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OFFICE OF
THE ADMINISTRATIVE ASSISTANT
TO THE SECRETARY OF THE TREASURY

House Appropriations Committee Hearing
10:00 a.m., Wednesday, Jan. 18

Secretary Morgenthau
and
Messrs. Gaston
Bell
Haas
Thompson
McReynolds (later)

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NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

Confidential

January 18, 1939.

Memorandum for the Secretary of the Treasury:

1. The following is a telegraphic report of the condition of the Chungking-Lashio road received this date from Captain McHugh, U.S.M.C.:

(a) There has been no material improvement in the Chungking Kunming section since the reported condition of April 1938 (a copy of the report of condition in April 1938 is attached herewith). The road surface has been deteriorated by weather and traffic, but there is general evidence of planned repairs. The labor availability is measured by the fertility of the terrain, which accounts for the poor condition in western Kweichow. Several important bridges have been completed including a suspension bridge over the Ian River. Therefore traffic is converging at Kwaiyang from Kwellin & Lunan-Fu. An average movement of 100 trucks daily each way was observed on the northern part. These trucks usually drive only during daylight hours. The road will be capable of at least double this amount when the two important bridges now under construction are finished replacing existing ferries. The present traffic control is careless. Careful convoy organization could increase the volume of traffic.

(b) The Kunming-Lashio route traverses rugged, sparsely populated terrain. Labor varies directly with the fertility of the terrain; coolies now less than during initial stages. The future is dependent on skilled mechanized gangs. The road is open for light traffic but as yet is not ready for heavy traffic. One test convoy was brought through during the middle of December. The following work is in progress throughout the entire section: widening, sloping, surfacing, and building of many small bridges. Repairs to Salween and the Mekong suspensions have been completed. It is not believed that project will be finished prior to the beginning of the spring rainy season, which lasts until late fall, when adverse geology plus labor shortage, due to the care of crops, will interfere. Thereafter six months of hard work will be required. Assiduous upkeep and careful traffic control would then provide unlimited capacity, but experience dictates less optimistic estimate. However it is considered that results thus far with provincial hand tools are phenomenal. The Central Government has been controlling since the beginning of the New Year, providing competent engineers and purchasing modern construction equipment. At maximum safe speed driving it took 45 hours to traverse 700 miles. Trucks would take somewhat more time because of their slower speed.

William D. Leahy
William D. Leahy.

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ECONOMIC FORCES

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TRIP OVER MOTOR ROAD FROM CHUNGKING TO YUNNANFU VIA KWEIYANG, KWEICHOW PROVINCE.

1. General. - The party, consisting of Lieutenant Colonel Lovatt-Fraser, British Military Attache, Lieutenant Colonel Sabatier, French Military Attache, and the American Naval Attache, left Chungking the morning of 18 April and arrived at Yunnanfu (Kunmin) the evening of 19 April, a total of four days. Incidentally this broke the previous record for the trip by half a day. An escort of four gendarmes, sent by the Garrison Commander of Chungking, accompanied the party. Two Chevrolet cars in good condition were used. The party travelled only by day. No heavy rains had fallen for some days prior to the trip and no rain was encountered while travelling, although it rained during the third night in the mountains south of An-nan (Kweichow).

2. The journey from Chungking to Kweiyang, 482 kilometers (299.6 miles), was largely through mountains or rough hilly country until nearly 52 kilometers (32.31 miles) from Kweiyang where it opened out. On the whole, the road surface was in good condition, particularly for China, for the first 80 kilometers (49.1 miles) from Chungking and then from Tsunyi to Kweiyang, 153 kilometers (95.06 miles). There was one bad stretch for about 25 kilometers (15.53 miles) in the vicinity of the terrestrial divide, 244 kilometers (151.61 miles) from Chungking. Kilometer stones marking the distances along the road ran from 0 at Chungking to 177 (109.88 miles) at the Szechuan-Kweichow border. On the Kweichow side the stones start at 305 (189.51 miles) and run to 0 at Kweiyang, capital of Kweichow.

3. The road is capable of taking two way traffic all the way, with careful driving. The road gradient varies continually as apparently little attempt was made to undertake grading in Szechuan and Kweichow provinces, the work consisting mainly in laying a surface with dirt and crushed rock. Rock is available right at the roadside with the exception of 50 miles in Yunnan province, so that upkeep is merely a matter of labor.

4. Two mountain ranges were crossed between Chungking and Kweiyang and there were many hair-pin turns. Careful driving, in low gear largely, and good brakes are essential. The road was surfaced with crushed rock all the way and appeared able to stand reasonably heavy traffic in wet weather.

5. Repair gangs were in evidence everywhere in Szechuan and Kweichow provinces, although scarce in the sparsely settled mountain stretches in which labor is less plentiful. Generally speaking the upkeep of the road will probably vary in accordance with the labor supply in the immediate areas.

6. The military necessity for the road, and its construction was largely due to possible increasing military importance if Hankow is captured or the Canton-Hankow Railroad is permanently broken. It can be said, however, that should the latter line of communication be disrupted and require dependence upon this highway, China will be in desperate straits. The road from the point of view of length and condition is far from satisfactory for the continuous year around supply of important munitions of war. During the trip very little traffic was encountered; only two motor lorry convoys, of twenty cars each, were passed, and they were only half filled

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with unimportant items. One convoy was believed to be carrying odds and ends of aviation material and equipment from Changana to Yunnanfu for the aviation school there. Public buses are said to run fairly regularly, but they are in very bad condition, battered and uncomfortable and travel thereby certainly not to be anticipated with much pleasure.

7. The main item of transport seen on the stretch between Chungking to Kweiyang was rock salt, carried in every way imaginable; by coolie pack, poles, hand carts, pony carts and on the backs of ponies. It is interesting to note that not one single donkey was seen on the road; Yunnan ponies, very small and wiry, were the only pack animals seen.

8. The high ranges of mountains were well wooded with mostly fir and pine. The crops were in good condition, consisting largely of rice, wheat, mustard, wood-oil beans, beans and rape. The towns and villages presented a poor, almost poverty stricken appearance. The shops were badly stocked and not well patronized. The inhabitants looked incredibly impoverished and ragged, fair evidence of the statement made by the Governor of Kweichow at Kweiyang, that his province was very poor and backward, and also that many parts lacked an adequate water supply. There was wholesale evidence of opium smoking in the bedraggled, listless appearance of the people seen along the road.

9. 1st Day - Chungking to Tsunyi, 204.42 miles. - The party left the ferry across the river from Chungking at 0645. The road follows the Chi-kiang River generally, with the country hilly on both sides. At 80 kilometers (49.7 miles) a modern bridge is under construction over the Chi River, the stone piers are already finished. Cows are now ferried over on rafts.

10. Across the river the road passes through a valley which opens out until the city of Chikiang is reached. This is a large city with many shops. A stone bridge is crossed at 101 kilometers (62.75 miles) and a new stone bridge is under construction at 106 kilometers (65.86 miles), where at present a boarded over sampan bridge is used. From here the road follows the left bank of the Chi River which runs northward. Large junks are seen on the river as far as the rapids at 115 kilometers (71.45 miles), above which large narrow, shallow draft sampans are used.

11. The road was good most of the way, capable of two way traffic, but lacking gradient, it follows the natural contour of the land, probably over the old provincial road in use for years.

12. The town of Tunghai was reached at 126 kilometers (78.26 miles). It is a large town with some small shops. At 145 kilometers (90.09 miles) a new bridge is under construction with two stone piers completed. Cows are ferried across the river on rafts. At 156 kilometers (96.93 miles), the road begins to cross a high range of mountains. There were many hair-pin bends and magnificent scenery. Road gangs were in evidence and the road surface was good. At 171 kilometers (106.25 miles) the road rises again through a mass of high hills and at 177 kilometers (109.98) the Szechuan border is crossed. Here the kilometer stones start with 305 (189.51 miles) in Kweichow province decreasing to 0 at Kweiyang.

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CHOW PROVINCE.

13. Crossing into Kweichow the road begins to descend to Sungkan at 291 kilometers (180.81 miles) where there is open country for a few kilometers. (Note that distances are now in kilometers from Kwaiyang). Then another high range of mountains is crossed and the divide reached at 238 kilometers (147.88 miles). It is estimated that this divide is about 6,000 feet high and the rivers then begin to flow southward. On both sides of this divide for a stretch of 25 kilometers (15.53), the road is bad, with small landslides frequent. The road surface is rough, grades steep, and hair-pin bends plentiful. Since the mountains are rocky, they are sparsely inhabited and labor is therefore scarce for road work.

14. Leaving the divide, the road descends into a valley, eventually arriving at Tung Tze, 220 kilometers (136.70 miles). From Tung Tze to Tsung Yi, kilometers 153 (95.06 miles), there is little of interest; the road is quite good and the country more open. The point of greatest interest at Tsung Yi, reached at 1845, was probably the Chinese Inn at which we stopped for the night. Interesting, in that it was filthy, flea infested and foul smelling. Hard board beds were, of course, all that were available. Luckily food was carried, sufficient for the trip, although the Chinese food available looked fairly appetizing. Three hundred and twenty-nine kilometers (204.42 miles) were covered the first day and it can be said to have been a hard day's journey, with no stop for lunch and few others. A speed of not more than 20 kilometers (12.42 miles) can be averaged through the mountains and about 30 kilometers (18.64 miles) elsewhere. For trucks the speeds would necessarily be less, and it is not believed that more than 20 kilometers (12.42 miles) per hour could be averaged by military truck caravans during daylight hours.

15. 2nd Day - Tsung Yi to Kwaiyang, 95.06 miles. - Tsung Yi was left at 0630 and not regretfully. The road to Kwaiyang followed a wide open valley which ended in a descent to the town of Wu Kiang at 104 kilometers (64.62 miles). This part of the country is well populated and the road was in good condition all the way. At Wu Kiang (river) the cars were ferried across the river on a large barge raft, of which two were available, each capable of taking two cars or possibly two trucks. Twenty-three military trucks were waiting to cross in the same direction when we arrived. It was estimated that each raft ferry could transport five cars an hour. There was no sign of bridge construction, nor any information that a bridge was contemplated, while it would not be an impossible task, the river is approximately 75 meters (246.81 ft.) and a considerable amount of structural steel would be required. The greatest difficulty would be in transporting material to the spot. Until a bridge is completed at this point, it will be impossible for tanks to travel the route and all traffic will be considerably slowed up.

16. At 75 kilometers (46.60 miles) the road descends into another wide valley in the middle of which lies Kwaiyang, the capital of Kweichow. At about 54 kilometers (33.55 miles) it was noticeable that the hills were becoming treeless, showing the inroads of the city population upon the timber lands.

17. Kwaiyang was reached at 1105, Easter Sunday, April 17th, and the party stopped at the Hsin Sheng Huo Hotel, a product of the New Life Movement. The hotel was clean and comfortable, except for the same hard, board beds.

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TRIP OVER MOTOR ROAD FROM CHUNGKING TO YUNNANFU VIA KWEIYANG, KWEI-CHOW PROVINCE.

18. In the afternoon, a courtesy call was paid on Mr. Wu Ting-chang, Chairman of the Province and formerly Minister of Industry until a few months ago. He was very cordial and helpful and confirmed arrangements already requested for a car to come from Yunnanfu to meet us at the broken bridge across the Pan Chiang River. He also insisted that the Szechuan gendarmes return to Chungking, to be replaced by four of his own men. He ordered the Director of Highways for the Province, Mr. Sung, to call and give us the latest road information. The latter is a graduate of Purdue University (M.E.), Class of 1927.

19. Kweiyang is a large city, with several fairly wide streets newly laid out and lined with new wood buildings. The shops were not stocked with any articles of value.

20. In Kweichow province in particular, it was noticeable that many new buildings were being erected along the road side, typical evidence of the value of new roads. Good roads should be of tremendous value in developing this backward province, which has lacked communication facilities, due largely to the mountainous country.

21. 3rd Day - Kweiyang to An-nan (Kweichow), 150.37 miles. - Left Kweiyang at 0710, accompanied by a car of Kweichow gendarmes and another carrying Mr. Sung and an assistant engineer. The kilometer stones began at zero and increased going toward Yunnan.

22. For the first 125 kilometers (77.67 miles) the country was fairly open, winding through treeless hills, covered with boulders and with little soil left on the slopes. The population was scattered and remarkably impoverished. The road surface was correspondingly poor through the uninhabited areas.

23. At 125 kilometers (77.67 miles), the first poppy (opium) beds were seen since departure was taken from Chungking and from this point on, large fields of poppies in bloom were seen on all sides, particularly high up in the mountains. At 140 kilometers (86.99 miles), there is a beautiful cascade, with a waterfall of 200 feet. From here the country became extremely mountainous and the going was very slow. At 148 kilometers (91.96 miles) the road descended into a deep valley and crossed to the other side over a stone bridge. The scenery was truly magnificent and compares favorably with the Swiss and Italian Alps. The road started another steep rise again between 166-170 kilometers (103.14-105.83 miles). At kilometer 199 (123.65 miles), a steep descent was made to the broken bridge at Pan Kiang, Kilometer 217 (134.83 miles) The old bridge was of the chain suspension type and had been installed for many years. It had been considered unsafe for heavy traffic for some time prior to the construction of the new road, but apparently late in March a heavy truck had attempted to cross despite orders to the contrary and the bridge collapsed. A few suspension beams left hanging on a temporary chain were all that was left of the bridge; the floor was completely gone. Construction camps were established on both sides ready to start repairs, but no bridge material had as yet arrived.

24. We had been informed by General Ho Ying-shin, Minister of War, that a new bridge was under construction which would be completed by the end of April. Not only had work not been started on the new bridge, but it was evident that the old one would not be repaired for

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many weeks. It was another unfortunate commentary on the Chinese way of accomplishing things. The original plans probably called for completion in a certain time. After approval of the plans and the start of preliminary construction work, it thereupon became taken for granted that on the date set, the work would be completed. The delay necessary for purchasing materials, building and transporting these to the spot before work could actually start, was passed lightly over. In the meantime the Minister of War and the provincial Governor labor-ed under the illusion that all was going well. Such planning is particularly sad in view of the growing importance attached to this route by the Chinese Government as a munitions supply route to replace the Canton-Hankow railroad line in the event it is cut. The importance of the highway is granted, but the present possibilities are vastly overrated.

25. Mr. Sung, speaking of the bridge, informed us that plans had been made for the construction of a new, twenty-five ton span bridge between the two old piers which looked quite substantial. In Yunnanfu it was later learned that a French engineer who had surveyed the bridge project for a private concern, expressed serious doubts for the bridge specifications which he studied them. It is estimated that actual construction work will require two months after material arrives. Consequently any large amount of transportation contemplated in the next three months will require separate truck systems on each side of the river and laborious transfer of material by sampans across a swift running, narrow river, with the ends of the road high up on the precipitously steep banks.

26. The Pan Kiang was crossed at 1500, where two Kwaihow cars awaited the party. An-nan at 242 kilometers (154.72 miles), was reached at 1800, the road rising all the way for 25 kilometers (15.53 miles). It is estimated that An-nan has an elevation of 7,000 feet. A hard day's trip was rewarded by accommodations in an even worse Chinese Inn than that at Tsun Yi. The pigs, ponies, humans and fleas spent the night on the most intimate terms.

27. 4th Day - An-nan to Yunnanfu (Kunming), 272.16 miles. - An-nan was left at 0530 at daylight, clear and cool. From An-nan the road rises steadily into the most mountainous, majestically beautiful country yet seen. Hair-pin turns followed each other interminably and the cut backs up and down mountain sides seemed endless. Veins of surface coal could be seen everywhere. It is no exaggeration to say every peasant had at least one coal mine of his own.

28. Village youths were undergoing a form of military training in the early hours of the morning at every village passed. Regardless of its immediate value it is factual evidence of what is going on in most provinces of China, even in Kwaihow, reckoned as the most backward of them all.

29. A stone bridge, many years old, carried the traffic at 327 kilometers (203.18 miles) and at 327 kilometers (203.18 miles) the highest point was reached. From there to kilometers 340 (211.26 miles) the road travelled on the level between peaks, where it began to descend.

30. Pan Hsiao was reached at 0915 where two American lady

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TRIP OVER MOTOR ROAD FROM CHUNGKING TO YUNNANFU VIA KWEIYANG, KWEI-
CHOW PROVINCE.

Missionaries with the China Inland Mission had prepared a typical American "ham and egg" breakfast for the party. There was no mistaking the enthusiasm with which it was received.

31. From Pan Hsien to the Yunnan border, 412 kilometers (256 miles), the road was still up and down. The rock surface was fair, but not deep and its ability to withstand heavy traffic in rainy weather is doubted. Lesser amounts of poppy under cultivation were noted.

32. At the Yunnan border the first distance stone was 243 kilometers (150.99 miles) from Yunnanfu. Particularly noticeable was the difference in color of the sides of the valley separating the two provinces. On the Kweichow side the earth is black loam, while on the Yunnan side it is red clay. An old village at the border has characters meaning that it is at the joining of the red and black earth.

33. At Ping Yi, kilometers 230 (142.91 miles), the city magistrate met the party and served tea in his yamen, having received telegraphic instructions to look after honored guests. At 174 kilometers (108.11 miles) the road went over a well built five arched stone bridge. From the moment the Yunnan border was reached, the road improved in every way. This is partly accounted for by the fact that the country is far less rugged and mountainous, not very different from the rocky mountain foothills. The road had received far more engineering attention than in Kweichow, having good grades and fills and a better rock surface. It was possible to increase motor-ing speed to between 55 kilometers (34.17 miles) and 60 kilometers (37.28 miles) an hour. It is said that this speed is possible over most of the roads from Yunnanfu toward the Burma frontier.

34. The city of Kutsing was reached at kilometers 159 (136.08 miles). From this point the country appeared more arid; the atmosphere was very dry, and there was a scarcity of rock and boulders available for road surfacing. At kilometers 104 (64.62 miles) another five arch stone bridge was traversed. About 40 kilometers (24.85 miles) from Yunnanfu the road became quite rough, apparently from lack of attention only, as there was plenty of stone available everywhere. The average width of the road in Yunnan is about 15 feet and well able to take two way traffic.

35. Yunnanfu was reached at 1845; a total of 438 kilometers (272.16 miles), having been made good, on the fourth day in a little over 13 hours, evidence of the superiority of the Yunnan section of the road.

Comment. - While the construction of this road is a rather remarkable testimonial of the labor and material resources of China in time of war, the road itself is far from being a military road. As has been said before, should the Canton-Hankow railroad be lost, the length and condition of this road will prohibit its contributing very much in the transportation of war materials. A smooth rapid flow of traffic is impossible with many rivers still unbridged. An efficient organization of several thousands of trucks would be required to make this line of communication effective.

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TRIP OVER MOTOR ROAD FROM CHUNGKING TO YUNNANFU VIA KWEIYANG, KWEI-
CHOW PROVINCE.

Table of mileage and stations on the Chien-Chwan (Kweichow-Szechuan) and Chien-T'ien (Kweichow-Yunnan) motor roads under the control of the Bureau of Reconstruction of the Kweichow Provincial Government.

Chien-Chwan (Kweichow-Szechuan) Motor Road.
[From Kweiyang to Chungking]

<u>Stations</u>	<u>Kilometers</u>	<u>Miles</u>
	0	0
Kweiyanghsien	4.35	2.7
Shanchiao	11.	6.83
Hsinchiao	12.3	7.64
Lichiafenshan	16.55	11.52
Maolipu	19.82	12.31
Tiao jenchieh	23.4	13.9
Shatzeshao	25.1	15.6
Panchuyuan	29.12	18.09
Liushihheng	29.68	18.44
Shihpanshao (district boundary)	33.13	20.58
Shan chungyon	38	23.61
Chatsochan	41.76	25.95
Chutoushan	43.7	27.15
Kaopa	46.15	29.92
Kouchangoe	50.48	31.37
Lopeng	53.13	30.02
Yangmatien (district boundary)	54.58	33.91
Li yuanshao	59.73	37.11
Putao tung	65.8	40.89
Yanglangpa	66.55	41.35
Hsinchieh	69.95	43.46
Panpienchieh	73.	45.36
Heifanghsien	79.	49.09
Shanhotu	79.65	49.49
Panchiayang	83.75	52.03
Heishenmiao	86.5	53.75
Haisochaiwa	90.06	55.96
Paishapu	91.6	56.92
Heipaiching	97.7	60.71
Yanglungshan	101.7	63.19
Yanglungtao	104.5	64.93
Wukiang	104.585	64.98
Wukiang river (district boundary)	106.71	66.21
Laochunkwan	115.67	71.87
Taopashui	120.02	74.57
Tungtzeshih	120.82	75.07
Chungchang	121.67	75.6
Lossuyen	125.67	78.09
Heinchan	131.07	81.44
Houpachang	136.62	84.89
Laipanteng	141.07	87.66
Kueihuaachiao	144.87	90.01
Lungtang	149.72	93.03
Chungohuangpu	155.	96.93
Tsunyihaien	160.85	99.95
Maotsaopu	163.65	101.69
Shih tzepu		

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<u>Stations</u>	<u>Kilometers</u>	<u>Miles</u>
Tungkungso	166.	103.15
Mengtzuchiao	168.9	104.95
Kaoping	173.	107.5
Tachiaoan	176.5	109.67
Litsunkan	176.65	109.76
Shangpa	184.11	114.40
Chanshang	186.45	117.10
Kuanyinko	191.5	118.99
Yungantsum	192.5	119.61
Panchiaoan	196.	121.79
Heishemiao	203.	126.14
Loushankuan (district boundary)	205.19	127.5
Nanchikou	209.4	130.11
Hunghuayuan	211.9	131.67
Shakou	216.	134.22
Kuantuho	219.217	136.21
Tungtzehsien	220.5	137.01
Yuantienpa	227.6	141.42
Chumipu	233.25	144.93
Liangfengya	238.054	147.92
Shanpo	257.28	159.87
Hsinchan	263.9	163.98
Huichenchi	280.95	174.57
Hsiunghuansze	281.92	175.18
Yuampachieh	284.65	176.87
Chingshuichi	287.	178.33
Tapaopu	288.7	179.39
Sungkan	291.63	181.21
Hanchiatien	296.	183.92
Chiutienya	301.3	187.23
Chungchiho (provincial boundary)	306.55	190.48
Chungking	482.56	299.65

Chien-Tien (Kweichow-Yunnan) Motor Road.

Kwaiyanghsien	0.	0.
Weihs Gate	0.57	.35
Touchiao	1.95	1.21
Erhchiao	3.4	2.11
Shanchiao	4.3	2.67
Hsinchieh	5.55	3.45
Toupu	6.	4.23
Kaoyoshao	7.4	4.6
Wuliting	9.3	5.78
Erhu	12.	7.46
Kouchang	16.	9.94
Shanpu	17.72	11.01
Kaotzutang	19.63	12.30
Maoneishan (district boundary)	23.76	14.76
Tungmenchiao	26.455	16.44
Chingchenhsien	28.054	17.44
Wukouchiao	34.7	21.56
Lengshuihang	35.95	22.34
Houliuchiao	37.75	23.46
Hsiehanchiao	41.8	25.97
Yahlungpa	44.8	27.84

CONFIDENTIAL

CHINA

23 July 1938

500 - Economic Forces
507 - Inland transportation
500 - Highways

CONFIDENTIAL

ECONOMIC FORCESTRIP OVER MOTOR ROAD FROM CHUNGKING TO TUNNANFU VIA KWEIYANG, KWEI-
CHOW PROVINCE.

<u>Stations</u>	<u>Kilometers</u>	<u>Miles</u>
Pinglangpa (district boundary)	45.4	28.21
Hsiayunkwan	49.25	30.60
Pingpahsien	56.3	34.98
Shanpeifang	58.2	36.16
Huangchiachai	60.2	37.41
Hsiatoupu	61.5	38.21
Shatzuhao	64.3	39.95
Shihkangpian	66.05	41.04
Tienlungohai	69.4	43.12
Shihpanfang (district boundary)	69.89	43.43
Shihpanfang	70.1	43.56
Tachui chiao	73.	45.36
Taitzuchieh	74.7	46.48
Shanpu	75.6	46.98
Liangshuching	78.55	49.43
Shanlan	83.6	51.95
Liangso tun	86.1	53.5
Toupu	90.45	56.2
Tungkwan	95.45	59.07
Tungsen	94.89	58.96
Anshunhsien	95.485	59.33
Yangchiatang	102.9	63.94
Yangchiachiao	105.51	65.56
Yaopu	109.9	68.29
Pienshihpan (district boundary)	111.5	69.28
Tashanshao	114.9	71.4
Lianshanpu	119.6	74.32
Chenningsien	125.835	78.19
Chuyingshao	131.	81.4
Anhuangpo	134.4	83.51
Huangkoahu (district boundary)	140.6	87.36
Tashanling	146.1	90.78
Kwanlingchang	170.55	105.97
Talungtan	173.	107.5
Shateh	174.4	108.37
Shihpanching	175.7	109.17
Paohiaoyah	178.6	111.1
Yungningchow	182.2	113.43
Meitzumen	196	121.79
Shihyehkou	196.9	122.35
Huangtutang	200.8	124.77
Tunatengpo	202.	125.52
Hsiatoupu	208.7	129.68
Tiehaochiao (district boundary)	217.152	134.93
Tiehaochiao	217.45	135.18
Panpotang	221.6	137.7
Shanhsienfang	223.2	138.69
Liangshuiying	229.	142.29
Hemachuang	233.492	145.08
Annanhsien	242.	150.37
Pankwan	245.005	152.24
Chialiangpo	250.94	155.93
Wanghanchuang	257.8	160.12
Shatzuling	258.	160.31
Hsiapankiangchiao (district boundary)	268.34	166.74

CONFIDENTIAL

Report No. 66.

CHINA

23 July 1938

500 - Economic Forces
507 - Inland transportation
300 - Highways

CONFIDENTIAL

ECONOMIC FORCES

TRIP OVER MOTOR ROAD FROM CHUNGKING TO YUNNANTU VIA KWEIYANG, KWEI-CHOW PROVINCE.

<u>Stations</u>	<u>Kilometers</u>	<u>Miles</u>
Kiangsiyo	273.9	170.19
Hunghuawan	281.3	174.92
Peishihyen	284.2	176.59
Pachiaokwan	287.3	178.52
Tachiaoho	290.45	180.78
Puanhsien	295.	183.3
Pa-an railway station	295.323	183.50
Shanpanchiao (district boundary)	307.015	190.77
Yinwusze	310.	192.62
Yinwushao	310.2	192.75
Kweichuanpu	315.2	194.61
Chiupuan	330.3	205.24
Panhsien	343.6	213.5
Tachiao	344.36	213.97
Shuitsaping	359.	223.07
Liangtouho	360.4	223.94
Hsiaokou	362.3	225.12
Tunnanshao	363.25	225.71
Chiupu	374.6	232.77
Kankoutachiao	379.26	235.66
Huachiatun	382.8	237.86
Hsisungohiao	383.373	238.22
Hsiahsipu	386.8	240.35
Shanghsipu	388.4	241.34
Itzukung	392.1	243.64
Huochaopu	398.65	246.47
Ping-i-so	405.15	251.75
Hsiaochientze (provincial boundary)	412.315	256.2
Ping-Yi Hsien	425.115	264.15

CONFIDENTIAL

SZECHWAN

HUNAN

YUNNAN

KWEICHOW

KWANGSI

ROAD MAP KWEICHOW PROVINCE

NAVAL ATTACHE'S OFFICE, PEIPING, JULY 23, 1927

- ① Route Number
- Province Boundary
- Main Road (or Special)
- Motor Road (with Certificate)
- Main Road (No. 6)



CHINA

31 July 1938

500 - Economic Forces
507 - Inland transportation
500 - HighwaysECONOMIC FORCES

CONFIDENTIAL

CONDITIONS OF NEW CHINESE HIGHWAYS FOR TRANSPORTATION OF MILITARY SUPPLIES FROM ABROAD.Chung-Hongkong Route.

According to one who traversed the road between Hongkong and Chungking, Szechuan province, road conditions varied considerably in the different provinces. In this trip the following route was used: Canton, Fochow, Watlan, Kweihsien, Ishan (on the frontier of Kweichow and Kwangsi), Tuyun, Kweiyang and Chungking.

The Canton and Kwangsi highways are narrow and dangerous, with that running through Kwangsi being in good condition. The road from the Kwangsi border to Kweiyang is in bad condition, and the Kweiyang-Chungking section fairly good (see our Report No. 66 of July 23, 1938).

River ferries in Kwangtung province are worked 24 hours a day, the maximum daily capacity with the number of ferries in use being 48 trucks in each direction. Gasoline was available all along the route but lubricating oil was scarce and of poor quality.

- - - - -

Kumin-Burma Route.

Completion of the Kumin (Yunnanfu) - Myitkina (Burma) road was announced in July, 1938. This road measures approximately 498 miles in length, and can be negotiated in four days' time. From Myitkina begins the western terminus of the Burmese railroad to Rangoon.

The plan to build this road from Kumin to the Burmese frontier is not new, about 275 miles of the road having been built about three years ago. Not until last December was work started on the 343 miles stretch from Hsiakwan to the border of Burma. The distance from the border to Myitkina is approximately 155 miles. Bridges, mostly of modern steel construction, have a capacity up to 10 tons. Improvements on the few older suspension bridges are to be made.

The new highway takes the following route: Kumin-Hsiakwan-Yungcheng-Lungling-Mangshih-Lashih. It is largely hard surfaced. Work on embankments has not yet been fully completed. At present no supplies of gasoline or spare parts are available along the route.

The commercial possibilities of the route are great and British, French and American capitalists are interested in the development of the non-ferrous mines in Yunnan, including tin, lead and antimony. The opening of this highway and the completion of the proposed railway will stimulate and increase trade activities in the southwest provinces with Indo-China and Burma.

A number of Chinese commercial and industrial magnate whose interests were formerly centered in Shanghai are said to be willing to invest money for the development of the rich natural resources of Yunnan and have joined the newly created Chinese Association for the Promotion of Productive Enterprises in Yunnan.

CONFIDENTIAL

Regraded Unclassified

THE WHITE HOUSE
WASHINGTON

JANUARY 18, 1952.

MEMORANDUM FOR _____
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

Wm J.

Senator of
Coal Com. to be
Intell. Indimer
in place of Will
D. Smith whom
neither Senator
wants?
FDR

JAN 16 1939

Honorable Marvin H. McIntyre,
Secretary to the President,
The White House,
Washington, D. C.

My dear Mr. McIntyre:

Receipt is acknowledged of your memorandum of January 3rd with which you transmit certain correspondence from Mr. Charles C. Pettijohn in which the fear is expressed that action may be taken looking to the appointment of a successor to Collector Will H. Smith of the Indiana Collection District. You indicate that the President has asked you to take up the attached correspondence with me for the purpose of ascertaining my reaction in the matter.

While I am not aware of any desire on the part of the President to make a change in the Collectorship for the Indiana District, I might state that upon taking the matter up with the Internal Revenue Bureau I am informed that Collector Smith has an outstanding record in the administration of the affairs of the District which he supervises. Mr. Smith is one of the best Collectors of Internal Revenue in the United States and it would be unfortunate from a Service viewpoint if a change in this position should become necessary.

The correspondence which you sent me with your memorandum of January 3rd is returned herewith.

Sincerely yours,

Secretary of the Treasury.

Enclosures.

GJS:CM

THE WHITE HOUSE
WASHINGTON

January 18, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

Mr. J.

Queen - for Int. Bro.
in Mass

Income Tax - not filed 2 yrs
Married Woman - over
of important.
San Watch
Dept

F.M.

Congressman McClelland

Thomas B. Haisett

Collector for Boston

WESTERN UNION

1911

SYMBOLS	
DL	Day Letter
NL	Night Letter
LC	Deferred Cable
NLT	Cable Night Letter
	Ship Radiogram

CLASS OF SERVICE
 This is a full-rate telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

R. B. WHITE
 PRESIDENT

NEWCOMB CARLTON
 CHAIRMAN OF THE BOARD

W. C. CLEVER
 VICE PRESIDENT

Shipping time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time shown on CABLES is STANDARD TIME at point of destination.

Received at 708 14th St., N. W. Washington, D. C.

A740 NPB PAID=PS BOSTON MASS MA

ON JOHN W MCCORMACK=

HOUSE OF REPRESENTATIVES WASHINGTON

ESPATCH IN HERALD SAYS YOU ARE OPPOSED TO THE APPOINTMENT OF
 MASSET AS COLLECTOR. YOU ARE ABSOLUTELY RIGHT. I HAVE
 WRITTEN WALSH PROTESTING AGAINST HIS CHARGE FOR GOODEN.
 IT'S OUTRAGEOUS TO TURN DOWN MASSET. HOPE YOU KEEP UP
 THE FIGHT FOR HIM=

C B CARBERRY.

Editor Boston Herald

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

THE WHITE HOUSE
WASHINGTON

January 18, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

*by not Peoples
with comm*

Jan 18, 1939

M. J.

Working with Peoples to
an important time.

Jan 18, 1939 (10)

THE WHITE HOUSE
WASHINGTON

January 27, 1946

PERSONAL AND
CONFIDENTIAL

MEMORANDUM FOR SECRETARY WORGENTHAU:

The next time you are over, I wish you would speak to me about the case of former Congressman Norman Hamilton of Virginia.

He was, as you know, a Collector of Customs for Virginia for eight years and is now interested in the Commissionership, should there be a vacancy.

I would be glad if you would take this up with me at the first opportunity.

Thank you.


A. C. McINTYRE
Secretary to the President

January 18, 1939.
1:01 p.m.

25

HMJr: Hello.

Operator: The Vice President. Go ahead.

John
HMJr: Hello.

Garner: Hello, Henry.

HMJr: How are you?

G: Pretty good, old fellow. How are you?

HMJr: I'm about that way also. Ah -- what I'm calling up about is this -- I have a letter addressed to you and to the Speaker, Bankhead, from the President, asking for extension of the stabilization fund, and I wanted to come up on the hill and deliver it personally. Hello?

G: Yes?

HMJr: Now, could I do that the first thing tomorrow morning?

G: Sure. I'm always here, Henry, and the door always stands open to you.

HMJr: What time would be good up there?

G: Any time you come by here; from eight o'clock on, I'm here.

HMJr: Well, now, you may want to ask some questions. Do you suppose I should --

G: Not a damn one do I want to ask.

HMJr: Well, supposing I -- I -- I'll be up there a little after nine o'clock?

G: Yes, I'll be right here.

HMJr: All right, thank you.

G: God bless you.

HMJr: Thank you.

G: All right.

January 18, 1939.
8:10 p.m.

26

EMJr: Hello.

Operator: Mr. Roule. Go ahead.

EMJr: Hello.

Roule: Hello.

EMJr: Roule?

R: Yes, Mr. Secretary?

EMJr: Mr. Roule, I have before me a memo that you sent to Mr. Helvering, giving him a telegram. Senator --

R: Oh, that. That's that -- that Pepper thing?

EMJr: Yes.

R: The Senator has been calling me on that since.

EMJr: Yes.

R: And according to the Senator, he -- the President talked it over with you. I didn't know and I didn't want to bother you.

EMJr: Well, as a matter of -- I just want to let you know the matter is on my desk now --

R: Yes.

EMJr: And the first time I get a chance to see the President I will talk to him about it.

R: I see, sir.

EMJr: I just wanted to let you know that's where it is.

R: Yes. If the Senator calls me on that, is it alright for me to say you are going to take it up with the President.

EMJr: You can say -- well --

R: Sir?

EMJr: Say it's on my desk.

R: It's on your desk.

EMJr: You can -- you can hang it on me.

R: All right. He's been -- he's been pounding me ever since and I didn't want to bother you.

HMJr: He's coming in with a delegation at four o'clock. I don't know whether he'll bring it up, but you can say that it's on my desk.

R: I'll do that, sir. Thank you, Mr. Secretary.

HMJr: I'm the comfort.

R: Yes.

HMJr: O.K.

January 18, 1939.
3:22 p.m.

HMJr: Hello.

Operator: Postmaster General.

HMJr: Hello.

James Farley: Glad you are back in our village.

HMJr: Same to you, young fellow.

F: I haven't had a vacation yet. I'm going to get away some of these days.

HMJr: Are you?

F: It will be a couple of weeks, I guess, before I get cleared up. I haven't had a day off since election, Henry, and I'm really tired.

HMJr: Well, I'm not surprised. Listen, Guy Helvering is here with me, see? We want a little advice.

F: O.K.

HMJr: Senator Pepper --

F: Yes?

HMJr: Is bringing all kinds of pressure to bear to remove the present Collector of Internal Revenue, and put somebody else in.

F: Well, I don't think it should be done.

HMJr: You don't?

F: Frankly, no.

HMJr: Well, here's -- here's the thing, Jim. Have you got a minute?

F: Yes, surely.

HMJr: This is the way Guy and I feel -- ah -- this is as good a case as any. This fellow worked for Roosevelt in '32.

F: That's right.

HMJr: He comes along, and he's appointed.

F: That's right.

WJr: He's one of the half a dozen best collectors that we've got.

F: Yes.

WJr: Ah -- he's lived up to the rules and regulations of the Treasury; kept his nose clean.

F: That's right.

WJr: Although he did make a personal contribution to Pepper, voluntarily, but he did not take an active part in his campaign.

F: Yes.

WJr: Because he's not permitted to.

F: That's right.

WJr: Now, the fellow's got a clean record. He's been -- he was for Roosevelt before Chicago --

F: He was Roosevelt before Pepper came on the scene with George Hills.

WJr: Right! Now, should we, where a fellow has done that, remove him?

F: Well, I'm not in favor of doing those things, frankly. Now I don't know how far the boss went with Pepper, but personally I think it's a mistake, all that. He'll -- he'll put in a fellow he wants, and the fellow he puts in will probably want all the collectors who -- all the deputy collectors to resign and he'll build that machine just for himself. Now, that's all he's thinking about. Well, I don't think that should be permitted. I don't think your office or any other office should be used for that purpose. Particularly if the fellow is doing all right.

WJr: Well, he's one of the best -- he's among the top six.

F: Yes. Well, I think that's a mistake.

WJr: Well --

F: Of course, I'll get back to what I said a moment ago -- I don't think it's right for the boss to promise, if he did. Now I know there are some cases where he's probably going to insist that you make some changes for him, and I'm not going to get in any -- in the middle on those things, see?

HMJr: Well, but I -- I

F: But I think in this case it's wrong to remove this fellow, and I -- if I were in your place, I'd resist it as long as I could, and that would be my personal position, and you may be able to get finally in a position where he -- the boss will demand it, but unless the boss demands it, I wouldn't do it for Pepper.

HMJr: Well, what I -- this is as good a case as I have to make a fight on.

F: That's right. I don't think the boss is going to ask you to do it. I mean, I don't think he is going to force you, if you want to put it that way.

HMJr: Well, he'll -- he'll have to force me.

F: Yeah.

HMJr: See?

F: Yes, I know what you mean.

HMJr: You mean --
did

F: Then if he/the same with me, I'd do it to, but I'd resist until the end.

HMJr: Yeah.

F: I know all about that case. Now, there are a lot of them that I don't know about, but I know about this case.

HMJr: Well, I just wanted, as a -- as a matter of man to man, and also as a matter of you as the head of the party -- I mean -- your advice, you give me what I want. Now, I think --

F: Now, for instance, he's going to want to do the same thing with me on the postmasters. He's going to want me to remove Hill, the postmaster in Miami, and between you and me I'm not going to do it.

HMJr: Uh-huh. Well -- ah -- you've told me what I wanted to know. Now this other thing, in this New York thing, we are going to send for Congressman Fay and try to have a heart to heart talk with him.

F: Yes.

HMJr: How successful we'll be, we don't know.

- 4 -

F: Well, between you and me, I think you can handle him, unless somebody else, whose name I don't need mention --

HJr: Yeah.

F: Has made a lot of promises, and it isn't the boss. You know who I mean.

HJr: I know. Well he -- this fellow who you are talking about said he's washed his hands of the whole thing.

F: He has?

HJr: That's what he told me.

F: I see.

HJr: He told me that over at the White House.

F: Well if he's washed his hands, you won't have any trouble with the other fellow, because you just tell him the thing is done and there is nothing you can do about it now.

HJr: Well he says he's washed his hands of the whole thing, now and turned it over to McIntyre, and he says he doesn't want anything more to do with it.

F: Well that's all right. Well I think you can handle it by saying as long as -- as -- as long as Higgins has made those appointments that you just can't change it, and I'd just stand pat. Between you and me, Henry, Fay has had more consideration from Roosevelt than any Congressman up there. Christ, he was elected by him. They furnished ten thousand dollars, and God knows what-have-you, and did everything else. He ought to be glad he's in Congress.

HJr: Yeah.

F: Just to you -- I wouldn't want to say that outside.

HJr: Well, I'm very, very much obliged.

F: I want to see you some day soon. I -- I wanted to talk with you about that Massachusetts collector.

HJr: Yeah.

F: But I won't bother you now.

HJr: Well, will you let me know?

F: Yes, I'll give you a ring.

HMJr: What?

F: I'll give you a ring.

HMJr: Well, when you're ready, I'm ready.

F: Thank you kindly. Enjoy your vacation?

HMJr: Yes, very much.

F: Did you see any Democrats down there?

HMJr: Yes, the collector of customs.

F: Good! Did you get any angles? By the way, he shouldn't be fired either.

HMJr: Well there's the collector of customs, the same thing.

F: Why he shouldn't be fired. That's a damn shame.

HMJr: Yeah, well I'm not going to fire him.

F: Why you'd be crazy if you would.

HMJr: Yeah.

F: D. K.

HMJr: Thank you.

F: Thanks.

January 18, 1939.
4:57 p.m.

Conversation with Bill Bullitt

(Given to Miss Chauncey for Diary -- French Mission)

TREASURY DEPARTMENT

34

INTER OFFICE COMMUNICATION

DATE January 18, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: The Achievements of the Lima Conference

Summary

1. The following were the most important specific acts accomplished by the Lima Conference:

(a) The Declaration of Lima, in which the American States reaffirmed their "continental solidarity" and agreed to defend the principles on which this solidarity is based against "all foreign intervention or activity that may threaten them". The Declaration also provides for consultation at the initiative of any government for possible joint action if and when necessary.

(b) "The Declaration of American Principles" in which lip-service is paid to respect for international law, peace with justice, the exclusion of force as an instrument of policy, and of intervention by any State in the internal or external affairs of another.

(c) Racial or National Minorities: A resolution was adopted by which American States guarantee not to accord preferential treatment or special status to racial or national groups.

(d) Reductions in trade barriers; an innocuous resolution to strive for lower trade barriers was adopted. This resolution was similar to resolutions adopted at the Pan-American Conference held at Montevideo and Buenos Aires.

(e) Annual conferences of the Ministers of Finance of the States of America were arranged, the first one to take place in Guatemala.

2. The Significance of the Lima Conference

The Lima Conference passed some excellent resolutions, but did not work out any program of implementing them with action. Nevertheless the following accomplishments have significant psychological effects.

Prepared by O. A. Schmidt and S. Adler.

Secretary Morgenthau - 2

(a) The Lima Conference strengthened the forces of democracy in the Americas by expressing a determination to adhere to democratic principles in both internal and external affairs.

(b) The Lima Conference indicated to the totalitarian powers that aggression in Latin America would meet more resistance than it has in the past.

(c) The United States re-affirmed the Good Neighbor policy, increased its prestige as a progressive and liberal power, and also strengthened the friendliness of the Latin American peoples towards the United States.

Secretary Morgenthau - 3

The Achievements of the Lima Conference

A. Projects approved by the Lima Conference

I. The Declaration of Lima

The original draft of this declaration was submitted by the United States delegation but the declaration was revised five times during the conference. Until the final meeting of the conference, Argentina was opposed to the specific mention of "foreign" aggression in the declaration and also opposed to the various types of consultative machinery suggested. A compromise satisfactory to all was finally worked out; Argentina gave way to the wishes of the other nations but the resolution did not go as far as was contemplated in the original draft.

In the "Declaration of Lima", as adopted, the Governments of the American States first reaffirm their "continental solidarity" and their decision "to defend against all foreign intervention or activity that may threaten them" the principles upon which this solidarity is based, namely: desire for peace, respect for international law, equality of States, and respect for individual liberty without racial or religious discrimination. Further, "...in case the peace, security, or territorial integrity of any American republic is thus threatened by acts of any nature that may impair them", the American States "proclaim their common concern and their determination to make effective their solidarity, coordinating their respective sovereign wills by means of procedure of consultation... using the measures which in each case the circumstances may make advisable". The consultative machinery is contained in a provision that "the Ministers of Foreign Affairs of the American Republics, when deemed desirable and at the initiative of any one of them, will meet in their several capitals..."

II. The "Declaration of American Principles"

In the "Declaration of American Principles" the Governments of the American Republics resolve and support certain principles as essential to the preservation of "world order under law", "peace with justice", and "the social and economic welfare of mankind". These included: "The intervention of any State in the internal or external affairs of another is inadmissible". "The use of force as an instrument of national or international policy is proscribed", while respect for treaties is declared "the indispensable rule for the development of peaceful relations between States."

Secretary Morgenthau - 4

Although this declaration was introduced in the conference by Dr. Alfranio de Mello Franco of Brazil, it was generally considered to be a statement of the principles maintained by Secretary Hull.

III. Status of Racial or National Minorities

Brazil introduced a resolution, which the conference adopted, in accordance with which the American states guarantee not to accord special status to racial or national minorities existing within their boundaries. Such action was prompted by the fear of application in South America by Germany or Italy of tactics similar to those recently used in Czechoslovakia.

IV. Political Rights Bestowed on Residents by their Countries of Origin.

Argentina sponsored and the conference passed a declaration in which the American States agree to prohibit the exercise by residents of their territory of so-called political rights bestowed by their countries of origin. This measure was provoked by Germany's action in March 1938 when it called upon all Germans residing abroad to board German vessels and vote in the plebiscite concerning the union of Germany and Austria. It will be remembered that Argentina refused to allow its residents to vote in this plebiscite.

V. Annual Conferences of American Ministers of Finance

A resolution introduced by the United States delegation, calling for annual meetings of the Ministers of Finance of the American States was passed on December 24. The first meeting is to be held at Guatemala in the near future.

VI. The Resolution on Reduction of Trade Barriers

The "Resolution on Reduction of Trade Barriers" is similar to previous resolutions adopted by the Montevideo and Buenos Aires conferences. In this resolution, which was drafted in Washington, the American Governments are called upon "to reduce, to the greatest extent found possible, all existing types of restrictions upon international trade", and "to endorse the negotiations of trade agreements, embodying the principle of equality of treatment". Reduction of administrative and technical formalities in connection with the importation of goods is also recommended and nations are called upon to "make every effort...to encourage other nations

Secretary Morgenthau - 5

to adopt, in the conduct of their commercial policies, the methods and principles recommended."

VII. Consolidation of the Eight Existing Peace Treaties

Officials of the United States State Department prepared a draft project consolidating the best features of the eight peace treaties ^{1/} at present in existence between Latin American countries. The project was submitted for consideration at Lima and a resolution was passed requesting the Pan American Union to send questionnaires to all American countries seeking their opinion as to how the principles of these peace treaties can best be combined. The replies are to be submitted to the International Commission of Jurisconsults who will prepare a report for the next Pan American conference.

VIII. Respect for Human Rights in Warfare

Cuba and several other countries desired the passage of a measure requiring the American States to take positive action for mediation of the Spanish War. Other countries opposed such action and finally the conference passed a completely innocuous resolution piously calling for respect for human rights in warfare, for humanitarian sentiments, and for civilization's material and spiritual patrimony.

IX. Other Resolutions and Declarations Passed

Among the 110 measures passed were 36 declarations dealing with cultural relations, numerous measures pertaining to women's rights, Indian life, conservation of national resources, inter-American copyright and standardization of consular invoices, of immigration regulations, and of formalities pertaining to the passage of people and merchandise across American frontiers. A resolution was passed calling upon all American Governments which have not already done so to adopt laws guaranteeing workmen the right of free association and free expression of thought. The life of several committees of experts and jurists was extended five years. A series of technical conferences were scheduled for 1939 and measures encouraging increasing cultural exchanges were approved. Bogota was selected as the seat of the ninth Pan American Conference which is to take place in 1943.

^{1/} Namely the: Gondra Treaty of 1923, Kellogg-Briand Pact of 1928, Inter-American Conciliation Pact of 1929, Inter-American Arbitration Pact of 1929, Saavedra Lamas Treaty of 1933, Convention on the Rights and Duties of States of 1933, Treaty for Prevention of Controversies of 1936, and Treaty on Good Offices and Mediation of 1936.

Secretary Morgenthau - 6

B. Important Measures Suggested but not Adopted

I. American League of Nations

Colombia and the Dominican Republic strongly favored the creation of an American League of Nations, but such action was strongly opposed by Argentina and not approved by other nations.

II. Inter-American Court of International Justice

Six projects dealing with the creation of an Inter-American Court were presented, but no positive action was taken.

III. Diplomatic Intervention to Protect Foreign Investments

Mexico and Bolivia sponsored a measure denying any American country the right to use diplomatic intervention to protect the foreign investments of its citizens. The United States opposed this measure.

C. The Significance of the Lima Conference

The Lima Conference passed many excellent and unexceptionable resolutions but it did little or nothing to set up any machinery with which to implement these resolutions with action, nor did it set up any machinery for any closer economic cooperation between the Americas. There were three obstacles to any further progress than that actually recorded at the conference.

(a) The intransigent attitude of Argentina towards more intimate political cooperation between the Americas. How important British influence in Argentina was in this respect it is difficult to say for certain, but it must have played its part.

(b) The existence of anti-democratic, if not definitely Fascist Governments in countries like Peru and the Central American countries and governments which by no stretch of the imagination can be considered progressive in Argentina, Brazil, Uruguay, Paraguay, etc. These Governments, some of them such as Peru, under the definite influence of Germany or Italy, were in a position to block any positive program of action.

Secretary Morgenthau - 7

(c) The outstanding dispute between the United States and Mexico concerning the rights of a country to appropriate or control foreign capital invested in its territory and of the country whose nationals have made the investments to protect its nationals. This factor introduced an element of ambiguity in the role of the United States which, while it took a definitely progressive stand on most other issues, was a little chary of any positive handling of this issue.

However, the Lima Conference was not wasted. The comments of the German and Italian press in which the line was taken at first that the United States had received a smashing defeat at Lima and then the Latin American republics were told to follow their own "true" economic interests, very clearly indicate that the Fascist powers at least understood that it was no victory for them. In the present world situation the mere assertion and reassertion of democratic principles can have important psychological and political repercussions which should not be underestimated. The following were the main accomplishments of the conference in this direction.

(a) The Lima Conference strengthened the forces of democracy in the Americas by expressing a determination to adhere to democratic principles in both internal and external affairs.

(b) The Lima Conference indicated to the totalitarian powers that aggression in Latin America would meet more resistance than it has in the past.

(c) The United States reaffirmed the Good Neighbor policy, increased its prestige as a progressive and liberal power, and also strengthened the friendliness of the Latin American peoples towards the United States.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 18, 1939, 4 p.m.

NO.: 106

FROM COCHRAN.

The trend of yesterday evening was reversed, and it is reported that today at a quotation of around 177.23 the French stabilization fund acquired a good amount of sterling. Both French and British controls have apparently acquired some dollars today, dollars being offered particularly from New York. No order was given to Guaranty today to sell florins for official French account. Inclination of the belga, florin and Swiss franc is to follow weakening dollar.

It is said that official fund for supporting rentes made heavy purchases yesterday, and this morning was doing the same.

It is reported that the Dutch bankers who are putting out the French 4 percent loan have increased the commission offered thereon to 1 5/8 percent (it was formerly 3/8 percent). The reaction on the French security market is undoubtedly due to the Spanish situation and the fear of Left French elements getting this country involved. The interest of local investors in the French loan has also perhaps been distracted because of the opening of subscriptions in the Netherlands to the 100,000,000 florin Royal Dutch loan.

So

- 2 -

So far there has not been any comment in the French press on reports that American silver legislation might possibly be changed.

There is a story in the FRANKFURTER ZEITUNG of gold stocks belonging to Switzerland and the Netherlands which are held with the Federal Reserve Bank of New York.

END OF MESSAGE.

WILSON.

EA:LWW

REB

GRAY

London

Dated January 18, 1939

Rec'd 4:23 p. m.

Secretary of State,
Washington.

70, January 18, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. There has now been made public the letter which the Chancellor of the Exchequer addressed to the Governor of the Bank of England on January 2 which constituted the basis for the Bank of England's "request embargoes" (paragraph 3, No. 24, January 6, 6 p. m.) together with a letter which the Governor of the Bank of England addressed to the chairman of the stock exchange under date of January 12. These two letters were circulated yesterday to all members of the stock exchange. Their wording is such as to make them worth quoting:

Simon to Norman:

"In the spring of last year with the agreement of the treasury you removed the unofficial embargo on forward dealings in gold and on the granting of credit facilities against private holdings of gold. I am now advised that

this

REB

2-#70, From London, Jan.18, 6p.m.

this has led recently to undesirable speculations which are detrimental to sterling. Much as I dislike interfering with the freedom of the market I feel that the time has now come when the embargo should be restored in full force. I must therefore ask you to arrange that the city should until further notice decline any business of the sort.

I need hardly add that there is now more reason than ever why the market should continue to submit all foreign exchange operations to the closest scrutiny with a view to eliminating undesirable transactions."

Norman to Stock Exchange Chairman:

"You may be aware that the facilities of the London market have recently been used to an increasing extent to finance currency speculation and that the Chancellor of Exchequer has now intervened in order to put a stop to such transactions. A copy of a letter which I have received from the Chancellor is enclosed.

The banks and the bullion market have agreed to carry out the Chancellor's wishes and in particular to submit all foreign exchange operations to the closest scrutiny with a view to eliminating undesirable transactions. But you will appreciate that without the assistance of the city

as

REB

3-#70, From London, Jan. 18, 6p.m.

as a whole no attempt to discourage speculative activities in London can be fully effective.

I am sure that I can rely on the full cooperation of your members and I should be grateful if you would make known to them the contents of the Chancellor's letter".

The circulation of these letters has been interpreted in the stock exchange as a general request for cooperation to put members on their guard against becoming engaged in any transaction which disguised currency speculation. In this connection it may be worth mentioning that when I saw Montagu Norman just before I left for Washington he had harsh things to say about the London branches of American stock broking houses which went about soliciting business and thus encouraging the movement of funds from London to the United States.

(END SECTION ONE)

JOHNSON

NPL

REB

PLAIN

London

Dated January 18, 1939

Rec'd 4:35 p. m.

Secretary of State,
Washington.

70, January 18, 5 p. m. (SECTION TWO)

Two. A meeting has also been held of the Foreign Exchange Committee which was formed in 1936 at the request of the Bank of England and consists of representatives of clearing banks, acceptance houses, foreign banks, et cetera, under the chairmanship of the President of the British Bankers Association. A draft of general regulations attempting to define "undesirable speculation" has been formulated and if approved by the Bank of England will be circulated shortly. In this connection it is worth noting that the financial column of THE TIMES contains the following threat which is probably inspired: "Nobody wishes to see a reimposition of an embargo on the 1931 model when all requests for exchange had to be accompanied by a written statement of the purpose for which it was required and facilities were given only for genuine commercial purposes and for actual withdrawal of foreign funds from London. It is not denied that there are many large loopholes in the existing system and

REB

2-#70, From London, Jan. 18, 6 p.m.
(Sec. Two)

and in the event of a renewed heavy drain on sterling fresh restrictions might have to be introduced; but there is every reason to think that the present embargo will be effective within its natural limits and will serve its intended purpose."

Three. The foreign exchange market has been more active today but the dollar-sterling trading has been entirely one way. The dollar opened at 4.68 offered and has continued so throughout the day closing at 5/16. The British authorities were the only real buyers of dollars and must have acquired a not inconsiderable amount. Gold was fixed at 148 shillings 7-1/2 pence and of the 155 bars offered 89 were married and the British fund acquired the remainder. There have also been fairly large post-fixing gold sales to the British fund.

This profit taking by gold hoarders and speculators long of spot and forward dollars seems to have been caused by momentary nervousness augmented by the growing conviction that through its recent measures the British authorities are in effect committed to a policy of strong resistance at the present moment. (Last paragraph No. 42, January 10, 6 p. m.

JOHNSON

NPL

JR

GRAY

London

Dated January 19, 1939

Rec'd 9:15 a.m., 20th.

Secretary of State,
Washington.

76, January 19, 7 p.m..

FOR TREASURY FROM BUTTERWORTH.

One. Lord Stamp accepted an invitation to lunch with a group of American correspondents and talk to them off the record about the British outlook. Apparently he painted a very gloomy picture of the British economic position and went so far as to say that even if armament expenditure could be substantially increased it would merely moderate the decline; only an abrupt recovery in American prosperity with the price index moving to the level of two years ago would alter the situation. He is said to have compared the financial situation to that of 1931 and posed the question as to the efficacy and desirability of freely employing the remaining gold resources for defense of the pound at present level.

While

JR #76, January 19, 7 p.m., from London.

While on former occasions the American correspondents have lived up to their engagement not to publish in any way such off the record talks some of them invariably mention the subject matter in conversation with outsiders. It was therefore very unwise of Stamp to give such a talk but I have no reason to believe that it was made with the concurrence of either the Bank of England or the Treasury.

Two. The exchange market was again inactive. The British authorities let it be known before the market opened that they would buy dollars at 4.68-3/8 but in point of fact most of the dollars were acquired by the Bank of France which was also a purchaser of both dollars and sterling. In the early afternoon the dollar became bid and the British authorities offered dollars at 1/16 after which the market moved to 3/16. Gold was fixed at 148s 5-1/2 d, 1/2 d premium, and of the 140 bars dealt in 79 were married and the Bank of England acquired a few.

JOHNSON

KLP:HPD

CORRESPONDENCE

January 19, 1939.

CONFIDENTIAL FILES

TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 10:30 today. Things had been dreadfully quiet in London, he said. Things had improved somewhat yesterday but on the whole there was no fundamental change. It seemed to him the measures which they had taken were having a cumulative effect now and yesterday was one of those days on which they saw a good deal of bear covering. Generally speaking Europe was still in a pessimistic frame of mind, particularly so in Holland because of the disturbing relations with Germany. The French franc had had its moments of weakness due to the feeling that the French Government might decide to intervene actively against France, but that possibility seemed over for the time being at least.

Sterling, if anything, was a little better at 4.68 3/16; on balance he had sold today about \$1,500,000. I commented on their obvious determination to prevent the market from slipping and Bolton replied "At the time we need to show a greater resolution than we have in the past. We'll see how it works. When we had nothing at all behind us we couldn't, of course, carry out a policy of such determination. Now, having the protection of a big bear account, a measure of restrictions on foreign operations and, above everything else, a substantial amount of gold at our disposal, we have an opportunity to put a policy of that sort in effect." I ventured the suggestion that it was a very helpful gesture. In the past fortnight they had lost exchange at the rate of about \$1,000,000 a

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **January 19, 1939.**TO **CONFIDENTIAL FILES**SUBJECT: **TELEPHONE CONVERSATION WITH**FROM **L. W. Knoke****BANK OF ENGLAND.**

2

day and yesterday was the first time that he got something back (the net result of their operations since January 1 to date would accordingly seem to be a loss of about £10,000,000).

LWK:KW

6-17-39

Treasury Department
Division of Monetary Research

Date 3/8/39.....1938

To: Miss Chauncey

For the Secretary's files.

I mentioned this to the
Secretary and was to discuss it with
him later, but he never got around to
it.

MR. WHITE
Branch 2058 - Room 200

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 19, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Mr. Crane's Article on "World Prices Cut by Devaluation", which appeared in The New York Times, January 3, 1939

(Burton Crane is a full-time member of the financial staff of The New York Times; he sometimes writes special articles under his own name but usually his articles are unsigned.)

Mr. Crane appears to be making the following point:

The fall in world prices since 1926 was due primarily to the depreciation of world currencies; that as currencies depreciate world price levels in terms of gold fall, and that as long as the United States gains gold at the expense of European gold holdings the European countries will continue to depreciate currencies and continue to put pressure on world prices.

Comment:

1. The depreciation of currencies was not the chief cause of the fall in "world gold prices". Obviously, there is interdependence between declining prices, depreciating currencies, and the condition of world business. But it is not the depreciating currencies which initiate world depression (and hence falling gold prices) but rather the depression which brings about both depreciation and falling gold prices. It is true, of course, that continuing depreciation of leading currencies add to the obstacles to world recovery, but to say, as Mr. Crane does, that the fall in world prices since 1926 was due primarily to the depreciation of world currencies, is definitely erroneous.

In any case the important thing for business conditions is not the trend of "world gold prices" but the trend of world prices in terms of local currencies, not gold.

Secretary Berentzen - 2

2. Mr. Crane's chart may appear at first glance to prove his thesis that it is the pressure of currency depreciation which is forcing down world prices. However, a closer examination of the chart does not lend much support to his position. To bring out the true relationship between currency depreciation and world prices his chart should be broken up into three parts:

(a) The first part should cover the period from 1926 to the time when depreciation of important currencies began to occur, namely, 1931. During this period, 1926-1931, his index of currency depreciation shows virtually no change, yet his world price index fell about 40 percent. See Chart (a).

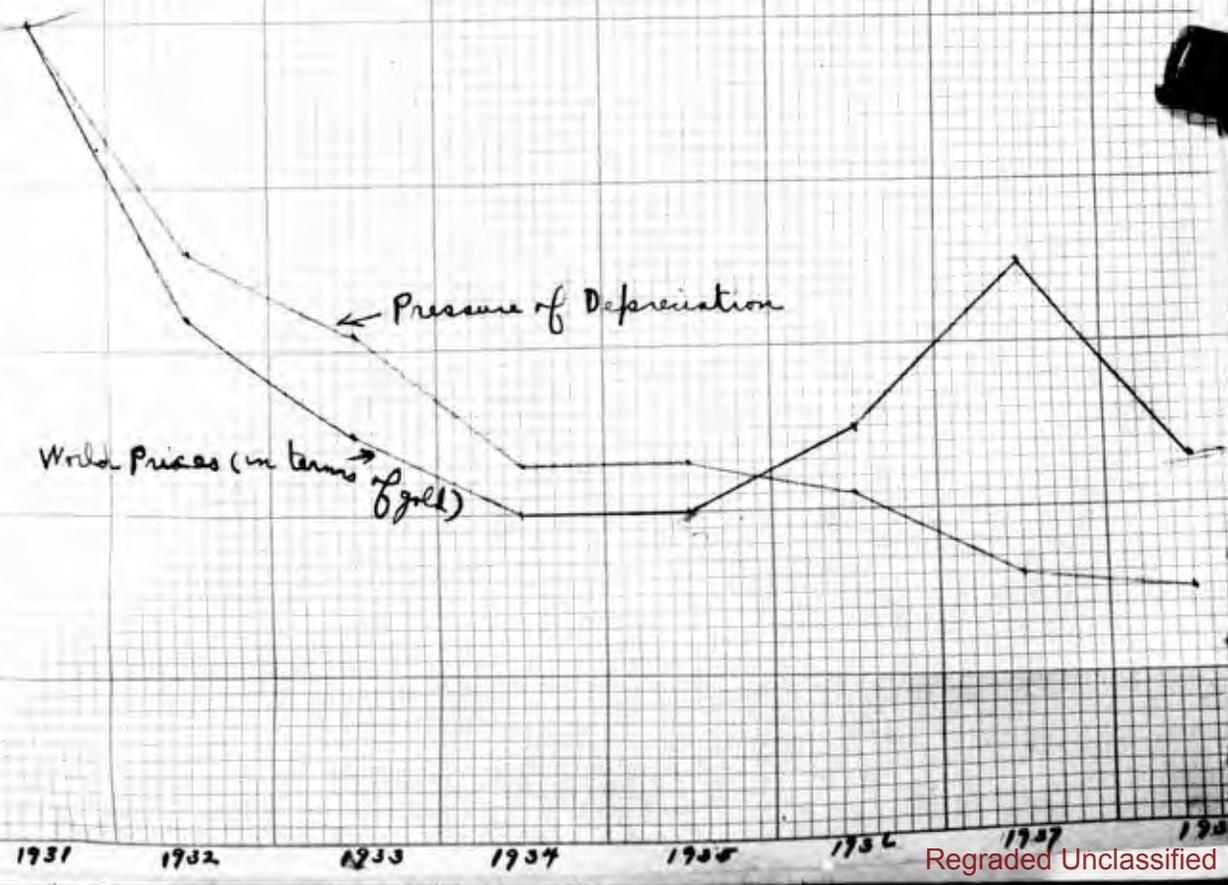
(b) The second period, 1931-1934, is that of widespread currency falls, during which the index of depreciation dropped 28 percent, while his gold world price index fell 18 percent. The wholly expected happened -- namely, with widespread depreciation and widespread depression world prices in terms of gold fell. Or, to put it in other terms, world prices in terms of local currencies rose but rose less than the gold value of currencies fell.

(c) The third period is from 1934 to the present. During these years the gold value of currencies fell 10 percent but the index of gold prices was the same at the end of the period as at the beginning of the period. See Chart (b).

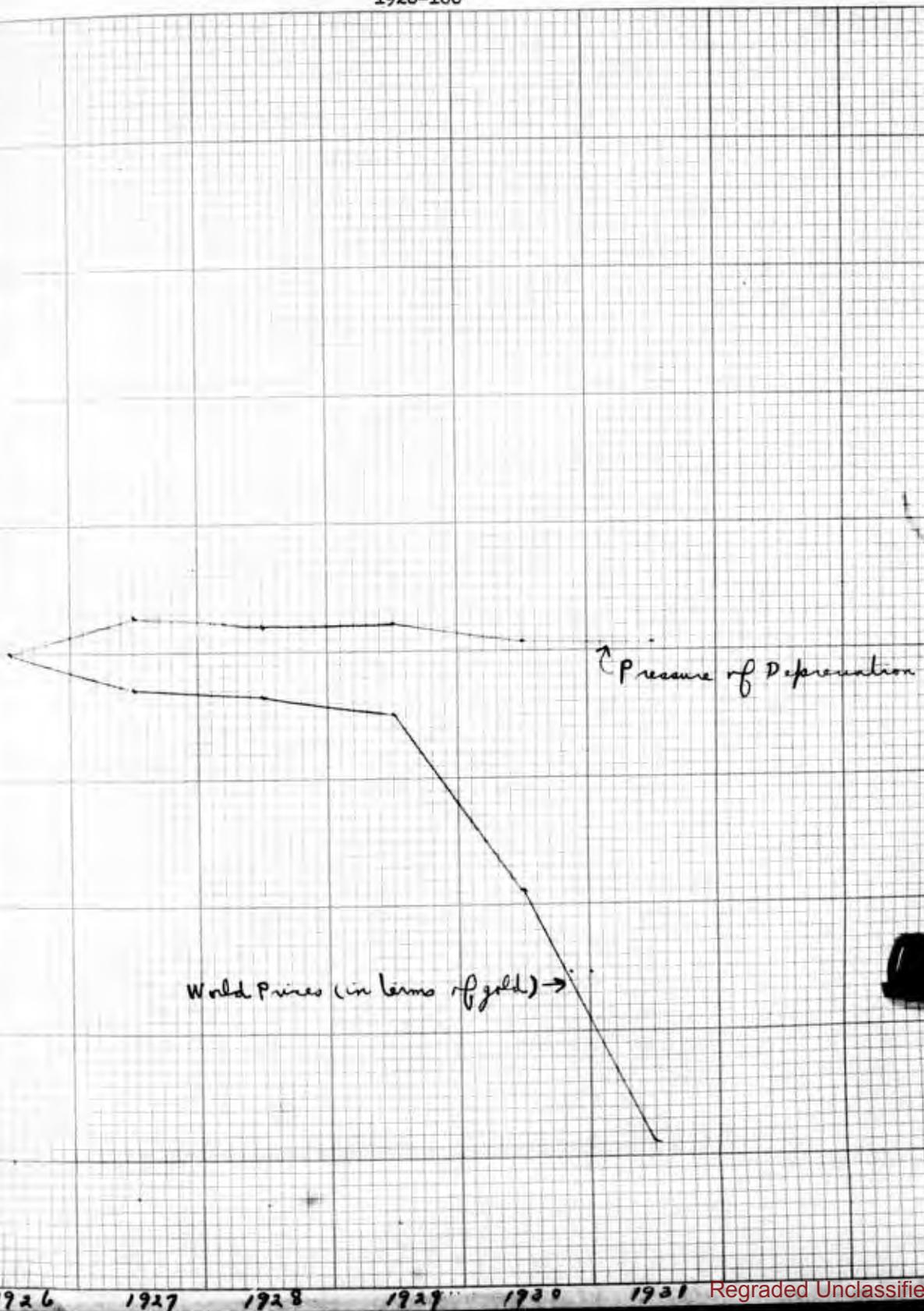
3. Whether we have a decline in the average of world prices in terms of gold depends chiefly upon the existence or non-existence of widespread depression. During the period of depression it is to be wholly expected that prices will fall in terms of gold but in a period of recovery gold prices will fall much less or may actually rise as occurred from 1934 to 1937.

It is a matter of common observation long since accepted by all economists that when a country's currency declines its price level usually does not rise as much as its currency depreciates. (It is indeed this very characteristic which usually gives to a country a competitive advantage in the international field when its currency depreciates in terms of other currencies.) When there is widespread depreciation, the average of world prices in terms of gold fall; when, however, the decline in currencies are confined to a few currencies and are moderate declines, the gold prices fall less; they may even rise.

Comparison of World Prices in terms of Gold and
Pressure of Currency Depreciation, 1931-1938
1931=100



Comparison of World Prices in terms of gold
and Pressure of Currency Depreciation, 1926-1931
1926=100



Dear Harry: Please have your group study this article by Crane and give me an answer when I return. Who is Crane?

WORLD PRICES CUT BY DEVALUATION

An Ounce of Gold Today Will Buy 2.3 Times What It Bought in 1926

OLD TECHNIQUE AT WORK

Effects of Labor-Saving Tools, Currency Depreciation and Psychology Analyzed

By HUGHES CRANE

As prices of gold today will buy roughly 2.3 times what it would buy in 1926. World prices expressed in gold have fallen steadily and the greatest factor in their decline has been devaluation of currencies. Theoretically, however, it is possible to figure that, if no devaluation had taken place, an ounce of gold today would buy only 1.37 times as much as in 1926.

These influences have been at work on world prices. The first is the amount of technical progress in labor-saving devices and machinery, which has raised productivity and cut unit production costs. The second is currency depreciation. The third is the independent thing known as wage psychology.

Because of the relatively long period of currency stability which preceded the twentieth century, many economists appear to have forgotten that currency depreciation is all around the world. Indirectly, it is always easier to lower the purchasing power of the money unit and thereby to raise prices and wages and lower unit production. There is no doubt that in the technical history of the world there has been a systematic, definitely movement. The market mechanism was recognized in this country, when the will effect of deflation in currency was offset by systematic inflation of goods. This had credit as the old method were pushed back.

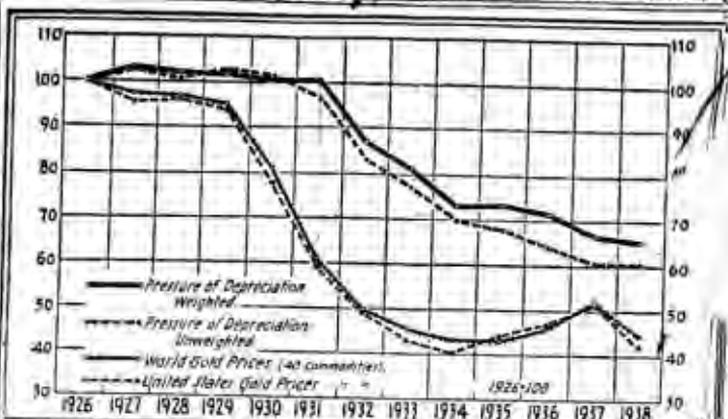
Old Technique Developed

That the experiment of the world since the World War has been merely the old technique developed of a former technique. A dollar buys for price as high for comparison. It loses gold. Its price starts to fall. It goes into a slump. To end the slump or to stop the loss of gold, its value either devalue at once or suspend the gold standard and allow the currency to drift lower.

That act means the cumulative balance, forces some other nation to devalue to even a more accessible American gold price in 1926 and 1928, virtually every nation of importance has devalued its currency. And each successive devaluation brought further gains in international prices.

What kind of experiment? How was it applied? Let us say that a certain unit of woven piece goods could be manufactured in France for 20 francs and that those in France were worth \$1.50. It is also say that the yarn was imported and that 25 per cent of the finished price represented labor in weaving, finishing and dyeing, plus transport, taxes and other services performed in France. Then, also, let the value of the example be \$1.50. The imported materials will cost \$1.125, that is, 75 per cent of the total.

For a time wages stay about \$1.50. The cost of the woven goods thus can be \$1.125. France has 75 francs as a value of the currency. The price is 20 francs, or 13.33 per cent. It is a hardy for the cost of the goods in France. The price in gold is \$1.50. The price in gold is \$1.125. The price in gold is \$1.125.



than commodities in gold, traded in ten countries. For further comparison the General Motors-Carrill index of forty basic commodities for the United States, also in gold, was converted to a 1926 base.

The index of gold prices that price index numbers, trade and currency movements for 1926 as for the first half-year. Currency depreciation figures are from the League of Nations Statistical Yearbook. World trade figures are to 1937 are from the Department of Commerce Yearbook. From Mar. 1938 are for only

seventy-five countries instead of 102 to 120 and are from the League of Nations.

The figures from which the chart was drawn are given below:

PERCENTAGE OF STABILITY DEPRECIATION FROM THE WORLD INDEX

Year	Pressure of Depreciation Weighted	Pressure of Depreciation Unweighted	Gold Price (1926=100)	U.S. Price (1926=100)
1926	100.0	100.0	100.0	100.0
1927	98.5	98.5	98.5	98.5
1928	97.0	97.0	97.0	97.0
1929	95.5	95.5	95.5	95.5
1930	94.0	94.0	94.0	94.0
1931	92.5	92.5	92.5	92.5
1932	91.0	91.0	91.0	91.0
1933	89.5	89.5	89.5	89.5
1934	88.0	88.0	88.0	88.0
1935	86.5	86.5	86.5	86.5
1936	85.0	85.0	85.0	85.0
1937	83.5	83.5	83.5	83.5
1938	82.0	82.0	82.0	82.0

The index are expressed in the national dollar. The percentage of the price index is the percentage of the price index as of 1926. The percentage of the price index is the percentage of the price index as of 1926. The percentage of the price index is the percentage of the price index as of 1926.

Debt Burden Lightened

Of course, if France produced all the raw material for the commodity affected, the influence would be greater. As a matter of fact, it is greater than appears on the surface for currency depreciation lowers the debt burden contracted in former currencies.

Ever since the World War the United States has continued its former "debt-reduction policy." It has declined to allow the world to pay its debts in goods, leaving upon the advantage of a favorable balance of foreign trade. It is still selling gold, but not in the same way as before. The system can be changed to permit the world outside America to pay its debts in its efforts to keep some "bank of gold standard" which can produce a continuation of the process which started in 1926 and 1930. Nations will continue to develop and have successive steps in that direction will bring more pressure upon world price levels.

The chart which accompanies this article has endeavored to show the influence of currency depreciation on world prices. The currencies of the United States, Great Britain, Canada, France, Japan, Germany and Italy were taken in percentages of their former gold values. In 1926 those countries had 67 per cent of world trade. In 1928 they had 52 per cent. In 1938 they had about 40 per cent.

Depreciation Figures Weighted

Figures on depreciation would mean little, indeed, unless they were weighted by applying each year's percentage to the percentage of world trade done by the nation in question. They showed, for example, that "year trade" fell from 67 in 1926 to 52 in 1928. Trade of the United States fell from 14.8 to 8.7. Then the totals for those seven countries were added and the year and of index numbers were made from them. One merely took 1926 as 100, the other weighted the figures of the seven countries according to the gradually declining share of world trade. Thus the total appears on the accompanying chart. In 1926 (at the end of June) the index showed a depreciation in the gold value of world trade of 23.2 per cent. The weighted figures showed a depreciation of 26 per cent.

For comparative purposes the General Motors-Carrill world price index was converted to a 1926 base. This number is quoted from forty-

REB

GRAY

Paris

Dated January 19, 1939

Rec'd 3 p. m.

Secretary of State,
Washington.

114, January 19, 4 p. m.
FROM COCHRAN.

Paris market situation improved today and in light trading French stabilization fund acquired some sterling around 177.22 and dollars at 37.845. Day to day money practically unlendable at one per cent. Bank of France statement as of January 12 showed decline of 1-1/3 billion francs in note circulation and coverage improved from 62.0 to 62.73. Rente situation given a strong vote of confidence tomorrow on its policy of nonintervention in Spain.

Demand today for Dutch tranche of French conversion loan has improved and issuing bankers have lowered commission to one per cent. Optimistic interviews with respect to French situation given yesterday in Dutch press by Minister of Finance Reynaud and charge of Senate Finance Committee Caillaux presumably contributed to the improvement. Press report from GENEVA states Swiss

portion

REB

2-#114, From Paris, Jan.19,4p.m.

portion of French rail conversion loan has been subscribed following opening of lists last Monday.

(END SECTION ONE)

WILSON

CSB

ReB

GRAY

Paris

Dated January 19, 1939

Rec'd 2:50 p. m.

Secretary of State,
Washington.

114, January 19, 4 p. m. (SECTION TWO)

Meeting of Balkan Central Bank governors at Belgrade ended yesterday and press reports their unity of views upon necessity for intimate collaboration between their banks and for stabilization and normalization of world economic and monetary relations.

At Paris American Club today Paul van Zeeland spoke hopefully of ability of the United States to solve its own problems and stressed the importance of the progress that could be achieved through cooperation between the recovered and powerful America and a regenerated Europe.

(END MESSAGE)

WILSON

CSB

REB

PLAIN

London

Dated January 19, 1939

Rec'd 4:10 p. m.

Secretary of State,
Washington.

75, January 19, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Since the last general review of the British economic position contained in my 1317, November 16, 7 p. m., the statistical indices of British business activity have shown no fundamental change in the general downward trend. The unemployment increases for November and December, though partly seasonal, indicate a further slowing down in activity as do also the banking turnover figures which continue to decline. A few surface indications of slight improvement are more than offset by more fundamental signs of further decline. Small increases in exports in November and December, an upturn in automobile sales in November, good figures for beer consumption, an apparent halt in the very steep decline in textile exports and ^asubstantial reduction in the adverse merchandize trade balance about complete the list of indications of improvement. But the last of these, the adverse trade balance reduction from £431 million

REB

2-#75, From London, Jan.19,6p.m.

million in 1937 to £388 million in 1938, though beneficial in its bearing on sterling, is due largely to a sharp decline in the quantity and prices of raw materials imported and therefore foreshadows not only a future reduction in the production of manufactured articles but also indicates a further deterioration in the purchasing power of some of Britain's chief export markets. The failure of primary commodity prices to rise and of British manufacturing costs to fall (except to a very slight degree) continues to accentuate the difficulties of the export trades outlined in previous telegrams, especially my 1128, October 5, 5 p. m. A few examples of the costs difficulty may be worth quoting. In a report of the Chamber of Shipping Quotations for a cargo vessel of ~~7,000~~^{7,500} tons deadweight in various years are given. In 1931 and 1933 the figure is a little over £63,000, in 1935 about £72,000 and in 1937 and 1938 £108,000. The same report points out that running costs for British ships during the past two years have also increased, repairs by 30 to 35 per cent, coal by 25 to 30 per cent, fuel oil by 35 per cent and diesel oil and wages by 20 per cent. Coal mining costs increased from 13s. 8d. per ton in 1936 to 16s. 6d. in the third quarter of 1938, while proceeds increased in the same period from 14s. 7-1/2d to 17s. 2-3/4d.
Steel

REB

3-#75, From London, Jan.19,6p.m.

Steel prices were slightly reduced in January but the amount of reduction is no doubt insufficient to be of material assistance in reducing general manufacturing costs.

Meanwhile steel production after touching the low level of 658 thousand tons in August improved reaching 866 thousand in November but fell again in December to 655 thousand, or to less than 60 per cent of the December 1937 figure. The shipbuilding yards are still delivering ships so that launching statistics remain fairly high and exports of shipping are higher than a year ago but from information on new orders it appears that in a few months not more than 1/8 of Britain's shipbuilding capacity will be in use. The textile industries remain depressed. The engineering industry is still holding its exports at a fair level but has increased unemployment in spite of armament activity, while coal production is also below the level of a year ago.

Consumer industries which had held up well through most of 1938 are now showing signs of decline, the retail trade index having fallen in the last two months. Especially significant is the sharp decline in building plans approved, the December figure being 30 per cent down on a year ago, which

REB

4-#75, From London, Jan.19,6p.m.

which may foreshadow a sharp drop about 6 months hence in the already declining building activity. Meanwhile rearmament activity is not being carried out on a sufficiently large scale to counteract the general economic decline. Some economists E. G. Clay, believe that rearmament could turn the tide but only if pursued on a scale not now undertaken. In any case armament expenditure thus far estimated for the present fiscal year at £368.6 million will probably run to something like £520 million for the following year and though a much larger amount will be financed by borrowing the already heavy tax burden will continue to increase. The psychological effect on business of taxation is accentuated by the international political outlook and the effect on new enterprise which reduced the nominal capital of new public company registrations in 1938 to about one-quarter of the 1937 figure is likely to continue.

The difficulties of the export trades and of shipping are being spoken of increasingly as unsolvable without government help, and the belief grows that even a rise in primary commodity prices and an expansion in world trade would not produce a commensurate recovery in British exports.

REB

5-#75, From London, Jan.19, 6p.m.

exports. Foreign subsidies and German trading methods are regarded as the principal threats, while there is seldom any mention of the factors tending to freeze British costs at high levels, and some of the measures suggested for meeting what has now come to be called the "problem of the defence of exports" are likely further to increase general costs. The only government action directly attacking this problem so far taken is the extension in the scope and resources of the Export Credits Guarantee Department, except for a rather vague promise made by a junior government spokesman, of further action to be forthcoming when industries are "organised to negotiate with their opposite numbers in Germany" (paragraph 3, No. 13, January 4, 5 p. m. Meanwhile shipping and the coal export trade are pressing for subsidies, and the British Chamber of Commerce has added its voice to those of Keynes (my 1114, October 8, noon) and the Federation of British Industries (my 1251, October 26, 7 p. m.) urging the use of British import trade as a bargaining weapon for negotiating for expanded British exports, and the adoption of a three-decker tariff. It is expected that

REB

6-#75, From London, Jan.19,6p.m.

that some steps will be taken by the government to rescue the shipping and coal export trades, but the Prime Minister has already stated that the most-favored-nation clause will not be abandoned by Great Britain.

JOHNSON

HPD

January 19, 1939

4 p. m.

On the United Press ticker a statement came over "President Roosevelt today asked for a two-year extension of the Act that created the currency stabilization fund and empowered him to regulate the gold value of the dollar."

I immediately called up Steve Early and asked him how come. I said, One of us is on the spot, and explained to him that I had only told the leaders this morning that the Vice President had agreed to it except for the date and he wanted January 15, 1941. He went to see the Speaker and he agreed to it.

And then sometime around noon the Speaker called me up and said, Have you done anything about the stabilization letter? He said, Please don't do anything on it until you hear from me further. At a quarter of four I read this and explained all this to Steve and he said, Well, what are we going to do? He said, I guess I pulled a boner.

I said, Let's work it out. He said, You call up and explain it, and I said, No, Steve; that would look like I was criticizing you. I said, You call up; speak to the Vice President and explain it. He said, Wait a minute and let me see if the President will agree to the January 15th date. He called me back, about 2 minutes of four, and said the President will agree to it and he said, I will make a correction of it on the ticker and, he said again, Will you call up the Vice President and Speaker. I said, No, I think you should because, I again said, I don't want to be in the position of calling up and saying I was criticizing you. He said he would and he said, For God's sake, get those letters over here and the President will sign them and get them up on the Hill.

I say this much for Steve Early. He said, It's entirely my fault; it's the first bull I have pulled since I have been at the White House; I should have called you up and asked you.

I was right. I insisted he call them up because if I called up it would look as though I was criticizing. Steve Early called up and the Speaker calls me up and wouldn't talk to Steve until he checked with me first.

1 - 19 - 38

Dear Mr. Vice Presidents

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 until January 15, 1941.

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 United States Senate.

1-19-38

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) (7) 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 until January 15, 1941.

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 H. Bankhead,

Speaker of the House of Representatives.

PRESIDENT ROOSEVELT TODAY ASKED FOR A TWO-YEAR EXTENSION OF THE

70

ACT THAT CREATED THE CURRENCY STABILIZATION FUND AND EMPOWERED HIM

TO REGULATE THE GOLD VALUE OF THE DOLLAR.

1/19--R339P

ADD STABILIZATION ACT

MR. ROOSEVELT MADE HIS REQUEST TO CONGRESS ON BEHALF OF SECRETARY MORGENTHAU IN IDENTICAL LETTERS TO SPEAKER BANKHEAD AND VICE PRESIDENT GARNER.

1/19--R341P

ADD STABILIZATION FUND

MR. ROOSEVELT SAID THAT THE POWERS PROVIDED IN THE TWO ACTS "ENABLED US TO SAFEGUARD THE NATION'S INTERESTS AND TO CARRY FORWARD INTERNATIONAL MONETARY AND ECONOMIC COOPERATION."

"IT IS OBVIOUS, HOWEVER," HE WROTE, "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."

1/19--R352P

415

JAN 19 1939

ADD ROOSEVELT ON DOLLAR DEVALUATION AND
STABILIZATION FUND

WASHN - THE WHITE HOUSE LATER ANNOUNCED
THAT THE NEW EXPIRATION DATE REQUESTED FOR BOTH
AUTHORIZATIONS IS JANUARY 15 1941 - THIS WOULD
MEAN AN EXTENSION OF 18 1-2 MONTHS INSTEAD OF
TWO YEARS FROM JUNE 30 1939

-9-

January 19, 1939.
10:47 a.m.

72

Operator: Go ahead.

HMJr: Hello.

Frank
Murphy: Hello. This is Frank Murphy.

HMJr: Hello, Henry Morgenthau.

H: Yes.

HMJr: The reason I'm calling you is this -- our boys over here are working on some information that the S.E.C. wants to help them to answer this injunction suit against Trans-America, see?

H: Yes.

HMJr: And this is -- I needn't tell you, because this is one of the biggest cases in town, and I wonder when they've got the thing -- it's an affidavit that they want from the Comptroller of the Currency, and they'll have it ready late this afternoon, and I wondered if you would mind taking the time of seeing Foley and taking a look at it?

H: Oh, I'd like to.

HMJr: See?

H: I'll try to be as helpful as I can. Have him come over.

HMJr: What -- how late could you see him?

H: Oh, any time. I'm going out to lunch and I'll be here until six or seven tonight.

HMJr: Ah -- is five o'clock too late?

H: Oh, not at all.

HMJr: What?

H: Not at all.

HMJr: I'll tell him to be over there at five, and then I just -- this is just through the pipe line, that they are going to start a suit, a stockholders' suit in Trans-America in San Francisco against me personally --

H: Yes.

HJr: For -- to collect damages.

M: Yes.

HJr: Well, they're not going to leave a stone unturned.

M: No, I understand that's what they are going to do. They've got publicity men, and they are going to make one assault after another, but that's purely a defensive technique of theirs.

HJr: And then I did send over through Foley the opinion on which I gave them access to the Comptroller's report. I think that Foley left that with you.

M: Yes.

HJr: And if you'll take a look at that --

M: I will.

HJr: And give me an informal opinion --

M: In what is that?

HJr: That -- that's the whole thing it hinges on. I furnished the S.E.C., at their request, a copy of the Comptroller of the Currency's report on the Bank of America.

M: Yeah.

HJr: See?

M: Yes.

HJr: I did that on the opinion of Herman Olliphant. I told Foley to take that over and leave that with you, and have you take a look at it.

M: Yeah.

HJr: Because sooner or later they are going to sue me on that.

M: All right. I'll go over that before these -- before Foley gets over here.

HJr: On that thing, I mean, that's the crux of the whole business. I mean, Bill Douglas never could have gone ahead if we hadn't given him those reports. Now, Olliphant had given me a written legal opinion that I had the right to make that available -- ah -- to S.E.C.

M: All right. I'll go through it carefully, and then I'll visit with Foley when he comes tonight and try to be helpful to him.

HMJr: We've got two cases, both equally important. This one and the one I sent to talk to you about on that -- tomorrow is the Moe Annenberg one.

M: Yeah. I heard a little about that too.

HMJr: Both of them are -- but the Moe Annenberg one will -- of course, will be entirely in your hands.

M: Yes. All right.

HMJr: Thank you.

M: All right. Thank you.

January 18, 1939.
1:00 p.m.

HJr: Hello.

Operator: Chairman Douglas. Go ahead.

HJr: Hello.

Bill
Douglas: Hello, Henry.

HJr: Yes, Bill.

D: This is just by way of interest, keeping you up-to-date.

HJr: Please.

D: Ah -- you remember our pal who caught a train down to warm springs.

HJr: Yeah.

D: Word came in from my San Francisco fellows this morning that they have ascertained that he is a stockholder of Pacific Coast Mortgage, which is rather interesting.

HJr: Ah -- I wonder if they're sure of that?

D: Well, I'm asking them to check it and put it in affidavit form.

HJr: Yeah.

D: That's just their -- that's their report. They say that it's authentic. I'm having it checked against the -- the books, and having it put in affidavit form and verified that way.

HJr: Good.

D: But I thought I'd just pass it on.

HJr: Now, let me pass one on to you.

D: Yeah.

HJr: I find that I also have a few friends and they say that a stockholder of Trans-America in San Francisco is shortly going to sue me.

D: Yes. Well that -- I -- I didn't have anything as specific as that, but --

HJr: This came from San Francisco.

D: Yeah.

EMJr: And, so that's along the same line, but if I'm going to be sued I'd much rather have a stockholder sue me than have Giannini sue me. (Laughter) I mean it gets it off this personal basis, that's what I mean.

D: Yes, sure.

EMJr: You know what I mean.

D: Yeah.

EMJr: It won't bring in the religious business.

D: Yeah.

EMJr: At least not apt to.

D: Yeah.

EMJr: Now the other thing, is our boys are working today on this affidavit which you have asked for, and they are going over at five o'clock to show it to Frank Murphy.

D: Good.

EMJr: And make sure that it's all proper and everything else.

D: Yes, I think that's fine.

EMJr: So as to get it -- you know, I feel -- I feel a little bit short-handed here and I've asked them to help me.

D: Sure.

EMJr: So they're going over for a conference with Frank Murphy at five o'clock.

D: Yeah.

EMJr: And the only suggestion that I made along those lines was that I thought they also ought to get one from the F.D.I.C.

D: Yes, that's what I told my boys, and they have -- they either have or are going to approach Leo Crowley and also -- ah -- we are going to approach Mariner.

EMJr: Uh-huh. Well -- devil -- (Laughter). Well, that news is interesting. I -- I -- this thing about his being a stockholder, I'd had that, oh, a month or so ago.

D: Yeah.

EMJr: And I doubt it, but maybe your boys have it.

D: Well, they say they have, but I'm -- getting it -- asking them put it down in an affidavit which means that they will know it for certainty before they sign it.

EMJr: Then I reminded Frank Murphy again -- I had asked him if he had read this opinion of Oliphant's --

D: Yeah.

EMJr: And he had not, and I asked him please to read it, see?

D: Yeah.

EMJr: I mean just to be ready.

D: Oh, sure.

EMJr: And I thought it was good to keep him posted anyway.

D: I think that's true.

EMJr: Don't you?

D: Yes, because this thing is going to move faster and faster, and the other phase of the case that Justice would be interested in is going to move -- is going to develop.

EMJr: Tell me, how did you make out this morning?

D: I haven't talked to my boys. I -- ah -- they've filed a motion to dismiss on the grounds we haven't got any jurisdiction even over Trans-America.

EMJr: I see.

D: And I think that -- of course we are going to deny that, and I think that probably what they'll do is to bring another law suit against it.

EMJr: I see. Well, we'll all -- we'll all be sued before we get through.

D: Yes, and it's a compliment to be sued by those fellows.

EMJr: I take it as such.

D: Thank you, sir.

HJr: Good bye.

H: Good bye.

January 19, 1939. 79
2:44 p.m.

HMJr: Hello.
Key
Pittman: Hello, Henry.

HMJr: Hello, Key.

P: Yeah.

HMJr: How are you?

P: A little more trouble, not much.

HMJr: All right.

P: I just got a long-distance telephone message from George Sachen attorney out west there for a number of big companies.

HMJr: Yeah.

P: The regulations, of course, are all right, but they've got bullion being piled up there at San Francisco and no forms.

HMJr: Yeah.

P: And he said they wanted to interline the present forms to conform with the new forms, but that the -- the mint out there wouldn't accept interlined forms. He said in some cases there that in small companies where they are running along the margin that they depend on getting settlements so as to keep the pay-rolls going.

HMJr: I -- I'll see that something's done about it immediately.

P: Well, if you can't get the forms printed and out there, why, if -- if -- if they can interline them in accordance with -- with what the counsel for the mint out there approves of, why it looks like you could do that temporarily.

HMJr: I'll get something done -- I'll -- I'll -- they'll get some kind of word out there before sunset.

P: Well, that's -- I knew you'd do it, and that's the reason I called you up, Henry.

HMJr: Yes, I'll --

P: I hate to bother you with these things.

HMJr: Oh, that's all right, Key. I -- I do the --

P: Well, I know since Oliphant's death there that things along that particular line which he was familiar with are all mixed up.

HMJr: It's -- ah -- I --

P: All right.

HMJr: Thank you.

January 19, 1932, 81
4:08 p.m.

HJR: Hello.

Speaker

Bankhead: Hello, Mr. Secretary.

HJR: Yeah.

S: This is Bankhead.

HJR: Did Steve Early call you?

S: Why I just got -- he's on the wire now, but did you -- should -- talk to the President about that matter.

HJR: No, you see -- did Steve Early explain to you?

S: No, I haven't talked to Steve. I want to talk to you first.

HJR: Well, what happened was I -- I have United Press ticker service, and before I could get to the President, through misunderstanding, Steve Early gave it out.

S: Well, I just heard. A newspaper man told me a few moments ago.

HJR: And so I --

S: Well, I -- it's all right. I don't think any damage will be done by it. Let it come up like it was.

HJR: Well, -- ah --

S: It's already been announced now. I'm sorry that he did it before you could see him, of course.

HJR: Well, he -- they've changed it now.

S: Have changed it?

HJR: Well, now they just brought this in. Mr. Roosevelt said the power provided in the two Acts, enabled us to safeguard the Nation's interests. It is obvious -- well -- ah -- as I understand it, Steve will explain to you --

S: Yeah.

HJR: That -- how the thing happened, and the President is now -- he got the President to agree to January 15th. But I explained to Steve there's a whole -- it's a misunderstanding between the White House and the Treasury.

B: Yeah.

HJr: I didn't get to the President.

B: Yes, well, I'll talk to Steve about it. Has he released the letter?

HJr: No, because I haven't got the new letter over to the President.

B: Oh, I see.

HJr: It's a -- it's a misunderstanding between the two places. I'm terribly sorry.

B: Well, suppose I talk to Steve then and see what -- what we can work out about it.

HJr: Would you call me back and let me know?

B: Yes, I will.

HJr: I'm awfully sorry.

B: All right.

January 19, 1959.
4:13 p.m.

83

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Speaker

Bankhead: Ah -- Henry?

HMJr: Yes.

B: This is Bankhead.

HMJr: Yeah.

B: I talked to Steve.

HMJr: Yeah.

B: And he -- he was very apologetic about that mix-up. It had him on the spot, and it was his mistake, and that he -- you really didn't expect to see the President, but he said that they had changed that thing so as to make it expire two years from now.

HMJr: Two years -- he said two years from today.

B: Yeah.

HMJr: Well, that makes it all right, doesn't it?

B: Yeah.

HMJr: Well, I'm sorry --

B: That's all right. There's no damage done about it.

HMJr: But I was keeping good faith --

B: Why of course you were, and so was I, but it's all right --

HMJr: You know, you can't just call up the President and say, "I want to see you". I -- I have to wait my turn.

B: Yes. (Laughter) Well, I -- he's already announced it to the press, and I told one of these newspaper fellows that I was expecting a letter but that it hadn't been delivered this afternoon. That it would no doubt be here this afternoon or in the morning.

HMJr: That's right.

- 2 -

B: So that's cleared up.

HMJr: Thank you.

B: That's all right.

HMJr: Thank you.

B: Good night.

HMJr: Good night.

January 19, 1939.
8:40 p.m.

HJr: Hello.

Robert Wagner: Hello, Henry.

HJr: Yes, Bob.

W: How are you?

HJr: I'm fine.

W: Good. Ah -- the newspaper boys asked me about that stabilization fund bill. That isn't ready yet, is it?

HJr: Well --

W: I said I knew nothing about it.

HJr: There was a kind of a mix-up on it, Bob.

W: I see.

HJr: And, strictly between you and me, I was up this morning to see the Vice President and the Speaker --

W: Yeah.

HJr: And they wanted certain changes in the -- the press over at the White House didn't know, and they got it out too soon. So the letter had to be rewritten and went over to the President tonight. I don't think it will get up on the hill until tomorrow.

W: I see.

HJr: Now what they've done --

W: Where are you sending it to? To Garner?

HJr: It goes to Garner, yes.

W: I see.

HJr: From the President.

W: Yeah.

WJr: So then it would go from him, I suppose, to you, wouldn't it?

W: I suppose so, yes.

WJr: Well, the letter -- I don't think the letter has reached Garner, because it only left here a little while ago. We had to rewrite it. There was a -- there was a --

W: Well.

WJr: Well, what it says is this -- it asks Mr. Garner to give us a letter to extend the stabilization fund and the other things that go with it; the right to devalue the dollar until January 15th, 1941.

W: Yes.

WJr: Hello?

W: Yeah.

WJr: That's what it does.

W: I see. Well, that's all right. I just -- now listen, here's the other thing I wanted to ask you about.

WJr: That was -- that was the proper way to handle it, I think, wasn't it?

W: Oh, yes. Oh, absolutely.

WJr: But there was a mix-up. It got out too soon, but that's just between us.

W: Yeah. Here's the other thing I wanted to ask you about.

WJr: Please.

W: You were nice enough to appoint -- William Schwartz, who was a former Senator from New York and a damn swell, able fellow on this processing board -- tax board of -- review board --

WJr: Yes. Johnny Hanes said he had -- had been in contact with you.

W: Yeah. Well, what I was trying to have him make is chairman. There's a vacancy.

WJr: Yeah.

W: Is it all right?

WJr: Well, I haven't had a chance, but I'll do anything I can for you, Bob.

W: Yeah. Well, I mean it's -- he's voting chairman now.

WJr: Well I -- I -- frankly, they've been pushing me the last couple days. If you give me --

W: Well, I'm not hurrying you at all. The only thing is I wanted to be sure that --

WJr: No one else --

W:

WJr: Nobody else. No, Johnny Hanes got it to me.

W: Oh, yes. I mentioned it to him.

WJr: And I'll try to do something about it between now and Monday.

W: All right. Thank you very much, Henry.

WJr: I hope to see you soon.

W: Good bye.

WJr: Good bye.

January 19, 1939.
6:01 p.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello.

Frank
Murphy: Hello.

HMJr: Henry Morgenthau.

M: Yes.

HMJr: I wondered if you had had time to listen to my boys.

M: Oh, yes. We are in discussion here now.

HMJr: You're -- you're in the midst of it?

M: Yes.

HMJr: Is it going all right?

M: Oh, fine.

HMJr: Well, you'll let me know tomorrow then?

M: Sure. We'll be all set for you.

HMJr: And we're within our rights when I asked you to give me something to back up Oliphant's opinion?

M: Yes indeed. I think so.

HMJr: Don't you think the time to do it is -- in this connection and get it out?

M: Well I should think so. It would be helpful all the way along.

HMJr: It seems -- because otherwise, if later on they challenge my right, we won't have a good excuse to do it.

M: That's right.

HMJr: What?

M: That's right.

HMJr: It looks to me as though this was the natural time to do it.

M: I think so. Then you've got the precedent soundly established.

HJR: And it goes before court. It will be a public document then, won't it.

M: Yes, it will be. The opinion here.

HJR: And I should think that with Oliphant's opinion backed up by yours, I should think that that would settle the S.E.C.'s troubles, in this particular case.

M: Well, I'll talk it over in detail with you tomorrow.

HJR: Fine.

M: All right, thank you.

THE WHITE HOUSE
WASHINGTON

January 10, 1930.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

You have vacant the following
places:

Assistant Secretary
General Counsel
Collectors of Customs
Comptroller of Customs
Collectors of Internal Revenue
Assayer of the Mint,
San Francisco.

Are you ready to proceed on
any of these?

F. D. R.



DEPARTMENT OF STATE
WASHINGTON

January 19, 1939

My dear Mr. Secretary:

As you were advised by cable, the resolution submitted by the American Delegation at the Eighth International Conference of American States in regard to periodic meetings of Treasury representatives was passed unanimously by the Conference. I transmit herewith a copy of the final text.

I have received from Dr. Rowe, Director of the Pan American Union, the following communication:

"At the February meeting of the Governing Board I am planning to ask that a committee of the Board be appointed to consider this matter. It would be most helpful if you could arrange to send to the Pan American Union suggestions with reference to the agenda of the meeting scheduled to be held at Guatemala City not later than June first of this year."

I am informing Dr. Rowe that I am transmitting this communication to you and requesting your careful consideration, and will advise him further upon being informed

The Honorable

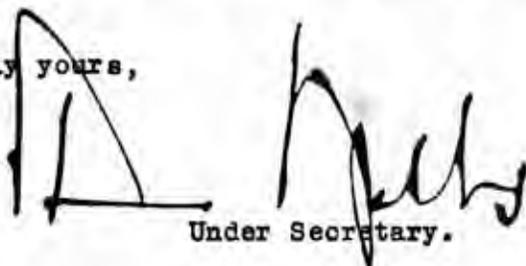
Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

informed by the Treasury. Please be sure that the staff of the Department stands ready to be available to you or your assistants in any way in which it may be of use.

Sincerely yours,

A handwritten signature in black ink, appearing to be "H. H. H. H.", written over a horizontal line. The signature is stylized and somewhat illegible.

Under Secretary.

Enclosure:

Resolution.

Department of State

BUREAU
DIVISION

EA

ENCLOSURE

TO

Letter drafted.....

ADDRESSED TO

TREASURY

COPY

Resolution of the Lima Conference relating to Meetings
of Treasury Representatives

The Delegation of the United States introduced a resolution which was unanimously approved by the Conference reading as follows:

"The Eighth International Conference
of American States

RECOMMENDS:

1. "That the Treasuries of the American States arrange for periodic informal meetings, including group and regional meetings, of representatives for the discussion of subjects of mutual interest.
 2. "That such meetings be held at least annually and whenever problems of special importance arise.
 3. "The first meeting shall be held at Guatemala not later than June 1, 1939, in accordance with arrangements that may be worked out by the Pan American Union after consultation with the Governments of the American Republics.
- "At the first meeting provision shall be made for the organization of subsequent meetings. (Approved December 23, 1938)."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Bucharest, Rumania

DATE: January 19, 1939, 11 p.m.

NO.: 10

CONFIDENTIAL.

Constantine Brown, correspondent of the WASHINGTON STAR, - who incidentally it seems was born in Rumania - has been here for the past week. He has had interviews with Rumanian officials, including the Minister of Foreign Affairs, and has urged them to pay arrears on the inter-governmental debt to us. He has said that by making such a welcome gesture in the United States before participation in the New York Fair they would be sure to gain for once a favorable press, and that incidentally, by so doing they would remove the obstacle of the Johnson Act in the way of extension of credits for rearmament purposes. Brown was at my house last night, as was the powerful Minister of the Interior Calinescu. Brown volubly urged this course upon the Minister who, Brown told me later, said that at the next Cabinet meeting, to be held in a few days, he would submit the project to the King of Rumania. This course has also been urged upon Irimescu (who is here now) by Brown; it seems the former cherished a strange illusion that such a payment would not be accepted by the United States Government.

Before

Before Brown left the United States, he said he discussed the matter with Colonel McIntyre at the White House, and with Senators Borah, J. H. Lewis and others at the Capitol, although he did not take it up with the State Department.

It had been my intention to give a detailed report of this matter by mail. However, the next mail pouch does not leave for a week and it may be that you should wish to send me some special instructions in case I should be officially consulted after the next meeting of the Rumanian Cabinet. I have not been contacted so far by the Minister for Foreign Affairs, and have not talked about it at all except most informally with Irimescu who, incidentally, is seeing the King today and undoubtedly will mention the matter to him. The intergovernmental funded debt being roughly 120 million dollars, to pay arrears on this amount would appear to amount to about 9 1/2 million dollars. This is a formidable and seemingly improbable sum for Rumania to raise in view of the fact that its balance of trade with our country is extremely unfavorable. However, Brown has assured them here that a handsome return would be yielded thereby.

In another report I am telling about a conversation which I had with Irimescu which would indicate that while he is here he is trying to get funds for arrears on post-war

- 3 -

War debt and authority to conclude a refunding arrangement; Irimescu saw the Rumanian Finance Minister in Paris on the way down and discussed this subject with him.

GUNTHER.

RECEIVED

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THE DEPARTMENT OF STATE
WASHINGTON, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 19, 1939.

TO Secretary of the Treasury

FROM

Mr. Bernstein

(then Foley)
for your information

In connection with Senator Pittman's inquiry, you may be interested in the following chronology of the steps that were taken relative to the regulations dealing with newly-mined domestic silver.

1. On January 16, 1939 the President approved the new regulations.
2. On the morning of January 18, 1939 air mail letters were despatched to the mints giving full instructions with respect to the necessary procedure and enclosing copies of the new regulations and the new affidavit and instrument of transfer forms. On the same day form letters were sent to all depositors of newly-mined domestic silver, transmitting copies of the new regulations and forms.

In order to be able to take such action so promptly it was necessary to have the printing of the new regulations, the mimeographing of the various forms and form letters, and the preparation of the instructions to the mints completed in the shortest possible time.

Immediately after you spoke to me about Senator Pittman's call, I phoned the San Francisco Mint, which had not as yet received the instructions, forms, etc., sent to it by air mail, and gave appropriate instructions.

B Bernstein

76TH CONGRESS
1ST SESSION

S. 785

IN THE SENATE OF THE UNITED STATES

JANUARY 17, 1939

Mr. TOWNSEND introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To repeal the Silver Purchase Act of 1934, to provide for the sale of silver, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Silver Purchase Act of 1934 is hereby repealed, and
4 all power and authority of the President and the Secretary of
5 the Treasury with respect to the acquisition of silver, the
6 changing of the weight or content of the standard silver dollar
7 or the monetary value of silver, or the issuance of silver
8 certificates, under any Act of Congress, shall cease and
9 terminate on the date of enactment of this Act; and all pro-
10 clamations, orders, rules, regulations, and other action pro-
11 mulgated, made, issued, or taken by the President or the

1 Secretary of the Treasury with respect to silver pursuant to
 2 any such power or authority shall cease to be effective on
 3 and after such date: *Provided*, That nothing in this Act shall
 4 be construed to prevent the acquisition by the Government
 5 at any time of any United States silver coins, or the issuance
 6 of any silver certificates solely for the purpose of replacing
 7 worn certificates or replacing an equivalent amount of silver
 8 certificates of other denominations: *Provided further*, That
 9 if any silver coin of the United States of any denomination
 10 shall at any time have a greater value as bullion than as
 11 currency, the Secretary of the Treasury is authorized to call
 12 in any of such coins then outstanding and to recoin so many
 13 of them as he may deem necessary in the public interest, and
 14 the coins so recoined shall be of such weight and fineness as
 15 he finds necessary at the time to prevent the illegal melting
 16 or the exportation of such coins.

17 SEC. 2. The Secretary of the Treasury is authorized and
 18 directed to set aside immediately five hundred million troy
 19 ounces of fine silver to enable the Bureau of the Mint to
 20 meet its subsidiary silver coinage requirements: *Provided*,
 21 That if the silver held in the Treasury on the date of enact-
 22 ment of this Act against which silver certificates have not
 23 been issued is not sufficient to provide such five hundred
 24 million ounces, the Secretary of the Treasury shall withdraw
 25 from circulation as soon as possible silver certificates or

1 standard silver dollars in an amount sufficient to provide the
 2 amount herein authorized to meet such subsidiary silver
 3 coinage requirements.

4 SEC. 3. The Secretary of the Treasury is authorized to
 5 sell silver at home and abroad at such prices, at such times,
 6 and in such manner as he deems necessary in the best inter-
 7 ests of the United States: *Provided*, That such sales shall be
 8 confined to (1) silver other than subsidiary silver coins held
 9 by the Treasury or in circulation on the date of enactment
 10 of this Act, and (2) the five hundred million troy ounces
 11 of fine silver set aside in accordance with the provisions of
 12 section 2: *Provided further*, That if the Secretary of the
 13 Treasury finds it to be in the best interests of the United
 14 States to sell any silver against which silver certificates have
 15 been issued, a corresponding amount of silver certificates
 16 based on the then existing monetary value of silver shall be
 17 retired, canceled, and destroyed by the Treasury and shall
 18 not be reissued or paid out again or kept in circulation.

19 SEC. 4. The importation into the United States (except
 20 into any Foreign Trade Zone as defined in the Act of Con-
 21 gress of June 18, 1934) of (1) silver coin or bullion more
 22 than one-hundred thousandths fine, (2) metals containing
 23 not more than fifty troy ounces of fine silver per short ton,
 24 (3) silver-bearing ore or concentrates containing more than
 25 fifty troy ounces of silver per short ton, or (4) any other

1 silver-bearing materials or articles designated as such by the
2 Secretary of the Treasury, is hereby prohibited: *Provided,*
3 That the provisions of this section shall not apply to ship-
4 ments in transit, or to any silver or silver-bearing materials
5 referred to in clauses (1) to (4), inclusive, of this section
6 which is shipped to the United States for smelting or refining
7 and is subsequently reexported, or the equivalent of which in
8 other silver is subsequently reexported: *Provided further,*
9 That nothing in this section shall prevent the reimportation
10 into the United States of United States silver coins, or the
11 importation into the United States of foreign silver coins for
12 numismatic purposes, or of foreign silver coin carried by
13 any traveler not exceeding in face value the equivalent of
14 \$5 in United States currency.

15 SEC. 5. There is hereby appropriated, out of any money
16 in the Treasury not otherwise appropriated, the sum of
17 \$250,000 to be used by the Bureau of Standards in research
18 with respect to new industrial uses of silver.

A BILL

To repeal the Silver Purchase Act of 1934, to provide for the sale of silver, and for other purposes.

By Mr. TOWNSEND

JANUARY 17, 1939

Read twice and referred to the Committee on
Banking and Currency

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NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

Confidential

January 29¹⁹, 1939.

Memorandum for the Secretary of the Treasury.

1. Supplementing the report of the road from Chungking to Lashio sent to you yesterday, I am enclosing herewith a copy of a written report received from Major McHugh, U.S.M.C., via Ambassador Johnson.

2. The radio report of yesterday has been further modified by McHugh in an additional radio of this morning as follows:

"Because of questions asked here it is evident that clarification of the following points is necessary:

First: Hsinking-Burma border section: new road is virgin work not improvement former route, it traverses continuous mountain area varying from 2500 to 3000 feet crossing seven divides.

Second: Lashio: is one hundred five miles south of line and on this section British repairs have lagged due primarily no faith that Chinese could build their end.

Third: Bhamo: lies on offshoot to westward possessing both rail and water feeders.

Fourth: no casual passage possible on any portion of road from Chungking without special passes plus gas permits. Fuel stocks are not yet available along the road."

William D. Leahy
William D. Leahy.

C O P Y

AMERICAN CONSULATE

RANGOON BURMA

Confidential

31 December, 1938.

MEMORANDUM FOR THE AMBASSADOR

Subject: The Burma Road

The following is a brief report of our recent trip over the new motor road connecting KUNMING, YUNNAN, with LASHIO, BURMA:

A. DETAILS OF THE JOURNEY

(1) Dates We left CHUNGKING at 7:30 A.M., December 12, 1938, and arrived at LASHIO at 6:30 P.M., December 26, 1938, travelling by way of KWEIYANG, KUNMING, HSIA KUAN (TA LI FU), PAO SHAN, LUNG LING and MANG SHIH. Actual travel time was ten days, as follows: CHUNGKING to KWEIYANG, two days; KWEIYANG to KUNMING, three days; KUNMING to HSIA KUAN, two days; and HSIA KUAN to LASHIO, three days. Three additional days were required to drive from LASHIO to RANGOON. Stopovers to exchange necessary official calls and service our transportation were made as follows: enroute: one day at KWEIYANG, three days at KUNMING and one day at TA LI FU.

(2) Mileage and Gasoline The following table shows the mileage between the various points enroute as measured on the speedometer of our car. This varies only slightly with information supplied us from Chinese, British and French

sources, the differences being due either to mechanical variation in instruments or the exact location of points from which readings were taken:

CHUNGKING to KUNMING 726 miles

KUNMING to HSIA KUAN 264 "

(TA LI FU is 7 miles to the north of HSIA KUAN, off of the main road)

HSIA KUAN to LASHIO $\frac{480}{\text{Total 1,470}}$ miles

(LASHIO to RANGOON = 512 miles)

We consumed sixty five (65) gallons of gasoline from CHUNGKING to KUNMING and seventy five (75) gallons from KUNMING to LASHIO. Gasoline is available at certain points along the route between CHUNGKING and KUNMING, but is issued only against written authority from the Liquid Fuels Division of the Ministry of Finance at CHUNGKING or by local authority of Provincial Governments. Ordinary travellers cannot purchase at random nor can they easily procure such authority. I had already taken steps to procure permits to purchase gasoline along this section of our route for a trip to KUNMING prior to receipt of orders to make the trip to BURMA and it had required eight days for the passes to be issued even though permission to obtain them had immediately been granted upon receipt of my request. There are no stocks of gasoline available, however, along the KUNMING - LASHIO route at present, not even as far as HSIA KUAN. We were accompanied on this latter stage by Mr. T'ian Po-ying, the newly appointed Managing Director of the road who is taking

over control from the YUNNAN Government as of 1 January, 1939. He was sent to KUNMING by plane by the Minister of Communications to facilitate our journey in any way possible and took the occasion to make his first inspection of the route. It was necessary, however, for him to bring along a truck to carry gasoline supplies for the outgoing and return journey of the cars. The local representatives of the foreign oil companies in KUNMING have no stocks along the route nor any concrete plans as yet as to when they may locate same.

(3) Transportation for the trip The car used by us was a 1935 model, Ford V-8 Sedan, which I had purchased second hand in HONGKONG in September, 1938, and had driven from there via CANTON to HANKOW, thence back to CHANGSHA and on to CHUNGKING. We carried with us in this car a Chinese mechanic and our personal baggage and bedding plus spare parts and surplus gasoline in a limited quantity. I had had this car thoroughly overhauled in HONGKONG despite the fact that it had only been run 3,500 miles; had had a special carrier built on the rear capable of carrying thirty (30) gallons (3 Cases) of extra gasoline; had had the springs reinforced; and had had the car equipped with spare parts for every conceivable emergency. We also carried a set of blocks and tackle, tow rope and pick and shovel. Spare parts are not available at points in Central China, except at KUNMING in very limited and uncertain

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quantity. Had it not been for the availability of this car at CHUNGKING when the question of this trip arose, it is doubtful if the trip would have been attempted, for commercial transportation is not only scarce, but mechanically unequal to the strain of such a trip. Mr. T'ian commandeered for his use a brand new 1936 Ford V-8 Sedan and a new Dodge truck yet had recurring trouble with both all along the route due to the carelessness of his chauffeurs and their failure to service their equipment carefully at the end of each day's run.

B. DESCRIPTION OF THE ROUTE

(1) CHUNGKING to KUNMING The road from CHUNGKING to KUNMING, although taken for granted by those who have not travelled it, is a very difficult route. There are five mountain passes between CHUNGKING and KWEIYANG and six more between KWEIYANG and KUNMING. In the former group, starting with an altitude of approximately 400 feet at CHUNGKING, one attains altitudes up to 3,500 feet and in the latter group, from an altitude of 2,600 feet at KWEIYANG, one reaches 6,600 feet on one pass. (Altitudes were taken by us all along the route and were found to agree substantially with those shown on maps and engineering blueprints). The road has a rock base throughout, but the surface has been largely washed away by the long rainy season and by heavy traffic in recent weeks and is very jagged and uneven, especially between KWEIYANG and the YUNNAN border. Grades are steep and curves are sharp, many of them requiring on the ascent full power

in low gear on a Ford V-8. Just west of AN NAN in western KWEICHOW one descends the side of a mountain over a very rough road in twenty five successive and very sharp curves, losing 2,000 feet in three kilometers, and then immediately regains this altitude plus another 300 feet in a climb of five kilometers on the opposite mountain. Chinese trucks are nevertheless negotiating this road regularly, albeit with frequent breakdowns and casualties. It is no exaggeration to state that at least fifty percent of the total distance traversed was in second gear due either to ascending or descending slopes or to uneven road surfaces.

(2) KUNMING to HSIA KUAN This section of the road is less than two years old although it is an old caravan route. Prior to the outbreak of the present war there were very few cars in YUNNAN and little demand for improvement of this section. Its development, therefore, is practically concurrent with the HSIA KUAN - LASHIO section. There are two main passes to cross, the second being the highest of the entire route - 9,600 feet. Part of this road is in excellent condition and part very poor. The latter is especially true through the first pass which lies between KUNMING and CH'U HSING where several serious slides have occurred. Here, as in similar situations further along, it will not only be necessary to slope the cuts back to a more normal angle of repose, but likewise imperative to maintain a constant patrol and repair gangs. Work on widening and improving these cuts is already in progress. Driving along this section of the

road is, however, relatively easier than on the KWEICHOW roads due to the excellent condition of the latter part over the second pass.

(3) HSIA KUAN to LASHIO This section also is in reality the general line of a very old caravan route. The motor road, while following roughly this line, is in the main a virgin road which has literally been carved out of the sides of mountains. Starting from an altitude of 6,400 feet at HSIA KUAN, the road traverses seven passes to the BURMA border and two more between that point and LASHIO. Work on this section was first started in December, 1937, and the road was initially declared open in July, 1938. Serious slides during the wet season forced its closure, however, and the metalling of the surface was likewise far from complete so that the road was only again opened to passage shortly prior to our trip. Work is in progress all along the route widening it, surfacing it, completing bridges and coping with slides. It is by no means finished and its ultimate utility as an artery for heavy and continuous traffic depends entirely on how assiduously and vigorously its improvement is pushed.

There are certain sections through which the road passes where the geology is such that constant patrolling and repair will be required. These points principally are, (a) the first pass south of HSIA KUAN between there and the YANG P'I river, (b) the beginning of the ascent to the MEKONG DIVIDE, (c) recurring sections on both slopes of the SALWEEN DIVIDE, (d) the entire LUNGLING - MANGSHIH section and (e)

the LUNG (SHWELI) river divide just north of the SWAMA border. In these sections the geology is of a conglomerate composition - - either talus or detritus, resembling the deposit of a floor despite the fact that it is several thousand feet high, and is constantly crumbling and slipping. This whole area is apparently under terrific strain for the sedimentary rock has been bent and crushed until it has little cohesion. It is exactly as though the road had been cut along the slopes of a mound of granulated sugar which constantly melts or slips from under it. Only constant supervision such as has been exercised for years in the Panama Canal will keep the road open through these areas.

(4) Present condition for traffic The road is not yet in condition to handle heavy traffic and it is impossible to predict when this condition will be attained. Work is progressing all along it although the number of workmen employed is obviously insufficient and apparently considerably less than that mobilized to break the ground earlier in the year. The people are turned out for work on the road by the magistrates of their respective districts as a form of taxation and get neither pay nor food for their efforts. No call upon their services is possible during the summer months when the crops need attention for they will not turn out then and the road will obviously go out of commission during the rainy season of the coming year for there are places that will not yet be in condition by that time to withstand the weather and there will be very little if any local labor to command for such emergencies. Mr. T'ien spoke of bringing in a large

number of experienced road builders from KIANGSI Province in order not only to improve the quality of the work, but to have permanent crews available. This is quite possible to do and if done will be a distinct asset, for KIANGSI was where the Generalissimo started his road building program and there are undoubtedly large numbers of refugees from there available for this work.

Many very substantial stone and concrete bridges have already been built while others are in process of construction. Present by-passes around these, however, will be closed by the advent of the coming rainy season in April if any remain uncompleted by that time. The suspension bridge over the MEEKONG river is rated at seven and one half tons and appears serviceable if properly watched. The reinforcing of the suspension bridge over the SALWEEN is already 75% complete and will be finished very shortly. It is rated at fifteen tons and will be superior to the MEEKONG bridge when finished. We did not note any sharp or difficult approach to this bridge as reported in November by Mr. Hunter of the Central Aircraft Factory.

The chief point where difficulty will probably occur for heavy trucks seems to be in the elbows of curves at the tops of valleys where the road winds from one mountain to the next. There are a multitude of these in any ascent or descent and in many cases the turn is far too sharp and the culvert or fill not only too narrow, but not squared to the normal approach of the vehicle. Work is already in progress at many places to correct this, but the bridges where necessary have already been located and

may have to be rebuilt. The road needs widening in many places not only to permit the free passage of vehicles, but to strengthen it. Work on this is already in progress in frequent instances but the number of workmen is at present insufficient to guarantee completion prior to the coming rainy season. It was interesting to remark the migration of a large number of Yunnanese into northern BURMA for road work where they obtain substantial remuneration for their services.

C. CONCLUSIONS

The building and opening of this road is obviously the result of a pressing need on the part of the Chinese who now find themselves practically cut off from the outside world. The work to date -- the mere fact that a road has been built through such formidable terrain -- is a distinct credit to the Chinese. The BURMA government is, in fact, behind schedule in the development of their section of the road from the obvious fact that they never believed the Chinese could and would build this road. With continued improvement and constant supervision over dangerous sections the road has every possibility of becoming a serviceable artery for traffic. That it can and will be completed to this point in time to be of any real value during the present conflict is open to grave doubt. And when the present conflict is settled, the question remains, will the Chinese continue to improve this route? Once the pressure is removed and negligence sets in, the route will close. Only one slide unattended is necessary to produce this.

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But the future cannot be predicted. The pressure to develop and use the road is stronger than ever at present and there certainly is no sign as yet of any settlement of the present war nor any clue as to how it might come about. The new Managing Director of the road, Mr. T'an, is a very well educated engineer of German training who appears to possess an unusual amount of energy and common sense. He informed us that he had just been granted an allotment of forty thousand pounds sterling of foreign exchange with which to buy further road equipment and is now enroute to HONGKONG to arrange for these purchases. He likewise appears to have under him several competent and industrious engineers. He has already had considerable experience in the Northwest in opening up the routes to the U.S.S.R. and there therefore is no ground on which to discount the present intentions or ability of the Chinese to go ahead with the development of the road.

A high official in the BURMA Government informed me that there is not enough potential commerce or mineral wealth in YUNNAN to justify the continued development or use of the road after the present war. He admitted, however, that if it could be kept open clear into SZECHUAN it might succeed commercially. Whether he is right remains to be seen. It has always been assumed that there is considerable undeveloped mineral wealth in the western part of China, but it is doubtful if any accurate and comprehensive survey has ever yet been made. The road would appear to be worth the

gamble as a commercial venture alone, not to mention its political possibilities as an offset to the French influence in YUNNAN.

As to the volume of traffic it can carry, the Chinese are already taking of 150 trucks per day in each direction and making plans to employ the thousand new trucks recently reported to have been obtained on credit from the U.S.A. Obviously, the installation of efficient service crews and stations plus large stocks of fuel all along the route will be necessary to maintain such traffic, and these precautions, other than for limited fuel stocks and a branch garage of the Southwest Transportation Corporation at KWEIYANG, do not now obtain on the older section of the route from KUNMING to CHUNGKING. There is a very evident and crying need along that route for the coordination and servicing of motor transport. Likewise, very strict discipline and schooling of chauffeurs will be required and thus far no such move has been made elsewhere to any appreciable degree in this respect, not to mention the fact that proper care and routine servicing of machinery is not an inherent trait of the Chinese. An efficient dispatching system for the control of traffic will also be required especially since the Chinese plan to utilize a large amount of native transport. In this latter respect Mr. T'an has plans for an improved native two-wheeled cart, animal drawn, with steel axle, pneumatic tires and ball-bearings recovered from broken trucks. He claims he has already employed this successfully in the Northwest each vehicle transporting one and one half tons of gasoline. The idea itself

appears possible of some success, but its installation along the route we have just travelled would obviously produce a hopeless traffic jam unless very rigid despatching and control were exercised.

The volume of war material which can be transported over this route and the overhead incident thereto is a matter of simple arithmetic which can easily be computed from the basic statistics of mileage and gasoline consumption of our trip alone — and the result is not encouraging.

Respectfully submitted,

J. M. McHugh
Major, U.S.M.C.
Assistant Naval Attache.

Confidential

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 19 1939

TO Secretary Morgenthau
FROM Edward H. Foley, Jr., Acting General Counsel

For your informationRe: Codification of Internal Revenue Laws

Congressman Doughton today introduced a bill to provide for the enactment as absolute law of the Joint Committee's codification of the Internal Revenue laws. You will recall that your letters on the subject, which you signed before you left for Florida, were withdrawn. These letters stated in effect that the Treasury favored the adoption of the code as "prima facie the law," but would not oppose its adoption as absolute law if the Joint Committee chose to recommend it in this form to the Congress.

E.H.F.

TREASURY DEPARTMENT
U. S. PUBLIC HEALTH SERVICE

MEMORANDUM

13
Monday
DATE Jan. 20, 1939.

FROM THE SURGEON GENERAL:

TO: The Secretary of the Treasury.

Attached is a first draft of a memorandum to the President concerning a nutrition committee which I discussed with you on Tuesday. I participated with a group in the Department of Agriculture in its preparation. Before submitting it to Secretary Wallace, I should like to have your approval or suggestions for change.

A number of points need consideration:

1. Should the memorandum explain in more detail how this program actually will work in typical communities or should this be left to later report by the proposed committee.

2. What is the most appropriate name for the committee. "Food and Health" has been suggested by the Agriculture group. The term "Nutrition" may be better.

3. What are the advantages and disadvantages of having so large a number of agencies represented on the committee.

4. Should more information be given to the President as to present actual and percentage deficiencies in the consumption of certain food stuffs. (Milk, green vegetables and citrus fruits are the most deficient elements).

5. Should there be included information as to the amounts and kinds of surplus foods, respectively available this year.

Would it be possible for me to talk to you briefly some time today or tomorrow so that this matter may be expedited.

Thomas H. Ince
Surgeon General.

TF:MTL

Jan. 19, 1939.

MEMORANDUM TO THE PRESIDENT
On a Proposed Federal Committee on Food and
Health

14

The nation is faced with an excess of many foods and at the same time there are large deficiencies in consumption as measured by requirements for good nutrition. Per capita consumption of certain foods could be increased to the advantage of the health of the population, if some means of getting the food to those who need it could be worked out. Figures are available to show a deficiency in consumption which, if corrected, would more than use all of the excess production of certain commodity groups which now tend to glut the market.

Estimates based on dietary studies indicate that the diets of at least a third of the population are not adequate for good nutrition. Sickness and death rates are higher in the areas with dietary deficiencies, and the children from such areas are retarded in growth and development. Good nutrition is fundamental to the present and future health of the nation.

Today, we have a paradoxical situation in which there exist both a great amount of unused or unprofitable agricultural production facilities and a great number of undernourished people. Temporarily, and until the income of the nation is substantially increased, the economic portion of the solution to this problem is to be found by using the power of the Government either to distribute foods to low-income groups, who would not otherwise be able to obtain them, or to increase the purchasing power of the large ill-nourished groups. A simultaneous attack on the problem in both directions appears to be most promising. The principal needs in this respect are the expansion and integration of the existing governmental programs for relief distribution and the

- 2 -

improvement of purchasing power.

Apart from deficiencies attributable to low purchasing power, a substantial part of malnutrition is due to lack of information about the fundamentals of nutrition. Considerable attention, therefore, should also be given to education in connection with the actual distribution programs.

In the present situation a substantial improvement of nutrition can be accomplished by the wider use of food surpluses which tend to depress the prices for agricultural products and the level of living of the producers. The making available of additional food to relief and low income families should build a larger and more profitable demand for our agricultural products.

Among the six million families on relief, the Surplus Commodities Corporation is distributing surplus products to about two and one-half million families. Moreover, with present funds and distribution facilities it is not possible to reach low income non-relief families or families having special food requirements as a result of sickness or other causes. As a part of a general program to meet this problem, particular attention should be focused on the expansion of school lunch projects to reach all children in the public schools needing additional amounts of foods. The school lunch service will aid children at the age when diets have most influence on growth and health. School lunch projects should include instruction in nutrition and methods of preparation and ways of combining surplus foods with others so as to supply adequate diets.

A number of Federal agencies are concerned with the several aspects of the food supply in relation to adequate nutrition. A close integration of their efforts is desirable. In addition, it is necessary

- 3 -

to have increased state and local support and participation, of both a public and private nature, in efforts to secure wider utilization of food among needy persons.

To accomplish these purposes it is recommended that the President appoint a Federal Committee on Food and Health, with representatives from the:

Department of Agriculture
Public Health Service
Department of Interior
Department of Commerce
Department of Labor
Works Progress Administration
National Youth Administration
American Red Cross

Prepared by Dr. Louise Stanley,
Bur. of Home Economics,
and Dr. Thos. Parran,
Public Health Service.

Copies to: Mr. J. W. Tapp
Mr. Carl Robbins
Mr. John B. Canning

Jan. 20, 1939.

The Secretary of the Treasury.

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Surgeon General.

TP:MTL

Jan. 19, 1939.

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MEMORANDUM TO THE PRESIDENT
On a Proposed Federal Committee on Food and
Health

The nation is faced with an excess of many foods and at the same time there are large deficiencies in consumption as measured by requirements for good nutrition. Per capita consumption of certain foods could be increased to the advantage of the health of the population, if some means of getting the food to those who need it could be worked out. Figures are available to show a deficiency in consumption which, if corrected, would more than use all of the excess production of certain commodity groups which now tend to glut the market.

Estimates based on dietary studies indicate that the diets of at least a third of the population are not adequate for good nutrition. Sickness and death rates are higher in the areas with dietary deficiencies, and the children from such areas are retarded in growth and development. Good nutrition is fundamental to the present and future health of the nation.

Today, we have a paradoxical situation in which there exist both a great amount of unused or unprofitable agricultural production facilities and a great number of undernourished people. Temporarily, and until the income of the nation is substantially increased, the economic portion of the solution to this problem is to be found by using the power of the Government either to distribute foods to low-income groups, who would not otherwise be able to obtain them, or to increase the purchasing power of the large ill-nourished groups. A simultaneous attack on the problem in both directions appears to be most promising. The principal needs in this respect are the expansion and integration of the existing governmental programs for relief distribution and the

improvement of purchasing power.

Apart from deficiencies attributable to low purchasing power, a substantial part of malnutrition is due to lack of information about the fundamentals of nutrition. Considerable attention, therefore, should also be given to education in connection with the actual distribution programs.

In the present situation a substantial improvement of nutrition can be accomplished by the wider use of food surpluses which tend to depress the prices for agricultural products and the level of living of the producers. The making available of additional food to relief and low income families should build a larger and more profitable demand for our agricultural products.

Among the six million families on relief, the Surplus Commodities Corporation is distributing surplus products to about two and one-half million families. Moreover, with present funds and distribution facilities it is not possible to reach low income non-relief families or families having special food requirements as a result of sickness or other causes. As a part of a general program to meet this problem, particular attention should be focused on the expansion of school lunch projects to reach all children in the public schools needing additional amounts of foods. The school lunch service will aid children at the age when diets have most influence on growth and health. School lunch projects should include instruction in nutrition and methods of preparation and ways of combining surplus foods with others so as to supply adequate diets.

A number of Federal agencies are concerned with the several aspects of the food supply in relation to adequate nutrition. A close integration of their efforts is desirable. In addition, it is necessary

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to have increased state and local support and participation, of both a public and private nature, in efforts to secure wider utilization of food among needy persons.

To accomplish these purposes it is recommended that the President appoint a Federal Committee on Food and Health, with representatives from the:

Department of Agriculture
Public Health Service
Department of Interior
Department of Commerce
Department of Labor
Works Progress Administration
National Youth Administration
American Red Cross

Prepared by Dr. Louise Stanley,
Bar. of Home Economics
and Dr. Thos. Parran
Public Health Service

Copies to: Mr. J. W. Tapp
Mr. Carl Robbins
Mr. John B. Canning

January 20, 1937. ²¹
9:36 a.m.

Operator: Mr. Bullitt.

Mr: Hello -- hello -- hello.

Bill
Bullitt: Hello.

Mr: Go ahead.

Mr: Hello.

Mr: Hello, Henry.

Mr: Good morning.

Mr: How are you, boy?

Mr: Fine.

Mr: There's something I meant to ask you about yesterday and I forgot -- ah -- this -- I'll make a little historical preamble. The President said to me sometime ago, he was talking to me about an old cousin of his who now is dead, who for years sat down in Paris and had a very swell job digging up smugglers for the Treasury Department. I have an aged cousin, who is not too damn aged, who was at one time one of the best lawyers in this country, then moved to France, and when everything went to hell lost all his money, and also the thing he's working for there closed up -- and I wondered if a man of that description, who was at one time a very high-powered lawyer; he was lawyer for the New York Life Insurance Company, he was a partner of
after that, who became partner to the President -- if there is any chance over there in that Treasury staff to get a job for a fellow like that?

Mr: Well, I don't know. I've heard the President tell that story a number of times.

Mr: Yes.

Mr: And I don't know how he --

Mr: Well, I -- I --

Mr: Look. You give me -- you have Offie send me over a little note.

Mr: Yes, I'll have Offie take it up right away. Who runs that, Henry, Gibbons?

- 2 -

HJr: No, well --

B: I'll send it to you personally.

HJr: Yes -- yes -- Gibbons does ostensibly, but it would be something I'd have to do myself.

B: Yes. Well, the point is this, that this man is a hell of a -- is a hell of a fine fellow.

HJr: Is he there now?

B: What?

HJr: Is he over there now?

B: Well, he's at the present time in New York, the Hotel Gotham. He's married to my cousin Adele Horowitz and she's very ill. At the present time she's on her back in the Hotel Gotham of New York, but this man is a man who is now about sixty-one years of age; in full vigor, he looks about fifty; and is an absolutely first-rate gentlemanly person who is utterly reliable and utterly swell, and he just -- he, by pulling over there into France when things looked very swell there -- he was -- what he was doing over there finally was he was manager for Byrne Company, you know, a New York -- house -- and they went bust so that went up the flue. He has a splendid war -- war record, and is a person I can rely on absolutely.

HJr: Well, Bill, send me over the details --

B: I'll write you a note this morning before I leave.

HJr: I'll do the best I can.

B: And if you can get a book on anything I'd appreciate it terribly.

HJr: I'll do the very best.

B: Thanks a lot, Henry. God bless you and good bye.

HJr: Good luck.

January 30, 1939.
10:10 a.m.

WJr: Hello.

Vin
Riefler: Hello.

WJr: Hello, Win?

R: Yes.

WJr: How are you?

R: Merry Christmas and a Happy New Year.

WJr: And many more of them to you. This isn't what I called you up for, but Mr. Hitler fired Dr. Schacht last night.

R: He did?

WJr: Yeah. Ah -- Win, I'm having a meeting today and tomorrow to bring myself up-to-date on social security, and I only learned this morning that you are very much interested. Hello?

R: Yeah.

WJr: I know it's late in the day and all the rest of that -- but what we are doing is working today and tomorrow morning, and tonight at my house. I didn't know whether you were so situated or sufficiently interested that you wanted to drop down this evening and tomorrow morning or not.

R: Yeah. There's going to be a meeting at your house, is there?

WJr: I'm going to have the people I've got come to supper and then talk about it more tonight and more tomorrow morning.

R: Uh-huh.

WJr: I've got Hanson and Viner, and Mr. Byrne and Professor Brown.

R: Yeah.

WJr: I didn't know that you were interested. I only knew it this morning. That shows how little I know about Social Security. I don't know the people who are interested.

R: Well, I had the same experience in Geneva. I didn't know that you were the one who was interested in industrial credit.

HJr: I see. Could you come down tonight?

R: Well, I think - I think I can. My only problem is that Mrs. Reifler is -- is sick and I'm going to wait until a Dr. comes here to find out how serious it is.

HJr: Well, will you send me a wire?

R: Yes.

HJr: I'm -- I'm going to have them at the house for supper at seven thirty.

R: I see.

HJr: See?

R: All right. I'll try to make it.

HJr: That will be fine. Jake says you're the only one who will side with me. I better have you down.

R: Yeah. All right.

HJr: All right. Thank you. I'm sorry -- I'm sorry Mrs. Riefler -- is there anything serious?

R: Well, I don't think so. It's -- It's her back -- it's got her flat on her back.

HJr: Oh.

R: I suppose it's a cold or something.

HJr: Oh.

R:

HJr: Oh. But nothing, I mean, that can't be cured?

R: No, I hope not. I want to see what the Dr. says.

HJr: Yeah. Well, what do you think of their firing Schacht?

R: I didn't know it.

HJr: It just happened.

R: Well, that's awfully interesting. I suppose that's because he went to far with , huh?

HJr: That's right. That's right.

R: Well, we can look for something then.

SMJr: That's right.

R: Schacht said last summer, he said, "As long as they keep me it won't be too crazy, but if they fire me, look out."

SMJr: That's right. Well, I hope you can make it -- tonight.

R: Yes, I'll try to.

SMJr: Thank you.

R: All right.

SMJr: Good bye.

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January 20, 1939.
3:58 p.m.

HMJr: Hello.

Operator: Chairman Douglas.

HMJr: Hello.

Bill
Douglas: Hello.

HMJr: Bill?

D: Hello, Henry.

HMJr: How are you?

D: Fine.

HMJr: Now listen, old man, I don't mind helping you and sitting up nights to back you up, but what's the use of sending the stuff over if the fellow who hears these cases falls asleep?

D: You mean the Judge.

HMJr: Yeah.

D: Well -- ah --

HMJr: Now, it's kind of discouraging to the Treasury when you have this fellow who sits there, and he just falls out of his chair. (Laughter)

D: I know it. About all we can do is yell. (Laughter)

HMJr: Now if you want a fellow over there from Treasury with a sort of a tickler, you know, to keep him awake --

D: Yeah, well, that would help, but I -- I -- that's one thing I hesitated to ask. I tell you what I'll do -- I'll ask Mariner for that.

HMJr: Well --

D: And, of course, the one -- the group that may pass on this -- Felix may eventually sit on this case.

HMJr: Really?

D: Sure, because that's where we'll take it.

HMJr: Yeah.

D: If we're licked.

HMJr: Well, I couldn't help -- my boys just came in and told me, see?

D: Yeah.

HMJr: About this stuff. It was too good not to call you up.

D: Well, you are quite right. It's a very acute observation.

HMJr: So, you don't mind my kidding you a little?

D: No, not at all.

HMJr: I had lunch with the Attorney General --

D: Yeah.

HMJr: And told him how I felt about this case --

D: Yeah.

HMJr: And how important it was. I brought it up in Cabinet too.

D: Yeah.

HMJr: And -- to say how important it was.

D: Yeah.

HMJr: And the Attorney General said, "Well, now, is this something you want me to get in on?" I said, "You bet your life I do."

D: Yeah.

HMJr: He said, "All right, I'm in."

D: Swell.

HMJr: He said, "Declare me in."

D: Well, that's grand.

HMJr: So I -- I -- that's the serious part. The other part was a kidding part.

D: Yeah. Well, I appreciate both very much.

HMJr: All right. (Laughter) Cherrio.

D: Thank you very much.

COPY

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DEPARTMENT OF STATE
DIVISION OF FAR EASTERN AFFAIRS

January 20, 1939.

E/H:
Mr. Hornbeck.

In the conclusions set forth on pages 9⁸ to 12 of the attached report there occur the following sentences in reference to the road to Burma:

"That it can and will be completed to this point in time to be of any real value during the present conflict is open to grave doubt."

"The volume of war material which can be transported over this route and the overhead incident thereto is a matter of simple arithmetic which can easily be computed from the basic statistics of mileage and gasoline consumption of our trip alone -- and the result is not encouraging."

By way of comment I desire to say that these statements result obviously from a consideration of the length of the road, statistics which we compiled regarding our own consumption of gasoline and the numerous difficulties obviously to be overcome in putting the road into condition for the handling of the amount of heavy traffic necessary to move large quantities of goods

in

CONFIDENTIAL

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in trucks. The present conflict, in my opinion and in the opinion I am sure of Major McHugh, is going to last for a considerable period of time and we did not intend by these statements to convey the idea that the road would be of no service whatever in assisting the Chinese in their resistance. It is our feeling that the road will be of considerable assistance; that this assistance will increase as time goes on and as effort is made to improve the condition of the road and to supply it with the necessary equipment to handle traffic over it. Neither McHugh nor I wish to leave any doubts in the minds of anyone as to the difficulties involved.

FE:NTJ:REK

AMERICAN CONSULATE
RANGOON BURMA

31 December, 1938.

MEMORANDUM FOR THE AMBASSADOR

Subject: The Burma Road

The following is a brief report of our recent trip over the new motor road connecting KUNMING, YUNNAN, with LASHIO, BURMA:

A. DETAILS OF THE JOURNEY

(1) Dates We left CHUNGKING at 7:30 A.M., December 12, 1938, and arrived at LASHIO at 6:30 P.M., December 26, 1938, travelling by way of KWEIYANG, KUNMING, HSIA KUAN (TA LI FU), PAO SHAN, LUNG LING and MANG SHIH. Actual travel time was ten days, as follows: CHUNGKING to KWEIYANG, two days; KWEIYANG to KUNMING, three days; KUNMING to HSIA KUAN, two days; and HSIA KUAN to LASHIO, three days. Three additional days were required to drive from LASHIO to RANGOON. Stop-overs to exchange necessary official calls and service our transportation were made as follows enroute: one day at KWEIYANG, three days at KUNMING and one day at TA LI FU.

(2) Mileage and Gasoline The following table shows the mileage between the various points enroute as measured on the speedometer of our car. This varies only slightly with information supplied us from Chinese, British and French sources, the differences being due either to mechanical variation in instruments or the exact location of points from which readings were taken:

CHUNGKING

- 2 -

CHUNGKING TO KUNMING	726 miles
KUNMING to HSIA KUAN	264 "
(TA LI FU is 7 miles to the north of HSIA KUAN, off of the main road)	
HSIA KUAN to LASHIO	<u>480</u> "
Total	1,470 miles

(LASHIO to RANGOON - 812 miles)

We consumed sixty five (65) gallons of gasoline from CHUNGKING to KUNMING and seventy five (75) gallons from KUNMING to LASHIO. Gasoline is available at certain points along the route between CHUNGKING and KUNMING, but is issued only against written authority from the Liquid Fuels Division of the Ministry of Finance at CHUNGKING or by local authority of Provincial Governments. Ordinary travellers cannot purchase at random nor can they easily procure such authority. I had already taken steps to procure permits to purchase gasoline along this section of our route for a trip to KUNMING prior to receipt of orders to make the trip to BURMA and it had required eight days for the passes to be issued even though permission to obtain them had immediately been granted upon receipt of my request. There are no stocks of gasoline available, however, along the KUNMING - LASHIO route at present, not even as far as HSIA KUAN. We were accompanied on this latter stage by Mr. T'ian Po-ying, the newly appointed Managing Director of the road who is taking over control from the Yunnan Government as of 1 January, 1939. He was sent to KUNMING by plane by the Minister of Communications to facilitate our journey in any way possible and took the occasion to make his first inspection of the route. It was necessary, however, for him to bring along a truck to carry gasoline supplies for the outgoing and return journeys

of

of the cars. The local representatives of the foreign oil companies in KUNMING have no stocks along the route nor any concrete plans as yet as to when they may locate same.

(3) Transportation for the trip The car used by us was a 1935 model, Ford V-8 Sedan, which I had purchased second hand in HONGKONG in September, 1938, and had driven from there via CANTON to HANKOW, thence back to CHANGSHA and on to CHUNGKING. We carried with us in this car a Chinese mechanic and our personal baggage and bedding plus spare parts and surplus gasoline in a limited quantity. I had had this car thoroughly overhauled in HONGKONG despite the fact that it had only been run 8,500 miles; had had a special carrier built on the rear capable of carrying thirty (30) gallons (3 Cases) of extra gasoline; had had the springs reinforced; and had had the car equipped with spare parts for every conceivable emergency. We also carried a set of blocks and tackle, tow rope and pick and shovel. Spare parts are not available at points in Central China, except at KUNMING in very limited and uncertain quantity. Had it not been for the availability of this car at CHUNGKING when the question of this trip arose, it is doubtful if the trip would have been attempted, for commercial transportation is not only scarce, but mechanically unequal to the strain of such a trip. Mr. T'an commandeered for his use a brand new 1938 Ford V-8 Sedan and a new Dodge truck yet had recurring trouble with both all along the route due to the carelessness of his chauffeurs and their failure to service their equipment carefully at the end of each day's run.

B. DESCRIPTION OF THE ROUTE

(1) CHUNGKING to KUNMING The road from CHUNGKING to

- 4 -

KUNMING, although taken for granted by those who have not travelled it, is a very difficult route. There are five mountain passes between CHUNGKING and KWEIYANG and six more between KWEIYANG and KUMING. In the former group, starting with an altitude of approximately 400 feet at CHUNGKING, one attains altitudes up to 3,500 feet and in the latter group, from an altitude of 2,600 feet at KWEIYANG, one reaches 5,600 feet on one pass. (Altitudes were taken by us all along the route and were found to agree substantially with those shown on maps and engineering blueprints). The road has a rock base throughout, but the surface has been largely washed away by the long rainy season and by heavy traffic in recent weeks and is very jagged and uneven, especially between KWEIYANG and the YUNNAN border. Grades are steep and curves are sharp, many of them requiring on the ascent full power in low gear on a Ford V-8. Just west of AN NAN in western KWEICHOW one descends the side of a mountain over a very rough road in twenty five successive and very sharp curves, losing 2,000 feet in three kilometers, and then immediately regains this altitude plus another 300 feet in a climb of five kilometers on the opposite mountain. Chinese trucks are nevertheless negotiating this road regularly, albeit with frequent breakdowns and casualties. It is no exaggeration to state that at least fifty percent of the total distance traversed was in second gear due either to ascending or descending slopes or to uneven road surfaces.

(2) KUNMING to HSIA KUAN This section of the road is less than two years old although it is an old caravan route. Prior to the outbreak of the present war there were very few cars in YUNNAN and little demand for improvement of this section. Its development, therefore, is practically concurrent

with

with the HSIA KUAN - LASHIO section. There are two main passes to cross, the second being the highest of the entire route - 8,600 feet. Part of this road is in excellent condition and part very poor. The latter is especially true through the first pass which lies between KUMMING and CH'U HSIUNG where several serious slides have occurred. Here, as in similar situations further along, it will not only be necessary to slope the cuts back to a more normal angle of repose, but likewise imperative to maintain a constant patrol and repair gangs. Work on widening and improving these cuts is already in progress. Driving along this section of the road is, however, relatively easier than on the KWEICHOW roads due to the excellent condition of the latter part over the second pass.

(3) HSIA KUAN to LASHIO This section also is in reality the general line of a very old caravan route. The motor road, while following roughly this line, is in the main a virgin road which has literally been carved out of the sides of mountains. Starting from an altitude of 8,400 feet at HSIA KUAN, the road traverses seven passes to the BURMA border and two more between that point and LASHIO. Work on this section was first started in December, 1937, and the road was initially declared open in July, 1938. Serious slides during the wet season forced its closure, however, and the metalling of the surface was likewise far from complete so that the road was only again opened to passage shortly prior to our trip. Work is in progress all along the route widening it, surfacing it, completing bridges and coping with slides. It is by no means finished and its ultimate utility as an artery for heavy and continuous traffic depends entirely on how assiduously and vigorously

its

its improvement is pushed.

There are certain sections through which the road passes where the geology is such that constant patrolling and repair will be required. These points principally are, (a) the first pass south of HSLA KUAN between there and the YANG P'I river, (b) the beginning of the ascent to the MEKONG DIVIDE, (c) recurring sections on both slopes of the SALWEEN DIVIDE, (d) the entire LUNGLING - MANGSHIH section and (e) the LUNG (SHWELI) river divide just north of the BURMA border. In these sections the geology is of a conglomerate composition -- either talus or detritus, resembling the deposit of a flood despite the fact that it is several thousand feet high, and is constantly crumbling and slipping. This whole area is apparently under terrific strain for the sedimentary rock has been bent and crushed until it has little cohesion. It is exactly as though the road had been cut along the slopes of a mound of granulated sugar which constantly melts or slips from under it. Only constant supervision such as has been exercised for years in the Panama Canal will keep the road open through these areas.

(4) Present condition for traffic The road is not yet in condition to handle heavy traffic and it is impossible to predict when this condition will be attained. Work is progressing all along it although the number of workmen employed is obviously insufficient and apparently considerably less than that mobilized to break the ground earlier in the year. The people are turned out for work on the road by the magistrates of their respective districts as a form of taxation and get neither pay nor food for their efforts. No call upon their services is possible during the summer months when the crops need attention for they will not turn out

cut then and the road will obviously go out of commission during the rainy season of the coming year for there are places that will not yet be in condition by that time to withstand the weather and there will be very little if any local labor to commandeer for such emergencies. Mr. T'an spoke of bringing in a large number of experienced road builders from KIANGSI Province in order not only to improve the quality of the work, but to have permanent crews available. This is quite possible to do and if done will be a distinct asset, for KIANGSI was where the Generalissimo started his road building program and there are undoubtedly large numbers of refugees from there available for this work.

Many very substantial stone and concrete bridges have already been built while others are in process of construction. Present by-passes around these, however, will be closed by the advent of the coming rainy season in April if any remain uncompleted by that time. The suspension bridge over the MEKONG river is rated at seven and one half tons and appears serviceable if properly watched. The reinforcing of the suspension bridge over the SALWEEN is already 75% complete and will be finished very shortly. It is rated at fifteen tons and will be superior to the MEKONG bridge when finished. We did not note any sharp or difficult approach to this bridge as reported in November by Mr. Hunter of the Central Aircraft Factory.

The chief point where difficulty will probably occur for heavy trucks seems to be in the elbows of curves at the tops of valleys where the road winds from one mountain to the next. There are a multitude of these in any ascent or descent and in many cases the turn is far too sharp and the culvert or fill not only too narrow, but not squared to

the normal approach of the vehicle. Work is already in progress at many places to correct this, but the bridges where necessary have already been located and some may have to be rebuilt. The road needs widening in many places not only to permit the free passage of vehicles, but to strengthen it. Work on this is already in progress in frequent instances but the number of workmen is at present insufficient to guarantee completion prior to the coming rainy season. It was interesting to remark the migration of a large number of Yunnanese into northern BURMA for road work where they obtain substantial remuneration for their services.

C. CONCLUSIONS

The building and opening of this road is obviously the result of a pressing need on the part of the Chinese who now find themselves practically cut off from the outside world. The work to date -- the mere fact that a road has been built through such formidable terrain -- is a distinct credit to the Chinese. The BURMA Government is, in fact, behind schedule in the development of their section of the road from the obvious fact that they never believed the Chinese could and would build this road. With continued improvement and constant supervision over dangerous sections the road has every possibility of becoming a serviceable artery for traffic. That it can and will be completed to this point in time to be of any real value during the present conflict is open to grave doubt. And when the present conflict is settled, the question remains, will the Chinese continue to improve this route? Once the pressure is removed and negligence sets in, the route will close. Only one slide unattended is necessary to produce this.

But the future cannot be predicted. The pressure to develop and use the road is stronger than ever at present and there certainly is no sign as yet of any settlement of the present war nor any clue as to how it might come about. The new Managing Director of the road, Mr. T'ian, is a very well educated engineer of German training who appears to possess an unusual amount of energy and common sense. He informed us that he had just been granted an allotment of forty thousand pounds sterling of foreign exchange with which to buy further road equipment and is now enroute to HONGKONG to arrange for these purchases. He likewise appears to have under him several competent and industrious engineers. He has already had considerable experience in the Northwest in opening up the routes to the U.S.S.R. and there therefore is no ground on which to discount the present intentions or ability of the Chinese to go ahead with the development of the road.

A high official in the BURMA Government informed me that there is not enough potential commerce or mineral wealth in YUNNAN to justify the continued development or use of the road after the present war. He admitted, however, that if it could be kept open clear into SZECHUAN it might succeed commercially. Whether he is right remains to be seen. It has always been assumed that there is considerable undeveloped mineral wealth in the western part of China, but it is doubtful if any accurate and comprehensive survey has ever yet been made. The road would appear to be worth the gamble as a commercial venture alone, not to mention its political possibilities as an offset to the French influence in YUNNAN.

As to the volume of traffic it can carry, the Chinese

are

are already talking of 150 trucks per day in each direction and making plans to employ the thousand new trucks recently reported to have been obtained on credit from the U.S.A. Obviously, the installation of efficient service crews and stations plus large stocks of fuel all along the route will be necessary to maintain such traffic, and these precautions, other than for limited fuel stocks and a branch garage of the Southwest Transportation Corporation at Kweiyang, do not now obtain on the older section of the route from KUNMING to CHUNGKING. There is a very evident and crying need along that route for the coordination and servicing of motor transport. Likewise, very strict discipline and schooling of chauffeurs will be required and thus far no such move has been made elsewhere to any appreciable degree in this respect, not to mention the fact that proper care and routine servicing of machinery is not an inherent trait of the Chinese. An efficient despatching system for the control of traffic will also be required especially since the Chinese plan to utilize a large amount of native transport. In this latter respect Mr. T'an has plans for an improved native two-wheeled cart, animal drawn, with steel axle, pneumatic tires and ball-bearings recovered from broken trucks. He claims he has already employed this successfully in the Northwest each vehicle transporting one and one-half tons of gasoline. The idea itself appears possible of some success, but its installation along the route we have just travelled would obviously produce a hopeless traffic jam unless very rigid despatching and control were exercised.

The volume of war material which can be transported over this route and the overhead incident thereto is a matter of simple arithmetic which can easily be computed from the

basic

basic statistics of mileage and gasoline consumption of our trip alone -- and the result is not encouraging.

Respectfully submitted,

J. M. McHUGH

Major, U.S.M.C.
Assistant Naval Attache

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U.S. MAIL

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NAVY DEPARTMENT

WASHINGTON, D.C.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO FILE



TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 30 January, 1939.

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

Message from Professor Buck (Haiphong, January 12th).

Two ships from Hongkong unloading Chevrolet and Ford trucks today. Freight master says fifty cars sent Yunnan and thirty-five to Kwangsi border daily. Loading slow and inefficient and not enough cars for amount freight. Four thousand tons rails and ties in yards; two hundred fifty cars coming and some large engines; four or five freight trains despatched daily. Recent increase in arrival Chinese products from Yunnan and Kwangsi border.

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



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 20 January, 1939.

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

Message from Professor Buck (Haiphong January 19th).

Eighty tons wood oil arriving daily from Yunnan
beginning four days ago.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 20 January, 1939.

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

Message from Professor Buck (Haiphong, January 11th).

Station master Haiphong says freight four times usual amount for Yunnan. One hundred freight cars averaging eight and one half tons each despatched daily. This about capacity of railroad, but two hundred new cars purchased and start arriving next week at rate forty cars per month. Due to shortage go down space, transportation facilities, and customs and li kin tax delays, Chinese delay taking delivery Yunnan and cars stand unloaded for days. Some trucks shipped by rail to Yunnan but most assembled at Haiphong for driving into China and about four thousand expected. In my observation dock and freight yards saw oblong green three thousand by one hundred feet between wharfs covered by rails, steel, and drums of petrol. Only thing of military nature was small shipment drums of nitrate. Warehouse Chinese materials packed and surrounded outside by shipments. Immense quantity steel ties in rear of warehouse. Fifteen Red Cross ambulances donated by China Relief agencies, U. S. A. seen assembled. Seven steamers in dock fill all dock space.

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



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 20 January, 1939.

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

Message from Professor Buck (Haiphong, January 11th).

Central Aircraft Company now moving equipment and eight hundred staff members new site Burma border. Eight trucks left Yunnan January 7th. Yuan at Yunnan is at greater discount in open market than in other parts China: approximately seven yuan to one U. S. dollar. Last October Yunnan government changed policy of keeping currency at official Central government rate and present rate is lower. French will not assist in holding official rate and have protested to Ministry, Finance against Yunnan's attempt to do so. Piastres used as medium foreign exchange. Some buying piastre notes Yunnan burning them and reissue in Hanoi wing restriction Chinese government on amount notes exportable. Alloted foreign exchange by Yunnan government said kept within families of few officials and merchants. Appears greater yuan discount due to availability but limited supply piastre exchange.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 20 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

For your information

Re: Aircraft Procurement Program

For the past day and a half Oscar Cox of this office has been conferring with representatives of the War and Navy Departments and the Department of Justice about the proposed aircraft procurement legislation. The Army was represented by Colonel Schulz of the Ordnance Division, Colonel Croner of the Judge Advocate General's office, and Captain Park Holland of the Air Corps. The Navy was represented by Commander Richardson, and the Department of Justice by Paul Freund.

The conference has concerned itself, in the main, with discussing and preparing revisions to the copy of the proposed Act prepared by Cox and Freund. The Army and Navy people are in basic agreement with virtually all of the ideas formulated by Justice and this office. They have also proposed certain additional ideas for incorporation in the draft of the legislation.

The conferences have not yet been concluded. In all probability, they will continue for another several days.

The ideas proposed by Cox have been on the specific understanding that they do not commit the Treasury Department. Cox specifically stated that the final proposed legislation is subject to your approval in so far as the Treasury is to be committed.

E. W. F. L.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 20, 1939

TO Mr. Lochhead
FROM W. H. Hadley

Market Estimates on
Proposed R. F. C. Financing

A 3-year 11-months or 3-year note issue with 7/8% coupon appears to be satisfactory. Any lower coupon would give too slim a margin since the scarcity value of R. F. C. notes will be substantially decreased by an offering of \$300 million. Furthermore, a 7/8% issue would fit in well with the two issues (also 7/8%) now outstanding.

<u>Coupon</u>	<u>Maturity</u>	<u>Yield Basis</u>	<u>Probable Premium</u>	<u>Remarks on Yield Basis</u>
7/8%	2 yr. 11 mos.	0.67	19/32nds	Minimum
		0.71	15/32nds	Maximum
7/8%	3 yrs.	0.69	17/32nds	Minimum
		0.73	14/32nds	Maximum
3/4%	2 yr. 11 mos.	0.67	7/32nds	Minimum
		0.71	4/32nds	Maximum
3/4%	3 yrs.	0.69	6/32nds	Minimum
		0.73	2/32nds	Maximum

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE: January 20, 1939

To Mr. Lochhead

FROM W. H. Hadley

Market Estimates on

National Housing Financing

Because of the scarcity value of this \$100 million issue, it appears as though a 1-3/8% 5-year note would give a premium of about 1 point and would give a satisfactory margin of safety. A 1-1/2% issue would be rather rich, with possible premium of 1-5/8 points or more.

<u>Coupon Rate</u>	<u>Yield Basis</u>	<u>Probable Premium</u>	<u>Remarks on Yield Basis</u>
1-3/8 %	1.15	1 pt. 3/32nds	Scarcity value
	1.20	27/32nds	
	1.30	11/32nds	Maximum
1-1/2 %	1.15	1 pt. 22/32nds	Scarcity value
	1.20	1 pt. 14/32nds	
	1.30	31/32nds	Maximum

January 20, 1939

Ned Bruce appeared before the Cabinet at the President's invitation and gave them this whole thing. It was very well done.



SECTION OF FINE ARTS

TREASURY DEPARTMENT
PROCUREMENT DIVISION

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WASHINGTON

January 20, 1939

PUBLIC BUILDINGS BRANCH
PLEASE PRINT THE ABOVE AND
REPLY TO THESE LETTERS PB-SA-FA

My dear Mr. Secretary:

For your information I enclose the following material referring to the activities of the Section of Fine Arts:

1. A copy of the Bulletin of the Section of Fine Arts. Artists, students of art and others interested, can secure the Bulletin free by applying to the Section of Fine Arts, which publishes a complete account of its activities, competitions, expenditures, etc., in the Bulletin. The Bulletin also reproduces murals and sculptures which have been completed and installed.
2. An announcement similar to those by which we make public our national, regional, state or other local competitions such as the competition for the Wausau, Wisconsin, Post Office. A number of the designs entered in the latter competition are being shown at the Cabinet Meeting of January 20, 1939.
3. Photographs of murals and sculptures which have been installed in various Federal buildings in New York by the Section of Fine Arts.

Very respectfully,

Chief of Section of Fine Arts

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

BULLETIN



Announcing Fifteen Competitions

Treasury Department Art Projects
Public Buildings Branch, Procurement Division
Treasury Department, Washington, U. C.

COVER DESIGN

Daniel Boone Reaches Kentucky. Mural by Ward Lockwood. Lexington, Kentucky, P. O. Dim. 8' 6" w. x 11' 6" h.

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WINSTED'S POST OFFICE CONTROVERSY

By AMY JONES

Winsted, Connecticut. Post Office. Dim. 14' 10" w. x 4' 10" h.

EDITORIAL NOTE

The Bulletin of the Section of Painting and Sculpture is happy to announce that it is now able to have reproductions of paintings and sculpture carried out under the Treasury Department Art Projects. Since it will not be possible to reproduce more than a small portion of the murals and sculpture already installed, the Bulletin plans to select from works which have been completed comparatively recently, those which can be best reproduced by the multilith process.

THE SECTION OF PAINTING AND SCULPTURE ANNOUNCES
13 MURAL AND 2 SCULPTURE COMPETITIONS



THE PASS OF THE NORTH (Detail)

By TOM LEA

El Paso, Texas, P. O. Dim. 11' 0" w. x 11' 0" h.

The Section of Painting and Sculpture announces anonymous competitions for thirteen mural and two sculpture projects. Before examining the summarized announcements artists intending to compete are requested to read these general remarks which apply to all of the competitions.

Any artist who is an American citizen and is a resident of, or attached to, the state or states to which the competition is limited, is eligible to enter one or more of the following competitions.

We call to the attention of the artists the advisability, if possible, of visiting the building for which he proposes to design a mural, or secure a sculpture model, and of studying the location of the proposed decoration.

It will be noted that in the case of certain competitions, in addition to selecting the winning design, a number of specific appointments will be offered to artists submitting designs of a quality warranting such appointment. A local committee for each competition will be set up and will recommend the design considered most suitable for the proposed decoration. This committee will also recommend artists to be invited by the Section of Painting and Sculpture to prepare designs for murals in the buildings listed in connection with the competitions.

After the local committee has studied the designs and models they will be forwarded, with the recommendations of the committee, to Washington.

Since the announcements which follow are reduced to the briefest summary, artists are specifically warned not to enter competitions until they have requested and received detailed formal announcements from the chairman of the committee as listed.



"HOPE" (Relief)

By ALEXANDER SANBUZNAC

Recently installed in the Mural, Florida, P. O. & G. A. Federal Station, Dkt. 17, 2 17 17.

However, it will be noticed that in some cases full competition data is not yet available. This is due to the fact that a number of the chairmen of committees are absent on vacation; but in all such cases the competition's closing date has been worked forward in order that artists shall have sufficient time in which to make their designs or models.

The prices to be paid for murals and for sculpture include the cost of material and installation expenses.

Following is a list of the competitions arranged alphabetically according to states, along list of the states in which artists must reside, or to which they must be attached, in order to be eligible to enter one or more of the competitions.

FIFTEEN PAINTING AND SCULPTURE COMPETITIONS ARE OPENED
TO AMERICAN ARTISTS FROM ALL STATES, PUERTO RICO
AND THE VIRGIN ISLANDS

Key to competitions and geographical eligibility of American artists. Opposite each state is the number of the competition which its artists may enter.

STATE	COMPETITION NUMBER	STATE	COMPETITION NUMBER
Alabama	1 - 2 - 10	Georgia	2 - 10
Arizona	1	Iaaho	12
Arkansas	1 - 8	Illinois	2 - 15
California	7	Indiana	2 - 5
Colorado	1	Iowa	1 - 6
Connecticut	2	Kansas	1 - 8
Delaware	7	Kentucky	7
District of Columbia	2 - 4	Louisiana	1 - 2
Florida	3	Maine	7

STATE	COMPETITION NUMBER	STATE	COMPETITION NUMBER
Maryland	2 - 4	Oregon	12
Massachusetts	2	Pennsylvania	2
Michigan	2 - 5	Puerto Rico	13
Minnesota	6	Rhode Island	7
Mississippi	2 - 10	South Carolina	2 - 10
Missouri	1 - 8	South Dakota	7
Montana	7	Tennessee	2 - 10
Nebraska	1	Texas	1
Nevada	3	Utah	1
New Hampshire	2	Vermont	2
New Jersey	1	Virginia	2 - 4
New Mexico	1	Virgin Islands	13
New York	2 - 9	Washington	14
North Carolina	2 - 10	West Virginia	2 - 4
North Dakota	7	Wisconsin	2 - 15
Ohio	2 - 11	Wyoming	1 - 7
Oklahoma	1 - 8		

SCULPTURE COMPETITIONS

No. 2- KANSAS - Salina Post Office.

Two Sculptures.....\$7,000

American artists are eligible to enter this competition if they are resident of, or attached to:

ARIZONA	IOWA	MISSOURI	OKLAHOMA
ARKANSAS	KANSAS	NEBRASKA	TEXAS
COLORADO	LOUISIANA	NEW MEXICO	UTAH

WYOMING

For full competition data application should be made, after October 1, 1938, to the Chairman of the Committee, Mr. C. A. Seward, The Wichita Lithograph Company, Wichita, Kansas.

The competition closes February 15, 1939.

No. 2- ILLINOIS - Evanston Post Office.

Two Sculptures.....\$5,000

American artists are eligible to enter this competition if they are resident of, or attached to:

ANY STATE EAST OF THE MISSISSIPPI

This competition will be conducted from the office of the Section of Painting and Sculpture and full data may be had immediately by addressing Mr. Edward B. Rowan, Superintendent of the Section of Painting and Sculpture, Procurement Division, Washington, D. C.

The competition is for two sculpture reliefs to be placed upon the outside of the building. The models submitted will also be considered for the purpose of selecting an artist to be invited to submit models for two sculptured figures to be placed within the building.

The competition closes February 1, 1939.

MURAL COMPETITIONS

No. 3- CALIFORNIA - Burbank Post Office.

Two Murals.....\$1,900

American artists are eligible to enter this competition if they are resident of, or attached to:

CALIFORNIA OR NEVADA



"JUSTICE"

BY ROMUALD KRAUS

For full competition data artists must apply, after October 1, 1939, to the Chairman of the Committee: Mr. Everett C. Maxwell, Director, Foundation of Western Arts, Los Angeles, California.

From the designs in this competition, quality warranting, a commission will become available for a mural in the Lovelock, Nevada Agriculture and Post Office Building.

The competition closes February 15, 1939.

No. 4. MARYLAND - Bethesda Post Office.

One Mural \$1,000

American artists are eligible to enter this competition if they are resident of, or attached to:

DISTRICT OF COLUMBIA	VIRGINIA
MARYLAND	WEST VIRGINIA

For full competition data application must be made to Mr. Edward B. Bowman, Superintendent of the Section of Painting and Sculpture, Procurement Division, Washington, D. C.

From the designs in this competition, quality warranting, a commission will become available for a mural in the Arlington, Virginia, Post Office.

The competition closes November 30, 1938.

No. 5. MICHIGAN - East Detroit Post Office } Both buildings are included in a single
 INDIANA - Jasper Post Office } competition but the designs should be
 One Mural in each Post Office..... \$650 each } for a particular building.

American artists are eligible to enter this competition if they are resident of, or attached to:

MICHIGAN or INDIANA

For full competition data artists must apply immediately to the Chairman of the Committee Mr. E. P. Richardson, Assistant Director of the Detroit Institute of Arts, Detroit, Michigan.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Alma, Michigan	St. Clair, Michigan
Blissfield, Michigan	Franklin, Indiana
Howell, Michigan	Pendleton, Indiana

The competition closes November 30, 1938.

No. 6. MINNESOTA - St. Paul, White Bear Lake } Both buildings are included in a
 Postal Station } single competition but the designs
 IOWA - Marion Post Office } should be for a particular building
 One Mural in each Post Office..... \$675 each }

American artists are eligible to enter this competition if they are resident of, or attached to:

MINNESOTA or IOWA

For full competition data artists must apply, after October 15, 1938, to the Chairman of the Committee Mr. Leroy Turner, University of Minnesota, Minneapolis, Minnesota.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Bloomfield, Iowa	Ely, Minnesota
Hamburg, Iowa	Morris, Minnesota
Sigourney, Iowa	St. James, Minnesota

Tipton, Minnesota

The competition closes February 1, 1939.



"THE DESERT"

By NICOLAI GIKOVSKY

No. 7. MONTANA - Deer Lodge Post Office.

One Mural.....\$675

American artists are eligible to enter this competition if they are resident of, or attached to:

MONTANA	SOUTH DAKOTA
NORTH DAKOTA	WYOMING

For full competition data artists must apply after October 15, 1938, to the Chairman of the Committee Mr. George Yphantis, Department of Fine Arts, Montana State College, Missoula, Montana.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Langdon, North Dakota - Scargis, South Dakota - Webster, South Dakota

The competition closes February 15, 1939.

No. 8. MISSOURI - St. Louis, Wellston Postal Station.

One Mural.....\$1,220

American artists are eligible to enter this competition if they are resident of, or attached to:

ARKANSAS	MISSOURI
KANSAS	OKLAHOMA

For full competition data application should be made, after October 17, 1938, to the Chairman of the Committee Mr. Kenneth E. Hudson, Department of Fine Arts, Washington University, St. Louis, Missouri.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Pocahontas, Arkansas	Fredericktown, Missouri	Vandalia, Missouri
Springdale, Arkansas	Mt. Vernon, Missouri	Sulphur, Oklahoma
Anthony, Kansas	Paris, Missouri	Watonga, Oklahoma

The competition closes February 1, 1939.

No. 9. NEW YORK - New Rochelle Post Office.

Three Mural Vignettes.....\$2,300

American artists are eligible to enter this competition if they are resident of, or attached to:

THE STATE OF NEW YORK

For full competition data immediate application may be made to the Chairman of the Committee Mr. Leon A. Shafer, 67 Perth Avenue, New Rochelle, New York.

The competition closes December 1, 1938.

No. 10. NORTH CAROLINA - Burlington Post Office:

Two Murals.....\$1,900

American artists are eligible to enter this competition if they are resident of, or attached to:

ALABAMA	MISSISSIPPI	SOUTH CAROLINA
GEORGIA	NORTH CAROLINA	TENNESSEE

For full competition data application should be made, after October 15, 1938, to the Chairman of the Committee Mr. A. Donald McDonald, Department of Fine Arts, Duke University, Durham, North Carolina.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Forest, Mississippi Newton, Mississippi Clinton, Tennessee

The competition closes February 1, 1939.

No. 11. OHIO - Medina Post Office.

One Mural.....\$750



"THE NEW CALF"

By TOM SAVAGE

Illustration (See. 2, 2) on canvas. Dim. 14" W. x 21" H. H.

American artists are eligible to enter this competition if they are resident of, or attached to:

OHIO

For full competition data application should be made to the Chairman of the Committee Mr. Norris Rahmskog, Professor of Painting, Kenyon College, Gambier, Ohio. The competition closes December 1, 1938.

No. 12) OREGON - Salem Post Office

One Mural.....\$3,300

American artists are eligible to enter this competition if they are resident of, or attached to:

OREGON or IDAHO

For full competition data application should be made, after October 1, 1938, to the Chairman of the Committee Mr. Frederick Sweet, Director of the Portland Museum of Art, Portland, Oregon.

From the designs in this competition, quality warranting, a commission will become available for a mural in the Kellogg, Idaho, Post Office. The competition closes February 15, 1939.

No. 13) PUERTO RICO - Mayaguez Post Office.

Two Murals.....\$2,000

American artists are eligible to enter this competition if they are resident of, or attached to:

PUERTO RICO or THE VIRGIN ISLANDS

For full competition data application should be made, after October 1, 1938, to the Chairman of the Committee Mrs. Henry W. Hooley, District Commissioner of Immigration and Naturalization Service, San Juan, Puerto Rico. The competition closes February 1, 1939.

No. 14) WASHINGTON - Wenatchee Post Office.

One Mural.....\$2,800

American artists are eligible to enter this competition if they are resident of, or attached to:

THE STATE OF WASHINGTON

For full competition data application should be made, after October 1, 1938, to the Chairman of the Committee Mr. Richard E. Fuller, Director, Seattle Art Museum, Seattle, Washington.

The competition closes February 15, 1939.

No. 15) WISCONSIN - Wausau Post Office.

Two Murals.....\$1,600

American artists are eligible to enter this competition if they are resident of, or attached to:

ILLINOIS or WISCONSIN

For full competition data application should be made immediately to Miss Charlotte Russell Partridge, Director, Layton Art Gallery, Milwaukee, Wisconsin.

From the designs in this competition, quality warranting, commissions will become available for murals in the following Post Offices:

Herrin, Illinois	Stoughton, Illinois
Madison, Illinois	Hartford, Wisconsin
Park Ridge, Illinois	Neillsville, Wisconsin

Reedsburg, Wisconsin

The competition closes November 30, 1938.

HARRY P. CAMDEN WINS SCULPTURE COMPETITION FOR FEDERAL BUILDING AT NEW YORK WORLD'S FAIR

The competition for two heroic sculptures to be erected on the towers flanking the main facade of the Federal Building of the New York World's Fair, has been won by Harry P. Camden of Parkersburg, West Virginia. The jury making this award consisted of Edward J. Flynn, United States Commissioner General, Theodore T. Hayes, Executive Assistant United States Commissioner of the United States New York World's Fair Commission, Gaetano Cecere, Henry Kreis, Lee Lawrie, sculptors, Howard L. Cheney, architect of the building and Edward Bruce, Chief of the Section of Painting and Sculpture.

Four hundred and twenty-four models were submitted by sculptors from thirty-eight states. In this unusually large anonymous sculpture competitions, the jury voted that Mr. Camden's sculpture was both outstanding as sculpture and for the suitability of its architectural relationship to the building.

Mr. Camden is Assistant Professor of Art at Cornell University. The jury especially commended a model submitted by Louis Slobodkin of New York City showing a Lincolnian figure joining together two split rails, a symbol of union. Many notable models were submitted in this competition so that it is not surprising to find that the jury gave a number of Honorable Mentions. The artists receiving them were:

Albert H. Atkins	Roy E. King	Carl L. Schmitz
Theodore Barbarossa	Perna Krick	Ernest C. Schroeder
Samuel H. Bell	William M. Krusen	Erwin Springweller
Nathaniel Choate	Robert Laurent	Albert Stewart
Emma L. Davis	Hans Mangelsdorf	Joseph D. Stott
Fred De Lorenzo	Melissaye Marans	Sahl Swars
Jean De Marco	Berta Margoulies	Earl N. Walton
Curt J. H. Drewes	Octavio Mastrovito	Marion Neith
Maxwell M. Fredericks	Arnio A. Scheier	Nat Werner
Steen Jacobsson		

MIAMI MURAL AWARDED TO DENMAN FINK

The anonymous competition for a mural decoration in the Miami, Florida, Post Office, Court House and Customs Building, has been won by Denman Fink of Coral Gables.



"FISH"

By BORIS GILBERTSON

Illustration artist for Florida of Food on Lac, Wier, J. P. Co.

Florida for one panel 21 1/2" wide by 11 1/2" high. The sum of \$3,650 will be paid, plus to include complete cost of execution and installation.

Mr. Almas Fuller of Jacksonville, Florida, was Chairman of the Committee in charge of the competition. Other members: R. D. Steward, architect of the building; Maxine Beyer Williams, Art Department, State College for Women, Tallahassee, Florida; and Alexander Orr, Jr., City Commissioner, Miami, Florida.

On account of the high quality of their designs the following artists have been invited to submit preliminary studies for murals in the Post Offices of eight (8) other cities:

K. L. Balmesfacher of Birmingham, Ala.	Monteville, Ala.
John E. Clayton of Winter Haven, Fla.	Hartwell, Ga.
Carson Davenport of Maitland, Fla.	Greensboro, Ga.
George Hill of St. Petersburg, Fla.	Madison, Fla.
Hilton Leach of Sarasota, Fla.	Bay Minette, Ala.
William S. McCall of Jacksonville, Fla.	Montevallo, Ala.
Jack McMillan of St. Petersburg, Fla.	Tusculum, Ala.
Chester Tangler of Coral Gables, Fla.	Sylvestor, Ga.

BIOGRAPHICAL NOTE ON MR. FINE

Born in Springdale, Pennsylvania, August 29, 1880. Pupil of Frank Benson, Philip Hals, and Walter A. Clark. Member: Society of Illustrators. Illustrated "Man's History of United States," "The Barrier" by H. Illustrations for "Harper's," "Nation's," "Century," etc.

PETER HURD WINS DALLAS MURAL COMPETITION

Peter Hurd of San Patricio, New Mexico, won the competition for the decoration of the Dallas, Texas, Terminal Annex. The Committee initiating the competition was composed of Arthur Kramer, President of the Dallas Art Association, Chairman, Frank Wittich of Lang & Wittich, architects of the building and Richard Foster Howard, Director of the Dallas Museum of Fine Arts.

The subjects of the three panels are: "East-Bound Mail Stage," "Pioneer House-builder" and "Air Mail Over Texas." Payment, including the cost of execution and installation, \$7,200.

On account of the quality of their entries in the competition the following artists have been invited to submit designs for the following Post Offices:

Jose Aceves of El Paso, Texas	Borger, Texas
Emil Bistran of Tans, New Mexico	Ranger, Texas
Manuel Bronberg of Colorado Springs, Colorado	Tablequah, Oklahoma
Yvna Berkhard of Buffalo, Wyoming	Fowell, Wyoming
Jerry Bywaters of Dallas, Texas	Houston Texas P. O. Bldg.
Joan Cunningham of Colorado Springs, Colorado	Potero, Oklahoma
Joe De Yong of Santa Barbara, California	Gatesville, Texas
Maynard Dixon and Edith Hamlin of San Francisco, California	Martinez, California
Margaret Dobson of Santa Monica, California	Kaufman, Texas
Oris Dosier of Dallas, Texas	Giddings, Texas
Jacob Elshin of Seattle, Washington	University City Station, Seattle Washington
Kady Faulkner of Lincoln, Nebraska	Valentine, Nebraska
Howard Fisher of San Antonio, Texas	Baytown, Texas
Edmond Fitzgerald of Seattle, Washington	Colville, Washington
Heleen Furber of San Francisco, California	Susanville, California
Lloyd Goff of Dallas, Texas	Cooper, Texas
Kenneth G. Grant of Santa Barbara, California	Brady, Texas
Paul J. Grallart of Portland, Oregon	E. Portland P. O., Portland, Oregon
Alexander Hague of Dallas, Texas	Houston, Texas, P. O. Bldg.
Alexander Levin of Los Angeles, California	Jasper, Texas
Fletcher Martin of Hollywood, California	Lamesa, Texas
Frank Mechau of Colorado Springs, Colorado	Fort Worth, Texas
Ernie Nicholson of Ojai, California	Varaville, California
Jay Risling of San Francisco, California	Guyton, Oklahoma
Olive Ruess of Santa Fe, New Mexico	Florence, Colorado
Suzanne Schauer of San Francisco, California	Caldwell, Texas
Mussell Sherman of Sterling, Colorado	Loveland, Colorado
Donald K. Siken of Kansas City	Marion, Kansas
Thomas Scell, Jr., of Dallas, Texas	Teague, Texas
John L. Walker of Burbank, California	Lockhart, Texas

BIOGRAPHICAL NOTE ON PETER HURD

Born in Roswell, New Mexico, February 22, 1904. Educated in the parochial and public schools of Roswell, Military Academy, West Point, Haverford College. Studied painting at Pennsylvania Academy of Fine Arts and Pupil of N. C. Wyeth. Work: Mural for New Mexico Military Institute, frescoes for private homes and Big Springs, Texas; Post Office. Represented Art Institute of Chicago, William Rockhill Nelson Gallery, Kansas City, New York Public Library, Wilmington Art Center, Delaware and Memorial Gallery, Rochester, N. Y. Lived part of year San Patricio, New Mexico, and part at Conadaford, Pennsylvania.

**TEN JACOBSSON WINS COMPETITION FOR RELIEF
IN TERRA COTTA FOR FLUSHING, NEW YORK**

\$2,000 was paid to Aeen W. J. Jacobsson for the full size plaster model from which a terra cotta relief has been executed and placed over the entrance door on the facade of the United States Post Office, Forest Hills Station, Flushing, New York.

On account of the distinguished quality of their models entered in this competition the following sculptors have been invited to submit designs for the sculpture decoration of the following buildings:

Erld Bell of Union City, N. J.	Boonton, N. J.
Damen Champlain of New York City	Forest City, N. C.
Jean de Marco of New York City	Southern Pines, N. C.
Gleb Derujinsky of New York City	Ingan, W. Va.
Melik Finkle of New York City	Sylvania, Ohio
Wayland Gregory of Metuchen, N. J.	Columbus, Kansas
W. Haniel Kahn of New York City	Struthers, Ohio
Bruno Mankowski of New York City	Chesterfield, S. C.
Maissey Marans of Brooklyn, N. Y.	Boyetown, Pa.
Berwe Margulies of New York City	Canton, N. Y.
Bruno Piccirilli of New York City	Merion, N. C.
Hronis Putnam of New York City	St. Cloud, Minn.
Paul Bndin of Tonawara, N. Y.	Dunn, N. C.
Armin A. Scheler of New Rochelle, N. Y.	Matawan, N. J.

BIOGRAPHICAL NOTE ON MR. JACOBSSON

Born in Stockholm, Sweden, March 28, 1899. Pupil of Tekniska Skolan and Carl Milles. Now studied in Germany and France. Work includes mural decorations First Swedish Baptist Church, New York; First Evangelical Lutheran Church, Arlington, N. J. Instruction, Ceramic sculpture and painting, Wayne University, and The Artisan Guild, Detroit.

**APPOINTMENTS RESULTING FROM FEDERAL TRADE COMMISSION BUILDING
SCULPTURE COMPETITION WON BY MICHAEL LANTZ**

The Section of Painting and Sculpture's competition for two groups as the head of the Federal Trade Commission Building in Washington, which was won by the models of Michael Lantz of New Rochelle, N. Y., attracted a large number of exceptionally able modeled groups.

The following artists have been invited to execute sculpture for the following Post Offices:

Theodore Barbarossa of New York City	Clinton, Mass.
Vernon T. Larkock of Dayton, Ohio	Worthington, Ohio
Joseph A. Colsetti of Boston, Mass.	Mansfield, Mass.
Henri Cramer of Mansrook, N. Y.	Oak Hill, West Va.
Laci De Gerenday of New York City	Tell City, Ind.
Carl Drews of Chicago, Ill.	Rock Falls, Ill.
Gladya Caldwell Fisher of Denver, Colo.	Las Animas, Colo.
Marshall M. Fredericks of Bloomfield Hills, Mich.	River Rouge, Mich.
Maurice Glickman of New York City	Northampton, Pa.
Vincent Glinky of New York City	Warrton, West Va.
Jefferson E. Greer of Milwaukee, Wis.	Prairie du Chien, Wis.
Christian Heinrich of Brooklyn, N. Y.	Rockwood, Tenn.
Milton Horn of New York City	Whitinsville, Mass.
Mildred Jerome of New York City	Turtle Creek, Pa.
R. Kittredge of Flushing, Ariz.	Springerville, Ariz.

Ernest Lohmann of Meriden, Conn.	Coudersport, Pa.
Oronzio Mardarelli of New York City	Orange, Mass.
Joseph Nicolosi of New York City	Mercersburg, Pa.
Isamu Noguchi of New York City	Haddon Heights, N. J.
Constance Ortmayer of New York City	Arcadia, Fla.
Marion Overby of Bloomfield Hills, Mich.	Macon, Mich.
Felix Schlag of Chicago, Ill.	White Hall, Ill.
Lenora Thomas of Accokeek, Md.	Covington, Va.
Charles Unlauf of Chicago, Ill.	Morton, Ill.
Joseph Walter of Brooklyn, N. Y.	Fairfield, Me.
Vladimir Yoffe of New York City	Derry, N. H.

**WORCESTER, MASSACHUSETTS, COMPETITION
WON BY RALF E. NICKELSEN**

The lobby of the Worcester, Massachusetts, Parcel Post Station will be decorated with a mural 37' long x 13' wide x 14' high for which, including cost of materials and installation \$2,400 will be paid. The artist winning the anonymous competition for this work is Ralf E. Nickelsen of Auburndale, Massachusetts.

The Committee in charge of the competition consisted of Paul Morgan, Jr., Chairman, Perry Cott, Associated Curator of the Worcester Museum of Art, Umberto Romano, painter, Maurice P. Meade, architect of the building and Henry Scott, Acting Head of the Art Department, Amherst College.

After determining the winner of the competition six artists were invited, on account of the high quality of their entries in the Worcester competition, to submit designs for murals in the following Post Offices:

Edith C. Barry of Kennebunk, Maine	Kennebunk, Maine
John W. Beauchamp of Provincetown, Mass.	Millinocket, Maine
Charles M. Daugherty of Westport, Conn.	Northfield, Vermont
Eugene Kingman of Providence, R. I.	East Providence, R. I.
Ross Moffett of Provincetown, Mass.	Wetere, Massachusetts
Philip Von Saltza of N. Cassino, Maine	St. Albans, Vermont

BIOGRAPHICAL NOTE ON RALF E. NICKELSEN

Born, Hamburg, Germany, thirty-five years ago. An American citizen now, the artist received his first training in his father's studio and the State Art School of Hamburg. Arriving in New York he entered the Art Students' League. Studied at the Museum School in Boston and at the Art Students' League, Boston. Spent several years working in stained glass associated with Mr. G. J. Connick. For two and one-half years supervised Massachusetts W.P.A. Art Project.

**HENRIETTE A. OBENTEUFFER
WINS VICKSBURG MURAL COMPETITION**

In a competition initiated by Mrs. Walter E. Henderson of Jackson, Mississippi, Chairman, Miss Mary Clare Sherwood, Director of Art, All Saints College, Vicksburg, Mississippi, Mrs. Leon S. Lippincott and Mr. Harris Dickson, the commission for a mural design for the Vicksburg, Mississippi, Post Office was won by Mrs. Henriette A. Obenteuffer, instructor in painting in the Memphis Tennessee Academy of Arts.

The dimensions of the mural are 13'9" wide x 12'2" high. Payment - \$2,400.

Other artists entering designs of vitality and distinction have been invited to submit preliminary studies for a mural in the Post Offices of several other cities. The names follow:

Orville Carroll of Louisville, Ky.	Osceola, Ark.
H. Louis Freund of Conway, Ark.	Heber Springs, Ark.
John Hamilton Fyfe of Knoxville, Tenn.	Magnolia, Miss.

Xavier Gonzales of New Orleans, La.
 Edwin Boyd Johnson of Nashville, Tenn.
 Frank Long of Berea, Ky.
 Bert Mullins of Berea, Ky.
 Robert Cleaver Purdy of Louisville, Ky.
 Mary May Purser of Pineville, La.
 Stuart E. Purser of Pineville, La.
 Louis Raymond of New Orleans, La.

Covington, La.
 Dickson, Tenn.
 Morehead, Ky.
 Morganfield, Ky.
 New Albany, Miss.
 Clarksville, Ark.
 Gretna, La.
 Abbeville, La.

BIOGRAPHICAL NOTE ON HENRIETTE A. OBERTEUFFER

Wife of the well known painter George Obertheuffer and mother of the well known painter Karl Obertheuffer, the winner of the Vicksburg competition has herself long enjoyed an international reputation as a painter. Before settling in America she was already known as a frequent exhibitor in important exhibitions.

Born in Havre, France, 1878. Pupil of Laurens and Constant. Member: Salon d'Automne and Salon des Independents. Prizes: Medal of Honor, Milwaukee Art Institute; Brower Prize and Logan Medal in the Art Institute of Chicago. Represented in the Luxembourg Gallery in Paris, Phillips Memorial Gallery in Washington, D. C., and Minneapolis Institute of Arts, Minneapolis.

JEFFERSON NICKEL COMPETITION WINNER

An Advisory Committee consisting of Mrs. Nellie Taylor Ross, Director of the United States Mint, Helen Warner, Sidney Waugh, and Albert Stewart, sculptors, awarded to Felix Schlag of Chicago, the money (\$1,000) offered by the United States Mint for the best design submitted in an anonymous competition for the Jefferson Nickel.

The design submitted by Henry Kreis received Honorable Mention.

Mr. Schlag was born in Frankfurt, Germany, in September 1891. He has won many prizes and began his art studies in the Munich Academy in Germany. An American citizen since 1929.

BEN SHAHN AND BERNARDA BRYSON WIN ANONYMOUS COMPETITION FOR BRONZE POST OFFICE MURALS

A jury consisting of Henry Yarrow Poor, mural painter of New York, Chairman, Conrad Gording, mural painter of Philadelphia, and Thomas Harlan Eject, architect of the building, awarded to Ben Shahn and his wife, Bernarda Bryson, working in collaboration, the commission to execute the murals for the public lobby of the Bronx Central Post Office, New York. Theme of decoration: "The Resources of America." Price to be paid for eleven major and four minor panels, including cost of execution and installation, \$7,000.

Besides selecting the winner of the competition, the jury recommended the appointment of seventeen other artists. The names of the Post Offices and the artists invited to submit designs are as follows:

Javi Chapman, Brooklyn, N. Y.
 Raymond Carter, New York City
 William D. Faurets, New York City
 Roy Hilton, Pittsburgh, Penna.
 Fred Hogg, Jr., A. Philadelphia, Pa.
 Victoria B. Huntley, W. Cornwall, Conn.
 Joe Jones, Saratoga Lake, N. Y.
 Luther McDermott, New York City
 Suzanne McDermott, New York City
 Moses McKim, New York City
 Frederick Manna, Bronx, New York
 Bernard Berlin, Newark, N. J.
 Frank Romankillo, Buffalo, N. Y.

Huntington, N. Y.
 Woodstock, Vermont
 West New York, N. J.
 Westfield, N. J.
 Vandergriff, Penna.
 Greenwich, Conn.
 Painted Post, N. Y.
 Boonville, N. Y.
 Thomaston, Conn.
 Waverly, N. Y.
 Ticonderoga, N. Y.
 South Orange, N. J.
 Homer, N. Y.

Anacol Shulkin, New York City
 Paul Waller, New York City
 Virginia Wood, New York City
 Jayray Zorthian, New Haven, Conn.

Canajoharie, N. Y.
 Maidensville, N. Y.
 Farrell, Penna.
 St. Johnsville, N. Y.

BIOGRAPHICAL NOTE ON BEN SHAHN

Born in Russia, September 2, 1898. Lithographer by trade 1913 - 1918. Studied in New York University, College of the City of New York until 1923. Scholarship at Marine Biological Laboratory, Woods Hole, Mass., 1920. National Academy of Design School until 1923. Studied in Europe 1924 - 1925; 1928 - 1929. One-man exhibitions 1930, 1932, 1933 in New York City. Worked with Diego Rivera on Radio City and New Worker's School murals in 1933. W.P.A. mural project 1934 - 1938. Chief, Painting Section of Special Skills Division, Resettlement Administration 1936 - 1937. Mural (fresco) Jersey Homesteads, Hightstown, New Jersey, 1938. Represented in Museum of Modern Art, Whitney Museum of American Art, Newark Museum and private collections.

BIOGRAPHICAL NOTE ON BERNARDA BRYSON

Born in Athens, Ohio, 1905. Attended Ohio University, Ohio State University, Western Reserve University. Studied art at Ohio University and Cleveland School of Art. Exhibited Cleveland Museum of Art, Cleveland Print Mart, Phillips Memorial Gallery, Washington, D. C., etc. Taught Columbus, Ohio, School of Art. Art critic of the Ohio State Journal. Worked on W.P.A. Illustration Project in New York. Supervisor Graphic Project W.P.A., New York. Painting Section of the Special Skills Division of Resettlement in Washington. Assisted Mr. Ben Shahn in the execution of fresco for Jersey Homesteads, Hightstown, New Jersey.



"THE ANT EATER"

By ERWIN SPRINGWEILER

Washington, D. C. 200. Bronze. D18-104 W. 4 3/4" H.

COMPETITION FOR THE MURAL DECORATION
IN THE WAUSAU, WISCONSIN POST OFFICE

Open to All American Artists Resident of or Attached to the States
of Wisconsin and Illinois.

The Section of Painting and Sculpture, Procurement Division of the
Treasury Department, invites competition for two mural paintings in the
public lobby of the Wausau, Wisconsin, Post Office.

AMOUNT OF AWARD

The sum of \$1,600 is to be paid for this work which amount must cover
the complete cost of execution and installation of the decoration.

COMMITTEE IN CHARGE

Miss Charlotte Russell Partridge, Layton Art Gallery, Milwaukee, Wis-
consin has kindly consented to act as chairman of a committee which will be
in general charge of the competition. The other members of the committee are:

- Mr. Alfonso Iannelli of Park Ridge, Illinois
- Mr. Harry Bogner of Milwaukee, Wisconsin

This committee will act as a preliminary jury in judging the designs
and will submit the anonymous designs to the Section of Painting and Sculp-
ture, Procurement Division, Washington, D. C., with the committee's recom-
mendations.

COMPETITION REQUIREMENTS

Designs must be submitted with carrying charges prepaid or they may be
delivered in person to Miss Charlotte Russell Partridge, Layton Art Gallery,
Milwaukee, Wisconsin on or before November 30, 1938.

After the competition award has been made all designs will be returned
to the chairman of the committee in charge of the competition and may be
called for or will be mailed C.O.D. to the artists upon request.

Each artist entering the competition must submit two designs in full
color in the scale of three inches to one foot. The designs should give as
clear an idea as possible how the proposed murals will look when completed.
It is advisable, if possible, to look at the spaces before designing.

Each design must be mounted or carried out on board sufficiently stiff
to remain flat and submitted without glass.

The artist must note on his designs the material he proposes to use for
the finished murals.

The designs must not be signed. Every design submitted must be accom-
panied by a plain sealed envelope enclosing the artist's name and address.
These envelopes will be numbered when received with the same number as the
designs they accompany and will remain unopened until after selection of
the design chosen for award.

DESCRIPTION OF MURAL SPACE

The exterior architecture is modern in style with limestone, granite and greenstone trim. The walls of the lobby are painted cream color, the ceiling a lighter cream. The decorations will consist of two vignettes, one for a space 12 feet wide by 7 feet high, over the lock boxes at the South end of the public lobby, and one for a space 14 feet wide by 8 feet high over the bulletin boards and letter drops at the North end of the building. The artist may, if he so desires, design for the full spaces rather than the vignettes.

SUBJECT MATTER

In addition to types of subject matter such as those which deal with the Past; local history, past or present; local industry; pursuits or landscapes; the Section feels it important that the artists realize that the central idea of the Postal Service is communication by which experience, ideas, and goods are shared throughout the civilized world. This element of communication need not be represented by the more obvious symbols but might take on great dramatic and human significance. As distinguished and vital a conception as possible is desired.

CONTRACT

The artist whose designs win the competition will be required to execute a formal contract with the United States agreeing to execute the finished murals from the submitted designs for the sum named under the conditions herein stated, making such revisions in his designs as will be necessary for the approval of the Director of Procurement.

The artist who receives the commission will be required to pay all expenses in connection with the execution and installation of this work.

The sum of \$1,600 will be paid for the work in three separate installments.

The first installment, \$400, will be payable after formal approval by the Director of Procurement of the designs and after the successful competitor has signed the contract for executing the murals. The designs shall thereupon become the property of the Government.

The second installment, \$500, will be payable when the full size cartoons are completed and approved.

The balance, \$700, will be payable after the work is completed and installed by the artist and approved by the Director of Procurement.

The medium and the quality of the materials to be used by the artist for the finished murals must be approved by the local committee and by the Director of Procurement.

FURTHER INFORMATION

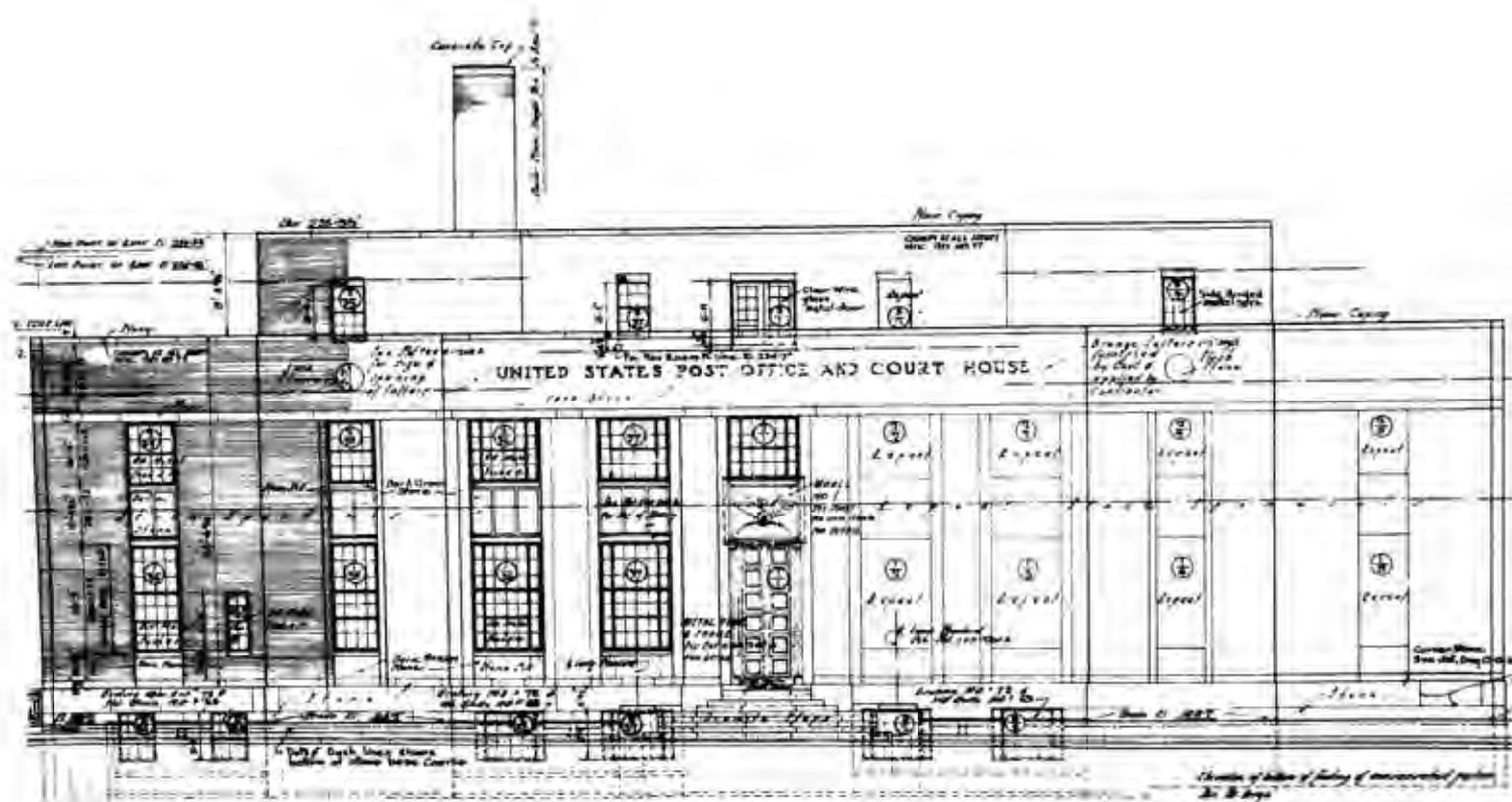
Any artist may submit as many series of designs as he desires. Should he submit more than one series he should remember to send a sealed envelope containing his name and address with each entry.

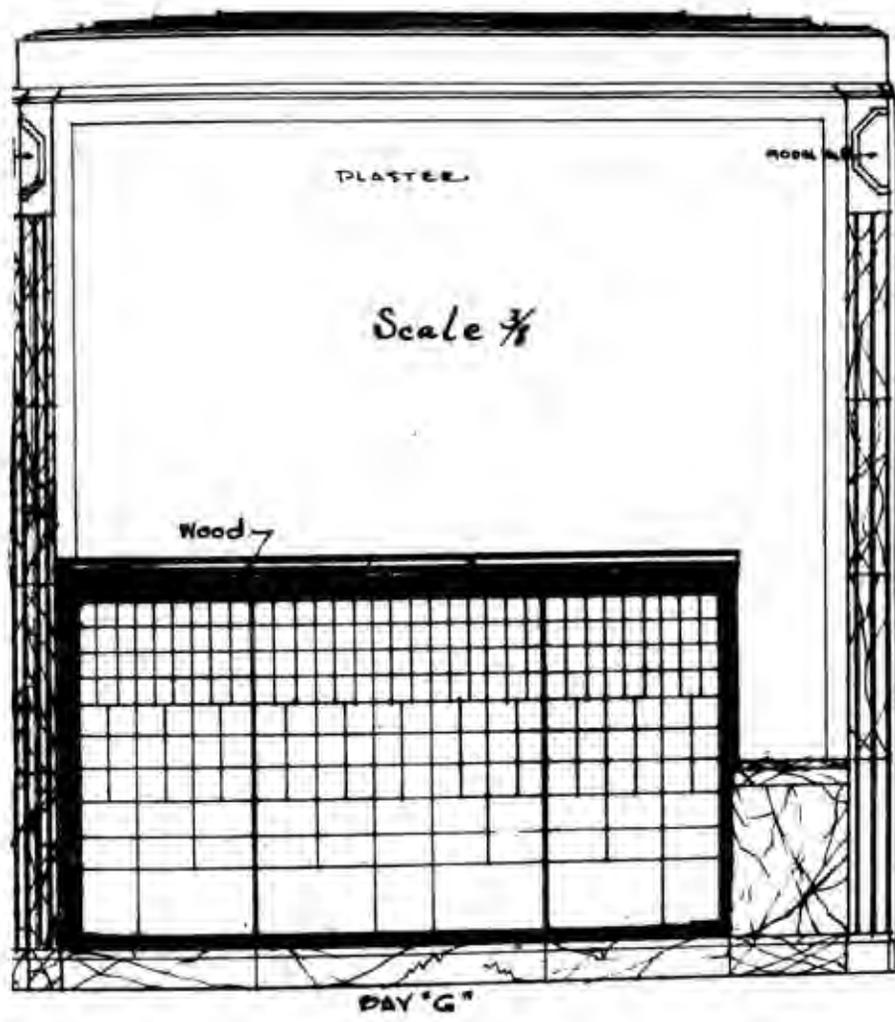
Artists submitting designs of vitality and distinction will be invited to submit preliminary studies for murals in the Post Offices of the following cities:

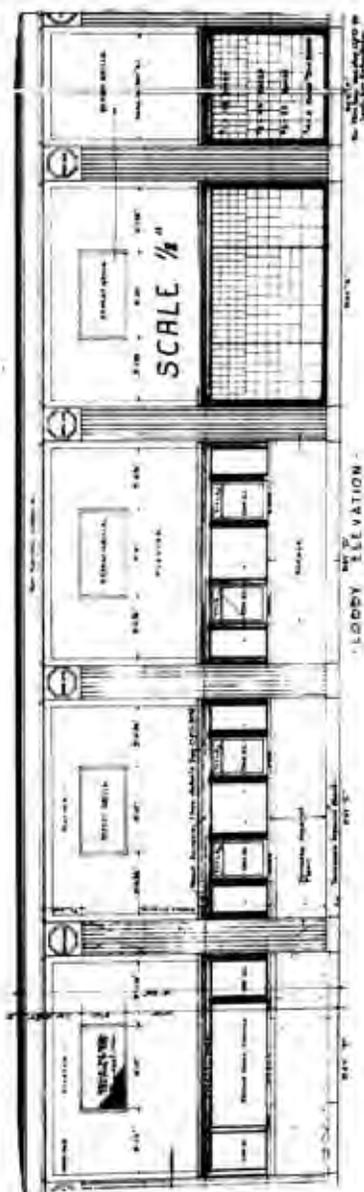
Hartford, Wisconsin	Herrin, Illinois
Neillsville, Wisconsin	Madison, Illinois
Reedsburg, Wisconsin	Park Ridge, Illinois
	Stanton, Illinois

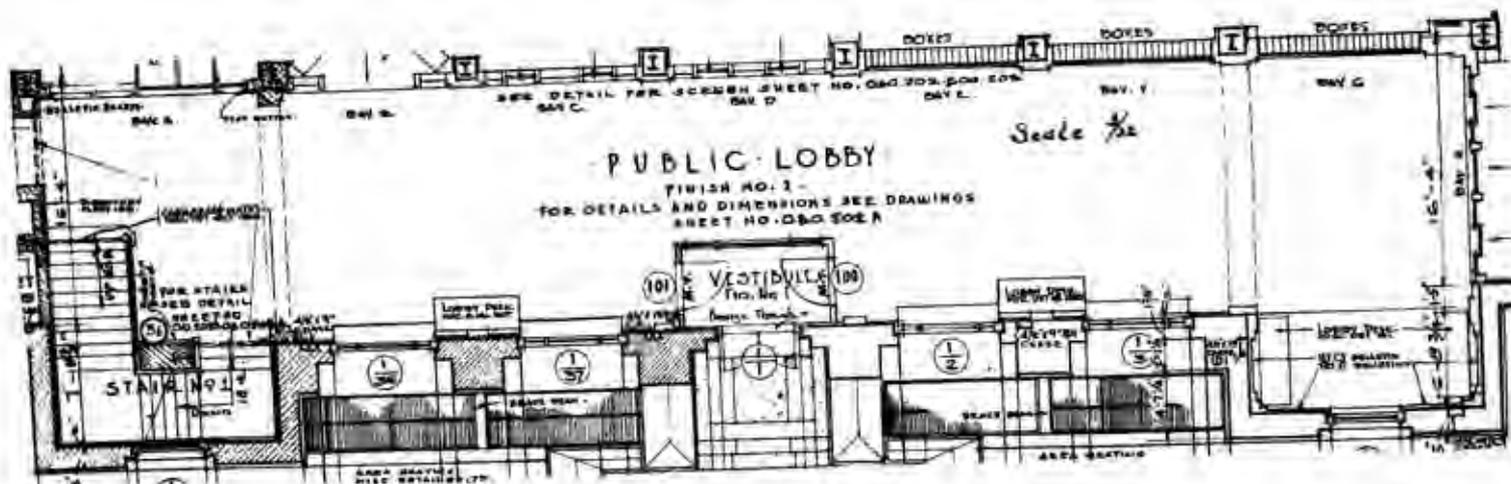
If, however, no designs are submitted which are of sufficient merit to justify a recommendation by the Section of Painting and Sculpture, no contracts will be awarded and all designs will be returned to the artists.

This is an open competition and is not limited to those artists invited. Any artist resident of or attached to the states of Wisconsin and Illinois who wishes to enter may do so.









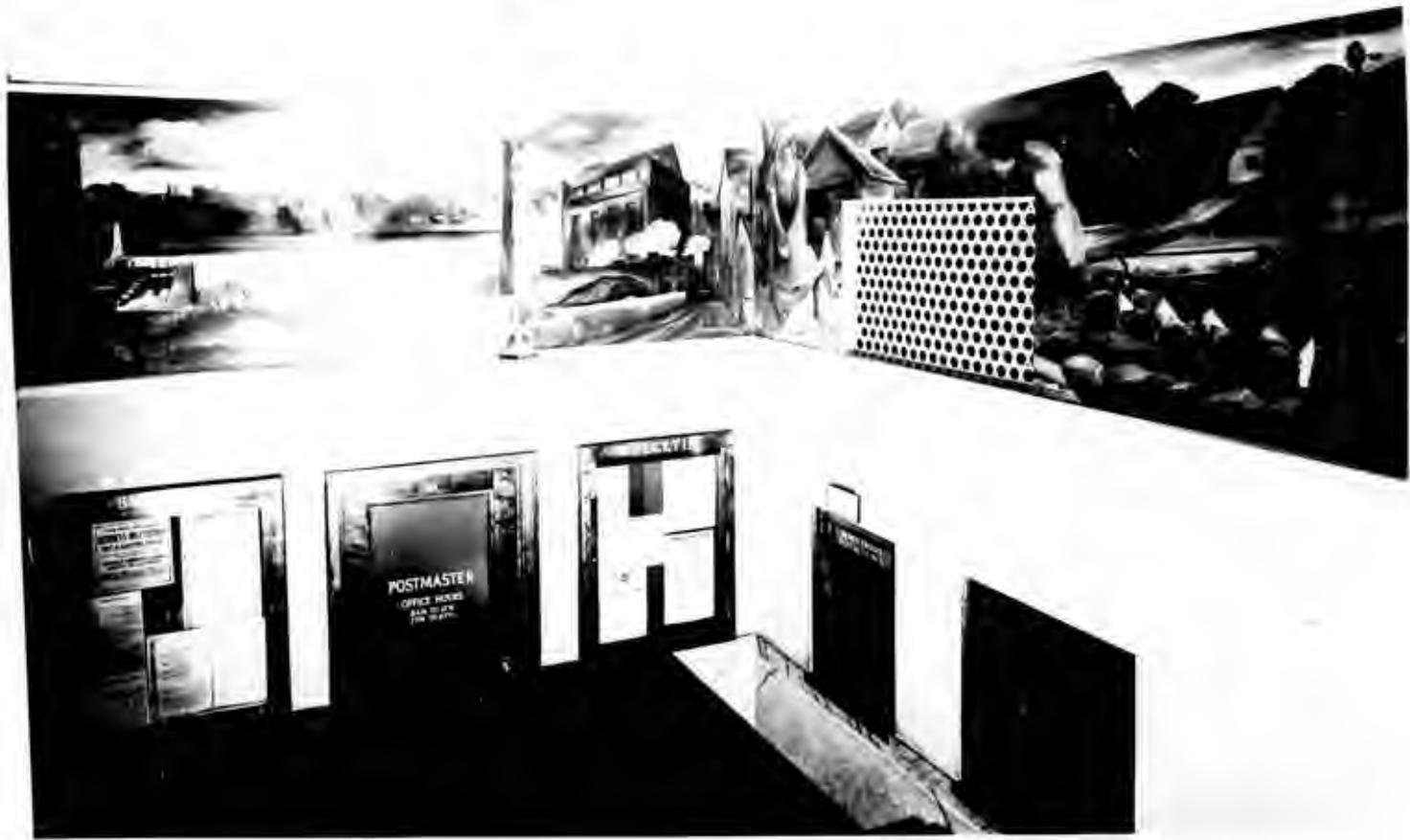
PUBLIC LOBBY

FINISH NO. 1 -
FOR DETAILS AND DIMENSIONS SEE DRAWINGS
SHEET NO. O&O 502 A

Scale 1/8"

107









POSTMASTER





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POSTMASTER
OFFICE HOURS

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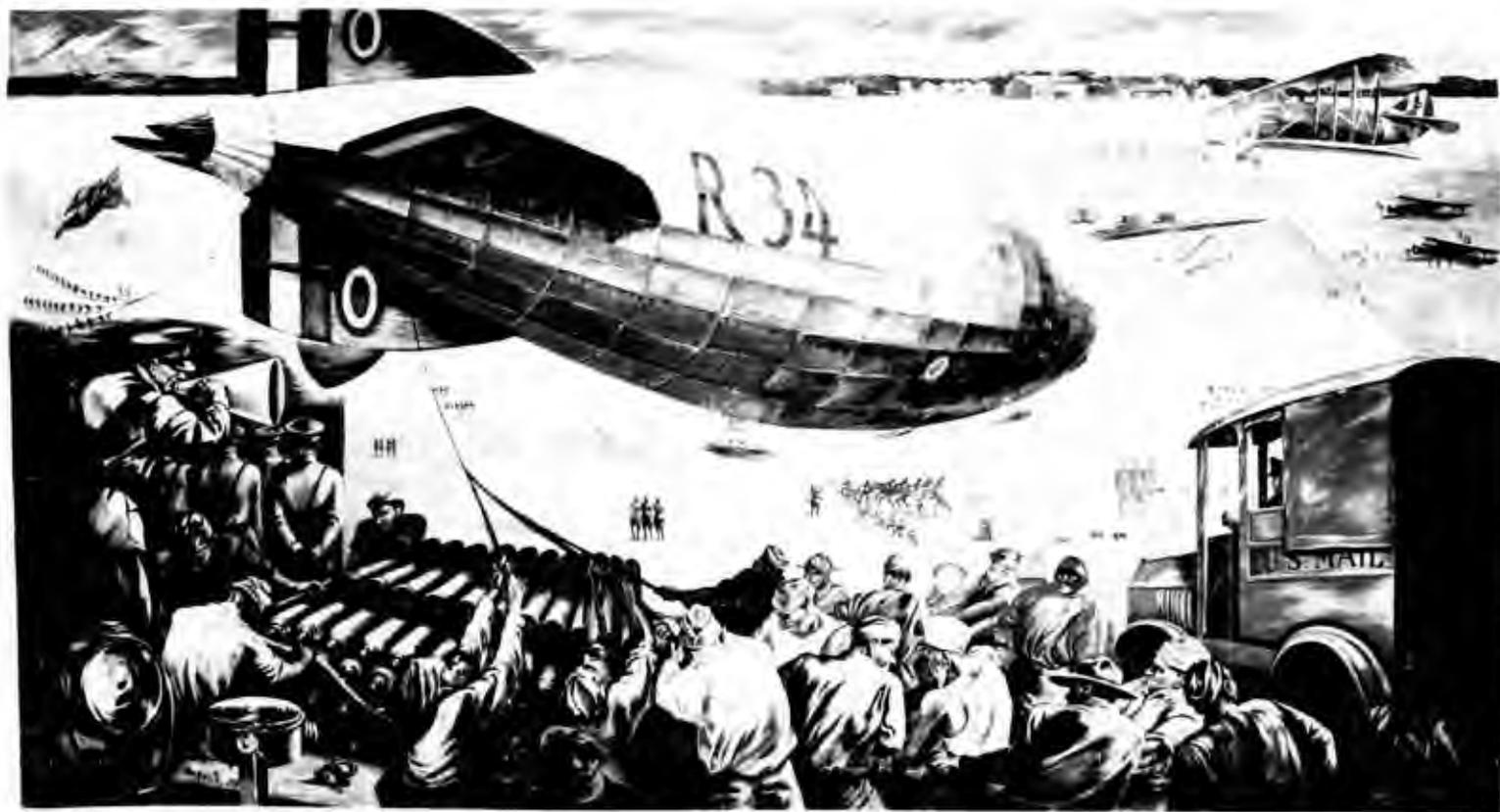
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UNITED
STATES
POST
OFFICE

FOREST HILLS STATION
FLUSHING NEW YORK

ATLANTIC TERRAZZO





AIR
MAIL







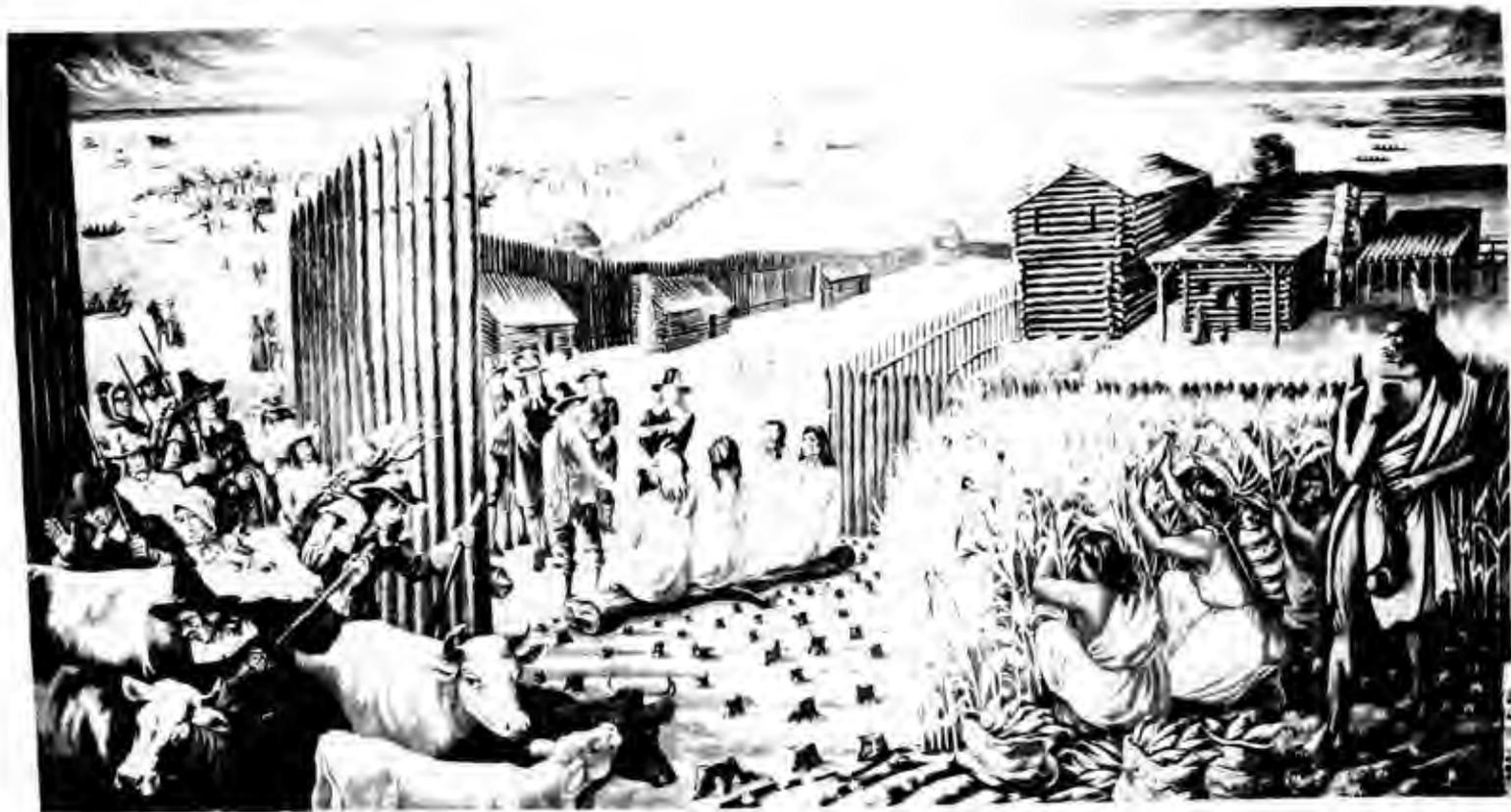
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THE
RACE
TRACK
AND
CASINO
OF
SARASOTA
FLORIDA
ESTABLISHED
1925



AC

GRAY

London

Dated January 20, 1939

Rec'd 9:15 a.m.

Secretary of State

Washington

78, January 20, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

There has been no publicity in this country to date on Lord Stamp's off the record speech reported in Paragraph one my 76, January 19, 7 p.m.

I thought it advisable to inform the British Treasury in strict confidence of this occurrence. They were unaware that such a speech had been made and also felt sure that Stamp had not approached the Bank of England before delivering it.

The Treasury's attitude was well summed up by their remark that "one of the loop-holes in our system is that we cannot take peerages away from persons we have given them to".

JOHNSON

RR:NWC



DEPARTMENT OF STATE
WASHINGTON

January 20, 1939.

My dear Mr. Secretary:

I enclose for your information a copy of a telegram just received from the American Embassy, Berlin (No. 45, January 20) transmitting the text of a communique which has been released by the German news agency regarding Dr. Schacht.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

No. 45 of January 20
from Berlin.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

AC

GRAY

Berlin

Dated January 20, 1939

Rec'd 10:15 a.m.

Secretary of State

Washington

RUSH. 45, January 20, 1 p.m.

One. The following communique / ^{has} just been released by the German news agency.

"Complete fulfillment of the additional economic duties demanded for reestablishing greater Germany requires unified management of the economic, financial and capital market policy. For this reason the Fuhrer has decreed that the direction of the Reich Ministry of Economics and of the Reichsbank shall again be combined. Accordingly the Fuhrer has relieved Dr. Schacht, President of the Reichsbank, of his office and appointed Walther Funk Reich Minister of Economics President of the Directorate of the Reichsbank for a term of four years while retaining his office as Reich Minister of Economics.

Dr. Schacht in his capacity as Reich Minister will continue as a member of the Reich Government. He is to be charged with the solution of special problems."

Please inform Treasury.

Two. The effect of this development on the current negotiations with the Evian Committee is now being explored by

AC - 2 - #45, January 20, 1 p.m., from Berlin

by Rublee.

GILBERT

KLP:WTC

REB

GRAY

London

Dated January 20, 1939

Rec'd 7:52 p. m.

Secretary of State,
Washington.

Sl, January 20, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

The full text of the circular drawn up by the London foreign exchange committee referred to in part 2 my No. 70, January 18, 5 p. m. was published in the FINANCIAL NEWS today. The text is as follows:

"With the object of obtaining uniformity in the interpretation of the circular of January 5 the following information is furnished:

(One) What is the Treasury's wish? To curb speculation in both gold and currencies but in no way to hamper normal trade requirements.

(Two) To whom does the circular apply? Persons operating in this country.

(Three) Sterling or currency advances against gold and sterling advances against other currencies.

Generally are not to be made nor assisted by way of behaviour or otherwise. Exceptions may be made in the case
of

REB

2-#81, From London, Jan. 20, 8 p.m.

of bullion brokers and the customary dealers in gold to whom temporary advances against gold may be necessary for the fixing of the price of gold (see paragraph 4 below).

(Four) Forward dealings in gold.

Generally are not permissible. Should, however, a merchant have a commercial commitment in currencies which he can only hedge in forward gold he is permitted to protect himself in this manner if he so desires and can satisfy his banker who in turn can carry through the transaction by giving the bullion broker an assurance that it is in cover of a commercial transaction. The bullion broker would be permitted to obtain temporary finance against such gold should this be necessary to facilitate the forward transaction.

(Five) Foreign exchange operations.

Spot operations -- no scrutiny is necessary where the currency is paid for.

Forward operations -- the banker must be satisfied that his client is covering a normal trade requirement before executing a forward operation on his behalf.

Forward transactions merely in an endeavor to protect

ones

REB

3-#81, From London, Jan. 20, 8p.m.

ones capital are not permitted.

(Six) Loans against securities, both British and foreign, and accepted facilities.

Are not restricted provided they are in the normal way of business.

(Seven) Simultaneous purchase of spot currency against sale forward and vice versa (swaps).

Such transactions are permissible but in carrying them through for clients it is necessary to get an assurance that they are not using this means for extending an existing speculative position either on your own books or elsewhere.

The foregoing is in the nature of a general guide and the committee is prepared to deal with any specific inquiries which should be addressed in writing to the Secretary."

The foreign exchange market has been very quiet. The dollar remaining around 468-1/4 with the British fund offering dollars in the afternoon but doing practically no business. The Bank of France has bought a certain amount of sterling at 177.19. 122 bars of gold were sold. 32 of

which

REB

4-#81, From London, Jan.20,8p.m.

which were married and 54 supplied by the British fund.
The price was 148S 7D which was quoted as giving 1D
premium at 468-1/8.

JOHNSON

ROW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 20, 1939, 5 p.m.

NO.: 121

FROM COCHRAN.

The Paris exchange market continues its waiting attitude, since the Parliamentary vote on French foreign policy has been postponed until next week. Exceptionally small turnover today. Some sterling was acquired by French stabilization fund, and at a quotation of around 37.85 Guaranty purchased \$400,000 for it.

Paris and international banking circles were surprised at Schacht's being replaced by Funk as President of the Reichsbank. However, for at least three years the uncertainty of his position had been realized. He did not hint at such a possibility when I had a talk with him on the eighth of January; he talked, on the contrary, about his hopes for visits abroad, and for foreign officials - including American - to come to see him. The news was telephoned to Governor Azzolini in Rome by the Paris representative of the Bank of Italy, who found Azzolini was startled to hear about it.

Officials of the BIS too were not aware of this change until they saw the news ticker this morning and the news was confirmed by a telephone call to Berlin. I had talks today with officials of Paris-American banks which

- 2 -

which have investments in Germany, and they spoke of their worries over Schacht being replaced. These bankers share the view which Governor Norman expressed, and reported in my telegram No. 52 of January 10, that Schacht in the Reichsbank constituted the most helpful and hopeful contact between other countries and Germany. They expressed the belief that with Schacht no longer in the Reichsbank, Germany will follow more radical financial policies, conceivably in the line of monetary inflation or capital levies. It is my own personal opinion, which in the past I have humbly submitted, that irrespective of Schacht's hard dealings, it was more to our advantage to try to do business with Schacht in power in Germany than to risk what might come after him should he not be successful in the policies, which I am still convinced he genuinely advocated, of putting Germany on the road to a more normal international trading basis once Germany's rearmament and consolidation had been financed. For what little it may be worth I respectfully submit my opinion that in Italy there may eventually be the same result if such conservative leaders as Guarneri and Azzolini do not attain some measure of success in their attempts to bring about international collaboration in finance and trade.

END MESSAGE.

WILSON.

REB

193

GRAY

London

Dated January 20, 1939

Rec'd 2:35 p. m.

Secretary of State,
Washington.

BO, January 20, 3 p. m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

The following impressions have been elicited in the course of casual conversations with various officials of the British Treasury:

As regards Germany the British Treasury does not feel that things are going either particularly well or particularly badly. There is a decided shortage of labor and an equally decided need for more foreign exchange with which to purchase raw materials. With the full employment of both capital and labor resources the basic trend is of course inflationary but there have been no signs of the situation getting out of hand, Schacht having been able to resist the radical Nazi demands and keep spending within the limits of previous savings. There is some shortage of food-stuffs but it has been overplayed in the world press by wishful thinkers. Of course the British Treasury has not been

2-#80, From London, Jan. 20, 3p.m.

BEEN anticipating any drastic deterioration or improvement in the near future in the German economic-financial situation. Schacht's resignation has now injected a new element of uncertainty into the situation. It is believed in the city that Schacht chose both his issues and his moment for ridding himself of responsibilities which he was forced to bear without corresponding freedom of action. The city's initial reaction is reflected in an immediate four point drop in all German bonds.

The British Treasury were also inclined to believe that under present conditions Germany had for the time being about reached the limit of her ability to expand her plant facilities for producing war materials without causing really serious internal dislocation. Consequently, for the first time the British armament program had a comparatively fixed target at which to aim and it was possible accordingly to make more accurate financial computations.

Furthermore, Germany is having more difficulties than the world at the moment seems to recognize. For example, Funk's much heralded trip through the Danubian and Balkan area was by no means the success it has been hailed; in point of fact Germany has almost reached the "natural"

saturation

REB

3-#80, From London, Jan. 20, 3p.m.

saturation point in her trade in that region. Before the Turks accepted the recent German credit they advised the British Treasury that, of course, they could not turn it down but they intended to go slow about implementing it and about working out the detailed arrangements. This they have been doing. Likewise Germany has not made any further headway with Yugoslavia. The latter is in need of replenishing her foreign exchange resources and to this end is adjusting her sterling dinar rate in the hope of increasing her exports to the sterling area. Rumania and Greece are for the moment at least resisting further German trade encroachments.

Naturally all these countries are attempting to play the British against the Germans in the matter of obtaining financial assistance. Exclusive of China some ten nations have already applied in one form or another for portions of the contemplated ten million pounds political credit. Some of the British Government departments are, of course, anxious to attempt to increase British influence in these countries by complying with such requests for assistance, but the British Treasury is by no means eager to pursue a policy of Danegeld except on specific deals which are
commercially

REB

4-#80, From London, Jan. 20, 3p.m.

commercially desirable and largely self-liquidating. The British Treasury in general considers that intergovernmental lending for political purposes merely means purchasing immediate good will but eventual ill will and they remember vividly that they permitted the issuance of loan to Turkey only a couple of months before Turkey went to war against them in 1914.

Three. The Italian situation is regarded as serious but not desperate. The British Treasury does not consider that the internal economy of Italy is in any immediate danger of breaking down and although Italy is short of foreign exchange the drastic curtailment of imports has made her problem manageable for the time being. Nevertheless, it is a grave one and is having the effect of preventing any further expansion in her plans for war preparation. Inasmuch as the Anglo-Italian clearing is again getting waterlogged, British exporters being forced to wait some six months before obtaining payment, the British Treasury has been trying to find means of increasing Italian exports to this country and thus to increase Great Britain's leverage and to prevent conditions in Italy deteriorating too rapidly. The difficulty lies in the fact
that

REB

5-#80, From London, Jan. 20, Sp. =

that Italian exports are in general not of a character for which there is a great demand here.

The Czech financial delegation which is in London to negotiate for a further 20 million pound loan has been putting out in the press stories to indicate that this is about to be agreed upon. However, the British Treasury states that in point of fact only the original 10 million pound loan which was made in the heat of the post Munich emotion has been authorized of which only one and one-quarter million pounds has actually been drawn and this has been mainly expended on the sending of Jewish refugees from Czechoslovakia to Palestine. The French are represented as being very annoyed about the Skoda deal and in any case do not wish to waste 10 million pounds on a lost cause. The British seem equally unwilling and as frankly say "although we want to help Czechoslovakia we have to realize that Czechoslovakia is now a part of Germany." They therefore are attempting to put off the Czechs and at the same time to tie strings to the authorized 10 million pounds credit so that it can mainly be spent in connection with refugees. How far they will be successful remains to be seen.

JOHNSON

KLP
HPD

GROUP MEETING

January 20, 1939.
9:30 A. M.

Present: Mr. Gaston
Mr. Bell
Mr. Lochhead
Mr. Foley
Mr. Haas
Mr. Duffield
Mr. White
Mr. Viner
Miss Chauncey

H.M.Jr: So to bring everybody up to date, we're sort of short handed here; I am shooting from the hip, I hope I hit the mark. Every Assistant and Under Secretary is out of town. Poor Mac's in the hospital, and Mrs. Klotz isn't well.

What Bell and I are doing together, we are going to sell a hundred million five year notes for U. S. A. - U. S. H. A., as of February one.

Bell: Right.

H.M.Jr: And we proposed to sell three hundred (million) for Mr. Jones, as of February 15. Right?

Bell: Yes Sir.

Foley: What is the maturity?

H.M.Jr: Lacking just enough to get in under the wire.

Foley: And make it legitimate.

H.M.Jr: Yes, and that will, most likely, make it, George, so we won't ask for any cash March 15 - Just ask for a refunding. I mean, U. S. Housing, five year, one and a half.

Bell: That is what it looks like.

H.M.Jr: And the three year, we have them priced at seven-eights, or less.

- 2 -

- Foley: We have a lot of papers to draft in connection with U. S. H. A.
- H. J. Jr: Bell and I, after going over it in a long, careful, consultation, lasting three minutes, decided to do it. (Laughs) But it has been in the making for some time. (To Mr. Foley): You've got a what?
- Foley: We have a lot of papers to draft in connection with the U. S. H. A.
- H. J. Jr: Well, that's your pleasure. That is what you do in your odd moments. Get busy, boy, get busy. I am not bartering.
- Bell: If these lawyers aren't ready - send them out to Guam.
- Foley: I'll be ready.
- Bell: I think they will want to fortify that. (Laughter)
- Viner: Danny, I hope you will remember to keep it out of the public debt.
- Bell: Well, I have my doubts about that, as to whether it should be kept out.
- Viner: You shouldn't have any doubts about that.
- H. J. Jr: Bell, do you mind - let George tell Goldenweiser what we are proposing to do, and he can tell Mr. Eccles; will you, just so they know? Will you get them on the telephone? You get it? A hundred U. S. Housing, five years; three hundred million, Jesse Jones, three years, lacking a month, which will mean no new money in March for the Treasury. Right?
- Bell: That's right.
- H. J. Jr: O. K.
(Nods to Mr. Duffield)
- Duffield: I'd like to know what we are going to do to those cash receipts and expenditure charts and the tables in the Bulletin.

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H. I. Jr: Not today, boy, not today.

Duffield: I hoped he would answer that.

H. I. Jr: Can you?

Bell: I had some misgivings about the cash receipts and expenditures.

H. M. Jr: Will you settle on this basis: take the so-called bubble charts, minus the bubbles, just take the charts, up to the

Bell: Actuals.

H. M. Jr: actuals; leave off the bubbles at this time. O. K.?

Bell: I'm working on a statement now. It seems to me it will be much more clearly understood from the public standpoint.

H. I. Jr: When is the deadline?

Bell: I'd question now about publishing cash receipts and cash expenditures on a basis other than a national basis, and I'd like to put it out in a little different form.

H. I. Jr: When?

Bell: I am having the statements worked up now, and I'd like to have you take a look at it.

H. M. Jr: When?

Bell: I hope this afternoon or tomorrow.

H. I. Jr: Is it pushing you too hard to say we'll do it by Saturday noon?

Bell: I'll take that as a deadline; I think I'll have it.

H. M. Jr: You and Gaston and the others will just have to fight it out.

Gaston: Yes.

H.W.Jr: (To Mr. Viner): We are going to get out a Treasury Bulletin this month, of Treasury statistics.

Viner: Are you going to call it a January Bulletin?

H.W.Jr: Yes, as of December 31. If you've got nothing, in your odd moments you can take a look at it.

Viner: I'd like to take a look at it.

H.W.Jr: Will you let Jake run over this stuff?

Haston: Yeah.

Duffield: That is all I have.

Foley: I have the letter for the Attorney General, asking for his opinion.

H.W.Jr: "My dear Mr. Attorney General:

"I request your opinion on the following question: Whether I, as Secretary of the Treasury, have authority to make available to an agency of the Government, and in particular to the Securities and Exchange Commission, and authorize such body to use in public hearings duly conducted by it, reports of examination of a national bank received in due course by the Comptroller of the Currency; and whether I have authority to authorize such body, and in particular the Securities and Exchange Commission, to use correspondence between it and myself, resulting in such an authorization, in any proceedings in which such correspondence may be pertinent.

"I enclose a copy of such correspondence, and an opinion of the General Counsel for the Department of the Treasury covering this subject."

And such. Is that the way they wrote it?

Foley: It's the way I wrote it.

H.W.Jr: Is it what they want?

Foley: You see, I am trying to tie it up with future conduct, and not for the present request, so they

can't tell us it is something that's already been done and we've already furnished the material to the S. E. C.

H. J. Jr: It is something I'd like to get. Do I do it at lunch, or does it go over now?

Foley: It goes over now. I think he will advise you on the opinion.

H. J. Jr: (Over telephone) Irey, please.

Foley: Do you want to have the Coast Guard included in this aircraft procurement legislation we are drafting in connection with the other Departments?

H. J. Jr: Yes.

Foley: We can get better planes and more economically if we stick the Coast Guard in it.

H. J. Jr: I know all about it. Dan and I got gyped once.

(Telephone) Hello, Irey? The new Attorney General is having lunch with me today, and on one page, I'd like to have a summary of our favorite Chicago case, so I can give him. Will you be here yourself at five minutes of one? I want to give it to him at one o'clock. You know what I mean. Keep it on one page. Thank you.

You through?

Foley: Yes, I'm through?

H. J. Jr: Harry?

White: Here is a summary of that Lima Conference you asked for.

H. J. Jr: Not now.

White: None of these things are important. They can wait.

H. J. Jr: But you will have one for me so I can show the A. G., at five minutes of one?

- Walter: There is only one thing to settle today - securing an economist to send to Paraguay. We have to make some terms, and who is going to decide what the salary shall be, etc. - whose shop is it in?
- W.C.Jr: McReynolds'.
- Walter: He's not here.
- W.C.Jr: I know; it will have to wait..
- Walter: It will be desirable to have one of the younger men in the Treasury go down for the experience. You've got two men, Mr. Schmidt and Mr. Seagal, and they have some of the things they need, which this man hasn't - statistical, etc., understood.
- W.C.Jr: With this big "if." Mr. Welles was over here yesterday quite a while talking and he said this - and I want you particularly, Jake, to listen to this. He said he thinks the next twelve months are going to be the most important in the history of the State Department, and the Treasury, as far as South America goes; that there is no place in the Treasury - there is no South American division. He very, very much wants me to set one up. So that there's somebody of importance he can go to and get what he wants. I said, "Have you any suggestions? Is there anybody you'd recommend?" I mentioned this man Edwards, and he said, "He's a good second man, but he isn't big enough; I want a man big enough so that when I want something I can get it. I can't get it today because there isn't anybody big enough in the Treasury."
- You've got two men. I want, before you send one of them down there, if we are going to set up a Bureau, think where he is more important, and particularly as Dr. Aranha is coming up here for a visit. If we can put off this Brazilian thing, Sumner Welles agreed with me he will bring up one and a half South American Republics a month from now on if this one is successful. They will bring them up one after the other to take up the matter. He thought in the first place the Government ought to have - he has called his group together for recommendation and hasn't gotten anything yet,

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and after he's gotten it, he wants the Treasury to sit in with him so he will have a uniform program. Aranha is spending his mornings in the State Department and the afternoons here. I told him I personally would sit in all meetings with Aranha in the Treasury and not designate anyone else to. I think that is right. I think we ought to have a Bureau; we ought to have a very important man; we ought to have a man who understands finance and trade. I furthermore told him this idea, which is mine - I understand is not original - is sort of a B. I. S. for North and South America. He said, "First, you've got to have - each country's got to have a Central Bank, which they don't have. I mean a central clearing house for the Republics of North and South America, which they could clear through. I mean something like that, you see. That is what I am growing for." He was most enthusiastic. He said, "There's something behind this, - whether it would be a bank for settlement as between North and South American Republics - something in that." See?

Now all of this stuff, somebody has got to think it out. You've got two men, and before you send one to Paraguay, what - where is it more important for him to be? I very much want Viner's help on this, and I hope you yourself will be able to be here while Dr. Aranha is here.

W.L.G.:

He may also have a suggestion for a man who may be as good as this, who is not as far away as California.

H.A.Jr.:

If you don't mind, we are so terrifically short handed - got nobody. Twenty-four or forty-eight hours isn't going to make a lot of difference as far as Paraguay is concerned. I had to sit around for them to say yes or no on China for six months; they can wait forty-eight hours on Paraguay. I mean, get, sometime during Dr. Viner's stay here, the next two days, the chance to talk to him, and the three of us can sit down and talk about it. I haven't - I am not going to be rushed. Let them wait on me. It is more important. Welles was very nice about it. I think he is right, and if they are going to do this thing, and we do leave behind us a financial institution which would

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take care of North and South America, it would be something. Do you check, Jake?

Viner: Yes, I'd do it very carefully.

H.M.Jr: Very carefully; and in the meantime, we don't send anybody out of the Treasury down to Paraguay until we get this settled.

Incidentally, he said the next one he wants is not Chile, but Cuba. So this - this is a problem.

Viner: Are you in touch with the Commerce people - Grover Jones, for instance?

White: Yes.

H.M.Jr: Well, I have a letter on Brazil from the confirmed Secretary of Commerce. Incidentally, also very much in the room, I asked what about Commerce sitting in. He (Mr. Welles) said, "I don't see why they should; they can't contribute anything, and I don't want them."

White: They've got some people over there that are all right.

H.M.Jr: If they have, let them sit in with us. I am just telling you what Welles said. I am - I am so much - I am so short handed I am not - I'd rather do nothing than go off half-cocked.

Dan?

Bell: I have nothing. I am surprised to see in the paper that the Stabilization Fund is only extended to January 15, '41 instead of June 30.

H.M.Jr: You'd be more surprised if you knew what happened. It was a comedy of errors; you see, I went up with Ed Foley to see the V. P. and the Speaker on this thing, and of course we told the "W" that this included the right to devalue the dollar. He went up through the ceiling, and he only wanted to make it June 30, '40, and he went through a long tale that he'd rather make it permanent than extend it past the present Administration's term. He went through the question of uncertain tie-ups, externally and internally; he doesn't

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differentiate, Right?

Foley:

Right.

W. W. Jr.:

He said, "I am willing to give this thing to Morgenthau, but I am not willing to give it to some unknown Secretary. We finally sold him until January 15, to give the next Congress time to make up their minds. Personally, though, it is an excellent suggestion; I am very glad. It becomes a national campaign issue and after thinking about it, I think the Vice President is right; that that question is a question of whether the next Administration wants it or not, and let them make it a campaign issue. Do they want a Stabilization Fund or do they want to give the President and the Secretary of the Treasury the right to devalue the dollar?"

I think it is very smart for the President not to ask for anything beyond this term. I think it is very smart; I think after it sinks in the people will consider it a very significant move.

We went up there about noon. The Speaker called up - "Have you spoken to the President about this?" "No." "Don't do anything until you hear from me." Half past three out comes the announcement from the White House that this is January 30, '41. I called Steve Earley and told him, "One of us is on the spot." He said, "What do you mean, didn't you deliver it?" Well, I said, "Yes, but I brought it back." He said, "Well, I didn't know it," etc., and so on. He wanted me to call up the Vice President and I told him he should call. In about twenty minutes we all were "ga-ga." He got the Vice President, and the Speaker and the President, all in twenty minutes, and cleared it to January 15, and the letter was rewritten, I suppose, and the letter delivered this morning.

But that is the way it was - a calm, judicial proceeding, but that's the way it was settled.

Vincent:

But that was settled well, though.

H. W. Jr.:

Very well; I am tickled to death. I think we all will be very glad that he isn't asking for anything

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Beyond January 15, 1941.

- Viner: I think the new Administration ought to have a free hand to decide its policies.
- H. J. Jr: That is the history.
- Bell: Well, they will have twenty days.
- Viner: I think until the first of April.
- H. J. Jr: The Vice President will not give it to an unknown Administration. He said, "I trust you, but I will not give it to them." Is that right?
- Foley: That is right.
- H. J. Jr: Am I right?
- Foley: Absolutely correct.
- H. J. Jr: He said, "I'd rather make it permanent than that. Suppose they call the special session in December just to do this, or something like that, you know there's a whole flock of emergency policies prior to June 30, this year." This means none of these emergency policies can be extended beyond the President's term. I think it is very important. Let's get it down in the open. Don't you think so, Jake?
- Viner: Yes, I think so.
- H. J. Jr: It broke this one; maybe it's one of the most significant things the President does - decides not to ask for any emergency power beyond his term.
- Viner: A new Administration could always vote a continuance of two weeks or a month while it determines what to do.
- H. J. Jr: Well, they ought to make up their mind during the campaign.
- Viner: It's an old story; as long as they are on the outside, they can't have the data.
- H. J. Jr: They can't decide whether they want the President of the United States to devalue the dollar?

- Viner: I was thinking of the Stabilization Fund. Even on that, later on they will have to refute all the things they said during the campaign. The permanent civil staff governs a country well governed; this is only half well governed. The outsiders.....
- H.M.Jr: You say this country is only half well governed?
- Viner: I said, a country that is well governed is governed by Bureaucrats. This country is only half well governed.
- H.M.Jr: Why?
- Viner: Because it is only half governed by its Civil Service.
- H.M.Jr: And if we let them run it entirely, everybody would be O. K.?
- Viner: Oh, everything would be O. K. -- for them. Eventually they will absorb most of the population and everything will be all right.
- Gaston: Have Jake move over here to the other side of the room and restate his position. I think he is too close to Dan.
- Bell: Influence, huh?
- H.M.Jr: George?
- Haas: I've nothing this morning. Graves is in town.
- H.M.Jr: Let him sit in, will you?
- Lockhead: This news of Schacht's change in position is just as much a shock to the Federal Reserve in New York; just as new to them as it was to us, and they have been talking to the Bank of England yesterday, and no mention was made at that time. The only suggestion is the fact that they had been talking about giving some concessions as the excuse for lifting him out, but they feel he has been slipping lately anyway.
- H.M.Jr: Terrible.

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- Gaston: I haven't anything; I suppose you noticed the story in yesterday morning's Wall Street Journal about Eccles giving a luncheon for Wagner, and reports that Wagner is going to introduce legislation along the lines wanted by Mr. Eccles. He is apparently driving ahead on his legislative scheme.
- Vincent: That was in yesterday afternoon papers.
- W.C.Jr: We have complete control of that situation, because there is a man by the name of Schwartz on the Board of Processing Tax Appeals, and Mr. Eccles wants him made Chairman, and as long as he wants that, we are in control of the situation.
- Bell: It is better than a luncheon any day.
- E.C.Jr: Any day. This crowd is good today; Jake, you pepped them all up.
- Lockwood: After hearing that he may back down in his argument.
- E.C.Jr: That's swell.
- Well now, let's just see.... Bell and the rest of them may be back here at ten fifteen, and, Jake, you want to stay and gossip a bit until the crowd comes in.

FEDERAL RESERVE BANK
OF NEW YORK

January 20, 1939.

Dear Mr. Secretary:

The void in corporate security financing continues. This week there were two offerings of common stock totaling \$360,000. From present indications, corporate issues this month will be the lowest for any month since January 1935. The \$105,000,000 of North American Company debentures and preferred stock scheduled for early in February is the first large flotation now expected. A \$12,000,000 refunding issue for the Cincinnati Union Terminal may be offered without registration within the next few weeks, and \$55,000,000 of Public Service Company of Colorado issues may possibly be re-registered.

In the municipal field, the Port of New York Authority has placed \$16,700,000 3 1/4s of 1979 privately with insurance companies, for refunding. About \$10,400,000 of other municipal bonds were also awarded this week. The City of New York has called for bids on January 31 on \$30,800,000 of long-term issues.

The fact that averages of highest grade bonds have recently been establishing new high records corroborates the opinion that the lack of flotations is due to a shortage of borrowers, rather than any difficulty in distributing suitable issues. Nor is the market now so ready, as it was, to believe that a substantial volume of financing is awaiting completion of annual audits of potential borrowers. The present hesitation in business recovery, and in the stock market, appears to have created a certain amount of pessimism concerning activity in the new issues market during the near-term future.

Yours faithfully,


Allen Sproul,
First Vice President.

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

January 21, 1939.

Dear Mr. Sproul:

Your weekly letter, dated January 20th, has just been received in the Secretary's office. It will be brought to his immediate attention, and I know he would wish me to express his renewed thanks for your cooperation.

Sincerely yours,

W. S. Klotz,
Private Secretary.

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

GWF/dbs

January 20, 1939

At lunch today in his office, HM, Jr gave Attorney General Murphy the memoranda furnished him by Dr. White on German barter system and Ireys on the Moe Annenberg case.

Copy

November 25, 1928.

MEMORANDUM FOR THE SECRETARY:

Further careful consideration has been given to the matter of the appointment of an attorney to handle the prosecution of the Annenberg case. In the light of all the information I have been able to gather, and with the background of experience that this Department has had in previous matters of this sort, it is my conclusion that the most suitable person who has been given consideration is Mr. Cassius Poust, of Sycamore, Illinois. Thorough inquiry has been made with respect to Mr. Poust, and I am in receipt of a report from Special Agent in Charge Madden, from which is paraphrased the following information:

Mr. Poust is 47 years of age. He has lived at Sycamore all or practically all of his life; is married, and has three or four children. His oldest child, a son, is a freshman at Northwestern University, Evanston, Illinois. His financial standing is satisfactory, and he is regarded as a man of some means and is one of the substantial citizens of Sycamore. He served in the army during the World War, and since that time has been very active in the affairs of the Illinois National Guard, in which organization he holds a commission as either Lieutenant Colonel or Colonel. He was admitted to the Illinois Bar on April 17, 1915, and his principal activity since that time has been the practice of law; however, he is interested in agricultural pursuits and operates a dairy farm located about fifteen miles from Sycamore.

Mr. Poust is about five feet, eleven inches, in height. He weighs approximately 160 pounds, and his complexion is moderately dark. He is a man of good appearance, and while not a voluble talker, he is not the backward type of individual and has an air of sincerity and persistence about him.

Mr. Poust served as States Attorney for DeKalb County, Illinois, for eight years, from December, 1920 to December, 1928. He stated to Mr. Madden on one occasion, several years ago, that while serving as States Attorney he had never lost a criminal case in its entirety; meaning that while he had, of course, prosecuted cases in which there were acquittals

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and dismissals as to some defendants, there had never been a complete failure as to all defendants. On several occasions Mr. Madden has heard him make the statement rather modestly that his success in the State Courts was not due so much to any special ability that he had as it was his very careful preparation for trial, and our knowledge of Mr. Poust confirms this conclusion.

In February, 1929, Mr. Poust was appointed as First Assistant to United States Attorney George E. Q. Johnson in Chicago, and served in that capacity until March, 1931. During the early part of 1931, there was an indication that Mr. Johnson might resign as United States Attorney, and it was felt that Mr. Poust might be appointed to succeed him. However, the latter made as careful an appraisal of the situation as he could, and finally decided to accept a partnership in a large law firm in Chicago, headed by Mr. Edwin W. Sims. He made this move because the partnership tendered then looked very attractive, and because he was rather doubtful regarding his appointment as United States Attorney in the event of the resignation of Mr. Johnson. Mr. Poust became associated with Mr. Sims about March 1, 1931, under the partnership name of Sims, Stranaky, Brewer and Poust. However, the arrangement did not work out as Mr. Poust had expected, and he left the firm in April, 1933.

Mr. Roy Keehn is the head of the Illinois National Guard. He and Mr. Poust have been acquainted for a long period of time by reason of their joint interests in that organization. In April, 1933, Mr. Poust, at the invitation of Mr. Keehn, joined him in his law office in Chicago and remained until July, 1935. There was no partnership between the two, nor was there any partnership arrangement between Mr. Poust and any other attorney in the office. It was a loose affiliation which is rather common in law offices, and consisted principally of an arrangement to share the overhead. This association is mentioned particularly because Mr. Roy Keehn has in the past been associated in a business way with Mr. Annenberg and has received substantial amounts of money from him. However, there is nothing in the association which, in my opinion, can be construed as indicating that this association of Mr. Keehn with Mr. Annenberg would in any manner affect the value of Mr. Poust in the proposed appointment. Mr. Poust has always, from the time he became First Assistant United States Attorney to this date, maintained law offices

at Eycamore, and that has recently been his principal place of business.

Mr. Poust was appointed in the office of the United States Attorney at Chicago at a time when it was necessary to have a vigorous and efficient prosecution in the Evergreen Park mail robbery case, a notorious case of that time. One of the principal defendants in the case was a relative of Edward Litsinger, who had been very active in Republican politics in Chicago and allied with the same faction of the party to which the United States Attorney owed his allegiance. Mr. Poust prosecuted that case successfully. Following the conviction in the Evergreen Park mail robbery case, Mr. Poust took over the income tax prosecution of Ralph Capone. This was the first of the so-called Capone cases. He handled the case to my personal knowledge in a highly satisfactory way and secured the conviction of the defendant. He then followed with the cases against Jack Guzik, who was one of the leaders and one of the most vicious of the Capone organization. He secured a conviction in this case. Following that, he undertook the prosecutions for income tax violations of Lawrence O'Brien, State Representative from the 29th Senatorial District, Illinois, and Gene C. Oliver, member of the Board of Assessors, Cook County, Illinois, both of whom were convicted. He then did considerable work on the income tax cases of Frank Hitto, known as the "Enforcer" of the Capone gang, and Terrence Druggan and Frank Lake, two notorious gangsters of Chicago, who were not members of the Capone organization. He would have proceeded with the prosecution of these three latter cases, but they were closed by the entering of pleas of guilty and the subsequent imposition of penitentiary sentences.

One who was associated in the investigation and prosecution of the income tax cases against these notorious individuals could hardly do other than reach the conclusion that they represented an outstanding accomplishment on the part of the one principally responsible for their prosecution, and I feel that Mr. Poust amply demonstrated his ability to handle the most difficult cases of this type. After leaving the office of the United States Attorney, he defended the case of Christian Paschen in an income tax prosecution. This defendant was convicted, but it is the opinion of those of us who were in close touch with the trial and others who have read the record, that Mr. Poust made as good a defense as any attorney could have made.

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When Mr. Foust undertook his first income tax prosecution, that against Ralph Capone, he was pioneering in a new field. There were few, if any, precedent cases to guide him in the preparation and prosecution of this case. The difficulties were many, and the attitude of most enforcement officers and the public generally in Chicago was disheartening. This gang, of whom Ralph Capone was the first to be proceeded against, practically dominated the city, and this was the first real effort that had been made to bring to justice any of these individuals. The careful preparation that Mr. Foust made for the cases which he presented in court, and his persistence in the face of obstacles developed by capable defense attorneys were the subjects of widespread comment.

It will be recalled that former United States Attorney George E. Q. Johnson was subsequently made a Federal Judge and served for a brief time on the bench. In a conversation which Mr. Ladden had with him sometime since, he stated that he regarded Mr. Foust as the ablest prosecutor on his staff, and that in making that assertion he was not unduly full of the very fine work that had been done by Mr. Dwight Green and others. He have had similar comments from responsible persons elsewhere.

The income tax returns of Mr. Foust show that in 1933 he had a gross income of \$13,881; in 1934, \$12,829; in 1935, \$11,357; and in 1936, \$9,522.

In the opinion of Mr. Ladden and myself, it would be difficult to find an attorney with prosecuting experience who offers as much promise as Mr. Foust does for the assignment which we have in mind. It would be easy to locate an attorney who is better known, and it would be easy to locate an attorney who has made more money practicing law than Mr. Foust has, but we doubt very much that anyone could be found who has better all-around qualifications than he has for the task in mind.

It is my recommendation that the appointment to this position be tendered Mr. Foust.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 20, 1939

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Countervailing Duties on German Products

1. Briefly stated, the barter trade between the United States and Germany operates as follows:

An American importer of, for example, German cameras purchases \$1,000 of American cotton which is sold in Germany. He is credited with the Reichsmarks value of the cotton, at the 40 cent rate, or RM 2,500, plus a premium of 33-1/3 percent, i. e., a premium of RM 833, making a total sales price of RM 3333. (The American importer never sees the cotton and does not himself actually carry out the sale, which is done through agents. In fact, the cotton or other bartered exports -- copper, rubber, scrap iron, etc. -- need not even be of American origin.)

The American camera importer then purchases German cameras having a total value of RM 3333. These cameras are imported into the United States and upon customs appraisal their invoice value is converted into dollars at the 40 cent exchange rate (i. e., \$1,333); import duties are paid upon that valuation. However, the American camera importer, by using the cotton barter procedure, has actually paid only \$1,000 for the shipment of cameras. In other words, he has received \$1,333 worth of cameras for \$1,000.

2. The Treasury decided that the barter procedure constituted a bounty on imports from Germany and that the law requires the imposition of countervailing duties. The State Department took the position that irrespective of the legal aspects the imposition of countervailing duties was impolitic. The matter was placed before the President on November 28, 1938 and the Attorney General.

3. A study we have made indicates that probably about half our imports from Germany come in under this barter trade, and about one-fourth of our exports to Germany go in payment thereof. Our exports to Germany last year were about \$103 million and our imports about \$63 million.

January 20, 1936

9:30 a.m.

The Secretary phoned the President and said to him:

"Mr. Hitler fired Dr. Schacht with orders to Nazify the Bank, and break off those negotiations. I just thought you would like to know it. Very bad! Lot of repercussions in the foreign market abroad, particularly Holland. I thought it was so important you would like to know it. You know, we have this Customs ruling hanging fire over in the Department of Justice. I just thought you would want to remember that."

The Secretary sent the Dow-Jones account of Dr. Schacht's removal over to the President.

January 21, 1939

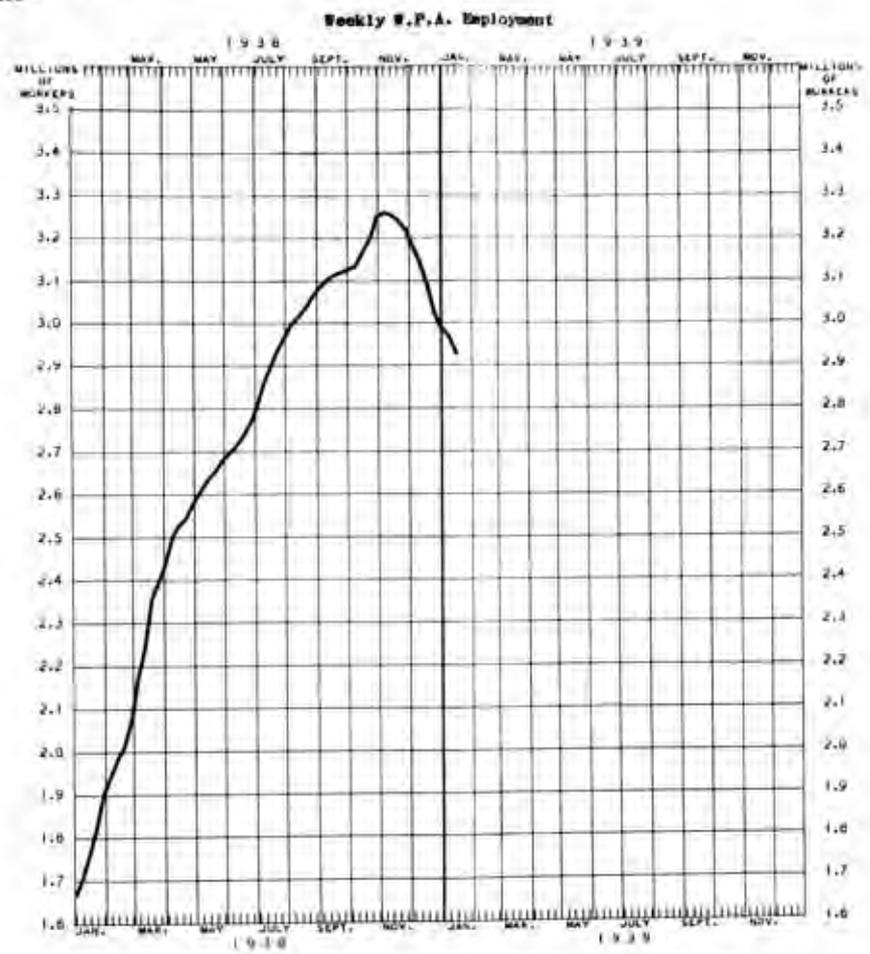
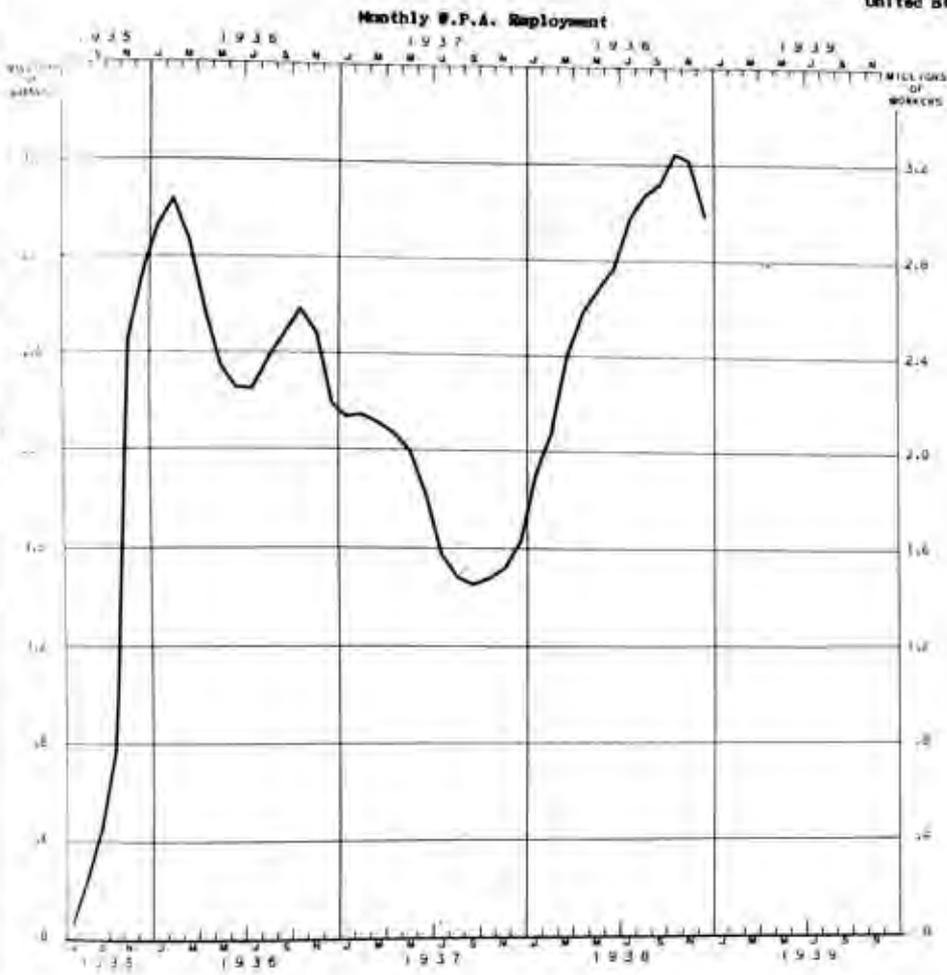
To: The Secretary

From: Miss Lonigan *EL*

3K
The total number of WPA workers on January 14, 1939 is 2,927,034.

The decrease during the week from January 7 to January 14 was 40,355 workers. However, WPA employment is higher for the second week in January, 1939, than of any previous year.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION

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Number of Workers Employed - Weekly

United States

Week ending 1938	Number of Workers (In thousands)
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	2,967
January 7	2,927 ^{a/}
January 14	

Source: Works Progress Administration
^{a/} Confidential

WORKS PROGRESS ADMINISTRATION

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Number of Workers Employed - Monthly
United States

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: January 21, noon

NO.: 23

Reference my 14, January 14, noon.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for daily quotas and maturities from December 16 to December 24 inclusive, during the week of January 23.

Please inform Commerce.

SCOTTEN

EA:DJW

WASHINGTON, D.C.
January 21, 1939

MEMORANDUM ON WOODOIL SHIPMENTS:

Woodoil shipped on consignment by the Fu Hua Trading Company,
Foreign Trade Commission:

	<u>Value</u>
1. Oil already arrived and stored in New York, 2,060 tons	\$ 692,160
2. Oil Arriving New York, 1,700 tons ..	571,200
3. Oil afloat, 800 tons	<u>268,800</u>
	\$1,532,160

According to latest cable report from Chungking efforts are being strenuously made to bring the regular shipment of oil to a rate of 3,000 tons a month within three months.

With the 1,000 trucks being bought specifically for the purpose of transporting woodoil it is estimated that woodoil shipment should be at a rate of 3,000 to 4,000 tons a month by the 1st of July 1939.

Our engineers, Messrs. T.K.Chao and T.Y.Chang, are scheduled to leave this country by February 5th and hurry back to China to take charge of the transportation of woodoil. They will travel by air from Europe and Mr. Chao will reach China by way of Rangoon via the new motor road and Mr. Chang will go to Haiphong to receive the trucks.

New Director: Mr. Warren Pierson of Export-Import Bank has recommended a Mr. A.B.Jones of No.10 East 40th Street, New York City, to serve as a Director on the Board of Universal Trading Corporation.

Loan Agreement: Drafts agreements: one between The Universal Trading Corporation and Foo Shing Commercial Company and another between Universal and the Export-Import Bank have been completed and handed in last week. Are they satisfactory?

January 21, 1939.
9:57 a.m.

HMJr: Hello.

Operator: Chairman Douglas.

HMJr: Hello.

Bill Douglas: Good morning, Henry.

HMJr: How are you?

D: Fine.

HMJr: Bill, I've just signed a letter addressed to you --

D: Yeah.

HMJr: Forwarding to you Upham's affidavit as Acting Comptroller.

H: Thank you, very much.

HMJr: But, I have not got my letter from you yet asking for it, you see? We've -- they sent a letter which -- ah --

D: That was revised, wasn't it?

HMJr: Yes, and I haven't got the revised letter, but I'm just going to sort of --

D: Well, I'll get it to you right away.

HMJr: Well, the point is not to hold you up. I'm sending this.

D: Well, thanks very much. I'll see that you get --

HMJr: Yes, I understand that they want to --

D: One this morning.

HMJr: They want to use this with the other agencies.

D: Yeah.

HMJr: So not to hold you up, I'm letting this go.

D: Thank you.

HMJr: And sometime today, you get me yours. Will you?

D: Absolutely. I'll get it over right away.

HMJr: Thank you so much.

D: O. K.

HMJr: Good bye.

D: Good bye.

January 21, 1939.
10:10 a.m.

HMJr: Hello.

Operator: Chairman Eccles worked until 2:30 this morning and he hasn't come in yet.

HMJr: Well --

O: She expects him down later.

HMJr: Well, let it go then. Tell them I'll speak to him Monday.

O: All right.

HMJr: Please.

O: Right.

January 21, 1939.
3:30 p.m.

HMJr: Hello.

Operator: The Attorney General is not in his office. His Secretary is there.

HMJr: Right.

S: Go ahead.

HMJr: Hello.

Secretary: Yes, Mr. Secretary. May I help you?

HMJr: Yes, I -- I just want to tell the Attorney General I'm going home now.

S: Yes.

HMJr: And Mr. Foley is sitting here in my office. I understood the Attorney General was working on this opinion that I've asked for that has to do with the S.E.C. Trans-America case.

S: Yes.

HMJr: Well, now -- Mr. Foley gave me the message the Attorney General is going to call me this afternoon.

S: Well, would you hold the line? Maybe Mr. Kemp knows something about that -- his legal advisor.

HMJr: Well, it's just a question of -- say -- whether it -- whether you are going to let it go until Monday. I just wanted to know so that we could close up shop here, that's all.

S: Yes.

HMJr: Will you ask --

S: May I call you back, Mr. Morgenthau?

HMJr: Yes, call me back on District 2626.

S: All right, I will.

HMJr: Thank you.

January 21, 1938.
3:34 p.m.

HMJr: Hello.

Operator: Mr. Kemp in the Attorney General's office calling Mr. Foley.

HMJr: I'm here.

O: All right.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Kemp: Hello, who is this? Mr. Borgenthau?

HMJr: Talking, yes.

K: Oh, yes. This is Mr. Kemp.

HMJr: Yes.

K: Mr. Secretary, after a conference with Mr. Foley this morning we sketched a -- a memorandum for the guidance of the Attorney General and I showed it to him. He looked through it and said it was all right, he thought, and he said it was practically what he said yesterday. Now Mr. Foley is familiar with what we put in that, and he can tell you probably better than I could on the telephone, just what it covered.

HMJr: Well, Mr. Foley is sitting here, but the main thing that we want as of today is does the Attorney General advise me that I can let S.E.C. Commission have this exchange of letters?

K: Let me get the thing and I'll read it right to you.
Just a minute.

(Pause)

Mr. Secretary?

HMJr: Talking.

K: On that point, this paragraph, "I think the Attorney General may further informally advise the Secretary that there is no legal objection, aside from a question of relevancy, to the use by the Commission of the correspondence between the Secretary and the Chairman of the Commission in the hearing now pending in court, with the understanding this is not to include the use of the reports themselves." Does that cover your question?

HMJr: Well, let me just put it to you in non-legal language.

K: Yes.

HMJr: I'm asking the Attorney General's advice. I take it that you can talk for him.

K: Yes.

HMJr: Should I, or shouldn't I, let them have these letters? I just want a "yes" or "no".

K: Oh, and advise as to what you should do?

HMJr: Yes.

K: Ah -- now, as we discussed it in there, the -- it was generally agreed that it was a question of policy, but we couldn't see any reason why you shouldn't do it if they wanted it done.

HMJr: Well, they've -- they've asked me for it.

K: Yes. No -- no objection to it. We couldn't see any objection to it.

HMJr: No objection to letting them have the correspondence?

K: That's correct.

HMJr: Now just hold the wire, I want to ask Mr. Foley -- just a moment, please.

(Pause)

Hello?

K: Yes.

HMJr: How long is that memorandum? Mr. Foley says it has -- that has also this memorandum includes the part in regard to Mr. Oliphant's opinion.

K: That's true. Yes, sir.

HMJr: Is it a long memorandum?

K: Not a -- it's just a little over a page.

HMJr: Would you mind reading it to me?

K: I'd be very glad to.

HMJr: Thank you.

X:

"I think it would be proper for the Attorney General to informally tell the Secretary of the Treasury that in his opinion the action of the Secretary in furnishing the Commission information contained in reports of bank examiners for use in public hearings before said Commission was justified and can be sustained in the courts. That in the Attorney General's opinion the action of the Secretary in furnishing such copies for such purposes could not be successfully questioned, and the only doubt that arises is in connection with permission to introduce such reports in public hearings, which we are informed is not intended by the Commission.

"I think the Attorney General may further informally advise the Secretary that there is no legal objection, aside from a question of relevancy, to the use by the Commission of the correspondence between the Secretary and the Chairman of the Commission in the hearing now pending in court, involving a restraining order against the Commissioner relating to the securing and use by the Commissioner of the reports of bank examiners, with the understanding that this is not to include the use of the reports themselves.

"The Attorney General should advise the Secretary that it is improper, under the circumstances, to render a formal opinion upon the question presented by him since the action in connection with which the opinion is desired has already been taken, and further that action is now involved in a proceeding pending before the court. Under these circumstances, it has been the practice for many years for Attorneys General to decline to render formal opinions, since under such circumstances an opinion can serve no useful purpose."

HMJr:

Yes.

X:

That's the entire memorandum.

HMJr:

And who signed that?

X:

It hasn't been signed, but it was worked out in conference with Mr. Bell, the Assistant Solicitor.

HMJr:

I see. Well, I mean, do I understand that the Attorney General concurs?

X:

Yes, sir.

HMJr:

He does!

K: I showed it to him and he just made that comment. He said, "Yes, this is practically what I told the Secretary yesterday."

HMJr: I see.

K: Apparently it sounded all right to him.

HMJr: I take he's gone for the afternoon.

K: Apparently he has.

HMJr: I see. Well, thank you very much. Now, let me just ask Mr. Foley if there is anything else.

K: Yes, sir. (Pause)

HMJr: He says that's all.

K: All right, Mr. Secretary.

HMJr: I'm very much obliged.

K: You are very welcome.

HMJr: Thank you.

EG

GRAY

London

Dated January 21, 1939

Rec'd 9:20 a.m.

Secretary of State,
Washington.

82, January 21, noon.

FOR TREASURY

The entire daily press this morning is full of Schacht's dismissal, the news being taken universally as an unfavorable sign. Little effect on the foreign exchange market is evident this morning, however, unless the slight weakening of sterling in terms of dollar may be regarded as a sign of general nervousness. But though the rate has moved from 4.68 1/8 to 4.67 3/16 bid and the British fund offered dollars first at 68 7/8 and then at 7/16 there was little pressure and business has been unusually slack even for a Saturday.

The franc has moved from 177.18 to 177 bid, the bank of France having acquired a few pounds.

Gold

-2- 1982, January 21, noon, from London

Gold was fixed at 148 shillings $8\frac{1}{2}$ pence
quoted as giving $1\frac{1}{2}$ pence premium at 4.67 $13/16$.
Of the 144 bars sold 39 were married and 70 were
supplied by the British fund.

JOHNSON

CSB



DEPARTMENT OF STATE
WASHINGTON

January 21, 1939.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 47 of January 20 from the American Embassy, Berlin.

H.F.

REB

GRAY

Berlin

Dated January 20, 1939

Rec'd 1:30 p. m.

Secretary of State,
Washington.

47, January. 20, 5 p. m.

Embassy's 45, December 20, 1 p. m.

The evening papers published without comment a letter from Hitler to Funk charging the latter with the following three main tasks in his newly acquired double role of Minister of Economics and Reichsbank President.

One. The maintenance of the "absolute stability of wages and prices, also the value of the mark".

Two. "Opening up the capital market to a larger extent and making it available to private money requirements".

Three. "Bringing to a conclusion compatible with national socialist principles the reorganization of the Reichsbank which had at one time been removed from the unrestricted sovereignty of the Reich through the Dawes Plan as a German bank of issue unconditionally subject to the sovereignty of the state as initiated by the law of February 10, 1937."

A

2-#47, From Berlin, Jan.20, 5p.m.

A letter from Hitler to Schacht is also published in which Hitler offers his personal thanks and those of Germany for Schacht's past labors and expresses his pleasure that in his continuing capacity as a Reich Minister Schacht can now be entrusted with the solution of new problems.

Inform Treasury.

GILBERT

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: January 21, 1939, 10 p.m.

NO.: 59

No. 4 FOR TREASURY FROM HEATH.

In his conversation with Rublee today Goering let it be clearly understood that Schacht's dismissal had nothing to do with his discussions with the Evian Committee over Jewish emigration. He said that Hitler had given Schacht certain directions which Schacht thought he could not perform and accordingly relieved him of his position as president of the Reichsbank.

The foregoing is presumably authentic information, and lends credence to current rumors that the German Government is determined to create credit through the Central Bank and order some economies in order to meet its budgetary requirements and the needs for increased industrial investment, instead of politically undesirable action such as increased taxes or forced savings.

Some time ago, it is recalled, I was told by Schacht that he was one central banker who could not countenance inflation of the currency; his reputation had been made through ending an inflation, and if asked to pursue an inflationary policy, he would have to resign.

GILBERT.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 21, 1939.

CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.L. W. Knoke

Mr. Cariguel called at 10:40 to find out how things were in this market. I quoted him francs at 2.84 1/4 to 2.84 3/8, entirely nominal, and sterling at 4.87 1/4 to 4.87 3/8, the latter a little firmer due to renewed Japanese buying.

I asked Cariguel whether he had any news from Berlin. He said nothing except that he understood that Schacht had told Hitler that the country couldn't possibly afford to finance further naval armament on top of armament on land. If Germany wanted to do both something was bound to happen. Cariguel continued that the Paris market had taken things rather on the light shoulder and seemed convinced that Schacht's dismissal was an indication of great weakness in Germany. London, on the other hand, seemed to be badly disturbed, primarily, he thought, because they were worried over the fact that they still had £40,000,000 coming to them under the Stillhaltung.

LWK:KW