DIARY

Book 166

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Regraded Unclassified
February 25, 1939.
10:27 a.m.

Mr: Hello.
Operator: Mr. Sproul.
Mr: Hello.
S: Go ahead.
Mr: Hello.
Allen: Mr. Sproul.
Mr: Hello, Mr. Secretary.
Mr: How are you?
S: Fine, how are you?
Mr: I was -- I'm fine. Got any ideas on financing?
S: Well, I'm just getting them together. The first idea is that again they have possibility of doing practically what you want to do.
Mr: That's that.
S: Well, I mean that the market will -- is in such shape that you can do -- practically write your own ticket as to amount and -- within limits, of course, as to time, when the coupon is a little more definitely fixed.
Mr: Yeah.
S: I think you could do either just the refunding or refunding plus cash, whichever you want to do.
Mr: Uh-huh.
S: I think you could -- ah -- there's a market for long bonds, and a very good market, of course, still for short stuff.
Mr: Well, you'll have some ideas Monday?
S: I certainly will.
Mr: All right. Supposing you call me Monday?
S: I'll do that.
Mr: All right.
S: And I understand I'm going to see you Wednesday.

MWr: That's right.

S: Yeah. Well, I'll call you Monday then.

MWr: Yes, because Monday I want to make up my mind whether I want any cash or not.

S: Yeah.

MWr: See?

S: Well, I'll -- I'll call you Monday morning.

MWr: Thank you.

S: All right.

MWr: Good bye.
February 25, 1938, 11:00 a.m.

Mr: Hello.
Operator: Go ahead.
Senator: Hello.
Mr: Hello, Senator?
F: Yes. Good morning, Mr. Secretary. How are you, sir?
Mr: Well, I could use a little Florida sunshine.
F: Well, I wish I could bring some up for you. Our weather is doing better this morning.
Mr: Yeah.
F: Mr. Secretary, I didn't think it would ever be necessary to trouble you with this detail, but it looks like it is --
Mr: Uh-huh.
F: Senator Andrews and I a good little bit ago recommended to Mr. Helvering a new Commissioner -- Collector of Internal Revenue for Florida. We want to make a change in the incumbent, and Senator Andrews, a few days ago, told the new man that we want to recommend over to see Mr. Helvering for a personal conference and we -- we tried to ask him if there was anybody around Washington to whom the man should be presented while he was here. Of course, we anticipated the making of the regular investigation, and he didn't give us any information; in fact, didn't carry on much conversation about it, taking the position all the time that it had to come first from the White House. Well, we took it up with McIntyre, oh, some little bit ago, and then later on we took it up with Jimmie Reed over there. Jimmie -- he got sick then and Jimmie called Mac and Mac said, well, he -- he hadn't gotten to mention it to the President before he left, but that we had made the recommendation to him. Then Jimmie Reed got in touch with Mr. Helvering and Helvering said no, he wasn't going to cause any investigation to be made -- that it had to come through you. Well, now, Senator Andrews' and my position is that we -- we are trying to get some progress made on it and we want to request you, since we both concur in the recommendation of this Mr. John Fats at Leesburg, Florida, if you won't be kind enough to -- to finally set the wheels of investigation under way.
MR: Well now, Senator, this is a long story. I mean, I know part of it, see?
P: Uh-huh.
MR: And I want to be helpful, and if -- I just don't know how to handle the thing --
P: I -- I didn't hear, Mr. Secretary.
MR: I just don't know how to handle this because what we usually do is, the request usually comes either from the chairman of the National Democratic Committee or from the White House, see?
P: Uh-huh.
MR: I, personally, never make any recommendations, if you know what I mean.
P: Uh-huh.
MR: I mean, I have no candidates for any of these positions.
P: Uh-huh.
MR: So would it be embarrassing if we wait another week until the President comes back?
P: Well, the only thing is, Mr. Secretary, there seems to be somewhere a very determined opposition to this matter. I -- I don't -- which is probably indicated in the attitude of the collector, that's practically told me, to go to hell about it. At least
MR: Oh --
P: And I -- it's -- I didn't realize that -- I mean, why there was any story to it.
MR: Helvering said that?
P: No, I say the collector -- not -- not Helvering, but the man employed.
MR: Oh, oh.
P: And so he -- I know that he's done everything in the world he could to keep himself from being displaced.
Well, I've had no communication from him or with him.

F: Oh, I see. Well, now of course I don't want to embarrass you. The only thing that I was trying to get done is -- the investigation takes some time and I wanted to get the file, at least, available here so that when the President came back he'd at least have before him the record of the investigation of the new man that both of the Senators proposed, and then of course it would be his decision as to whether he would make it or not, but if he's not --

F: I have no objection to getting the fellow's file together. That's easy enough.

F: Well, that's all I want you to do. I merely -- I have the investigation made of the new man.

F: Well, get bless you, that's easy enough.

F: Oh, that's all I'm saying.

F: If there's no commitment beyond that --

F: Oh, of course. Oh, I'm sorry I didn't make that plain. And I've been trying to get done is just to get the information of the new man so that the President will have before him the file -- to show that man if a new man this is that we're recommending.

F: That's the new man's case?

F: The man is named John F-A-V-1.

F: F-A-?

F: F-A.

F: F-A. It almost sounds like a -- one of the agencies.

F: Yes, it does.


F: Leesburg --

F: That's right, he's vice president of the First National Bank of Leesburg, Florida.
Mr.:
And this is for which position?

P:
For the Collector of Internal Revenue.

Mr.:
Collector. Well, I certainly get his record together.

P:
Well, that's all I meant, Mr. Secretary. I just want when the President -- I just want to save the time of not waiting until the President comes back to -- to get the investigation made.

Mr.:
Fine.

P:
And then when he comes back, why Senator Andrews and I will present the matter directly to him.

Mr.:
Thank you, Senator.

P:
Well, I thank you very much. I'm sorry I had to trouble you with it, but I just wanted to get that file prepared so when the President gets back, why we can take it up.

Mr.:
That's all right.

P:
All right. Well, thank you very much, Mr. Secretary.

Mr.:
Thank you.

P:
Goodbye.
February 25, 1939

To: The Secretary
From: Miss Lonigan

The total number of WPA workers on February 18, 1939 is 3,010,008.

The increase during the week from February 11 to February 18 was 46,082 workers.
WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Weekly

United States

<table>
<thead>
<tr>
<th>Week ending</th>
<th>Number of Workers (In thousands)</th>
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</thead>
<tbody>
<tr>
<td>May 7</td>
<td>2,607</td>
</tr>
<tr>
<td>May 14</td>
<td>2,626</td>
</tr>
<tr>
<td>May 21</td>
<td>2,650</td>
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<tr>
<td>May 28</td>
<td>2,678</td>
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<tr>
<td>June 4</td>
<td>2,693</td>
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<tr>
<td>June 11</td>
<td>2,712</td>
</tr>
<tr>
<td>June 18</td>
<td>2,736</td>
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<tr>
<td>June 25</td>
<td>2,767</td>
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<tr>
<td>July 2</td>
<td>2,807</td>
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<tr>
<td>July 9</td>
<td>2,853</td>
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<td>July 16</td>
<td>2,899</td>
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<tr>
<td>July 23</td>
<td>2,938</td>
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<td>July 30</td>
<td>2,967</td>
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<td>August 6</td>
<td>2,993</td>
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<td>August 13</td>
<td>3,017</td>
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<td>August 20</td>
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<td>August 27</td>
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<td>September 3</td>
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<td>September 17</td>
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<td>October 15</td>
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<td>October 22</td>
<td>3,201</td>
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<td>October 29</td>
<td>3,245</td>
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<td>November 5</td>
<td>3,263</td>
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<td>November 12</td>
<td>3,258</td>
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<td>November 19</td>
<td>3,244</td>
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<td>November 26</td>
<td>3,216</td>
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<td>December 3</td>
<td>3,185</td>
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<td>December 10</td>
<td>3,139</td>
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<td>December 17</td>
<td>3,083</td>
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<td>December 24</td>
<td>3,021</td>
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<td>December 31</td>
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<td>1939</td>
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<tr>
<td>January 7</td>
<td>2,967</td>
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<td>January 14</td>
<td>2,927</td>
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<td>2,898</td>
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<td>January 28</td>
<td>2,883</td>
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<td>February 4</td>
<td>2,966</td>
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<tr>
<td>February 11</td>
<td>2,964</td>
</tr>
<tr>
<td>February 18</td>
<td>3,010 a/</td>
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</table>

Source: Works Progress Administration

a/ Confidential
<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>January</td>
<td>2,926</td>
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<tr>
<td></td>
<td>February</td>
<td>3,036</td>
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<td>March</td>
<td>2,672</td>
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<td></td>
<td>April</td>
<td>2,570</td>
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<td></td>
<td>May</td>
<td>2,340</td>
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<td></td>
<td>June</td>
<td>2,256</td>
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<td></td>
<td>July</td>
<td>2,249</td>
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<td></td>
<td>August</td>
<td>2,377</td>
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<td></td>
<td>September</td>
<td>2,462</td>
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<td></td>
<td>October</td>
<td>2,581</td>
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<td></td>
<td>November</td>
<td>2,483</td>
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<td></td>
<td>December</td>
<td>2,192</td>
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<td>1937</td>
<td>January</td>
<td>2,138</td>
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<tr>
<td></td>
<td>February</td>
<td>2,116</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>2,115</td>
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<td></td>
<td>April</td>
<td>2,070</td>
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<td></td>
<td>May</td>
<td>1,999</td>
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<td></td>
<td>June</td>
<td>1,921</td>
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<td></td>
<td>July</td>
<td>1,569</td>
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<td></td>
<td>August</td>
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<td>September</td>
<td>1,451</td>
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<td>1,476</td>
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<td>November</td>
<td>1,520</td>
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<td></td>
<td>December</td>
<td>1,629</td>
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<tr>
<td>1938</td>
<td>January</td>
<td>1,901</td>
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<tr>
<td></td>
<td>February</td>
<td>2,075</td>
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<td></td>
<td>March</td>
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<td>May</td>
<td>2,678</td>
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<td>June</td>
<td>2,757</td>
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<td></td>
<td>July</td>
<td>2,967</td>
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<td></td>
<td>August</td>
<td>3,067</td>
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<td></td>
<td>September</td>
<td>3,120</td>
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<tr>
<td></td>
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<td>3,245</td>
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<td></td>
<td>November</td>
<td>3,216</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>2,986</td>
</tr>
<tr>
<td>1939</td>
<td>January</td>
<td>2,883 (^a)</td>
</tr>
</tbody>
</table>

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.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO: Secy. Morgenthau
FROM: W. H. Hadley

March Financing

I. Offering New Issues.

In line with your suggestions this morning, I am submitting the following bonds for consideration:

<table>
<thead>
<tr>
<th>Terms</th>
<th>Years</th>
<th>Yield</th>
<th>Estimated Premium</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2% of 1949</td>
<td>10 yrs.</td>
<td>1.90</td>
<td>1.88</td>
<td>29/32 1 pt. 3/32</td>
</tr>
<tr>
<td>3-1/2% of 1954-57</td>
<td>15-18 yrs.</td>
<td>2.39</td>
<td>2.41</td>
<td>1 pt. 12/32 1 pt. 4/32</td>
</tr>
<tr>
<td>3-5/8% of 1959-64</td>
<td>20-25 yrs.</td>
<td>2.53</td>
<td>2.55</td>
<td>1 pt. 16/32 1 pt. 6/32</td>
</tr>
<tr>
<td>3-3/4% of 1964-69</td>
<td>25-30 yrs.</td>
<td>2.55</td>
<td>2.57</td>
<td>3 pts. 22/32 3 pts. 10/32</td>
</tr>
<tr>
<td>of 1969-74</td>
<td>30-35 yrs.</td>
<td>2.57</td>
<td>2.60</td>
<td>3 pts. 24/32 3 pts. 11/32</td>
</tr>
</tbody>
</table>

A 2% 10-year bond and a 3-1/2% 15-18 year bond appear to fit in well with maturities now outstanding. On the other hand, a 3-3/4% issue, no matter what maturity, is entirely too rich unless priced at about 102. For a longer bond, a 3-5/8% coupon of either 20-25 year term or 25-30 year term, appears satisfactory and should go well.
II. Reoffering Outstanding Issues at a Price:

Rather than offer new issues, it is my opinion, which is confirmed by sentiment in New York, that certain outstanding issues could be successfully reopened at a price if the financing is limited to refunding and no new cash is sought.

The latest note issue, that maturing in December, 1943, could be successfully reoffered. Also the longest bond issue, the 2-3/4s of 1969-65, is in considerable demand and is experiencing a condition of scarcity in the market. A more healthy trading situation in this issue would result from a reoffering. If an intermediate issue is also to be considered, although this does not at the moment appear necessary, the 2-1/2s of 1950-52, first offered last September, could be reoffered.

<table>
<thead>
<tr>
<th>Issue to be Reoffered</th>
<th>Present Outstanding (Millions)</th>
<th>Present Market Price</th>
<th>Suggested Reoffering Price</th>
<th>Possible Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Note</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-1/8s of 12/15/43</td>
<td>368</td>
<td>101.8</td>
<td>100</td>
<td>1 pt.*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Treasury Bonds</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2-1/2s of 1950-52</td>
<td>666</td>
<td>103.7</td>
<td>102.</td>
<td>1 pt. 7/32</td>
</tr>
<tr>
<td>2-3/4s of 1960-65</td>
<td>591</td>
<td>103.15</td>
<td>102-1/4</td>
<td>1 pt. 8/32</td>
</tr>
</tbody>
</table>

*Premium reflects loss of 8/32 interest in giving up 2-1/8% "rights".

The maturing note is the 2-1/8s of 6/15/39, and is maturing to the amount of $1,294,000,000. The present premium above a no yield basis on these "rights" is 1 point 11/32.
The offering of outstanding issues at a premium should not prove at all detrimental to the financing program. The use of this method in the recent RFC financing set a successful precedent for such an operation. In corporate financing, pricing of issues is the general rule, and this should be easily applicable to Treasury offerings. Furthermore, the reoffering of outstanding issues at a price considerably below the market price of those issues should prove very attractive to banks and others who are continuously buying these issues when available at the higher market prices.

If such a program is looked on with favor, preliminary announcements would be helpful in assuring smooth readjustments in the market.
Secretary of State,
Washington.

270, February 25, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The Ambassador had the representatives of the American banks operating in London to dinner at the Embassy last night. The main contrast between last night's discussion and that reported in No. 265, February 24, 1 p.m. arose out of the fact that the American bankers, although keenly aware of the dominance of the international political factor, are nevertheless giving consideration to the problems which would arise "should peace break out". While there were no concrete practical suggestions as to how peaceful change and improvement could be brought about in the immediate future, the majority of the bankers present seem to hold the view that a more equitable distribution of the world's resources has to be faced by the rich democratic countries, and in this connection the Van Zealand report was referred to. Those who have done considerable business in Germany, urged
February 25, 2 p.m. from London

urged strongly the view that the Germans could be dealt
with if ideological considerations were not emphasized
and Ingrams of the Chemical maintained that war was not
unlikely and that the alternative was chaos and
Bolshevism in Germany if she were economically and
financially isolated. In his judgment, Ingrams states
that Brinkmann's retirement was really caused by a
nervous breakdown; he was lunching with him at the
Reichsbank when he collapsed.

One specific matter of interest arose respecting
the notice which has been received by the banks in the
German standstill regarding three (nine) bills which
are current acceptance credits on actual movement of
goods. Especially since the absorption of Austria by
Germany there has been talk in British banking circles
of a readjustment of the standstill on a national instead
of an international basis and several of the American
bankers present were apprehensive lest this step respect-
ing three (nine) bills was a prelude to such an adjust-
ment which they regard as harmful to the American stand-
still creditors.

Regraded Unclassified
-3- #270, February 25, 2 p.m. from London

Two. The foreign exchange market was again active today with the pound continuing strong. The British fund obtained a fair quantity of dollars at 469 1/8 later one quarter. Gold was fixed at 148 s 2-1/2 d. The 205 bars sold had to be prorated. 106 were married and the British fund gave a few.

KENNEDY
I saw only Leslie Biddle. The Senators were on the floor, except Pat Harrison, who was on the way from his office. Biddle was to have lunch with Berkley and Harrison and agreed to call me up and report, also to deliver the copies to Wagner and Halsey, who is out of town.

Chic saw Speaker Barkhead and Doughton's secretary, Doughton is in the hospital. Barkhead said he liked the statement very much, that he thought it was very timely and well stated. Bayburn was on the floor and couldn't be called out, but will phone you any comment he has.
Statement by the Honorable Robert L. Doughton, Chairman of the Ways and Means Committee, of the House of Representatives.

I am very much pleased by what Secretary Morgenthau said yesterday about his ideas for a tax program. It states my own position exactly.

What we need and what we all want is business recovery and a much greater national income. That is the only road to increased revenues which will halt the increase in the public debt. That is the President's position and I am heartily in accord with it.

We shall, of course, have to renew the present excise taxes which expire in mid-year, but I am not in favor of seeking additional revenue by increased taxes at this time.

I welcome Secretary Morgenthau's suggestion that we re-examine the whole tax structure with the desirable objective of removing such deterrents to business enterprise and economic recovery as may be found to exist.

Personally I shall strongly favor inviting the Treasury Department to cooperate with us immediately in such a study.
The regular WJAL news broadcast at 6:15 o'clock last evening gave considerable attention to the various tax statements, referring to the comment by Senator Barkley and Representative Doughton in the wake of the statement of the Secretary. It was a straightaway story, based on the UP dispatches and winding up with the lopsided comment from opposition Congressmen on the Hill.

At 6:45 o'clock Lowell Thomas pointed up the story by saying that "Yesterday Secretary Morgenthau said that businessmen should drop their 'what's-the-use' attitude and that the Congress should study the tax structure in a search for possible deterrents to business. Today Chairman Doughton of the House Ways and Means Committee followed up by urging that the study be begun immediately."

Fulton Lewis, who had agreed to consider the subject of taxes, was on the Mutual Network at his regular 7 o'clock period, but devoted most of his time to the new Supreme Court vacancy and made no mention of taxes.
I sincerely hope that Congress will take a careful look at the tax law and see whether there are any deterrents that are holding back business and holding back businessmen from making future commitments. Businessmen ought to feel that the administration wants them to go ahead and take risks and that the administration wants them to make money. Tax legislation should be of a nature that is not a deterrent to businessmen. Of course we need more revenue, but in my opinion the way to make it is through business recovery, not through higher tax rates.
February 25, 1939

I saw David Lawrence today and he said that my having made the statement to the press on taxes may have caused a turning point in the whole business situation. He called this a "Revisionist Period;" that the Administration was checking up on itself. He is going to take what I said seriously and is going to take it for granted that we are sincere.
Tax Bill for 1939 -- February 25, 1939 to June 22, 1939

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February 26, 1939
9 a.m.

The President

I would like to congratulate you on the two letters to Green and Lewis. This move on your part is most timely and highly constructive.

Best Regards

Henry M. zigzag

Regraded Unclassified
ANNOUNCER: Kaltenborn. Comments! Each week at this same time the significant news of the world will be brought to you by H.V. Kaltenborn, outstanding news analyst. He will give you his own digest of world events and how they may affect all of us. During these broadcasts you will also hear brief explanations of how General Mills operates, and how this company seeks to fulfill its obligation to the American public. General Mills presents H.V. Kaltenborn.

KALTENBORN: Good evening, everybody.

During the past week I have spent several days in Washington. I talked to many pro-New Dealers and to a good many anti-New Dealers. I talked to five members of the Cabinet and half a dozen leading Senators. There is a new note in Washington, and that is the note of frankness with which the President of the United States is being criticized even by those who are closest to him. Like most of us, he seems to hate to listen to advice which he doesn't want to take, but the important thing is that he has begun to take it, and unless there is another change cooperation with business will be the rule for the balance of the Roosevelt administration. Members of the Cabinet and leading Democratic Senators tell me that they have been urging the President to announce that there will be no more new reforms and that from now on he will cooperate with business to promote recovery. Now the President hasn't announced that, but somebody else has. For example, we've had a pro-business statement on taxes from Secretary of the Treasury Morgenthau, and we've had a highly important speech by Harry Hopkins, Secretary of Commerce, at Des Moines, Iowa on Friday. Now that speech is the direct result of the pressure to which the President has been
subjected by some of his best friends, some of his closest advisers. That speech by Harry Hopkins launched a new program to promote business confidence, and here are one or two points in that program. (1) Cooperation with private utility systems. The government is not going to compete with them, but will either buy them out at a fair price as it has already done in one important case or else give them a chance to make a fair profit. That word profit occurred several times in Harry Hopkins' address, and that's a new note for Harry Hopkins to strike. Then, secondly, there are to be no new federal taxes this year. At least, that's what the President has said.

One very highly important member of the United States Senate who ought to know wasn't so sure that we'd get through the session without another tax bill. But as he himself said, "We certainly don't want to impose them if we can possibly help it."

Then Mr. Hopkins referred to another important thing. He referred to the amendment of any federal taxes which freeze the flow of capital. That's an interesting point.

I was much struck also by a paragraph in an editorial in the March issue of Fortune. Here's what that magazine says editorially: "It might not be any more expensive for business to change its policy rather than to continue to pursue some of the public relations practices actually in use, and it might also prove to be enormously popular with the public. There was, to be sure, a certain amount of this kind of public relations done during the depression. The Pennsylvania Railroad electrified its lines and the Rockefellers built Rockefeller Center when the business outlook was darkest. The fact that these enterprises turned out to be profitable is beside the point. At the time they were undertaken they were spectacularly risky. One should pay homage also to the hundreds of smaller business men who tried to do the same thing in those bitter days, and if their efforts failed to prime the pump it was for a very simple reason. The timing was not right. At best
they were fighting a defensive action to keep business from getting worse. Today the situation is entirely different." Fortune herewith commits itself to the prediction that if in pursuit of sound public relations a number of big industrialists will undertake a number of big new investments and at one and the same time they will cause industry as a whole to break through the vicious circle of stagnation. So at the same time that we get the voices from the side of government favoring business, friendly to business, suggesting cooperation with business, we get a voice from the side of business suggesting that this is the time to go ahead. So watch the business thermometer next week. What it does will be an indication, and an important indication, as to what it's going to do for the balance of this year.

In the current issue of the General Mills Company publication, I saw for the first time a complete listing of all their radio programs of which this is one. I was surprised to find that they sponsor a dozen different programs running at all hours of the day on stations all over the United States. This means that a single flour milling company is responsible for providing millions of listeners with several hours of information and entertainment each week. Yet what flour miller of a generation ago could have imagined himself going into the entertainment business to sell his products. It is all part of what we call modern merchandising. You may make the best mousetrap in the world, but unless you advertise it you will probably be dead long before people find out about it and beat that proverbial path to your door to get it. The best radio advertising does more than just tell the story of a desirable product; it tells it in such a way that people will enjoy hearing it. Those who listen to a successful sponsored program get a sense of pleasure and satisfaction which is associated with the advertising message itself. General Mills sponsors a wide variety of radio programs so that a large number of listeners will feel that they have received service and satisfaction.
Another interesting point of cooperation by government in the effort to stimulate business and peace is the government's insistence that labor as well as employers must be fair and tolerant in making agreements. At least that's a point that Harry Hopkins made in his address, and as a first step to this end the President has now made a personal appeal to John Lewis and William Green to reunite the American Federation of Labor and the Committee on Industrial Organization. William Green has already appointed his committee on conciliation, and it is hard to see how John Lewis can turn down the President without seriously weakening his own position and that of his union. He has recently lost more members than he has gained. The indications that I got here in Washington are that CIO has lost quite a little in its bargaining position in recent weeks and months, and there are serious splits among the followers of John Lewis. Miss Perkins, the Secretary of Labor, told me—and this was before the President's appeal was published—that she was very optimistic about a reunion of the two labor factions. When I asked her on what she based that optimism she said, "On the fact that it seems to me that the reunion is beginning at the bottom," and she cited evidence that has come to her of practical cooperation between American Federation of Labor unions and CIO unions in various communities. In other words, it indicates that the rank and file of union membership is tired of fighting. In a good many fields these rival unions, so-called, have worked out between themselves informal agreements on dividing the field so as to avoid conflicts. What does that mean? Well, it simply means that if the two men at the top can forget their personal quarrel peace can be reestablished, and with the President of the United States definitely injecting himself into the picture it's hard to see how a personal quarrel is going to be permitted to prevent a peace that would be a great boon not only to industry but to labor itself. Of course this labor peace will help business as well as it will help labor.
After all, collective bargaining is now established by law, so that the position of the labor unions is tremendously important and it should not be difficult to work out cooperation between worker and employer. Several competent authorities in Washington have told me that the way the Wagner Act is administered is far more important than the way in which it may be amended. In many fields administration is more important than legislation. Most authorities are now agreed that the Neutrality Act, for example, hasn't worked. It has not diminished the danger of war, and there is a growing conviction that you hear expressed frequently here in Washington that you can't legislate against war. I talked to some senators who seemed to think it best, instead of trying to amend the Neutrality Act which of course would cause a terrific fight, to just let it die and see if we can't also prevent war from coming nearer by administrative action, and at any time that Congress wants to intervene, of course it can, and then it can intervene in the specific way which a specific situation calls for. Instead of trying to do the impossible thing of preventing a certain way, the nature of which we don't know, the circumstances surrounding which we don't know, and where any attempt at legislation has got to be so far off and so indifferent to the exact circumstances that surround any particular situation as to probably make it ineffective when the actual time comes.

I asked several Democratic senators whether the breach in the Democratic party could be healed before 1940, and I got two answers. Every anti-New Deal Democrat said, "No." Every pro-New Deal Democrat said, "Yes." My own guess is that if the President persists in his new conciliation policy his personal power of persuasion is such that he can go a long way towards healing the breach. The difficulty, of course, will be to find a Democratic candi...
Democratic candidate who is beyond or who is close to the biblical age of threescore years and ten. Secretary of Agriculture Wallace might prove a strong candidate, provided farm prices show a substantial recovery before election. The President might be happy to see Attorney General Murphy, or more probably, Secretary of Commerce Hopkins nominated, but it is doubtful whether either one would appeal to the Conservatives. Of course, Mr. Hopkins has just made a good bid, but whether that's enough to offset none of the things that the Conservatives have against him remains to be seen.

The Republicans will have a much easier time picking their candidate. So far the new Republican Senators elected last fall seem to have shone a little less brightly in Washington than at home. Senator Vandenberg still seems to be regarded as the outstanding senatorial candidate. His personality is more vigorous and colorful than that of any of the new men. He also seems to be absolutely sure that he doesn't want to be the man called to pull the country out of debts and deficits in 1940, and that ought to help him rather than hurt him. But all over the country during the last few months I have constantly been asked about District Attorney Dewey of New York. His brilliant victory in securing the conviction of Tammany district leader James J. Hines makes him more than ever a national figure. He has dealt the Democratic leadership of New York City a body blow. Every American, regardless of party, must rejoice that the skill and determination of a Republican District Attorney, first appointed as racket prosecutor by an able Democratic governor, has convicted a powerful political grafter of the old school. It is one of the Hines type who make crime safe for gangsters. The sooner we send them to jail, the better for the cause of good government. It is the spoliation system of the corrupt political machines in our big cities that justifies those foreign observers who tell us that municipal government is America's greatest failure.

Goodnight.
ANNOUNCER: Next Sunday at this same time H.V. Kaltenborn, distinguished
news analyst, will again survey the news of the week. Kaltenborn's Comments
are brought to you in behalf of the bakers and grocers of America by General
Mills, makers of Gold Medal Kitchen-Tested flour; Wheaties, breakfast of
champions; Bisquick; Betty Crocker's Softasilk Cake Flour; and Kix, the new
corn breakfast food. Join us again next Sunday night at 10:30 EST when
Kaltenborn Comments. Tonight Mr. Kaltenborn spoke from the studios of WJSV,
Columbia's station for the nation's capital.

This is the Columbia Broadcasting System.

Ediphone trans./H.M.Sayer
RE STABILIZATION FUND

February 27, 1939.
10:30 a.m.

Present: Mr. Gaston
Mr. White
Mr. Lochhead
Mr. Duffield
Mr. Knoke
Mr. Hanes
Mr. Bell
Mr. Foley

H.M. Jr.: I'll wait until Bell comes down.

What I want to do is, I want to impress these people now the thing is audited independently, all the rest of that stuff, see?

Gaston: Why don't you just take the Chairman of the Audit Committee up there, show the audit to the members of the Committee?

H.M. Jr.: Show the audit?

Gaston: Show the audit.

H.M. Jr.: You mean the actual audit?

Gaston: The actual audit. Nothing in the law to forbid it.

(Bell comes in)

H.M. Jr.: Dan, we just wanted your advice a little bit. I go up on the Hill tomorrow at 10:30 to testify before the House on extension of the Stabilization Fund. One of the things I was thinking of doing - I think I'm right that the organization of the bookkeeping and the auditing - does that still come under you?

Bell: Yes, sir.

H.M. Jr.: The Stabilization Fund.

Bell: Yes, sir.

H.M. Jr.: What?

Bell: It still comes under my office.

H.M. Jr.: Supposing I'm Chairman of the Committee. "Mr. Bell,
will you tell me just how the bookkeeping and the
auditing of the Stabilization Fund is handled by
you? How do you set it up? Will you please explain
to the committee?

Sell: Do you mean the personnel or ....

E.M.Jr: I mean go back to the beginning. I mean how did you
go about setting up the books? How did you pick the
personnel?

Sell: well. I think I'd say that all of the personnel, at
least those in charge, are permanent personnel of
the Treasury Department. There are a few people in
there temporarily employed that are not Civil Service,
but it's handled by the office in the Treasury that
usually has control of the permanent accounting
structure. As to the audit, that's an outside - or
at least it's composed of officials outside of the
immediate office that handles the accounting. The
committee is composed of three officials who have
from twenty to thirty years' experience in the
government service. They audit the books annually
and submit a report for you to the President - prepare
a report for you to the President.

E.M.Jr: who's the bookkeeper?

Sell: O'Neil is the head accountant.

E.M.Jr: What else does he do?

Sell: He's the head accountant in my office in charge of
all the accounts such as the railroads, the Social
security, the unemployment trust, various investment
accounts of the Government.


Sell: Silver Purchase - yes, the purchases under the
Silver Act.

E.M.Jr: What would you think of taking him along up with us?

Sell: That's all right. I don't think he's experienced in
appearing before congressional Committees.
Lochhead: What about any of the Auditing Committee?
Bell: Loafman probably ....
Lochhead: Loafman be a good man?
Bell: He's Chairman of the Committee, might do a good job.
H.M.Jr: Gaston makes a suggestion we take the audit right up with us.
Bell: The audit report?
H.M.Jr: Uh-huh.
Bell: I was thinking yesterday on this that why wouldn't it be a good thing to get up a summary statement for the four years to June 30, 1938, give it to the Committee to insert in the record?
H.M.Jr: I phoned that to White yesterday.
White: That will be prepared.
H.M.Jr: I had a good idea; you also had it.
Bell: I don't think it does any harm - six months, seven months old.
H.M.Jr: what I suggested to White was two statements: one, a four-year summary of expenditures by classification, and two, the summary of the operations. Both the expenditures and the operations. Huh?
Bell: And that's being done?
White: That will be done.
H.M.Jr: Who did you speak to?
White: I spoke just a moment to Archie; but it will be done.
H.M.Jr: Who did you (Lochhead) speak to?
Lochhead: As soon as we find out just what you want, we'll get hold of O'Daniel and get - I think we ought to get O'Daniel right in on that.
Boston: Nobody spoke to me.

White: It was early.

S.I. Jr.: Harry to Archie, but Archie to whom? Harry just wanted to let me know (quickly) he hadn't forgotten. That was a little too fast.

White: I told Archie about it. I'm not sympathetic with the idea of bringing an auditor in if it's not customary, because it seems to presuppose a defensive position. Does it have that implication at all, at all?

Bell: It's not unusual to do that. I don't believe that would help much. I think the statement that you move it handled by people who do not easily handle the account is sufficient, and I think I'd make the statement that after the thing is all finished and there is no longer any need for absolute secrecy, then you wouldn't mind if the Comptroller General came in and looked at it.

S.I. Jr.: On well, that — me, I'm not going to six years from now find I owe the Government two million dollars. I mean, in other — my Treasury auditors are good enough for me.

Bell: I think it's a good idea.

Boston: I'd take the audit up there.

White: I think the whole thing is set up in a form that I don't think anybody can find fault with.

S.I. Jr.: You'd take the whole audit?

Boston: I'd take a copy of the audit report, give them the impression that you're giving them a lot of stuff, that you have nothing to conceal. I'd tell them pretty freely just how the transactions are handled.

S.I. Jr.: Would you leave a copy of it up there?

Boston: I don't believe it would do any harm.

Loomis: You've got four yearly reports, not just one, of course, you've got four audits, haven't you, Dan?
Bell: Yes.

Gaston: I'd take that statement. I think I wouldn't leave the audit report; let them see it. But I'd take that summary statement covering the four years, let them keep it.

E.A. Jr: Well, how would it be to take the audits up and say, "Now gentlemen, here's Mr. Bell and here's the chairman of the Audit Committee, Mr. That's-his-name, and here are the audits and here's the summary. Now, we'd be glad to answer any questions that you want. We are here prepared to answer any questions that you people want."

Bell: They might ask a question you couldn't answer right at that time, but you could answer it in ....

E.A. Jr: Now wait a minute. Just remember what Jesse Jones told me. I said, "Jesse, I want to congratulate you on how you handle this stuff."

He said, "I don't exactly deserve that. I've been doing this for seven years, and if I don't know a hundred percent more than any member of that Committee, I oughtn't to hold that job."

Now, when we go up there, go to the Senate, we might be prepared. What could they ask us that we couldn't answer? what could they ask?

Bell: I don't know.

E.A. Jr: Might say the way we do in other Committees, "Well, gentlemen, we haven't got it, but we'll furnish it."

Bell: Yes, you could do that. We could furnish any answer.

Gaston: I'd take Harry up, too, let them know everything they want to know about international exchange.

E.A. Jr: Oh, Harry's going. So is Archie. So is Knoke.

Writer: There are some questions we might ask you. I'll make a list of them. But they'll be questions of policy rather than questions of fact.
A.A.: Jr: "We'll handle that the way we handled the Silver Committee. I'll lean over and ask you.

White: They're liable to ask you questions that you'll want to be prepared on.

A.A.: Jr: (On phone) Tell Foley to come in, please.

But now, what's the propriety of doing this thing, taking this up, without asking the President? Don't I have to?

Bell: The law requires you to submit it to the President. There's no prohibition against its being made public.

Gaston: I don't think you need to ask the President. He's said that the Secretary of the Treasury will be available to answer their questions.

A.A.: Jr: When did he say that?

Gaston: In his letter to the Committee asking ....

White: You repeated that to them in the letter to Vandenberg and in the letter to Lodge — quoted from that. I don't know whether he said answer all the questions, or ....

A.A.: Jr: Well, we're here to argue. I'm just thinking. I think it would make very nice window dressing to take up these audits, the actual audits, and the Chairman of the Audit Committee. What?

Bell: (Nods yes)

E.M.: Jr: And Mr. Bell, and say, "Now gentlemen, it's all here and we're ready to answer any questions."

Bell: Is this an executive session or ....

E.M.: Jr: I tell you what it is. It's what I call the Pittman formula. It's a session with closed doors, the public out but the press in.

Suffield: During the whole of the hearing. There is no executive session, though.

(Foley comes in)
H.M. Jr: The public will not be allowed in, but the press will. That's my suggestion.

Gaston: I don't think that's so good for this thing. I think it ought to be handled strictly in executive session, the Committee be told everything, told the reason why certain things can be made public and other things not.

H.M. Jr: I'll explain to you why. They did it two years ago and they complained very bitterly that they kept faith, then we went over on the Senate side and they didn't; and a Congressman had to testify on what he read in the paper that a Senator said, and he said he'd never been - (words not understood) - his whole dignity on this thing.

After all, Herbert, I've been all through the Military Affairs Committee. They take pieces of my testimony - House Committee on Appropriations took pieces of my testimony and released it. I'll trust the press to get it direct from my lips, but I will not let them get it third-hand. If I want to say, "Gentlemen of the press, this is off the record," I'll just trust them more than I will trust the Congressmen. Now, stop and think about it.

Gaston: Well, I think it can be handled.

H.M. Jr: Well, when I want to say something, I'll simply say to the press, "Now, this is off the record."

White: I think it makes a favorable impression to handle it that way. And I really can't think of anything that you wouldn't - when you analyze the thing carefully, there's very little that you wouldn't be willing to tell the press.

Gaston: This audit is for when? The calendar year?

Bell: The fiscal year.

Gaston: It's all seven or eight months old.

Bell: (Nods yes)

Lochhead: It's a question whether you want to make the audit available to the reporters to pore through.
E.M.Jr: (On phone) Johnny, are you busy? - I'd like you very much to listen to this, and I want your advice. Will you come in?

Gaston: You could have it on the table and let the Committee look at it without making - just tell the newspapermen.

White: Don't you think the mere presence of the reporters gives the session the appearance of nothing the Secretary wants to hide?

Gaston: That's right. Oh yes.

E.M.Jr: Oh, I think, Herbert, the idea of having reporters there, then whatever I'm going to say - I'm sick and tired of having them take pieces of what I say - the Republicans - and give them out. And the Democrats.

Bell: Do you object to having the last audit report printed?

E.M.Jr: The last one?

Bell: The June 30 - having it printed.

E.M.Jr: You mean the summary?

Bell: No, the whole thing. I think you might say to them that you have no objection - it's an expensive operation - if they want to have it done. But here's a summary which answers all purposes. Might appeal to them.

E.M.Jr: I'd like to see that summary.

Bell: Well, we'll have to work that up.

E.M.Jr: You were going to bunch the summary, four years in one, weren't you?

Bell: We could accumulate it or make it each year, if we had time.

E.M.Jr: I'd do both.

(Hanes comes in)
Johnny, will you please sit down? Let me tell you what we're talking about: my testimony on the Hill tomorrow on the Stabilization Fund. Number one, we're going to follow what I call the Pittman plan, that they've agreed to have the public out but the press in. That's number one -- at my suggestion. The reason we want the public out is so I can make statements off the record, and I'll trust the press, you see. And they've agreed to that and that's number one, you see.

Number two, the boys are suggesting that -- at least Baston -- that we take the audit right up with us of the Stabilization Fund. Dan suggested a summary of the audits, plus the chairman of the Audit Committee, with the thought that "Now gentlemen, we can do one of the things." We can either leave the summary of the audit with them, which will go in the record, or we can leave the audit itself. We don't know, we're just talking about it, you see. I'd like you to listen. I think it's important.

Now, Baston thinks I don't have to consult the President, because in the letter the President said, "The Secretary of the Treasury will be ready to answer questions."

Baston: I think it's a little unwise to print the complete audit, because it will provide the basis for many years for people to go over each item, and a lot of writing and commentary and discussion.

Baston: I agree with you there. I think give them a summary audit and they'll have the complete audit for the committee to look at, check back on, look into it.

Baston: That's all right.

Baston: I don't think we want to have the complete four years' audit published. I don't see any real necessity for it.

Baston: Most important thing is to let the public know that the Secretary made a full disclosure of everything about the Stabilization Fund.

Basten: If what were printed -- the audit were printed, there would be any number of graduate students and others
who would immediately take it and try to get
theses out of it, and begin to examine each
operation and the total operations, and it
would boil and boil and simmer to no good
purpose, I think.

H. W. Jr: well, I think the Committee would kind of like it
if I said, "Now, gentlemen, of course I have complete
confidence in you. The audit is here, the Chairman
of the Audit Committee is here, Mr. Bell is here,
we're all here. We'll answer any questions. We'll
let you see it, we'll stay here just as long as you
want, as long as we can answer questions. But nobody
can see it but the members of this Committee." They'll
kind of like it.

Lochhead: That would be my feeling.

H. W. Jr: We're just talking about it. I don't know.

Lochhead: They're available - have the books there, let any
one of the Committee look at it, ask any questions
about it.

H. W. Jr: But I'm not going to let them hire Price, Waterhouse,
to come down here to go over the whole thing. But
any member of the Committee that wants to ask any
questions - we're there, we'll stay there just as
long as they want us to, to answer it; they can look
at the damn thing.

But I'm just thinking - I mean this is new to me,
Herbert thought of taking this stuff up there.

Sines: How much detail is there shown in the complete
audit? How much detail? Is it a big thing? Is it an enormous big thing?

Lochhead: Do you want me to bring in one of the copies?

H. W. Jr: I'm sorry, I haven't got it. Oh, it's enormous.

(Lochhead goes out)

Geston: March 6th is the day - rumored day of the crisis over
in Europe - various correspondents.
E.M.: Well, I told Bullitt nobody would know what he means - he said, "That black man to the south of us may start something."

J. H.: He's very obscure, isn't he?

J. H.: Nobody on the phone would know who he's talking to. Like "conran said, "Your opposite number across the Channel." Then Rass - "That red-headed man, assistant to the Minister of Finance."

(Locaneed brings in Stabilization Fund book)

Hill: Maybe we'd get the summary from the front of it there.

Hines: Give it all to them. That'll confuse them.

J. H.: I'll tell you why I wouldn't give it to them all. I don't want this thing peddled all over the world.

Hines: You'd give it all to the Committee to look it over, but not for them to take it away and make copies.

J. H.: I like Archie's suggestion that we give them a summary of it; give the press the summary and give the statement ... .

Hines: The thing I don't like about that is the fact that the thing is surrounded with a lot of mystery.

J. H.: Fifteen men on that Committee, twenty on the other one in the Senate.

Foley: Twenty on the Coinage, Weights and Measures.

E.M.: Twenty on which?

Foley: On the Coinage, Weights and Measures.

J. H.: Well, we're showing it to twenty people, and twenty in the Senate, and the press is going to be present.

Locaneed: Well, it wouldn't be your idea to let the press go over these. That's the point. Just let the Committee go over the books.
Foley: But the press would hear you say that the Committee could look at it.

H.W.Jr: "Gentlemen, I've got all the time you want to look at the thing. The experts are here to answer any questions you want. If you're not satisfied we'll come back tomorrow. We've got all the time that you gentleman want. But I think it's unwise to let the international speculator take a look at this thing, so from this thing he can get ammunition to ruin the credit of my United States."

Suffield: If they ask you questions on the basis of this condensed summary in front, will the answers be on or off the record?

H.W.Jr: Let's take a look. Give me a couple sample questions.

Suffield: Well, you see, the ....

Bell: I think there's a little danger in having the auditor answer questions. He might not know just where to draw the line between what is strictly confidential and what might be told.

Suffield: Says French francs, balance between June 30 - so much. "Does that mean you're in the business of supporting the French franc or the Mexican peso, which is ..." - that sort of thing. Now, would an answer to that be on or off the record?

Gaston: Shows the whole amounts of various ....

Lochhead: The mere figure itself will answer that question. Have I got two or three thousand dollars on that statement?

Suffield: Four hundred nineteen dollars.

Lochhead: There you are - four hundred nineteen dollars. And as far as the sterling goes, you'll find that it's on the minus side. We made money on the sterling. I mean there's the profit. There's the profit on sterling.

Suffield: "Does the minus mean you were short sterling on that day?"
Lochhead: The minus means we made a profit.
Suffield: This - I'm just asking questions.
E.J. Jr: I want that. I'm just thinking. I don't know whether, if we give them a summary, that isn't enough.
White: There is the possibility some of them may go over that, may say, "This is a very complicated matter. we can't ask intelligent questions on this without some study. Could you leave this with us for study?"
E.J. Jr: My answer is, "No, I can't leave that."
Lochhead: Remember, when you found that Rene Leon was advising that committee when you were down with Somers the first time? If they bring in that kind, Rene Leon and LeBlanc and that kind, we can't have that.
E.J. Jr: I wonder if a summary isn't enough.
Lochhead: Well, this would only be for the purpose of showing the Committee that you do have a very complete audit.
White: Couldn't you feel your way, say, "I have an audit; be glad to bring it up next time I come?"
E.J. Jr: No, the thing is decided now.
Lochhead: This will give them an idea of the audit, give them an idea of the extent to which the audit goes.
White: They're not going to be impressed with the fact that you've got a book of figures. They know that Minkeson & Dobbins also had a very complicated book.
Lochhead: But we've got good auditors.
White: It isn't the book, but the....
Lochhead: The other answer, of course, on a thing like that is to take out the summary and let them pore through the whole thing.
Hanes: Is there any information in there whose disclosure would be detrimental to the operation of the Stabilization Fund?
The principal thing is that these countries we do the operating with have again and again told us that they consider that their accounts and our operation for them - it's their business and it's highly confidential.

And to show you, for instance, how a central bank operates, just as a matter of routine, for instance - I mean I asked Archie to see the forms which Great Britain used in buying airplanes.


H.M. Jr: And they told Archie that they considered that that belonged to the Federal Reserve. And not how much money, but even as to the forms - they didn't think it was right. I mean that's the ethics of one fiscal agent of a government operating for another. Now, I didn't push it any further. I let the matter go. It wasn't important. But I mean I'm just using that, if you don't mind, as an example. And if we should, for instance, show that we had so much money earmarked that we operated day by day, I think the Bank of England and the Bank of France would just have kittens all over the lot.

Duffield: Would they object to this?

H.M. Jr: What's that?

Duffield: Showing of profits in the accounts of their currencies.

Lochhead: I think probably the only thing - I would say France might object if it were shown that we held such few francs. There's the angle. They did so little of them, all they got was a couple hundred dollars worth.

Gaston: We told them we don't keep them over-night.

H.M. Jr: There are days you can't always balance it out.

But the way I'm feeling now - I think if we give these people a four-year summary, one summary in toto ....
Bell: Not by years.

E.M. Jr: Not by years. Showing a four-years summary, total, on expenses and on commissions.

White: Commissions and interest.

E.M. Jr: Commissions. And then, after all, the public of the United States has got confidence in the Treasury; no one's questioning their confidence, and they've just got to take my word for it. If they don't want to take my word for it, all right, let them look.

(Mrs Klots brings in some letters to E.M. Jr)

E.M. Jr: Well, may I just - just a second. This may throw a little light. Here are letters from Lodge and Vandenberg that Mrs. Klots gave me. Let's see, they're both written at the same time.

"This will reply to your letter of February 23rd.

"I regret to say that it is decidedly inconclusive. I do not happen to be a member of..." - this is Vandenberg - "... of Senate Committee on Banking and Currency. Therefore, I shall not be permitted the privilege of joining in your examination when you appear as a witness. But you tell me that I must depend upon these hearings for all of my information. You are unquestionably entitled to take this position. I content myself, therefore, with one further inquiry for the time being.

"Under date of February 14th, I asked you four specific questions regarding the Stabilization Fund. Am I to understand from your letter of February 23rd that you will answer these questions if submitted to you when you appear before the Senate Banking and Currency Committee?"

Foley: "Yes." The answer is "Yes."

E.M. Jr: The answer is "Yes."

Then here comes one from Lodge.

"I have your letter of February 23 regarding my
question to you as to how the $12,000,000 profit in the stabilization fund was effected.

"I note that you do not answer this question in your letter on the ground that I am a member of the Senate Committee on Banking and Currency, and that therefore I should ask you those questions in committee.

"May I tell you that you are in error? I am not a member of the Banking and Currency Committee. I, therefore, once again request you to answer this simple question which is of interest, not only to me, but to the American people."

Foley: We didn't say he was a member of the Committee. Said you'd appear before the Committee and he could ask the questions at that time. He can ask leave of the chairman to appear.

Bell: I thought he was a member of the Committee.

H.R.Jr: I thought Lodge was a member.

Bell: He was two years ago.

H.R.Jr: Who's handling this?

Cuffield: I'll get a Congressional Directory. We can find out.

Lochhead: Where are the copies of the original letters? On, here they are.

Foley: "... that you are a member..." - that's right.

Lochhead: We did say he was a member. We didn't say it to Vandenberg.

Bell: He was there two years ago. At the time we appeared he was on the Committee. That was his first year in Congress.

H.R.Jr: Yes, he was on it; I remember.

Bell: Certainly was.

Lochhead: What letterhead does he use?

Bell: Vandenberg is using Finance. Lodge doesn't use any.
we'll just put this to one side for a minute. This is all right. This is all good, clean fun. I'm not going to worry about it. I mean I think the answer is very simple - that if they will address their letter to the Chairman of the Committee - something like that.

Foley: "Well, they could be present if they asked leave of the Chairman to be present, and ask questions. That's the procedure.

H.M. Jr: Yes, I think so.

Hanes: Archie's got a ....

Lochhead: The previous statement - the one we issue as a weekly statement - shows, for instance, how we make our profit.

Bell: He is a member, too.

H.M. Jr: Just a minute, gentlemen.

Bell: There's the January '39. There's his name.

H.M. Jr: Whose?

Bell: Henry Cabot Lodge.

H.M. Jr: Does he say he's not a member?

Foley: You said he said that.

H.M. Jr: "I am not a member of the Banking and Currency Committee."

Bell: I wonder if he hasn't confused it with Senate Finance.

Foley: There it is.

White: Thing had about nine initials.

Hanes: He's reported in the Record as being a member of that Committee.

White: Maybe he doesn't know he's on the Committee.
Bell: He was on it two years ago.

H.M.Jr: (To Kieley) Will you call up the secretary of the Senate Banking and Currency Committee - the secretary - and tell them we'd like to have a complete list of who is on it. Do you want to check it against that (Congressional Directory)? The purpose is, Senator Lodge says he's not a member, but in that he is.

Kieley: I've got a list.

H.M.Jr: Just check with the clerk of the Committee.

Now, what did you (Lochhead) say?

Lochhead: See, on the weekly statement ....

H.M.Jr: Who makes that out?

Lochhead: O'Daniel - ... he shows the source of the dealings, we have that. Now, I don't know if you want that.

Bell: Herbert Gaston says they're going to want to know that's in the fund now.

lite: Easy to tell them.

(There ensued a more or less private discussion between H.M.Jr, Hanes, Bell and Lochhead, the latter explaining many details of the weekly statement under review; it was impossible to record this discussion in completely intelligible form, and there follow only the suitable fragments salvaged therefrom)

Lochhead: I have nothing there as far as the exchange - not more than - I mean the small balance we have is what I call a working balance, as small as you can have a working balance. Always have to keep that for cable charges and such stuff.

H.M.Jr: I think this statement in here as of - we gave it the 12th - would you say of December 31? -

Bell: It's all right.
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H.J.Jr: - to use this statement as of December 31. Then it shows the investments....

Bell: How much?

H.J.Jr: Five million dollars. I'm going to learn something myself out of this; I've never seen this.

Lochhead: There is your weekly statement. Now, there is your one billion 300 million. Dan, I think you'd know this - Treasury of the United States checking account.

Then the Federal Reserve Bank of New York special account. That's what we call our working balance, kept with the Federal Reserve Bank of New York disbursing officers as an advance account - $10,000. That's what you use for paying your charges abroad.

Lochhead: Now, special accounts. We have gold, so many ounces, total 84 million. Silver - we have nothing. Francs - we have three thousand francs. Sterling - we have nine thousand pounds of sterling. Both of these we carry at less than nothing on our books. We made profits. So if these went down to nothing, we'd still have this amount of profit.

Bell: And those are just hangovers from....

Lochhead: Those are working balances which we never can clean out; must always have a working balance.

Bell: Never can clean out exactly.

danes: Gold, Central Bank of China, held in Federal Reserve Bank of New York. Right away the question will be asked, "Is that in China, is that our money sitting over in China, the Bank of China?"

Bell: That's a question they will ask.

Lochhead: That's just the nominal amount to keep there to insure there is something to pay expenses.

Then we have deferred charges, then commodity exchange transactions. Then some small commissions that are due from the nationalization of silver. Never been able to get it settled.
H.M.Jr: Well, I think I'd do it as of June 30. I'd have that much delay anyway. That's when our audit is. I wouldn't use December 31, I'd use June 30 - I mean the day of the audit. I mean this statement...

Lochhead: Other statements like it.

H.M.Jr: This particular statement - pick it up as of June 30.

Lochhead: That's right, we can have it June 30.

Bell: You don't want a detail of the earnings account, do you?

H.M.Jr: Wait a minute, just let's see this. ----

H.M.Jr: Of course, they'll ask for a breakdown on the general expenses, and we'll want to give them that.

Do you (Hanes) want to ask anything?

Hanes: Just going to ask about that item there/$837,000.

H.M.Jr: we'll give them a breakdown. Now profits.

Lochhead: See, you have profits on franc transactions; you must remember we did take positions in francs before the tripartite, and before we had the arrangements with other banks of securing gold we had to take chances on our exchange. We did make a profit, you remember, going into the market at that time. We made a profit of $335,000 on those transactions. That went back to the first year we had the account.

There's the profits on buying and selling gold bullion, profit on handling charges of gold. That's real handling charges, swapping gold in and out of the account. When we do it on a dollar basis, it's a quarter of one percent. The other one here - you can't figure it out whether it's a quarter or not when you do it on a sterling or franc basis.
H.M. Jr: Personally I think that this statement - I'd like to hear some discussion - I think a statement like that, as of June 30 - I'd give them that plus a breakdown. I'd like, for instance, Hanes to talk on this thing, plus the breakdown of what those eight hundred thousand dollars of expenses are, and give them this and make that public.

Hanes: I would.

Lochhead: It's fairly simple, doesn't show too many details.

Hanes: Now that I see this thing - that's a big detail of how you make a profit; that's what you're interested in. But not that thing (complete report), no. I'd take that along in case you had to have it. I guess it would be a good idea to show that you had a perfectly full and complete audit from which these figures here have been arrived at. But I think that's so clear, so well done, I don't see any reason for you to explain every item.

H.M. Jr: I think I'll take that along. But the other - they'll say, "What's that? Let's take a look at it."

I'll tell you the way I feel. You (Hanes) are my banker. You give me a statement and say, "Now, here's a statement of your account." You give me a statement once a year. And I say, "Well now, Mr. Hanes, I'm not satisfied, I want to see now you keep the books." And you say perfectly frankly, "Well, Mr. Morgenthau, either you're satisfied with the summary or you're not; but if you've got that much doubt and you don't take my word even though I'm your banker, you better take your account back." And if on the other hand you came back and brought a lot of stuff up, I'd think, "What's the matter with that fellow Hanes? Doesn't he think I trust him?"
I'm going to say, "Here, gentlemen, are the facts, and as Secretary of the Treasury I tell you these are all the facts, there isn't anything else to it. You've just got to take my word for it that those are the facts, there isn't anything else." I'll look them right in the eye.

Now, I'm not going to put it in their mouth, but - "If you don't trust me, all right, take the damn thing away. But I'm saying to you that here's the summary, this is an independent audit, and I'm giving you my word of honor that here's the whole story. And as Secretary of the Treasury - and I've taken my oath, and on my oath I tell you here's the whole story." I don't think anybody's going to distrust me.

Hanes: That statement has the guts of the whole thing.

H.I. Jr: Then I'd say the same thing. I'd say, "If you've got any doubts, you better take this fund away from me.

Gaston: of course, they wanted to pass a resolution calling for an audit by Price, Waterhouse & Company; they have power to do it - joint resolution.

H.I. Jr: Here's the thing - now, just give it to them, and I don't see anything in there to apologize for.

Hanes: I don't either. I think that's the answer.

H.I. Jr: That takes care of Lodge, takes care of everybody else.

Bell: That would answer Lodge and Vandenberg.

Lochhead: The one point I would say on this - we're showing a loan to China, and we're showing that we're requiring a hundred percent gold on it; that's not going to help China out very much.

Gaston: I don't see anything wrong with that, because the Stabilization Fund is not supposed to make loans.

Lochhead: well, of course, I would say we wouldn't use the word "loans." We were talking - we have purchases of yuan; we're protected on it.
The way to explain it - we not only had the gold, but we had a hundred percent of their currency in addition.

Lockhead: What's the first thing. We have the hundred percent of their currency. We have purchased $169,000,000 worth of yuan.

Sales: Why did you purchase them?

Lockhead: To supply China with dollar exchange. Had to do it in taking care of their - not so much their purchases there, we'll say, as the general conduct of their exchange. They have a managed currency system which was arrived at after consultation with us, and we give them certain facilities in order to handle demands on them for foreign exchange.

Sales: Do that with any country?

Lockhead: We'd be glad to discuss that with any country. We've done it with Mexico, have done it with Brazil, and any country that wants to sit down and talk to us, make arrangements mutually satisfactory, so we can feel it's perfectly safe, ...

Sales: If they can supply the currency and gold as collateral for ....

Lockhead: On a basis which would be safe.

H.H.Jr: There's two hundred percent collateral.

Lockhead: No, this is only a question of trying to make dealings in foreign exchange fairly easy and take out some of these troublesome ....

Sales: Would that yuan purchase show on the June 30 statement?

Lockhead: Yes.

Sales: By the same amount? It hasn't varied?

Lockhead: Only started dropping off that last week when they paid off 15 million of it. But they had substantially ....
And they pay us interest on the balance.

When you talk about your earnings at this period, there was $335,000 worth of interest earned - biggest earnings you've got outside of gold.

What did they pay us, three percent?

No, we get one and a half percent.

Knoke, what do you think? Should we just take up this summary as of June 30 and make that public?

Well, it's rather difficult for me to express an opinion. I would say it may lead to further complicated questions. I don't know just how - I think you want to make up your mind beforehand just where you cut short.

Well, what ....

It gives them a foot in the door, this thing. Now, mind you, personally I'm entirely in favor of that, but I think you want to realize the possible consequences.

Well, what else could they ask for?

Well, they may ask for the records of which this is the summary.

They're going to ask you for the countries the currency of which you supported. Then they're going to begin to ask you why you're not supporting the currency of Japan, the currency of Germany, the currency of Italy, some of these other powers. I mean those are the questions that they naturally would want to ask.

I think Mr. Knoke's right, I think it leads to further questions; but we've got a political problem here and we're trying to give our friends enough information so that they can answer intelligently the arguments that the opposition is going to bring forward. Now, the more candid we are up to a certain
point the easier it's going to be for them to handle the questions that are going to be thrown at them. I don't think that it will be good to go the whole way. I do think you ought to take up that summary. I don't see any harm in that at all. That doesn't reveal the breakdown of the transactions.

H.M.Jr: What this doesn't do - it does show the Chinese thing, which is too bad for the Chinese, but it can't be helped - but it doesn't do the thing which central banks and treasuries might object to, and that is our day-to-day operations for them and how much they are and so forth and so on. Isn't that right, Knoke?

Knoke: Yes.

H.M.Jr: Hun?

Knoke: I think it does, yes.

H.M.Jr: I mean it overcomes the objection which any central bank would have, doesn't it? I mean no central bank ....

Knoke: I'm just trying to review the thing. As far as the Chinese are concerned, I'm not particularly impressed with the point that they might resent having it shown to the world what little favorable transactions they really got from us. I mean they got mighty little, but I think the Chinese picture has now reached a point where it doesn't make a bit of difference.

Guston: They got as much as anybody, didn't they? All right. So they didn't get anything worse and nothing better than anybody else.

White: That's the greater danger of going into the detailed questions. To an acute observer it would indicate how little the Stabilization Fund has actually accomplished in that type of operation.

H.M.Jr: "Well ...."

White: But it can't be avoided.
Hanes: I think it's a mistake at this time, Mr. Secretary, to give the indication to anyone that we've got something that we want to hide, because of the fact that there is so much criticism about the secrecy of a public institution like the Treasury and like the foreign policy, all that sort of thing, that it gives the opposition a wonderful opportunity to jump on you. And Lodge and Vandenberg apparently made up their minds that they're going to jump on you at this time on this thing.

Paley: John, you're going to get it anyway. They'll jump on you if you don't tell them and if you tell them they're going to jump on you anyway. You can't avoid it; it's political. They're not trying to be friendly.

Hanes: I wonder if they drag it out of you if it isn't worse then if you swat them with it all at once. Just wondering about the psychological effect.

Paley: There is necessarily a line over which you ought not to go unless you want to put yourself in the position of getting hit with the other attack, and up to that line - wherever it is, I think you ought to try to approach it freely.

White: I'd, it so happens that any questions they might ask, if they wish to pursue this thing, need not be embarrassing. There are adequate answers to any question they might ask. They're searching for something they think is there. They could ask, "Why didn't you do it with other countries?" and they could ask - there's an adequate, appropriate, reasonable answer for each case.

Bell: I'd like to make this suggestion from Johnny's point that there has been a lot of criticism of this huge fund given to the Secretary - two billion dollars. I'd like for you to point out that the billion eight is in gold and shows on the daily statement every day to the public.

Paley: That is in there.

Bell: That's in the statement. The public will know the minute the billion eight is touched.
Foley: That's in there. I think he covers it very well.

Bell: Now, they're going to ask this question: what volume of business you've done under each one of those items. They might ask that.

H.W.Jr: Oh, look, this is the way I feel. Here's the June 30 statement. Now, when I give this out I would say this: "Now, I've given this thing very, very careful consideration, and in order to maintain a favorable opinion that the public has of the treasury, I think at this time it is wise to furnish you and the Congress with this information. Now, when I'm giving you this information I'm going just as far as I can without breaking the relationship of client and ...."

Foley: "... attorney."

H.W.Jr: What?

Foley: "Attorney and client."

H.W.Jr: "Well, "broker."

Lochhead: "treasury-to-treasury relationship."

H.W.Jr: Treasury-to-treasury relationship. "I can't go beyond this without disclosing the business of some other country."

Bell: would you want to say you couldn't go any further without asking them?

H.W.Jr: No, I can say definitely that they don't want it. Then I can say there's no fund that's ever given ...

White: I'm afraid of the reaction. I get a reaction to that that you're trying to avoid something. I don't like that approach.

Himes: I get an awful bad reaction to that; got a bad reaction here the first time we talked about the Stabilization Fund - I go back - how ignorant I was, and the questions in my mind at the time I came over here, when we had the first conference here,
when I made the statement that you would tell nothing or the truth, all of it.

H.M. Jr.: Well, this is the truth.

Hanes: I know, but I don't like the idea that "Now I can give you part of it, but there is something here I'm holding back from you." Right away that gives the opposition a chance at least to ask the questions, and I think you'd knock them over if you'd just make a complete statement - "Here's everything." I don't know, I'm inclined ....

White: Couldn't you say just that "Here's a summary and I'm ready to answer any question you put." Then if they ask a question ....

Hanes: If it comes down to a question about - "Well now, there's a delicate matter which I think we ought to have off the record, because that's a question of relationship between our Treasury and a foreign government, which I don't think you gentlemen want any more than I do to abuse. So I'm going to answer that question, but I'd like to answer it off the record, have it so understood."

H.M. Jr.: How would it be - if they ask the detail, then, say, we have this audit book here and Archie begins to leaf through it.

Hanes: I would certainly have that book with me; I swear I would.

Gaston: I agree I would have it up there.

H.M. Jr.: Well, the only one you have to have is the last one.

Gaston: The same date as your statement.

White: But that's a different story - if Archie has it as part of his equipment to answer questions, it's a very different thing than if you say, "Gentlemen, here is the book at your disposal."

Gaston: If somebody would say, "May I look at that?" I'd say, "Yes, go ahead, look at it." Before your hearing starts, you want to have it clear to the
newspapermen - I think it will rather impress them and be a good point - "There may be questions asked and answers given which we will ask you to consider off the record."

H.M.Jr: Let the Chairman make that statement.

Gaston: The Chairman should make that statement.

H.M.Jr: The Chairman should make that statement.

Gaston: One thing about giving them the June 30. You announced a profit of $12,000,000, and of course the June 30 statement doesn't show a profit of $12,000,000.

Hanes: Shows about $11,000,000, doesn't it?

Locnhead: Shows $9,676,000. The figure of $12,000,000 was gathered from the February 13, 1939, statement, which I'm not putting in the record because it's not an audited statement. We know it's correct, but it isn't an audited statement.

White: That will avoid the impression that they thought there were some heavy operations last fall you were not including, so that's why I think it would be a good idea to add some such statement.

Locnhead: When you referred to it before, they did refer to the December statement.

Gaston: What's the objection to using the December 31 statement?

Aoke: Not audited.

White: It's not an audited statement.

Hanes: "We're perfectly willing to give it to you, but it isn't an audited statement."

Gaston: If they have a theory that some big operations in aid of the French and the British went on at the time of the Munich crisis, why, ....

White: And they might well have that.
H.M. Jr: The question the newspapermen will ask me - "Didn't somebody tell us you made all this profit out of government bonds?"

Foley: You're not going to have as much trouble tomorrow as when you get over on the other side. This ought to be more or less of a dress rehearsal tomorrow.

H.M. Jr: Exactly. And then with all of this out, I thought, sitting here, would this be the way to answer today? "My dear Senator Vandenberg, my dear Senator Lodge: I received your letter today. I'm going up on the hill to testify tomorrow before the House. If after my testimony is made public there still are some questions that you want to ask, I'd be glad to take the matter up with you." See?

Kepes: They can go to the House hearing if they want, can't they?

Foley: No, there's too much jealousy between the House and the Senate. They won't let them do that.

H.M. Jr: "I'm going up tomorrow. If after my testimony is made public there are still questions you want to ask, I'd be glad to sit down and discuss them with you."

White: If necessary, you can again refer them to the Senate Committee.

Foley: Let that letter go up in the morning, so they won't have a chance to feed some of the House Republican members with questions.

H.M. Jr: Put it in the mail tonight. Put this: "Be glad to sit down and discuss the matter with you in person."

Lynch: Mr. Morgenthau, we won't have any trouble explaining that we've secured 50 million dollars by a hundred percent of gold. But Lodge and Vandenberg would say, "Well, you've done that. Would you ever do anything that wasn't secured by a hundred percent gold?"

H.M. Jr: I tell you now I'd answer that: "I wouldn't do it without getting specific authorization from Congress."
Lochhead: You're tying yourself up.
Gaston: I wouldn't say that.
E.M. Jr: I wouldn't do it. I wouldn't do it.
White: I wonder if you can get another answer that fills the bill that doesn't commit you in that way.
Hanes: "We'll decide the question on the merits at the time it is presented to us, just as we do all other matters." I don't see how you can say what you'll do in the future, because you're charged with the responsibility ....
E.M. Jr: I'll say, "Gentlemen, I stand on my record."
Gaston: "I don't foresee any occasion to do that. I haven't done it up to date."
E.M. Jr: I'm satisfied.

What we met here for was to go over this statement which has been prepared for me to give out.

Foley: Can we go over it again and take it up when we get a completed draft later this afternoon?

E.M. Jr: Next time I have will be right after press conference, will be 4:30.

Foley: That'll be better for us.

E.M. Jr: If you gentlemen could come back ...

White: We'd like to raise two points, however, before we ....

E.M. Jr: Let me raise one. In doing this statement, Herbert, please bear in mind that if the statement is good enough ....

Foley: ... mimeograph it.

E.M. Jr: .... mimeograph it; and if it isn't good enough I don't want to use it.
Foley: We've got to make it good enough.

H.J. Jr.: If the press are there they'll say to Herbert, "For Christ's sake let us have copies of it."

Foley: That's why I say it's got to be good enough.

Gaston: If we take it up there and read it and don't have it off the record, we should have copies.

H.J. Jr.: In view of this discussion - I think it should be helpful. In the first place, it's too long.

White: We padded it purposely. Be easy to cut it down.

Foley: We can make it better, Mr. Secretary; it was only a draft.

White: There are two points, however, ....

H.J. Jr.: Let some of these ex-newspaper men take a look at it.

White: After we get the draft ....

Gaston: Good idea to have it long. Print the text of it in the papers around the country, it'll look fine - "Here's a long statement of the whole facts about the Stabilization Fund."

Bell: This ought to be mimeographed, too, from June 30 and be a part of it.

Foley: The psychological advantage of having something that takes up almost all of the time is that you're in control of the meeting until you stop; and then if there is too much time before the bell rings and they have to go out on the floor, the thing can get out of hand.

H.J. Jr.: Get Admiral Peoples up there to talk on Procurement Division?

White: There are two questions which must be decided before we can go forward. One relates to silver, which we left out of that draft; but Ed thinks definitely we ought to have some reference, at least, and some
discussion ought to be included, because the section which you're calling for includes it.

Foley: I'm not saying that you have to make any recommendation at all, but I think for the sake of candor you ought to make some reference to it, so that (a) the newspapermen don't get confused, and (b) the Committee knows that that's in the bill and that you realize it's in the bill.

White: We can pay our passing respects to it with as little as possible to fill that bill, without discussing ...

H.W. Jr: Can't you just put in a sentence and put brackets around it, make it very small type?

Foley: Talk awful low when we get there.

H.W. Jr: Say, "This is done also to the extent of the Silver Purchase Act (a) is that what it is?

White: Listen, is Thomas currency in this too?

White: No, this is the ....

Foley: the greenbacks? No.

White: The three billion? No.

Gaston: That has no time limit, goes on forever.

Foley: This is just that provision of the Thomas amendment in regard to silver.

Gaston: I think the statements are fairly simple about silver.

H.W. Jr: What would you say, Herbert?

Gaston: Well - "The powers with respect to coinage of silver, the Thomas amendment powers, are part of the general silver program - part of the program enacted by the Congress, and if the Congress wishes the program to continue as at present, then it will be necessary to include this language in the reenactment."
Foley: That's the same thing as was done in 1937. What we're asking here is just a continuation.

H.N. Jr: Put it "if the Congress wishes," rather than "I recommend."

Foley: Right.

Hites: The second point is a more serious question; it relates to the extension of the power to devalue again. Now, most of the important justification for that power, in our view, I think, lies in the ability to alter the buying and selling price for gold, and that is independent of this particular section. So we are confronted with a dilemma. If we make too much of it, we're identifying the two. If we don't, in the minds of Congress they may not know the distinction and may think you're making a weak case for it. But I suspect that it's better to keep the two separate and not....

H.N. Jr: Yes, keep the two separate. And I did make the statement on January 13 before the House Appropriations Committee, which satisfies me, on the right of the President to devalue -- January 13 -- I mean I made a statement there.

(On phone) Hello. -- How are you? -- (Has phone conversation on unrelated subject)

Well now, I think ....

Lohnness: I'll get these started. Probably have to get these mimeographed.

H.N. Jr: I only asked you (bell) for five minutes. I only kept you an hour and five.

Gaston: Lodge is not on that Committee. He resigned.

Foley: Taft went on.

H.N. Jr: There's the correspondence. If you'll bring it back at 4:30, Herbert.
February 27, 1959.
10:50 a.m.

MBJr: Hello.
Operator: Ambassador Bullitt.
MBJr: Hello.
Bill Bullitt: Hello, Henry.
MBJr: How are you?
B: Fine, my boy. How are you?
MBJr: I'm pretty well.
B: Good enough.
MBJr: I'm calling up because I'm going to have a financing on the fifteenth of March.
B: Yeah?
MBJr: And I wondered if you wanted to make any forecast as to -- between now and the fifteenth -- whether you think I'd be fairly safe.
B: Well, Henry, I tell you, my own belief is that just as soon as the new Pope is elected the gentleman to the south is going to put on the heat.
MBJr: Uh-huh.
B: He's trying to start to make rather excessive demands and rather violent speeches.
MBJr: Uh-huh.
B: On the other hand, I think you're perfectly safe in assuming that there will be no hostilities before that date.
MBJr: Well, when do you think that is?
B: I can't hear you.
MBJr: When — when are they going to elect the Pope?
B: They'll elect the Pope about -- probably between the fourth and the seventh of March.
MBJr: Well, I announce my financing on the sixth.
B: Well, you're -- you're likely to tumble into a difficult situation with it.

HMJr: I see.

B: I think that -- I think that if you can --

HMJr: Yeah.

B: You would be better advised to launch it before the Pope is elected.

HMJr: Well, of course we can't -- unfortunately we can't change it. We've got to announce it on the sixth.

B: You do?

HMJr: Yeah.

B: Well, I'll tell you this -- I think you can guarantee this -- I think you can be certain that you're not going to run into any actual hostility.

HMJr: Uh-huh.

B: But, you may, in the latter part of your period, run into some very hot talk.

HMJr: I see.

B: And now, the -- I think under the present circumstances, being as they are on this side of the water, and on our side of the water, it's doubtful that the gentleman will push things as far as hostility.

HMJr: I see.

B: But he'll do a hell of a lot of talk and a hell of a lot of blackmail.

HMJr: I see.

B: And you may run into a bad period there. On the other hand you may not start that until after your thing is out of the way, but personally I believe he'll start it before your thing is out of the way if that's the period.

HMJr: Well then that's something I'll have to -- I'll just have to keep that in mind.
B: Yeah, because that -- that just -- that is the period when it will start. It may not start until after the fifteenth and on the other hand he may start it as early as the seventh.

HWJr: Uh-huh. Well, if you have anything during the next ten days, between now and the fourth when we -- we price it on the fourth, you see?

B: On the fourth?

HWJr: We have to price it on the fourth.

B: Yes.

HWJr: And if you have anything between now and then, will you mark it? Attention of Morgenthau so I get it?

B: You bet I will.

HWJr: Will you?

B: You bet I will, Henry.

HWJr: All right.

B: I tell you -- the -- my guess is that there will be nothing of any decisive importance until that time for the simple reason that the new Pope won't have been elected.

HWJr: Uh-huh.

B: And it's impossible for that gentleman to play the politics he's playing about the election of the Pope

HWJr: Uh-huh.

B: So you're -- you're likely to have calm for that period with the beginning of agitation shortly afterwards.

HWJr: O.K., Bill.

B: How are you, Henry?

HWJr: I'm fine. I've really been really quite well.

B: Henry--

HWJr: Yes?
B: Did you get a letter from me about a chap named Beverly Robinson?

EWR: No.

B: What?

EWR: No.

B: Didn't they ever show it to you?

EWR: Well now wait a minute, is that somebody that you wanted for a job over in Paris?

B: Yeah.

EWR: Yeah, we're working on that.

B: Working on that?

EWR: Oh, we -- we're very slow in the Treasury. We're almost as slow as the State Department. Not quite though.

B: I -- I want to tell you I regard you as efficiency and speed personified.

EWR: Yeah.

B: And listen, I want to know also if you got a letter about certain old files.

EWR: Yeah. (Laughter)

B: Huh?

EWR: Listen, young fellow, I'm just coming out from under a couple of buildings that dropped on me.

B: Yeah, but did you -- did you get that letter?

EWR: Yeah.

B: Did it amuse you?

EWR: It amuses me, but I still say I'm still crawling out from under a couple of buildings that dropped on me.

B: All right, listen, when you get out of those ruins--

EWR: Yeah?
B: When you get out of those ruins, just ask some to dig into that.

HMJr: Yeah, now listen--

B: I believe that all sons of bitches ought to be on the same side, do you understand?

HMJr: I --

B: I'm capable of being a very nasty one myself.

HMJr: Oh, are you?

B: Yes, sir.

HMJr: (Laughter) Well, I still say I'm crawling out from under.

B: All right, crawl out.

HMJr: O. K.

B: Good bye, boy. Good luck.
February 27, 1939.

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

Dear Mr. Secretary:

In response to your request I am sending you a copy of the memorandum prepared by the Board's staff on "Proposed Reduction In Volume Of Treasury Bills".

Very truly yours,

M. S. Eccles,  
Chairman.

Enclosure
PROPOSED REDUCTION IN VOLUME OF TREASURY BILLS

The proposal has been advanced that the Treasury issue $500,000,000 of new bonds for cash on March 15 and reduce the outstanding Treasury bills from $1,300,000,000 to $650,000,000 by selling only $50,000,000 a week against $100,000,000 maturities. There are two principal arguments for such a program. First, by reducing the amount of bills this market would be reserved for a period of possible weakness in the future when it might be difficult to sell longer-term issues. Second, a new offering of long-term securities would take advantage of the present strong market and would tend to hold down a further price rise that might make the market more vulnerable in the future.

It would not seem necessary to reduce the supply of bills in order to be able to sell more in the future, since the amount of bills outstanding is far short of the demand. If the purpose of issuing bonds is to hold down price rises, this can be accomplished more effectively by issuing bonds without retiring bills. To some extent, however, demands for bonds and for bills arise from different sources, and the principal effect of the reduction in the amount of bills outstanding would be on prices of Treasury notes which are already extremely high. The proposed program would seem, therefore to hinge on the question whether it is desirable to make use of the present strong market to refund some of the short-term obligations of the Treasury.
The proposed policy needs also to be considered from the standpoint of its possible effect on the investment portfolios of member banks and on the open-market operations of the Federal Reserve System. The System would have great difficulty in maintaining its portfolio of short-term obligations and would, therefore, either have to buy longer-term securities or reduce its total holdings. In view of the pressure on banks to try to invest more of their idle funds, member banks might temporarily increase their holdings of longer-term obligations and then sell them when bills again become available.

Offering more United States bonds, with tax-exempt features, to investors has the disadvantage of reducing their incentive to invest in corporate bonds. A revival of the bond market is of great importance to economic recovery and it would seem that the Treasury should not, except for very good reasons, compete with corporations for the investor's dollars.

In brief, to maintain a good supply of bills in the market would be desirable from the point of view of member banks, of credit control, and money market conditions. Increasing the outstanding volume of United States bonds, on the contrary, would not be desirable from these points of view, might have unfavorable effects on the Government security market, and would exert a dampening influence on the market for corporate bonds which needs to be encouraged.

Present position of the bill market

Owing to the small volume of bills outstanding and the special demands for them, bills are selling on virtually a no-yield basis. Consequently they no longer provide an attractive investment outlet for the funds of even the money-market banks.
These factors are brought out in the accompanying charts. The one
giving Treasury bills by classes of holders shows the substantial reduction
which has occurred in bank holdings. The New York City banks, which previously
had been the largest holders of bills, have been practically squeezed out of
the market. Chicago banks now have about $250,000,000, or 19 per cent of the
total, but this represents temporary purchases for sale to customers during
the Illinois tax-date period at April 1. The small amount at reserve city
banks is probably also held partly for similar local tax situations.

The Federal Reserve banks alone among major holders of bills have
maintained substantially their position in bills, but even their holdings
have declined by $200,000,000 from the end of May 1938 and now amount to
only slightly over $500,000,000. The holdings of others are largely for
special purposes as in the case of certain large corporations which pur-
chased some sizable blocks of bills at the instigation of banks which
sought to reduce their deposit insurance assessment.

The second chart shows that with the reduction in the volume of
bills outstanding, tenders for new issues have increased substantially and
discount rates on new offerings have dropped to almost nothing. Indeed,
when the Chicago demand was at its height late in December and early in
January, the new issues sold at par or at a slight premium. So long as the
Treasury finds it advantageous to have a large cash balance, bills provide
a means through which this can be done at a minimum cost to the Treasury.
At current discount rates of about 0.005 percent the interest on $650,000,000
of bills amounts to only $32,500 a year.
Effect upon the administration of the Federal Reserve System Account

As the bill market no longer provides an important investment outlet even for money-market banks, the principal effect of a reduction in Treasury bills would be to increase the System’s problem of replacing its current maturities. To replace maturities from new bill offerings of only $30,000,000 a week it would be necessary for the System to obtain practically the entire new issue every week. The two alternatives under such circumstances would be to replace by purchasing other types of Treasury securities, or to allow bills to run off without replacement and thus reduce the System Account. The first alternative would have the effect of bidding up prices and pushing the market for Treasury notes and bonds to new high levels. The fact that more longer-term Treasury issues would be outstanding might have little influence in holding down prices as there are numerous investors who will readily take and hold new offerings but who hesitate to enter the market and run prices up to obtain securities.

In view of the very large excess reserves held by member banks, a reduction of the System portfolio, even by $500,000,000, would not in itself result in tightening credit conditions. It would be, however, a move in the direction of restraint and would be so interpreted. As such it would not be consistent with the Administration’s general easy money policy. From the standpoint of earnings of the Federal Reserve banks, the complete disposal of all the Account’s bills would be insignificant — reducing income by only about $10,000 a year at present rates.
Temporary reduction in volume of bills appears unnecessary from standpoint of Treasury. - The advisability of the proposal would depend to some extent upon whether the reduction in bills is contemplated as a more or less permanent policy or whether it is only a temporary expedient to prevent the Treasury balance from rising above its already abnormally high level. If the latter is the case and Treasury bills are again to be increased in a few months, there seems no good reason for making a reduction now. At present rates of about 0.005 percent, the cost to the Treasury of holding $650,000,000 extra cash amounts to only $32,500 a year. The interest saving, therefore, is negligible. For reasons previously given there is no need for concern about the temporary reduction in excess reserves that would result from the Treasury adding to its balances at the Reserve banks in March through a further anticipation of its cash requirements. Permanent reduction might have several undesirable consequences.

If the reduction of Treasury bills is contemplated as a more permanent policy, serious objection may be raised from the standpoint of the effective exercise of monetary and credit policy. With our banking system composed of 15,000 individual institutions, it is important that there should be a large volume of high-grade short-term paper available for investment. This has become even more significant in recent years because of the large amount of additional reserves available to banks and the possibility that at some time in the future this supply of reserves may need to be reduced to prevent injurious credit expansion. In this situation banks have generally sought to maintain a highly liquid position.
During the depression up to about the end of 1935 the expansion of Government debt consisted very largely of short-term obligations which were purchased primarily by commercial banks. Since the end of 1935, however, the growth in the debt has been in the longer maturities. The volume of Treasury bills outstanding has already been reduced by about $1,100,000,000, while Treasury notes declined by $2,500,000,000 from the peak reached early in 1936. As a result, bank holdings of Government securities increased more slowly in this period and they acquired a much smaller part of the growth in the publicly-offered debt. The increase in the banks' holdings, moreover, has consisted entirely of bonds, while their notes and bills have declined.

In the light of these developments, a further reduction in the volume of short-term Treasury securities at this time would have an undesirable effect upon the banking system. It would reduce the supply of securities that are particularly attractive to commercial banks which need liquid earning assets. This is more serious now that other types of prime open-market paper such as bankers' acceptances, commercial paper, and call loans are outstanding in very small volume. In view of these circumstances a large amount of Treasury bills is needed in the money market.

Reduction in bills might also have adverse effects upon Government security market.

If the program results in an increase in bank holdings of long-term bonds, it would not be conducive to more orderly conditions in the Government security market. Banks have demonstrated that as a group they are not firm holders of long-term bonds. On declines in the market during recent years banks were generally the principal sellers. This was especially true in early 1937 after banks had increased their holdings of
bonds and had substantial appreciation on their holdings. Profit-taking under such conditions creates an added incentive to liquidate.

Another relatively minor effect of practically abandoning bill financing might be to narrow the market in the future. As banks which normally hold bills lose interest because of long-continued nominal rates they may be slow to return even when rates rise. Thus the market would be less elastic in a future period of possible emergency.
GROUP MEETING  (Senate Testimony)  

February 27, 1939.  
4:30 P. M.  
Secretary's Office.  

PRESENT:  
Secretary Morgenthau  
Mr. Bell.  
Mr. Lochhead  
Mr. Enoke  
Mr. Foley  
Mr. White  
Mr. Gaston  
Mr. Duffield  
Mr. Hanes  

H.M.Jr:  That is a funny committee.  
Foley:  Not a bad committee.  
H.M.Jr:  Only two Republicans.  
Gaston:  There are only three Republicans on the full Committee.  
Foley:  Taft and Townsend are on the sub-committee. And the rest of them are not bad at all. They have Adams and Barkley and Burns.  
Gaston:  Frazier is on there and I don't know --  
H.M.Jr:  Frazier is not on there.  
Gaston:  I mean on the full committee.  
H.M.Jr:  They have eight Democrats and two "Repubs".  
Gaston:  They can assign four Democrats to hold the two Republicans and the other four Democrats can talk.  
Foley:  Taft will have all of Lodge's and Vandenberg's questions.  
H.M.Jr:  He sued us on this proposition.  
Foley:  It was his brother -- his brother Charles.  
H.M.Jr:  Have you got something for me, gentlemen?  
Foley:  Dock has it; he will be here.
H.M.Jr: Listen Harry: There is one thing you can be thankful for; Wednesday afternoon it is Glass and we can all get drunk.

Duffield: Or get fired -- one or the other.

H.M.Jr: (Reading draft) Was the Act of May, 1933, consolidated with the Act of 1934?

Gaston: Amended by the Act of 1934.

Foley: We cover that a little later on.

H.M.Jr: So far I think it is perfectly wonderful.

Hans: Has life and zip and reader appeal.

Foley: We are off the ground now. Hold on to your hate, boys.

Lochhead: May I say my idea on this is, I don't know whether or not we should bring in these next two or three pages (referring to the details of Chinese operations). It is going into detail on that particular operation.

H.M.Jr: I will read it and then go back to the bottom of page 7. (after reading) I will tell you, Archie, I think it is pretty good. It is going to show up in that statement and here is an explanation which will accompany the statement. It will be a correct explanation and if I make it as an ad lib statement they may not run it. This becomes part and parcel of it and is attached to it. This is going to be the thing and this is a correct explanation, and if they say: "Now, have you done any other besides China? What about Mexico? Will you explain that? Did you do any others?" "Yes, I did one with Brazil." "And will you explain that? Have you done any others?"

Lochhead: Yes.

Foley: I think it is better to have it in there.

Lochhead: You said something about wanting to cut it down and it was a question as to whether we should cut that.

Hanes: I think it is good to keep that in there.
White: At this stage I think it should be in.

Lochhead: I am glad to have the reaction of Mr. Hanes who sits in with an outsider's point of view. If you feel that answers it, let it stay there.

Hanes: There it is; it is all there.

Gaston: This really tells them something. If you confine the statement to bare generalities, which there is great danger of doing, you increase the pressure.

White: I feel like Archie. I am sorry to see it in there, but I think the circumstances are such it better be in.

H.M. Jr: Well, I feel that way. I would rather have a correct explanation of everything I have done than have to give it and sputter about it.

Lochhead: Bewley mentioned their Stabilization Fund and said one of the reasons they didn't like to make it public was because they have some German marks and it would be terrible trying to explain them.

H.M. Jr: That reminds me. I think the last time I testified Bewley came around the day before and said, "I hope the Secretary isn't going to give them too much". Look that up. I think it happened two years ago.

Lochhead: All the funds have that attitude. The Dutch, for instance, are very strong about that.

H.M. Jr: Well, if you don't mind, inasmuch as I am going to have the attached statement, I think I will leave it in. What do you think?

Hanes: I sure would. I would keep them all in there. It sounds good to me.

H.M. Jr: I am still interested.

Foley: Good.

H.M. Jr: Did you all have a hand in it?

Foley: All been working on it ever since we left here this morning.
Gaston: We will have to fix the statement at the top of page 8. "The Government of China was greatly in need of more money *** to protect the dollar". The Government of China wasn't worrying about the dollar.

Lochhead: Excuse me. They use a dollar.

Duffield: That is what they meant.

Gaston: We are not talking about that. That is a Chinese reply you are giving me, Archie.

Lochhead: I am talking about China.

H.M. Jr: (Continuing reading) I think it would be a very good thing to put in here some place that we use exclusively, American banks.

White: In our operations?

H.M. Jr: It must be in here that this business goes through American banks or branches of American banks. One or four or five of these banks are called and the order goes through any one of those banks. Am I right or wrong?

Knoke: We have operated through American banks and branches of American banks, but we have also operated through the Bank of England.

H.M. Jr: I want to bring in that we operate through either American banks or National banks.

Lochhead: Not National.

H.M. Jr: Either through American banks or through the Central Bank. The point I want to get at is --

White: You want to get away from "International Bankers".

H.M. Jr: No, that isn't my thought at all.

Foley: You want to show you are benefitting American banks?

H.M. Jr: And I want to show this -- Mr. Knoke is here. He has 30 or 40 employees -- how many have you got in the foreign department?
Vorone: Well, I would have to look it up. Eighty.

H.M.Jr: And he uses these banks. It is a big business. There is nothing secret about this thing. That is what I want to get over. We go through this bank and the Guaranty Trust and what I am trying to show is that when we go through those banks there may be three or four hundred people who know about the operation. I mean it is a big, vast network.

White: We can work out a paragraph on that.

Hanes: The place to put that is at the bottom of page 10.

H.M.Jr: The point I am getting at, do you think it is a good point?

Hanes: Yes.

H.M.Jr: The point I am getting at — how many banks do you use? About five?

Lochhead: More than that.

Vorone: Not abroad. Just about five. City, Guaranty Banker's, Chase.

H.M.Jr: And the point is we rotate them. We use all of them. And Mr. Stern, the Vice President of Chase, during the week knows all about our operations.

Vorone: That is quite true.

H.M.Jr: That is what I want to get. And then the next time it would be the Vice President of Guaranty.

Vorone: Mind you, that is just the point that Wheeler objects to, and he made the statement on the Floor of the Senate last year that there was a man in New York who knew everything, and if he so elected, he could tell every gambler in New York what was going on. So I wouldn't over emphasize the fact that other people know about it.

H.M.Jr: I am giving this merely as a suggestion and not as an order. What I was trying to do — I am going to call on you at any time to describe an operation and I want you to think it over and weight it back and forth that this thing — that this isn't just
a matter where Lochhead and I get into a huddle and flip a coin and decide we will do this or that. This is a vast machine and big banking institutions are taking part in it, and these people know what we are doing and how we are doing it and know all about it.

Now think it over. If you like it, all right. If not, you can skip it.

Hanes:

It seems to be to be a good thing to do. I don't know. There may be an objection there, because the bankers know about it and the Senators don't. It might have a bad repercussion.

White:

We might try to get it in there showing these are regular and big operations undertaken by various American banks.

Foley:

Adams would like that answer — Burns and some of the fellows on the sub-committee.

H.M.Jr:

Glass would like it. I was thinking as much of Glass as anybody.

Foley:

There aren't any of the Left-Wingers like Wheeler and La Follette that would object to that sort of thing on either committee.

White:

They couldn't object in any case, because you have to operate through banks.

Foley:

That is right.

H.M.Jr:

Well, I have thrown it out as a suggestion. I will take it either way. (Continuing reading).

And I think you should put in there that wherever we control the gold it comes in in American flag ships.

Knoke:

Yes.

Lochhead:

Put it "in American bottoms".

H.M.Jr:

Aren't they technically known as "American flag ships"?

Foley:

Spoken of as "American bottoms".
E.M.Jr: What became of the "black bottom". Anyway, you have the idea. (Continuing reading).

Well, Archie, isn't that rather broad? Wouldn't you put in the time of the year: Winter, Fall, Spring or Summer?

White: In the Fall of 1936.

E.M.Jr: You don't imply she had a crisis continuously for a year?

Lockhead: Two or three years.

E.M.Jr: You have something in mind.

White: It was in the fall.

E.M.Jr: Then why not say in the Fall of 1936.

Gaston: Well, we were working on it from along in May. Began active negotiations in June.

E.M.Jr: I see what you are leading up to. (Continuing reading)

Can't you call them a couple of names? (Referring to speculators)

Gaston: Call them "lousy speculators".

E.M.Jr: (Continuing reading). I think I would say this: The dollar is the most stable currency in the world today.

Foley: Is the most stable and soundest currency in the world today.

E.M.Jr: You don't want to say we are the only buyers of gold?

White: Could you say: "There have been times that were it not for the fund -- --"?

E.M.Jr: There definitely was a time when we operated exclusively. Are we right?

Knock: Yes, pretty near.
You remember the time we backed up the Guaranty.

Foley: For instance there was a period in 1936 —
White: Unless there was more than one time —

H.M.Jr: Well, there was a time I remember back in 1935 or 1936 where the Guaranty was operating but only operating with us back of them.

Knoke: I think March, 1938, was the outstanding —

H.M.Jr: September of 1938.
White: Well, we have already referred to the fall incident.

Knoke: And that has been more in the public eye than the March incident.

H.M.Jr: Will you use that, please? I mean there was a time that if we hadn't been there the whole thing would have stopped, wouldn't it?

White: Those specific illustrations are very effective.

H.M.Jr: And, Knoke, wasn't that the time they were worried because they thought we were going to drop the price of gold?

Knoke: That is right.

H.M.Jr: Why not say something about that.
White: Yes -- not the second part but the first part.

Gaston: That negatives your argument.

White: They were worried about dropping the price but the first part we can use.

Foley: For instance, in March, 1938, the only dollar exchange available was supplied by the fund.

White: Have to be more than that.

H.M.Jr: I think it strengthens it a little bit. (Continuing reading). Do you want to say "gold draining out of the country".
Foley: That is what we are trying to say.

E.H.Jr: You don't say it has to leave the country. We know you can not take it out unless it goes from the country, but just put in some words there against gold draining out in large magnitude, or something like that. Just say something to express the fact that it has to go out of the country. (Continuing reading).

I would put "unfortunately" there. "Unfortunately there are no grounds for believing" and so forth.

Duffield: I think the next sentence should be set off as a paragraph.

E.H.Jr: "Regardless of the trend of international" and so forth. Now, turning to page 15.

White: Would you want to weaken that previous sentence?

E.H.Jr: No, I read it three times. It is all right. I would leave out: "which has recently been the subject of some discussion".

Hanes: To prevent anyone from attempting through knowledge of its detailed operation instead of speculators.

Gaston: To obtain speculative advantage.

Duffield: I think "speculators" should be in there some place.

Gaston: "To take speculative advantage".

E.H.Jr: Is that all right?

Hanes: I would not limit it to speculators.

E.H.Jr: It might include some Senators.

Gaston: "To take speculative advantage through knowledge -" (Reading from page 17)

Foley: On second thought it should be in before.

Duffield: The last paragraph.
White: It sounds as though you have got something there and not telling quite everything.

E.W.Jr: All right, cut it out. (Continuing reading) Why bring that out.

Laskin: I don't like it. I suggest eliminating all of that. I would leave out all of that paragraph.

Bufffield: I think there is some possibility this would be construed in the same light as the President's remark when he got on the boat and went away. I think we should just say: "It is my conviction that this power should be continued."

E.W.Jr: I can talk ad lib and say to anybody that asks me that question: "This is my answer and I have told this to everybody now for a year, that I think that the President should have that right as a big stick, but not to be used except in a grave emergency, which I do not at this time envisage."

Bufffield: Why can't we write that in?

E.W.Jr: But under no circumstances should it be used as a needle. Then I would like to say that through December when the English had sent me message after message that they were very sorry, but after the first of January they were going to let sterling drop. So I sent message after message back that I felt it would be a very grave mistake and would have all kinds of repercussions in this country, and I politely but firmly sent message after message not to do it.

Now, what did I have to back up my solicitation? The right of the President to evaluate the dollar. I never mentioned it to the British but they knew it was there and they know he has that right. "Now, gentlemen, if you want to go back to a three dollar and a half pound -"

Inoke: Three dollars fifteen cents.

Lockhead: Three dollars and fifteen cents. I know that very well.
E.M. Jr: "A three dollar and a half pound", and look up on that day what cotton and wheat sold for.

White: That makes good off the record stuff.

E.M. Jr: Now, I want to be prepared on land, wheat, cotton. Have that prepared for me tomorrow morning. But I say, "Now, gentlemen, if you want to go back to three dollar and a half pounds and five cent cotton and thirty cent wheat or whatever it is, all right, but up to now we have been able to keep our position and if you want to go back to 1931 and 1932 where our exports were", '31 and '32, they were how much?

White: Less than half. That is all right off the record, but certainly not in a prepared statement.

Duffield: My only point was something like that, that this is here as a club, but not to be used as a needle.

Enoke: You said before that you had found it necessary in the past to emphasize that it was there to be used as a club; not to be used necessarily, but to be held as a club. This seems to me as the time when that statement should be repeated, when it should be made clear that there is no intention to make use of it as a club, but I think it is very necessary at the present time to repeat that statement.

E.M. Jr: I don't know whether it is in here or that you could draw the analogy. "But I am sure you gentlemen who are sitting here and voting for an increased Navy and an increase in planes, are doing it for the Country; the Commander-in-Chief can have that additional authority as a club, but to be used only for peaceful purposes, and it is in the same interest -- this is along the same line. You are giving him 6,000 more airplanes; you are giving him 6 more 16 inch gun battleships--"

Enoke: But I am not arguing against that.

E.M. Jr: I am using this to compare it. "You are giving this to the President."

White: We have a statement in there; we can put it back, about the Navy.
"You are giving it to the people, it isn't the President". Look here, I think 95 per cent of the Senators and 95 per cent of the Congressmen up there want a big Navy and a big air fleet and a larger Army so we can use it as a club, but they don't want to go to war. And this is the same thought. I don't want to go to war. That is the last thing in the world, but I do want to be able to take care of my share of the responsibility of looking after the business man in the war of the foreign exchange markets. Can't you say something along that line?

White: That would be very effective if you could say it off the record.

Hanes: It is my conviction that this power should be continued and skip the rest of it down to the fact that we have kept the gold, and then make an off the record statement such as you just made. I wouldn't like for this to go abroad where they would say the Secretary of the Treasury says "he wants this thing to use as a club". I don't think I would like to have that statement go abroad.

Gaston: I thought we might say this after this sentence: "The fact that we have kept the value of gold stable should be adequate assurance there is neither desire nor intent on the part of this Administration to alter the gold value of it", and then I would add, "This power is a weapon in reserve which we need for the protection of American interests in the monetary field". That it has the same value as the Navy.

Hanes: You have a sentence in the next paragraph (page 19) "the existence of this power has been a warning --" and so forth, that I think is good.

White: And "we hope we never have to use it".

Bufffield: Still don't like that one.

H.M.Jr: You will have to work a little bit more on this tonight. I am more than willing to leave it to you. You have what I have in mind.
White: I take it that most of what you have said will be off the record?

E.M. Jr.: Yes.

Duffield: I think Mr. Hanes' suggestion is a good one; dropping down to that sentence and perhaps adding what Mr. Gaston has here and pick up the next paragraph.

E.M. Jr.: You just indicate how you feel and it is up to these fellows to complete it.

Hanes: I like that sentence — it is a beaut.

E.M. Jr.: "The mere existence" and so forth?

Hanes: Yes.

E.M. Jr.: Now I want to say, if you haven't it here, that for five years the American dollar at $35 an ounce has been the spring board or that all currencies have sold plus or minus $35, and that we are the only currency in the world, with the possible exception of Belgium, we are the only currency in the world that for five years has been on a fixed basis.

White: We said that.

Duffield: We said that the dollar has identically the same gold value.

E.M. Jr.: I want to say that for five years the exporters of the world have accepted the dollar at $35 and all currencies are figured plus or minus $35. We are the only anchor to the windward; that we have been for five years the only stable money. And I can come back with: "The reason that we can keep this stability is because we have the right to hold this sword over their heads; that if somebody starts to get fresh with us we can change it. Now the minute you take that power away I say we cannot hold them stable". And that is the way I feel, but I do want to emphasize the fact, which they seem to forget, that we are the only money which has been stable for five years. I am talking this. You use as much or as little or none of it as you wish.
I will tell you what I would like to have, which I think is very impressive, and that is a list of the countries and the dates the various countries went off gold.

White: We have that.

H.M.Jr: (Continuing reading) Can't you cite some other countries? How about Japan?

White: Yes.

H.M.Jr: Japan is a big shipper of gold. Couldn't you just add Japan?

White: Yes. Japan has the old nominal value.

Lochhead: They have been keeping it down with the nominal value of the pound.

H.M.Jr: They keep throwing in my face "Sweden" and "Canada" -- "Swedish budget" -- like this -- an accordion. Has anyone tried to tell you about the Swedish budget?

Hanes: Not lately.

H.M.Jr: That was last year's hobby. Now, I hope you boys do a good job.

White: Silver.

H.M.Jr: It is under this one we buy the newly mined silver?

Gaston: Yes.

H.M.Jr: Well, that is all right. "Now, Mr. Secretary, you believe in this newly mined so and so"? It is all up to Congress. I am just an errand boy for Congress.

White: Continue to do exactly the same thing.

H.M.Jr: I want to compliment you gentlemen. It is a great improvement, and if you don't mind sweating a little bit longer so it can be mimeographed tonight, I shall appreciate it very much.
Duffield: Do you think there is any point in saying --

H.M.Jr: We might as well wait until Bell comes and we will take a look at the thing. You do not need to take this.

(Record closed)
TO
Secretary Morgenthau

FROM
Mr. Bass

Subject: Trip of Mr. Murphy to New York and Hartford to Discuss March Financing.

I. Persons Consulted and Plan of Memorandum.

Mr. Murphy was in New York from Tuesday, February 21, through Thursday, February 23, and in Hartford Friday, February 24, to discuss the general background of the March financing with various classes of interested parties, particularly insurance companies. The following is a list of the institutions and the persons therein with whom Mr. Murphy discussed the financing:

Miscellaneous

Federal Reserve Bank of New York,
Messrs. Sproul, Matteson, Miller, and Harris.

Savings Bank Trust Company,
Messrs. Ihlefeld, Johnson, and Casarza.

First Boston Corporation,
Messrs. Lanston and Seager.

Guaranty Trust Company,

Bank of New York,
Messrs. Miller and Danton.

Insurance Companies

Metropolitan,
Mr. Ecker.
Secretary Morgenthau - 2

Equitable,
Mr. Shailer.

Travelers,
Mr. Baker.

Aetna,
Mr. Brewster.

Connecticut Mutual,
Mr. Munsick.

Connecticut General,
Mr. Hickmott.

Phoenix Mutual,
Mr. Lytle.

The comments of these persons upon the financing will be summarized in the second part of this memorandum under the following heads:

A. Scope of Issue.
B. Two-way vs. Three-way Offering.
D. New Issues vs. Adding to Old Issues.

The third part of the memorandum will add a few sidelights concerning the opinions and investment policies of the different institutions which were not directly summarized in Part II.

II. Summary of Opinions.

A. Scope of Issue.

There are, of course, three principal practicable alternatives with respect to the scope of the issue. It might be either (1) refunding of the June note maturity only, (2) refunding of the June and September note maturities, or (3) refunding of the June note maturity, plus new cash.
The Federal Reserve Bank of New York people were in favor of confining the offering to a refunding of the June note maturity. The only other definite expression of opinion in favor of this, however, was that of Mr. Baker of Travelers. Mr. Lanston of First Boston was in favor of refunding both the June and September notes as his first choice, with a new cash offering as his second choice. He coupled his first choice, however, with the proviso that it ought to be accompanied by an increase of $25 millions a week in bill offerings, in order to prevent too great a run-up in the "rights".

All of the other persons who expressed opinions upon this subject were in favor of combining a new money offering with a refunding of the June notes. These persons included members of the staff of the Savings Bank Trust Company, Guaranty Trust Company, Bank of New York, Connecticut Mutual, and Aetna, although they differed considerably in the emphasis which they placed upon the point, the insurance men expressing their opinions very diffidently.

The remainder of the men consulted, including the representatives of Metropolitan, Equitable, Connecticut General, and Phoenix Mutual considered themselves incompetent to express any opinion at all concerning the scope of the financing.

Mr. Sproul expressed the opinion that any financing at this time, beyond rolling over the June issue, would be interpreted bearishly by the market as an indication that the Treasury was pessimistic on the European situation. This expression of opinion, however, found no echo among the other persons consulted.

3. Two-way vs. Three-way Offering.

It seemed to be the general view of most persons having views on this question (the insurance company representatives expressed none,) that the financing had best be two-way if confined to rolling over the June's only, or three-way if the September's or new money should be included. As all persons seemed to contemplate a note as one of the choices, a three-way offering would include both a long and an intermediate bond, whereas a two-way offering would include only one or the other.
Mr. Matteson of the Federal Reserve Bank of New York expressed the opinion, however, that serious consideration ought to be given to a three-way offering, even if the financing were confined to refunding the June's only.


There seems to be no question but that a 2 percent bond of appropriate maturity would be extremely popular with the market. Commercial banks generally would naturally prefer it to a longer bond for retention in their portfolios, and three of the seven life insurance companies consulted -- Metropolitan, Equitable, and Aetna* -- would likewise prefer it for current additions to their portfolios. Three of the remaining life insurance companies consulted -- Travelers, Connecticut Mutual, and Connecticut General -- would prefer a long bond, while the remaining company -- Phoenix Mutual -- felt that it was a toss-up as far as their own preference was concerned. The Savings Banks Trust Company believed that a long bond would be more attractive to savings banks than would an intermediate bond.

Mr. Matteson commented that he believed a great many more long bonds would be retained by the banks for their portfolios than you would suppose from talking to them. He said that the banks were becoming more "long-bond minded" than before; that he thought a long bond would go very well; and that the secondary distribution would present no serious problem.

D. New Issues vs. Adding to Old Issues.

The Federal Reserve Bank of New York people are very strongly in favor of adding to old issues, particularly the 2-3/4's of 1960-65, rather than putting out new issues at this time. Mr. Lebston of First of Boston, Mr. Garner of Guaranty Trust, and Mr. Miller of the Bank of New York were also very strongly of this opinion. If one or more old issues were added to, it would, of course, have to be at a premium. The prospect of paying such a premium would not worry the persons just cited, nor would it the insurance companies (who had, however, no opinion as to the relative advisability of adding to old issues or putting out new ones).

* See, however, comment in Part III below.
The Savings Banks Trust Company, however, stated that the savings banks were very averse to paying premiums, and strongly recommended new issues as opposed to additions to old ones.

Quite a number of persons cited the recent RFC issue as a precedent for selling bonds at a premium. Many of them did not seem to realize that an addition to an old issue involves, from the point of view of the Treasury, the further question of selling an issue at a price below that already quoted in the market, as well as the question of the payment of a premium pure and simple. It is interesting to note that all of the people in the Federal Reserve Bank of New York with whom Mr. Murphy talked expressed great satisfaction at the premium on the RFC note issue, and believed that it was their idea.

III. Additional Comments.

A. Treasury Bills.

The Federal Reserve Bank of New York people feel that the Treasury bill volume is far too low. Mr. Sproul stated that it could and should be increased by $650 millions at the present time, and that a billion dollars in addition to this could easily be put out if needed in an emergency. Messrs. Lienaton and Garner also felt that the bill volume should be increased, although their opinion on this point was less emphatic than that of Mr. Sproul. The Savings Banks Trust Company people, on the other hand, suggested that the entire bill volume at present outstanding should be funded into five-year notes. The remainder of the persons consulted had very little interest in the bill market one way or the other.

B. Investment Policies of Life Insurance Companies.

The investment policies of the various life insurance companies vary widely, as will be indicated by the three following examples:

1. Equitable. Equitable last year set out on a new tack in its investment policy by liquidating a large volume of Governments and purchasing a large volume of industrials and rails. Mr. Shailer, the Vice President in charge
Secretary Morgenthau - 6

of investments, is definitely of the opinion that interest rates will ultimately rise substantially from present day levels, and dislikes commitments in long Governments under present circumstances. As indicated above, he expressed a very strong preference for a maturity around 1950 for any additional purchases of Governments which his company might make.

2. Travelers. Travelers has always been a large holder of Government securities and was about the first of the large companies to expand its holdings during the past ten years. It is trying to get out as much money as possible in high-grade mortgages, principally upon commercial property, but has a large volume of funds which it is unable to use in this manner. Mr. Baker is very strongly impressed that the present differential in yield between corporate and Government bonds is not large enough to make the corporate bonds worthwhile investments, except in exceptional cases, and expects that the "residue" of the company's funds will continue to be invested in Governments. He is interested in the highest yield possible and is quite willing to take long maturities.

3. Aetna. Aetna is disturbed at the large proportion of its assets invested in Governments (about 25 percent — much below Travelers), and Mr. Brewster, its Treasurer, states that he hopes, if he can uncover adequate investment opportunities elsewhere, to go through the year without expanding the United States Government security portfolio at all. (It was noted above that if Aetna should expand its United States Government security portfolio, it would prefer intermediates to longs.) Mr. Brewster stated that during the last year his company had placed considerable emphasis in its investment policy upon municipal bonds, particularly revenue bonds.
Mr. de Jong called at 10:40 to advise us that gilders had been rather heavy in their market and wanted to know how they were quoted in our market. I told him that gilders were slightly better, at this minute quoted 53.14 - 53.17, after selling at 53.11. He told me that they had been selling dollars for the past few weeks and they had arrived at a point where they did not want the guilder to go lower than 53.08 in our market. Would I please make a note of it. I told his we would, of course, be very happy to do anything to assist him in this market. He then told me to buy up to 10,000,000 gilders at 53.08 plus remuneration for our agent. I asked him if he would kindly confirm this by cable which he said he would be very pleased to do.

Should we have occasion to operate against his order he would earmark the equivalent of gold for our account in Amsterdam and as in previous operations all shipping expenses for his account. I asked him how many dollars he had sold this morning. He said about $6,000,000 at 185 5/8 (55.08/2), but that gilders looked a little better right now. So there would be no misunderstanding, I further repeated his order that we would purchase for his account 10,000,000 gilders at 53.08 in the market and would advise him of our operations.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: February 27, 1939, 4 p.m.
NO.: 367
FOR THE TREASURY DEPARTMENT.

On today's exchange market, there was a renewal of the selling pressure against the belga and the florin, but in the end of the session the florin recovered slightly. Firm tendency maintained by sterling and dollar. More active and cheerful security market. Slight gains in rates. French financial press has quoted widely recent speeches by Government spokesmen in Washington defining the Government's attitude towards business recovery. The speeches have received very definite expressions of satisfaction and approval.

BULLITT.
PARAPHRASE OF TELEGRAM RECEIVED


DATE: February 27, 1939, 7 p.m.

SC.: 274

STRICTLY CONFIDENTIAL,

FOR THE SECRETARY OF STATE AND THE SECRETARY OF THE TREASURY.

I luncheed with Montagu Norman and told him that after being away from England for two months I was much impressed on my return to find a very much better feeling here, and on checking it up found that much of it seemed to come from a general belief that the German economic and financial situation was in a bad way. I asked Norman whether it would be possible for him to give me any information in this regard.

For the past sixteen years, Norman said, all of his information has come from Schacht, and I could consider Schacht the source of anything he would tell me and anything he said about Germany. I give the following report:

The day of announcement of Schacht's resignation Hitler called Schacht to his office, and talked to him about the situation in Germany for about 12 minutes. Hitler mentioned that there were only a few institutions that were not completely Nazi, and the Reichsbank was one of these; he went on about this at great length. At the end of about 10 or 12 minutes Hitler reached into a drawer and handed a paper across the desk to Schacht which was his notice of dismissal from his position.
Up to that time Schacht had not said anything. When he rose to leave the room he started to ask four questions, but he never got a chance to ask them because Hitler said he was too worried about the whole situation to bother talking it over with Schacht. The latter, realizing that he was finished, is now in Switzerland, having begun a trip around the world. Schacht did not have any trouble getting permission to leave Germany and getting enough money to pay his expenses.

According to Norman, the real reason for Schacht's dismissal, in addition to the one Hitler suggested, was the fact that a short time before he had warned Hitler that Germany must either decrease imports for armaments or increase exports. Hitler was left with no alternative, as it is impossible to increase German exports under present conditions, and they refuse to decrease armaments. Norman said that it would be a long time before there might be danger of any financial crack-up. He expressed the belief that the financial authorities will be very careful to show that they can carry on as well as Schacht did, and that they will follow his ideas religiously. He is also convinced that there are no short bills of the Government in the Reichsbank at the present moment for direct discount. However, he believes that there is no
no one in sight to assume the responsibility; he had had a good deal of confidence in Brinkmann, but he is completely gone mentally, according to Norman, and there is therefore no one he knows of who would be able to assume the responsibility and at the same time have the courage to say "no" to Hitler. However, Norman did make it clear to me that he does not think anyone can depend on the economic or financial situation cracking up to the extent that a war would have to be called off because of it.

Ribbentrop, Norman said, is the dominating factor under Hitler today; Goering is of the Waffen SS group and Norman does not think he is by any means as influential as he was at one time. Norman also told me something very interesting — Hitler had not received any advice or suggestions when he signed the Munich pact; when it was seen by Goebbels, Himmler and the rest, they saw visions of a peace really resting on the British Empire and that their work would be finished and they would no longer have jobs. Thereupon they set to work to make the working out of the Munich agreement an unsatisfactory one for the other powers which signed the pact. The foregoing may have had some bearing on the fierceness of the drive which this same group instigated against the Jews.

Norman
Norman believes that the German situation is not so bad as the Italian situation, but he is of the opinion that both countries can continue living as they are at present for some time to come. It is his strong belief that the Germans do not want war, and it is made more unlikely that they ever will by the constant interchange of responsible ministers between Great Britain and Germany.

Coming to the situation in Great Britain, Norman said he thought that sterling is likely to stay firm for quite some time; sterling is made much more stable in its movements by the fact that speculation has been eliminated. It is his definite belief that it is better to be busted and live than be solvent and perish. He thinks that as far as his country is concerned, a continuation of the policy of spending means economic chaos.

As for France, Norman thinks that Reynaud has done a splendid job of financing, but senses his difficulty in having to go to the public for large loans very soon. He does not see financial difficulty ahead for Great Britain for another year. Then, his bunch is, something will happen to bring to a climax the problem of big spending and worry about war — he does not know what it will be.

Norman is completely in accord with the policy of the Prime Minister, but he feels animosity against the only
only man in England who can be depended upon to carry on through the difficult times now being experienced.

The following is a summary of the discussion -

1. For the short pull, Norman is not bearish on the economic and financial position of Germany.

2. For the present minute he thinks that sterling is in good condition.

3. The present financing will be a success.

4. Norman is apprehensive of everything after the current year.

KENNEDY.
February 27, 1939.

Dear Mr. Anderson:

It was most kind of you to respond so promptly to my telephoned request, and I want to thank you very much for your letter of February 26th. The information and comment it contains, together with your suggestions, are all being studied most carefully.

I shall probably write you for additional information and advice, and deeply appreciate your willingness to cooperate.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Arthur Anderson,
135 South La Salle Street,
Chicago, Illinois.
February 27, 1930.

Dear Mr. Knollenberg:

It was most kind of you to respond so promptly to my telephoned request, and I want to thank you very much for your letter of February 25th. The information and comment it contains, together with your suggestions, are all being studied most carefully.

I shall probably write you for additional information and advice, and deeply appreciate your willingness to cooperate.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Bernhard Knollenberg,
Box 1903a, Yale Station,
New Haven, Connecticut.
February 27, 1939.

Dear Roswell:

Your very prompt and interesting letter of February 26th, written in response to my telephoned request, is very deeply appreciated. You gave me just the sort of information and suggestion that I wished to have, and I am studying your letter most carefully.

I shall probably be writing you soon again asking for further information and advice along the same lines.

With cordial regards and all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Roswell McGill,  
School of Law,  
Columbia University,  
New York, New York.
DEPARTMENT OF STATE
WASHINGTON
February 27, 1939.

Dear Mr. Secretary:

I am transmitting, in accordance with our conversation of yesterday, a copy of the "Draft Convention" prepared by the Technical Committee of the National Defence Expenditure Commission of the Disarmament Conference dated Geneva, 1935.

I find that Conference Document 194, September 12, 1938 reports that the Secretary General of the League circulated all governments parties of the Disarmament Conference on June 19, 1937, asking for observations on the document.

Document 194 reports that the United States took the following position in respect to the Draft Convention:

"The Government of the United States of America, while reserving its position in full with regard to the draft Convention drawn up by the Technical Committee, is prepared to renew its acceptance of the actual principle of budgetary publicity and to accept as a basis of discussion a system

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
a system of publicity of national defence expenditure in accord with the principles enumerated in the afore-mentioned draft Convention.'

"It expresses further the view that any agreement which may result with regard to one phase of the comprehensive problem of disarmament must be regarded as a complementary measure, a corollary, to a direct general reduction of armaments. Pending a solution of basic economic and political problems, and until the efforts to reach a general settlement of the armaments problem may be crowned with success, partial agreements should be approached with caution and only upon assurance that they would not accentuate existing differences of points of view and that all countries would be willing, ultimately, to accept their provisions."

Very sincerely yours,

[Signature]
LEAGUE OF NATIONS

CONFERENCE FOR THE REDUCTION AND LIMITATION OF ARMAMENTS

PUBLICITY OF NATIONAL DEFENCE EXPENDITURE

DRAFT CONVENTION

prepared by the Technical Committee of the National Defence Expenditure Commission

GENEVA, 1935
The present edition of the Statistical Year-Book of the Trade in Arms and Ammunition embracing the foreign trade of almost every country in the world, is arranged in an entirely new plan. The statistical tables are now easier to grasp, being constructed on more uniform lines.

The data, based on the latest publications, go down to January 1st, 1934, for a large number of countries. The statistical tables are preceded by an introduction describing the features of the foreign trade of the countries under review. Exports and imports are shown in the country of each country in Parts I and III, and in gold dollars in Part II [General Summary].
LEAGUE OF NATIONS

CONFERENCE FOR THE REDUCTION AND LIMITATION OF ARMAMENTS

PUBLICITY OF NATIONAL DEFENCE EXPENDITURE

DRAFT CONVENTION

prepared by the Technical Committee of the National Defence Expenditure Commission
Addendum to the Preliminary Note.

Add at the end of the Note as given on page 5 the following paragraph:

The Technical Committee feels bound to draw the General Commission's attention to the fact that, in accordance with the general provisions of the Convention, it has provided in the articles and instructions, the drafting of which was entrusted to it, stipulations of a special character ensuring from a technical standpoint reciprocity of the obligations contracted by States in regard to the publicity of national defence expenditure.

Indeed, notwithstanding the diversity of institutions and particularly of the rules of public accountancy, the Committee considers that the differences between one country and another will not prevent the satisfactory operation of the system of publicity which it has devised, and that the conditions of the application of this publicity laid down in the articles of the Convention actually guarantee, having regard to the practical aim in view, the reciprocity of the obligations to be undertaken by States.

The Technical Committee is aware that the final decisions which will be taken by the General Commission in other spheres may necessitate amendments in certain parts of the attached instruments concerning the publicity of national defence expenditure. It notes, in particular, that the General Commission has not yet taken any decision regarding the police forces and similar formations which are covered by Article 12 of the United Kingdom draft Convention and which might have to be included in the calculation of effective. The Committee draws attention to the possible necessity, in the light of the decisions taken by the General Commission in this sphere, of introducing certain amendments into the texts it proposes.
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Preliminary Note.


Since then, the Technical Committee has undertaken, in the circumstances related in its complementary report (document Conf.D.152, Volume III), a fresh examination of its original draft and has adopted the final draft Convention contained in the present volume.

... *

... *

In accordance with its general report (document Conf.D.152), the Technical Committee submits at the end of the draft Convention a number of statements related to questions which, although they could not at the present time form the subject of contractual obligations by the contracting parties, are nevertheless of some importance from the point of view of perfecting a system of publicity. The reasons for these statements and for the detailed explanations regarding the questions dealt with in the draft Convention are set forth in detail in the report, to which reference should be made for further particulars.

...
A. DRAFT CONVENTION.

DRAFT ARTICLES.

Article A.

The High Contracting Parties undertake to give publicity to all national defence expenditure by whomever that expenditure is incurred and whatever the nature and origin of the resources out of which the said expenditure is met.

Such publicity shall be given in conformity with the stipulations contained in Articles B to D and in the annexes to this part of the Convention and on the basis of reciprocity stipulated in these articles and in their annexes.

Article B.

Each High Contracting Party shall communicate the following documents:

1. (a) The draft general budget (estimates) of the central power, the draft individual budgets of each of the departments of National Defence;
   (b) The draft individual budgets (estimates) of other Ministries and draft special budgets whenever these documents include national defence expenditure.

2. (a) The general budget of the central power and the instruments enacting that budget, the individual budgets of each of the departments of National Defence;
   (b) The individual budgets of other Ministries, of colonies, protectorates, overseas territories, territories under the suzerainty of the High Contracting Parties or for which a mandate has been conferred on the High Contracting Parties, and special budgets, whenever these various documents include national defence expenditure.

3. (a) The general closed accounts of the central power, the individual closed accounts of each of the departments of National Defence;
   (b) The individual closed accounts of other Ministries, of colonies, protectorates, overseas territories, territories under the suzerainty of the High Contracting Parties or for which a mandate has been conferred on the High Contracting Parties, and special accounts, whenever these various documents include national defence expenditure.

Article C.

The High Contracting Parties shall forward the documents specified in paragraphs 1 and 2 of Article B within a period of thirty days of their publication, or, alternatively, of their receipt by the central home administration, and in any case within a period of three months from the date on which the aforementioned documents are given their final form.

The closed accounts specified in paragraph 3 of the same article shall be despatched within thirty days of their publication, or, alternatively, of their receipt by the central home administration. In any event, such accounts shall be published in time to be attached to the statement, the communication of which is provided for in Article F of the present Convention.

Article D.

The High Contracting Parties shall forward a statement of the estimates of national defence expenditure compiled in accordance with the instructions given in the annexes in respect of the first two financial years following the coming into force of the Convention. This statement, accompanied by reconciliation tables, shall be despatched within three months of the beginning of the financial year in accordance with the conditions mentioned in Annex III, x (b).

For the third financial year and following financial years, the High Contracting Parties undertake to furnish a statement of their estimates of expenditure in the simplified form which the Permanent Commission will indicate. In drawing up the form of this statement, the Permanent Commission shall endeavor, in the light of the experience gained during the preceding years, to reduce the figures shown in the statement to one global figure for each of the forces.

Article E.

The High Contracting Parties shall forward for each financial year two summary statements showing, in relation to the grand total of the initial national defence expenditure authorisations, what changes have been made in that total from the time when the authorisations were fixed up to the end of periods of nine and fifteen months respectively, reckoned from the beginning of the financial year.

The two aforementioned summary statements, compiled in accordance with the instructions laid down in Annex IV, shall be despatched within fifteen days of the expiry of the two periods of nine and fifteen months respectively, referred to in the preceding paragraph.
Article F.

The High Contracting Parties shall despatch within fourteen months of the end of the financial year a statement of the payments effected, compiled in accordance with the instructions prescribed in Annex III.

This statement shall be based on the closed accounts, the communication and dates of despatch of which are prescribed respectively in Article B, paragraph 3, and Article C, paragraph 2.

In addition, the High Contracting Parties shall attach to the statement the following supporting documents:

A certified statement of the national defence expenditure included in the accounts of the federated States.

A certified statement of the national defence expenditure effected by regional or local public bodies.

Article G.

Without prejudice to the general provisions of the Convention relating to supervision, the High Contracting Parties undertake to communicate, on receipt of a special request accompanied by a statement of reasons from the Permanent Commission, the individual budgets and accounts of civil ministries, special budgets and accounts, the budgets and accounts of federated States or of regional or local bodies, the regular and periodical communication of which is not provided for under the terms of Article B.

Article H.

The High Contracting Parties undertake, so long as the Convention remains in force, not to reduce the degree of detail of their budgets and accounts as submitted to the Conference to an extent which would make it more difficult for the Permanent Commission to check the accuracy of the figures contained in the statements and to follow the financial outlay devoted by each State to its armed forces.

Such High Contracting Parties as have laid before the Conference unpublished budgetary documents of a more detailed character than those actually published at the time when the unpublished documents were submitted, undertake in future to introduce into their published budgets and accounts a degree of detail at least as great as that of the unpublished documents submitted to the Conference.

As regards the High Contracting Parties whose documentary material it was not possible for the Conference to examine, the Permanent Commission will decide whether the degree of detail of the published budgetary documents furnished in support of the first statements supplied in execution of the Convention is satisfactory; if necessary, it will specify any modification in the detail which, in its opinion, should be introduced.

Article J.

The Permanent Commission shall verify the statements provided for in Articles D and F of the present Convention before publishing them.

During the examination of these statements, the Commission may ask the Governments concerned for any additional particulars and explanations that it considers necessary.

If, as a result of this examination, the Commission considers that alterations should be made in the figures supplied, it shall inform the Government concerned of the changes which it would wish to be made in these figures, stating the reasons therefor.

The statements submitted to the Permanent Commission shall be published. The statements submitted by the Commission shall show the figures as supplied or corrected by the Governments.

Should agreement not be reached between the Commission and the Governments concerned as regards the figures in the statements, the Commission shall attach to the statements a note specifying in detail the changes which it considers should be made in the figures submitted by the Government.

Article K.

The Permanent Commission shall follow the progress made by the States in the presentation of the documentary material provided for in the preceding articles.

By the continuous examination of the whole of this documentary material, the Commission shall, on the one hand, follow the development of the financial outlay devoted by each State to its national defence and, on the other hand, see the changes in the military strength of each country by means of the information thus collected.

Article L.

The High Contracting Parties shall forward to the Permanent Commission all the documents enumerated in Article B, paragraphs 1 and 2, in respect of the financial year already in progress at the time of the entry into force of the Convention. These documents shall be despatched not later than two months after the entry into force of the Convention. Within nine and fifteen months respectively, of the beginning of the financial year in progress when the Convention comes into force, the High Contracting Parties shall despatch a list of all laws and other instruments by which the grand total of the initial national defence expenditure authorisations in respect of that year may have been changed, together with the texts of all such laws and instruments.

Article M.

The first statement supplied by the States in pursuance of the provisions of Article F shall be accompanied, not only by the closed accounts relating to the financial year for which this statement is compiled, but also by the closed accounts of the three previous financial years.

If the High Contracting Parties, when presenting the first statement, are not in a position to communicate the closed accounts for the three previous financial years, they shall lay before the Permanent Commission certified statements of payments effected for national defence during each of these three financial years, it being understood that the closed accounts themselves of the last three financial years will be despatched as soon as possible.

Article N.

The High Contracting Parties referred to in Article H, paragraph 2, shall be entitled to despatch their draft budgets and budgets together with the accounts in respect of the first two financial years in the form in which such documents were published prior to the entry into force of the Convention. In support of the statements, they shall, however, append certified statements of estimates and payments so compiled as to have the same practical value for the purpose of checking by the Permanent Commission as the statements of payments submitted to the Conference.
CONVENTIONAL LIST OF ITEMS OF NATIONAL DEFENCE EXPENDITURE

ANEX I.

National defence expenditure is expenditure in respect of military formations, services and establishments of the land, naval and air forces, in the home country and overseas, in particular:

- Central administrations;
- Missions;
- Military attaches;
- Headquarters staffs and staffs of commands;
- Armies and services of the armed forces;
- Combatant and non-combatant personnel of the land armed forces, industry, artillery, engineers and signal corps, tanks, anti-aircraft units, combatant and non-combatant personnel of all categories of the naval armed forces, flying, non-flying and auxiliary personnel of the air armed forces and all formations and establishments of the land, naval and air armed forces, including the air force;
- Supply corps, transport troops;
- Pay and accounting technical services;
- Recruiting services;
- Medical and hospital services;
- Remittance and veterinary services;
- Religious institutions;
- Military police;
- Justice and prisons;
- Colleges, schools and training centres;
- Scientific services, historical sections, records, libraries;
- Geographical service, hydrographical or costral surveys, cartography, geodesic and topographical services;
- Meteoro]ogical service and astronomical service.

This expenditure includes:

1. In respect of Expenditure on Personnel:

Pay, rank and allowances, allowances of all kinds, houses, grants, maintenance, family and other allowances, grants for the civil professional training of women travelling and pension allowances, contributions to social insurance funds (infants, old age, invalidity, unemployment, etc.) on behalf of military and civil personnel, whether normally serving or forming an effective part of the formations, services and establishments of the land, naval and air forces, personnel of the police forces and similar formations to be included in the table of officers (probation); with the colours, unattached or no leave, persons undergoing preparatory military training, officers appointed to duty during periods of training or lest.

Expenditure on maintenance, etc.:

- Expenditure for meeting the immediate requirements of the effective normally forming part of military formations, services and establishments, and of personnel called up for periods of training, especially expenditure on subsistence, clothing, equipment, lodging, transportation, laundry, social and medical services, office expenses, etc., services or various kinds of expenditure not covered by 1. 2 and 3.
- Expenditure for military, physical, and other training in education, games, and various amusements, including subsidies for these purposes, expenditure in respect of compensation for losses and damage caused by military formations, services and establishments.

In respect of the creation and maintenance for military purposes of reserves of goods, foodstuffs, raw materials or products relating to the aforementioned requirements, subsidies.

2. In respect of Expenditure on Transport.

Expenditure relating to horses and other animals, the purchase of raw materials, land transportation and their repair and maintenance, irrespective of whether such materials and products (refuge, shipping material, harness, solid fuel, liquid fuel—whether for vehicles, ships or aircraft—ammunition, etc. square parts and accessories) are intended for stock or current use, together with expenditure on transport and communications services (railways, post, telegraph, telephone, radio) rendered by non-military organisations.

Subsidies for a military nature for horse-breeding and the training of horses, mules and other saddle draught and pack animals; subsidies paid for military purposes to transport undertakings, ship-owners or other expenditure relating to the organisation of communications with a view to prevent against air raids, and generally speaking, all other expenditure in respect of fuel, whether for vehicles, ships or aircraft, transport and communications.

3. In respect of Expenditure on Buildings.

Expenditure relating to the construction, repair and upkeep of fortifications and defences works.

Expenditure relating to the purchase and hire of land and buildings, building operations, sanitation of gas, electricity and water, improvement, extension, upkeep and repair thereof, and all current expenditure on gas, electricity and water; heating and lighting of all kinds of buildings, including factories, warehouses and heavy plant (barracks, accommodation, schools, hospitals, prisons, cattle-stables, stables, State establishments for meeting the material needs of the military units, store-houses and depots, hangars, aerodromes, training camps and ranges, sheds for stores, etc. marine works in naval ports and naval bases, including landing-stages and all other works for the land, naval or air forces and formations).

Expenditure relating to the construction, modification, repair or upkeep for specifically military purposes of roads, bridges, railways, landing-stages, jetties, lighthouses, lightships, radio stations, power stations, etc., together with draining and similar works.

Subsidies granted for military purposes with a view to the purchase, hire, improvement, extension, upkeep and repair of the buildings and objects mentioned above under this heading, or any similar expenditure.

4. In respect of Expenditure on War Material.

This expenditure comprises, for all categories of war material specified below:

Expenses of upkeep and repair, purchase from private traders or manufacturers, manufacture in State factories, of ships, goods, materials and munitions, whether complete or in parts, intended either for purposes of training in time of peace or for the equipment and armament of forces on a war footing, the purveying and supply of material of all kinds for these forces and also the expenses relating to the creation and maintenance in State or private factories of stocks and plant intended solely for the construction of warlike stores.

Cost of scientific research and experiments, expenditure on the inspection of material delivered and preparation of programmes for material, expenditure on the supervisory services, expenditure relating to the preparation of industrial mobilisation as regards war material and all other similar expenditure.

Subsidies granted to industries, undertakings and workshops which normally manufacture war material in peace time, with a view to the installation, upkeep or extension of plant and equipment for the manufacture of war material and the creation or maintenance of stocks of war material. Subsidies granted to undertakings and workshops which do not normally manufacture war material in peace time with a view to preparing them for industrial mobilisation, i.e. on engaging them in peace time for the production of war material as soon as mobilisation begins.

Subsidies granted to the mercantile marine expressly with a view to the use of merchant ships in war time for the transport of goods, munitions, raw materials and products relating to the aforementioned requirements. Subsidies.

The classes of material mentioned above are as follows:

A. In respect of the Land Forces:

- Armaments, lighting material and other war material, engineering material:
- Small arms and automatic firearms; rifles, muskets, carbines, revolvers and pistols, quick-firing rifles and quick-firing pistols, machine-pistols, machine-guns and batteries for throwing projectiles, including vehicles for their transport.
ANNEX III.

INSTRUCTIONS FOR COMPILING THE STATEMENTS AND THE RECONCILIATION TABLES.

PART I.

INSTRUCTIONS FOR DETERMINING THE EXPENDITURE TO BE ENTERED IN TABLES I TO IV OF THE STATEMENTS (ARTICLES D AND F OF THE CONVENTION).

1. Purpose of the Instructions: In order to determine the expenditure to be entered in the statements, estimates of expenditure or of payments effected, the contracting parties shall comply with the general instructions here below, paragraphs 2 to 10, and, further, in respect of each of the two statements, they shall comply with the rules laid down in paragraphs 30 to 38 and 39 to 54 of the present instructions.

Section (a).

GENERAL INSTRUCTIONS FOR THE STATEMENTS (TABLES I TO IV).

2. Determination of the Expenditure to be entered in the Statements. The expenditure to be entered in the statements provided for in Articles D and F of the Convention is that which, in general, is necessitated or entailed by the creation, maintenance and training, in time of peace, of armed forces and by immediate preparation for mobilisation.

Such expenditure is scheduled in the conventional list of national defence expenditure in Annex I. In accordance with the provisions of Article A of the Convention, the contracting parties shall enter in their statements all expenditure in respect of the purposes scheduled in the aforementioned list, by whomsoever incurred and irrespective of the nature and origin of the resources from which such expenditure is defrayed.

3. Exceptional and Unforeseeable Expenditure. Deductions shall be made from the totals of national defence expenditure in respect of certain expenditure of an exceptional and unforeseeable character resulting from the employment of the armed forces, and the loss or destruction of material of all kinds, in so far as such expenditure shall have increased the armed strength of the State by which the deductions are made.

Deductions shall only be made under the provisions of the foregoing paragraph in respect of expenditure entailed by natural calamities, such as earthquakes, cyclones, tidal waves, large-scale explosions, epidemics, the repression of internal disturbances, civil wars, rising in distant possessions and the protection of the life and property of nationals in danger. The deduction shall be assessed, as the case may be, on the value of the material or buildings destroyed, if such are replaced, or on the cost of restoring or repairing damaged buildings or materials, and likewise on the cost of transport, additional appropriations or grants of every kind, or any other additional expenditure entailed by the exceptional use of the armed forces.

When in accordance with the above provisions a State deducts unforeseeable and exceptional expenditure, it shall show the total of these deductions in a note at the bottom of each of the tables I to IV of the statement. This note shall be worded as follows:

"These sums do not include exceptional and unforeseeable expenditure amounting to..." (For details of the deductions, see the reconciliations tables.)

If a State considers that the unforeseeable and exceptional expenditure is not of sufficient importance to influence the interpretation of the figures of national defence expenditure for the purpose of publicity, it may insert the amounts of this expenditure in tables I to IV of the statement.
4. Expenditure

Expenditure occasioned by the reduction of armaments must be entered in the statements. Nevertheless, sums paid to third parties in compensation for the cancellation of building or manufacturing contracts or the purchase of materials or equipment, and sums paid for reductions in the salary of military personnel, will be deducted from the expenditure to be entered in the statements. If any such deduction has been made, it shall be mentioned at the bottom of the tables 1 to IV of the statement. This note shall be worded as follows:

The above amounts do not include expenditure on compensation for cancellation of contracts entailed by the reduction of armaments amounting to $... (For details of the deductions, see the reconciliation tables.)

5. Expenditure on the Construction, Upright and Upkeep of Railways, Canals, Roads, Bridges, Aerodromes, etc.

Expenditure on the construction, upkeep, and maintenance of railways, canals, roads, bridges, aerodromes, and military installations, shall be entered in the statements. This expenditure shall be entered in the tables 1 to IV of the statement.


Expenditure on the construction, operation, and upkeep of geographical, hydrographical, cartographical, and geodetical services, and other survey and meteorological services, shall be entered in the statements.


Expenditure on the construction, operation, and upkeep of buildings, furniture, office equipment, printing, and certain health services, shall be entered in the statements.

8. Expenditure on the Civil and Military Activities of the State.

Expenditure on the civil and military activities of the State, shall be entered in the statements. This expenditure shall be entered in the tables 1 to IV of the statement.

The propinquity of such mixed expenditure to be entered in the statements shall be as far as possible in accordance with the following instructions, which are intended to assist the reader in the use of the tables given below.

9. Expenditure on the Pay of Military Personnel seconded for Service with Civil Departments.

Expenditure on the pay of military personnel seconded for service with civil departments, shall be entered in the statements, even where such pay was not included in the military budget for the year or period concerned. This would be the case with expenditure on the pay of officers seconded for service with certain civil departments, for the military personnel seconded for service with civil departments, must be entered in the statements even where such pay was not included in the military budget for the year or period concerned.
5. Expenditure out of Funds derived from Gifts and Bequests.

Under the provisions of Article A of the Convention, national defence expenditure financed from the proceeds of donations or bequests received by the defence services from associations or private individuals should be included in the statements.

6. Associations.

All subsidies granted by the State or by regional or local public bodies to associations for national defence purposes must be included in the statements.

The expenditure incurred by associations out of their own funds for their own purposes may be included from the amounts to be entered in the statements. Nevertheless, the expenditure of these associations on the purchase, upkeep or repair of arms and ammunition and fighting material as specified in the Conventional List of National Defence Expenditure (Annex I) and the Instrument of Classification (Annex III, part a), must be included in the statements. If such expenditure cannot be computed on the basis of accounts, an estimate shall be made and the amount thereof entered in the statements. If this expenditure is insignificant, it may be excluded from the statements.

The nature and the purposes of the associations whose activities have a bearing on national defence shall be indicated in a note appended to the reconciliation tables.


Should a contracting party incur expenditure for such purpose as supplies, material or services intended for a foreign Government, such expenditure shall be excluded from the statements of the Governments delivering the supplies or rendering the services for the year in which the expenditure was appropriated or incurred. The application of this principle will not, however, be held to preclude a national defence department from deducting, as the expenditure in question, the total of the amount repaid, provided that the latter can be deemed to be equivalent to the actual expenditure and can be more easily traced in the accounts than the actual expenditure.

11. Expenditure by a National Defence Department on Articles for Delivery to Civil Authorities.

Should a national defence department incur expenditure on arms—by purchase, supply, or service rendered to civil authorities, associations or private individuals, the expenditure on such arms may be deducted, except, however, expenditure on the purchase, manufacture or construction of arms, ammunition and fighting material as specified in the Conventional List (Annex I) unless such expenditure has been covered by State subsidies (see above).

The application of the principle of deducting expenditure borne to a national defence department for the benefit of a civil department shall not affect the accuracy of the accounts or the accuracy of the expenditure on practical grounds.

12. Expenditure on the upkeep, repair, manufacture or construction of armament establishments.

Expenditure on the upkeep, repair, manufacture or construction of armament establishments to the national defence departments is entered in special accounts for these establishments. The special accounts of these armament establishments show, as a matter of principle, all expenditure in the budgets and accounts of national defence departments.

The expenditure on such armament establishments, and also their expenditure on new plant, the improvement of existing stocks which are charged against the general budget, or of funds supplied by third parties (State, etc.) shall be entered in the statements otherwise than in the national defence departments.

(a) Expenditure authorities shall be in accordance with the provisions of Article D of the present Convention on the basis of the Draft Budgets. The statement shall include the amount of the expenditure authorities shown in the State budget (unitary State or federal State) whenever such budget is enacted in time to permit of the transfer of the amounts therein entered in the statement to be despatched within the period prescribed in Article D of the present Convention.

(b) Budgets for several successive years.—Should the annual State budget be enacted in advance for a number of successive years, the statements relating to the second and subsequent years shall include the amounts of the expenditure authorities shown in the budget for the preceding year.

(c) Extended periods.—In the event of the budget not having been enacted in time to permit the preparation of the statement for the following year, the latter shall take account of the modifications that have been introduced.

22. Statement concerning the Basis of the Draft Budgets.

In all cases other than those mentioned in paragraph 21, the statement shall include the amounts of the expenditure authorities shown in the draft budget (Estimated) of the State (whether the unitary State or Federal) published within the meaning of Annex II, paragraph 5, or should that document not be published, in the draft budget as drawn up at the time when the statement of estimated expenditure is prepared.

Such draft budget shall be communicated in time to be attached as a supporting document to the statement of estimated expenditure.

23. Block Credits and Transferable Credits.

Should credits be granted to the national defence services for several years on the understanding that an instalment of such credits shall be entered in each year's budget, the amounts of such annual instalments shall be entered in tables I to IV of the statement. Where credits are granted for several years in one budget without the entry in the budgets of each of the following years of such part of the credits as may remain available at the end of each financial year, the full amount of such credits shall be entered in tables I to IV of the statement for the year in which they are granted.


In the event of the State budgets not being finally enacted until after the despatch of the statement, the contracting parties shall notify the Permanent Commission within two months of the date on which the State budget is enacted of any respects in which the statement requires to be rectified.

Such rectifications shall also take account of any changes made since the despatch of the statement in the estimates of expenditure outside the budget and in the estimates of national defence expenditure of regional or local public authorities.

25. Inclusion in the Statement of Expenditure Authorities outside the Budgets.

In pursuance of the provisions of Article A of the present Convention and of paragraph 4 of the general instructions, whenever funds are appropriated under authorities outside the budget for one or more of the purposes scheduled in the list of national defence expenditure, the amount of each such expenditure authorities shall be shown in the statement, irrespective of whether they were granted by legislative or administrative action.

Where the employment of such funds is governed by one or several published authorities, or in the amount or any fraction of the amount of such authorisation or authorisations relating to national defence expenditure to be expended outside the budget in the financial year which shall be shown in the statement.

Where the employment of funds allocated outside the budget to national defence has been decided without the expenditure being embodied in published expenditure authorities, an estimate of the expenditure to be effected by national defence purposes in the course of the financial year shall be entered in the statement.

In the latter case, an explanatory note in the reconciliation table shall be added stating the purpose of purposes such expenditure is to be applied.

26. Expenditure Authorities outside the Budgets for several years.

If under special provisions national defence expenditure is authorised outside the budget not earlier than in the current financial year but also the subsequent financial years, tables I to IV of the statement shall include the amounts of such authorities as may be shown within the meaning of the national law of the country concerned in the course of the financial year, etc., the amounts for which liabilities may be incurred, liabilities acknowledged, orders for payment issued or payments actually made, as the case may be.


In application of the provisions of paragraph 15, the statement shall also include the estimated expenditures to be effected out of all kinds of receipts which national defence services are authorised to collect and use in the course of the financial year.


Loans shall include all expenditure made in the budget to meet loans by exchange which may recur in the case of purchases of goods or services rendered abroad for the requirements of national defence during the financial year.

Section (c).

Special Instructions for Compiling the Statement Provided for in Article F of the Convention.

P. Determination of the Year in which the Statement shall be prepared.

This statement shall include all payments made during the fiscal year in respect of the purposes scheduled in the list of national defence expenditure and entered in the list as to be entered in the statement.

(a) State and Local Authorities.

In consequence, all national defence payments shown in the budget accounts, special accounts and other accountancy documents, if any:

(i) of the unitary State or federal State (national defence ministries and services, internal affairs ministry, and, where appropriate, other civil ministries and services);

(ii) of the colonies, protectorates, overseas territories or territories under the sovereignty or mandate of the contracting parties;

(iii) of the federated States, of all regional and local public authorities in the home country and colonies;

shall be transferred to the statement.

(b) Associations.

The entry in the model statement of payments made for national defence purposes by associations is dealt with in paragraph 9 of the general instructions.

(c) Private Individuals, Various Services.

(i) Should military personnel be required to supply at their own expense their own means of subsistence and all or part of their equipment, arms, clothing, or food, without receiving compensation, the amount of expenditure borne by such personnel shall be entered in the statement.

This rule does not apply to any of the expenditure listed above which may be defrayed by military personnel out of their pay, when the rate of their pay is so calculated as to enable them to meet such expenditure.

(ii) Should national defence works be carried out by workers who are normally employed by companies or private individuals and continue to be paid by such companies or individuals for the national defence work on which they are engaged, no payment being made by the State on that account, the amount of the wages thus received by such workers whilst engaged upon the aforesaid work shall be entered in the statement.

In the event of its being possible only to estimate the expenditure referred to in (i) and (ii) the amounts of these estimates (which are to be shown in the specimen table of the Special Information, No. 9, appended to the reconciliation tables) shall be inserted in the statement.

Conventional Definition of Payments.

For the purposes of the Convention, the payment is the act which discharges the debtor from his debt either by the delivery to the creditor of the sum due to him, or by the placing of the amount of the said sum to the creditor's account in a banking institution. or, again, by the transfer of the sum to a third party, if the law recognizes such delivery as discharging the debt.
PART I.

CLASSIFICATION OF EXPENDITURE IN TABLES I TO IV OF THE STATEMENTS.

A. GENERAL PROVISIONS:

1. Purpose.

The annual returns of national defence estimates and payments provided for in Articles II and F of the Convention shall be compiled in accordance with the General Statement to be found in Annex V and with the instructions set forth in the present Annex.

2. Separation of Expenditure on Three Forces

The expenditure entered under the headings of the statements shall correspond to the purpose specified in such headings and in the present instructions.

3. Separation of Expenditure on Three Forces respectively shall be drawn up as far as possible on the basis of estimated expenditure and actual payments for which separate figures are shown in the budgets and accounts.

4. Common Services administered by one of the National Defence Forces.

Even if there are separate accounts for the expenditure of each force, the expenditure of the national defence ministries or departments under the General Statement are entered in the budgets of the national defence ministries or departments in respect of which they are administered.

A. Inclusion of the Payments made in the Course of the Financial Year.

The statements shall include all payments made during the financial year, even when such payments are charged against extraordinary claims originating in previous financial years and are made in settlement of claims originating in previous financial years, irrespective of whether the payments concerned are entered in the budgetary accounts proper or in special accounts (arrears accounts, etc.).

5. Services rendered by Civil Services.

Expenditure in respect of services rendered to national defence by Civil Services shall be included in the budgetary accounts proper or in special accounts (arrears accounts, etc.), and in the accounts of the National Defence Forces.

6. Expenditure on Fortifications, Coast Defence, Air Defence and Shipping Belonging to the Land Forces.

Expenditure shown in a special account should be entered in the budgets for the land forces when relating to fortifications or coast defence and in the budgets for the air forces when relating to air defence. The nature of this expenditure and its allocation among the various services of the statement should be shown clearly in the reconciliation table, Table R, column 8.

7. Optional Columns.

States may, if they so desire, separate columns in the columns of the statement intended for this purpose, expenditure on the armed forces stationed in the home country and overseas respectively; they shall also be entitled to split national defence expenditure between the columns relating respectively to the armed forces and other formations stationed in the home country or overseas.

8. Derogations.

In order to meet the difficulties which may arise in carrying out the above instructions in view of the varied character of the national defence organisations and institutions of the various countries, the contracting parties shall be entitled to depart from these instructions in cases where they find it impracticable to comply therewith.
The contracting parties may avail themselves of this right under the following conditions:

(a) The contracting parties shall endeavour to follow the instructions as closely as possible.
(b) If difficulties be encountered which call for a special solution, the contracting parties undertake:

(i) To make it clear that derogations have been resorted to;
(ii) To specify the nature of such derogations and the method adopted, when including the final statement;
(iii) Not to change the method adopted during the period of the Convention without informing the Permanent Commission.

B. DETAILED PROVISIONS.

Instructions for the Classification of Expenditure indicated in the Left-hand Column.

The expenditure on the personnel and material enumerated in the left-hand column should be classified under the various heads and subheads of Tables I to IV of the statement according to the following detailed instructions:

1. IN RESPECT OF EXPENDITURE ON PERSONNEL;

2. PERSONNEL.

Subheads A and B.

Subhead A — PAY AND ALLOWANCES OF ALL KINDS: OFFICERS,

Subhead B — PAY AND ALLOWANCES OF ALL KINDS: N.C.O.'S

and Men.

1. Subheads A and B should include the pay and allowances of all kinds of the officers, N.C.O.'s and men normally forming an effective part of military formations and services.

2. The following should be regarded as normally forming an effective part of formations and services: Officers, N.C.O.'s and men who, under the legislation in force in their own countries, carry out their duties in the formations and services of the active or regular land, naval or air armed forces either in a professional or permanent capacity or when performing an initial period of service.

3. The remuneration paid to personnel on furlough who may be required to resume active service on the expiry of their furlough should be entered under Subheads A and B.

4. Should any difficulty arise under national legislation in making a distinction between an officer and an N.C.O., the personnel in question should be classified under one of the two Subheads A and B according to the interpretation of the Powers concerned; but, in doubtful cases, the system adopted should be indicated in an explanatory note.

5. These Subheads should also include any part of the pay of military personnel which is not actually handed over to those concerned until they leave the service.

6. The following expenditure should not be included in these Subheads:

(a) The remuneration of military personnel attached to the services whose expenditure should be shown under Subheads I to V;

(b) The pensions of military personnel, the State's contribution to pension funds and gratuities in lieu of pensions (see Part 3 of the present Annex).

Subhead C — PAY AND ALLOWANCES OF ALL KINDS: CIVILIANS

Personnel.

1. Subhead C should include pay and allowances of all kinds assigned to civilian personnel for national defence purposes.

For the purposes of this subhead, civilian personnel shall be deemed to include civilian chaplains, civilian doctors, civilian dentists, civilian pharmacists, civilian nurses, civilian veterinary surgeons; civilian schoolmasters and teachers; advocates; civilian technical and scientific staff; civilian office staff and accounting staff, civilian cleaning and domestic staff, civilian workers, non-military police and all other non-military staff, male or female, whether permanently employed, hired or engaged under contract by military formations, services and establishments, with the exception of personnel the expenditure on which is to be shown under Subhead IV.

2. This subhead should include any unemployment benefit which the aforementioned personnel employed for national defence purposes may continue to draw, as well as any additional allowances which may be paid to them for such purposes.

3. The present subhead should not include:

(a) The remuneration of military chaplains, doctors, male nurse, veterinary surgeons, etc. (to be entered under Subheads A, B and D);

(b) The remuneration of civilian personnel to be shown under Subheads I to V;

(c) Pensions paid to civilian personnel, contributions by the State to pensions funds and gratuities in lieu of pensions (see Part 3 of the present Annex).
Subhead D.

PERSONNEL NOT ORDINARILY FORMING A PART OF FORMATIONS AND SERVICES. PERSONS UNDERGOING PRE-MILITARY TRAINING, RESERVED PERSONNEL, AND PERSONNEL NOT ORIGINALLY FORMING A PART OF FORMATIONS AND SERVICES.

1. Subhead D should include all personnel who, on being placed on the strength of formations and services or engaged in the active or reserve forces, are in the custody of military establishments, or at the disposal of the military authorities, who are not engaged in the active or reserve forces, or who are engaged in the active or reserve forces, and who are not on the strength of formations and services.

2. The personnel included in Subhead D should be paid and allowed in accordance with the provisions of the regulations governing the pay and allowances of such personnel.

3. This subhead should include all remuneration awarded to personnel who, on being placed on the strength of formations and services, are engaged in the active or reserve forces, or who are engaged in the active or reserve forces, and who are not on the strength of formations and services.

4. The remuneration awarded to personnel who, on being placed on the strength of formations and services, are engaged in the active or reserve forces, or who are engaged in the active or reserve forces, and who are not on the strength of formations and services, shall be paid and allowed in accordance with the provisions of the regulations governing the pay and allowances of such personnel.

5. The personnel included in Subhead D should be paid and allowed in accordance with the provisions of the regulations governing the pay and allowances of such personnel.

Subhead E.

Expenditure on maintenance—

Utilization of personnel referred to in Subheads A to D.

1. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

2. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

3. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

4. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

5. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

6. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D. The personnel referred to in Subheads A to D should be utilized to the fullest extent possible for the maintenance of the personnel referred to in Subheads A to D.

Subhead F.

Transport.

Horses and other animals, forage, harvest and shipping.

1. This subhead should apply to the transport of horses and other animals. Expenditure on horses and other animals refers to the transport of horses and other animals. Expenditure on horses and other animals refers to the transport of horses and other animals.

2. Expenditure on horses and other animals shall be limited to the transport of horses and other animals, and shall be limited to the transport of horses and other animals.

3. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals.

4. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals.

5. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals.

6. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals. The personnel referred to in Subhead F should be utilized to the fullest extent possible for the transport of horses and other animals.

Subhead G.

Coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.

1. This subhead should include all expenditure on the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.

2. Expenditure on coal, fuel, oil, petrol, lubricants, etc. and other transport expenses shall be limited to the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.

3. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.

4. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.

5. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses. The personnel referred to in Subhead G should be utilized to the fullest extent possible for the transport of coal, fuel, oil, petrol, lubricants, etc. and other transport expenses.
5. In the case of the naval and air forces and armies, expenditure on Theodore, track, and parks, and animals should be taken in the present subhead. (In the case of the naval and air forces, such expenditure is shown under Subhead E.)

(a) Expenditure in the remuneration and maintenance of personnel whether military or civil (to be entered in Subhead A to E).
(b) Expenditure in respect of solid and liquid fuel, etc., for the heating, lighting, and power services (to be entered in Subhead K or Head IV, according to whether it is regarded as expenditure on buildings or war material within the instructions relating to these services).
(c) Expenditure in respect of the installation and maintenance of apparatus for the distribution of liquid fuel—e.g., pumps (to be entered in Subhead C and Head IV).
(d) Expenditure in respect of the purchase, upkeep, and repair of motor and horse-drawn vehicles and bicycles (to be entered in Head IV).
(e) Subsidies to the owners of motor and horse-drawn vehicles (to be entered in Head IV).
(f) Subsidies granted to the mercantile marine with a view to the subsequent use of merchant vessels by the national defence authorities (to be entered in Subhead I).

Head III.

BUILDINGS.

SUBHEAD II.

CONSTRUCTION OF NEW FORTIFICATIONS AND DEFENSIVE WORKS.

1. The present subhead should include expenditure relating to the construction of new fortifications and defensive works, together with major improvements to such fortifications and works, including the purchase price of the site, expenditure on the construction of or major improvements to barracks, instruments or sheds for the use of troops (casemates) forming part of the fortifications and defensive works; expenditure on installations and fixed protective shelters for the artillery of such fortifications and works, together with the machinery or apparatus used for the service of such artillery.

(a) Expenditure on the remuneration and maintenance of personnel whether military or civil (to be entered in Subhead A to E).
(b) Expenditure on the upkeep of fortifications (to be entered in Subhead K).
(c) Expenditure on guns in fortifications and on movable apparatus (protective shields, vehicles) for the service of such guns (to be entered in Head IV).

SUBHEAD K.

EMERGENCY, OTHER BUILDINGS, FIXED INSTALLATIONS. EFFECTS.

1. Subhead K should include the items of expenditure enumerated in the left-hand column whenever such expenditure is incurred in respect of buildings used by the services enumerated in E. G. H. I. II.

2. Expenditure in respect of lighting, heating, and power should include expenditure relating to materials and products for the use of such services (solid and liquid fuel, etc.).

3. Expenditure in respect of the purchase and hire of land and buildings should be taken in the subheads mentioned above under lighting, heating, and power expenditure.

(a) Expenditure not included in the present subhead should not include:
(b) Expenditure in the remuneration and maintenance of military and civil personnel (to be entered in Subhead A to E).
(c) Expenditure in respect of the provision of solid and liquid fuel, etc., for movements and transport services (to be entered in Subhead G).

Head IV.

WAR MATERIAL.

(a) Expenditure relating to the construction of fortifications (to be entered in Subhead H).
(b) Expenditure specified in the left-hand column relating to the establishments and services shown under Head IV.
(c) Subsidies to private industry and other expenditure incurred with a view to the improvement, extension, or installation of plants for the building of war vessels, the manufacture of munitions and war material, and other similar purposes (to be entered in Head IV).

1. In view of the special importance of Head IV, which relates to expenditure on war material, the instructions heretofore should be followed as strictly as possible. In cases in which the amount of the expenditure to be allocated, in virtue of the present instructions, is less than the amount allocated in the budgets of the previous year, the same procedure should be followed, that is, the expenditure should be included in the budgets of the current year in order to meet the exigencies of the situation.

2. The present head should include all expenditure in respect of warehouses and depots of war material and all storage vessel relating to such material.

In regard to mixed depots, the expenditure relating to war material proper should be estimated, that is, expenditure relating to other material being omitted.

3. In so far as war material is manufactured or repaired by private industry or autonomous State establishments, the present heading should include all expenditure representing the purchase or cost of acquisition or repair of war material, including all items in the cost of production of manufactured equipment as constructed. This heading should also include all costs of transport as far as the place where delivery to the military authorities is required under the contracts or, in the case of supplies and deliveries on an emergency basis, under the regulations or standing orders, and also expenditure of every kind in respect of buildings used for the manufacture and construction of war material (see on this point Subhead K, 4).

4. In so far as this material is manufactured, remodelled, repaired, maintained and stored by non-autonomous State establishments, all the working expenses of the establishment should be included; in particular:

- Labour:
  - Office staff
  - General subordinate staff
  - Managing and supervisory staff
- Purchase of raw materials (including cost of transport to the establishment);
- Construction, maintenance, and repair of buildings of all kinds, arsenals, factories, workshops, etc.
- Rent actually paid;
- Purchase, erection, maintenance, and repair of fixed installations;
- Purchase, erection, maintenance, and repair of machinery, movable equipment and plants.
- Transport for internal services of workshops, factories, etc.
- Fuel, oil, and liquid (oil, etc.);
- Gas, electricity;
- Other motive power;
- Water;
- Washing, cleaning, and scavenging;
- Rates actually paid to municipalities;
- Furniture;
- Stationery, printing and office expenses;
- Medical expenses;
- Postal, telegraphic, and telephone expenses;
- Delivery to the factory of all articles purchased.

All other auxiliary services necessary for the working of factories and depots.
5. This head should also include the sums paid as compensation or indemnity for loss, damage, injury, etc., sustained during or caused by the manufacture, repair or upkeep of war material, except pensions and gratuities paid in respect of such loss, damage, etc., to the military or civilian personnel of the national defence services, which will be entered in Table V.

8. This head should not include the pay and other remuneration of the personnel, whether military or civil, of the central administration of the national defence services; if, however, the central administration compels technical services or services, the expenditure of such services or sections should be entered in Head IV.

SUBHEAD M (Land Forces)

ARMS, AMMUNITION, FIGHTING MATERIAL

1. All expenditure on the purchase, manufacture, repair and upkeep of the arms, ammunition and explosives, and other fighting material enumerated opposite should be entered in this subhead.

2. Subhead M should not include:

(a) Expenditure relating to non-explosive ammunition (to be entered in Subhead M (a));

(b) Expenditure on horse-drawn or motor transport vehicles, whether specialized or not, and on subsidies granted to the owners of such vehicles, together with expenditure on bicycles (to be entered in Subhead M (d));

(c) Expenditure on imports for material specified in this subhead (to be entered in Subhead N).

In respect of the Land Forces:

Arms, ammunition, fighting material and other war material; engineering material:

Small arms and automatic firearms, rifles, revolvers, carbines, machine-guns, machine-pistols, machine-paint, machine-painters, and all apparatus and appliances for throwing projectiles, including vehicles for their transport;

Canons (long and short), howitzers, mortars, field guns, anti-aircraft guns and other anti-aircraft and field guns, and other anti-aircraft and field guns; all apparatus (armour-plating, etc.) for the operation of these armours;

Ammunition for small arms, automatic weapons, and other; breeches, bags, and other kinds of projectiles, explosives, and ammunition, including the electric apparatus connected with all this material, ammunition, weapons, carriage, cases, etc., for their transport;

Cutting weapons, such as swords, sabres, lances, bayonets and daggers;

Tanks, armoured cars, armoured trains;

All other arms, ammunition, apparatus, and appliances for throwing projectiles; accessory equipment and spare parts;

SUBHEAD M (a) (Land Forces)

ENGINEER AND OTHER WARLIKE STORES

This subhead should not include:

(a) Expenditure on transport vehicles belonging to establish facilities for manufacturing or repairing arms, ammunition or fighting material (to be entered in Subhead M);

(b) Expenditure for the purchase of the material included in this subhead (to be entered in Subhead N).

SUBHEAD S (Naval Forces)

VESSELS: NEW CONSTRUCTION

In addition to the above-mentioned material:

Warships of all kinds, aircraft-carriers, seaplane-carriers, victualling craft, fueling craft, naval ammunition vessels and all other naval transport vessels, repair ships, salvage vessels, floating docks, barges and lighter, floating docks, torpedoes, gunboats, and material of all kinds connected with these vessels, and all other craft intended for naval use.

SUBHEAD M (Naval Forces)

EXPENDITURE ON DEPOTS OF WAR MATERIAL AND EXPENDITURE NOT MENTIONED HITHERTO: SUBHEAD M AND M (a).

This subhead should include:

(a) Expenditure on storehouses and depots of war material of all kinds, and on all services for the storing of such material, including the cost of upkeep, cleaning, etc.;

(b) Expenditure on non-autonomous establishments for the manufacture of repairs, when such expenditure cannot be divided between Subheads M and M (a);

(c) All other expenditure on the manufacture, repair or upkeep of war material which is not appropriate to Subheads M and M (a).
PART 3.

INSTRUCTIONS WITH REGARD TO THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENTS!

Item No. 1. — Ordinary Pensions.

The publicity to be given under the present Convention in regard to pensions relates to ordinary pensions only.

1. Definition of Ordinary Pensions for the Purpose of the Convention.

By ordinary pensions is understood for the purpose of the Convention any remuneration granted to national defence personnel for services previously rendered or any compensation for disabilities sustained in the service in time of peace, whether the recipient of such remuneration remains on the disposal of the military authorities or not.

Grants made to the dependents of deceased national defence personnel in return for services rendered by the latter to national defence shall be regarded as expenditure on pensions.

Where sums are paid by the State to institutions for defence force personnel retired for age of disability such as homes, sanatoriums and hospitals, or in respect of treatment of all kinds given to such personnel, the States concerned, if they consider that such expenditure is sufficiently important, shall calculate or estimate the total involved and treat it as expenditure in respect of ordinary pensions.

Ordinary pensions shall not be deemed to include the remuneration, grants and expenditure of the nature described if granted in respect of war service.

2. Personnel.

Item No. 2 of the special information contained in table V shall show the total ordinary pensions paid to personnel, officers, other ranks and civilian personnel (permanent officials and industrial) or their dependents in return for services rendered to national defence.

When ordinary disability pensions are entered in the accounts with expenditure in respect of war pensions, and in the event of its being impossible either to identify them or estimate their amount, they shall not be included in table V of the statement, but a note shall be included in an explanatory table (No. 11) appended to the reorganization tables to the effect that it is impossible to separate such expenditure from that in respect of war pensions.

3. Expenditure to be inserted.

Item No. 3 shall show the amount of remuneration actually paid to the beneficiaries either by the State or from State pensions funds. If the total expenditure from pensions funds on certain categories of pension cannot be exactly determined or estimated, this fact shall be stated in a note to explanatory table No. 11.

If, for example, it is impossible to calculate the sums paid as pensions to permanently employed industrial workers corresponding to that part of their service rendered in military establishments, the fact that such expenditure has not been included shall be duly pointed out.

4. Expenditure for an Underlying Service.

If there are categories of defence force personnel who have retired in return for the service and whose allowances are increased either temporarily or permanently in consideration of their obligation to render subsequent service, the Power concerned shall enter the total expenditure in tables I to IV of the statements unless it is possible to identify the portion of the total allowance which is paid for services rendered and the portion in return for the obligation to give subsequent service. In the latter case, the first part of the sum shall be inserted in table V and the second part in tables I to IV. (See paragraph 3 of Instructions for subhead D, in Annex III, Part 2.)


Item No. 4 shall include capital payments made in one or more installments to certain defence force personnel who have left the service, provided such payments are of a sufficient amount to be regarded, in view of the beneficiaries' rank, as taking the place of a pension.

6. Remuneration of Personnel on Leave, invalided out, etc.

Each State shall follow the principles laid down above in order to determine, according to their several regulations and systems whether the remuneration of personnel on the unemployed list, on the reserve list, invalided out, on extended leave or similarly situated, is to be inserted in tables I to IV of the statements or in Item No. 1 of the special information contained in table V.

In respect of the War Forces.

SUSTAINMENT OF THE AIR FORCE.

3. This subhead should include all expenditure on the purchase, manufacture, repair and upkeep of the arms, ammunition, ordnance, flying suits, life-saving equipment, stores, and all other material proper to the air force, including expenditure on hose-down and motor vehicles, subsides granted to the owners of such vehicles and expenditure on bicycles.

4. This subhead should not include:

(a) Expenditure on catapults and other fixed landing appliances installed in the vessels belonging to the navy (to be entered in Subhead L. (Naval Forces));

(b) Expenditure on fuel, lubricants, etc., required for the use of aircraft (to be entered in Subhead L).

Arms, Ammunition, Fighting Material, and All Other Kinds of War Material.

This subhead should include all expenditure on the purchase, manufacture, repair, upkeep and storage of all kinds, and on the various services relating to the storing of such material, including the cost of upkeep, granting, cleaning, maintenance, etc.;

(a) The expenditure relating to non-autonomous establishments for the manufacture or repair of war material when such expenditure cannot be divided between Subheads L and M;

(b) Any other expenditure on the purchase, manufacture, repair or upkeep of material which is not appropriate to Subhead L or M.

Regraded Unclassified
7. Grants in
Pensions, Funds
Paid by these Funds.

Where appropriate, item No. 2 shall include the payments made by
pensions funds to beneficiaries; on the other hand, however, the grants
made to such funds by the State shall not be entered in the statement.

If, however, it is impossible to ascertain the payments made by
the said funds, no figure shall be entered in table V, the amounts paid in
the form indicated in a note to explanatory Table No. 1.

8. Pensions granted
as a Result of the
Reduction of
Armsments.

Each Power shall have the option of indicating separately in table V
of the statement the annual amount of the pensions granted in personal
charges as a result of the reduction of armsments. Should it be possible
to identify such part of the pensions granted on account of the reduction
of armsments as correspond to services already rendered or otherwise
to be taken into account when separately indicating such expenditure. (See paragraph 3 of Instructions
for subhead D) in Annex II).

9. Particulars
regarding Ordinary
Pensions.

As item No. 4 of the special information contained in table V of the
statement can only show the aggregate figure for expenditure on ordinary
pensions, when in cases of special, a figure representing part of the special
expenditure resulting from the reduction of armsments, particulars shall be
included in explanatory Table No. 1, indicating from what official publications the figures for
ordinary pensions have been taken. References should be given to these items in the various
accounts which contain the expenditure on ordinary pensions.

10. Special Cases
Interpretation of
the Forgoing
Instructions.

In dealing with special cases arising out of their laws or regulations,
the contracting parties shall be guided by the general principles laid down
in the foregoing paragraphs. With a view to enabling the Permanent Commission to interpret
the decisions taken by each of the contracting parties as regards the contents
of item No. 4 of the latter shall specify in doubtful cases the manner in which they have applied
the foregoing instructions.

Item No. 3 — Difference between the initial amounts of the block credits granted for several
years and any part of such credits already entered in the budget, excluding the budget for the year
to which the statement refers.

11. In cases where credits relating to national defence expenditure are granted for several
years and the amounts of such block credits have to be split up into successive annual instalments
in the budgets, the difference between the total amounts of these block credits and the total
amount of the subsequent annual instalment or instalments already entered in the budgets,
including the budget of the financial year for which the statement is drawn up, shall be entered in
item No. 3 of the special information contained in Table V.

This information must be communicated, whatever the character of the budget credits,
according to the regulations of the various States — e.g., both in cases where these credits directly
authorise commitments and in cases where they only authorise the acknowledgment of debts.
The issue of payment under the limit of the credits entered in the annual budgets.

12. The calculation of the difference between the block credits and the annual instalments
entered in the budgets must take into account all the block credits, irrespective of whether
these credits are granted before or after the entry into force of the Convention.

13. In the case of the special information provided in paragraph 24 of Part I of the present Annex,
also contain modifications of the amount of the instalment provided in the draft budget, the amount
reported in item No. 3 of the special information attached to the statement as compiled on the
basis of the draft budget shall also be rectified.

14. Should the amount of the initial block credits be changed, the figure entered in item
No. 2 of the special information contained in Table V of the statement must be calculated
with due reference to these changes.

15. The figure given under this item shall be explained in explanatory Table No. 2 appended
in the reconciliation tables and, if necessary, in a note annexed thereto. This table and the
accompanying note shall be produced whenever the budgets and closed accounts or other
official documents do not permit of the verification of the figure required hereunder.

16. Item No. 2 should be completed when the statement of estimated expenditure provided
for under Article D is furnished, so long as the production of this statement is required,
and, therefore, when the simplified statement provided for in the same article is rendered.

The following shall be regarded as instances of block credits: the difference between the limits laid
in expenditure over several years and the amount actually voted each year in the budget when these differences are
transferred to a reserve fund.

17. In cases where certain credits granted in the budget are not annulled at the end of the
current year, if they are not expended during that exercise, but can, on the contrary, be utilised during
other years, the statement in item No. 3 of the special information contained in Table V shall show
the difference between the total amount of these credits and the portion of the credits
expended during the financial exercise.

In calculating this difference, account should be taken, not only of the credits fixed during
the financial year, but also of the credits carried forward from the previous year or
portion of the present year.

18. Irrespective of whether, under the national legislation, the credits authorise the departments
under the national legislation to enter into commitments. to acknowledge debts, to issue
payment orders or to pay expenditure within the budget fixed by these credits, the figure to be
entered in item No. 3 shall represent the difference between the credits and the payments
which are made during the financial exercise, including the payments appearing in the arrears accounts.

19. The composition of the total amount remaining available at the end of the financial year
will be given, in respect of each credit carried forward which has been the subject of a vote of
special authorisation, in explanatory Table No. 3 attached to the reconciliation tables. This
table shall also be produced in cases where the credits or closed accounts, or other official
documents, do not permit of the verification of the figures communicated in pursuance of the
provisions of the present paragraph.

20. Item No. 3 of the special information contained in Table V shall be supplied only when
the statement of payments made is produced.

Item No. 4 — Authorisations to enter into commitments granted by Parliament or the authority
enacting the budget, apart from the credits for payment voted in the budget for the year
which the statement refers.

21. In countries where Parliament or the authority which enacts the budget authorises
commitments on national defence to be entered into during the financial year
on condition that such expenditure shall only be paid out of payment credits of the subsequent
exercise or exercises, the amounts of such authorisations shall be entered in item No. 4 of the special
information contained in Table V of the statement.

22. The above information shall be obtained either from the budget itself, or from the
enactment fixing the budget (finances acts), or, failing this, from the draft budget or draft enactment,
fixing the budget, according to whether the statement of estimates is based on the budget or
the draft budget.

If such authorisations to enter into commitments are granted or modified after the despatch
of the statement provided for in Article D of the Convention, such authorisations or modifications
shall be mentioned when sending the rectifications mentioned in paragraph 24 of Part I of the
general Annex.

23. Explanatory Table No. 4 attached to the reconciliation tables must include the following
information:

(a) The Law or Act granting authorisations to enter into commitments;
(b) The nature and object of the authorisations as indicated in the corresponding
Laws or Acts;
(c) The manner in which the payment credits relating to these authorisations must be
entered in the budget or budgets of the following year or years, and, in general, including the
procedure according to which such authorisations to enter into commitments are regularised in subsequent
years.

24. The particular referred to above will be given when sending the statement of estimates
provided for in Article D of the Convention, not as a supplement of this statement
but as a part of the same document and, in any case, when sending the simplified statement provided for in the same
article.

Item No. 5 — Difference between the authorisations of expenditure contained in special accounts
and the payments made against such accounts, including those made during the year in
respect of which the statement has been compiled.

25. In cases where expenditure authorisations are granted outside the budget and are
contented in special accounts, the credits of which can be used without fresh authorisation until
they are exhausted, the difference between the total initial amounts of such authorisations and
the payments made against them during each of the successive financial exercises, including the
financial exercise for which the statement is drawn up, shall be entered in item No. 5 of the special
information contained in Table V of the statement.

In countries in which expenditure outside the budget and included in special accounts is not
covered by published authorisation, an estimate should be made of the initial aggregate
authorisation, the difference between this estimated initial aggregate amount and the payments
made during previous years, as the case may be, for the financial exercise for which the statement
is drawn up should be entered under item No. 5 of the special information shown in Table V of the statement.
26. The details of the calculation of the figure indicated in the above paragraph must be set out in the explanatory table of special information No. 5, attached to the reconciliation tables, in such a manner as to show for each special account the difference between the amounts of the original authorizations and the payments made during each year against these accounts.

27. If authorizations originally granted undergo changes, such changes must be mentioned and account must be taken of them in calculating the figures to be entered in item No. 5.

28. Item No. 5 will only be completed when sending the statement of payments made.

Table No. 6 - Credit balances of autonomous establishments remaining at the disposal of such establishments at the end of the financial "exercise".

29. The statement must show, in item No. 6 of the special information to table V of this statement, the total credit balances (surplus of receipts over expenditure) of autonomous establishments remaining at the disposal of such establishments at the end of the financial "exercise".

30. The distribution of this total amount as between the different establishments shall be shown in explanatory table No. 6 attached to the reconciliation tables. Explanatory table No. 6 shall state the details and explanation where these balances may be found.

31. The particulars referred to above shall only be supplied when sending the statement of payments made.

Table No. 7 - Amounts liquidated, not paid for, and services rendered, payment for which has been delayed.

32. In cases where materials are delivered or services rendered during an "exercise" without delivery or services having been paid for at the end of the year, item No. 7 of the special information to table V of this statement shall show the value of the materials opened and the services rendered which are to be paid for during the following "exercise".

33. The provisions laid down in the previous paragraph do not apply to cases in which payments are made within the usual time-limits for Government payments.

34. The particulars referred to above shall only be supplied when sending the statement of payments made.

Table No. 8 - Expenditure not included in the statement in respect of subsidies paid to and participation in enterprises having as one of their objects the delivery of war material in time of peace.

35. If a Power considers that subsidies paid to and participation in enterprises having as one of their objects the delivery of war material in time of peace have not a national defence character, but were granted for economic or social purposes, it must indicate their total amount in item No. 8 of the special information to table V of this statement. A list of these subsidies and the reasons for which they have been excluded from tables I to IV of the statement must be given in explanatory table No. 8 attached to the reconciliation tables.

36. The particulars referred to above shall only be supplied when sending the statement of payments made.
States with separate ministries or accounts for the three forces may divide table B into three subdivisions corresponding to these three forces, in such a way that the chapters in the war budget relating to naval and air services are ordinarily inserted after the naval and air budgets, respectively. All special accounts and each division of the local or colonial budgets relating to the land, naval, or air forces can be inserted after the war, naval, and air budgets respectively. States taking advantage of this possibility must, however, show the figures in such a way as to make it easy to find the whole series of the items as shown in the original budgets and accounts and must clearly show their distribution between the expenditures of the three forces.

All the divisions and subdivisions of the budgets or accounts of the national defence ministries should be inserted, even if they have not all been transferred to the statement. But if several of the latter divisions or subdivisions are grouped in the budgets or accounts of the defence ministries because they relate to purposes of a similar nature (for instance, to the merchant marine, civil aviation, public works, etc.), they can be mentioned on bloc, except, of course, items in those groups which refer in whole or in part to national defence expenditure. The total in column 5 of each budget or account should correspond to the total to be found in the accounting documents from which that expenditure has been taken.

In the first column the number of each division and subdivision should be shown e.g. ‘Vote, Subhead 1’ or ‘Chapter, Article, Paragraph’, or ‘Kapitel, Titel’, etc.

In the second column (‘Headings’) the complete headings of the different budgetary items (divisions and subdivisions) should be translated into French or English.

If the amounts inserted in the items of the budgets or accounts represent gross expenditure, the latter should be transferred, as it stands, to column 3 of Table B.

If the amounts entered in the items of the budgets or accounts represent net expenditure, the net figures should be entered in column 3, and the differences between these figures and the gross amounts should be added, also in column 3, at the end of each budget, but separately in respect of each item of expenditure on bloc.

Notes should be added showing, with explicit references to the original documents, the manner of computing the differences between the net and the gross amounts.

After having transferred to the three left-hand columns of Table B the items of expenditure corresponding to the objects enumerated in the left column of the table, the amounts will be allocated between columns 4 to 7 of Table B.

For each item which can be transferred on bloc to one of the subdivisions of the statement, there should be mentioned in column 5 to 7, the amount and the subdivision to which it has been transferred.

If an item of expenditure, from its nature, cannot be transferred on bloc to one of the subdivisions of the statement, it should be subdivided into its constituent elements, and the table and subdivision of the statement to which each of those elements has been transferred should be mentioned in column 6 to 7.

If any of the items or part of an item shown in the columns 1 to 3 includes expenditure which does not relate to national defence purposes or which should not be included in the statement, the sums excluded should be given in column 4.

For the purposes of the apportionment or exclusion of the expenditure mentioned above, each Power concerned should (in the order of preference given in Part 2 of the present Annex) either transmit unpublished accounts or make use of other administrative documents, or, failing these, of estimates.

In the case of the apportionment or exclusion of any sums which cannot be directly verified by means of the published documents communicated, the words ‘unpublished accounts’ or ‘administrative documents’, or ‘estimates’, as the case may be, should be inserted in the ‘Observations’ column of Table B.

In the ‘Observations’ column, it should also be stated whether any derogations have been made from the rules given in Part 2 of the present Annex. The explanation of such derogation should be given in a special note.

Similarly, all explanations concerning expenditure on fortifications, on air defence, on coast defence, mixed expenditure, etc., mentioned in Parts 1 and 2 of the present Annex, should be given in the form of special notes.

As there will probably not be enough room in the ‘Observations’ column, observations should be given as footnotes to table B, references to the foot-notes being given in the ‘Observations’ column.

\[\text{Table B should show clearly the sources from which the different items of expenditure have been obtained and the place in the documents where they can be found. For this purpose, Table B should include the different series of divisions and subdivisions of each budget or account under headings, giving for each budget or account such indications as make it possible to find that expenditure without difficulty in the actual budget and accounts. For instance, the arrangement might be as follows:}

\begin{itemize}
  \item \text{Budget or account of the Ministry of War (exact title of the publication in the national language; date of the publication and page on which the subhead begins).}
  \item \text{Budget or account of the Ministry of Marine:}
  \item \text{Budget or account of the Ministry of Finance:}
  \item \text{Budget or account of the Ministry of Agriculture:}
  \item \text{Budget or account of the Ministry of Education:}
  \item \text{Budget or account of the Ministry of Public Works, etc.:}
\end{itemize}

\text{The total of the votes which relate entirely or in part to national defence expenditure}

\begin{table}
\begin{tabular}{|c|}
\hline
\text{A. Special State budget (or accounts) (exact title of the publication, date, page):}
\hline
\text{B. Expenditure (or actual expenditure) of the federated States and regional and local authorities:}
\hline
\text{C. Budgets (or accounts) of the colonies, protectorates, or territories under the sovereignty of the contracting parties (title of each publication, page):}
\hline
\end{tabular}
\end{table}"

Regraded Unclassified
7. Expenditure incurred in respect of exceptional or unforeseeable events (see Part I (a), paragraph 5 of the present Annex) should be shown separately in column 4 and recognised in respect of each force in a special table entitled: "Expenditure incurred in respect of Exceptional or Unforeseeable Events, to be excluded from the Statement," which should be inserted after table B.

Permissible deductions of expenditure occasioned by the reduction of armaments or by the liquidation of past wars should also be shown separately in column 4.

8. Table C.

Table C should be completed by transferring the various figures in column 5 of Table B to the appropriate heads. The arrangement and order of the various items should, as far as possible, be the same as in Table II.

Whereas, in Table B, the names of the items of the budgets and accounts should be translated into English or French, they can be abbreviated in Table C, also in English or French.

The totals of each column to be carried forward to the following page should be given at the foot of each page of Table C.

A special table showing, by heads of tables I to III of the statement, the expenditure incurred in respect of exceptional or unforeseeable events and deducted from the amounts to be entered in the schedules of the statement, but not specifying the manner in which such expenditure is distributed among the subheads of each head, should be added, if necessary, to each of the tables.

9. Table A.

After tables B and C have been completed, they should be recapitulated in Table A, which is intended to give briefly in a few figures the composition of the grant totals entered in the statements.

In drawing up this table, the amount of all expenditure included in the budgets and accounts of each force should first be entered in the subdivision relating to that head.

Sums which are not included in the statement expenditure not relating to national defence or, as the case may be, national defence expenditure incurred in respect of unforeseeable or exceptional events, expenditure incurred by the reduction of armaments, costs of duplication of previous years, and all entries which might lead to duplication should be deducted from this amount.

10. Annex to the Reconciliation Tables.

At the end of Table C should be given on as many sheets as there are items of special information in Table V, explanatory tables, specimen form, etc., which are in Annex V. There should be added a list and also the amount of subsidies to, and participations in, private undertakings whose objects include the manufacture or construction of war material in peace time, or any establishment or undertaking for the purpose of enabling them to obtain new installations or to improve their existing installations with a view to the manufacture of war material on mobilisation. In each case, the date and title of the law or instrument under which other subsidies or participations have been granted should be stated, together with the names of the beneficiaries mentioned in those laws or instruments and the necessary references to enable these laws or instruments to be found in the official journals or other official documents.

11. Duplication.

In accordance with the provision of paragraph 17 of Part I of this Annex, the entry of the same expenditure twice over in the statements is to be avoided. In applying these provisions, the general principles and special provisions used in table A will be adhered to. Any cases not specifically mentioned in these instructions will be dealt with on analogous lines.

In general, in as much as the statement is essentially based upon the budgets and accounts of the national defence ministries, if civil authorities or services, regional or local authorities, colonies, etc., associations or private persons, bear expenditure which is not in the nature of the national defence services, the expenditure shown in these budgets and accounts will, as a general rule, be entered in the statements, and the expenditure borne by the civil authorities or services, regional or local public bodies, colonies, associations and private persons will not be shown.

Where, however, it is a case of avoiding duplication as between the different national departments, whose expenditure is to be classified according to the tables, heads and subheads of the statements, the following rule will be adopted in order to carry out this classification.

Expenditure with accuracy: expenditure incurred by one national defence department for the material on behalf of another national defence department will, in accordance with instructions, be entered in the statement relating to the department on whose behalf the expenditure was effected. To avoid duplication, any entry that the latter department might make with respect of the expenditure incurred on its behalf will be excluded from its own statement. For practical reasons, however, where it is easier to identify the amount of the repayment than the expenditure itself, it is the amount of the repayment that should be entered (notwithstanding the rule laid down above).

When a particular service in a national defence ministry enters expenditure summarised in the purchase or manufacture of objects, foodstuffs, or supplies of any kind, for the use or service of personnel, such sums being repaid to it by the service or personnel on whose behalf the expenditure was made, without the amount of such repayments being deducted in the budgets and accounts (e.g., if a budget or account shows expenditure for the purchase of articles of clothing or miscellaneous goods, such as tobacco, soap, etc., and the amounts of the allowances—whether separate or incorporated in pay—given for the purpose of supplying themselves with such articles, there will be deducted from the expenditure of the one or more of the purveying service the amount of the repayments.

Where capital expenditure for national defence purposes is borne by a civil department, regional or local authorities, etc., the capital expenditure entered in the course of the financial year will be entered in accordance with the general principles, be included in the statements. If the national defence ministry (or ministries) pay rent or annual interest or amortisation for the purpose of acquiring the capital expenditure, such payments (rent, interest or amortisation) shall be deducted in the statement, even if the capital expenditure was effected prior to the entry into force of the Convention.

Where the national defence budgets and accounts show current expenditure and capital expenditure separately, and where current expenditure includes expenditure for interest and amortisation on borrowings (and also rent, if any), the amount at respect of each interest and amortisation and rent will be deducted, even if the capital expenditure was effected prior to the entry into force of the Convention. If expenditure on rent interest and amortisation of capital expenditure for national defence purposes appears elsewhere than in the budgets and accounts of the national defence ministries, the rule laid down above will likewise be followed.

In the case referred to in paragraph 15 of Part I of this Annex, in which national defence expenditure is effected out of loan funds (Treasury credit, loans, advances, insurance, or reserve funds, etc.), the interest and amortisation of such loan appearing in the budgets and accounts of the national defence services will be deducted, in order to avoid duplication even if the capital expenditure was effected prior to the entry into force of the Convention.

When a State hands its creditors Treasury Bonds or National Debt securities by way of loan (see paragraph 30 of Part I (c) of this Annex), the expenditure on the redemption of those securities will not be shown in the statements of subsequent years.

When a budget contains a credit suspense account to enable the national defence services to incur expenditure which will subsequently be charged to other chapters of the budget, the credit suspense account will not be entered in the statement.

When, in the course of a financial year, national defence services grant repayable advances to military personnel, the amounts of such advances should not be included in the statement, unless the accounts show only the net amount of pay earned during the period of repayment.

When military personnel draw on grants accorded to them by the State in order to deposit funds for any purpose, the expenditure effected out of such deposit funds should not be entered in the statements, even if the State has a right to supervise their administration.

Services rendered and Material supplied by one Government to another Government. — If a national defence department effects expenditure either by performing a service (e.g., repairs) or by supplying material to another Government, the national defence department concerned should enter the expenditure from its statements (see paragraph 20 of Part I (a) of this Annex).
ANNEX V.

MODEL STATEMENT OF NATIONAL DEFENCE EXPENDITURE,
MODEL RECONCILIATION TABLES AND TABLES EXPLANATORY
OF THE SPECIAL INFORMATION CONTAINED IN TABLE V
OF THE STATEMENT,

MODEL SUMMARY STATEMENTS OF CHANGES
MADE IN NATIONAL DEFENCE EXPENDITURE AUTHORISATIONS.
These model reconciliation tables may be used for both the statement of estimates (Article D) and the statement of payments made (Article F).
# MODEL STATEMENT

## LAND FORCES

<table>
<thead>
<tr>
<th>Head</th>
<th>Description</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
<th>Column 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Personnel: Pay and allowances of officers, N.C.O.s, and Sergeants.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>Pay and allowances of non-combatant personnel.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Maintenance of personnel referred to in subdivision A to D.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Transport: Horses and other animals, transport equipment, and fuel.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>Buildings: Construction of new fortifications and defensive works.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Barracks, other buildings, fixed installations, upkeep</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>Heads I to III.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>War Material: Arms, ammunition, fighting material</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>Engineer and other equipment stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VI</td>
<td>Expenditure on depots of war material and expenditure not divisible between countries.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>Head IV.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*This heading is liable to alteration.
### Table II.
**NAVAL FORCES.**

<table>
<thead>
<tr>
<th>Sub-Head</th>
<th>Category of Expenditure</th>
<th>Armed forces (optional)</th>
<th>Policy forces and similar formations (optional)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(i)</td>
<td>(ii)</td>
<td>(iii)</td>
</tr>
</tbody>
</table>

**Head I.**

**Personnel.**

*Personnel normally forming part of formations and services:*

- **A** Pay and allowances of all kinds: Officers...
- **B** Pay and allowances of all kinds: N.C.O.s and men...
- **C** Pay and allowances of all kinds: Civilian personnel...

*Personnel not normally forming part of formations and services:*

- **D** Persons undergoing pre-military training, reservists and reserve organisations...
- **E** Maintenance of personnel referred to in subheads A to D...

**Head II.**

**Transport.**

- **G** Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses...

**Head III.**

**Buildings.**

- **H** Construction of new fortifications and defensive works...
- **K** Barracks, other buildings, fixed installations, upkeep...

**Total:** Heads I to III...

**Head IV.**

**War Material.**

- **L** Vessels: new construction...
- **M** Upkeep of vessels and their armament: purchase, manufacture, repair or upkeep of arms, ammunition and other war material...
- **N** Expenditure on depots of war material; expenditure not divisible between subheads L and M...

**Total:** Head IV...

**Grand Total:**

---

1. The heading is liable to alteration.

---

### Table III.
**AIR FORCES.**

<table>
<thead>
<tr>
<th>Category of Expenditure</th>
<th>Armed forces stationed in the home country (optional)</th>
<th>Armed forces stationed overseas (optional)</th>
<th>Policy forces and similar formations stationed in the home country (optional)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
</tbody>
</table>

**Head I.**

**Personnel.**

*Personnel normally forming part of formations and services:*

- **A** Pay and allowances of all kinds: Officers...
- **B** Pay and allowances of all kinds: N.C.O.s and men...
- **C** Pay and allowances of all kinds: Civilian personnel...

*Personnel not normally forming part of formations and services:*

- **D** Persons undergoing pre-military training, reservists and reserve organisations...
- **E** Maintenance of personnel referred to in subheads A to D...

**Head II.**

**Transport.**

- **G** Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses...

**Head III.**

**Buildings.**

- **K** Barracks, other buildings, fixed installations, upkeep...

**Total:** Heads I to III...

**Head IV.**

**War Material.**

- **M** Arms, ammunition, fighting material and all other kinds of war material...

**Total:** Head IV...

**Grand Total:**

---

1. This heading is liable to alteration.
Table IV.

TOTAL EXPENDITURE FOR THE THREE FORCES.

Land Forces ..................................................

Naval Forces ..................................................

Air Forces ....................................................

Grand Total ..................................................

Table V.

SPECIAL INFORMATION.

Item 1. Ordinary Pensions ..................................

Including pensions granted as a result of the reduction of armaments (optional)

Item 2. Difference between the initial amounts of the block credits voted for several years and any part of such credits already entered in the budgets, including the budgets for the year to which the statement refers

Item 3. Difference between carry-forward credits—that is to say, credits which may be used for payments to be made during the year or subsequent years—and payments in respect of such credits shown in the accounts for the former

Item 4. Authorisations to enter into commitments granted by Parliament or the authority enacting the budget, apart from the credits for payments voted in the budget of the year to which the statement refers

Item 5. Differences between the authorisations of expenditure contained in special accounts and payments already made against such accounts, including those made during the year in respect of which the statement has been compiled

Item 6. Credit balances of autonomous establishments remaining at the disposal of those establishments at the end of the financial exercise

Item 7. Amounts liquidated and not paid for material supplied and services rendered, the payment of which has been deferred

Item 8. Expenditure not included in the statement in respect of subsidies paid to and participations in private enterprises having as one of their objects the delivery of war material in time of peace

Item 9. Various information regarding unpaid services and supplies for national defence

These models should be used for compiling both the statement of estimates and the statement of payments made, as provided for in Articles D and F of the Convention respectively.

As regards the statement of estimates, see note on page 52.
### A. SUMMARY TABLES.

I. TOTAL EXPENDITURE ENTERED IN TABLE I OF THE MODEL STATEMENT (LAND FORCES).

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure of the Ministry of War (or Ministry of National Defence)</td>
<td></td>
</tr>
<tr>
<td>Reconstruction of gross expenditure</td>
<td></td>
</tr>
<tr>
<td><strong>To be deducted:</strong></td>
<td></td>
</tr>
<tr>
<td>Expenditure relating to the naval forces</td>
<td></td>
</tr>
<tr>
<td>Expenditure relating to the air forces</td>
<td></td>
</tr>
<tr>
<td>Unreasonable and exceptional expenditure</td>
<td></td>
</tr>
<tr>
<td>Expenditure resulting from the reduction of armaments</td>
<td></td>
</tr>
<tr>
<td>Expenditure entailed by the liquidation of previous wars</td>
<td></td>
</tr>
<tr>
<td>Sums, the entry of which would give rise to duplication</td>
<td></td>
</tr>
<tr>
<td>Non-military expenditure of the Ministry of War</td>
<td></td>
</tr>
<tr>
<td><strong>To be added:</strong></td>
<td></td>
</tr>
<tr>
<td>Expenditure on the land forces borne on the budget of the Ministry of Marine</td>
<td></td>
</tr>
<tr>
<td>Expenditure on the land forces borne on the budget of the Air Ministry</td>
<td></td>
</tr>
<tr>
<td>Expenditure on the land forces borne on the budgets of other Departments:</td>
<td></td>
</tr>
<tr>
<td>Ministry of</td>
<td></td>
</tr>
<tr>
<td>Ministry of</td>
<td></td>
</tr>
<tr>
<td>Ministry of</td>
<td></td>
</tr>
<tr>
<td>Ministry of</td>
<td></td>
</tr>
<tr>
<td>Expenditure from Special Accounts</td>
<td></td>
</tr>
<tr>
<td>Expenditure in regional and local budgets</td>
<td></td>
</tr>
<tr>
<td>Expenditure of the colonies, etc.</td>
<td></td>
</tr>
</tbody>
</table>

Total of Table I of the Model Statement (Land Forces) [Continued]
II. TOTAL EXPENDITURE ENTERED IN TABLE II OF THE MODEL STATEMENT (NAVAL FORCES).

Total expenditure of the Ministry of Marine (or Ministry of National Defence) .................................
Reconstruction of gross expenditure .................................................................

To be deducted:
- Expenditure relating to the land forces ..............................................................
- Expenditure relating to the air forces .................................................................
- Unforeseeable and exceptional expenditure ....................................................... 1
- Expenditure resulting from the reduction of armaments .......................................
- Expenditure entailed by the liquidation of previous war ......................................
- Sums, the entry of which would give rise to duplication ....................................
- Non-military expenditure of the Ministry of Marine .............................................

To be added:
- Expenditure on the naval forces borne on the budget of the Ministry of War 2 ........
- Expenditure on the naval forces borne on the budget of the Air Ministry 3 ...........
- Expenditure on the naval forces borne on the budget of other Departments: 4
  - Ministry of ...........................................................................................
  - Ministry of ...........................................................................................
  - Ministry of ...........................................................................................
- Expenditure from Special Accounts .................................................................
- Expenditure in regional and local budgets .........................................................
- Expenditure of the colonies, etc. .................................................................

Total of Table II of the Model Statement (Naval Forces) ........................................... [Continued]

1 Should this item include unforeseeable and exceptional expenditure relating to one of the other two forces, a note should be added stating the respective amounts of the deductions in respect of each of the two forces in question.
2 Where unforeseeable and exceptional expenditure concerning the naval forces is deducted from the expenditure of the Department in question, a note should be added showing the amounts of the expenditure thus deducted.

III. TOTAL EXPENDITURE ENTERED IN TABLE III OF THE MODEL STATEMENT (AIR FORCES).

Total expenditure of the Air Ministry (or Ministry of National Defence) ...........
Reconstruction of gross expenditure .................................................................

To be deducted:
- Expenditure relating to the land forces ..............................................................
- Expenditure relating to the naval forces ..............................................................
- Unforeseeable and exceptional expenditure ....................................................... 1
- Expenditure resulting from the reduction of armaments .......................................
- Expenditure entailed by the liquidation of previous war ......................................
- Sums, the entry of which would give rise to duplication ....................................
- Non-military expenditure of the Air Ministry .....................................................

To be added:
- Expenditure on the air forces borne on the budget of the Ministry of War 2 ........
- Expenditure on the air forces borne on the budget of the Ministry of Marine 3 ........
- Expenditure on the air forces borne on the budgets of other Departments: 4
  - Ministry of ...........................................................................................
  - Ministry of ...........................................................................................
  - Ministry of ...........................................................................................
- Expenditure from Special Accounts .................................................................
- Expenditure in regional and local budgets .........................................................
- Expenditure of the colonies, etc. .................................................................

Total of Table III of the Model Statement (Air Forces) ...........................................
### Distribution of National Defence Expenditure Between the Tables of the Model Statement and Their Subheadings

#### Table

<table>
<thead>
<tr>
<th>Number of the Vote, Subhead, etc.</th>
<th>Headings (English or French translation of the entire heading)</th>
<th>Total entered in the Budget (or Account)</th>
<th>Some excluded from the Model Statement</th>
<th>Number of the table of the Model Statement</th>
<th>Sum included in the Model Statement</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

### 1. Budgets (or Accounts) of the State (Central Power)

- **Budget (or Account) of the Ministry of War**
  - Votes ______ to ______
  - Published (pages ______)

Sums to be added to certain Votes or Subheadings in order to arrive at gross amounts

---

### General Notes on Analytical Table B

I. All indications in these specimens in italics are given for purposes of illustration. The distribution and order of the different groups of votes, subheadings, etc., will be set out in accordance with the structure of the national budgets, beginning always with the National Defence Departments.

II. Where a large subdivision of the budget or account falls in its entirety into a single table of the Model Statement and a single subhead of the table, the amounts of separate subheadings, etc., making up the subdivision need not be given in detail. But the numerical reference and heading of such subheadings, etc., should be shown in columns 1 and 2 of Analytical Table B.

III. If the space in column 5 is not sufficient for the entry of the observations, the latter should be appended in a footnote at the bottom of the page, with a reference thereto in column 8 itself.

IV. A sufficient number of extra pages to be inserted for each National Defence Department.

---

[Continued]
### B. ANALYTICAL TABLE.

**DISTRIBUTION OF NATIONAL DEFENCE EXPENDITURE BETWEEN THE TABLES OF THE MODEL STATEMENT AND THEIR SUBHEADS (continued).**

<table>
<thead>
<tr>
<th>Number of the Vote, Subhead, etc., of the Headings [English or French translation of the entire heading]</th>
<th>Total included in the Model Statement</th>
<th>Sums included in the Model Statement</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

#### Budget (or Account) of the Ministry of the INTERIOR * ( ) published

**Votes**

*(pages)*

#### Budget (or Account) of the FINANCE Ministry * ( ) published

**Votes**

*(pages)*

### Special Budget or Special Account of the State * ( ) published in

**Vote** *(pages)*

### Estimates of defence expenditure or expenditure actually effected by Federal States and regional and local authorities * ( ) published

**Vote** *(pages)*

### Budget (or Account) of Colonies, Protectorates, Overseas Territories, territories under the suzerainty of the High Contracting Parties, or territories in respect of which a mandate has been entrusted to the same * ( ) published

**Vote** *(pages)*

### Other Expenditure,

---

1. Description in the national language.
2. Exact title of the publication in the national language.
3. Other civilian Ministry responsible for any national defense expenditure.
4. See General Notes (page 58).
## Land Forces

### Table Relating to the Model Statement

<table>
<thead>
<tr>
<th>Number of vote, item, etc.</th>
<th>Abridged title</th>
<th>Subhead A.</th>
<th>Subhead B.</th>
<th>Subhead C.</th>
<th>Subhead D.</th>
<th>Subhead E.</th>
<th>Subhead F.</th>
<th>Subhead G.</th>
<th>Subhead H.</th>
<th>Subhead I.</th>
<th>Subhead J.</th>
<th>Subhead K.</th>
<th>Subhead L.</th>
<th>Subhead M.</th>
<th>Subhead N.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Pay and allowance of all kinds Officers</td>
<td>Pay and allowance of all kinds N.C.O.s and men</td>
<td>Pay and allowance of all kinds Civilian personnel</td>
<td>Personnel employed on improvement of fortifications and defensive works</td>
<td>Stores and other supplies, stores, and transport equipment</td>
<td>Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses</td>
<td>Barracks, other buildings, and installations, shop</td>
<td>Supply and stores of war materials</td>
<td>Army, ammunition, fighting material</td>
<td>Engineer and other stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

### General Note on Synthetic Table C

All directions printed in italics in the present specimen tables are given as examples only. The distribution and order of these various particulars should follow the arrangement of the national budget, beginning with the national defence departments in all cases.
### Land Forces (continued)

#### I. Table Relating to Part I of the Model Statement (continued)

<table>
<thead>
<tr>
<th>Number of vote, item, etc.</th>
<th>Abridged title</th>
<th>Subhead A</th>
<th>Subhead B</th>
<th>Subhead C</th>
<th>Subhead D</th>
<th>Subhead E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Brought forward**: 

**SPECIAL BUDGET (OR ACCOUNT)**

**ESTIMATES (OR CERTIFIED STATEMENTS) OF FEDERAL, STATES AND REGIONAL AND LOCAL AUTHORITIES**

**BUDGET (OR ACCOUNT) OF COLONY, protectorate, over-sea territory, territory under the suzerainty of the high contracting party or in respect of which the high contracting party has been invested with a mandate**

**Expenditure**

**Total**

---

1. See general note (page 62).

2. It contains national defence expenditure for the land forces.
### Naval Forces.

**Table Relating to II of the Model Statement.**

<table>
<thead>
<tr>
<th>Number of Vote, Item, etc.</th>
<th>Number of Vote, Item, etc.</th>
<th>Number of Vote, Item, etc.</th>
<th>Number of Vote, Item, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
<tr>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
<td>Number of vote, Item, etc.</td>
</tr>
</tbody>
</table>

**BUDGET (OR ACCOUNT) OF MINISTRY OF MARINE.**

**BUDGET (OR ACCOUNT) OF MINISTRY OF WAR.**

**BUDGET (OR ACCOUNT) OF MINISTRY.**

---

*Curved forward...*

See General Note (page 62).
### Naval Forces (continued).

#### II. TABLE RELATIVE TO THE MODEL STATEMENT (continued).

<table>
<thead>
<tr>
<th>Votes, Items, etc.</th>
<th>Number of votes, items, etc.</th>
<th>Attested title</th>
<th>Votes to be split up</th>
<th>Subhead A</th>
<th>Subhead B</th>
<th>Subhead C</th>
<th>Subhead D</th>
<th>Subhead E</th>
<th>Subhead F</th>
<th>Subhead G</th>
<th>Subhead H</th>
<th>Subhead K</th>
<th>Subhead L</th>
<th>Subhead M</th>
<th>Subhead N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

**Brought forward...**

**SPECIAL SHEET (OR ACCOUNT).**

**ESTIMATES (OR CERTIFIED STATEMENTS) OF FEDERATION AND REGIONAL AND LOCAL AUTHORITIES.**

**BUDGET (OR ACCOUNT) OF COLONY, PROTECTORATE, TERRITORY, TERRITORY UNDER THE SUZERAINITY OF THE HIGH CONTRACTING PARTY OR IN RESPECT OF WHICH THE HIGH CONTRACTING PARTY HAS BEEN INVESTED WITH A MANDATE.**

---

*See General Note (page 62).*

*This contains national defence expenditure for the naval forces.*
### III. TABLE RELATING TO III OF THE MODEL STATEMENT.

<table>
<thead>
<tr>
<th>Number of vote, item, etc.</th>
<th>Abridged title</th>
<th>Voted, Items, etc.</th>
<th>(Indicate designations current to the country)</th>
<th>Sums to be split up</th>
<th>Subhead A.</th>
<th>Subhead B.</th>
<th>Subhead C.</th>
<th>Subhead D.</th>
<th>Subhead E.</th>
<th>Subhead F.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pay and allowances of all kinds Officers</td>
<td>Pay and allowances of all kinds of N.C.O.s and men</td>
<td>Pay and allowances of all kinds of Officers</td>
<td>Personnel undergoing pre-military training, reserve and reserve organisations</td>
<td>Maintenance of personnel referred to in subheads A to D</td>
<td>Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pay and allowances of all kinds of Officers</td>
<td>Pay and allowances of all kinds of N.C.O.s and men</td>
<td>Pay and allowances of all kinds of Officers</td>
<td>Personnel undergoing pre-military training, reserve and reserve organisations</td>
<td>Maintenance of personnel referred to in subheads A to D</td>
<td>Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### BUDGET (OR ACCOUNT) OF MINISTRY.

#### BUDGET (OR ACCOUNT) OF MINISTRY OF WAR.

#### BUDGET (OR ACCOUNT) OF MINISTRY OF MARINE.

---

Carried forward...

See General Note (page 60).

---

* All refers to expenditure for the air forces.
* Other National Defence Ministries, if they contain expenditure for the air forces.
* Mixture containing national defence expenditure for the air forces.
### Table: Estimates (or Certified Statements) of Federates and Regional and Local Authorities

<table>
<thead>
<tr>
<th>Number of Vote, Item, etc.</th>
<th>Abridged Title</th>
<th>Vote or Item, etc.</th>
<th>Subhead A</th>
<th>Subhead B</th>
<th>Subhead C</th>
<th>Subhead D</th>
<th>Subhead E</th>
<th>Subhead F</th>
<th>Subhead G</th>
<th>Subhead H</th>
<th>Subhead I</th>
<th>Subhead J</th>
<th>Subhead K</th>
<th>Subhead L</th>
<th>Subhead M</th>
<th>Subhead N</th>
<th>Subhead O</th>
<th>Subhead P</th>
<th>Subhead Q</th>
<th>Subhead R</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>19</td>
<td>20</td>
<td>21</td>
</tr>
</tbody>
</table>

**Brought forward**

SPECIAL ITEMS (OR ACCOUNT)

**Estimates (or Certified Statements) of Federates and Regional and Local Authorities**

**Budget (or Account) of Colony, Protectorate, Territory, Territory Under the Suzerainty of the High Contracting Party or in Respect of Which Contracting Party Has Been Invested With a Mandate**

See General Note (page 124).
EXPLANATORY TABLE FOR ITEM No. 2 OF THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENT.

**ORDINARY PENSIONS.**

<table>
<thead>
<tr>
<th>Authority responsible for expenditure</th>
<th>Amounts</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry</td>
<td></td>
<td>Vote ... to vote ... internal accounts, estimates and any other particulars.</td>
</tr>
<tr>
<td>Ministry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>or Pensions Fund (specify which)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total: 1

1. Penalties granted to personnel discharged in consequence of the reduction of armaments—included in the above table—amount to

General Notes on the Explanatory Tables.

All directions printed in italics in the present specimen tables are given as examples only. The distribution and order of these various particulars should follow the arrangement of the national budgets, beginning with the National Defence Departments in all cases. Should it be found that there is not room in the column "Remarks", a letter should be set out at the bottom of the page, attention being drawn to them by means of a reference in the "Remarks" column.

EXPLANATORY TABLE FOR ITEM No. 2 OF THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENT.

DIFFERENCE BETWEEN THE INITIAL AMOUNTS OF THE BLOCK CREDITS VOTED FOR SEVERAL YEARS AND ANY PART OF SUCH CREDITS ALREADY ENTERED IN THE BUDGET, INCLUDING THE BUDGETS FOR THE YEAR TO WHICH THE STATEMENT REFERS.

<table>
<thead>
<tr>
<th>Particular</th>
<th>Amounts</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of War.</td>
<td></td>
<td>Law—or equivalent enactment—dated...</td>
</tr>
<tr>
<td>Initial amount of the credit</td>
<td></td>
<td>Official Journal or other document—containing particulars of the voting or authorisation of the credit for the year...</td>
</tr>
<tr>
<td>Amount of the credits shown in the:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>budget for 1930</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* 1931</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* 1932</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference to be shown in subsequent budgets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial amount of the credit etc., etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Marine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial amount of the credit etc., etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:—Particulars in respect of changes in credits. Should changes have been made in the initial amount, purpose or distribution of the initial credit, the relevant particulars—which should embody the same information as that to be supplied in regard to the first credit—should be shown after those relating to the original law.

See General Notes (page 74).
EXPLANATORY TABLE FOR ITEM No. 3 OF THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENT.

Difference between Carry-forward Credits—that is to say, Credits which may be used for Payments to be made during the Year or Subsequent Years—and Payments in respect of such Credits shown in the Accounts for the former.

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount of the credit carried forward from the previous year</th>
<th>Amount of the carry-forward credit fund for the year</th>
<th>Total</th>
<th>Total payments included in the statement</th>
<th>Difference between columns 3 and 7</th>
<th>Carry-forward credits to hand at the end of the year</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ministry of War</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total: Ministry of War</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministry of Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total: Ministry of Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recapitulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministry of War</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministry of Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See General Notes (page 74).
EXPLANATORY TABLE FOR ITEM NO. 7 OF THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENT.

Amounts liquidated and not paid for material supplied and services rendered, the payment of which has been deferred.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Expenditure routing to the Heads of the Statement</th>
<th>Totals</th>
<th>Remarks</th>
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<td>II:IV</td>
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<td><strong>Ministry of War:</strong></td>
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<td>(a) Government deliveries of</td>
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<td>(b) Purchases from private</td>
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<td>undertakings or services</td>
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<td>ordered by such undertakings</td>
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<td>(c) Deliveries by autonomous</td>
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<td>(d) Services rendered by</td>
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<td>personnel, etc.</td>
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<td>(e) Purchases in respect of</td>
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<td>transferred their claim against</td>
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<td>that the State has not settled</td>
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**Recapitulation:**

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<thead>
<tr>
<th>Ministry of War</th>
<th>Totals</th>
<th>Remarks</th>
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<td><strong>Ministry of:</strong></td>
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</table>

**Totals: Ministry of:**

| Grand total                      |        |         |

See General Notes (page 74).
EXPLANATORY TABLE FOR ITEM No. 9 OF THE SPECIAL INFORMATION CONTAINED IN TABLE V OF THE STATEMENT.

VARIOUS INFORMATION REGARDING UNPAID SERVICES AND SUPPLIES FOR NATIONAL DEFENCE.

A. — Estimated Value.

<table>
<thead>
<tr>
<th>Character of the unpaid service</th>
<th>Expenditure relating to the heads of the Statement</th>
<th>Totals</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(particulars of the character of the various unpaid services or supplies)</td>
<td></td>
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<tr>
<td>(particulars, etc.)</td>
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<td>(particulars, etc.)</td>
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<tr>
<td>Estimate</td>
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</tbody>
</table>

Grand total: | | | |

3. Particulars to be supplied in cases in which Estimates are impossible.

<table>
<thead>
<tr>
<th>Character of the unpaid service</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

RECAPITULATION.

Total original authorisations (Column C) | |
New expenditure authorised (Column D) | |
Increases in original credits (Column E) | |
Reduction in original credits (Column F) | |
Total authorisations on | (Column H) |

Note: More expenditure authorised outside the budget—naval shipbuilding, fortifications, etc.

Particulars which cannot be entered in this column should be given in a note attached to the present table.

The documents should be enclosed with the present summary statement.

Date: ____________________

FIRST SUMMARY STATEMENT OF CHANGES MADE IN NATIONAL DEFENCE EXPENDITURE AUTHORISATIONS

FROM THE ENACTMENT OF THE ORIGINAL BUDGET TO THE EXPIRATION OF A PERIOD OF NINE MONTHS AS FROM THE BEGINNING OF THE FINANCIAL YEAR.

<table>
<thead>
<tr>
<th>Original Authorisations</th>
<th>Changes in Original Authorisations</th>
<th>Total Authorisations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total amount of new expenditure authorised</td>
<td>Total amount of increases in original credits</td>
</tr>
<tr>
<td>(Column A)</td>
<td>(Column B)</td>
<td>(Column C)</td>
</tr>
</tbody>
</table>

Particulars of documents published: Date of publication | |

Regraded Unclassified
Similarly, expenditure for the armed forces effected from the proceeds of gifts and bequests should be entered in the budget accounts of national defence departments, with a mention of the purpose of such expenditure.

To facilitate as far as possible the personnel and interpretation of budgets and accounts and the ascertainment of the real purpose of the expenditure shown therein, it would be of assistance if States should submit their budget accounts in the same form as the budgets themselves.

To facilitate a comparison of estimates with payments, it would also be advisable that the accounts should show clearly any appreciable changes made in the appropriation of expenditure in the course of the financial year.

To facilitate the supervision of publicity of expenditure, it would be desirable if States should consider whether their defence organisations would allow of the preparation of a separate budget and a separate account for each of their forces. It is recommended that States should at least show in their budgets and accounts what part of the expenditure is chargeable to each force and that, when items exist in budgets and accounts relating to expenditure chargeable to more than one armed force, the joint character of these items should be made clear in the budget and in the account itself.

To facilitate verification of the accuracy of the figures inserted under head IV, it is desirable that expenditure which, in accordance with the instructions on classification, should be entered under this head should, so far as possible, be entered under separate heads in the budgets and accounts.

To obviate the difficulties presented by the isolation of the expenditure to be entered under head IV of the statements, the ideal arrangement would be for States possessing non-autonomous establishments for the manufacture or construction of war material—i.e., establishments the expenditure of which is shown in the budgets and accounts of national defence departments—to enter under a separate head in their budgets and accounts all expenditure connected with the construction and manufacture of such material, as defined in section III, Part A, so far as this can be done without involving undue complication.

For the same reasons, it is considered desirable that States possessing autonomous establishments for the manufacture or construction of war material which do not at present publish annual financial accounts specifying the revenue and expenditure of these establishments should compile and publish such accounts.

In order that publicity may achieve its full purpose, it should be organised in such a way as to render available the necessary particulars as speedily as possible.

It would be desirable that the final accounts of all States should be published at dates which would make it possible to cover the period of fourteen months from the close of the financial year laid down in Article 1 for despatch of the statement of payments effected. To obtain this result, action should be taken to shorten the supplementary periods or to expedite the presentation and publication of accounts or to adopt any other method.

It is desirable that all the High Contracting Parties should endeavour to simplify and strengthen the independence of the higher auditing bodies whose duty it is to verify the figures of the closed accounts.

Articles C, D, E and F of the Convention prescribe uniform maximum time-limits for all States for the despatch of the several documents which have to be communicated to the Permanent Commission.

In order that these documents should be received by the Permanent Commission as soon as possible after the expiry of the time-limits laid down, States situated at a distance from the seat of the Commission are, however, urged to do everything in their power to expedite the despatch of these documents.
LEAGUE OF NATIONS

PUBLICATIONS OF THE DISARMAMENT SECTION

Conference for the Reduction and Limitation of Armaments

RECORDS OF THE CONFERENCE


Volume II. December 14th, 1932, to June 29th, 1933. (Ser. L.O.N. P. 1933.IX.10). Pages ix-xix and 207-643

CONFERENCE DOCUMENTS

Volume I. (Ser. L.O.N. P.1932.IX.63). 282 pp. 10/- $2.50

Volume II. In preparation

NATIONAL DEFENCE EXPENDITURE COMMISSION

REPORT OF THE TECHNICAL COMMITTEE.


Addendum to Volume II. Summary of the Information supplied to the Technical Committee on the Subject of the National Defence Expenditure of the Union of Soviet Socialist Republics. (Ser. L.O.N. P.1933.IX.3. Vol. II. Addendum). 10 pp. 5d. 0.15

Volume III. In the press

INSTRUMENTS NECESSARY FOR THE APPLICATION OF A SYSTEM OF PUBLICITY OF NATIONAL DEFENCE EXPENDITURE. Draft prepared by the Technical Committee of the National Defence Expenditure Commission. (Ser. L.O.N. P.1933.IX.11). 86 pp. 3/6 0.90

For further information, please apply to

LEAGUE OF NATIONS, PUBLICATIONS DEPARTMENT, GENEVA
Prepared by: Lawrence H. Seltzer
TO  Secretary Morgenthau
FROM  Mr. Has
Subject: March Financing — Preliminary

I. Conclusions

1. It would appear best to confine the March financing to the refunding of the June note maturity.

2. A 3-way offering — of notes, short bonds, and long bonds — would appear to be unnecessary; and, because of the difficulty of accurately pricing a short-term bond in relation to its companion offerings, undesirable.

3. Any of the following would appear to be satisfactory:

   (a) Our first choice at this time is a combination of the outstanding December 1943 1-1/8 percent notes and 2-5/8 percent bonds of 1960-65, or slightly shorter.

   (b) Our second choice would be a combination of the notes and 2-3/4's of 1965-75.

   (c) Our third choice would be a combination of the notes and an additional offering of the outstanding 2-3/4's of 1960-65.
II. Yields Since the Last Financing

Long-term Treasury bonds have broken into brand-new high ground since the December financing. The average yield of all Treasury bonds not due or callable for twelve or more years, which was 2.50 percent on December 15, 1938, has fallen to 2.43 percent (on February 25, 1939). Prior to this year, the record low yield of this average had been 2.45 percent, achieved on February 25, 1937 — only shortly before the drastic reaction of that spring.

High-grade corporates have also been making new highs. The average yield of the 20 high-grade corporate bonds in the Treasury's index was 3.04 percent on December 15, 1938. On February 25, 1939, it was 2.98 percent.

The longest-term Treasury notes have not reflected the improving market in their prices and yields, probably because of the competition offered by the RFC and USHA note financing a few weeks ago. Despite the advance of nearly three months toward maturity, the 1-1/8 percent note issues maturing June 15, 1943, and December 15, 1943, were selling on February 25 at virtually the identical yields (.81 and .85 percent, respectively) as on December 15 (.83 and .87 percent, respectively). On the other hand, their maintenance of these high price levels in the face of the recent agency financing indicates a strong demand situation.

The shorter-term Treasury notes, on the other hand, have had their yields further reduced. The yield on the note issue maturing December 15, 1942, has declined from .75 to .60 percent; and the average yield of 2-3 year Treasury notes has declined from .84 to .16 percent between December 15 and February 25.

III. The Market Pattern

The market has not yet reacted downward to the imminence of the March financing, and it is at a relatively high level. These facts may presage either of two opposite developments. On the one hand, as was the case early in 1937, the market
may have a substantial reaction ahead of it. This seems to be the opinion of Moody's Bond Survey, which points out (February 6, 1939) that the high-grade bond market has had three periods of price softness within the last six months, despite large excess reserves, reduced bank loans, and gold inflows.

On the other hand, the market may be actively in process of making further brand-new lows in long-term interest rates. This possibility is too generally ignored; yet, were it not for the unsettled international situation, such a development would be highly probable, and it may well come about anyway. Moody's, in the Survey cited above, was forced to concede that, in recovering from each of the three declines of the last months, the market went on to new highs.

The significance of these considerations for the March financing would appear to be that the volume of that financing should not be unnecessarily enlarged. If the market is at vulnerable levels, the ensuing reaction would be intensified if such enlargement were made. On the other hand, if the market is actually, as it appears to be, in the process of making further new lows in long-term interest rates, the Treasury would lose rather than gain by anticipating its requirements.

The great cash holdings of the Treasury at this time, and the sizeable amount of the June note maturity ($1,294 million), strengthen the force of these considerations, and suggest that the March financing be confined to the refunding of the June maturity.

IV. Consideration of Alternative Issues

A combination of two of the following types of securities would seem desirable:

2. A 2 percent 10-year bond.
3. A 2-1/2 percent 15-17 or 15-18 year bond (1954 to 1956 or 1957).
4. A 2-5/8 percent 21-26 year bond (1960-65), or slightly shorter maturity, or a further offering at a premium of the outstanding 2-3/4's of 1960-65.


1. Note issue. A note issue seems highly desirable in view of the fact that the holders of the maturing notes are mainly banks, some of which would greatly desire new notes in exchange.

A 5-year or 4-1/2 year note issue would mature on a date when the refunding of a large outstanding bond issue is likely to take place. On October 15, 1943, $1,401 millions of 3-1/4 percent bonds become callable; and on April 15, 1944, $1,519 millions of 3-1/4 percent bonds become callable. In both these cases, it will probably be found desirable to refinance the maturing bonds on September 15 and March 15 of 1943 and 1944, respectively, thereby rendering these dates less suitable as the maturity dates of note issues.

For this reason, an offer of additional amounts of last December's 1-1/8 percent note issue, maturing December 15, 1943, and now outstanding in the amount of $368 millions, may be preferable to a new 5 or 4-1/2 year issue. The December 1943 notes closed on Saturday, February 25, at 101.09. Barring significant changes in the market, they could probably be offered to exchange subscribers at a premium of one-eighth to one-quarter of a point, if this is thought desirable.

2. A 2 percent 10-year fixed maturity bond. An 11-year issue would fit into an open date in the Treasury schedule of maturities; but, unfortunately, such a maturity does not appear to be altogether safe with a 2 percent coupon. Hence the proposed 10-year issue.

The advantage of such an issue is that it would probably be retained by a large proportion of the holders of the maturing notes, instead of being resold by them, as is likely to be the case with a longer-term issue. Moreover, to the extent that bank holders of the maturing notes retain the securities offered in exchange, there is no reduction in the volume of bank credit outstanding; whereas the substitution of longer
bonds for the maturing notes would probably cause a large part of the new securities to be sold by the banking subscribers, thereby causing an at least temporary decrease in the total volume of bank deposits.

One disadvantage of a 2 percent short-term bond is that it would not meet the present insistent demand on the part of long-term investors for a higher yielding long-term security. A further disadvantage is that short- and medium-term bonds have not acted as well as long-term bonds in market breaks during the past few years, presumably because they are held mainly by banks, and because many banks are quick to throw their holdings upon a declining market to protect profits or limit losses.

It should also be said that relatively short, fixed maturity bonds are so popular, and the remaining open dates for them so few -- 1950 is about the only real one -- that it would seem more prudent to reserve such an issue for less favorable market conditions.

3. A 2-1/2 percent 15-17 or 15-18 year bond (1954 to 1956 or 1957). Such an issue would represent a compromise between a long-term bond and the short-term issue discussed above. It has the disadvantage of being too long for banks to hold in substantial quantity without being long enough to carry a coupon rate attractive to the investor interested in obtaining a maximum yield. Further, judging by past experience, such a bond is more likely to fall below par in a weak market than a longer-term issue with a higher coupon. Moreover, although there are no outstanding bond issues callable between 1952 and 1954, inclusive, the final maturities during those three years exceed $6.5 billions.

On the other hand, many banks and other investors would doubtless be willing, under present conditions, to stretch their ideas of suitable maturity in order to obtain a 2-1/2 percent as against a 2 percent coupon.

4. A 2-5/8 percent 21-26 year bond (1960-1965) or a further offering at a premium of the outstanding 2-3/4's of 1960-1962. The merit of either of these issues is that it would enable the Treasury to take advantage of the present strong demand for such a maturity.
The offering of additional amounts of the 2-3/4's of 1960-65, now outstanding in the amount of $591 millions, would, in the present market, require a premium in the neighborhood of 2 points. This is a large premium to ask of exchange subscribers, and its size would doubtless act as a psychological deterrent in the exchanges, though it would make much less difference in the secondary distribution of the bonds.

A 2-5/8 percent bond of substantially the same maturity would have the definite advantage of being offered at par, and of commanding a lower premium in the secondary distribution, as well as of setting a new low record for Treasury interest rates on bonds of such long maturity. The only apparent objection to a 2-5/8 percent issue is the alleged greater familiarity of the market with rates expressed in quarter per cents. It is to be observed, however, that there are no less than six outstanding Treasury issues that carry coupon rates expressed in eighths of one percent -- 2-7/8, 3-1/8, and 3-3/8.

The maturity of the proposed 2-5/8 percent issue could be shortened by one or more years, if necessary, to enlarge the probable premium.

5. A 2-3/4 percent 26-36 year bond. Such a bond would extend the present longest maturity by 10 years, and would provide for a 10-year call period. In the present market, it appears that such a bond would command a premium of more than 2 points. If, as the date for the announcement approaches, the probable premium should appear to be excessive, the issue could be offered at an appropriate premium.

Such an issue would have the advantage of continuing the Treasury's recent policy of extending its maturities in good markets. It would likewise meet the definite demand in the market for additional long-term high-yielding securities. It is subject to the possible objection that the Treasury would be reaching out far into relatively unknown territory at the peak reached by the market thus far.
GROUP MEETING

February 27, 1939.
9:35 A.M.

PRESENT:
Mr. McReynolds (In the Office of the Secretary)
Mr. Bell
Mr. Lochhead
Mr. Gibbons
Mr. Hanes
Mr. Foley
Mr. Duffield
Mr. Gaston
Mr. White
Mrs. Klotz

H.M.Jr:

All right.

Lochhead:
Sterling 4.68 and a quarter to 3/8. France are also steady. There is no change except that they did go on the blind side.

Gibbons:
Did you get my message?

H.M.Jr:
I have it written down. They say Kaltenborn talked quite a lot last night on what happened during the week on business. Could you get me the transcript?

Gaston:
Yes.

H.M.Jr:
Would you send for Dr. Heath and talk to him about the armament program.

Bell:
Who is Heath?

H.M.Jr:
He is in the American Embassy in Berlin and works for the Treasury. Ambassador Wilson helped him prepare the stuff and he has it all typed out nicely. I am sorry but I left the papers at the house.

Bell:
Is he in town?

H.M.Jr:
Yes, he is here. When Wilson was at Geneva he was part of the disarmament conference, so Heath has all the stuff. He has gone a long way toward starting it and I am suggesting you send for him and tell him what else you need.
All right. Harry says he has some figures on it that will be ready today.

All right. I left a three-page letter at the house, plus the big sheet that accompanies it. They go to Mr. Daniel W. Bell.

Do you want us to communicate directly with that young man?

Yes, the quicker the better.

We have the arrangements all made.

Just write him —

Write to him directly?

Yes. Is that all?

I have a letter to the Attorney General on this request that all the information on spy activities be sent directly to the field office of FBI. We have a letter — I told you that we had letters out of turn from those fellows. It went back to the Attorney General and he has now written a letter asking that we do just what they asked for before, and I had prepared a letter outlining more or less, the background on this, but concurring in his request, and prepared it for your signature.

It goes directly to the field office? Does not clear through here?

Anything we pick up goes to the nearest FBI field office.

What else do you know?

Nothing.

Dan?

We have a request from Senator Brewster of Maine, on behalf of the Maine delegation in Congress, and this request was made because of the resolution in the legislature of Maine, to furnish the Maine delegation the amount of any debt which the State of Maine might owe to the Federal Government or
any agency thereof. We thought that that was a proper function of the Comptroller General and called up over there and asked him if we couldn't just send the letter and ask them to circularize the departments. They said, "no", they wouldn't do it unless they get a request directly from the delegation in Congress. I don't see any reason for delaying it and I think probably you might circularize the letter to the departments, asking them to give us the information. I would like to send it through Mack.

McReynolds: All right. I will read it after it is signed.

Bell: That was a double play.

McReynolds: I will read it carefully and if I have any suggestions to make we will change it and bring it back later for another signature.

White: Mack assists in an error.

Bell: That is all I have.

H.M.Jr: That is the effect these Justices have on him.

McReynolds: Dan says he is doubtful about that.

Lochhead: In connection with the strength of Sterling and France. Although Sterling gained somewhat on Friday and Saturday — they gained 8 million dollars on Friday and 5 million dollars on Saturday. And France still continued to gain. On the other hand both Holland and Belgium are losing at a rate which just about offsets the gains England and France are making, so that we are just acting, practically, as a spot through which these transactions pass.

H.M.Jr: But the gold comes here, unfortunately.

Lochhead: The gold comes here and is turned back to England and France.

H.M.Jr: Ear-marked?

Lochhead: Well, France is taking the gold and ear-marking it; England has not taken any gold in the last —
not in this period, because they are still offsetting their short position that they built up again.

H.M.Jr.: The bulletin showing how much each country —
White: That was just repeated once.
H.M.Jr.: The Times picked it up. O.K?
Lochhead: Yes.
White: There will be another draft of that statement ready. Ed and I are working on it. It will be ready in an hour.
H.M.Jr.: Well, I want to see you, Harry, at 10:30.
White: Yes.
H.M.Jr.: And then whether it is ready or not I want to see you then.
White: There is one draft ready and there will be another one ready in about an hour.
H.M.Jr.: Well, I have this draft here.
White: Well, there is an improved draft which will be ready within an hour.
H.M.Jr.: You can come in at 10:30.
White: There was a meeting, an interdepartmental committee meeting to consider cotton subsidies.
H.M.Jr.: What is "an interdepartmental committee"?
White: It is an interdepartmental committee on commercial affairs.
H.M.Jr.: Under the State Department?
White: Yes, under the State Department. It has been in existence for some time.
H.M.Jr.: But it is a State Department committee?
White: Well, the State Department fostered it. I didn't attend. I sent one of the boys just to listen. And it might be of interest to note that they voted unanimously for the Smith Bill which calls for an expenditure of some 300 million dollars from the Treasury and --

Bell: Unanimously.

White: Yes.

Bell: The Treasury wasn't very well represented.

White: Except the Treasury didn't take any position on it.

H.M.Jr: Just a second. I think when these things come up we ought to take cognizance of them and take a position. After all it is very nice to say "no new taxes", but if people at this end of the thing cook up a lot of new money how are they going to pay for it. I would like to use this as an example and if you will get the information to Mr. Bell and Mr. Hanes I wish they would prepare a letter for my signature to Mr. Wallace and to the President on this thing. How are we going to finance this thing?

White: Don't you want to wait until it goes a little higher? This is a sub-committee and it will report to the interdepartmental committee and at that point you might want to take such action.

H.M.Jr: What do you think, Dan?

Bell: I believe that Wallace has rendered a report on that. The Budget told him we would have no objection to the report, provided the total cost of the program did not exceed 500 million dollars, and if it did it would not be in accordance with the President's program.

H.M.Jr: Well, he brought it up in Cabinet and they talked about it and he said: "Inasmuch as it wouldn't be in the budget we are going to finance it some way. I don't know how you would be interested. It will have nothing to do with the processing taxes." So I said, "Yes, I am very much interested and it would please me if you would communicate with Mr. Hanes".
Hanes: He did. I got a letter from him on Friday and I got the plan which, I must confess, I don't understand. It is a very, very complicated thing.

H.M. Jr: Would you and Dan get together, of course in his dual capacity, and let's follow the thing that he suggests. If it comes within the 500 all right, but I would like, if Dan will join with me, so to speak, put him an notice. I don't care so much, for the moment, what the plan is. It is what it costs. And if we find things not within the budget we have got to fight to keep the thing within the budget limit.

Just as soon as they go above it we have got to fight the way we have never fought before, and I am ready to do that. You see, my position is this: That unless my advice is asked, if he has 500 million dollars ear-marked, well, that is up to Wallace to decide how he is going to spend it, but once he gets above that I want to bellow just like an agry bull.

Bell: Like Ferdinand -- pretty soft.

H.M. Jr: Ferdinand liked flowers; I want to act like a real Spanish bull, a fighting one. O.K. Dan?

Bell: All right with me.

H.M. Jr: O.K. Johnnie?

Hanes: Yes.

H.M. Jr: Let's not wait until it gets up here. Let these gentlemen do what they intend doing and then let's be a little rambunctious.

White: Incidentally it is reported that the Department of Commerce is taking a much more active interest in the meetings. They are sending more men and better men who are actively participating in these interdepartmental conferences.

H.M. Jr: Good.

White: There is a letter received from Mr. Eccles saying that his men were ready to consider the Cuban banking laws. Our men are also ready, and he has
appointed Gardiner from the State Department, and if it is agreeable with you we can have them meet to discuss the matter further. It is just in the discussion stage.

H.M.Jr: Well, you take it up with Lochhead and Foley. I don't know a thing about it.

White: Possibly you have seen the letter from Jesse Jones, Reconstruction Finance Corporation, asking for an extension. I thought you might be interested in that, for the Export-Import Bank.

H.M.Jr: Well, they got it.

White: But I thought you might like to see what he said.

H.M.Jr: No.

White: That is all. There was an inflow of capital of 40 million net.

H.M.Jr: Anything else?

White: That is all.

Gibbons: Did you hear about the robbery in the New York Customs?

H.M.Jr: You mean another one? I thought they were always robbing it up there?

Gibbons: No, but a teller, who is a sub-employee of the cashier, worked on the pier Thursday night from the time the Queen Mary docked until about ten o'clock, when he was supposed, under the regulations, to go to the Custom House and deposit the money. Instead of doing that, he simply put it under his arm and took it home, and was stuck up on Friday morning after leaving his house. He is covered by bond, however. He just sort of took a chance. He had been in the service 23 or 24 years. He is very reliable. I suppose it is just one of those things.

H.M.Jr: Incidentally with the head of the Appraiser's Stores dead, would this be a good time to consolidate the Appraiser's Stores office into
the Collector of Custom's office and make one of them?

Gibbons: Yes. We are asking Congress to do away with the Surveyor in New York. It was because of Tom Lynch we did not do that before.

H.M.Jr: Could that be changed?

Gibbons: I think it can; and make it all one.

McReynolds: Well, of course, the committee's report in the House on the appropriations bill does cut those things out.

Gibbons: cuts out the surveyor, I think, Mack, but —

McReynolds: We didn't ask for any of it; they did it of their own volition. We asked for it in a legislative Bill last year and didn't get it. Now the Appropriations Committee comes along this year and of their own volition they have cut those things out. I would be willing to admit very confidentially, that they had a certain amount of information given them, but the Treasury didn't ask for that cut out, but the committee of its own volition did cut the places out and that is the way it stands in the Bill.

Gibbons: Are you sure it included the appraiser?

McReynolds: I am quite sure; I wouldn't swear to it, though.

Gibbons: I talked to Ballinger —

McReynolds: If they didn't, it would be easy enough to get them to change it so they would.

H.M.Jr: You dirty so and so.

Gibbons: That is sub rosa information, Mr. Secretary.

McReynolds: I am perfectly innocent of anything, but they do have certain information.

H.M.Jr: Anything further?

Gibbons: No.
H.M.Jr.: Johnnie?

Hanes: No.

H.M.Jr.: At quarter of twelve Bell and Haas and Hanes will come in and we will take a look at our financing. Bring Seltzer too, George, and if Murphy is back he can give us a thumb nail sketch. Is that all right with you, Johnnie?

Hanes: Yes.

H.M.Jr.: We will decide then whether we want new money or not. Have you got anything on your mind?

Hanes: No.

H.M.Jr.: Wonderful.

Haas: I have a couple of placed marked here. (Handing several documents to H.M.Jr.)

H.M.Jr.: You haven't the commodity one yet, have you? That will come later with the other report.

Haas: The charts?

H.M.Jr.: Yes.

Haas: Yes. I could have brought it in this morning.

H.M.Jr.: Anything else?

Haas: That is all.

Foley: Nothing.

Duffield: Do you want the Power Financing Bill set up, both the way the President suggested and the way we had it — both ways?

H.M.Jr.: No. I would like to take a minute and explain that. The President wrote back that he didn't like this thing because Delano seems to think that —

Gaston: Will cause some trouble?

Foley: Inopportune?
H.M.Jr: What I am going to do from now on is this: If the President asks me to do something and I believe in it I will do it. Then if it affects some other department and that person doesn't like it, I will drop the whole business and it is my idea it is up to the President to suit the other departments. I am not going to. I haven't time. I am just going to stop and do nothing more on it until the President brings it up. I just haven't time to go around and sell 5 other departments on something the President wants and gave me to do. As far as I am concerned it is out the window. "It is a nice little idea, I believe in it, I think it is fine". But if he doesn't want to sell it to the other department heads I am not going to do it. And that is my policy from now on. Do you agree with me, Johnnie?

Hanes: It wasn't only Delano, you know. It was all of them.

H.M.Jr: I just haven't time. I don't want you to take the time either. If the President wants to send for these fellows and say "I want it", O.K. If he doesn't, we will skip it. I will just put it in the cooler. Do you agree with me, Mr. Hanes?

Hanes: I do, yes.

H.M.Jr: I just haven't time to be rowing with these other departments for the President. Have you something else?

Duffield: That is all.

Gaston: We are still holding a number of copies of Fortune. Do you have any idea as to where you want them to go.

H.M.Jr: Please hold them. We used up -- I don't know how many.

Foley: Used up everything you had.

Mrs. Klotz: You didn't have enough, did you?
Foley: I had one home and I brought that down this morning. We were short one, but that was December, you see, Mr. Secretary, and he is talking about January.

Gaston: I am talking about the January number, the one that has the public debt article. The others were cleaned up.

H.M. Jr.: Have we sent them to Cochran?

Gaston: No, I think not.

H.M. Jr.: Send five to Cochran and five to Butterworth.

Foley: We ought to get some more of the December issue, don't you think?

Gaston: We can't get any more of either; but we could have it reprinted. What are you doing with them?

Foley: The Secretary suggested that we send a copy to the members of the Ways and Means Committee. Now if we want to do the same thing in the Senate when we get over there we haven't enough copies.

H.M. Jr.: Anything else, Herbert?

Gaston: No. But I am a little in doubt as to what you want to do about the Stabilization Fund material that Harry talked to me about the other day. I just can't quite grasp it.

H.M. Jr.: Well, if Harry will come in at 10:25 and then if you come in at 10:30 I want to start on it, and I want Gene Duffield here too, but at 10:30.

Gaston: Right.

H.M. Jr.: Two of you at 10:30 and, Harry, I want you in five minutes ahead of time. Archie at 10:30 and is Knoke here?

Lochhead: Knoke is here.

H.M. Jr.: Knoke at 10:30. O.K.

(Meeting concluded)
February 27, 1939

My dear Senator:

I am enclosing copies of my most recent letters to Senators Vandenberg and Lodge in regard to the Stabilization Fund, which I thought you might like to have.

Sincerely yours,

Secretary of the Treasury.

Honorable Alben W. Barkley,
United States Senate.
My dear Senator Barkley:

My attention has been called to the publication in the Congressional Record for February 17, 1939, of the recent correspondence between Senator Lodge and myself relative to the operation of the Stabilization Fund.

I wish to take this opportunity to express my appreciation of your action in making the contents of the letters in question a matter of wide public record. The Stabilization Fund is of such fundamental public importance that there should be no misapprehension about it.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable Alban W. Barkley,

United States Senate.

(Envelope, Jr.; OSC:BJ 2/16/39

COPY

Regraded Unclassified
My dear Senator:

I am enclosing copies of my letters to Senators Vandenberg and Lodge in regard to the stabilization fund. These may be of interest to you.

Sincerely yours,

Secretary of the Treasury.

Hon. Alben W. Barkley,
United States Senate.

H/mslcome 2/20/39
February 6, 1939

My dear Senator:

As per our telephone conversation, I am sending you herewith a photostatic copy of the letter which I received from Senator Lodge.

Sincerely,

Hon. Alben W. Barkley,
United States Senate.
TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE.
Thursday, February 9, 1939.

Press Service
No. 18-34

Secretary Morgenthau today made public the following exchange of correspondenee with Senator Henry Cabot Lodge, Jr., of Massachusetts:

UNITED STATES SENATE
Committee on Finance

February 2, 1939.

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

Dear Mr. Secretary:

On page 1410 of the Congressional Record for February 1, Senator Barkley is quoted as follows:

"I understand that the stabilization fund has been used in such a way as to make a profit to the American Treasury of something like $12,000,000."

Would you be so kind as to tell me whether Senator Barkley's understanding is correct and, if so, how this profit was realized?

With kind regards, I remain,

Sincerely yours,

(Signed) E. C. LODGE, JR.
In reply to your letter of February 2, in which you ask for information with regard to the stabilization fund, I am pleased to advise you as follows:

1. Not as a part of the purpose for which the stabilization fund was created by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) but as an incident to its operation, the fund has increased by approximately $2,000,000,000.

2. While the Congress appropriated $2,000,000,000 as a stabilization fund, only one-tenth of that amount, $200,000,000, has been used as a working fund.

3. Since its creation, the fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.

4. It has been employed for the purpose specifically stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration all of the Act's provisions have been most scrupulously followed, both in letter and in spirit.

5. The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than that stated in the Act.

Sincerely,

(Signed) HENRY MORGENTHAU, JR.

Secretary of the Treasury.

The Honorable Henry Cabot Lodge, Jr.,

United States Senate.
My dear Senators:

I am writing to acknowledge receipt of your letter of February 24th, in which you repeated your inquiry as to how the $12,000,000 profit in the stabilization fund was affected.

I was doubtfully correct in my letter of February 23rd if I caused you to believe that my failure to give you the information you seek was due solely to my erroneous belief that you were still a member of the Senate Committee on Banking and Currency. I could not give you an informative answer to your question without anticipating the testimony which I expect to supply to the appropriate committees of the House and Senate. To do so, I think, would be a discourtesy to both committees.

I have no doubt that the substance of my testimony before these committees will become available in due course to all members both of the Senate and of the House. If you are in doubt that the question or questions you wish to ask will be put to me in the committee hearings, may I suggest that the Chairman or other members of the Committee on Banking and Currency would doubtless be quite willing to receive your suggestions.

Sincerely yours,

Secretary of the Treasury.

The Honorable Henry Cabot Lodge, Jr.,
United States Senate.

HEG/mah

Return to Room 285
February 24, 1939

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

Dear Mr. Secretary:

I have your letter of February 23 regarding my question to you as to how the $12,000,000 profit in the stabilization fund was effected.

I note that you do not answer this question in your letter on the ground that I am a member of the Senate Committee on Banking and Currency, and that therefore I should ask you those questions in committee.

May I tell you that you are in error? I am not a member of the Banking and Currency Committee. I, therefore, once again request you to answer this simple question which is of interest, not only to me, but to the American people.

Sincerely yours,

[Signature]

R. C. Lodge, Jr.
by dear Senators

I beg to acknowledge receipt of your letter of February 17, 1939, asking for further information with respect to the stabilization fund.

On February 8, 1939, I furnished you certain information relating to the stabilization fund in reply to your letter of February 2. Senator Vandenberg, having read the exchanges of letters between us, wrote to me on February 14, 1939, asking additional questions with respect to the stabilization fund.

As you know, the Senate Committee on Banking and Currency, of which you are a member, has before it for consideration a bill to extend the powers under the stabilization fund. I assume that that Committee will hold hearings on the bill in the near future. The President has advised the Senate, and I have advised the Banking and Currency Committee, that the Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with that Committee the problems relating to such legislation. Although I am always glad to discuss in correspondence with members of Congress matters affecting Treasury policy, it seems to me that the appropriate time and place to consider questions you may have
with respect to the stabilization fund is at the Committee hearings.

Sincerely yours,

[Signature]

Secretary of the Treasury.

Hon. Henry Cabot Lodge, Jr.,

United States Senate.
Marian -

Since the attached are the initialed carbons I think they shd. be placed with rest of the file. Will you please take care of them for me?

Thanks.

HF 3-1-39
FEB 21 1939

My dear Senator Lodge:

In the absence of Secretary Morgenthau receipt is acknowledged of your letter of February 17, 1939.

Your communication will be called to the Secretary's attention upon his return.

Very truly yours,

(Signed) John N. Hanes

John N. Hanes,
Under Secretary of the Treasury.

Honorable H. C. Lodge, Jr.,
United States Senate.
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

On my return from Boston, I find your letter of February 3 regarding my query to you of February 2.

I would respectfully call your attention to the fact that in my letter I asked you to tell me how the $12,000,000 profit was affected.

Yours of February 3 does not give me this information.

If a profit has been made, what harm can there be in giving to the people a post-audit of the fund?

I hope you will answer this question which I think is of great importance to the American people.

Very sincerely yours,

(sgd) H. C. Lodge, Jr.

H. C. Lodge, Jr.
February 17, 1939

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

Dear Mr. Secretary:

On my return from Boston, I find your letter of February 3 regarding my query to you of February 2.

I would respectfully call your attention to the fact that in my letter I asked you to tell me how the $12,000,000 profit was affected.

Yours of February 3 does not give me this information.

If a profit has been made, what harm can there be in giving to the people a post-audit of the fund?

I hope you will answer this question which I think is of great importance to the American people.

Very sincerely yours,

H. C. Lodge, Jr.

L/h
February 8, 1939.

My dear Senator:

In reply to your letter of February 2, in which you ask for information with regard to the stabilization fund, I am pleased to advise you as follows:

1. Not as a part of the purpose for which the stabilization fund was created by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) but as an incident to its operation, the fund has increased by approximately $12,000,000.

2. While the Congress appropriated $2,000,000,000 as a stabilization fund, only one-tenth of that amount, $200,000,000, has been used as a working fund.

3. Since its creation, the fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.

4. It has been employed for the purpose specifically stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration all of the Act's provisions have been most scrupulously followed, both in letter and in spirit.

5. The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to affect any other purpose than that stated in the Act.

Sincerely,

Secretary of the Treasury.

The Honorable Henry Cabot Lodge, Jr.,
United States Senate.
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

On page 1410 of the Congressional Record for February 1, Senator Barkley is quoted as follows:

"I understand that the stabilization fund has been used in such a way as to make a profit to the American Treasury of something like $12,000,000."

Would you be so kind as to tell me whether Senator Barkley's understanding is correct and, if so, how this profit was realized?

With kind regards, I remain,

Sincerely yours,

(Signed) H.C. Lodge, Jr.

H.C. Lodge, Jr.
Regraded Unclassified

Regraded Unclassified
February 8, 1939.

My dear Senator:

In reply to your letter of February 2, in which you ask for information with regard to the stabilization fund, I am pleased to advise you as follows:

Since its creation by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) the fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.

It has been employed for the purpose specifically stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration all of the Act's provisions have been most scrupulously followed, both in letter and in spirit.

The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than that stated in the Act.

While the Congress appropriated $2,000,000,000 as a stabilization fund, only one-tenth of that amount, $200,000,000, has been used as a working fund.

Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a profit. The amount of $12,000,000, which you mention in your letter as the reported profit, is approximately correct.

Sincerely,

[Signature]

Secretary of the Treasury.
February 13, 1939.

The Honorable Robert R. Reynolds,
United States Senate.

My dear Senator:

In response to the request contained in your letter of February 8th I am happy to send you a copy of my letter of February 6th to Senator Henry Cabot Lodge, Jr., who had requested similar information.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure
February 8, 1939.

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

My dear Mr. Secretary:

Will you be good enough to advise me as to the status of our stabilization fund at the present time, amount of amounts utilized, time of utilization, purpose of utilization, etc.

There have been so many statements made about the status of our stabilization fund from time to time, and so many inquiries about its present state that I should like to be advised relative to the same, and will thank you for the information.

Yours very truly,

Robert E. Reynolds, U. S. S.
TREASURY DEPARTMENT

Washington

MS IMMEDIATE RELEASE,
Thursday, February 9, 1939.

Press Service
No. 16-34

Secretary Morgenthau today made public the following exchange of corres-
pondence with Senator Henry Cabot Lodge, Jr., of Massachusetts:

UNITED STATES SENATE
Committee on Finance

February 2, 1939.

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

Dear Mr. Secretary:

On page 1410 of the Congressional Record for February 1,
Senator Barkley is quoted as follows:

"I understand that the stabilization fund has
been used in such a way as to make a profit to the
American Treasury of something like $12,000,000."

Would you be so kind as to tell me whether Senator Barkley's under-
standing is correct and, if so, how this profit was realized?

With kind regards, I remain,

Sincerely yours,

(Signed) H. C. LODGE, JR.
TREASURY DEPARTMENT
Washington

Office of the Secretary

February 8, 1939.

My dear Senator:

In reply to your letter of February 2, in which you ask for information with regard to the stabilization fund, I am pleased to advise you as follows:

1. Not as a part of the purpose for which the stabilization fund was created by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) but as an incident to its operation, the fund has increased by approximately $12,000,000.

2. While the Congress appropriated $2,000,000,000 as a stabilization fund, only one-tenth of that amount, $200,000,000, has been used as a working fund.

3. Since its creation, the fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.

4. It has been employed for the purpose specifically stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration all of the Act's provisions have been most scrupulously followed, both in letter and in spirit.

5. The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than that stated in the Act.

Sincerely,

(Signed) HENRY MORGENTHAU, JR.
Secretary of the Treasury.

The Honorable Henry Cabot Lodge, Jr.,
United States Senate.
My dear Senators:

I am writing to acknowledge receipt of your letter of February 26th, in which you refer to the four questions regarding the stabilization fund which were contained in your letter of February 16th, and ask if I would answer these questions if they are submitted to me when I appear before the Senate Committee on Banking and Currency.

I shall be very happy to answer these questions if they are addressed to me by the Committee.

Sincerely yours,

Secretary of the Treasury.

The Honorable Arthur H. Vandenberg,
United States Senate.

Feb 27, 1939.
United States Senate

Committee on Finance

February 24, 1939.

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

My dear Mr. Secretary:

This will reply to your letter of February 23rd.

I regret to say that it is decidedly inconclusive. I do not happen to be a member of Senate Committee on Banking and Currency. Therefore, I shall not be permitted the privilege of joining in your examination when you appear as a witness. But you tell me that I must depend upon these hearings for all of my information. You are unquestionably entitled to take this position. I content myself, therefore, with one further inquiry for the time being.

Under date of February 14th, I asked you four specific questions regarding the Stabilization Fund. As I to understand from your letter of February 23rd that you will answer these questions if submitted to you when you appear before the Senate Banking and Currency Committee?

Cordially and faithfully,

[Signature]

[Date]

Return to Room 295
My dear Senators:

Reference is made to your letter of February 14, 1939, in which you ask a number of questions with respect to the stabilization fund.

As you know, the Senate Committee on Banking and Currency has before it for consideration a bill to extend the powers under the stabilization fund and I assume that that committee will hold hearings on the bill in the near future. The President has advised the Senate and I have advised the Banking and Currency Committee that the Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with that committee the problem relating to such legislation.

Although I am always glad to discuss in correspondence with members of Congress matters affecting Treasury policy, it seems to me that the appropriate time and place to consider questions you may have with respect to the stabilization fund is at the committee hearings.

Sincerely yours,

Secretary of the Treasury.

Hon. Arthur H. Vandenberg,
United States Senate.
Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

I shall greatly appreciate an answer to my letter of February 14th at your earliest convenience.

With warm personal regards and best wishes,

Cordially and faithfully,

[Signature]
February 17, 1839.

My dear Senator:

For the Secretary I am acknowledging your letter of February 14th which alludes to earlier correspondence with Senator Lodge and asks a number of questions.

You will have a reply from the Secretary as soon as he returns to the office.

Sincerely,

M. S. Holts,
Private Secretary.

Honorable Arthur H. Vandenberg,
United States Senate.

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

My dear Mr. Secretary:

I have been reading your correspondence with Senator Lodge. There still remain certain fundamental questions regarding the "Stabilization Fund" which seem to be entirely unanswered.

I have no doubt that the Fund has been providently managed and has produced profit. Neither have I any doubt that in the administration of the Fund both the letter and the spirit of the law have been scrupulously observed. But this still leaves wide open certain other phases of the problem — and particularly the possible bearing which the "Stabilization Fund" might have upon our relationship to foreign wars.

I am not clear whether under the "secrecy clause" with which this law is unfortunately shrouded, I am entitled to ask the following questions. I am clear, however, that the information is highly important to the adequate enlightenment of Congress and the country. If not incompatible with your conception of the public interest, I shall be glad to have public answer to the following questions. I am not at the moment arguing the merits or demerits of the relationships that may or may not be involved. I am inquiring solely respecting commitments and procedure. The questions follow.

1. Is the Government of the United States under agreement with the Governments of Great Britain and France to sustain the value of the French franc and the British pound in relation to the value of the American dollar?

2. What is the nature and extent of this agreement, if any, and if any is it summarily revocable in the event that any of these Nations become involved in war?

3. Are there any agreements of this same general nature with any other foreign governments?
4. Does the Treasury construe its authority under the "Stabilization Fund" Act to include the power to deal with war-time problems of international exchange precisely as with peace-time exchange without further instructions from the Congress?

I shall greatly appreciate hearing from you as soon as possible in response to this inquiry.

With sentiments of great respect, and with warm personal regards and best wishes, I beg to remain,

Cordially and faithfully,

[Signature]
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 27, 1939

TO Mr. Foley

FROM Mr. Bernard


Senator Glass has called a hearing of his Subcommittee to consider the above bill for Wednesday, March 1 at 2:30 p.m.

The Subcommittee is made up of the following Senators:

Democrats

Carter Glass of Virginia, Chairman.
Alben W. Barkley of Kentucky.
James F. Byrnes of South Carolina.
John H. Bankhead of Alabama.
Alva S. Adams of Colorado.
Prentiss M. Brown of Michigan.
William H. Smathers of New Jersey.
John E. Miller of Arkansas.

Republicans

John G. Townsend, Jr., of Delaware.
Robert A. Taft of Ohio.
February 27, 1939

Mr. Foley

Mr. Bernard

Res: Extension of Stabilization

Senator Glass has called a hearing of his Subcommittee
to consider the above bill for Wednesday, March 1 at 2:30 p.m.

The Subcommittee is made up of the following Senators:

Democrats

Carter Glass of Virginia, Chairman.
Alben W. Barkley of Kentucky.
James P. Byrnes of South Carolina.
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Alva E. Adams of Colorado.
Prentiss M. Brown of Michigan.
William H. Santhers of New Jersey.
John E. Miller of Arkansas.

Republicans

John G. Townsend, Jr., of Delaware.
Robert A. Taft of Ohio.

LJBinafi
2/27/39

Regraded Unclassified
Summary of the Government Security Market
for two-week period February 13 - 26, 1939

Principal feature of the government security market during the last
two weeks was that of quietness awaiting the new quarterly financing.
Prices moved within a narrow range. Treasury bonds, which have climbed
steadily since last November and are at record high levels, were generally
up 1 to 4/32nds over the two-week period. Treasury notes were generally
unchanged on average and guaranteed issues were only slightly higher. The
market showed a firm tone continuously, with but slight variations from
day to day. The "rights" are now quoted at 1 point 10/32nds premium above
a "no yield" basis and are somewhat in demand, although the supply is limited.

Dealers' Portfolios

There was no significant change in dealers' holdings during the two-week
period ending February 26th other than increases in note holdings. Notes
under one year increased about $8 million while 1 to 5 year notes increased
about $7 million. Dealers continued throughout the period to hold relatively
few bonds and at the close Saturday showed a small short position.
Dealers' Portfolios
(millions of dollars)

<table>
<thead>
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<th>Feb. 11</th>
<th>Feb. 28</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury bonds</td>
<td>2.4</td>
<td>-1.3</td>
<td>-2.7</td>
</tr>
<tr>
<td>Treasury notes (1 year)</td>
<td>34.6</td>
<td>32.6</td>
<td>+8.1</td>
</tr>
<tr>
<td>Treasury notes (1 - 5 yrs.)</td>
<td>10.0</td>
<td>16.8</td>
<td>+6.8</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>16.3</td>
<td>13.7</td>
<td>-2.6</td>
</tr>
<tr>
<td>H. C. I. O. bonds</td>
<td>6.3</td>
<td>5.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>F. F. I. O. bonds</td>
<td>-2.2</td>
<td>-1.9</td>
<td>+0.3</td>
</tr>
<tr>
<td></td>
<td>57.3</td>
<td>65.0</td>
<td>+7.7</td>
</tr>
</tbody>
</table>

Dealers' total volume averaged about $100 million daily during the period, of which about $50 million was in Treasury bonds. This was considerably lower than the total volume ranging from $115 to $170 million in the previous three weeks.

New Security Issues

New corporate security financing during the two-week period continued light. There were no offerings for cash and what there was amounted to refunding only. A total of $16,500,000 bonds were offered in the market, including a $12 million issue of Cincinnati Union Terminal which was awarded to the syndicate through competitive bidding, a new departure in corporate financing. The only other operation of any importance was the private sale of $11,500,000 first mortgage bonds of the Cleveland Cliffs Iron Company to insurance companies. A $40 million 20-year debenture issue of The Texas Corporation is scheduled for the near future.

Corporate Bond Market

Although the corporate bond market has been only fairly active, a firm tone has been in evidence throughout the two-week period. Both high and second grade issues have maintained prices at near record high
levels. Of special interest, railroad bonds showed considerable strengthening during the latter part of the past week. New York City traction bonds were stronger on favorable news in regard to consolidation of subway systems.

**Treasury Investment Accounts**

There were no purchases or sales on the New York market for Treasury investment account during the period February 13 to 25, 1939. There were, however, investments in special 2% Treasury notes to the amount of $7,500,000. $7 million of this was for account of Postal Savings System and $500,000 for the account of Government Life Insurance Fund. The Government Life now holds $10,200,000 of these special notes.

**Federal Reserve System Account**

Except for a shift of $2,500,000 between two bond maturities, the System operations were restricted to Treasury bill replacements. Of the $95,385,000 Treasury bills maturing within the last two weeks, $90,350,000 was replaced with new or recent Treasury bills and the balance of $5,035,000 with Treasury notes. In anticipation of a $57,438,000 maturity on March 1, $7,090,000 new Treasury bills maturing May 24 were purchased.
TO
Secretary Morgenthau

FROM
Mr. Hase

Subject: The Business Situation, week ending February 25, 1939.

The situation in brief

Business sentiment as well as business statistics showed improvement this week, and conditions are developing as they often do just before a business upturn.

(a) Stock prices proved immune to the bearish influences of a reduction in the steel rate and various war rumors, and rallied strongly at the end of the week.

(b) British industrial stock prices rose to the highest levels since last fall, and, according to some opinions, have established an intermediate upturn for the first time in two years.

(c) Commodity prices continued the rise begun last week, with stronger statistical situations developing in various individual commodities. Moody's price index reached a new high since last November. The Fairchild index of retail prices turned up in January for the first time since August 1937.

(d) Retail sales continued to improve, with last week's department store sales 2 per cent above those of last year. Our index of consumer buying shows the "offtake" of finished goods continuing at a higher level than production.

(e) Increased industrial buying appeared. New steel orders were higher. Textile buying increased, with print cloth sales through Friday equal to about 150 per cent of the weekly mill output. Our weekly new orders index reached a new high for the year.
Barring serious European difficulties, the recovery movement seems likely to be resumed shortly, though at a slower pace than last fall. The current trend of business activity, however, continues downward on a seasonally adjusted basis. The tendency of industrial production to lag in response to underlying business factors may therefore result in some further slight recession in the adjusted FRB index.

Ample warning usually given before business decline

To those who have been concerned over the business outlook, it may be encouraging to know that on the basis of previous experience an important business recession would seem to have little possibility of developing out of a situation like the present one, except perhaps as a result of extraneous influences. Looking over the business trends since 1920, it will be found that ample warning has been given previous to each of the four declines exceeding 15 points in the FRB index. A 15-point decline in 1934, however, resulting largely from the severe drought in that year, was not preceded by the usual maladjustments. In the past 13 years, no other recessions worth mentioning have occurred, with the possible exception of the 10-point setback in the fall of 1927 which accompanied the long shut-down of the Ford Motor Company. Judging from this experience, a substantial recession may be looked for only after several of the following situations have developed:

1. The FRB index has materially exceeded the basic demand index;
2. The FRB index has materially exceeded the consumer buying index;
3. The durable goods production index has exceeded that of non-durable goods;
4. Consumer buying has for some time exceeded its normal volume in relation to national income (indicating excessive credit purchases).

A summary of the conditions which developed before each of the five recessions since 1920 is given below:

1923-24 — Total decline in FRB index, 22 points. Previous to this recession, production exceeded basic demand for a number of months, the FRB index reaching a maximum excess of 15 points; durable goods index reached 10 per cent above non-durable; consumer buying data not available.
1929-32 -- Total decline, 67 points. Previous to this decline, production exceeded basic demand for a number of months; the FRB index reaching a maximum excess of 15 points; durable goods production reached 14 per cent above non-durable; production somewhat exceeded consumer buying.

1933 -- Total decline, 28 points. Previous to this recession, the FRB index reached 17 points above basic demand, and 18 points above consumer buying indexes; consumer buying for several months exceeded its usual volume in relation to national income; no excess of durable goods production.

1934 -- Total decline, 15 points. The recession in the fall of this year was due largely to the severe 1934 drought, which curtailed the demand for automobiles, farm equipment, etc., and temporarily reduced the output of the steel, automobile, and textile industries. It was not preceded by the usual maladjustments.

1937-38 -- Total decline, 45 points. Previous to this recession, production exceeded basic demand and consumer buying for nearly a year, the FRB index reaching a maximum excess of 9 points above basic demand and 13 points above consumer buying indexes; consumer buying materially exceeded its usual volume in relation to national income; durable goods production reached an excess of 15 per cent above non-durable. The severity of the recession, however, can only partly be attributed to these factors.

Current basic situation favorable

Where does production stand now in relation to the basic indexes? Data just compiled for January (preliminary) are shown in Chart 1. An analysis of the present position of industry, as shown by these comparisons, provides strong assurance against any serious recession developing from the domestic situation:

(1) Industrial production has exceeded only slightly the level of basic demand, suggesting that, in the absence of extraneous forces, any period of business slackening is likely to be no more extensive than that of early 1935 or early 1936.

(2) The index of consumer buying (which has been revised upward for recent months) remains higher than the production index.
(3) The volume of new orders is high enough to support approximately the current level of industrial production, and is tending upward.

(4) Additional data show that (a) the consumer buying index is at about a normal level in relation to the level of national income, and (b) the proportion of durable goods production is not excessive, the index being 20 per cent below that for non-durable goods.

Inventories equal 4 months' consumption

The inventory situation now is about as favorable as it was during the business rise of 1935 and 1936, according to a study we have recently made of total corporation inventories in comparison with the rate of movement of manufactured and semi-manufactured goods into consumption. (See Chart 8.)

It will be noted on this chart that during the period from the summer of 1935 to the summer of 1937, production (in dollar value) somewhat exceeded consumption, resulting in a gradual accumulation of inventories. Such an increase in inventories, however, was a normal and necessary accompaniment of an increasing volume of business. Expressed in terms of the number of months' consumption which they represented, there was an actual decrease until the latter part of 1936.

No abnormal increase in inventories appeared until about June 1937, but thereafter the declining trend of consumption made the former normal stocks become greatly excessive in comparison with the reduced consumption levels. Following the liquidation of inventories in 1938, and the rising trend of consumption which made larger stocks necessary, the figure has again been reduced to the equivalent of 4.1 months' consumption.

Commodity prices continue rise

Both in this country and in Great Britain, the rising trend of commodity prices which began last week has continued, and the prospect of a general price upturn has been strengthened by improved statistical situations for individual commodities as well as by evidence of increased demand in various industries. A gradually rising trend of sterling has added its influence on the favorable side.
Moody's price index has reached the highest level since last November. Silk prices in New York rose this week to the highest in 4 years, and silk futures to the highest in two years, as demand increased for the limited supplies available. While the foreign copper situation remains bearish, the domestic situation has been strengthened by an increase in domestic consumption to the highest total since October, the January figure of 57,615 tons representing a gain of 74 per cent over December. Improved rubber prices have resulted in a 2½ per cent mark-up on automobile tires, which caught tire dealers with abnormally low inventories.

**New orders increase**

Our weekly index of new orders (See Chart 3) has increased to the highest level of the year, as steel orders recovered from the previous week's setback, and orders for woolen goods showed a seasonal sharp upturn. The marked rise in American woolen orders will doubtless be temporary, as were similar upturns at this time in the two previous years.

Orders reported by the U. S. Steel Corporation increased this week to 59 per cent of capacity, which compares with 52 per cent the previous week. Judging from the recent trend of orders, the setback of 1.1 points in steel operations this week to an average of 53.7 per cent of capacity is a temporary development, due largely to reduced operations in the Detroit area.

The trend of steel operations since last July (as will be noted in Chart 4) has been very similar to that in the year beginning with July 1935. In that season a steady upturn in steel operations which ended early in December was followed by a period of hesitation during January and February, and a renewed rise in steel activity got under way during the spring.

**Current business index declining**

The New York Times adjusted index declined to 88.9 during the week ended February 12, as compared with 89.4 a week earlier. Lower indexes of automobile production and lumber production largely accounted for the downturn, with minor offsetting changes in other components.

For the following week, preliminary data on both automobile and steel production indicate moderate declines in the adjusted indexes. Automobile output was reduced slightly by labor troubles, while seasonal factors would indicate no change.
COMPARISON OF PRODUCTION AND CONSUMPTION AND CORPORATION INVENTORIES

Chart 2
CONFIDENTIAL

Dollars
Billions

Production

Estimated
Consumption

Number of Months

Estimated Inventories
Number of Months Consumption
at Prevailing Rate

Office of the Secretary of the Treasury
Division of Research and Statistics

C - 217 - 4
WEEKLY STEEL OPERATING RATE IN PERCENT OF CAPACITY

Comparison of Years Beginning July; 1933 to Date

Chart 4

JULY SEPT. NOV. JAN. MAR. MAY

10 20 30 40 50 60 70 80 90 100

"36 "36 "37

JULY SEPT. NOV. JAN. MAR. MAY

10 20 30 40 50 60 70 80

"35 "34 "33

SOURCE: AMERICAN IRON AND STEEL INSTITUTE

Office of the Secretary of the Treasury
Division of Research and Statistics

Regraded Unclassified
My dear Mr. Somers:

In connection with your consideration of the legislation now pending before your committee to continue the stabilization fund until January 15, 1941 (H. R. 5626), I thought you might be interested in the attached article which appeared recently in Fortune Magazine.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Sen. Andrew L. Somers,
The Senate,
Washington, D. C.

Enclosure

EMPRea4 2-24-49

Regarded Unclassified
GROUP MEETING

February 27, 1939.
11:45 A. M.
Secretary's Office.

PRESENT:
The Secretary.
Mr. Haas
Mr. Bell
Mr. Hanes
Mr. Murphy
Mr. Seltzer

E.M. Jr:

Before you came in (addressing the reporter) I asked these gentlemen: "Was there anybody that wanted to raise new money in the next financing". They all said "No". Then I said "The meeting was adjourned".

(Meeting concluded)
February 27, 1939, 10:15 a.m.

HMJr: Hello.

Joseph Kennedy: Hello, Henry.

HMJr: Hello, Joe?

K: How are you, boy?

HMJr: I'm fine.

K: That's good.

HMJr: How are you?

K: I'm first rate.

HMJr: Joe, the reason I'm calling is this, we've got to do a little financing on the fifteenth of March.

K: Yes.

HMJr: And I wondered if you wanted to go off the beat then and tell me how things are looking from now to then, if you see any particularly black clouds.

K: I don't see any. Bill Bullitt is much more bearish than I am.

HMJr: Uh-huh.

K: I'm not particularly bearish. I don't think that anything is going to happen for quite a few months.

HMJr: For quite a few months?

K: Yeah.

HMJr: Well that's what I wanted -- I mean I --

K: I just had lunch with -- here at the house here with Montague Norman. He's just gone off.

HMJr: Yes?

K: And he doesn't believe there's anything for six months.

HMJr: Well, I only need a couple of weeks -- for my -- for this particular purpose, but he doesn't think anything for six months?
K: That something -- he's been very bearish up till this morning, a little after the Pope's election -- out of Italy.

ML Jr: Yes.

K: But I -- I had the Department here send a long telegram to the State Department and delivered to Lindsay last Saturday.

ML Jr: Yes?

K: Have you seen that?

ML Jr: No.

K: Well, you better send over and get that now.

ML Jr: Well, when -- when did you send it?

K: I didn't send it. I had the foreign office here send it to Lindsay.

ML Jr: Yes.

K: Bringing them up-to-date on what they thought of the situation over here.

ML Jr: Uh-huh.

K: But when I got here they had told me everything was bearish, and I found out that they weren't bearish.

ML Jr: That they were?

K: Were not.

ML Jr: Were not.

K: And then -- but Bill Bullitt is very bearish.

ML Jr: Well, I -- I've got a call in for him next.

K: Well, you -- he isn't as bearish this morning, but he's rather bearish and thinks there may be something happening after the Pope's election which ought to be somewhere around the seventh of March.

ML Jr: I see.

K: But I don't see -- there's no sign as far as these places go.
DLLR: But there -- there is a cable to Lindsay from his own foreign office?

K: From Lindsay -- from his own foreign to Lindsay with instructions to deliver it to the State Department. That got in there on Saturday, I should think.

DLLR: Well, I'll get it.

K: And you ought to read that, because that sets it off pretty distinctly, and my last two cables.

DLLR: And your last what?

K: My last two cables.

DLLR: Your last two cables. I'll get all of them.

K: And I'll send you now the result of my talk with Norman and his -- his talk with Schacht. This is confidential -- this is a confidential one, but I might just for you and for Roe.

DLLR: All right then, I'll get it.

K: I'll send this to you this afternoon, but my -- my own feeling is, Henry, that you're O.K. again.

DLLR: Did they -- the last two or three days over here, the feeling seems to have been a little bit better.

K: Well, your -- your speech on taxes got a very great play over here, and the -- and the financial departments down in the London city were all very -- felt very good about reading it.

DLLR: Well, I got a wonderful play on it over here.

K: You got a big play over here. I even know the Secretary of Commerce is now writing, I see, making speeches.

DLLR: Yeah, he's -- he's come out --

K: Yeah, I see. Cripes!

DLLR: I -- I --

K: It went over very good, Henry, and if you can do anything to keep the -- so that everybody will get feeling good for a while, we'll be all right. It's -- everybody, of course, is spending more money than they'll ever know, but I'll give you what Norman said. He
feels very much like you've said for the last three years.

E: Yeah.

K: But it's been interesting, and also his observations about Germany are very pertinent because he's the only one that gets it direct from Schacht.

E: Right.

K: And the Prime Minister told him to tell me what Schacht told him.

E: Right. Well, I -- that'll be very helpful and I'll call up Moffat and ask him to give me the stuff.

K: Yeah, all right. You get those three telegrams, but there's nothing new today and I would think also -- I'll put in this wire that I send to you this afternoon what Schacht said and -- what -- what Schacht and Norman say, and they see nothing in the immediate future.

E: Thank you so much, Joe.

K: Give my best to Johnny.

E: I'll do that.

K: All right, Henry.

E: Good bye.

K: Good bye.
February 27, 1939.
11:45 a.m.

HILJr: Hello.
Allan Sprout: Hello, Mr. Secretary.
HILJr: How are you?
S: Fine.
HILJr: How does the thing look to you?
S: Well, the thing, you know over the weekend — specifically on the question of cash or no cash —
HILJr: Yeah.
S: I would say — my view, and the view here is that unless you need the cash for the next three months or want to maintain your working balance at high level — that we better not go out for cash, that they go for it. However, there's no question about it either way — the financing can be done.
HILJr: Well, we don't need the cash. We've got all the cash we can possibly use.
S: Well, in those circumstances I would be for doing an exchange operation, simply now, and doing the cash plus exchange in June.
HILJr: Yeah, I think you're right. What's the market thinking — cash or no cash?
S: Well, the market is divided on that. Some think that you are going to do some cash and others think you're not. The opinion, I should say, of the majority is that you ought to do cash or just on the basis — you ought to get cash when you can — that you don't know what the situation is going to be three months from now. I think that's gotten to be just something they say without thinking, myself.
HILJr: I see.
S: Because you haven't — just three months from now or three weeks from now — you haven't — this year, and next year, and the year after, and so on to think about — you can't just be swayed by what may happen in the market next week or what someone might say abroad next month.
MLJr: Well, my inclination is -- I haven't talked to my own people; I will in a few minutes though -- but I'm inclining against cash.

S: Well that's my opinion on it.

MLJr: Well, whatever we do we'll tell the boys when I see them at four o'clock.

S: Fine. I think that'll give it a good start so they'll get ready for whatever is coming.

MLJr: Anything doing in government bonds today?

S: No, they're firm and improved slightly since the opening, but there's not a great deal doing.

MLJr: Right. Thank you.

S: One other thing, Mr. Secretary.

MLJr: Please.

S: The Governor was going to call you, but he -- when he found I was going to call you -- he knew you were busy; he didn't want to double it up. Jesse Jones asked him if he wouldn't see Aranha again on this Central Bank business --

MLJr: Yeah.

S: And he said he would if Jones cleared with you.

MLJr: Jones spoke to me about it, and I said it was all right as far as I'm concerned.

S: Well then, that's all right. He just wanted to be sure you knew about it and --

MLJr: Well, what Jones told me was that he was going to ask George Harrison to come down here and try to sell Aranha.

S: I see.

MLJr: But now --

S: Well, we -- George Harrison got a notice he was to go down there and Aranha is going to try to sell him.

MLJr: Well, what I would suggest is this -- without committing -- to my being willing to have Harrison see Aranha, yes.

S: Yeah.
Hwu: As to my own position on it -- I'm keeping my hands untied.

S: Yeah.

Hwu: I want him to know that.

S: Well, I'll tell him that. He said that as far as he's concerned now, he still thinks as he did when he last talked to you.

Hwu: Yeah. Well, I want him to know that I'm not -- that I haven't taken any position and -- and I don't know whether I will, but I want him to know that as far as that -- whether they should or shouldn't save, I wanted -- my hands are untied.

S: Right. Well, I'll tell him that.

Hwu: But after he's seen Aranha, I wish he'd come in and tell me what's happened.

S: All right.

Hwu: See?

S: I'll -- I'll ask him to do that and I'm sure he will.

Hwu: I don't know whether Jones has made a deal with Aranha on the exchange or not. He called me up just before he got on the train and I couldn't make out whether the Export-Import Bank have extended them a credit or not.

S: Well, the latest we have on it is that they are still working on it but it hasn't been closed yet.

Hwu: Oh, well, I'm in the dark.

S: I see.

Hwu: I'm just Secretary of the Treasury.

S: That's all. (Laughter) They don't tell you anything.

Hwu: Well, sometimes they do and sometimes they don't.

S: Well, I'll tell George Harrison that you'd like to see him after he gets through with this talk and learn what he --
HMJr: Yeah, I would appreciate it.
S: All right, fine.
HMJr: Thank you very much.
S: Good bye.
Hello.

Operator: Mr. Messersmith. Go ahead.
George S. Messersmith: Hello. Hello.

ML Jr: Hello, Mr. Messersmith.

M: Oh, good morning, Mr. Secretary. Sorry to disturb you. I was just wondering whether you had any idea how long you would want Heath to stay over here.

ML Jr: Oh--

M: We don't want to urge his going back, but we are, of course, short-handed over there on account of -- especially now since poor Prentiss passed out of the picture.

ML Jr: Well, say the middle of next week.

M: Sometime the middle of next week?

ML Jr: Yeah.

M: Yeah.

ML Jr: Ah -- the boats usually sail, don't they, the end--the middle of the week?

M: Yeah. I don't know when there will be an American boat, but --

ML Jr: Well, I'd like him here for about another ten days.

M: You'd like to have him for about another ten days?

ML Jr: Yeah.

M: All right, fine.

ML Jr: Thank you.

M: Fine. Thanks a lot.
Carter
Glass: Mr. Secretary, this is Mr. Glass.

HMJr: Hello.

G: This is Mr. Glass.

HMJr: Hello.

G: This is Mr. Glass talking.

HMJr: This is Henry Morgenthau, Jr.

G: Yes.

HMJr: How are you?

G: I'm fairly well, thank you.

HMJr: When will it be convenient for you to come before my sub-committee about the continuation of the Stabilization Fund and the authority to further demonetize the dollar?

HMJr: Well, Senator, I'm appearing at ten thirty tomorrow before Weights and Coinage in the House, so -- they invited me last week to come up there -- so anytime after that why I'm at your disposal.

G: Well, suppose I call a meeting at ten thirty Wednesday morning?

HMJr: That's all right with me.

G: Or would you prefer in the afternoon?

HMJr: Well, I tell you I can change it. I've got -- we meet with the Executive Committee of the Open Market Committee -- they're coming at eleven, but I can change that. But it would be a little bit better in the afternoon on account of these gentlemen coming from out of town.

G: Tomorrow afternoon or Wednesday afternoon?

HMJr: Wednesday afternoon would be a little bit better.

G: Very well, supposing we have it Wednesday afternoon at two thirty?
MR: That will be fine. Wednesday afternoon at two thirty—
G: Yes.
MR: Is that in your rooms?
G: In the Banking and Currency Committee rooms.
MR: Senator Glass.
G: I say in the Banking and Currency Committee rooms.
MR: Banking and Currency.
G: Yes.
MR: Now you will have — I take it you will have the newspaper men there?
G: No, I hadn't contemplated having them there.
MR: Uh-huh.
G: Why, do you want them there?
MR: Well, I think it would be just as well if — what they're doing in the House is they're having the newspaper men in but not the public, and —
G: Well, I have no objection to the newspaper men being in so far as I'm concerned.
MR: Well, --
G: I think it's a matter that ought to be decided in executive session though.
MR: Well, I've --
G: I don't imagine you want to tell the newspapers what you are doing with the Stabilization Fund.
MR: I don't mind.
G: Well, all right.
MR: Frankly, I -- this is just -- I'm saying this, if I may personally to you.
G: Yes.
HMJr: I had such an unfortunate experience with the Military Affairs Committee — I've never been treated just like that before, and I went into executive session and then some of the Republican Senators took parts of my testimony and gave it out.

G: Well, my committee never does anything like that.

HMJr: Well, I'm sure they wouldn't, but it -- it -- these Republican Senators -- but I never had an experience like that before. But I'm in your hands and more than willing to leave myself in your hands.

G: Well, we'll have the meeting at two thirty o'clock Wednesday afternoon.

HMJr: At the Banking and Currency.

G: Yes.

HMJr: Thank you so much.
Hello, Marriner.

E: Hello, Henry.

E: Marriner, I have a regular press conference at four o'clock and I thought that I would announce that no new money -- just the refunding.

E: Well, that's fine.

E: See?

E: Yeah, that suits me a hundred percent. I -- I think that's pretty largely in line with our views.

E: Well, that's what I wanted to check with you.

E: Yes, it is. I'm sure -- it's -- it is with mine. I haven't had a chance to discuss the matter with the board. As you know I was out of town--

E: I know.

E: I figured the meeting was going to be on Wednesday and we would get together tomorrow to discuss it.

E: Yeah.

E: But I'm sure there would be no objection. That means that you would continue to build just as --

E: Just as is --

E: And refund the -- the notes.

E: Well, as -- roughly, not quite a billion three coming due in June which we'd refund in March.

E: Yes, that's what I mean. You'd anticipate the June maturity.

E: That's right.
E: You want to meet, in any case, on Wednesday with reference to that?

Mr: Yes, I do.

E: Yes. Well, that's O.K. That's fine.

Mr: Hold your thumbs for me, I'm going up on the Stabilization Fund before the House tomorrow.

E: Well, you ought to get along all right. By the way, you may be interested. Wagner called me last week, the Senator --

Mr: Yeah.

E: He said, "Now this, I'm not talking to you as a member of the board or as -- not officially," he said, "I", he said, "This Stabilization matter is up," and he said, "There's a good deal of opposition in the committee, to the continuance of the power to further devalue," see?

Mr: Yeah.

E: And he said, "For your -- can you give me your personal and very confidential advice with reference to it?"

Mr: Yeah.

E: And this is what I told him.

Mr: Yes, I'd be interested.

E: Yeah. I said, "Now, of course, this thing is entirely in the Treasury's hands and I would prefer to just do and say nothing at all about it," I said, "As a matter of fact, I have studiously avoided discussing the matter with anybody at anytime."

Mr: Uh-huh.

E: He said, "Well", he said, "You can give me your view of that can't you?" "Well", I said, "Yes, I'm perfectly willing to do it, but I would want it definitely understood that -- that I'd be not quoted by you to anybody."

Mr: Yeah.

E: "And it's this -- that power should be continued."

Mr: Uh-huh.
"And it should be continued for this reason--"

Uh-huh.

"That it gives -- that it gives to this country an advantage -- I don't", I said if I thought the power was likely to be used I may have more hesitancy in saying that it should be continued, but I said, "I feel perfectly sure that so far as this Administration is concerned, that power to devalue further is not going to be used unless a situation should exist where we would be glad that the -- that the Government had that power."

Yeah.

"That -- that it acts somewhat as a shotgun back of the door. The very fact that they have the power, puts us -- puts the Government in a position where they're not likely to have to use it."

I see.

"Whereas if they didn't have the power, it would put them at some disadvantage with the other -- with the other countries in the Tripartite Agreement."

Well, you and I agree a hundred percent.

Well, now that's -- that's what I told Wagner and I have told no one on the board that I have talked to him; in fact, you're the first person, and you're the only person that I have mentioned it to at all, and I haven't heard that Wagner has mentioned it to anybody, so I wish you'd say nothing to him about me reporting to you his conversation.

I'll forget it.

See?

Right.

But that's -- that's exactly what I have said to him.

Well, it will be most helpful, I'm sure.

Well, all right then.

Thank you, Marriner.

Good bye.
Office of the Attorney General
Washington, D.C.

February 27, 1939.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Transmitted herewith for presentation by you to the
President is a revised draft of the proposed "Plan for Uniform
Handling of Identical Bids for all Departments".

With the assistance of the Acting Director of the
Bureau of the Budget the original draft of the plan, transmitted
to this Department with your letter of June 29, 1938, has been
submitted to the principal departments and agencies which will
be affected thereby, and comments from a number of them have
now been received. I am enclosing for your information photo-
state of such comments and also of the comments of Assistant
Attorney General Arnold in charge of the Antitrust Division of
this Department, and of Messrs. Dobey and Comer of that Division.

You will note that none of the agencies, as shown by
their comments, are under the impression that the plan is to
apply to cases where two or more, but not all, of the bids
received are identical. There may, of course, be cases of that
kind in which surrounding circumstances will strongly indicate
collusion which should be brought to the attention of the De-
partment of Justice, but it is my understanding that the proposed
plan is intended to apply only to cases in which all bids are identical. I have therefore revised the draft of the plan to make this definite.

In revising the draft I have also made the change in paragraph 1 suggested by my predecessor in his letter to you of May 21, 1938. As changed the paragraph requires "The Director of Procurement, in making purchases for whatever department or agency, would satisfy the department or agency concerned and himself that such department or agency could not use just as well some article other than that on which identical bids would probably be received", the underscored words being added.

The revised draft has my approval, with the qualification that it is distinctly understood that this Department, with the funds available for such purpose, will be unable to bring court proceedings in any appreciable number of cases of collusive bidding submitted to it. When requested, however, the Department will endeavor to advise the agencies involved as to the proper course to be followed by them.

In presenting the plan to the President with your recommendations, I suggest that you furnish him with a copy of this letter. I also suggest that you furnish him with copies of the comments upon the plan made by the several agencies and by Assistant Attorney General Arnold and Messrs. Dobey and
Corner of the Antitrust Division of this Department, in order that he may be advised as to their views.

Respectfully,

[Signature]

Acting Attorney General.
PLAN FOR UNIFORM HANDLING OF IDENTICAL BIDS FOR ALL DEPARTMENTS

The President will informally discuss the plan with the heads of the several departments and independent establishments and communicate to them his desire that purchases be handled under the uniform plan proposed and outlined below.

(1) Reduce the number of cases in which identical bids will be submitted as follows: The Director of Procurement, in making purchases for whatever department or agency, would satisfy the department or agency concerned and himself that the department or agency could not use just as well some article other than that on which identical bids would probably be received. This should be done in any event to avoid the danger of getting but a single bid. A like procedure would be followed by the heads of all departments and agencies making their own purchases.

(2) The procedure for handling cases in which all bids are identical is based on the Attorney General’s opinion of August 10, 1937, to the effect that, in the absence of any special showing, such bids constitute a prima facie case of collusion. That the article in question is patented, copyrighted, or for some other reason is available from only one source, would constitute the sort of special showing referred to.

(3) In the absence of such special showing, when all bids are identical the bids would, in all cases and without reference to the Department of Justice, be rejected pursuant to the opinion just mentioned, and the bidders notified of the reason for such rejection. There would thereupon be a readvertisement for bids with special efforts to get bids from parties theretofore not bidding and likely to submit genuinely competitive bids.
(4) If, after such readvertisement, all bids received are again identical, the appropriate purchasing officer would proceed by non-competitive negotiation to make the purchases in question; however, the services of the Director of Procurement would be available to conduct such negotiations even though the purchases in question were ordinarily handled by the separate departments.

(5) Purchases non-competitively negotiated at prices higher than those in the identical bids that have been rejected, should be cleared with the Comptroller General before being finally consummated.

(6) In view of the statutory duty of the heads of the several departments, with reference to submitting to the Department of Justice cases of violation of the law, full information on all cases in which all bids received are identical would be reported in summary to the Department of Justice and the Federal Trade Commission, and the file on each held subject to their call. Formal and complete reference would be made in the cases or classes of cases specified by them.
To Secretary Morgenthau

From J. Lossing Buck

Route of this report

This report is sent over Mandalay via C N A C from Kunming to Rangoon on the first flight, March 1, 1939, connecting Chungking and Kunming with the British Imperial Airways at Rangoon. An acknowledgement by radio would be appreciated as I would like to know the number of days enroute for this and future reports.
From J. Lessing Buck

The People's Political Council

The People's Political Council which has had three sessions since July 1935 is an important factor in the government of China as it is composed of outstanding leaders from different walks of life without regard to political affiliations. The spirit and influence of the Council can be appraised from the enclosure Appendix A.

Dr. H. H. Hsing's report to the People's Political Council

Dr. Hsing's resume is worthy of perusal. He mentioned in particular "the American purchase of Chinese silver which has delayed measurably toward the stabilization of the Chinese national currency and the extension of Anglo-American commercial loans to China".

In his report he explained how special administrative attention is being given to the areas within the 'occupied Japanese areas'. He emphasized that these are still war areas, but points out that of 941 districts affected, only 25 of these districts have the secretaries been entirely unable to discharge their duties. 563 of these 941 districts have secretaries functioning as usual.

In discussing communications, Dr. Hsing stated that negotiations are also underway with a friendly nation for the construction of railway in the Northeast.

A summary of the report is attached as Appendix A.
To Secretary Morgenthau

From J. Loening Back

American participation in China's economic development

An American educator friend, Earl Creasey of Shanghai (Secretary of the China Christian Educational Association) passed through Chungking on a visit to high officials in Chungking. He states that Dr. Wong, the minister of Economics expressed the desire for more American business cooperation in the development of West China in favorable terms. Mr. Wong suggested a visit by a mission of business men from America. Mr. Creasey suggested a better plan would be to have American business men in Shanghai who are better acquainted with conditions in China visit west China. Mr. Wong accepted the idea and Mr. Creasey presented the plan to the Shanghai American chamber of Commerce.

A combination of the two ideas would be better. Businessmen acquainted with the business practice of American motor car and motor truck firms in China are complaining of the absence of business through on the part of these firms as they are chiefly interested in selling but not in servicing agencies with spare parts and service in the interior. The local agents in Shanghai, Hongkong and Haiphong realize the importance of this but when they apply for permission from the home offices in America negative answers are received on the ground that such supply agencies might be destroyed by war operations such as bombing. This indeed, is most short sighted.
policy because the actual danger is very slight. The motor company which will come into West China with services will soon have the market not only during the war but afterwards also. Mr. Bang Howe, a mutual friend of K. F. Chen's and myself is here now from Chungking enroute Shanghai and he suggests some motor company also establish assembly plants in West China. If the Central Aircraft can do it successfully with the backing of Curtiss Wright there is no reason why a large motor corporation cannot succeed. This is a time for American firms to launch out and obtain business in China. Chinese want them to come and now is an excellent time to obtain favorable arrangements.

Another friend of mine, Mr. N. K. Ip, Dean of College of agriculture, of Yale University passed through Kunming and raised the question of American business cooperation in developing China after the war. He stated there were plans being considered for such a proposal to American business interests. Mr. Ip said he would talk with others and would let me know of developments.
PEOPLE'S POLITICAL COUNCIL ADOPTS IMPORTANT RESOLUTIONS

Among the eighty-two resolutions adopted by the Third Session of the People's Political Council held in Chungking, February 12-21, was a national spiritual mobilization submitted by Generalissimo Chiang Kai-shek in his capacity as Chairman of the Council. This spiritual mobilization bill was first adopted by the Fifth Plenary Session of the Central Executive Committee of the Kuomintang held in Chungking during January, 1939, and referred to the Council, which serves as an advisory body to the Government, for approval before its application.

National spiritual mobilization, according to the outline of the bill, has three main objects: (1) the state and nation are supreme, (2) military necessities and the fight for victory supersede all other matters, and (3) concentration of the nation's will and strength.

It has as guiding principles moral strength for national salvation, faith in national reconstruction and spiritual regeneration. The last named principle calls for the forsaking of undisciplined living, the cultivation of a vigorous spirit, the overthrow of selfish motives, and the correction of diverted political thoughts. In the last named condition, the bill calls for four "notes". The first is not to run contrary to the supreme revolutionary principle of the Three People's Principles. The second is not to advocate and strive beyond national ideals or infringe upon the absolutism of the state. The third is not to disrupt the unity of military affairs and operations, or political administration. And the fourth is not to utilize the war for any attempt other than the welfare of the state and nation.

Leadership in the spiritual mobilization will be placed in the hands of Kuomintang Party workers and officials, the entire army, the nation's public leaders and its youth. The application of the mobilization will be directed at the different Kuomintang Party offices, government organs, military units, society and family. Its work is divided into publicity and initiation, training and improvement, supervision and advice, study and promotion. And the mobilization work must be applied with thoroughness, determination and perseverance.

Among other important resolutions adopted by the Council in this last session were two government proposals concerning the modification of the Conscription Law. One of them provided for the provisional regulations governing the modification of the Conscription Law, and the other for the postponement of military service upon pecuniary payments.

The guiding principle of the former proposal was that public functionaries, students, and the intelligentsia should enlist for military service to set an example. Consequently, the Council voted that in Article 8 of the Conscription Law, the clause that states "those who hold elected appointments" be struck out, and be transferred under provisions for delayed military service with the condition that they are subject to active service in times of war. Section 1 in Article 30 of the same law under Postponement of Military Service concerning junior middle school students be changed into "present office-holders with delegated appointments made by the provincial governments and Central Government". Also, the Council voted that in view of the fact that sole heirs are usually more precious to Chinese families, Section 2 in Article 29 be changed from "oldest son in the family" to "sole heir in the family" so that the sole heirs may be exempted from military service instead of the eldest son.

As to the proposal of postponement of military service upon pecuniary payments, the Council voted that rigid restrictions and strict
time limit must be set for this regulation. The amount of money to be paid by applicants should be in proportion to their financial status; the minimum being $200 for each term. The money thus raised will be used for assisting the families of men on active service, and the trial period will be limited to the end of the present year. It may be noticed that postponement of military service upon pecuniary payments has been carried out with success in Kwangtung as a step to the realization of the principle of "those who have money give money."

Three proposals on judicial reform were submitted for discussion during the last session of the Council. One concerned the abolition of the prosecuting attorney system, a proposal left over by the second session of the Council held last November. Another was submitted by the Judicial Yuan for the reform of judicial administration. While the third was a proposal for strengthening the judicial structure of the nation. The sub-committee on interior affairs suggested the creation of a judicial committee by the session for a detailed study of the issue involved and that the proposals be discussed in the next session. After much discussion, it was voted that a special committee composed of Councillors well versed in jurisprudence be appointed by the Chairman to examine the proposals and submit their report to the Fourth Session of the Council. Accordingly, Generalissimo Chiang Kai-shek, as Chairman of the Council, appointed 11 Councillors to the special judicial committee with Dr. Lo Wen-kan, former Minister of Foreign Affairs, and Mr. Tsou Lan as conveners.

A special committee appointed by the Council to study and supervise the execution of the resolutions adopted at the different sessions reported that, of the 96 proposals submitted for discussion during the last session, 6 were by the Government and 80 by the Councillors. Twenty-eight of them were connected with interior affairs, 19 with military affairs and national affairs, 18 with economics and finance, 17 with education and culture, 5 with diplomacy and international affairs, and one dealing with general subjects.

Of the more than 140 resolutions adopted during the first and second sessions, 80 had been put into execution, 40 were referred to the different related offices for study and reference. The Committee also suggested that the different Government offices execute within a time limit the resolutions adopted by the Council and give comprehensive reports on their execution and progress to the Council. Meanwhile it was recommended that the Resident Committee of the Council should be requested to make study and inquire into the execution of the resolutions by different offices from time to time so as to ensure the complete execution of the resolutions adopted by the Council in its capacity as an advisory body to the Government.—NND.

A PICTORIAL RECORD OF CHINA AT WAR

Many patriotic exhibitions have been seen in the social hall of the Lewis Memorial Institutional Church in Chungking since the war began, but few aroused so much interest among the Chinese and foreign community in the wartime capital as the photographic exhibition by the International Department of the Central Publicity Board.

The exhibition, being the first of its kind in Chungking, left in the hearts of the thousands of spectators mixed feelings of rejoicing at the rapid growth of New China and grief at atrocities and devastation wrought by the Japanese invaders. It is a graphic account of the sufferings and sacrifices of China heroically struggling for independence. It is an everlasting record of China's stubborn efforts to reconstruct the nation amidst incessant destruction.
In presenting a true picture of the Sino-Japanese War in general, of China's reconstruction in particular, the International Department selected from over 2,000 pictures more than 200 of the best photographs dealing with such general topics as army life, destruction by Japanese bombs, atrocities, war trophies, war captives, mass mobilization, international assistance, industrial revival and refugee relief. Each field is represented by excellent pictures giving not only a chronological background of the war but also an interesting account of what is going behind the Chinese lines. In some instances they represented the efforts of Chinese cameramen who risked their lives to snap these valuable shots amidst heavy bombings and shellings.

The four-day exhibition beginning from February 21 was attended by more than 40,000 people. The exhibition was made more impressive by the additions of cartoons and wall posters depicting the regeneration of a nation out of an unprecedented crisis. Contributions to the exhibition included four remarkable pictures of China's new rural industrial co-operatives in action. They were taken by Hewi Alley, a New Zealander, who is a leading figure in the industrial Co-operative Movement. Ten striking studies of Generalissimo and Madame Chiang Kai-shek were displayed by C. Chuck of the War-area Service Corps of the National Military Council, and Roman L. Karmen, chief cameraman of the National Camera Corporation, the U. S. S. R. and special correspondent for "Izvestia" was represented some dramatic pictures of the Kwai-lin bombings last year.

In holding the exhibitions, the International Department was only making preliminary preparatory work for an ambitious "picture tour" to Europe and America. An appeal to the nation's photographers to send their outstanding war pictures to the Department has been made while the Central Movie Studio and the China Movie Studio will also contribute their best to make the collection a most valuable and authentic record of life and death in wartime China.—SND.
DR. H.K. KUNG SURVEYS CHINA'S INTERNAL AND EXTERNAL PROGRESS

A review of the international situation affecting China and the domestic administration between November, 1938 and February, 1939, was made by Dr. H. K. Kung, President of the Executive Yuan, before the third Session of the People's Political Council held in Chungking in February.

The Premier's political report summed up the changes on the international scene, the administrative progress achieved by the Government in exposure of the Japanese intrigues, home affairs, the economic development of the Southwest and Northwest, border affairs, and educational, economic and communication development.

"China's wartime organization," Dr. Kung assured the Councillors, is being gradually perfected. Her manpower, financial and material resources have also been mobilized.

Referring to China's future foreign policy, Dr. Kung said: "Our future policy vis-a-vis Japan will be in strict accordance with the national policy already laid down. However, we should also rouse the Japanese people and make them realize the crisis facing the nation so that they may save themselves from their national self-destruction in time and that peace in the Orient may soon be restored.

"On the other hand, China's future policy toward other Powers will be in accordance with the ancient Chinese teaching of 'returning good for good and returning evil for evil.' We will continue to promote closer relations with friendly nations whereby we may enlist greater assistance from those who already are on the most cordial terms with us, and, on the other hand, improve our friendship with those who have not been entirely sympathetic. Our final aim is to cultivate international harmony and foster international co-operation.

"As regards the repeated resolutions of the League of Nations and the Nine-Power Conference, we should see to it that they are put into execution at an early date. As to international law and order which should exist in the society of nations and the sanctity of treaties we should unceasingly strive for their upholding in conjunction with the Powers concerned."

Reaffirming China's determination to regain freedom and independence, Dr. Kung said: "Now that the new Premier of Japan, Baron Hiranuma, as openly declared that Japan will continue her aggression to the last accord with her established national policy, I do not hesitate to assert that China shall adhere to her fixed national policy of resisting to the last."

The Premier devoted the first part of his lengthy report to the latest international framework. He declared: "At the present moment the governments and peoples of our friendly states have a clearer grasp of the object and spirit of our sacred war of self-defense. Consequently, they have given more positive sympathy and aid to us. This is the most gratifying happening of the last three months."

President Kung briefly recalled that the 104th Session of the League Council had renewed its pledge of moral support to China, Soviet Russia had continued to give China assistance in accordance with the resolutions of the League and the spirit of the Covenant, and that Britain and the United States had granted greater and more substantial aid to China.

He voiced the Government's gratitude to the Anglo-Saxon nations for their financial assistance, mentioning in particular the American...
purchase of Chinese silver which has helped immeasurably toward the stabilization of the Chinese national currency and the extension of Anglo-American commercial loans to China.

"I would like to point out to you that the Government is continuing to promote the Sino-American and Sino-British trade. The Government is determined to overcome all difficulties in an effort further to increase the economic and commercial relations between ourselves and our friendly nations."

After briefly touching upon the numerous statements issued by the Japanese leaders since November 3, 1938, wherein Japan's ambition to conquer China and dominate the Orient was totally unmasked, Dr. Kung mentioned that the American, British and French Governments have addressed sternly to the Japanese Government upholding the letter and spirit of the Sino-Power Treaty.

"The British, American and French notes were entirely based upon just stand, and in principle we are in complete accord with their views.

He took exception to the opinion that the countries of the world may be divided into two groups, those who demand a revision of the status quo and those who insist on the maintenance of the status quo. As a matter of fact, he said, there can only be two blocs, those who believe in peaceful negotiations for the revision of existing treaties and those who believe in armed aggression as the means to free themselves from the treaty obligations.

"Our answer to this problem has already been made known to the world. We are willing to support all peace negotiations in a frank and national spirit. However, there is a limit to peaceful negotiations. Any question prejudicing the existence of our nation or the independence of our country can never become the object of diplomatic negotiations. As to any armed invasion we are resolved to resist--and to the last."

He was glad to note that far-sighted people of the world have come to realize that international faith can never be firmly implanted unless a check is put to such a tendency as Japan's employment of force to bring about a new situation following which she repudiated the validity of existing treaties.

Expressed in concrete form such a re-awakening is the formation in the United States last summer of the American Committee for Non-participation in Japanese Aggression, of which Col. Henry L. Stimson, the former Secretary of State, is the honorary president.

"Japanese militarists may ignore such a movement which is fired by the revolt of the conscience and indignation of the American people over their mad acts in China," Dr. Kung said. "However, we are fighting for peace and justice. Our victory or defeat will not be decided by temporary gains or adversities on the battlefield. A moral victory is the foundation of victory, and is also the omen of our final triumph."

Such a decided change in the international situation in China's favour, analyzed President Kung, is naturally the result of China's solidarity and heroic struggle under the leadership of the Generalissimo. At the same time, it is also due to the complete expose of the sinister designs of Japan particularly after the statement issued by Prince Konoe the Japanese closure of the Lower Yangtze after the Chinese withdrawal from Wuhan alone has brought home to the people abroad the real motives behind Japan's invasion.

President Kung succinctly pointed out that the Generalissimo's address of December 26, 1938, assailing Konoye's statement of December
Incidentally coincided with the essence of the American, British and French notes to Japan.

He then rebutted Konoye’s November 3 broadcast in which the former Japanese Premier called the Sino-Japanese war, a “tragic slaughter between two identical races.” Asked he: Who brought about this Sino-Japanese tragedy? Who directed this play? Who is the guilty party? Needless to say, the responsibility should fall squarely on the shoulders of the Japanese warlords.

He also refuted Japan’s self-appointed role as the protector of Oriental culture. No better argument, he said, can be advanced than to quote the letter addressed in January, 1939, by a group of Oxford professors to the Generalissimo wherein it said:

“It cannot be denied that the British people have in the past entertained some doubt over the real significance and value of Chinese civilization and culture. However, we can no longer question who is the leader of world civilization today this day when we see on the one hand the arrogance and hostile attitude of narrow nationalism and on the other calm and composed anti-Japanese attitude of China.”

Dr. Kung discerned two ulterior motives behind the sudden interest of the Japanese propagandists in the cultural question at the height of the war. First, he said, they are trying to stir up a conflict between Oriental and Western civilizations in the hope of driving out European and American influence from the Far East, leaving this part of the world free for their creation of so-called new order.

Nevertheless, Dr. Kung continued, the Japanese should never forget that an interchange of cultures is mutually beneficial and that Japan owes much to the West for without the blessing of Western civilization there would have been no Meiji Restoration. And without the Meiji Restoration, where would Japan be?

“For the sake of the Oriental people, there is necessity for a thorough co-operation between the East and the West. This should not only be confined to culture alone, but in economic enterprises as well. Such co-operation should naturally be on an equal and reciprocal basis, and should not be one-sided.”

In the second place, Dr. Kung added, the slogan “joint defense against communism,” raised by the Japanese propagandists in defense of their invasion of China is so obviously inconsequential that the world has refused to be hoodwinked by her alibi. Suffice to say, the Three People’s Principles have been commonly embraced by the Chinese people.

Moreover, it is stupid for Arita, the Japanese Foreign Minister, to have said in the Japanese Diet on January 21 that “the anti-Japanese attitude adopted by the National Government before the outbreak of the incident was instigated by the Third Internationals,” for is it necessary for any outside influence to instigate a nation like China with her own history and political ideology to rise up in self-defense?

Turning to the internal administration, President Kung reported that the Executive Yuan has, during the last three months, actively supervised the inauguration of provincial people’s political councils. However, owing to the shortage of time and communication difficulties, many provincial governments have not yet completed their preparations. He declared, however, that the provincial assemblies will be inaugurated in either March or April.
In order to make these provincial councils live up to their name as representative bodies of the people, Dr. Kung proceeded, it has been decided that public functionaries and actual participants in politics drop out of the election campaign so as to make way for the local public leaders.

Dr. Kung characterized the last three months as the period of general adjustment of the Party, political and military affairs for the Central Government and the local authorities. The object behind the adjustment, he said, is to meet the needs of the second period of armed resistance.

Besides the preparation of the administration programme for the second stage of resistance by the Executive Yuan, it has also been decided by the recent Fifth Plenary Session of the Central Executive Committee of the Kuomintang to inaugurate a Supreme National Defense Council to unify the Party, political and military command and temporarily take the place of the Central Political Council.

Subject to the direction of the Supreme National Defense Council are the various ministries and commissions of the Central Kuomintang Headquarters and the various ministries and commissions of the five yuan and the National Military Council under the National Government.

Furthermore, in order that a greater efficiency may be achieved, he went on, the Council, of which the Generalissimo (Supreme Executive of the Kuomintang) is concurrently the Chairman, may not have to follow the ordinary procedure and may straightaway issue orders. With the inauguration of the Council, Dr. Kung foresaw an even greater coordination between political and military affairs.

In local administration, Dr. Kung said that the major task is to strengthen the political machinery under the provincial government. As to the war areas, he said that as communications have been severed by the Japanese, a necessity has arisen to rearrange the districts for administrative inspection. At the same time, it has been decided that administrative inspectors cannot become concurrently district-magistrates.

Every effort will also be made to improve the quality of the magistrates. A system of civil service examination for magistrates will be instituted and qualified men will be given the positions. "We should not forget that the influence wielded by one good magistrate can be as powerful as one division of troops," Dr. Kung tersely commented.

Henceforth, he added, a district with a population of more than 500,000 population will be raised to the status of a special area and the magistrate will be of selected rank. This is an important feature in the internal administrative programme for the second period of resistance.

Referring to military affairs, Dr. Kung said that all he needed to say was, "Our fighting strength at present is much better than that before the outbreak of the Lukouchung incident, either from the spiritual or material standpoint."

Turning his attention to the administrative conditions in the war-afflicted provinces, Dr. Kung said that it is most misleading to use the term "occupied areas," for the places where the Japanese army set foot are war areas regardless whether positional warfare, mobile warfare or guerrilla warfare is waged.

Japan's weak hold in these war areas was then effectively proved by the figures cited by the "Prime Minister". Out of the eleven war-affect areas of Kiangsu, Chekiang, Fukien, Anhwei, Kiangsi, Shansi, Shensi, Hopeh, Hopei, Shantung, and Honan, the latter two provinces of Kiangsu and Chekiang were again the most important.
On the other hand, there are 35 districts where the magistrates remain at the desks in their county seats although a part of their counties is temporarily occupied by the Japanese troops. Although the Japanese forces are in occupation of 245 district administrative seats, the magistrates attend to their official duties as usual in the country-side. These constitute 25 per cent.

Then there are 23 magistrates who have moved their offices to the neighbouring areas where their orders continue to reach their own districts. Only 55 magistrates out of a total of 941 cannot discharge their duties as a result of the complete Japanese occupation of their districts. In point of percentage, this group only constitutes 6 per cent.

But Dr. Kung pointed out that of those 55 districts, 42 are in Hopei Province. And among those 42 districts, 22 are in eastern Hopei where before the Marco Polo Bridge incident, Yin Ju-keng, Japan's puppet, had already incorporated them into his so-called East Hopei Special Area. After one and half years' sanguinary fighting, the districts freshly occupied by the Japanese—except for Peiping, Tientsin, Shanghai, Nanking, Hankow and Canton—number only 33. Such a slim political harvest of the Japanese is even subjected to constant guerrilla threats and attacks.

To adjust the political machinery in such a wide zone of hostilities, Dr. Kung announced, the Government is dividing it into two parts—front-line and secondary front-line regions. For the former, the Government has formed a War Zone Party and Political Committee to unify the work of the local Party, political and military organs.

For the latter, the Government has accordingly increased the duties and power of the magistrates or administrative inspectors so as to facilitate their work.

In the event certain special administrative areas are located too far away from the seats of the provincial governments, the Executive Yuan has acceded to the latter's request of maintaining offices near such areas.

Other domestic affairs which deserve special attention, according to President Kung, are the enforcement of the conscription law and the opium-suppression campaign.

Regarding the former, he said that the Government's efforts to improve the conscription system include better treatment for able-bodied male adults, the granting of special privileges to families of men on active service, intensification of conscription publicity, and improvement of the pa-chia (mutual guarantee) system.

"If 20 per cent of the 450,000,000 people of China perform military service we will be able to mobilize 90,000,000 men, as compared to Japan's 3,000,000. With seven Chinese soldiers fighting one Japanese soldier, is there any worry that we cannot drive our enemy out of our territory?"

Concerning the anti-opium work, Dr. Kung divulged that the Government is relentlessly carrying on the drive, paying particular attention to the suppression of opium-smoking.
With regard to the work in the "rear," Dr. Kung said that the paramount task is naturally the development of the Southwest and the Northwest. Beyond Szechuan is Sikong, an equally rich province, where the Government is devoting its attention to the development of communications as an initial step. Then the Government is promoting harmony among the diversified races in Sikong, elevating their cultural level and solving their livelihood problem.

Beyond Sikong is Tibet whose inhabitants have unanimously upheld the national policy after the outbreak of the war. The Central Government, he announced, absolutely respects the traditional religion of Tibet and considers the Tibetans’ welfare as part of the entire nation. As to the local administration in Tibet, Dr. Kung said that it should be left in the hands of the Tibetan political and religious leaders who are acquainted with local conditions and that neither the Central Government nor the neighbouring province should arbitrarily intervene.

Dr. Kung took the opportunity to announce that the successor to the 13th Dalai Lama will be selected within this year and that two babies have been found in Tibet and one in the vicinity of the Taherbasu Monastery. The Government has already instructed the Chinghei(Kokonor) Provincial government to escort the Chinghei baby to Lhasa where the casting of lots will be held to determine one of them as the 14th Dalai Lama, temporal pontiff of Tibet.

In this connection, Dr. Kung announced that the National Government last December 28 appointed General Wu Chung-hsin, Chairman of the Mongolian and Tibetan Affairs Commission, and Jechon Hutukhehtu(Living Buddha), regent of Tibet, to supervise the drawing of lots.

Speaking of the Moslem race, Dr. Kung was gratified over their spirit of resistance and their contribution of manpower, material and financial resources to the state during the war. In the face of the seditious activity of the Japanese, the Moslem generals have, under the Generalissimo’s leadership, led their troops to engage the invaders, while the local authorities have mobilized the masses, contributed money, organized propaganda corps, formed first-aid corps, and sent a goodwill mission to the Near East.

Particularly gratifying, he added, is the remarkable progress in Sinkiang(Chinese Turkestan). A province of composite races, they are now welded into one solid block under the guidance of General Sheng Shih-t’ai, Provisonal Commissioner for Sinkiang. One of their recent demonstrations of loyalty to the Central Government was the purchase of planes for the Chinese air force.

Joining hands with the rest of the country in the New Era too are the Mongols. For example, Changchun Hutukhehtu, religious leader of Mongolia, recently attended the Fifth Plenary Session here. Prince Yao, political leader of Mongolia and President of the Ikh-cha League, is now in Chungking where he recently assumed his concurrent post as State Councillor of the National Government.

Dr. Kung also expressed the Government’s gratitude to the overseas Chinese, many of whom are either pinching their pennies for contribution to their fatherland or are back in their mother country taking an active part in the war.

In the education realm, Dr. Kung stated that the Ministry of Education has continued to arrange for the removal of schools from the war zones and provide accommodation for refugee students and teachers during the last three months.
with the arrival of winter, the Government allotted $200,000 last November for the purchase of winter clothes and quilts for poor students. Since the Chinese withdrawal from Wuhan, the Government has increased the budget of the two national middle schools in Hubei in order to accommodate the influx of Hubei students. Meanwhile, it has decided to build a national middle school for Hunan.

In the economic field, the Premier said that the Government is promoting the policy of exploiting national resources and increasing production. He elucidated the Government's economic policy as follows:

(1) The Government is rectifying its past mistakes by embarking on the road of regional economic planning. While the Ministry of Economics has assisted in the removal of factories to the interior from the cities along the coast and the principal rivers, it is also creating new industrial enterprises in a systematic way.

At present, the Government has chosen the Tokiang and Minkiiang valleys in Szechuan as the industrial belt for the first period. In this belt are found coal, petroleum and natural gas. Up to now, an alcoholic plant, a power plant and a chemical industrial plant have been established. Paper mill and a sugar refinery are being planned.

(2) The Government is working for a harmonious coordination of state-operated and private enterprises. With the successful enforcement of the legal tender policy and the strengthening of the four government banks, revealed Dr. Kung, any danger of private individuals controlling the helm of the currency market has been averted.

On the other hand, important communication enterprises have already been taken over by the State, while large mining areas, particularly those of vital importance to national defense and heavy industries, have been set aside for State operation. Hence, the danger of private individuals controlling the market has also been dispelled.

Meanwhile, the Government is modifying the Corporation Law. Fostering the growth of private industries, and promoting cooperation between the State and private individuals—all with a view to encouraging private investments.

(3) The Government is doubling its efforts toward rural economic relief through the promotion of rural cooperatives, agricultural experiment stations and the Agricultural Credit Administration.

After hostilities flared up, the Agricultural Credit Administration from the lower Yangtze delta to the Southwest. In 1938, the Administration established 76 rural credit cooperatives in the Southwest to which it has subscribed a capital of $7,000,000. At the same time, it has set up 46 granaries with a storage capacity for 100,000,000 piculs of farm products, invested $6,700,000 in farm irrigation projects which can irrigate 2,300,000 mu (six mu make an acre) of farmland, and purchased $1,800,000 worth of raw cotton, cotton yarn, cotton cloth and foodstuffs to meet the needs of the army.

Touching upon the question of communications, Dr. Kung noted two major improvements in recent months. First, the Executive Yuan inaugurated at the beginning of the year a Joint Water and Land Transportation Committee to take full charge of all transportation vehicles and freight traffic.
With the successful conclusion of the Anglo-American loan, the number of highway vehicles can be doubled.

Secondly, the Government has laid out a railway network for the Southwest. Aside from the Yunnan-Burma Railway, the Government is planning to build a line linking Kunming and Sufu at the Yangtze River. There will also be an extension from Weining within the Kweichow-Yunnan boundary and along the Kunming-Sufu line to Kweiyang whence it will be connected with Liuchow in the heart of Kwangsi. In that case, the four southwestern provinces of Yunnan, Szechuan, Kweichow and Kwangsi will be closely knit together.

Negotiations are also underway with a friendly nation for the construction of a railway in the Northwest, Dr. Kung added.

In air traffic, he said that the projected Sino-British airline commands attention. According to present arrangements, Chinese commercial planes may fly to Rangoon while British passenger and mail liners may fly from Rangoon to Kunming. At Rangoon passengers and mail will be picked up by British flying boats to Europe.

In concluding his report, Dr. Kung compared the success of China's mobilization with that of Japan. He said that from a perusal of his report, it is apparent that China's has achieved more practical results, whereas Japan's much-publicized general national mobilization is marked by constant bickerings between the interested parties.—END.

China Information Committee
P. O. Box 167
Chungking, China
Feb. 24, 1939.
Conference in the Secretary's Office  
3:10 p.m., February 26, 1939. 

Present: Secretary Morgenthau  
Mr. Stephen F. Chadwick,  
National Commander of the American Legion  
Colonel John M. Johnson,  
Assistant Secretary of Commerce  
Mr. McReynolds  

Mr. Chadwick stated that the purpose of this call was to discuss the status of Pershing Hall in Paris. He explained the unwillingness of the American Legion to take the building and assume the operating expenses. He asked that the Secretary designate someone to work with a Legion committee designated by him to arrive at an understanding as to what could possibly be done to clarify the question of ownership and cost of maintenance of Pershing Hall. The Secretary informed Mr. Chadwick that he designated Mr. McReynolds as his representative to handle this matter with the Legion. Mr. Chadwick and Mr. Johnson stated that they would get in touch with Mr. McReynolds sometime before May for the purpose of such a conference.  

Mr. Chadwick turned over to Mr. McReynolds a letter outlining certain obligations incurred by the American Legion in connection with the operation of Pershing Hall, showing outstanding obligations to the extent of about $5,000.
TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION  

DATE: February 26, 1939  

To Secretary Morgenthau  

From W. H. Hadley  

Government bond market turned very strong last night following the announcement of no new cash. This morning long bonds are opening as high as 8 to 12/32nds better and the June “rights” moved up 7/32nds to a new high.
Mr. Chairman, Members of the Committee:

On January 19, 1939, the President wrote to the President of the Senate and the Speaker of the House of Representatives recommending the extension of the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the Stabilization Fund and certain powers specified in the Act of May 12, 1933, relating to fixing the metallic content of the dollar, which would otherwise expire on June 30, 1939. H.R. 3325, which was introduced on January 26, 1939, by Chairman Somers, is in accord with the recommendations of the President and I am appearing before you in support of this bill.

A discussion of the provisions of H.R. 3325 may be conveniently divided into the provisions dealing with the extension of the Stabilization Fund powers (Section 1 of the bill) and the provisions dealing with the extension of certain powers specified in paragraph (b)(2) of Section 43 of the Act of May 12, 1933, which principally involve (a) the power to alter the weight of the gold dollar and (b) the unlimited coinage of silver. If it is agreeable to you and the other members of the committee, Mr. Chairman, I propose to take up the provisions of H.R. 3325 in that order.

I. Continuation of the Stabilization Fund Powers

The Stabilization Fund of $2 billion was established by Section 10 of the Gold Reserve Act of 1934, which was enacted on January 30, 1934. The $2 billion placed in the Fund was obtained from the increment...
accruing to the Treasury from the decrease in the weight of the
gold dollar and consequent increase in the value of the gold
held by the United States. As originally provided, the Stabili-
zation Fund had a life of two years and the President was author-
ized to extend the period for one additional year. This he did
on January 10, 1936. In January 1937 Congress, in an Act similar
to the bill now being considered by the Committee, extended the
life of the Stabilization Fund until June 30, 1939. The pur-
pose of the legislation now before your committee is to extend
the Fund until January 15, 1941.

During the three years immediately preceding the creation
of the Fund more than 30 nations had departed from the gold
standard and had adopted either floating currencies or exchange
controls. Confronted with these monetary developments Congress,
fully appreciating the need for a special fund, with ample re-
serves and adequate power to cope with this new trend in inter-
national monetary matters, created the Stabilization Fund.

Since the establishment of our Stabilization Fund other
countries have abandoned the pre-1931 gold standard, until
now every country except the United States and one other
country important commercially has a currency which, in ef-
fact, is either a floating currency or is subject to exchange
controls.

Whereas before 1931 currencies fixed in terms of gold
and stable in terms of exchange rates characterized most of
the world monetary systems, there now prevail currencies with
differing nominal, actual and even bootleg rates, floating currencies, exchange controls, and exchange clearing agreements. Formerly rigid mint parities and unrestricted gold movements ruled international currency relationships; now dependence has to be placed chiefly upon the day-to-day decisions of governments adapted to the continually shifting economic, political and monetary conditions.

The purpose of the Fund is to stabilize the exchange value of the dollar. In carrying out this purpose the Fund undertakes a variety of operations.

Sometimes it is called upon to prevent violent fluctuations in exchange rates induced by acute political developments which cause flights of capital from one country to another. Such, for example, was the situation created in the fall of last year when as a consequence of the Czechoslovakian crisis a large volume of funds sought to leave Europe for the United States. The outflow of funds was so large that the amount of gold which it was necessary to ship from Europe to provide dollar balances was far greater than could be taken care of through normal commercial channels. If there had been no Stabilization Fund to cooperate with the other funds, the dollar exchange would have fluctuated so violently as to disrupt our trade. International monetary chaos might have ensued.
The occasions which call for operations of the magnitude undertaken by our Fund last fall are, however, sporadic. Normally the Stabilization Fund is concerned with hour-to-hour and day-to-day fluctuations in the dollar exchange rate. When the exchange markets are quiet and there are no unusual disturbances, it is not necessary for the Fund to take an active part in the market. At such times it operates in relatively small amounts and participates in a relatively small number of transactions each day, and may even not enter the market at all.

When, however, for one reason or another the operations in the various exchange markets become speculative or panicky in character, with abnormal fluctuations, then the Stabilization Fund steps into the market and becomes active in buying and selling gold and foreign exchange for the purpose of minimizing fluctuations.

During these operations it is frequently necessary for the Stabilization Fund to acquire foreign currencies. The Fund attempts to carry out all such transactions with a minimum of risk. In the past, we have been successful in avoiding risk of exchange loss through special reciprocal arrangements between cooperating Treasuries under which foreign exchange is immediately convertible into gold at a price fixed each day. Incidentally, it should be pointed out that because we wish to avoid the possibility of an exchange loss we frequently forego the possibility of an exchange profit.
There are also occasions when the exchange rate between the dollar and the currency of a country with small gold holdings is subjected to pressure because of unfavorable political or economic developments. The Fund can be employed, and has occasionally been employed in such circumstances, to help stabilize the dollar exchange.

For example, our arrangement with China was just such an operation. There was strong pressure against the dollar-yuan exchange and China needed dollars in order to strengthen the dollar-yuan exchange rate, thus avoiding additional obstacles to our trade. To eliminate any risk of exchange loss, China agreed to repurchase the yuan at the same rate at which the United States purchased them, and China's promise was backed by adequate gold and silver collateral, which was kept on deposit with Federal Reserve Banks.

An arrangement of like character was made with Brazil in 1937, but owing to subsequent developments the arrangement was not utilized.

A similar arrangement was made with Mexico. We purchased Mexican pesos and in exchange made dollars available. Again, as in the case of China, the Mexican Government agreed to repurchase the pesos at the price we paid for them and deposited adequate collateral with the Federal Reserve Banks.
There are times when the situation in the foreign exchange and gold markets calls for gold operations by the Fund in the London market. If, as a consequence of certain international, economic or trade developments, pressure should develop against the dollar sterling rate, the Fund might, in order to protect the dollar's position and American commercial and trade interests, engage in gold operations to relieve that pressure. It might, for example, place an order through its fiscal agent, the Federal Reserve Bank of New York, for the purchase in London of a specified amount of gold at a specified price. Upon execution of the order our Fund acquires gold in London and supplies dollar exchange in payment. This gold is placed on deposit in London and may be disposed of in any of several ways depending upon market developments. Should, for example, pressure against the dollar then occur, the Fund could release the gold in London for payment in sterling and then sell sterling for dollars. If, on the other hand, no such pressure develops, the gold can be brought to this country to be held in the Stabilization Fund or to be sold by it to the United States assay office.

There are numerous other technical ways in which the exchange and gold transactions are consummated depending upon where the pressure falls, what the reasons for the pressure are, the condition of the various exchange and gold markets, and even the shipping facilities for gold available at the particular time.
From 1934 to the middle of 1936 the Stabilization Fund acted independently in the purchase of gold and foreign exchange. When in 1936 France was confronted with a monetary crisis, the United Kingdom, France and the United States realized the necessity of taking steps to safeguard their economics against competitive exchange depreciation which in the long run would benefit none and injure all. Therefore, in pursuance of our policy of promoting stability of the exchange value of the dollar, on September 25, 1936, we joined the governments of Great Britain and France in the Tripartite Declaration of policy with respect to international monetary affairs. Soon thereafter the governments of Belgium, Switzerland and the Netherlands announced their adherence to this declaration. The machinery for collaboration to attain the common objectives laid down in the Tripartite Declaration was provided chiefly by the Stabilization Funds of those countries.

The Stabilization Fund is, under present conditions, a potent instrument for the protection of our stake in world trade and of every American producer who competes in the American market with foreign producers. The only persons in the United States who can possibly be injured by the operations of the Stabilization Fund are speculators in foreign exchange. Whereas the business man needs stability in exchange, the speculator thrives on exchange fluctuations. Any business man who has had to deal in foreign currency knows that the dollar is the most stable and the soundest currency in the world today. The $2 billion Stabilization Fund has been an important and, I believe, essential instrument in maintaining that stability.
The occasions when the Stabilization Fund has been employed for large scale operations to avoid disruption of the international monetary market have been few, yet the Fund operates regularly to minimize undesirable day-to-day fluctuations in rates. Its very existence constitutes a stabilizing factor in the exchange market. It is a major force in discouraging speculators from undertaking raids on our exchange rates. What is even more important, the presence of a $2 billion Fund set aside to be used for exchange purposes when necessary effectively discourages the initiation of currency depreciation wars which would, of course, be disruptive to world trade.

One of the responsibilities of the Stabilization Fund is to assume in times of stress in the foreign exchange market the functions normally performed by private operators, who, because of the risk involved, may not be willing to act at the very time when there is the greatest need for exchange facilities. There have, for instance, been several occasions in the last year when the Fund was virtually the only source of dollar exchange.

There is still another important function which stabilization funds throughout the world perform — namely, the protection of the domestic money and credit market from the impact of large gold losses or gains. Because of the large amount of gold held by our Stabilization Fund it is in an excellent position to protect our credit base against heavy withdrawals of gold from this country.
It may be expected that, with the restoration of normal conditions abroad, gold may leave the United States in large volume. In such a situation the gold in the Stabilization Fund will cushion what might otherwise constitute a severe shock to our economy.

The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crises is as probable now as when the Stabilization Fund was created in 1934.

Regardless of the trend of international developments, the Stabilization Fund may have even greater usefulness in the future than it has had in the past.

I turn now to another aspect of the Fund. When Congress established the Fund it provided that an annual audit should be made and that the Secretary of the Treasury should make a report to the President once a year. There was no provision for any other report. Congress evidently recognized that every precaution should be taken to prevent any one from attempting, through knowledge of its detailed operation, to gain speculative advantage. It was then known that the British Fund was operated with the utmost secrecy and it was realized that a certain amount of secrecy was essential if our Fund was to serve its purpose most effectively.
So far as there is secrecy in the operation of the Stabilization Fund of the United States, it relates only to the transactions and status of the $200 million portion of the Fund. This account has never held more than a relatively unimportant portion of our monetary gold stock. It is with regard to this portion of the Fund that the exchange speculators interested in following for their own gain the day-to-day operations of the Fund would like to have more detailed information. These speculators cannot now tell whether the operating portion of the Fund at any given time consists entirely of gold, or entirely of cash assets, or partly of each. They, or any citizen, of course, can tell from the Daily Treasury Statement that the Stabilization Fund contains at least $1.8 billion of gold which has never been touched.

Speculators would be the chief beneficiaries from publication of a current record of the day-to-day operations of the Fund. Failing to obtain current information, they would like the detailed data on past operations. The past record would enable them better to trace the current activities of the Fund.

One of the important ways through which the Stabilization Fund helps maintain confidence and stability of exchanges is by its psychological effect. The less the speculator knows of the day-to-day operations of the Fund, the smaller do those operations have to be.
II.

Alteration in the Weight of the Dollar

I now come to the second section of the legislation which the Committee is considering: extension of the authority to alter the gold content of the dollar. This power, when originally given to the President in the Thomas Amendment passed in May, 1933, was subject to no time limitation. However, it did provide that the gold content of the dollar could not be reduced more than 50 percent. In January, 1934, when the President recommended the enactment of the Gold Reserve Act he recommended that the authority to change the gold content of the dollar be limited to fixing the dollar at a gold content of between 50 and 60 percent of its former weight. You may recall that on January 31, 1934, the President exercised the power granted him in this Act by fixing the gold content of the dollar at 15-5/21 grains of gold 9/10 fine which was approximately 59 percent of its former weight.

The Gold Reserve Act placed a time limitation on both the Stabilization Fund and on the dollar devaluation powers. On January 23, 1937, the dollar devaluation power was renewed by Congress at the same time the Stabilization Fund was extended.

It is my conviction that this power should be continued.

The dollar now has identically the same gold value it had five years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15-5/21 grains of gold 9/10 fine. The fact that we have kept the gold value
of the dollar stable through the international monetary disturbances and alarms of the past five years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

This power is a weapon in reserve which is needed for the protection of American interests. In the monetary field it is as important as a powerful navy in the field of defense against armed attack.

In the last five years, as you know, the currencies of over 50 countries have changed their gold value. Unfortunately, the future is uncertain; the trend of international economic relationships remains subject to constant modification. There is no guarantee that other countries in their search for what is in their best interests will not undertake monetary measures which may operate to the disadvantage of the United States. In this connection, remember that virtually no foreign country has fixed the actual gold value of its currency.

For the United States to surrender any of its instruments for dealing adequately and promptly with international economic and monetary problems as they arise would tie our hands when immediate action might be crucial. The existence of this power to devalue the dollar has been a warning to the world that we
stand ready and able to defend the position of this country in world trade and to protect American goods from intensified competition in the American market. Thus stability rather than instability is given to international exchange rates by the existence of the power in the United States to deal promptly and effectively with currency depreciation abroad.

It is my opinion that at this time when the gold content of other leading currencies is permitted to float, and when the international picture is so uncertain, the United States should not permit the power of its government to deal quickly and effectively with situations that require an alteration in the gold content of the dollar to lapse.

III.

Newly-Mined Domestic Silver

I wish to call attention to the fact that section 2 of H.R. 3326, in addition to extending the power of the President to alter the weight of the gold dollar, also expands the power of the President, conferred by the Act of May 12, 1933, as amended, to provide for the unlimited coinage of silver.

As you know, pursuant to such power the President on December 21, 1933, issued a proclamation pursuant to which newly-mined domestic silver has been received by the mints for coinage and addition to the monetary stocks at a return to the miner of an amount considerably above the world price of silver. Since
December 21, 1933, a number of proclamations have been issued modifying the original proclamation with regard to the amount to be returned to the miner and extending the original proclamation. The Treasury is now receiving newly-mined domestic silver under such authority at a return to the miner of approximately 64-1/2 cents per ounce. The original proclamation, as modified, expires on June 30 of this year. Under the provisions of section 2 of H.R. 3825 the President would have authority to extend such proclamation until January 15, 1941.
March Financing

The following is a list of attractive new issues which might be offered in exchange for the $1,294,000,000 3-1/8% notes maturing June 15.

### New Issues

<table>
<thead>
<tr>
<th>Treasury Notes</th>
<th>Yield</th>
<th>Premium</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% - 5 years * (3/15/44)</td>
<td>0.87</td>
<td>21/32nds</td>
<td>Give interest adjustment equiv. to 8/32nds</td>
</tr>
<tr>
<td>1-1/8% - 5 years * (3/15/44)</td>
<td>0.87</td>
<td>1 point 8/32</td>
<td>No interest adjustment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Treasury Bonds</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2 1% - 10 years (1949)</td>
<td>1.86</td>
<td>1 point 9/32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.88</td>
<td>1 point 3/32</td>
<td></td>
</tr>
<tr>
<td>2-1/2% - 15-18 years (1954-57)</td>
<td>2.37</td>
<td>1 point 20/32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.39</td>
<td>1 point 12/32</td>
<td></td>
</tr>
<tr>
<td>2-1/2% - 15 1/2-18 1/2 yrs. (Sept. 15, 1954-57)</td>
<td>2.33</td>
<td>1 point 17/32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.40</td>
<td>1 point 9/32</td>
<td></td>
</tr>
<tr>
<td>2-3/8% - 20-25 yrs. (1959-64)</td>
<td>2.60</td>
<td>2 points</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.61</td>
<td>1 point 24/32</td>
<td></td>
</tr>
<tr>
<td>2-3/8% - 23-28 yrs. (1963-67)</td>
<td>2.52</td>
<td>1 point 26/32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.53</td>
<td>1 point 16/32</td>
<td></td>
</tr>
<tr>
<td>2-3/8% - 25-30 yrs. (1966-69)</td>
<td>2.54</td>
<td>1 point 18/32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.55</td>
<td>1 point 12/32</td>
<td></td>
</tr>
</tbody>
</table>

* * Because of the proximity of this maturity to a $1,518,000,000 3-1/8% bond issue callable April 15, 1944, it should prove better from the Treasury viewpoint to re-offer the 1-1/8% notes maturing in December 15, 1943 at par or a price as shown on the following page.
Re-offering of Outstanding Issues

The following outstanding issues might be opened up for an additional series and should go well in the market at a price.

<table>
<thead>
<tr>
<th>Treasury Notes</th>
<th>Amount Outstanding (millions)</th>
<th>Present Market</th>
<th>Suggested Offering Prices</th>
<th>Possible Premium</th>
<th>Interest Cost to Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1/8% of 12/15/43</td>
<td>368</td>
<td>101.16</td>
<td>100</td>
<td>1 pt. 16/32</td>
<td>1.125 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100 1/4</td>
<td>1 pt. 8/32</td>
<td>1.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100 1/2</td>
<td>1 point</td>
<td>1.03</td>
</tr>
</tbody>
</table>

| Treasury Bonds | 2-1/2% of 1950-52 | 865            | 105.21                   | 1 pt. 21/32     | 2.30                     |
|                |                   |                | 102                      | 1 pt. 15/32     | 2.25                     |
|                |                   |                | 102 1/2                  | 1 pt. 5/32      | 2.25                     |

|                | 2-3/4% of 1960-65 | 591            | 105.31                   | 1 pt. 23/32     | 2.61                     |
|                |                   |                | 102 1/4                  | 1 pt. 15/32     | 2.60                     |
|                |                   |                | 102 1/2                  | 1 pt. 7/32      | 2.58                     |

The "rights" maturing June 15 are now quoted in the market at 1 point 13/32nds above a "no yield" basis. The entire market moved up very substantially today as a result of the announcement yesterday of no new cash. The longer Treasury bonds increased 10 to 14/32nds today and the longer Treasury notes were 4 to 8/32nds higher. These are by far the highest levels the market has ever reached. However, there seems to be a firm undertone at these unusual prices.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: February 28, 1939, 10 a.m.
NO.: 373

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

Yesterday the Secretary of the Treasury told me that he would be glad to have information on the present state of affairs. It may be of interest to him to have a report on the conversation which I had last night with Bonnet:

Bonnet told me that Berard had turned down the post of French Ambassador in Spain, after it had been formally offered to him. Berard had conducted the negotiations with Jordana with the greatest skill, and Bonnet regretted his action greatly. Jordana had said at the beginning that Spain had nothing to talk over with France, and de jure recognition was all they were interested in. Berard's answer had been that de jure recognition would be given by France, but in addition to the simple problem of recognition there was the more important problem of restoring the normal close friendship between the two countries. Then Jordana and Berard worked out a number of written agreements which covered matters of mutual interest, such as the return of Spanish refugees who are now in France, the return of Spanish State property now in France, and so on. A written agreement providing that France and Spain should in the future live on the terms
terms of "good neighbors" was signed by Jordana and Berard. The agreement itself, Bonnet said, was worded vaguely, but a number of official verbal statements reinforced it. An official statement was made by Jordana that the old agreement between France and Spain forbidding fortification of the Balearic Islands was still in force and would remain so.

At the present time, Bonnet told me, no Italian forces were in any of the Balearic Islands, with the exception of 600 soldiers and 80 airplanes in Majorca.

As to the future neutrality of Spain in case of conflict in Europe, Jordana refused to make any definite promise, but he said that the policy of General Franco's Government was the same as it was last September. At that time Franco had assured the British and French Governments that Spain would remain neutral in case of a general war in Europe. Furthermore, Jordana stated that the desire of the entire Spanish people for peace was overwhelming, after having had two years of civil war. He said that it was ridiculous to imagine that Spain could be drawn into a general war in Europe.

The verbal statements by Jordana, together with the written "good neighbor" declaration were looked on by Bonnet as equivalent to a promise that Spain would remain neutral.

However,
However, Bonnet said he thought Spain would join
the Anti-Comintern Pact, and added that he was not es-
pecially disturbed by that. In every way he indicated
a sanguine optimism regarding future relations between
France and Franco's Government.

I asked Bonnet whether he did not think that in-
creasing power might be gained by the Phalangistas, and
that Spain would gradually be pushed into an attitude
of hostility toward the French; he replied that, on the
contrary, General Serrano Suner (brother-in-law to Franco)
was the new head of the Phalangistas, and was a conser-
• va tive who really wanted not a Fascist State but the
return of the Monarchy.

As for Italy, Bonnet made the following remarks —
He had recently been told by Halifax, on behalf of
the British Government, that the British did not think
it unreasonable for Italy to ask for a free port in
Djibouti and for control of the Addis Ababa-Djibouti
Railroad and a share in the administration of the Suez
Canal. Bonnet himself had balked, on behalf of the
French Government, until all Italians had left Spain and
until Mussolini had given up blackmailing, under war
threats, as a means of negotiation and had learned to
be
be polite; these questions could not be discussed until France was assured on the foregoing.

However, I was told by Bonnet that he did not see how he could go back on the proposals made to Ciano by Chargé d’Affaires Blondel last spring on behalf of the French Government, provided the Italian Government should abandon its threats and show a disposition to live on friendly terms with France. These proposals, Bonnet said, were that France would be glad to enter into discussion of the question of the status of the Italians in Tunisia, the Addis Ababa Railroad and Djibouti.

At the present time, Bonnet added, he was not well-informed as to the Italian Government’s exact intentions because Ciano would not receive Francois Poncet, the French Ambassador. He did not think that Mussolini would make any formal demands until the new Pope had been elected, but shortly thereafter he expected Mussolini to make known his demands. It had seemed certain that these demands would be made in the most provocative blackmailing manner by Mussolini, but that now, however, thanks to President Roosevelt’s words and acts, the Italians and Germans were becoming increasingly afraid to risk a general war the coming spring. Therefore, there is a possibility that Mussolini would order the Italian press to change its tone.
tone and would quietly negotiate in an attempt to get some concessions. It might be possible in that case to work out a settlement in the Mediterranean area.

BULLITT.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: February 28, 1939, 5 p.m.
NO.: 377
FOR THE TREASURY DEPARTMENT.
Less marked pressure today on the belga and on the florin. Active official support was given to both currencies, it appears. During the day's trading the fund obtained a substantial amount of sterling. Almost no change in the dollar.

On the security market the tone was better, and there was a gain of about 60 centimes in rentes.

Today's French financial press expressed the view that the decline of both the belga and the florin was of an economic nature, and pointed out that both currencies had a sound technical position. It was pointed out in particular that pressure was exercised on the florin and on the belga by the French price level and subsidized German exports. Armament expenditures by Belgium and the Netherlands necessitated by present circumstances were also mentioned as an additional burden.

A certain amount of speculation is noted with respect to the extent to which devaluation of the belga might be considered if and when a decision to devalue may be taken. In view of the commercial relations which exist between the Belgians and the British, it is not thought probable that
that the British authorities would permit the tripartite bases to be disturbed by a too drastic "alignment" of the belga, particularly since there would immediately come up the question of the florin.

END OF MESSAGE.

BULLITT.
February 28, 1939

NEWS BROADCASTS

STATION WMAL 4:45 P.M.

"Secretary of the Treasury Morgenthau, made another appearance on Capitol Hill today, when he went before the House Coinage Committee and read a statement saying the Administration has no intention of changing the value of the dollar unless an emergency arises.

The Secretary described the power to change the dollar's value as a 'reserve weapon' and added it was 'as important in the monetary field as the Navy was in war.'

President Roosevelt has requested an extension of his power to change the gold value of the dollar and to operate the Country's two billion dollar stabilization fund."
Tonight we're given a glimpse into a confidential phase of bookkeeping. It's the ledger of that huge, mystifying affair of international finance, the Stabilization Fund, the two billion dollar budget used to stabilize the dollar in the markets of the world. Today Secretary Morgenthau appeared before the Weights, Coins, and Measures Committee of the House. The Gold Reserve Act, under which the Stabilization Fund was established expires June 30 and the White House wants it extended to January, 1940. Arguing for this, the Secretary of the Treasury today opened the Stabilization books to the Committee and to the public.

The accounts show what we've heard before; that the Stabilization Fund in its money market deals has made a profit, a profit of twelve million dollars.

Well, the books in Washington also reveal a lot of transactions in European currencies and has taken an Asiatic slant. This is graphically illustrated by one of the charts, under the heading of "Deposits. Central Bank of China - 168 million yuan." The Secretary revealed today the Stabilization Fund entered into an arrangement stabilizing the Chinese unit of currency, the yuan, when the Chinese yuan showed a decided weakness in the money market, and backed up its end of that transaction.

Well, the Silver Purchase Act, by forbidding the Treasury to buy any silver except such as is newly mined in the United States, showed a complicated policy, and the amendment would have tied it up with further commissions.

The Administration Democrats rallied and voted down that Republican proposal today.
February 28, 1939.

NEWS BROADCASTS

WRC - 6:00 P. M.

Esso News Reporter.

Washington: The Administration's silver buying powers were rescued from a Republican assault by a close vote in the House today. The House defeated, 155 to 135, a proposal to restrict the United States' silver purchasing program to newly mined domestic silver.

New York: Stocks, bonds, and commodities ended the month of February on a strong note today. United States Government bonds soared to new highs for the year. Many made record highs on the Morgenthau statement there would be no new money financing in March. Stocks had gains ranging to two points.

WMAL - 6:15 P. M.

(Identical with WRC - 6:00 P. M.)
February 28, 1939.

NEWS BROADCASTS
WMAL - 11:00 P.M.

Meanwhile, the House set some political fireworks off of its own accord; under the whip of party leaders, the Democrats beat down Republican attempts to clip the wings of the New Deal silver policy. The Republicans tried to attach an amendment to the Treasury Post Office Supply Bill, whereby Treasury purchases would be limited to silver newly mined right here in America. The Administration leaders rounded up the votes and the amendment was licked, 155 to 135.

Subsequently, the House passed and sent to the Senate the one and three quarter billion dollar Treasury Post Office appropriation bill.

Secretary of the Treasury Morgenthau acted, meanwhile, to end five years of secrecy surrounding the operations of the two billion dollar Stabilization Fund. He told the House Committee on Coinage, Weights, and Measures that the Fund saved the United States and European nations some possible monetary chaos during the Czechoslovakian crisis last year. Morgenthau said the Fund, which a coalition of Democrats and Republicans have vowed to abolish, saved American trade from a violent shock during the dark days before Munich.
On January 19, 1939, the President wrote to the President of the Senate and the Speaker of the House of Representatives recommending the extension of the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the Stabilization Fund and certain powers specified in the Act of May 12, 1933, relating to fixing the metallic content of the dollar, which would otherwise expire on June 30, 1939.

H. R. 3326.
H.R. 3325, which was introduced on January 26, 1939, by Chairman Somers, is in accord with the recommendations of the President and I am appearing before you in support of this bill.

A discussion of the provisions of H.R. 3325 may be conveniently divided into the provisions dealing with the extension of the Stabilization Fund powers (Section 1 of the bill) and the provisions dealing with the extension of certain powers specified in paragraph (b)(2) of Section 43 of the Act of May 12, 1933, which principally involve (a) the power to alter the weight of the gold dollar and (b) the unlimited coinage of silver. If it is agreeable to you and the other members of the committee, Mr. Chairman, I propose to take up the provisions of H.R. 3325 in that order.

I. Continuation of the Stabilization Fund Powers

The Stabilization Fund of $2 billion was established by Section 10 of the Gold Reserve Act of 1934, which was enacted on January 30, 1934. The $2 billion placed in the Fund was obtained from the increment accruing to the Treasury from the decrease in the weight of the gold dollar and consequent increase.
increase in the value of the gold held by the United States. As originally provided, the Stabilization Fund had a life of two years and the President was authorized to extend the period for one additional year. This he did on January 10, 1936. In January 1937 Congress, in an Act similar to the bill now being considered by the Committee, extended the life of the Stabilization Fund until June 30, 1939. The purpose of the legislation now before your Committee is to extend the Fund until January 15, 1941.

During the three years immediately preceding the creation of the Fund more than 30 nations had departed from the gold standard and had adopted either floating currencies or exchange controls. Confronted with these monetary developments Congress, fully appreciating the need for a special fund, with ample reserves and adequate power to cope with this new trend in international monetary matters, created the Stabilization Fund.

Since the establishment of our Stabilization Fund other countries have abandoned the pre-1931 gold standard, until now every country except the United States and one other country important commercially has a currency which, in effect, is either a floating currency or is subject to exchange.
exchange controls.

Whereas before 1931 currencies fixed in terms of gold and stable in terms of exchange rates characterized most of the world monetary systems, there now prevail currencies with differing nominal, actual and even bootleg rates, floating currencies, exchange controls, and exchange clearing agreements. Formerly rigid mint parities and unrestricted gold movements ruled international currency relationships; now dependence has to be placed chiefly upon the day-to-day decisions of governments adapted to the continually shifting economic, political and monetary conditions.

The purpose of the Fund is to stabilize the exchange value of the dollar. In carrying out this purpose the Fund undertakes a variety of operations.

Sometimes it is called upon to prevent violent fluctuations in exchange rates induced by acute political developments which cause flights of capital from one country to another. Such, for example, was the situation created in the fall of last year when as a consequence of the Czechoslovakian crisis a large volume of funds sought to leave Europe for the United States. The outflow of funds was so large that the amount of gold which it was necessary to ship from Europe to provide dollar balances was far greater than could
could be taken care of through normal commercial channels. If there had been no Stabilization Fund to cooperate with the other funds, the dollar exchange would have fluctuated so violently as to disrupt our trade. International monetary chaos might have ensued.

The occasions which call for operations of the magnitude undertaken by our Fund last fall are, however, sporadic. Normally the Stabilization Fund is concerned with hour-to-hour and day-to-day fluctuations in the dollar exchange rate. When the exchange markets are quiet and there are no unusual disturbances, it is not necessary for the Fund to take an active part in the market. At such times it operates in relatively small amounts and participates in a relatively small number of transactions each day, and may even not enter the market at all.

When, however, for one reason or another the operations in the various exchange markets become speculative or panic-like in character, with abnormal fluctuations, then the Stabilization Fund steps into the market and becomes active in buying and selling gold and foreign exchange for the purpose of minimizing fluctuations.

During these operations it is frequently necessary for the Stabilization Fund to acquire foreign currencies. The Fund
Fund attempts to carry out all such transactions with a minimum of risk. In the past, we have been successful in avoiding risk of exchange loss through special reciprocal arrangements between cooperating Treasuries under which foreign exchange is immediately convertible into gold at a price fixed each day. Incidentally, it should be pointed out that because we wish to avoid the possibility of an exchange loss we frequently forego the possibility of an exchange profit.

There are also occasions when the exchange rate between the dollar and the currency of a country with small gold holdings is subjected to pressure because of unfavorable political or economic developments. The Fund can be employed, and has occasionally been employed in such circumstances, to help stabilize the dollar exchange.

For example, our arrangement with China was just such an operation. There was strong pressure against the dollar-yuan exchange and China needed dollars in order to strengthen the dollar-yuan exchange rate, thus avoiding additional obstacles to our trade. To eliminate any risk of exchange loss, China agreed to repurchase the yuan at the same rate at which the United States purchased them and China's promise was backed by adequate gold and silver collateral, which was kept.
kept on deposit with Federal Reserve Banks.

An arrangement of like character was made with Brazil in 1937, but owing to subsequent developments the arrangement was not utilized.

A similar arrangement was made with Mexico. We purchased Mexican pesos and in exchange made dollars available. Again, as in the case of China, the Mexican Government agreed to repurchase the pesos at the price we paid for them and deposited adequate collateral with the Federal Reserve Banks.

There are times when the situation in the foreign exchange and gold markets calls for gold operations by the Fund in the London market. If, as a consequence of certain international, economic or trade developments, pressure should develop against the dollar sterling rate, the Fund might, in order to protect the dollar's position and American commercial and trade interests, engage in gold operations to relieve that pressure. It might, for example, place an order through its fiscal agent, the Federal Reserve Bank of New York, for the purchase in London of a specified amount of gold at a specified price. Upon execution of the order our Fund acquires gold in London and supplies dollar exchange in payment. This gold is placed on deposit in London and may be disposed of in any of several ways depending upon market conditions.
market developments. Should, for example, pressure against
the dollar then occur, the Fund could release the gold in
London for payment in sterling and then sell sterling for
dollars. If, on the other hand, no such pressure develops,
the gold can be brought to this country to be held in the
Stabilization Fund or to be sold by it to the United States
 assay office.

There are numerous other technical ways in which the
exchange and gold transactions are consummated depending
upon where the pressure falls, what the reasons for the
pressure are, the condition of the various exchange and gold
markets, and even the shipping facilities for gold available
at the particular time.

From 1934 to the middle of 1936 the Stabilization Fund
acted independently in the purchase of gold and foreign
exchange. Then in 1936 France was confronted with a
monetary crisis, the United Kingdom, France and the United
States realized the necessity of taking steps to safeguard
their economics against competitive exchange depreciation
which in the long run would benefit none and injure all.
Therefore, in pursuance of our policy of promoting stability
of the exchange value of the dollar, on September 25, 1936,
we joined the governments of Great Britain and France in the
Tripartite
Tripartite Declaration of policy with respect to international monetary affairs. Soon thereafter the governments of Belgium, Switzerland and the Netherlands announced their adherence to this declaration. The machinery for collaboration to attain the common objectives laid down in the Tripartite Declaration was provided chiefly by the Stabilization Funds of these countries.

The Stabilization Fund is, under present conditions, a potent instrument for the protection of our stake in world trade and of every American producer who competes in the American market with foreign producers. The only persons in the United States who can possibly be injured by the operations of the Stabilization Fund are speculators in foreign exchange. Whereas the business man needs stability in exchange, the speculator thrives on exchange fluctuations. Any business man who has had to deal in foreign currency knows that the dollar is the most stable and the soundest currency in the world today. The $8 billion Stabilization Fund has been an important and, I believe, essential instrument in maintaining that stability.

The occasions when the Stabilization Fund has been employed for large scale operations to avoid disruption of the international
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10-151, To London, Feb. 28.

the international monetary market have been few, yet the Fund operates regularly to minimize undesirable day-to-day fluctuations in rates. Its very existence constitutes a stabilizing factor in the exchange market. It is a major force in discouraging speculators from undertaking raids on our exchange rates. What is even more important, the presence of a $2 billion Fund set aside to be used for exchange purposes when necessary effectively discourages the initiation of currency depreciation wars which would, of course, be disruptive to world trade.

One of the responsibilities of the Stabilization Fund is to assume in times of stress in the foreign exchange market the functions normally performed by private operators, who, because of the risk involved, may not be willing to act at the very time when there is the greatest need for exchange facilities. There have, for instance, been several occasions in the last year when the Fund was virtually the only source of dollar exchange.

There is still another important function which stabilization funds throughout the world perform — namely, the protection of the domestic money and credit market from the impact of large gold losses or gains. Because of the large
the large amount of gold held by our Stabilization Fund it is in an excellent position to protect our credit base against heavy withdrawals of gold from this country.

It may be expected that, with the restoration of normal conditions abroad, gold may leave the United States in large volume. In such a situation the gold in the Stabilization Fund will cushion what might otherwise constitute a severe shock to our economy.

The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crises is as probable now as when the Stabilization Fund was created in 1934.

Regardless of the trend of international developments, the Stabilization Fund may have even greater usefulness in the future than it has had in the past.

I turn now to another aspect of the Fund. When Congress established the Fund it provided that an annual audit should be made and that the Secretary of the Treasury should make a report to the President once a year. There was no provision for any other report. Congress evidently recognized that every
every precaution should be taken to prevent any one from attempting, through knowledge of its detailed operation, to gain speculative advantage. It was then known that the British Fund was operated with the utmost secrecy and it was realized that a certain amount of secrecy was essential if our Fund was to serve its purpose most effectively.

So far as there is secrecy in the operation of the Stabilization Fund of the United States, it relates only to the transactions and status of the $300 million portion of the Fund. This account has never held more than a relatively unimportant portion of our monetary gold stock. It is with regard to this portion of the Fund that the exchange speculators interested in following for their own gain the day-to-day operations of the Fund would like to have more detailed information. These speculators cannot now tell whether the operating portion of the Fund at any given time consists entirely of gold, or entirely of cash assets, or partly of each. They, or any citizen, of course, can tell from the Daily Treasury Statement that the Stabilization Fund contains at least $1.8 billion of gold which has never been touched.

Speculators would be the chief beneficiaries from
publication of a current record of the day-to-day operations of the Fund. Failing to obtain current information, they would like the detailed data on past operations. The past record would enable them better to trace the current activities of the Fund.

One of the important ways through which the Stabilisation Fund helps maintain confidence and stability of exchanges is by its psychological effect. The less the speculator knows of the day-to-day operations of the Fund, the smaller do those operations have to be.

II.

**Alteration in the Weight of the Dollar**

I now come to the second section of the legislation which the Committee is considering: extension of the authority to alter the gold content of the dollar. This power, when originally given to the President in the Thomas Amendment passed in May, 1933, was subject to no time limitation. However, it did provide that the gold content of the dollar could not be reduced more than 50 percent. In January, 1934, when the President recommended the enactment of the Gold Reserve Act he recommended that the authority to change the gold content of the dollar be limited to fixing the dollar at a gold content of between 50 and 60 percent of its former weight.
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weight. You may recall that on January 31, 1934, the President exercised the power granted him in this Act by fixing the gold content of the dollar at 15-5/21 grains of gold 9/10 fine which was approximately 59 percent of its former weight.

The Gold Reserve Act placed a time limitation on both the Stabilization Fund and on the dollar devaluation powers. On January 23, 1937, the dollar devaluation power was renewed by Congress at the same time the Stabilization Fund was extended.

It is my conviction that this power should be continued. The dollar now has identically the same gold value it had five years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15-5/21 grains of gold 9/10 fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past five years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

This power is a weapon in reserve which is needed for the protection
the protection of American interests. In the monetary field
it is as important as a powerful navy in the field of defense
against armed attack.

In the last five years, as you know, the currencies of
over 50 countries have changed their gold value. Unfortunately,
the future is uncertain; the trend of international
economic relationships remains subject to constant modification.
There is no guaranty that other countries in their
search for what is in their best interests will not under-
take monetary measures which may operate to the disadvantage
of the United States. In this connection, remember that
virtually no foreign country has fixed the actual gold value
of its currency.

For the United States to surrender any of its instru-
ments for dealing adequately and promptly with inter-
national economic and monetary problems as they arise would
tie our hands when immediate action might be crucial. The
existence of this power to devalue the dollar has been a
warning to the world that we stand ready and able to defend
the position of this country in world trade and to protect
American goods from intensified competition in the American
market. Thus stability rather than instability is given

To international exchange rates by the existence of the power in the United States to deal promptly and effectively with currency depreciation abroad.

It is my opinion that at this time when the gold content of other leading currencies is permitted to float, and when the international picture is so uncertain, the United States should not permit the power of its government to deal quickly and effectively with situations that require an alteration in the gold content of the dollar to lapse.

III.

Newly-Mined Domestic Silver

I wish to call attention to the fact that section 2 of H.R. 3380, in addition to extending the power of the President to alter the weight of the gold dollar, also extends the power of the President, conferred by the Act of May 12, 1933, as amended, to provide for the unlimited coinage of silver. As you know, pursuant to such power the President on December 21, 1933, issued a proclamation pursuant to which newly-mined domestic silver has been received by the mints for coinage and addition to the monetary stocks at a return to the miner of an amount considerably above the world price of
of silver. Since December 21, 1933, a number of proclamations have been issued modifying the original proclamation with regard to the amount to be returned to the miner and extending the original proclamation. The Treasury is now receiving newly-mined domestic silver under such authority at a return to the miner of approximately $4-1/2 cents per ounce. The original proclamation, as modified, expires on June 30 of this year. Under the provisions of section 2 of E.R. 3325 the President would have authority to extend such proclamation until January 15, 1941.

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