Mr. J.: Yes.

Q: Charges, and counter-charges, and what-not --

Mr. J.: Yes.

Q: And -- ah -- I think that at the very most he's won a battle but has already lost the war.

Mr. J.: You think so?

Q: Oh, Christ, when the impression gets out throughout the country that we can't look at the -- we can't have access to the examiner's -- bank examiner's reports that were released by you to us, and we can't -- he's charged -- he's thrown into controversy the legality of that, and can't look at certain underlying documents in the possession of the bank, that he has created an impression in the minds of a hell of a lot of people that there must be a hell of a lot of dirt there.

Mr. J.: Yes.

Q: But it's -- it's --

Mr. J.: Is it a fact that I saw in the ticker that he couldn't slap this injunction on until today. Could he have done it previously?

Q: Oh, sure.

Mr. J.: What?

Q: Sure. He's been threatening to for a long time. Well -- ah -- for a good part of last week.

EMJr: Our crowd has been all right, have they?

D: Oh, they've been swell.

EMJr: Uh-huh.

D: And -- ah -- he wrote a letter which -- ah -- says that in effect -- I cleared that with Johnny about an hour ago by reply; -- wrote a letter saying that our whole proceeding was a reflection on the Comptroller's office and Federal Reserve Board, and -- and he, Richberg kind of resented that.

EMJr: That's too damn bad, isn't it?

D: Yes, well, I cleared that answer with Johnny on that, and am just releasing it to the press now and denying it, and so on. I also cleared it with Preston.

EMJr: Well this is -- it's going to be a nice fight but --

D: It's going to be a hell of an interesting fight, and we're all set for them.

EMJr: Good.

D: We're -- we're all set for them. Our boys could do a pretty good job on the case if they didn't get any -- as -- supporting stuff in addition to what they already have.

guess

EMJr: What's your/about the District Court?

D: Ah -- I'm not sure. I think -- I think it will come before Bailey. We've had a lot of stuff before him. I think that -- that if we don't win out there we'll win out in the Circuit Court of Appeals. We'll take the thing right up.

EMJr: In the meantime will the hearing be stalled?

D: I don't think so. We -- there are certainly chunks of it that pertain just to Trans-America that we can put on, and we won't just hold up the whole hearing.

EMJr: Yes.

D: We'll divide the stuff between Trans-America and the Bank of America and at least go on with the Trans-America stuff. There is a lot of that we can put on.

WMJr: Are the Giannini's here?

B: Ah -- one of them is.

WMJr: Uh-huh.

B: One of them is, and they got off to a very bum start with some of the press boys, because -- at least in three cases. Giannini has -- meeting a reporter, he said, "You're from the -- you're 'whosie' from the Herald Tribune in New York." "Yeah." "Well, God damn it", he said, "I was trying to find you the other day because I wanted to retain you to handle all of our publicity stuff, and I couldn't find you so I had to retain Bernays."

WMJr: Yeah.

B: And he's told that to at least three of the press boys, and they got together -- they all got together and compared notes on the thing and now they're pretty sore as hell at him.

WMJr: Oh, you mean, he changed the story. One time he's a Tribune and the next time he's another paper.

B: Sure.

WMJr: Well, what do you know about that. And he's got Bernays?

B: He's got Bernays who's turning out beautiful charts of cows, and sunshine, and grass, and so on. He's got everything except the guy -- a picture of the guy milking the cow. (Laughter)

WMJr: That's a good line.

B: And I think maybe we can get a picture of that in there pretty soon.

WMJr: Are you busy at lunch tomorrow?

B: Ah -- let's see -- unfortunately, yes. I'm tied up at the State Department on some stuff.

WMJr: Do they keep you busy at noon hour?

B: Well, this is -- Fais has been away, and just got back, and last week I --

WMJr: Well, ah -- what about Wednesday?

Q: Wednesday would be fine.

EWJr: I'll tell you what I've got in mind.

Q: Yes?

EWJr: It isn't this thing. I want to talk to you about -- if you've got any thoughts on General Counsel.

Q: Yeah.

EWJr: And I'd like to talk to you just strictly between the two of us.

Q: Absolutely.

EWJr: And here's a suggestion that's been made in here, and I'd like to keep this absolutely -- ah -- Nolenberg --

Q: Yes.

EWJr: Do you know him?

Q: Very well.

EWJr: Ah -- I don't. But he has ^{been} suggested -- he's librarian now is he?

Q: Yeah -- yeah.

EWJr: Do you think well of him?

Q: Oh, yes. Top man -- top man.

EWJr: Well, if you'll be thinking about it, and if you come over Wednesday I'll have you alone and I'd just like to keep it between the two of us.

Q: O.K.

EWJr: I'd appreciate it because I've got to get somebody that can do -- can't do as good a job as Herman, but can approach it.

Q: Yes. Yes, I understand. I'll turn the idea over in my head and -- and see you then Wednesday at one.

EWJr: Right.

Q: Thank you very much.

EWJr: Good bye.

Q: Good bye.

January 16, 1939.
3:48 p.m.

201

WJr: How are you?
Jesse Jones: Pretty good. Did you have a nice trip?
WJr: Oh, we had a fine trip.
J: Well, that's good.
WJr: How's your knee?
J: Oh, it's better.
WJr: That's good.
J: Getting about all right, I think, pretty soon now.
WJr: I hear you and Johnny Hanes have been holding Harry Hopkins' hands.
J: (Laughter) That's right.
WJr: What?
J: That's right.
WJr: It's lucky he had the two of you to help him.
J: Well it -- I guess it took us both.
WJr: I guess so.
J: Well, I'm glad you're back, and I just wanted to say "hello".
WJr: Well, that's very nice. I'm -- I'm studying your situation, and I think I'm correct that the three years expire February 22. You know what I'm talking about?
J: That's right.
WJr: And if it does, I think we may want to do a little selling for you before that.
J: All right.
WJr: I asked the boys today to get some figures together for me, your needs and the Treasury's needs --
J: All right.
WJr: And after I have them, well, I'd like to sit down with you.

- 2 -

J: Fine. You can call me any time.

HLMJr: Thank you, Jesse.

J: Fine.

HLMJr: Good bye.

REB

GRAY

London

Dated January 16, 1939

Rec'd 3:36 p. m.

Secretary of State,
Washington.

64, January 16, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. For the fifth successive trading day the foreign exchange market had been inactive. The dollar opened at 4.67-11/16 offered and moved up to 13/16 but in the afternoon the British authorities had to give dollars at 7/16. On balance they have lost but little gold.

Gold was fixed at 147 shillings 8-1/2 pence, one-half penny premium and of the 136 bars 79 were married and only 10 of the remainder were supplied by the British fund. There was little activity after fixing.

Two. Clay, economic adviser to the Bank of England, has offered to put me in touch with some of the key people in the Industrial Midlands. Provided the lull here continues and you perceive no objection I would like to take advantage of this opportunity. London's state of mind is not necessarily representative of the north of England and I think it would be worth while in the present mixed circumstances

REB

2-#64, From London, Jan.16,6p.m.

circumstances to garner opinions there. I would keep in touch with London by telephone, ensure the continuation of the telegrams and could always return in a few hours.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 16, 1939, 4 p.m.

NO.: 92

FROM COCHRAN.

Today there was not much trading on Paris market. Spot and forward franc rates and French rentes all showed some improved feeling following the receipt of more dispassionate accounts of the Rome visit than the French press was originally inclined to publish. The Bank of France ceased purchases of belgas after it had acquired through Guaranty a total of fifteen million for official account.

Agence Economique reports Professor Rist having given Amsterdam newspaper a hopeful interview on French financial and economic outlook.

Central Bank governors of Balkan states to meet at Belgrade January 17 and 18.

WILSON.

EA:LWW

REB

GRAY

London

Dated January 17, 1939

Rec'd 3:42 p. m.

Secretary of State,
Washington.

67, January 17, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

The following is a synthesis of a British Treasury memorandum on the French budget which was shown me with the request that its contents be treated in the strictest confidence by all concerned.

"M. Reynaud has restored the conditions in which economic revival is once more possible. Capital may yet be deterred from taking advantage of its opportunities, if social unrest should revive or if there is a renewal of government instability, which seems less likely to arise from financial questions than from disputes regarding foreign policy. At the same time the inherent weakness of a Left Government dependent upon the Center and Right for support must be recognized.

Although the ordinary budget taken in isolation looks healthy enough, half as much again has to be found by borrowing. Is this burden so great as to destroy the prospect of economic

REB

2-#67, From London, Jan.17, 5 p.m.

economic recovery on which the Reynaud plan is founded? Even if the immediate future is assured (due to the 15 milliard Bank of France credit only 25 of the required 40 milliards must be raised in the market) for how long can France face such an annual burden? The problem will be more severe in 1940, rising prices may increase expenditure on re-armament and there seems little likelihood of a net decrease in the borrowing program.

The seriousness of this situation will depend upon the level of economic activity which will have been reached by the end of 1939. Today with France barely emerging from the trough of depression it looks formidable; in a year's time it may be seen from a point well up the slope towards recovery and may seem less awe-inspiring. But the level reached by the end of 1939 will depend very largely upon the immediate determination of France to return to work, a determination which will be governed by the state of mind of those responsible for the decisions which result in enterprise. So far as purely financial considerations enter into the picture the Reynaud plan has done all it can to create the conditions necessary for recovery. Other things being equal there is now a fair prospect of making profits by the employment of capital and labor; but other things are far from

REB

3-#67, From London, Jan.17,5p.m.

from equal and it is upon the estimation of these non-financial factors during the next six months that the future seems likely to depend. The menace of war may outweigh the hope of profits and fear of the cost of preparing for it may paralyze the initiative upon which the ability to meet that cost depends. If those responsible for the direction of enterprise in France do not find the courage to create the level of activity necessary to support the burdens, which France must bear, the Reynaud plan cannot succeed and will have to give place to an economic policy very different in kind. The borrowing problem seems to set a time limit within which the decision must be made: the revaluation of the gold holding of the Bank of France has given a respite for a few months during which industry may have first claim on the resources of the market. But by the autumn at latest the treasury will inevitably be borrowing and the prospects of a renewal of continuous government borrowing may reawaken all the fears of infiltration and monetary difficulties which have destroyed enterprise in recent years.

There can thus be no direct answer to the question how long can France support the burden of rearmament. The burden is

REB

4-#67, From London, Jan.17, 5p.m.

is without doubt intrinsically heavy; but it is partly at least subjective and its gravity depends upon the courage with which it is faced and the leadership shown by those upon whom it falls to direct the country.

Much remains to be done and if there is room for criticism there is also justification for praise both of what has already been achieved and of the courageous spirit in which further difficulties are being faced. It is altogether too soon to say that the budget of 1933 promises success; but at least it contains a genuine possibility of improvement."

The foreign exchange market has remained inactive again today. The dollar opened slightly bid either side of 4.67-0/16 and the British authorities intervened at 7/16. Just before gold fixing the dollar came on offer from Paris and thereafter remained more or less idle until New York came in offering dollars. The rate is now 13/16. The market has been so thin that rate fluctuations are occasioned by very small dealings but on balance the dollar has been more satisfactory rather than bid. Gold was fixed at 148 shillings 6-1/2 pence, one-half premium, and of the 150 bars dealt in 47 were married and the British fund supplied about 70.

JOHNSON

NPL
ROW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 17, 1939, 4 p.m.

NO.: 99

FROM COCHRAN.

Today spot and forward franc have weakened slightly, mainly due to French Left agitation in Parliament and in the press for measures to aid Republican Spain against Franco. There was also a decline in rentes and other securities. It is reported that today through Lazard the French control sold a little sterling.

This morning Guaranty had an order to sell two million florins from the Bank of France; difficulty is being experienced by Guaranty in executing this order, and there has been a weakening of the florin. It is presumed that this is the beginning of conversion of the florin proceeds of the new French 4 percent loan which is now being issued on the markets in the Netherlands and Switzerland.

Fifty-three million francs gold bars have been invoiced by the Bank of France for shipment on the CHAMPLAIN for B.I.S. account at the Federal Reserve Bank of New York.

WILSON.

EA:LWW

REB

TELEGRAM SENT

GRAY

January 17, 1939.

5 p. m.

UNCLASSIFIED

LONDON (ENGLAND)

45

FOR BUTTERFIELD FROM THE SECRETARY OF THE TREASURY.

JAN 16, January 16.

Your proposed visit to the north of England is
Approved, if agreeable to the Charge d'affaires.

HULL
(HF)

EAM:JNT

Eu

January 17, 1939,
3:08 p.m.

212

Operator: Go ahead.

HJr: Hello.

Robert
Daughton: All right, Mr. Secretary.

HJr: How are you, Bob?

B: I'm fine. How are you, Henry?

HJr: I'm well.

B: I just called you up simply and solely to commend your statement at the press conference yesterday in respect to processing taxes.

HJr: Well, I thought you'd like that one.

B: It helped me fine, as many other state -- fine statements you've made and positions you've taken. I just wanted to assure you that I was gratified and how much I appreciate it.

HJr: Well, that's mighty fine of you.

B: That's the position I've been taking for some time. I didn't know what we'd be able to do, but that strengthens our case very much.

HJr: I think that the last kind of a tax we want now is a processing tax.

B: How's that?

HJr: The last kind of a tax we want is a processing tax.

B: Yes, or probably a tax on one's needs.

HJr: Yes.

B: Yes, that's what I think about it. I -- but I've been favorable of Wallace taking the position he has as it might force dollars.

HJr: Well, I'm right out in the open on it, just the way you are.

B: Yeah. Well, I certainly appreciate it and I just called you up solely and for no other purpose only to express my thanks.

HMJr: Thank you so much.

D: Good bye.

HMJr: Good bye.

January 17, 1939.
3:10 p.m.

HJr: Hello.

Operator: General Craig is on the hill. He'll be back about five o'clock.

HJr: Is his aide there?

O: I'll see. (Pause) Captain Parks on the line.

HJr: Captain who?

O: Parks, P-A-R-K-S.

HJr: Right.

O: Go ahead.

HJr: Hello.

Captain
Parks: This is Captain Parks speaking.

HJr: This is the Secretary of the Treasury.

P: Yes, sir.

HJr: Oh, a month or so ago I spoke to General Craig about getting somebody for me who was familiar with transportation for the Chinese Government.

P: Yes, sir.

HJr: And he took it up with the general manager of the Greyhound trucks.

P: Yes, sir.

HJr: Greyhound transportation -- and there was somebody; I think he was an ex-army officer, I'm not sure, but he was somebody he had lined up, see?

P: Yes, sir.

HJr: Now -- ah -- the President, I think, has already also mentioned this to General Craig.

P: Yes, sir.

HJr: The Chinese Government are now ready, and they want somebody to go back to China to assist them -- to set up this Rangoon-Burma transportation system.

P: Yes.

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HMJr: So if the General could let me know who that person is, or if he had one or two suggestions, I'd be glad to receive them.

P: Yes, sir.

HMJr: Will you get that message to him?

P: Yes, sir, I'll get that message to him just as soon as he comes back.

HMJr: Thank you very much.

P: Yes, sir. Good bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 17 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr., Acting General Counsel

RFC Borrowing

Pursuant to your request, I have assembled for you the following material with reference to borrowing by the RFC.

General Limitation on outstanding bonds, notes, etc.

Section 205(a) of the Emergency Relief and Construction Act of 1932, approved July 21, 1932, authorized the Corporation to issue and have outstanding at any one time its notes, debentures, bonds, etc. in an amount equal to $6\frac{3}{5}$ times the subscribed capital stock, or a total of \$3,300,000,000. This amount was reduced by \$400,000,000 by Section 302 of the National Industrial Recovery Act, approved June 16, 1933, and further reduced by the amount of notes cancelled pursuant to the Act approved February 24, 1938.

There are numerous other statutes which authorize the Corporation to issue bonds, notes, etc. for specific purposes such as the subscription for stock of Federal Home Loan Banks, the purchase of preferred bank stock, to provide funds for carrying out the purposes of the Emergency Farm Mortgage Act of 1933 with reference to refinancing agricultural improvement districts, etc. Some of these statutes impose a definite limitation on the amount of obligations which may be issued for the particular purpose, while others specify no limitation, the amount to be issued being simply limited by the amount of funds needed for the particular purpose. Accordingly, it is difficult accurately to set a figure which would represent the total borrowing authority of the Corporation.

Interest rate

The Corporation's obligations may bear such rate or rates of interest as may be determined by the Corporation. The Corporation may also sell, with the approval of the Secretary of the Treasury, short term obligations on a discount basis, payable at maturity without interest.

Maturity

Not more than 5 years from date of issue. It should be noted that section 4 of the Reconstruction Finance Corporation Act provides

that the Corporation shall have succession for a period of 10 years from January 22, 1932, unless sooner dissolved by Act of Congress. The authority to issue obligations maturing after the 10 year period is doubtful.

Sale

The Secretary of the Treasury, at the request of the Corporation, is authorized to market for the Corporation, its notes, debentures, bonds, etc. At present you have an agreement with RFC covering the marketing of the Corporation's securities. It is not exclusive, however, and applies only to such securities as the RFC may request you to sell.

(The foregoing provisions except as otherwise noted are made in Sec. 9, Reconstruction Finance Corporation Act, as amended by Sec. 209 of the Emergency Relief and Construction Act of 1932 [47 Stat., chap. 520, p. 715].)

E.N. 76

January 17, 1939.
3:46 p.m.

HJr: Hello.

Operator: Senator Pittman.

HJr: Hello.

Key
Pittman: Hello, Henry.

HJr: Hello, Key.

P: Well, I told those Senators all right what you've done.

HJr: Good!

P: I told those Senators yesterday about what you had done about the regulations, and they are all very happy..

HJr: Fine.

P: Ah -- have you -- have you sent out notice of it yet?

HJr: Yes.

P: What?

HJr: It was in the register, I think, this morning.

P: Well that's fine, because they'll all start up out there now.

HJr: Yes, it was what they call, I think, the register. It was out, this morning.

P: That's all right. The boys are all tickled to death.

HJr: Well, that's something anyway.

P: Yes, that's something.

HJr: What? (Laughter) I'm always glad when somebody is tickled. Well, let me know if there is anything more.

P: That's all, Henry.

HJr: Thank you.

January 17, 1939.
4:37 p.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello.

Frank
Murphy: Hello, Mr. Secretary. This is Frank Murphy.

HMJr: How are you?

M: Fine, thanks.

HMJr: Look -- ah -- confidentially, the President authorized me to look around for a successor to Danny Bell, who wants to come back and do the regular work in the Treasury, see?

M: Yes.

HMJr: And in looking around, we've been checking all over, we've run into Harold Smith. Hello.

M: Yes?

HMJr: Your man, isn't he? A budget officer.

M: Yes.

HMJr: In Michigan.

M: Yes.

HMJr: And I wondered if you thought he would be up to the job to come down here?

M: For what kind of work?

HMJr: Director of the budget.

M: Uh-huh. Well, he's very good. He's -- ah -- a conservative, careful fellow, great integrity, has during the past two years done about eight men's work instead of one. You may have noticed that in these states where Republican Governors have been elected, they have started great economy drives, everywhere but in Michigan.

HMJr: Yes.

M: It was all done. We had completed it. I think that he's quite a person. He's connected with the University of Michigan.

WMJr: I see.

W: And he is an expert on municipal government.

WMJr: Yes.

W: You wouldn't make any mistake. You would have a high-minded, very competent person.

WMJr: Did you bring him in?

W: Yes I did. I brought him in to the State Government.

WMJr: I almost said, Governor, did you bring him in?

W: Yes.

WMJr: What?

W: Yes, I brought him in.

WMJr: Uh-huh.

W: He's the goods all right.

WMJr: You'd have no hesitancy in recommending him to the President.

W: None at all.

WMJr: Uh-huh.

W: None at all.

WMJr: Well, I think, that under those circumstances, I'm going to ask him to come down to see me.

W: I would. I'd invite him down, and have quite a talk with him.

WMJr: And this is to be just between the President, and you, and myself.

W: Not a word from any source.

WMJr: And I think I'll get in touch with him and have him come down.

W: Call him at the capitol at Lansing.

WMJr: Is he on leave of absence from the University?

W: Ah -- yes. He -- ah -- is not a -- a member of the faculty in a sense. He is head of the State Municipal

- 3 -

League. Its main offices are in Ann Arbor, and he lectures at the University.

Q: I see.

A: Gives some special --

Q: Well, then he would be free to come down if it interested him, wouldn't he?

A: Oh, I think so. Now I'll tell you -- there's another person that happens to be here in town that's a very rare fellow.

Q: Yes?

A: He came from the University of Ohio and was with me in Manila as financial advisor.

Q: Yeah.

A: Budget director and financial advisor, and he's a real financial expert.

Q: Yes.

A: With good seasoned experience now in government -- he was for nearly three years with me as Governor General. He's still acting in the same capacity, and -- with Paul McNutt, and is home on a leave of absence and is at the Willard Hotel.

Q: Well, that's close enough.

A: Now for real brilliance you'd have a difficult time to beat this fellow Jones. Wheldon Jones is his name.

Q: Wasn't he over there the day you were sworn in?

A: Yes -- no he wasn't there the day I was sworn in. No, he wasn't here then.

Q: Oh, it was your Attorney General from there, wasn't it?

A: Yes, that's right, who thinks just as highly of him as I do. Now Jones is from Texas and was on the faculty of Ohio State University, and has had this experience with -- in the Philippines, and with monetary questions as well.

Q: Fine.

A: The last six years. I consider him very outstanding.

Jr: "Heldon Jones?"

: "Heldon Jones."

Jr: Who would you put first?

: Well, that is difficult. Smith is a ploddy, industrious fellow. Ah -- Jones is a brilliant, resourceful, energetic --. Smith is sound as can be. They are both sound, but Smith is sound, careful, and in exact budget work maybe he's had a little more experience, but in ability, as I -- wouldn't say that he possessed the ability that Jones does.

Jr: Well, of course I've got two vacancies over here. I've got a vacancy of Assistant Secretary, and this -- I might look this "Heldon Jones" over for that.

: Yes, well, I just wanted to say this about them. They are two -- the one thing that I tried to place emphasis on more than anything else, is discriminating selection of those in high and responsible government positions, and I consider Harold Smith and "Heldon Jones" two of the outstanding men that I have run into in the government service, and I'm sure a careful examination on your part will lead you to the same conclusion.

Jr: Well, that's fine.

: So get in touch with them. They're rare guys, both of them.

Jr: Well, I appreciate it very much, and I'll look into both of them, and -- I take it you've seen Ed Foley on those two propositions.

: Yes, had a good visit with him this afternoon.

Jr: Fine. I'm looking forward to seeing you Friday.

: Well, it will be so fine. I hope I can discuss with you these men then, if you haven't made any decision on them.

Jr: Well, I most likely won't by then anyway?

: All right.

Jr: Thank you so much.

: Thank you.

GROUP MEETING

January 17, 1939.
9:30 A. M.

Present: Mr. Duffield
Mr. Haas
Mr. Gaston
Mr. Foley
Mr. White
Mr. Hanes
Mr. Lochhead
Mr. McReynolds
Miss Chauncey

H.M.Jr: (Over telephone) Tell Mr. Hanes we are waiting,
if he is in.

What have you got, Mac?

McReynolds: There is the W.P.A. thing. (Hands H.M.Jr. schedule)

H.M.Jr: (Several coming in at different times) Mac, you
know these fellows come in, in hopes I don't see
them.

You had lots of company this morning.

Hanes: I had the S.E.C. over there with me and I couldn't
get rid of them.

H.M.Jr: I asked for a list of what W.P.A. could do on a
certain twenty-five million dollars.

McReynolds: The second was the eight seventy-five, the first
one is seven twenty-five.

H.M.Jr: (Reading from schedule) And they'd have to come
down to one million nine hundred thirty-five and lay
off one million one hundred and fifty-one thousand
people.

If anybody wants to see it, it is available.

(Mr. Bell comes in)

Well, well, well, Mr. Bell didn't ring the bell
this morning.

Anything else, Mac?

- McReynolds: No. Well, I've got a compromise on that old housing project, war-time housing project out in Indiana. The boys are recommending - and I am concurring in the recommendation that you accept the compromise, which is about fifty per cent of what is still owed. They will have paid all of the principle and a part of the interest if they pay out what is recommended here. I don't think there is any question but that those old projects ought to be closed out. This is along the same line as before.
- H.M.Jr: We did one before?
- McReynolds: There isn't any question in my mind about the propriety of it. You are getting about fifty per cent of the balance still due.
- E.O.Jr: Are you selling it?
- McReynolds: We are accepting the compromise by the people who have the property.
- Foley: Cash.
- H.M.Jr: Cash? All right.
- McReynolds: That old Housing Corporation ought to be closed out just as soon as they can. That is what somebody ought to be doing twenty years from now, sitting here accepting fifty cents on the dollar. We have all the principle and part of the interest; it is just accumulated interest you are losing.
- J.L.Jr: That is very good. Anything else, Mac?
- McReynolds: No.
- H.M.Jr: You and Bell are coming in at eleven o'clock. Is that right, Dan?
- Bell: Yes sir.
- Chauncey: (Speaks low to H.M.Jr.)
- H.M.Jr: This is strictly politics. Mr. Bell couldn't stand the strain.
- McReynolds: I wouldn't want to talk about those collections.

H.M.Jr: Mr. Hanes advised us that he can take North Carolinian's politicians.

Hanes: What is this?

H.M.Jr: Ten fifteen - very dirty politics with Helvering. I got some memos from the President. Seriously, I would like to see you.

Hanes: All right, sure.

Duffield: I'd like to ask you what procedure you want followed on bills, banking and monetary bills, that come down here with requests for reports. They come to my office. They did when Cy was there. I remember, you said you wanted Preston Delano or Upham on everything that concerned banking.

H.M.Jr: Haven't we got a Banking Committee, Johnny? What would we do on these things? Who sits in on that?

Hanes: Practically all of us; there is Cy and Preston Delano from the Comptroller's office, Gene Duffield and Foley, and Gaston.....

H.M.Jr: What would you do on banking bills, sit in?

Duffield: All we were doing in this particular, since it concerned the Federal Reserve, primarily, was asking them to send us anything they had on it. Just that one instance raised the question, whether you wanted Preston Delano.

H.M.Jr: I am offering the suggestion that you digest the thing and try to dispose of it and make a report to the Banking Committee. If the Banking Committee thinks I should know about it, they can tell me. If they don't think so, they can pass it.

Hanes: That will be fine.

H.M.Jr: Is this all right with you?

Hanes: We get a stack of bills here every night; I have been trying to go over them, with things concerned with the Treasury. How do you handle them?

H.M.Jr: We've got a legislative section, under Mr. Oliphant. Who is it?

Foley: Harry Bernard. He took Hester's place.

H.M.Jr: What they used to do, they'd digest this thing and I'd get a system of report cards, on proposed legislation. And Mr. Bell did some of that, I think.

Hanes: They handled the amendments handed in for the tax bills as well.

McReynolds: No. Who does that?

Foley: Tarleau.

McReynolds: They get all bills except taxes. The tax bills go to Tarleau's section.

White: There is one amendment to that procedure I have always wanted to suggest. Some of those bills obviously have economic aspects which might interest you; I thought before it gets to you we should have an appendix of an economic analysis from the appropriate division.

Hass: The legal legislative section, if it has an economic aspect; I know when our shop gets them they send them up and ask for our comments, and they assemble them all. Don't you get them, Harry?

Duffield: It comes to me only after it has been through that legislative section.

H.M.Jr: Let's do it this way: Bernard, if - he is the what, head of the legislative section - continue to handle everything except tax legislation, which goes to Tarleau, and then if it has gold or silver phrases, it will go to Harry White. If it is something else, to Hass, and then to his (Duffield), and is re-assembled. Is that right, Mac?

McReynolds: Yes.

H.M.Jr: What I'll say is this: I'll continue to do this unless, after you have examined it, you are not satisfied. How is that? It will give you a chance to take a look at it, and I will gather the thing to do is to have McReynolds and Harry Bernard and Foley in and let them go over it with you and explain it, and then after you have seen the procedure, if you have any suggestions,

bring them up again. If I don't hear from you I take it it is O. K.

Hanes: All right.

H.M.Jr: That's - all right, Johnny?

Hanes: Yes sir.

Duffield: That is all I have.

Foley: I am going to see Monnet at half past ten; the Attorney General at half past three, on wire tapping.

H.M.Jr: Who's broke.. the news to Bill Lewis?

Hanes: I did. I talked to him. He will be down here; he said he'd be down here as soon as he could get out of bed; he is coming right down.

H.M.Jr: Well, there is no sense in seeing Monnet. Oh, yes.

Foley: You asked me to find out about the money.

Hanes: It's all right to give Bill that one ; he said, "I don't want to take the two, but I'd like to take the one letter." He said, "I'd like to take that over and make a last dying attempt to get that signed." I told him I didn't think you'd press either one, but if he wanted anything done on it, he'd have to do it. He said he'd be down here and get the one and take it over.

McReynolds: I think it would be a good idea for you to call Harry. Harry called me this morning and I told him I had no instructions from you.

Hanes: Harry who?

McReynolds: Harry Collins.

H.M.Jr: I'll give you very definite instructions that Harry do nothing until the letter is signed.

McReynolds: I told him not to turn a hand until he got instructions from Johnny Hanes or the Boss. I told him that before I came in here.

H.M.Jr: You talked to him?

McReynolds: (Nods "Yes").

H.M.Jr: All right. O. K.

Foley: I have that opinion on turning over the Comptroller's records to the S.E.C., and also a digest of the Wagner amendment on the U. S. Housing Act, and that memorandum on maturities and interest rates, borrowing limits of the R.F.C.

H.M.Jr: Are you seeing the Attorney General?

Foley: At three-thirty.

H.M.Jr: On what?

Foley: Wire tapping.

H.M.Jr: Just ask him this, purely on an informal basis. I'd like him to take a look at that opinion I gave on the Bank of America to the S.E.C., and that he might be studying it in case they challenge that. See? You think so, Johnny?

Hanes: Yes, I'd like to see the opinion too. I haven't seen it before.

Foley: Well you got the original.

Hanes: Did I? I don't remember seeing it.

Foley: It's addressed to you.

Gaston: According to the story in the papers, they are challenging that in that suit.

H.M.Jr: Is it addressed to Hanes?

Foley: Yes.

H.M.Jr: Did I initial it?

Foley: Nope.

H.M.Jr: That's very interesting.

Hanes: I guess it probably is in your file, then.

H.M.Jr: What?

Hanes: It's probably in your file.

H.M.Jr: Want to put a nickel on it?

Hanes: Yeah, I'll put a nickel on it.

H.M.Jr: One nickel here.

Chauncey: He's lost already; I don't think it is.

Hanes: Miss Chauncey, will you please find it.

Chauncey: (To H.M.Jr.) I said, you have lost already.

H.M.Jr: You don't want to send for your secretary and have him come in and ask him?

Hanes: Not now, no.

H.M.Jr: This is your office copy, isn't it?

Foley: Yes.

H.M.Jr: I'll tell you what you do. Have this copied for me and send it back to him right away.

Chauncey: Uh huh.

H.M.Jr: You might have two or three copies made. But I was just thinking, we might take time by the forelock and - as far as being perfectly true the thing is done. Tell him I might want to ask him whether he thinks what we did is legal.

Foley: Ralph Dwan worked on that opinion.

H.M.Jr: Who?

Foley: Dwan. D-W-A-N. He worked on the opinion and he holds John Rogge of the S.E.C.

H.M.Jr: Did we loan him?

Foley: He had the authority, so it was just a little help a couple hours yesterday afternoon. He called up and I spoke to John, and sent him over.

H.M.Jr: I still - I think until somebody thinks otherwise, it would be a good thing to ask the Attorney General what he thinks of that opinion.

Foley: Yes, I think that is a good idea.

Hanes: Well, did the - did the - did Richberg and the Bank of America, Transamerica, deny your authority?

H.M.Jr: No.

Hanes: I didn't think they did.

H.M.Jr: This is just - so to speak, supposing it comes up, and we - they asked me at my press conference, did I have an Attorney General Ruling on it, didn't they, Herbert?

Gaston: Yes, they did.

H.M.Jr: I didn't answer on it. I am just thinking, we all know this is the fight of the year, and I am just looking ahead. If the Attorney General did give me a ruling, we might as well bring him in on it anyway. I don't think anybody's challenged it yet, but I am just being a little cautious.

Gaston: According to the papers they have. They point out that as point number two in the complaint, the Secretary of the Treasury has no authority to turn over to the S. E. C.....

Foley: It is indirectly involved in the proceeding. When we wrote it, we knew we'd be challenged. I don't feel shaky about it at all. But I do think it would be a good idea to take a look at it so he will know what it is when it comes to him.

H.M.Jr: What else?

Foley: I think it would be a good idea to turn over to the A. G. now, the information that we have that might involve criminal violation in the Anglo-California matter, for what he wants to do about it.

H.M.Jr: All right.

Foley: We are holding what we think might be criminal violations in Bank of America until after the S.E.C. finishes the Transamerica hearing because

S.E.C. thought it might be better to do that. I think they may be able to develop something that will bear on criminal violations.

W.M.Jr: Who may?

Foley: S.E.C., in Transamerica hearing. When they are finished we will give it to the A.G.

W.M.Jr: What else?

Foley: I have a memorandum to the President, and the draft, also, for the President on the legislation to extend for two years the Stabilization Fund and devaluation on silver.

W.M.Jr: You want to give it to me?

Foley: This is on housing; this is R.F.C.

W.M.Jr: Well now, just keep the housing one.

Foley: This is the memorandum to the President.

W.M.Jr: I'll take it all if I may.

Foley: Yes. (Mr. Foley initials memo; hands it to W.M.Jr.; initials another one.)

W.M.Jr: What's this?

Foley: That is the other letter, the one to the Speaker - Vice President, and the other to the Speaker. I don't think we ought to send the bills down. It is a simple thing, and they ought to be able to do it. If you appear, I have the bills here and you can leave them with the committee.

W.M.Jr: Don't worry; I'll have to appear.

Foley: I think it is better that way than to send them down with the President's letter.

W.M.Jr: Is that all?

Foley: That is all.

W.M.Jr: Now, who's got the stuff about the R.F.C.?

Bell: I think I have.

H.M.Jr: You have?

Bell: Eddie has a memorandum on it, and I have the figures.

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

Lochhead: Nothing particular in the exchanges; sterling is holding 4.87½. It was rather interesting yesterday; Great Britain was a rather heavy seller in the stock market - four billion dollars, which is heavier than usual. In connection with Monnet, we had a letter sent down this morning on Indo-China. It is a short one. That cable is evidently addressed to Monnet, and he just handed it down.

H.M.Jr: Does this go to my file?

Lochhead: I think so.

H.M.Jr: Anything else?

Lochhead: You asked about the Federal Reserve system maturities this week; they amount to roughly fifty-six million dollars so far; they have purchased about twenty-eight million dollars Treasury notes - taken up 1941 and 1943. They still have twenty-eight million dollars to go, and they are trying to buy bills.

H.M.Jr: George, I think this comes under you. I wish you'd contact Goldenweiser, and ask him how much longer they are going to continue their present policy over there; whether they are giving any consideration of letting their - some of their maturities run off and, you can say, I am beginning to get a little bit worried about the bond market continuing to go up. See? I think it is getting too high.

H.M.Jr: Yesterday it reached.....

H.M.Jr: So will you contact Goldenweiser and talk to him?

Lochhead: Mr. Morgenthau, you saw the announcement, while you were away?

H.M.Jr: But they didn't do that.

Lochhead: No they didn't do that.

H.M.Jr: But they are getting out of hand.

Belli: Isn't that Allan Sproul, who is secretary of the committee?

H.M.Jr: If the New York group wants to let the thing run off and they don't appear, I just want to register that I am beginning to get worried, and I am - I am if they don't - if the thing continues I am going to begin to put pressure on them.

Lochhead: Incidentally, the advance in the bond market yesterday had real strength behind it; it was very general - it came from various sources - banks, insurance companies, and individuals, and it was the first real move forward in two or three weeks.

H.M.Jr: But those two and three-quarters 80-85 crossed the 103.

Lochhead: Crossed 103.

H.M.Jr: Don't you think it is getting high?

Lochhead: Yes, but up to yesterday, the market confirmed, but nobody was taking any interest. It seems to be more or less a move into Government bonds. People figure they have over-stayed and went into them. If that continues we might have a spotty market.

H.M.Jr: Yeah. Harry, on those suggestions for names, I am going to see you later on. I will give you an appointment. After Mr. Bell and McReynolds get through with me I'll call you. It will be around - sometime around eleven forty-five, see? Huh? Sometime around then, I'll call you.

White: (Hands H.M.Jr. a letter) There is an answer to the President's question that you check up some figures on German investments here. The comments are here (Indicating). Just a slight.....

H.M.Jr: Is it ready for signature?

White: Yes, it was except they made a grammatical error on it.

H.M.Jr: Then bring it back.

White: Then here is a letter I spoke about. And this is what you got from Secretary Wallace; I think you ought to turn it over to George.

H.M.Jr: To George?

White: I think so.

H.M.Jr: All right.

(Mr. White hands letter to Mr. Hass.)

Hass: All right.

H.M.Jr: Anything else, Harry?

White: No, that is all.

H.M.Jr: George?

Hass: Here's the balloons, charted through June 1940, on the new basis.

Duffield: Does that go into the Bulletin?

H.M.Jr: This goes into the Bulletin.

Bell: No. Mr. Secretary, I think that is a mistake, because those figures that they give you, do not agree with the budget, and they are way out of line with what's happened in the past, and what will happen in the future. I - I think it is a mistake to put out something they give you in confidence.

H.M.Jr: As far as I am concerned, then, this is the only thing in the Bulletin that is worth a damn. It is the only thing that's any good, and the whole question - the whole trouble of, I won't say the Treasury; I'll just put it on myself, which isn't fair, but I'll take it on myself. We don't get anything out of this place to counteract the terrific volume of publicity that is going out. It is the only way to pull us out of the hole. There's nobody in the Treasury who has the thing, and I'll take the full blame for it. Now, everybody writes; they publicize. There is the whole thing; that isn't a thing.

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- Bell: Well, that isn't an answer to it.
- H.M.Jr: But it's a basis that people can make a study on. There's nothing comes out of your shop, or out of my shop, to give the people any impression of what has been done. There's been no answer to show that when you give people money for public works they don't spend it; when you give money to Mr. Straus they don't spend it.
- Bell: Would you like to publish Treasury estimates on those?
- H.M.Jr: What's the difference?
- Bell: I think there'd be quite a difference in money.
- H.M.Jr: These are Treasury estimates?
- Bell: No, they are not Treasury estimates; they are the individual departments' estimates and you have got a line out there that runs the estimated expenditures up to twelve million a year. If this one carries out, the previous one did up to June.
- H.M.Jr: Let's be very frank. Who goes up and gets us the money? The men that are making the estimate or you or I?
- Bell: I think, generally speaking, the people who make the estimates appear before the Appropriations Committee.
- H.M.Jr: Exactly.
- H.M.Jr: You'd have to label them distinctly. These are not Treasury; they are individual.
- Bell: I think our estimates are more accurate, in the end, than these.
- H.M.Jr: You are right, and you and I know that Jesse Jones, and other people have been ninety per cent wrong.
- Bell: That is right.
- White: Would it be possible to put both in?
- H.M.Jr: You've got the estimate, and you've got what they do. Now after all, let's see, I am not being very subtle

about this thing. I - I want the Congress and the people to know that these people - estimates - they are going to spend at the rate of twelve billion. This isn't what I say we are going to do.

Bell: I realize that.

H.M.Jr: All I am saying, is, I am going to - all I am saying, is this: Give me a better way to impress on the public that Mr. Ickes, Mr. Straus, Mr. Hopkins, and all the rest of them say that they are going to spend this. This thing is going to approach a billion dollars a month. I haven't been able to do it up to now. Nobody's been able to do it, and I'll take the full blame; but we sit here and don't get the stuff out.

Bell: Well, I -- I just wonder if that is accomplishing what you want.

H.M.Jr: It's terribly important and, as I say here, if I am wrong, I have been wrong before.

Bell: It's something like a department asking for a billion dollars and the President cuts them down to seven fifty. They go before Congress and defend seven fifty; not a billion.

H.M.Jr: (To Mr. Kieley) I'll step out; I'll be out in a minute.

Then, let's take the time on this thing. As Director of the Budget, you are talking now as Director of the Budget. You don't like the stuff because they never live up to it. I come back; Mr. Ickes calls up and says he wants a billion and a half and he's going to do this or nothing. I don't suppose he's actually put out fifty million dollars, has he?

Bell: Yes, he has, but it isn't anything to brag about.

H.M.Jr: But it's their estimates that they put before Congress and it's on that basis that the Congress votes the money to these committees.

Bell: Of course, their answer to that is that the minute Congress appropriates a billion dollars, business begins to prepare to receive its share of that billion, and that the money is obligated, most of it, before it goes out of the Treasury, and that is what has an effect on the economic conditions and

not the actual cash out of the Treasury.

Well, why, if you want to publish it - of course, it's a matter for you to decide. It seems to me....

Duffield: That shows revenue estimates took that front one.

HARR: It shows revenue estimates plus receipts.

HARR: Here is another estimate. It's just as far wrong on the other side. You and I sat there - the President, Colonel Harrington, Aubrey Williams, you and I - and talked about the expenditure appropriations for the next five months. Colonel Harrington said business would take on a million and a half men between now and the first of July.

Bell: That is what he said.

HARR: And I'll bet them ten to one they won't. Now, if Harrington -- if we could get some of these people that think these - people on these tremendously important things, on the record, that is the only way I know to counteract it. It's the same thing. Here is public works; say that they will go up in May or June or whatever it is, and they just don't do it. Now how can I show to the people of the United States that these people estimate and they never make good? I haven't found anything better. I used - I - when the President was talking to us that night about it, he was under the impression that the thing would be - somebody there was under the impression that the thing would be -- I told him, "No, Mr. President, we won't begin to reach the peak of the expenditures until June." The only thing I had was my bubble charts. I don't like to go against you, but not having something better, and having sat here and been licked on this thing the way I have, I don't know how else to get it out, then. And lately this thing - this isn't the Treasury's estimate, but this is what each department head says he will spend. Think about it a minute. If I am wrong - if you want to - if you want twenty-four hours to think about it - I just want to speak to Guffey a minute. If you want twenty-four hours, you can have twenty-four hours.

Bell: I am just afraid to publish stuff like that, I'll swear I am.

Evans: You'll have to have a page - your title will have to be fixed so it will be perfectly clear.

Hanes: Is that the bubble chart?

(H.M.Jr. leaves the room)

Bell: They say we have got to estimate the maximum amount we will take from the Treasury. If we say five hundred million - and somehow they do it is to put their estimate on the high side, so they will get the Treasury to borrow enough money to take care of their maximum needs, so they won't be criticized for giving the Treasury under-estimates, and having us borrow too little.

Newton: These bubbles represent capital estimates? I think it would be a great mistake.

Bell: When I make up my estimates I trim them terribly, sometimes as much - I'll take a P.W.A. estimate and just slice it from maybe fifty million down to five million, and I know it isn't going out in that month; maybe in the next month I'll

(H.M.Jr. returns)

H.M.Jr: Just for the record, Senator Guffey wanted to know whether I needed a good lawyer for the Annenberg case; he said if I did he suggested Guy Barr, former Attorney General of Pennsylvania, and how was my evidence? Was it all right? I said not to worry; that the matter was entirely up to the Attorney General, and I wasn't recommending any lawyers. He said he had heard I was, and wanted a good lawyer.

Do you want twenty-four hours to think this over?

Hanes: I want to say I think Dan is entirely right. I think it would be a great mistake for us to put out that bubble chart of estimates, made by the departments which we do not expect to be realized. The Treasury takes responsibility for these statements and I think it would be misleading the public to the facts and the Treasury's view of the facts. If we make estimates of expenditures in the bubble charts, we should have our own estimates and not departmental estimates.

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White: If their estimates constitute a basis for - I don't think they made them with the idea they were going to be published. I presume they will have a chance to O. K. them.

H.M.Jr: No, no. They have been doing this thing for years and it's on the basis of their estimates that they get their money from Congress. That, you will agree with me, won't you?

Bell: Yes, I do. However, they set out estimates by months. They say, "We expect to spend a billion dollars in twelve months." Certainly, we don't use those estimates as a basis for our financing, until we reduce their material.

H.M.Jr: How long would it take you to prepare a Treasury estimate?

Bell: Oh, probably take me a day - maybe two days, having nothing else to do.

Duffield: You've got a lot to do besides that for the Bulletin. I am warning you.

Bell: Oh, I have. I've got somebody else.

H.M.Jr: The stuff you are arguing about, then is why this red line stops, and the green one begins.

Bell: I think it is.

Gaston: The red is actual.

H.M.Jr: Well, as I say, the purpose of these meetings is for consultation. I am willing to give you twenty-four or forty-eight hours. That's fair enough, isn't it?

Bell: Would you like me to make estimates?

H.M.Jr: Yes, that's all right. The purpose of these meetings is for consultation. I'll wait twenty-four or forty-eight hours.

Gaston: That's the most important thing to go into the Bulletin.

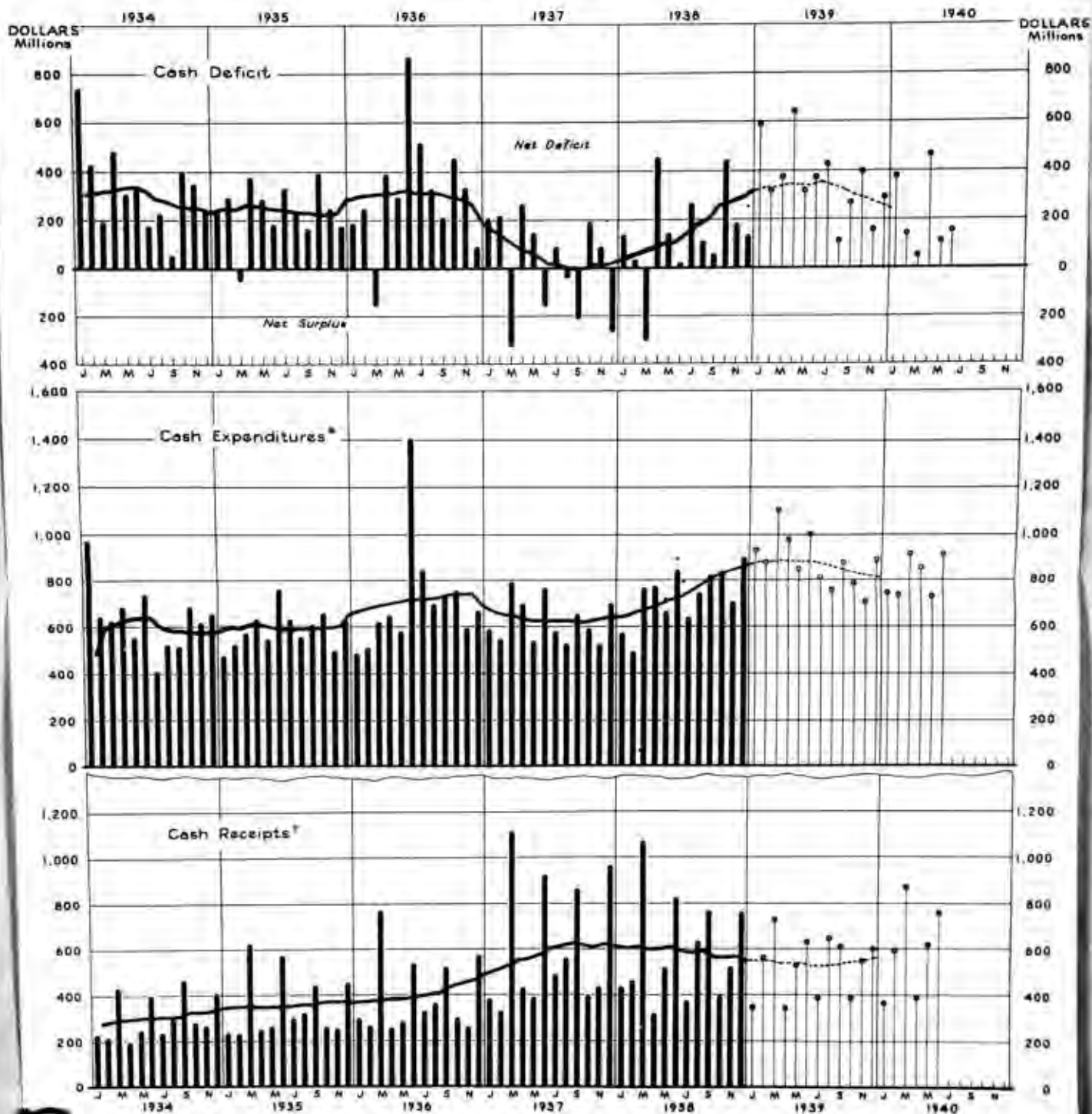
H.M.Jr: That's fair, isn't it?

Bell: Yes, I can make estimates on that.

NET CASH DEFICIT AND CASH EXPENDITURES AND RECEIPTS, MONTHLY

Current Estimates as of Jan. 1939

Jan. 1934 to Dec. 1938, Actual Current Estimate Jan. 1939 to June 1940 12 Month Moving Av. Actual Estimate



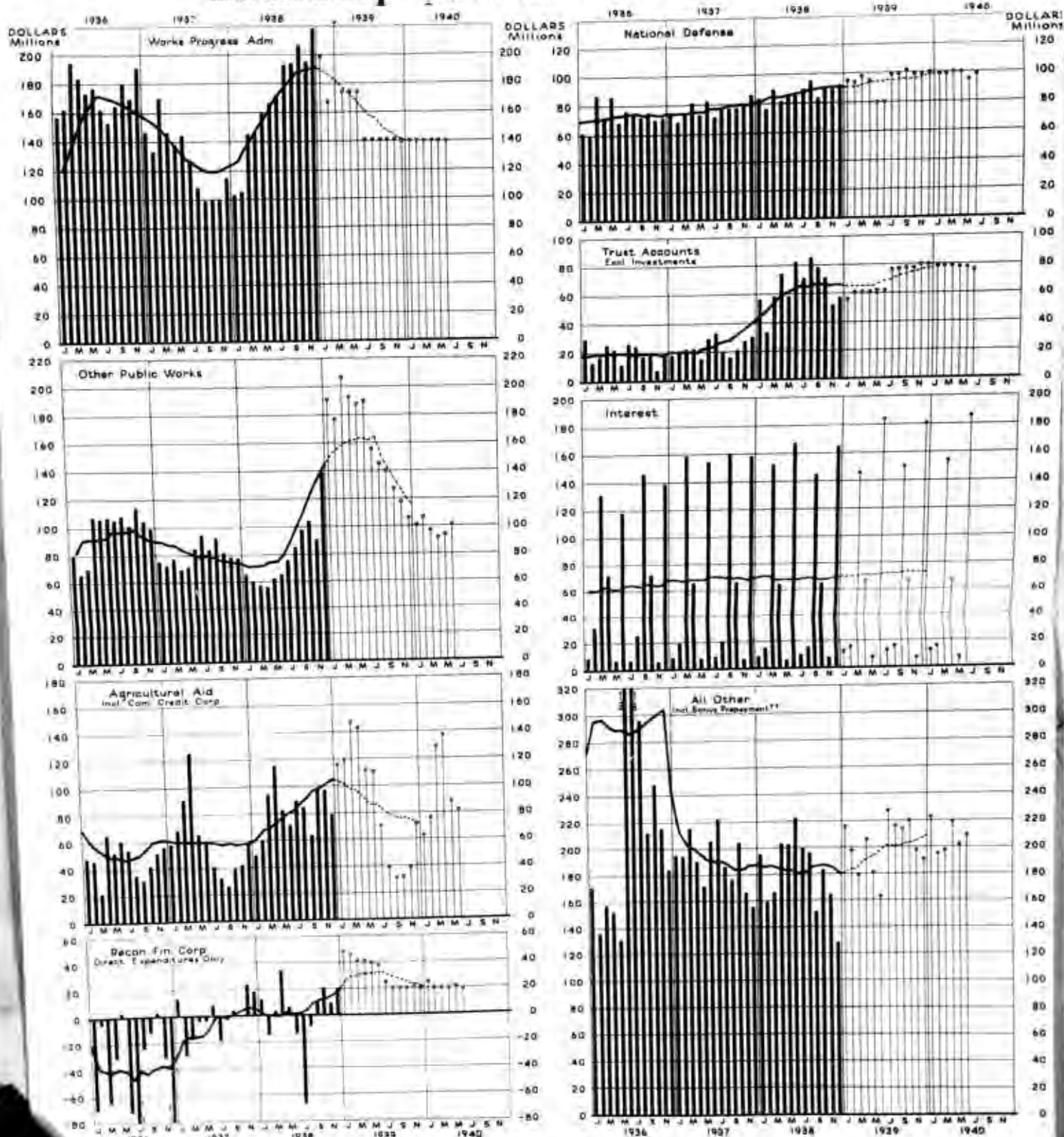
* Excludes debt retirement and bookkeeping transfers to Trust Accounts. Includes bonus bonds cashed and checks paid. Estimates as reported to Accounts and Deposits by the various departments and agencies.

† Includes Trust Accounts. Estimates as of budget message, Jan. 1939.

MONTHLY FEDERAL CASH EXPENDITURES BY CLASSES*

Current Estimates† as of Jan. 1939

Jan. 1936 to Dec. 1938, Actual | Current Estimate Jan. 1939 to June 1940 | 12 Month Moving Av. | Actual | Current Estimate



*Excludes debt retirement and bookkeeping transfers to Trust Accounts.
†As reported to Accounts and Disburse by the various departments and agencies.
††Spent Bonds Cashed and Checks Paid

Net Cash Deficit and Cash Expenditures and Receipts,
Monthly, January 1934 to June 1939

(In millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<u>Monthly</u>												
<u>Cash Deficit</u>												
1934	\$743	\$428	\$132	\$485	\$309	\$338	\$175	\$226	\$ 53	\$402	\$350	\$245
1935	242	295	-49	381	287	183	333	237	168	395	245	177
1936	187	245	-153	391	295	869	518	329	209	454	334	89
1937	206	217	-327	266	148	-159	88	-38	-211	190	88	-266
1938	139	31	-304	455	142	20	265	111	54	444	185	136
1939	589*	317*	375*	639*	318*	374*	425*	111*	268*	397*	157*	290*
1940	380*	141*	48*	465*	110*	153*						
<u>Cash Expenditures</u>												
1934	972	644	624	684	556	737	408	523	515	682	617	652
1935	475	526	572	630	548	758	632	557	608	655	496	629
1936	485	508	618	646	580	1,405	843	691	731	752	592	664
1937	587	644	730	695	537	764	578	524	650	589	522	697
1938	572	493	764	773	661	844	639	744	822	839	706	899
1939	933*	878*	1,103*	960*	845*	1,001*	809*	753*	876*	784*	703*	889*
1940	743*	732*	317*	853*	726*	912*						
<u>Cash Receipts</u>												
1934	229	216	432	199	247	399	233	297	462	280	267	407
1935	233	231	621	249	261	575	299	320	440	260	251	452
1936	298	263	771	255	285	536	325	362	522	298	258	575
1937	381	327	1,117	429	389	923	490	562	861	399	434	963
1938	433	462	1,068	313	513	824	374	633	768	395	521	763*
1939	344*	561*	728*	341*	527*	627*	384*	642*	608*	367*	546*	599*
1940	363*	591*	869*	388*	610*	759*						
<u>12-month moving average centered on 6th month</u>												
<u>Cash Deficit</u>												
1934	306	315	319	333	339	329	267	276	256	248	246	233
1935	246	247	256	256	247	242	236	233	224	225	226	283
1936	298	305	309	314	322	314	315	313	298	289	276	191
1937	154	124	89	67	46	17	11	-4	-3	13	13	28
1938	43	55	77	99	107	140	177*	201*	258*	273*	288*	317*
1939	331*	331*	348*	345*	342*	355*	338*	323*	296*	281*	264*	245*
<u>Cash Expenditures</u>												
1934	583	600	615	629	639	635	593	583	579	575	574	576
1935	594	597	605	603	593	591	591	590	594	595	598	652
1936	663	680	691	699	707	710	718	721	735	740	736	683
1937	660	647	640	626	620	623	622	618	615	622	632	639
1938	644	663	677	698	713	730	760*	792*	820*	837*	853*	866*
1939	680*	661*	685*	681*	680*	679*	664*	652*	636*	625*	616*	608*
<u>Cash Receipts</u>												
1934	277	285	296	296	300	306	306	307	323	327	328	343
1935	348	350	349	347	346	349	355	357	370	370	372	369
1936	371	375	382	385	385	386	403	408	437	451	460	492
1937	506	523	551	559	574	606	611	622	618	609	619	611
1938	601	608	600	593	606	590	583*	591*	562*	564*	565*	549*
1939	549*	550*	537*	536*	538*	524*	526*	529*	540*	544*	552*	563*

Note: Expenditures exclude debt retirement and bookkeeping transfers to trust accounts. Bonus included on basis of bonds cashed and checks paid. Negative figures denote cash surpluses.

* Estimates; expenditures as reported to Accounts and Deposits by the various departments and agencies, January 1939; receipts as of Budget Message, January 1939, plus trust accounts.

Federal Cash Expenditures by Classes
January 1936 to June 1939
(In millions of dollars)

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Class of expenditure	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
	Monthly expenditures												12-month moving average of expenditures centered on 6th month												
Gen'l. Prog. Adm.	\$157	\$162	\$195	\$164	\$173	\$177	\$162	\$153	\$164	\$180	\$170	\$191	\$119	\$132	\$144	\$156	\$165	\$172	\$171	\$169	\$167	\$166	\$161	\$158	
1936	146	133	170	146	138	144	127	106	99	100	100	115	155	151	146	139	134	127	124	121	119	119	121	123	
1937	103	105	145	146	159	166	172	193	194	207	195	219	126	135	142	150	158	167	175	180	187	189	190	191	
1938	199*	167*	223*	174*	174*	174*	141*	141*	141*	141*	141*	140*	188*	164*	180*	174*	170*	163*	156*	150*	149*	146*	143*	140*	
1939	140*	140*	140*	140*	140*	140*																			
Other pub. works	80	80	70	107	106	107	105	108	101	114	104	99	82	91	92	92	93	97	97	97	96	95	92	90	
1936	75	72	77	69	71	84	94	83	92	81	78	77	89	87	86	83	81	79	79	78	76	75	74	73	
1937	65	60	57	56	62	65	76	85	98	104	91	139	71	71	72	74	75	80	90	100	113	124	135	145	
1938	191*	177*	207*	193*	188*	190*	156*	145*	140*	127*	118*	106*	152*	157*	160*	162*	164*	162*	164*	164*	139*	131*	123*	115*	
1939	101*	107*	97*	92*	94*	101*																			
Agricultural aid	48	46	22	65	52	61	54	35	31	42	51	56	61	56	52	49	49	47	48	50	55	60	61	61	
1936	58	68	91	125	65	58	41	32	26	40	42	56	60	60	59	59	59	59	58	57	58	57	58	59	
1937	49	60	34	115	62	71	69	84	83	98	37	79	63	68	71	75	80	82	87*	92*	97*	99*	102*	105*	
1938	116*	119*	147*	143*	112*	110*	70*	39*	31*	32*	39*	71*	103*	99*	97*	91*	86*	86*	81*	76*	76*	76*	74*	72*	
1939	63*	76*	129*	137*	69*	82*																			
Recon. Fin. Corp.	-70	-5	-65	-31	-3	-72	-176	-24	-12	3	-31	-35	-39	-41	-41	-39	-41	-48	-41	-43	-39	-37	-38	-31	
1936	13	-30	-18	-4	-4	8	-19	-3	4	0	23	18	-18	-16	-15	-15	-10	-1	-1	0	2	5	6	4	
1937	12	-15	3	34	6	-14	-67	-8	11	21	5	20	0	0	0	2	1	1	1	1	12*	13*	16*	20*	
1938	48*	46*	42*	41*	40*	38*	25*	20*	20*	20*	21*	20*	28*	30*	31*	31*	32*	32*	30*	28*	26*	24*	23*	21*	
1939	25*	20*	20*	20*	21*	19*																			
Nat'l defense	61	59	91	72	86	68	76	74	72	75	70	71	70	71	71	72	73	73	74	75	73	74	73	74	
1936	73	68	74	81	73	62	71	78	77	77	79	66	74	74	74	75	75	77	77	78	79	80	81	81	
1937	63	76	69	81	86	65	89	95	83	90	91	92	82	84	84	85	86	87	88	89	90	91	91	90	
1938	95*	94*	98*	95*	80*	80*	99*	99*	102*	99*	99*	100*	91*	91*	93*	94*	94*	95*	95*	95*	96*	96*	98*	99*	
1939	99*	99*	100*	100*	95*	99*																			
Trust accts.	29	13	17	25	22	11	26	24	17	16	7	19	16	19	19	19	19	19	18	19	19	19	18	20	
1936	18	20	22	22	15	29	33	20	16	21	27	30	20	20	20	20	22	23	26	27	30	34	38	42	
1937	56	33	58	74	58	82	71	65	76	71	52	57	44	51	56	61	63	65	65*	67*	67*	66*	66*	65*	
1938	56*	61*	61*	61*	62*	62*	77*	77*	76*	78*	60*	60*	65*	65*	65*	65*	66*	69*	71*	73*	74*	76*	77*	78*	
1939	79*	79*	79*	78*	76*	76*																			
Interest	9	31	131	72	7	118	7	25	146	72	6	139	60	60	63	61	61	64	64	63	65	64	64	68	
1936	9	19	159	66	6	154	9	20	160	66	7	156	68	67	68	66	68	70	70	69	69	69	68	69	
1937	9	15	152	64	6	167	10	15	144	65	7	165	70	70	68	68	68	68	68	69*	69*	68*	69*	70*	
1938	12*	16*	146*	67*	6*	184*	13*	16*	150*	67*	7*	181*	70*	70*	71*	71*	71*	72*	72*	72*	73*	73*	73*	73*	
1939	13*	16*	154*	67*	7*	186*																			
All other	171	136	157	152	131	935	589	296	212	248	215	184	296	297	292	289	269	286	288	292	297	300	304	243	
1936	195	194	215	190	171	205	222	186	176	204	166	155	212	203	200	196	192	190	190	187	183	184	187	188	
1937	195	159	166	203	202	222	199	195	151	183	164	128	186	187	165	163	183	181	182*	186*	187*	187*	185*	180*	
1938	216*	198*	179*	206*	181*	163*	228*	216*	214*	220*	198*	191*	183*	184*	190*	193*	196*	201*	201*	203*	204*	206*	209*	209*	
1939	223*	195*	198*	219*	202*	209*																			
1940																									
* Figures in parentheses are excluded. Bonus included in "all other" on basis of bonds cashed and checks paid. Agricultural																									

Notes: Debt retirement and bookkeeping transfers to trust accounts excluded. Bonus included in "all other" on basis of bonds cashed and checks paid. Agricultural aid includes Commodity Credit Corporation. Trust accounts exclude investment transactions. Negative figures denote excess of credits.

January (1934-35)

* Estimates as reported to Accounts and Deposits by various departments and agencies, January 1939.

White: Which would be the

W.B.Jr: They love us in May, the way they do in January.

Bell: Their estimates appear in the budget on a twelve-months basis. They appear there and they do kick, but I think I can show them the budget is closer to the expenditure estimates than they are.

White: I think the budget estimate should be cleared with them before they are published.

W.B.Jr: All right, I am giving Bell and the rest of you twenty-four or forty-eight hours.

Gaston: We can show both.

W.B.Jr: You can show a red bubble for the department's and black for the Treasury. All right? All right, Don?

Bell: I don't know how.

W.B.Jr: Were we around to you, Johnny?

Wanee: I haven't anything.

Bell: I have a number of statements and figures on the R.F.C. I don't know whether you wanted to wait until I have the expenditure figure for the whole calendar year, which will be tomorrow, probably.

W.B.Jr: I'd rather wait. How much money can we borrow for the R. F. C.?

Bell: Of course, some of their authority is unlimited, such as the capital notes for banks, trust companies, and so forth, but they can borrow a billion six hundred twenty million dollars on their general account. That is, for general loans they have specific authority, such as insurance policies, general public works, and mortgage loans of four hundred seventy-three million and they have outstanding seven hundred seventy-eight million dollars of commitments against that two million dollars, leaving about a billion three hundred sixteen million of unobligated balances on their general and specific accounts, leaving out for the moment the preferred stocks of banks and trust companies.

Q.H.Jr: And how many R.F.C. notes are outstanding?

Bell: There are a billion two hundred and sixty-three million eight hundred thousand dollars of outstanding indebtedness of the R.F.C., of which the Treasury holds seven hundred and fifty-four million eight hundred thousand.

Q.H.Jr: Then the figure I want is seven fifty-four?

Bell: That is, if you are thinking about letting the R.F.C. borrow on the market and repay the Treasury, yes.

H.M.Jr: Seven fifty-four. And they have that authority?

Bell: Yes sir, they do. Of course it is a revolving fund, Mr. Secretary. When they borrowed seven fifty in the market and repay you, they haven't used any borrowing policy. They are refunding.

Q.H.Jr: I could borrow on the market seven fifty for R.F.C. and pay us that back. We'd have to go to the market for seven fifty less. Is that statement right?

Bell: Yes, that is correct.

Q.H.Jr: That is all. We can take that figure of seven fifty, plus our own borrowings, and see where we'd be by the first of July.

Bell: That's what I am doing.

H.M.Jr: And George, when you get that, it's next to the government bond market. Supposing we don't go to new governments, supposing that.....

Luckhead: Incidentally, the Federal Reserve completed twenty-six and a half million dollars of new Treasury bills at par.

Bell: That's terrible; that's terrible.

Q.H.Jr: But you see, George, what I'm working at? I mean, supposing we didn't create any new Treasury obligations, what would it do to the government bond market? All right, then?

Bell: You gave me yesterday a couple of new paper clippings and asked me to look into them.

H.M.Jr: Yes.

Ball: The U. S. Housing report that Eddie just told you about was not a report from the housing authority, but apparently it was a bill drawn by Keyserling, and a memorandum prepared by him, and informally handed to Wagner, and Wagner put it in the record as his own. I assume what will happen, the committee to which it is referred will send that bill to the Housing authority for report and that that will come to the budget, and if you don't get a request directly from the committee, of course, we'll send that bill and the Housing report to the Treasury for comment and criticism.

On the Public Health, that report is before the President. It was left there by Smith Roche. Dr. Barran says the Treasury has made no recommendation whatever, but I see in the morning's paper the President contemplates sending that report to Congress. The message states that the cost will be about eight hundred fifty million dollars over a ten-year period. And it's quite a report. I just got a copy of it this morning.

Last year, you remember, you gave the U. S. Housing authorities a line of credit of twenty-five million dollars, with the understanding that when they reached approximately that limit they would have to go into the market and borrow, say fifty million, and repay the twenty-five million dollars to the Treasury. They are now approaching that twenty-five million dollar limit and I wondered if you don't want to give them another twenty-five million dollars and let them do the borrowing, in say April or May, rather than at this time.

E. D. Jr: It is a pretty good time to borrow now.

Ball: You want them to borrow now?

E. D. Jr: Yes.

Ball: Then we'd probably give them five million until arrangements can be made to borrow.

E. D. Jr: Is that a United States Government guaranteed obligation?

Ball: If they borrow in the market it is.

E. D. Jr: Who is going to contact them?

- 21 -

Bell: I will; I'll change this letter. The letter is written so we could give them five or ten million dollars.

H.M.Jr: I'd let them go to the market.

Bell: When do you want them to do that?

H.M.Jr: I'd get it out as quickly as possible. I'd try to get it out by the first of February. What I'd like to do is to get Jesse's by the fifteenth of February.

Bell: I see. This is a new thing, and may have to do a little preliminary work on it in New York.

That's all I have.

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

Gaston: I haven't anything.

H.M.Jr: Wonderful. I read the story in the "Times" today of my press conference. It's very accurate.

Gaston: A very good story in the "Times"; the Wall Street Journal was the most critical, I noticed. Their story on the budget and your speech, of course, it was their idea, but it wasn't that.

H.M.Jr: Just one thing; as this S.E.C. thing proceeds against Transamerica, who will keep me posted as to what's happening? Will you, or Hanes, or who do you rely on?

Hanes: I was going to suggest we have that fellow we loaned to them yesterday follow on it. You said not to let him follow on it, however.

H.M.Jr: He asked me about Sammy Klaus. This was Dwan.

Foley: I let Dwan work on it. He is the law man. He wouldn't normally follow that. I'd put Donald Sherbondy on it if it's all right with the Secretary.

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

Foley: I'll have a transcript every night, and I'm having that read.

H.M.Jr: And Hanes said you ought to have somebody there as an observer.

- 22 -

Foley: That's right; I'm having somebody in court there this morning, and I had somebody there yesterday.

Duffield: Any feeling on your part I ought to be there?

H.M.Jr: No, I think it ought to be a lawyer.

Treasury Department
Division of Monetary Research

247

Date January 17, 1939. 1938

To: Secretary Morgenthau

Appended is the copy of a letter sent to the President on December 25, 1938, and signed by sixty-five economists from more than twenty colleges and universities throughout the nation.

Among the signers are many economists of high standing in the profession. Most of the signers are of the younger group of economists — I would guess that the average age of the group is the middle or late thirties.

MR. WHITE
Branch 2058 - Room 200

"Dear President Roosevelt:

"We, the undersigned economists, are addressing ourselves to you in order to express our opinions on a national problem of greatest importance which falls within our sphere of professional competence.

"Newspaper reports, which have not been denied, indicate that the Works Progress Administration is planning to cut its rolls by a third during the next two or three months. This action, we understand, is contemplated in order to stretch the present relief appropriation and to lay the ground for a greatly reduced deficiency appropriation next spring. Such a policy would involve throwing some million breadwinners and their families into destitution during the severe winter months. It would involve a reduction of more than \$50,000,000 per month in direct wage payments in addition to some \$30,000,000 in related expenditures. Such a cut in consumer purchasing power would, we believe, constitute a severe threat to the continuance of the present economic recovery, and might even cause a serious setback in business activity.

"The rapid upsurge in business during the last six months has been a source of encouragement to those who believe that the severity of swings in business activity need not be accepted fatalistically but can be successfully counteracted by wise social action. Thanks to the vigorous action taken last spring by the Federal government under your leadership, the recession of 1937 was arrested; and the curve of business and employment turned upward. The expansion of the spending program was the chief governmental weapon used in fighting the recession and stimulating the recovery. Furthermore during these six months the major channel for the disbursement of new purchasing power has been the W. P. A. and we believe that W. P. A. should continue to perform this function until private industry clearly demonstrates its capacity to absorb all those released from relief rolls.

"We conclude, Mr. President, that the curtailment of the W. P. A. at the present time would be particularly ill-timed from an economic as well as from a humanitarian viewpoint, and we strongly urge that the contemplated policy of curtailment be abandoned.

"Respectfully yours,

- 2 -

W. B. Bangs
 John R. Barton
 V. Edwards Beach
 Richard M. Bissell, Jr.
 Robert H. R. Brooks
 Courtney C. Brown
 Emily C. Brown
 Arthur H. Burns
 Eveline M. Burns
 Geo. J. Gady
 Robert L. Carey
 W. A. Chudnowsky
 Alzada Comstock
 John B. Crane
 Ethel B. Dietrich
 Paul H. Douglas
 Juliet Fisher
 J. K. Galbraith
 Eunice B. Gettell
 Richard Glen Gettell
 Richard V. Gilbert
 H. M. Goodwin
 William A. Goss
 Robert L. Hale
 Wendell Hance
 S. E. Harris
 Samuel P. Hayes, Jr.
 E. D. Hawkins
 Amy Hawes
 George W. Wildebrand, Jr.
 E. P. Hoiman
 Harold Hotelling
 William Jaffe
 Andrew M. Kamarck
 Theodore J. Kreps

Helen B. Lamb
 John Lobb
 Lewis F. Manly
 Loughlin F. McHugh
 Lloyd Mettler
 Glen W. Miller
 Max P. Millikan
 Otto Nathan
 Ruby Turner Norris
 Guy E. Noyes
 John H. G. Pierson
 Hubert Phillips
 John E. Ross
 Murray Ross
 Rosalind W. Schwager
 Kenneth M. Spang
 Eugene Staley
 Harold Stein
 Curwen Stoddart
 Arthur W. Stuart
 W. F. Stolper
 Maxine Yapple Sweezy
 Paul M. Sweezy
 Phillip Taft
 Lorie Tarshis
 H. Fabian Underhill
 Henry E. Villard
 Colston Warne
 C. E. Whittlesey
 John D. Wilson
 Theresa Wolfson
 May Wood-Simons
 Martha J. Ziegler
 Rose Fitzgerald Zunder, "

Of the sixty-nine, thirteen come from Harvard, seven each from Yale and Columbia, six each from Northwestern and Brooklyn College, five from Mount Holyoke and four from Tufts. Other institutions represented are Brown, Williams, Amherst, Stanford, University of Wisconsin, University of Illinois, University of Chicago, Cornell, New York University, University of Minnesota, Princeton, Fresno State College, San Francisco Junior College, Sarah Lawrence College and Vassar.

TREASURY DEPARTMENT

250

INTER OFFICE COMMUNICATION

DATE JAN 17 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

For your information

Re: Aircraft Procurement Program

This afternoon while I was at the Attorney General's office, I ran into the Solicitor General. For a few moments we discussed the aircraft procurement program.

Upon the return of Oscar Cox to the office, after his visit with me at the Attorney General's, he found word that Paul Freund, the Solicitor General's assistant, had telephoned to say that the Solicitor General had made an appointment for tomorrow morning at 10 a.m. with Col. Burns of the War Department to discuss the proposed legislation, and asked Cox to be present. At the same time, the Solicitor General had sent over the comments of the War Department on an earlier draft of the statute prepared by Freund and Cox.

The last draft of the statute which the Department has not yet seen, as well as the earlier draft, which it did see, provide in the main that the procurement of designs for aircraft should be handled by the Secretary of War or the Secretary of the Navy, as the case may be.

E. W. F. L.

January 17, 1939

251

My dear Harriner:

Thank you for your letter of January 14th inclosing a copy of the report, in final form, of the Fiscal and Monetary Advisory Board which met, during my absence, to consider the subject of the Special Report of the Social Security Board.

I had been informed of the Board's conclusions and am in accord therewith.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Harriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

January 14, 1939. OFFICE OF THE CHAIRMAN

Dear Mr. Secretary:

I am handing you herewith a copy of the final form of the Report of the Fiscal and Monetary Advisory Board Relating to the Special Report of the Social Security Board, which was agreed to in our meeting at the Treasury on Thursday afternoon, January 12th.

Sincerely yours,

M. S. Eccles,
Chairman.

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

enclosure

1939-1

January 15, 1939.

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REPORT OF THE FISCAL AND MONETARY ADVISORY BOARD RELATING TO THE
SPECIAL REPORT OF THE SOCIAL SECURITY BOARD

At your request, the Fiscal and Monetary Advisory Board has considered the Special Report of the Social Security Board at two extended meetings. In addition, the technical staffs of the various agencies represented held a meeting to explore the fiscal aspects of the problem.

As a result of this study, the Advisory Board makes the following recommendations:

1. That the Report be submitted directly to Congress rather than to you, and by you, to Congress.

The basis of this recommendation is two-fold. In the first place, the Board found that the Report raises highly controversial questions with respect to the monetary and fiscal aspects of the old-age insurance program. Transmittal of the Report by you would imply your acceptance of one view of a problem on which, in the opinion of this Board, definite commitment on your part is not at this time necessary or advisable.

In the second place, the statute creating the Social Security Board does not state that reports with respect to modifications and amendments of the Act should be made to the President and the implication is that they should be made directly to Congress. This has been the practice of the Social Security Board to date. There appears no good reason why a departure from this practice should be made in the case of this Special Report. It is, therefore, appropriate that a report recommending changes in the Act should be addressed to Congress.

2. It is desirable that the Fiscal and Monetary Advisory Board be kept currently informed by the Social Security Board of specific recommendations which it proposes to present to Congressional Committees so that the monetary and fiscal aspects of new social security legislation may be kept under continuous study by your Advisory Board.

Confidential

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 5-1882

January 17, 1939

Memorandum to Mr. Morgenthau:

Re: Ed Foley

The following is a summary of information from various sources:

He was born in Syracuse and his father was superintendent of the Solvay plant up there. He went to Williams and during his freshman year left, coming down to New York, and went to Fordham and then law school. Before graduation he secured a part-time position at Hawkins, Delafield & Longfellow. After graduation he was employed there regularly. He specialized in municipal bond work and remained for about six or eight years. The partners in the firm thought very highly of him and found him hard-working, able, industrious and thoroughly reliable.

Shortly after R.F.C. was organized, they needed a man down there for municipal bond work and they lent him to R.F.C. Although he did not have the title, he actually became the head of his legal department. Later on he moved over to P.W.A. under Henry Hunt. However, here, as formerly, although not nominally the head of the legal staff he actually performed all the work and then became the real head. Over at P.W.A. he had about 1400 people under him, scattered in different parts of the country, and reports are that he performed an excellent job over there.

E.S.G.

TREASURY DEPARTMENT

255

INTER OFFICE COMMUNICATION

DATE

January 13, 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

For your information

Re: Conference with the Attorney General

Yesterday I left with the Attorney General—

1. Our draft of an amendment to the Communications Act of 1934, authorizing, subject to certain restrictions, wire-tapping by Federal law enforcement officers and providing for the use, in criminal cases, of this evidence. I gathered that the Attorney General had a personal aversion to the whole subject of wire-tapping, but he promised to submit the draft to Brian McMahon, Assistant Attorney General in charge of the Criminal Division, who will give him a report. I will follow this up with McMahon.

2. A copy of Mr. Oligent's opinion regarding the legality of our action in making available to the SEC Comptroller of the Currency bank examiners' reports on Bank of America. I pointed out that I was leaving this with him as background material merely in case he was called upon for an opinion in the matter.

I also spoke to him about exemption of lawyers from the application of the Executive order of last June blanketing into Civil Service substantially all Federal employees. He told me that he was having an order prepared to give temporary relief. I gathered that his order would be in the nature of a three or six months' postponement of the effective date of the President's order of last June, thereby furnishing him with an opportunity to study the question at length. I told him that Mr. McKeynolds was the outstanding authority in the Government on the subject of Civil Service, and that the Treasury would be glad to cooperate with him in his study of the problem.

E. H. L.



THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 17 1939

MEMORANDUM FOR THE PRESIDENT:

As you know, there expire on June 30, 1939, the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the stabilization fund, and the powers contained in paragraph (b) (2) of Section 43 of the Act of May 12, 1933, under which the metallic content of the dollar may be altered and pursuant to which you have been issuing your newly-mined domestic silver proclamations. Transmitted to you herewith are drafts of letters from you to the Vice President and the Speaker of the House of Representatives, respectively, recommending that legislation be enacted continuing for an additional two years the powers contained in such provisions and stating that the Secretary of the Treasury and representatives of the Treasury will be available to discuss with the appropriate congressional committees the problems relating to this legislation.

Since your recommendations would necessitate merely the changing of the dates in the very short statute passed in January, 1937, there would appear to be no need for your annexing to your letters to the Vice President and the Speaker copies of proposed legislation.

Mayntown
Secretary of the Treasury.



THE SECRETARY OF THE TREASURY
WASHINGTON

57

JAN 17 1939

MEMORANDUM FOR THE PRESIDENT:

As you know, there expire on June 30, 1939, the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the stabilization fund, and the powers contained in paragraph (b) (2) of Section 43 of the Act of May 12, 1933, under which the metallic content of the dollar may be altered and pursuant to which you have been issuing your newly-mined domestic silver proclamations. Transmitted to you herewith are drafts of letters from you to the Vice President and the Speaker of the House of Representatives, respectively, recommending that legislation be enacted continuing for an additional two years the powers contained in such provisions and stating that the Secretary of the Treasury and representatives of the Treasury will be available to discuss with the appropriate congressional committees the problems relating to this legislation.

Since your recommendations would necessitate merely the changing of the dates in the very short statute passed in January, 1937, there would appear to be no need for your annexing to your letters to the Vice President and the Speaker copies of proposed legislation.

M. V. L.
Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

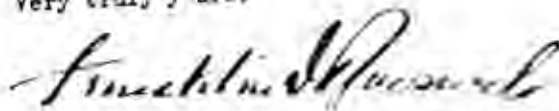
Dear Mr. Vice President:

The powers conferred by Section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of Section 43, Title III, of the Act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1939.

The existence of these powers has enabled us to safeguard the nation's interests and to carry forward international monetary and economic cooperation. It is obvious, however, that the international monetary and economic situation is still such that it would not be safe to permit such powers to be terminated. I believe the sound and wise policy to pursue under the circumstances is to extend these powers for an additional two years. The legislation should follow the form used in the Act of January 23, 1937, except that the term "June 30, 1941" should be substituted for the term "June 30, 1939".

The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation.

Very truly yours,



Hon. John N. Garner,

President of the U. S. Senate-

THE WHITE HOUSE
WASHINGTON

JAN 17 1939

My dear Mr. Speaker:

The powers conferred by Section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of Section 43, Title III, of the Act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1939.

The existence of these powers has enabled us to safeguard the nation's interests and to carry forward international monetary and economic cooperation. It is obvious, however, that the international monetary and economic situation is still such that it would not be safe to permit such powers to be terminated. I believe the sound and wise policy to pursue under the circumstances is to extend these powers for an additional two years. The legislation should follow the form used in the Act of January 23, 1937, except that the term "June 30, 1941" should be substituted for the term "June 30, 1939."

The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation.

Very truly yours,

Hon. John E. Bankhead,

Speaker of the House of Representatives.



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JAN 17 1939

MEMORANDUM FOR THE PRESIDENT:

As you know, there expire on June 30, 1939, the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the stabilization fund, and the powers contained in paragraph (b) (2) of Section 43 of the Act of May 12, 1933, under which the metallic content of the dollar may be altered and pursuant to which you have been issuing your newly-minted domestic silver proclamations. Transmitted to you herewith are drafts of letters from you to the Vice President and the Speaker of the House of Representatives, respectively, recommending that legislation be enacted continuing for an additional two years the powers contained in such provisions and stating that the Secretary of the Treasury and representatives of the Treasury will be available to discuss with the appropriate congressional committees the problems relating to this legislation.

Since your recommendations would necessitate merely the changing of the dates in the very short statute passed in January, 1937, there would appear to be no need for your annexing to your letters to the Vice President and the Speaker copies of proposed legislation.

Secretary of the Treasury.

File now
1/14/39

Spencer
 My dear Mr. Bankhead:

The powers conferred by Section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of Section 43, Title III, of the Act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1939.

The existence of these powers has enabled us to safeguard the nation's interests and to carry forward international monetary and economic cooperation. It is obvious, however, that the international monetary and economic situation is still such that it would not be safe to permit such powers to be terminated. I believe the sound and wise policy to pursue under the circumstances is to extend these powers for an additional two years. The legislation should follow the form used in the Act of January 3, 1937, except that the term "June 30, 1941" should be substituted for the term "June 30, 1939."

The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation.

Very truly yours,

~~The President~~

Hon. John H. Bankhead,
 The Speaker of the House of Representatives.

JWP:ven-1/16/39

712
Mr. President
My dear Mr. Garner:

The powers conferred by Section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of Section 43, Title III, of the Act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1939.

The existence of these powers has enabled us to safeguard the nation's interests and to carry forward international monetary and economic cooperation. It is obvious, however, that the international monetary and economic situation is still such that it would not be safe to permit such powers to be terminated. I believe the sound and wise policy to pursue under the circumstances is to extend these powers for an additional two years. The legislation should follow the form used in the Act of January 23, 1937, except that the term "June 30, 1941" should be substituted for the term "June 30, 1939".

The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation.

Very truly yours,

~~The President.~~

Hon. John H. Garner,

President of the United States Senate.

JWP:wdh
1-16-39

Shanghai, January 17, 1939.

JAPANESE NAVY WANTS PEACE AT ALL COST

Before his departure recently for Tokyo for an important conference there, Admiral Tsuda (津田 清枝), director of the Special Service Organ of the Japanese Navy in China, had an exclusive interview with a Chinese politician, Gen. Hsu Jui-ling (徐 瑞霖), a veteran Kuomintang leader. As an old friend, the Japanese admiral told Gen. Hsu confidentially that the Japanese Navy as a whole never cherished any ambition to invade China. The aim of the Imperial Japanese Navy is to drive Anglo-American interests from the Far East and to make Asia for the Asiatics under the leadership of the Japanese. In order to achieve this aim, Japan needs the goodwill and co-operation of the Chinese nation more than anything else. Now that the war between China and Japan has been started by some shortsighted army leaders and has grown to such serious proportions that the whole of the Chinese nation is antagonized, the navy is compelled by circumstances to be pulled into the whirlpool and fight by the side of the army in meaningless war. This is a situation deeply deplored by Japan's naval leaders, who don't want to see their equipment eaten up in this way. For this reason the Navy wants peace with China more than anyone else in Japan. On behalf of the naval service in Japan, the admiral is ready to sponsor any peace scheme that is practical. He is of the opinion that the most, and only, effective way is to deal with the National Government direct. The Tokyo Government is prepared to negotiate any terms with the Kuomintang regime to bring about peace only if Gen. Chiang Kai-shek will consent to resign from his post. The Japanese leaders feel that under no circumstances could they consider any formula with Gen. Chiang, but they have no objection to the others, even if the Generalissimo is behind all dealings. They will even agree to Gen. Chiang restoring himself to his original post soon after peace with Japan is realized. His temporary resignation would save the situation and this is the most the Japanese Government could give

in to, Admiral Tsuda believed. On the part of Japan, the naval leaders are working hard to convince the government that such reckless army leaders as Gen. Doihara, Gen. Itagaki, and others, who started this foolish war should be removed from their positions and duly punished for their serious mistakes. The admiral told his Chinese visitor that he is coming back to China the latter part of January to follow up his peace efforts and hopes that the Chinese official will do his best to work for peace in China, but everything should be kept secret from the army people.

A few days ago Col. Kopedo (小幡 武敏), Admiral Tsuda's right hand man and acting director of the Special Service Organ of the Japanese Navy in China, held a conference with a Chinese official who acts as Gen. Chen Yi's representative, and discussed the same topic with him. He said that it is useless for Japan to continue any dealings with Mr. Wang Chingwei, who is now practically a prisoner and a total failure. He hopes, however, that some channel could be found to deal direct with the National Government no matter whether the Army people agree or not. Under any circumstances, Japan must have peace immediately at all cost, said this Japanese navy official.