

BOOK #1

PRESIDENT ROOSEVELT

January 1, 1938

thru

July 31, 1939

January 16, 1938

Lunched with the President. I asked him what he thought would be the most useful work that I could do for him during the next two years. The President said, "The next two years really don't count. They are over the dam". With a smile he said, "I think you and I can get by with another 3 billion deficit in '40 and '41 and then it will be up to whoever succeeds us which will most likely be either a conservative Democrat or a conservative Republican". He said, "The thing for us to be thinking about is what will happen after we are out".

He said, "John L. Lewis sat here yesterday afternoon and told me that he didn't consider it was important whether his labor union grew particularly, whether he organized more labor unions amongst the labor groups or wage earners but he said what bothered him was the new steel mills which are opening with such improved machinery that they were able to run them with a considerably less number of employees. He said that he (Lewis) was worrying about was how we are going to take care of the unemployed. He said Germany had solved it - not that he wanted to follow in the footsteps of Germany but that the unemployment problem was the problem which was facing America and that he frankly didn't know what the answer was.

The President said, "After we are out, the next Administration will most likely begin to economize and slash expenditures and the chances are we will have chaos as a result". He said, "The thing for us to be thinking about is what we will do. We must have a plan. Our successors will not have a plan". He said, "After they have failed they will most likely send for us to come back and solve the problem". He then said, "I don't mean necessarily send for us to return to Washington but at least call on us for a program". I said, "Would this be the sort of thing that you would be interested in having done?" He said, "Dr. Furrer tells me that they have a vital statistics on every child in Hagerstown County, Md., and his thought is that we should give every child in that county all the food it can eat and then see what happens to him". The President said, "That is fine but that does not go far enough". He said, "We ought to say to every farmer that we are going to buy all the food we can in their county first and that we expect them to grow extra vegetables for which we will pay them the actual cost but below market value. We will say to the storekeepers, 'We are going to buy extra food from you but you have got to let us have it at wholesale'. The President said, "In this way, we will greatly cut down the cost of the product".

He said that his son, Elliott, had been in telling him about some of the troubles in Texas. He (Elliott) said that the orange-growers and grapefruit growers of the Rio Grande valley grew the finest fruit in the country but were unable to get a decent price for it on account of competition in California and Florida. The President said, "We have got to work out some sort of regional plan so that these various districts don't cut each others throats." He said, "It is that sort of thing I would like to have you think about".

He told me how he had seen Representative Cannon last week who wanted to know whether the President really wanted 875 million for WPA or was willing to take less. The President said he meant what he said in his Message and that when the hunger marchers descended on Washington he was going to put up a big sign on the outside of the White House and say, "WPA need not apply here" - but have a large arrow pointing to the Congress. The President said, "The darned fool Cannon went up on the Hill and repeated the story, the result of which Congress got and and voted to cut the appropriation".

The President said, "Monday morning the Vice-President and Senator Barkley were in to see him and Barkley asked him what he should do about the WPA appropriation. The President said as far as he was concerned he was sitting pretty and he took it for granted that Barkley would stand up and defend the appropriation for 875. The President said that the V.P. was very much worried and he said, "they are going to cut the appropriation. Will you give us protection when these people march on Washington?" And the President said, "Jack, there may be 30,000 people - the Metropolitan Police are available; I can call out the soldiers and draw a cordon around the Capital but what am I going to do about housing these people or feeding them? I will have to ask Congress for the money". The V.P. said, "But will you protect us?" (meaning physically) The President said, "Yes". The V.P. said, "Well that's something I have been very much worried about." So I said to the President, "Franklin, you are a devil teasing these people this way". And he just chuckled with laughter. He evidently was telling the leaders that he has done everything that he could when he asked for 875; the rest is up to Congress and if they voted for less he is just going to sit back and let the country realize that it is their fault.

He also evidently has made up his mind that he is just going to mark time for the next two years and is already beginning to think what he is going to do when he is out and how he is going to plan to get back the way Cleveland did.

I am going to talk to him along these lines some more because the last time, which must be over a year ago, that I talked to him in this manner he evidently was thinking of picking Harry Hopkins as his successor but this session he gave no indication that he was thinking of picking any successor.

Note: Foregoing dictated Jan. 17/39

February 25, 1938

Saw the President this morning.

Told him that our agreement to buy 50,000,000 ounces of silver from China expired February 15th. I recommended we agree to buy another 50,000,000 the first of March. President said O. K.

Showed the President the letter from Carter Glass of February 23rd. Told him I was going to see Glass this morning and was going to suggest to Glass, subject to the President's approval, that Glass go on a vacation and that by the time he got back that we would have something on bank holding legislation; that I expected to tell Glass that the reason I was not ready was that I was working solely on measures that would put people to work. The President said, 'That's all right, but don't delay it beyond March 20th because I am leaving on my vacation. I would like to do it before then,' and I said it could be ready by March 20th.

Told the President that we were making progress in studying the prices of building materials and it was resolving itself down to two phases: (1) the cost of the important materials that go into building and (2) the rackets which had grown up in the building industry; that I made a careful check and I found that nobody else is making this kind of a study in the Government. Gave him a few instances of racketeering and said that the short time I had been on it it seemed to be confined to the electrical, plumbing and tiling. The President seemed entirely satisfied with the progress report.

I also told him that I envisaged an Interdepartmental Committee that would sit continuously on prices in the building industry and the building rackets and would be a sort of Board of Arbitration. He seemed to like this idea.

April 11, 1938.

Saw the President Sunday night at a quarter to seven. Jimmy Roosevelt and Hopkins were present. Hopkins got up and the President said, "Well then we have agreed on a billion 450." I didn't know what he meant but evidently they agreed on that as the amount that they were to ask for to start the first of July. When I asked the President how long he expected it would last he said, "Oh until February '39". Sam Rosenman was there but left. They evidently had been in conference for about an hour.

Much to my surprise, Hopkins and Jimmy Roosevelt sat down and evidently had been asked, before my arrival, by the President to stay. The President said, "We have been traveling fast this last week and we have covered a lot of ground and you will have to hurry to catch up". I said, "Mr. President, maybe I never can catch up". He said, "Oh yes you can - in a couple of hours". He then took a half an hour to outline the various schemes that he had in mind for spending money, such as making Straus' organization more liberal in their financial arrangements with cities. Straus was to be permitted not only to make commitments for his 500 million organization but to loan over that. Stewart MacDonalld was to build 500 million dollars worth of houses for rent. They are going to start the East-West Continental Highway. They are going to put Ickes back into business again loaning money to states and municipalities. I listened very quietly and made no comment.

When the President got through I handed him a copy of a memorandum which I had prepared. I read it to the President and when I got through he said, "You are in agreement with us?" So I said, "Well, Mr. President, listening to what you have outlined here not only frightens me but it will frighten the country because it is all so helter-skelter and doesn't seem to be any complete plan". I said, "How much is it going to cost and have you a list of what you propose" and very brusky he said, "Oh, we have all of that - oh, we have all of that", so I said I'd like to see it.

He then discussed the question of timing and also as to which speech should come first, the President insisting that his speech on "Spending" should come first. He said, "I can either give it next Thursday night or I have to go over to Tuesday on account of Easter". I said, "Well you can't be ready by Thursday night" and he turned to Hopkins and said, "What do you think, Harry?" Hopkins said, "It has got to be Thursday night" so I said, "I don't think you can be possibly ready", so I said, "Please, Mr. President, don't decide this until you sleep on it".

I then said, "I feel it is just as important as to how you sell this and it seems to me that the time has come that you tell various Cabinet Officers and Heads of Agencies, such as Ickes, Hopkins and Jones to stop selling their own programs and cutting each other's throats and going up on the Hill lobbying against each other and it is time that these various people began to sell your program and then the various Presidential appointees in the States should get together and sell Roosevelt's program rather than some Governor's, program or Senator's or Congressman's". I said, "Furthermore, you need a kitchen cabinet". I said, "Your son, Jimmy, can see these agencies but he has no staff to correct any evils that he may find and a lot of these agencies need help to correct known evils of do-do inefficiency, etc.

The President evidently made up his mind he was going to try to sweep me off my feet and the fact that he asked Hopkins and Jimmy to stay, the first time that he has ever done anything like that, showed that he didn't relish seeing me.

I found him in a very excited mood. It seems to me that he has lost all sense of proportion. I stressed the fact very strongly that if we started a spending program now and overlook the difficult things such as railroads and public utilities that we would be right back where we were within six to nine months - only worse off. The President said his railroad message was finished; was going up and he was going to throw the whole thing in the lap of Congress. This is contrary to advice I gave him over the phone at Warm Springs.

He asked me to come to the meeting at 11 o'clock on Monday.

The most interesting thing is that he has worked out his whole spending program without consulting a single person at the Treasury, including his Director of the Budget, Bell. He has absolutely no idea how much the thing is going to cost and doesn't seem to worry or care. During the discussion, he said, "We want to sterilize gold and lower excess reserves".

I went away with the impression that he wants to shoot the whole works as far as spending is concerned and that he is really scared to death.

MEMORANDUM FOR THE PRESIDENT

0007

April 10, 1938.

The time seems most propitious for presentation to the people of a comprehensive statement of administration policy and of a program of action designed to restore recovery.

I believe it should be presented to the people by you as soon as possible at three broadcasts.

To be most effective, and to give promise that your recovery program aims not only at getting this country out of the recession, but is designed also to keep us out - for many years at least, I believe your program should include:

I. A restatement of your long-run objectives, and of the major measures you propose to seek during the next two years to attain those objectives (railroads, monopolies, wage-hour legislation, tax-exempt bonds, etc.);

II. An outline of specific steps, both administrative and legislative, you propose to take to eliminate the inefficiencies, the wastes, and the failures ~~in the~~ of the New Deal program already adopted; and

III. A comprehensive government spending and government lending program, coupled with measures to stimulate private reemployment.

The statement to be made to the people is so important, and the material to be presented so varied, that it would seem to require not one, but three radio speeches given as close together as is feasible.

Of the three parts, the most important is, of course,

your program of immediate action to put 10 million unemployed back to useful and productive work. I am inclined to think that this part of your larger program might well be given in the third speech. The bullish effect of three speeches, culminating in a broad recovery program of immediate action as announced in advance, should be tremendous. It would serve, I believe, to eliminate existing confusion which is working to hold business down; it would give the people much needed reorientation and assurance, and should greatly strengthen the administration's position.

Formulation of the recovery part of the program should include:

- a. Determination of the total expenditure called for by the whole program.
- b. Insistence upon correlating government expenditures with the geographical distribution of unemployment. Wherever possible, government funds should be expended where most unemployment exists.
- c. Careful survey of all proposals for the purpose of eliminating duplication and overlapping of projects and of administration.

Presentation to the public of this part of the program should include an estimate of the total cost of the program, a statement on the amount you propose to ask Congress for and how you propose to finance the expenditures.

Just as soon as you have formulated an outline of your new recovery program I shall be ready to study it and present to you within a reasonable time a plan for financing it.

April 12, 1938

Dictated by the Secretary in the presence of Mr. Magill, Mr. Oliphant, Mr. Gaston and Mrs. Klotz.

Yesterday at lunch with the President he was extremely angry with me because at the 11 o'clock meeting I brought up the fact that he had estimated that relief and recovery for the next fiscal year would be 1 billion 450 million dollars for 7 months and that our deficit would be about 3 1/2 billions. (See exhibit "A" attached.)

He said I had no right to bring that up at that time; that I should have talked to him first. I said, Well, Mr. President, I did not want to argue whether I should or should not bring it to your attention, but if I had you know you would have asked me not to bring it up. I said, I am very sorry I disagree with you. I feel that it is my duty as Secretary of the Treasury to bring that not only to your attention, but to the attention of the leaders of the Senate and House who were present.

He said, Well, I am going to go ahead and take care of the unemployed no matter what it costs. So I said, Mr. President, I won't take second place to anybody in this town as to my interest in the unemployed. I said, I was responsible in December, 1937 and December, 1936 for your increasing the amount of money to be spent on the unemployed. And, I said, you can't pin that on me. There are hundreds of thousands of people today who have not got sufficient food and you have never given everybody a job.

I said, The thing that I am asking for is a complete program so that we can total it up and see how much it is going to cost and you only gave these people, today, half of the total. That made him additionally angry because he said, Nothing is settled. I said, You are going on the air Thursday night and he said, You can call in Steve Early and he will tell you that nothing is settled. He said, You are just jumping at conclusions. I told him, No use in your getting angry. No use in your yelling at me. It does not do any good. Both of us know each other perfectly well.

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The President kept insisting that the program is not settled. But the fact remains that immediately after my leaving, he saw Ickes, Straus and MacDonald and in every case getting them to make plans to spend additional money.

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This morning Magill and I saw him on the tax letter. Magill will dictate this part of the conference. (See Magill's memorandum of February 12 filed following this report.)

About a quarter of 10, Mr. Early came in and said, Mr. President, I want to let you know that there are certain Catholic objections to your going on the air Thursday night, because it is on the eve of Good Friday. The President said, I don't think that that should stop me because there are certain speeches scheduled over the week-end and I must make mine Thursday night and it's in conjunction with the message to Congress on Thursday noon. Early told him he had the three hook-ups. The President said, Ten thirty to eleven. Can I run over ten minutes? Early said, I will arrange it.

I got the impression that it was practically settled, then and there, that he would go on the air Thursday night.

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Our discussion on the tax phases went from 9:15 until about 10:20, when the President said, I have 3 minutes left and I want to talk to you about this financial matter.

He said, I want you to know that among the leaders on the Hill there is a very strong feeling that the gold should be deesterilized and that the excess reserves should be lowered because, he said, they have the rather juvenile attitude that if the excess reserves in the banks are doubled, that the inclination of the bank to lend more money will follow and there is a very strong feeling on the Hill. Now, he said, I have not talked to anybody about this. And he said, I wish you would get together with Eccles and see how you can work this thing out.

So I said, Well, Mr. President, I am in agreement with the people on the Hill. I feel that this is a good move. I said, if you will remember, when I came to see you with Eccles I told you, at that time, when he wanted to raise excess reserves the last time that the whole Treasury staff was opposed to it. I inferred that he might have difficulties with Eccles.

I said, You know, Mr. President, the question of deesterilizing gold is just between the two of us, but, I said, doing that alone won't get the quick results

because it does not increase the excess reserves unless we spend it. He said, Excess reserves are now 1 billion 500 million and if you add to that 1 1/2 billions we will get 2 1/2 billions excess reserves. I said, No, Mr. President, you don't get that until you spend it and, therefore, you have to do both things -- announce that you are going to deesterilize and that you reduce the excess reserve requirement by at least 12 1/2 percent.

He said, What we did in 1933 -- we did a lot of things and, he said, we had a lot of authority and we haven't got that any more and I didn't use it all, but I want a Joker in my hand so in case the thing should get worse I have the authority.

I said this situation was not at all like 1933; that I wanted to give him the Dun and Bradstreet figures they had compiled for some 17,000 corporations; that I did not want to have him use this information now, but that I believed the figures showed that there were about 5 billions in inventories above normal requirements at the end of the year. The President was very much interested in that and asked me to give it to him not later than 2 o'clock this afternoon so he could use it this afternoon.

So I said, The situation is not at all like it was in 1933. I said, We have a sound nut and furthermore, bear in mind that you had all these powers at the beginning of 1933 and the result was that you had this quick rise in July and then at the time I was appointed Secretary of the Treasury we were scraping the bottom. I said, We made a double bottom and, I said, that's just what I want to avoid doing now. And another thing, I said, the jumping-off point was much higher up the ladder; we are not down the way we were in 1933. The jumping-off place is much higher. So he said, Don't worry; even if we did all these things, the index would not go up above 100. I said, I would like to see them go up above 120.

I said there was opportunity for a great deal of spending by railroads, housing and by public utilities. The President said, There is no vacuum in these industries for their requirements. I said, Well, that just isn't so. I said, The railroads haven't bought any cars or locomotives for 10 years. The President said,

But they are making the old locomotives do. I said, They cannot keep on doing this kind of thing indefinitely.

The President made an interesting statement on housing. He said, The amount of houses you can build is limited by the 650,000 skilled mechanics that you have to build them.

The President said, Some of the people in Congress say to do some of these things, like gold desterilization and excess reserves, and then if things get worse call Congress back, but, he said, I think that that would be very poor policy. And he said, Look what we did in 1933. I said, Mr. President, I think I am right when I say we spent about 5 billions in 1933. My figures may be rough, but right now, including the 1 billion 450 millions for relief for 7 months and the other additional money for the balance of the year, we will spend about 8 1/2 billions as opposed to about 5 billions in 1933. Now then, I said, if you will take your 8 1/2 billions plus your gold de-sterilization, which will practically pay for your relief, plus your lowering of your excess reserve requirements plus the authority that you have given Jesse Jones, I think you have got pretty near enough. But, he said, Jesse Jones won't spend it. I said, Mr. President, Jesse Jones will do anything you tell him. For example, he has gone so far that he wants to ask for the authority to put relief men to work on private property on the railroads. So the President said, Well, that does not add any more people to work. So I said, No, but I am just illustrating how far Jesse Jones has gone in his thinking. I said, Jesse Jones will do anything that you tell him to do. He said, Jesse Jones has not the organization. I said, He has 32 branch banks. He is all ready to go.

Then the President said, Well, I want four aces in my hand and a joker, if necessary, because a lot of people say this thing is going to get much worse in July and I want to be ready to meet it. So then I said, Well, Mr. President, as the matter stands now, you have got your 3 1/2 billion deficit and, I said, I have got to borrow now, just to meet the obligations that come due this calendar year, a little over 4 billion and, I said, if we spend the desterilized gold that means we have to go in the market for practically no new money. I said, Mr. President, I have never been so earnest in asking you to consider this thing carefully. Well, he said, You have

said that to me many times. I said, As a result of which, Mr. President, you were kind enough to say on Election Night that thanks to me this nation was solvent and, I said, it's the only progressive nation in the world which is solvent and, I said, we want to keep it that way. Well, he said, 200 or 500 millions is not going to make or break this nation. I said, No, it isn't. But, I said, if you give us a 5 billion deficit through borrowing for direct Government obligations plus indirect Government obligations, and, I said, there isn't any difference because you have to go to the market for the money just the same, that might bust us.

And I was surprised; he said, What Straus is going to borrow is direct; you are going to have to borrow for him.

He said, I am not going into the big spending program Governors like La Follette advocate. There is a happy medium and you can't be didactic. He said, You have to give and take. He said, We will never spend 8 1/2 billions; it will never go out of the Treasury. I said, Well, it always has. You have always spent what you had. So he said, You have to give and take. I said, That's just the point, Mr. President. But, I said, I take it that between now and Wednesday night that this thing is going to be decided. He said, It is going to be decided by tonight.

So I said, How am I going to get a chance to tell you whether I can finance it? He said, Well, you have seen me four times since last Sunday night. Isn't that enough? So I said, I still say to you -- then I groped for a word -- I said, Give me a chance to look at the thing. I said, I don't want to be dramatic -- so that I can tell you whether or not we can finance it.

He wound up by saying, Well, the next step is for you to see Eccles. And I said, Well, I have already arranged to have lunch with Eccles this noon. And I asked Jimmie (James Roosevelt was in on the very end of the conversation) whether he had seen Eccles or was going to see him today and Jimmie said no; he had not seen Eccles in quite a while and had cancelled all his appointments for today. Then the President said, Let me know just as soon as possible after you have seen Eccles what you have decided. He gave me the impression that while

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he had discussed with the leaders on the Hill the question of gold deaerilization and excess reserves that he had talked to nobody in the Administration about it.

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My program would be, you have got the Jones business; we could do excess reserves; we could do gold. Then it gets down to a trading thing. Is he going to do 1 1/2 billions-50 year loans to communities? Is he going to take all restrictions off Straus? Is he going to take Stewart MacDonald and build 500,000 houses for rent? Is he going to put Ickes back in Public Works?

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The President today was much more temperate in his attitude towards me and much nearer his normal relationship in talking with me. There was as much difference between today's conference and Monday's as between day and night. He was an entirely different man.

Magill told me when I left that he had the feeling that the President very much wanted me to approve his program and his feeling was that there was a great deal of not completely concealed irritation that I was not going along with him right then and there. As Magill viewed it, he was mad, but he was keeping it in.

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White House  
11 school

April 12, 1938

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	<u>Budget Estimate</u>	<u>Revised Estimate</u>
Receipts -----	<u>5,919</u>	<u>5,400</u>
<b>Expenditures</b>		
Departmental -----	\$1,324	\$1,324
Public Works -----	404	500
National Defense -----	989	1,040
Agriculture Adjustment program -----	586	636
Civilian Conservation Corps	230	275
Social Security -----	338	350
Interest on public debt -	976	985
Recovery and relief - - -	1,138	2,500
Revolving funds - - - - -	142	142
Transfers to trust accounts	667	667
Supplemental - - - - -	75	100
	<u>26,869</u>	<u>30,119</u>
Deficit (net) - - -	<u>\$ 950</u>	<u>\$2,719</u>
		<u>3,114</u>
		403
		3,517

This is what Hupf would have told the President  
that the deficit would be 3 1/2 B. *Hupf*

TREASURY DEPARTMENT

0017

INTER OFFICE COMMUNICATION

DATE April 13, 1938.

TO Secretary Morgenthau  
 FROM Mr. Haas *HA*

Subject: Analysis of Dun and Bradstreet's inventory data.

Our analysis of the inventory positions of 17,416 reporting companies at the end of the year 1937, as compiled by Dun and Bradstreet, indicates that in relation to the sales volume in 1937 the inventories were approximately normal, being equivalent to about 47 days' sales, as compared with inventories equivalent to 45 days' sales at the end of 1936, and 47 at the end of 1935.

The following table shows our calculation of inventories in terms of the equivalent number of days' sales, by corporation groups, based on Dun and Bradstreet's figures:

	All companies	Manufac- turing concerns	Wholesale concerns	Retail concerns
Number of companies	17,416	3,073	1,719	10,312
Inventories, end of year, in days'				
1935	47	66	33	39
1936	45	65	32	37
1937	47	66	31	38

1/ Includes construction and service groups.

While inventories of all groups showed an increase at the end of 1937, these calculations show that they increased no faster than the increasing volume of sales. Yet inventories at the end of 1937, which would not have been abnormally high if the volume of sales had continued at that year's level, became relatively high when various restrictive factors brought a decline in business and a contraction in sales.

Although relatively little data are available as to current sales volumes of the various groups, it appears that manufacturers'

Secretary Morgenthau - 2

sales have shown the greatest decrease, hence their inventories in terms of current sales would appear relatively highest. Retail sales, on the other hand, have not shown much decline from last year's levels, and current reports indicate that retail inventories are in relatively the most satisfactory position.

Further adjustments in inventories have probably been made during the nearly four months which have elapsed since the date to which the Dun and Bradstreet figures apply, hence these figures may not be indicative of current conditions.

It should be noted that normal inventories become burdensome in times of declining prices, when the fear of inventory losses makes business concerns use every effort to reduce their stocks to the minimum. It should also be kept in mind that when business begins to improve, the inventories which have been reduced to normal levels in terms of a low volume of sales will be abnormally low in terms of an increased sales volume.

Sales and inventory data compiled by Dun and Bradstreet, on which the above computations are based, are given in the attached table.

Inventory and sales data compiled by  
Dun and Bradstreet

(In millions of dollars)

	All companies 1/	Manufac- turing concerns	Wholesale concerns	Retail concerns
<b>Total sales</b>				
1935 2/	105,504	45,760	20,423	33,161
1936 3/	125,604	55,067	24,314	38,348
1937 3/	139,365	62,352	27,245	41,402
<b>Inventories, end of year</b>				
1935 2/	16,584	10,010	2,276	4,298
1936 3/	18,839	11,491	2,604	4,744
1937 3/	21,721	13,645	2,827	5,249

1/ Includes construction and service groups in addition to the three groups here listed.

2/ Total for United States based on census data.

3/ Estimated totals for United States to compare with census data for 1935, based on returns from 17,416 companies.

April 13, 1938 - 11:15 a.m.

0020

I called on Hull at 9 o'clock this morning and discussed with him last night's meeting. He informed me that he had been working for the last week or so against a pump-priming program. He feels that the time has passed for that. I told Hull that if the President decided to go through with this spending program that I was seriously thinking of resigning. Hull suggested that I see the President this morning and try and persuade him not to go ahead with his program without informing him of my possible resignation. Then by this afternoon if the President did not give in - to inform him. He (Hull) would try to do his best again to get the President to change his mind.

I saw the President at 10:30 and I said, "Mr. President, I am going to say something which is one of the most difficult things that I have ever had to do but if you insist on going through with this spending program I am seriously thinking of resigning. The President then gave me a long dissertation on the way the English Cabinet works and that they rule by majority. He said, "It is perfectly true in this administration people in the past have gone out on their own and publicly opposed certain programs but, he said, you just can't do this." He said, "You have done a magnificent job and you have kept your own counsel". He continued his lecture on the English Cabinet and I said, "Well, look, Anthony Eden resigned" and he replied, "That was a long standing fight between Chamberlain and Eden" and, he said, "Eden has just destroyed himself".

The President then began to get very much excited and said that if I resign now it would mean destruction of the Democratic party, the creation of a third party, the loss of his program in Congress and that I would go down in history as having quit under fire". (All the time he was telling me this I could not help but remember that he used almost word for word the same arguments with Lew Douglass).

I said, "After all, nobody in the Treasury has had time to study this program and we have not been consulted as to whether it can or cannot be financed; furthermore, whether it will achieve the results which you desire." He said, "The trouble with you is that you are piqued and sore because you have not been consulted" and I said, "No, Mr. President, neither of those statements are correct." I said, "You are asking your General, in charge of your finances to carry out a program which he had nothing to do with the planning." He said, "You knew this was being considered" and I replied, "Mr. President, I only knew what the program was at lunch to-day". I said, "Hopkins and Jimmy knew all about it and I didn't". He said "That is not true, the program was not decided on". I said "Mr. President, that is just the trouble - you have made up

your mind too quickly without getting the advice of your financial advisers". He said, "you know I have not got time to discuss this with you. It is too late. Everything is settled", so I said, "Mr. President, if my resignation is as important as you say it is, then I say to you, you can find 30 minutes between now and five o'clock in which you can see Bell and me and let us re-examine this program with you." In a very irritable manner, and most ungraciously, he said, "All right, just as soon as I get to the Executive Office I will let you know when I will see Bell and you." I left, leaving him with the distinct impression that unless he did change his program I would resign.

At 10 o'clock, before I went to the President, I conferred with Dr. Viner and let him read Bell's statement which I had given the President the night before. (This is attached herewith). I said, "Dr. Viner, in view of this proposed financial program, do you think I should resign?" And his answer was, "Absolutely". He said, "The only thing is, I think you should have resigned long ago". (At this point, the Secretary brought Viner up to date on what had happened). Then Dr. Viner turned to me and said, "Let me ask you a favor. I want to resign as of April 1st. I don't want people to say that you and I resigned at the same time". I said, "Think that over, Jake. I have been giving you confidential information and showing you confidential memoranda and here it is April 13th. You better resign as of April 15th". Jake said, "I will think it over and prepare such a letter to-day".

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~~At five minutes to twelve, Jimmy Roosevelt called up and said was I not coming over to fill in the figure in the speech and I said, "In view of the decision that the President was going to see me, I would wait" and Jimmy said his instruction was that he was to have the whole thing ready by 2 o'clock. I said I would wait until I heard from the President.~~

- 3 -

Based on these assumptions there is set out below a statement showing the total estimated Government financing which will be required for the fiscal year 1939 and also the proposed methods of meeting these financial requirements.

<b>Total Treasury Financing:</b>		
Net deficit . . . . .	\$4,184,000,000	
Maturing Treasury notes . . . . .	3,265,000,000	
Maturing special Treasury bills (4 times \$250M) . . . . .	1,000,000,000	
Maturing regular Treasury bills (4 times \$1,500M) . . . . .	<u>5,200,000,000</u>	
Total . . . . .		\$ 14,649,000,000
<b>Method of Financing:</b>		
Refunding -		
Treasury notes (exchanges) . . . . .	\$3,100,000,000	
Treasury bills (replacements) . . . . .	7,300,000,000	<u>10,300,000,000</u>
Cash requirements . . . . .		4,349,000,000
Unemployment Trust Fund (net) . . . . .	\$ 400,000,000	
Old Age Reserve, etc. (net) . . . . .	800,000,000	
U. S. Savings bonds . . . . .	400,000,000	
Gold deposits . . . . .	<u>1,892,000,000</u>	<u>2,792,000,000</u>
Market cash operations . . . . .		\$ 1,857,000,000
<b>Additional obligated guaranteed obligations to be sold:</b>		
Reconstruction Finance Corp. . . . .	\$1,000,000,000	
Commodity Credit Corporation . . . . .	280,000,000	
U. S. Housing Authority . . . . .	<u>200,000,000</u>	<u>1,480,000,000</u>
Total market operations (direct and guaranteed) . . . . .		<u>\$ 3,007,000,000</u>

Note: In addition to the foregoing financing, there are outstanding guaranteed obligations which mature during the fiscal year 1939 and which will have to be refunded, in the aggregate amount of about \$730,000,000.

*AWB*

## ROUGH BUDGET ESTIMATES, FISCAL YEAR 1939

(In millions of dollars)

	Estimated in 1939 Budget	Revised estimates	Increase
<b>Expenditures-</b>			
Departmental	\$1,324	\$1,324	—
Public Works-			
Highways	\$100	\$290	
Rivers and Harbors	60	60	
Flood Control	63	213	
All other	181	181	744
National Defense	989	1,040	51
Agric. Adj. Program	586	636	50
Civilian Cons. Corps	230	280	50
Social Security	338	350	12
Int. on the Public Debt	976	1,000	24
Revolving funds (in- cluding grants)	142	592	450
Transfers to trust accts	667	667	—
Supplemental	75	100	25
Recovery and relief-			
Works Progress Adm.	925	2,200	
Farm Security Adm.	85	200	
All other	128	128	2,528
	1,138	2,528	1,390
<b>Total expenditures</b>	<b>6,869</b>	<b>9,261</b>	<b>2,392</b>
<b>Revenues</b>	<b>5,232</b>	<b>5,077</b>	<b>(a) 842</b>
<b>Net deficit</b>	<b>950</b>	<b>4,184</b>	<b>3,234</b>

(a) Decrease

Above revised revenue estimate is based on Federal Reserve Board business index of 80. If this index declines to 75 the estimate of revenue will be about \$4,861 million, and the net deficit will be \$4,383-million. If this index increases to 85, the revenue estimate will be \$5,238 million, and the net deficit \$4,023 million.

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4-15-38

April 12, 1938

HM, Jr left a copy of this with the President at the White House last night

TO THE SECRETARY:

In submitting this memorandum on the estimated financial requirements for the twelve months beginning July 1, 1938 and ending June 30, 1939, I have made the following assumptions:

1. That the business recession will cause a reduction in revenue of at least \$842,000,000 below the estimates contained in the 1939 budget (Federal Reserve Board index of 80):

2. That for the same reason it will be necessary to increase recovery and relief expenditures by \$1,390,000,000, to a total of \$2,528,000,000:

3. That other expenditures will have to be increased because of the passage of the CCC bill, the Farm bill, National Defense Bill, etc., aggregating \$212,000,000:

4. That (according to Mr. James Roosevelt) the President contemplates asking Congress to appropriate ~~to a further \$150,000,000~~ for roads and a further \$150,000,000 for flood control, and to reopen F.V.A., or authorize some similar organization to make grants, in the additional sum of \$480,000,000, or a total of \$790,000,000 for these purposes:

5. That the total estimated revenue for the fiscal year 1939 on the basis of the Federal Reserve business index of 80, will

amount to \$6,077,000,000, and that the total expenditures, including the extraordinary expenditures set out above and not included in the budget, will amount to \$9,261,000,000, leaving a net deficit of \$4,184,000,000, an increase over the budget estimate of \$3,234,000,000;

6. That the latest estimated deposits in the Unemployment Trust Fund for the fiscal year 1939 will amount to \$791,000,000 and that the estimated withdrawals will amount to \$391,000,000, leaving \$400,000,000 available with which to help finance the above-mentioned deficit. To this should be added the other special investments such as Old Age Reserve, etc., aggregating \$600,000,000;

7. That our working balances during this period will range between 700 and 900 million dollars;

8. That there will be no further sale of public debt obligations for the purpose of purchasing gold for deposit in the inactive gold fund, and that inactive and free gold amounting to \$1,392,000,000 will be used to finance the deficit; and

9. That the financial requirements of the Commodity Credit Corporation estimated at \$250,000,000, the Reconstruction Finance Corporation estimated at \$1,000,000,000, and U. S. Housing Authority estimated at \$200,000,000, will be met through the sale of their own obligations in the market and the Treasury relieved of supplying these three organizations with cash.

Gross public debt March 31, 1938 . . . . .		\$ 37,886 M
Estimated increase to June 30, 1938 . . . \$ 180 M		
Estimated increase fiscal year 1939 to finance deficit (less gold deposits) . . . . .	<u>2,792</u>	<u>2,842</u>
Estimated gross public debt June 30, 1939 . . . . .		<u>\$ 40,498 M</u>
Guaranteed debt January 31, 1938 . . . . .		\$ 4,706 M
Estimated increase by June 30, 1939:		
Reconstruction Finance Corp. . . . .	\$1,000 M	
Commodity Credit Corporation . . . . .	280	
U. S. Housing Authority . . . . .	<u>200</u>	<u>1,480</u>
Estimated guaranteed debt June 30, 1939 . . . . .		<u>\$ 6,186 M</u>

*AWB*

April 12, 1938

April 13, 1938

On April 12th, I sent the President the following letter (draft and carbon copy of which are filed in diary under date of April 12) which the President received that night:

\*April 12, 1938

My dear Mr. President:

Mr. Magill and I saw you last in regard to the tax bill on the morning of Saturday, March 19th. At that time we discussed with you what policy the Treasury should follow before the Finance Committee which would be considering the tax bill in executive session during the following week.

You undoubtedly remember that we discussed the possibility of your writing a letter to Senator Harrison expressing your views in regard to your tax principles. After considerable discussion, you decided that you would not write a letter as you felt that your public appearance at Gainesville, Georgia, would be an ideal opportunity to deliver an address covering the tax field. You asked Mr. Magill to send you over material not later than three o'clock, that afternoon, so you could immediately go to work preparing your speech.

You did not, however, find it convenient to discuss tax policy at Gainesville and neither Mr. Magill nor I have had any word from you since on the pending tax legislation other than the general discussion which occurred at Cabinet on April 5th.

As you know, the bill passed the Senate last Saturday and now goes to conference. The bill does not carry out the principles which we have been advocating, earnestly and forcefully, at your request before both Houses.

Prior to the Treasury's appearance before the Conference Committee on the tax bill, we would very much like to know what position you wish us to take in regard to the differences in principle between the House bill and the Senate bill.

Please note  
destruction  
of letter.

copy must be  
in reg. diary?

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Mr. Magill and I would appreciate an appointment with you at your earliest convenience.'

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

Then I had lunch with the President the next day (today, the 13th) and he had the letter on his desk. He kept saying to me, Why didn't you just ask to see me instead of sending me this kind of a letter? I then asked the President for the letter and destroyed it.

On account of the letter which I destroyed, the President agreed to see Magill and me, and he saw us right after lunch and it was at this time that we drafted the letter which was sent to the two chairmen.

Note: In connection with the letter referred to above, see diary entry of April 13th re disposition of the letter.

April 22, 1938

## Cabinet.

The President at half past three spoke to Congressman Doughton, who called him and said the conference was breaking up and he had to talk to him. The President turned to me and said, 'Should I stand by the principles?' I said, 'Let me think a minute,' and I said, 'Yes, Mr. President, I think you should. You might as well nail your flag to the mast and go down with the ship and unquestionably they will sink you.' He said, 'I agree with you.'

He then talked with Bob Doughton for about ten minutes and pleaded with him to keep a graduated scale on the capital gains tax, Doughton having informed him that they were going to keep the principles of the surplus tax.

The President said, 'Please tell Pat Harrison for me that I have been waiting to see him for a month; that as an old friend and as a Democrat and for the sake of the Democratic party, I beg of him to come down and see me. Let him come right away. I have been waiting a month for him.' I have never heard the President plead so over the telephone and be so quiet and forceful. When he got through he said, 'Waan't I good?' and I said, 'Mr. President, I don't see how you could have done any more and still kept your dignity as President.' He certainly went the limit!

April 22, 1938

Saw the President this morning and asked him whether he would like me to get the Federal Reserve, FDIC and the Comptroller's Office together and try to make recommendations on how to handle bank examinations in a uniform manner without legislation. He said he would appreciate it if I would go ahead.

I then brought his attention to the following three positions that are vacant: Comptroller of the Currency, Comptroller General and Budget. He said, For the Comptroller of the Currency, would I like Judge Birdzell of FDIC. I said to the President, You can get somebody else. Judge Birdzell "schmecht nicht gut" (translation: he just does not taste good). Well, he said, look into him anyway. And I said, I will.

He said, How do you feel about waiting to fill the position before August when we will know whether J. F. T. O'Connor will run for Governor? I said, On account of his friendly feeling and loyalty to you, I lean a little towards leaving the position vacant in case J.F.T. O'Connor should fail in his candidacy.

I then told him that on the position of Director of the Budget that I thought that Danny Bell wanted to get back in the Treasury; that his health was not the best, and that he did not enjoy the work and I thought he, the President, ought to fill the position. He said, How do you feel about Danny Bell for Comptroller General? He said, Don't you think he's too 'Civil-Servicelish'? I said, Considering that he is 'Civil-Servicelish', I think he has been perfectly remarkable as Director of the Budget. I said, Can't you think of some army or naval officer that you could put in there? Well, he said, I want somebody in there in case the Republicans should win in 1940 who would still be a good friend to the Democrats after we are out.

NOTE WELL: This is the first time he has ever intimated that we might not come back.

I told him that over the week-end I wished he would think about John Hanes as Assistant Secretary of the Treasury. I said, After all, I could break him in

on Government bonds, which I have been carrying. He said, Oh! Doesn't Wayne Taylor do that? Doesn't he go up to New York? I said, He and Bell have been up once, as far as I said. I said, No; I do it all myself. So he said, How is Wayne Taylor? I said, He is a good wheel-horse, but he has no imagination. I said, It takes me two hours to sign my mail because I refuse to be a rubber stamp. He said, Well, that's just my impression of him -- a good, steady plodder. I said, Well, that's what he is.

I said, Hanes has manufacturing interests and he could take on our manufacturing interests in addition to financing. The President seemed impressed. He said I should take it up with him again Monday. He asked me what Douglas thought about Hanes and I said I did not know.

I explained to him that we had rejected the cement bids and were thinking of asking for new bids for a fixed amount and how did he feel about alternative bids as f.o.b. plant or the site. He a little bit preferred f.o.b. plant. He did not seem to be familiar with the fact that Ickes has been trying for four years to try to get that, without success.

I told him that I had asked Peoples to be back Monday and I was afraid he had been on a 'binge' and I put it up to him that he should discipline himself, because I did not know whether it would work, but we would see. He thought it was a good way to handle it.

The President started off the meeting with a long talk on what an interesting time he had had with Dr. Townsend and he said that we have got to watch Dr. Townsend because his plan of a coalition Government has to be watched because he is going to elect a lot of congressmen and Townsend claims that he will have the balance of power. So I said, Would you believe everything that Dr. Townsend says? The President said, No, but about 20%. He said, Now, he's going to elect three congressmen from Maine, but, he said, we have got to watch him. And I said, Well, Mr. President, this whole thing about Townsend's talking about giving people work and a decent living, I said, Governor La Follette's criticism of you that you have no plans for the unemployed, all goes back to my suggestion that what you need is a Human Resources Board and, I said, the sooner you appoint it, the better. I said, You know, I have talked to you about it before. I

said, It is a blind spot in your Administration that you have got nobody working for you. I said, You might have done it if you had a Department of Welfare, but now that you haven't, the sooner you appoint one the better. He said, You are absolutely right. He said, Keep after me and see that I do it.

He said, I see you have gone ahead with your bill program, and I said, Don't you think we got a very good press? He said, Yes, I think you did.

The President is always worried when I tell him I am going to fly. He said I must not fly unless the weather is all right.

Very much pleased with himself about his talk before the D.A.R. He said that on the way over he thought of the idea that he would tell them that every one of his ancestors were in America prior to 1776 so that he could tell them that they should remember that all of his ancestors and the ancestors of the D.A.R. were immigrants and revolutionists. He said they did not know whether to take him seriously or not, but he said he thought it was a good thing to drive home and I agreed with him heartily. I said, As the son of an immigrant, I agree with you. I said, The trouble with most of us, we all forget that we are the sons of immigrants. He said, I thought it would do the D.A.R. lots of good to tell them that and I don't know when I enjoyed anything as much as telling them that.

April 28, 1938

11:15 am

Conference at the White House. President, Eccles, and myself.

Eccles tried to present to the President the difficulties that the Federal Reserve System are faced with due to the fact that they would have between now and the first of July \$700,000,000 worth of bills run off. Eccles got pretty involved and the President seemed very nervous and very fidgety and so I tried to state the case for him.

The decision reached by the three of us was the following: That the Treasury should continue, for the present, to sell \$50,000,000 worth of bills a week; that the Federal Reserve System should replace their bills which mature each week with either new bills or notes up to 2 years and should bring both bills and notes down to a no-yield basis. When the bills and notes reach a no-yield basis, it would be agreeable to the President and myself that they permit their portfolio to run off.

Eccles explained that it would be very difficult for them to keep an orderly market in the Government; what should they do about it? The President said, Well, why don't we get out a statement cautioning the people on the price of Government bonds? I said, Mr. President, you can't afford to do that, because they will come right back at you and say it was the action which you took in the last two weeks which created the situation. He did not argue any more about that.

He kept saying, Why are Governments so high? I said, Because for the very simple reason that you have taken this action at a time when neither the Government nor private industry wants to buy. I then said, If the market runs away, we could at this time offer \$500,000,000 worth of R.F.C. notes which would supply the market with additional Government securities and would give the banks and the Federal Reserve something to buy in place of our bills.

Eccles said he would so inform his Board.

Eccles then told the President that he felt very blue about the next six months and handed him a

plan, of which he is going to give me a copy. The President said he would be glad to read it on the boat as he was thinking of making another radio talk.

In discussing the situation with Eccles afterward, I said, Of course, what we ought to do is that a half a dozen of us should get together and see if we can't do as good a job for the President as we did on the price situation which he, the President, took and used just as we gave it to him. Eccles said, Fine!; let's start at once. And I said, No, I have got to think it over because I never work on that sort of thing unless the President asks me.

\* \* \* \*

I can't just make up my own mind whether enough water has gone over the dam that the President realizes that the plan he suggested to Congress has not worked and won't work, and that he will be receptive to having a group of us go to work on a plan and that, furthermore, if we have one, will he take it? Frankly I don't think that time enough has passed for the President to realize that his program is not going to work.

April 29, 1938.

I said to the President this morning, "Did you read Jay Franklin last night who said that I was going to be personally responsible for the defeat of 80 Democratic Congressmen?" The President, in a very disgusted voice, said, "Oh, spinach", conveying the idea that I should disregard it. I then drew his attention to Arthur Krock's column and told him what was behind it - namely, that the Associated Gas and Electric was the concern which was trying to get its special legislation. I asked him whether I should hold a special Press Conference and have Magill and Helvering discuss it and he said yes, he liked the idea but when Steve Early came in, Early said, "No", that no newspaper would run it as they never ran a statement which would show up the remarks of another newspaper - but if I wrote a letter to Arthur Krock and then released it to everybody the newspapers would run that.

The President glanced hastily at Magill's memorandum and said, "When I return I wish you would have prepared for me a careful document showing the good and bad points of the tax bill and then advise me, whether in your opinion, I should or should not sign it".

On walking back with Magill I told him that I doubted very much whether I would give the President such advice because if by chance I should advise him to veto it I was very certain that he would sign it anyway. Furthermore, if I recommended to the President to veto it and he signed it and I should then resign he would be in a much stronger position of having me resign on the issue of the tax bill than he would if I resigned on the issue of loose fiscal policy.

The President told me that he had the finished Message on monopoly on his bed and he did not offer to show it to me. He said, "You are not going to like this over in the Treasury" and I said, "Well if you attack crooked business we will like it" and he said, "That is not what we do - it is a question of price structure". So I refrained from making any sarcastic remarks about letting Cabinet Members see such an important document; also refrained from pointing out to him that the last time Jackson gave him a statement on prices he got into hot water while our price statement went over 100%.

May 18, 1938

Magill is dictating a report of our conference with the President at 2 o'clock today, but I want to give my personal comments.

The President is weakening on this statement of his where he is going to state his principles, and for the first time he is beginning to talk about not signing the bill at all, letting it become a law without his signature, although he asked Magill to write a statement for him.

So when he got through I said, 'Well, Mr. President, my advice to you is that you sign it this afternoon.'

'Oh, I won't do that this afternoon. I won't do that this afternoon. Principles at stake. Principles at stake.'

I said, All right. He got a very cold fishy look in his eye.

Later on, after he talked about it, I said, 'As long as you are asking for the statement for Thursday night to read, why don't you read it at Friday's cabinet and get people's advice, like Jim Farley's, inasmuch as this is a political matter?'

'What's the use of reading it to the Cabinet. I know what the answer will be.'

I said, 'It might be interesting.' He said, 'I don't need that.'

Then I asked him, I said, 'You wrote me a note about Szymczak,' and I said, 'As far as Szymczak personally is concerned, he's an excellent man,' but, I said, 'what about your understanding with J. P. T. O'Connor to keep the position open?' He said, 'Well, I didn't make any agreement with him.' I said, 'Well, Jeffy thinks somebody did around the White House.'

So he said, 'Well, it was just a shot in the dark.'

So I said, 'Well, what makes you think that Szymczak will take it?' I said, 'I don't think he

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will take it.' He said, 'Well, it just came to my mind.'

I told the President that the English wanted us to join them in bringing pressure to bear on the French to raise the price of the franc and he said, 'What for?' I told him I was sending them a cable that I had done enough. He agreed with me completely.

oOo-oOo

June 15, 1938.

Saw the President this morning and I said, "I suppose you have seen all the gold rumors". He said, "Yes, and I wasn't very good at my Press Conference yesterday". He said, "When they asked me about gold rumors, I could have pinned their ears back. And when I asked them who wanted to know they said the U.P." He said, "Instead of saying the center of speculation was Amsterdam, London and Paris I should have said the center of speculation is the U.P." I said, "Now, Mr. President, don't let's you and I kid each other. Have you got anything in mind?" He said, "No, but I think we should watch the thing very closely and if business conditions continue to get relatively worse in England, as compared to the United States, I may continue to run the price of gold up in England and depreciate the pound in terms of dollars. We might have to take a look at it in a month or so". "But, I said, you have nothing in mind right now" and he said, "Absolutely nothing". I said, "Well, if things should get worse in England, in comparison to the United States, that won't help Cordell Hull to complete his trade treaty and why should we worry about it". He said, "I want to tell you something very confidential that happened Monday". He said, "It is very amusing." He said, "Jack Garner said that he was opposed to Jesse Jones' railroad bill because he said you know what Jones has in mind and the President said no, what has he". He (Garner) said, "Oh, well, he hopes to, through this bill, get control of all the railroads and put his friends in positions of importance and I (Garner) think that is a mistake.

The President said there has been a falling out between Garner and Jones as Presidential candidates because either one of them would be terrible. So I said, something about Garner wouldn't be so bad and the President said it would be tragic; Garner has been doing nothing. Jones at least would take a chance and drive ahead but, he said, from your standpoint you wouldn't want Jones". And then he corrected himself and he said, "From your standpoint and mine we wouldn't want either of them because Jones is what you might call Facist".

He said, "What Garner wants is what Wheeler wants - to put the railroads through the wringer and then sit back and do nothing". I said, "Well, Mr. President, in a week or so I'd like to talk to you about what we might do to help the railroads keep up employment on their rights of way". I said, "I am only looking ahead for the next few months". I said, "It is not what we want to do with the railroads, reorganize them through cutting down their debt, consolidate them and set them up with a reasonable capital structure." He said, "Absolutely".

I told the President about my conversation with Mr. Keller, of Chrysler, who said that he had increased his manufacturing schedule for July because his orders had increased. He said, "Had you heard about Chrysler". I said, "Yes", and then I gave him Mr. Keller's request that we lift the indictment against Mr. Chrysler personally. The President said that he didn't see how that could be done and then he went on to tell me that up to six months ago Chrysler had been very friendly but, prior to his illness, he had become extremely critical of the Administration.

I was sorry that the President wouldn't do anything in regard to Chrysler.

September 14, 1938

By Henry III

Had lunch with Jim Farley to-day. On this purge business, Daddy asked him whom he thought was behind the thing, who was pushing it. Farley said that he thought the President was doing it himself.

Then Daddy asked him about Tommy Corcoran. He said he brought this message from the President which Hopkins had asked him to deliver and that he (Corcoran) was just a messenger boy. Farley said that was right - that was all he was.

The President is doing the purge himself but Harry Hopkins has been very anxious to go along with the President absolutely 100% because he wants the President's support for his own presidential ambitions. Daddy asked Farley if he thought Harry wasn't pushing him (The President) even further on the purge and he said yes he thought he was. Farley said that Hopkins, in trying to build himself up, felt that he had the support of the working classes and that he is now trying to get the conservative support. Daddy asked him what he was doing to try to get this and Farley said he didn't know. Farley said that Harry Hopkins ought to know, after the time he has spent in Washington, that the WPA can't get him any delegates.

Then Farley asked how Jimmy Roosevelt was - whether he really was coming along all right and Daddy said he thought he was but it would be quite some time before he got back. Farley said he thought it would be a good thing if he didn't come back at all. Daddy said he thought it looked very bad, when one third of the Nation was unemployed, to see the President's son getting \$10,000 a year plus the money he made outside. Farley said that he thought, if it wasn't for the President's personal popularity, that there would be a great deal more criticism of Jimmy than there was. He said these things he has been doing such as putting some of his assets in his wife's name so as to minimize his income tax was just the sort of thing the President was opposing.

Daddy asked him about the New York State gubernatorial campaign and Farley said that he himself absolutely wouldn't run because of purely financial-reasons; that he was in debt and being Governor would put him further in debt; that he couldn't or wouldn't want to put himself under obligation to anybody else; he wanted to clear up this debt himself and, therefore, he absolutely wouldn't run for Governor.

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He said that Robert Jackson didn't have any chance because he isn't known and he said you could stand on 42d Street and yell his name for days and, as far as anybody would know, he was Robert Jackson from New Hampshire. He said that Jackson felt that he (Farley) had let him down in his aspirations for Governor but that actually this wasn't true because in the very beginning, when the President was anxious to push him (Jackson) for Governor, he (Farley) said that it would be impossible to build him up sufficiently.

Farley said he thought that it would be possible to make Wagner run for Governor if the right people put sufficient pressure on him, because Wagner was very much tempted with the idea of getting a seat on the United States Supreme Court and he implied that Roosevelt could make him run with the understanding that he would get that position on the bench afterwards. He also said that he had heard, through sources other than the White House, that Sam Rosenman's name had been proposed for the Supreme Court and that the President was very much annoyed even at the suggestion.

Farley asked whether Kennedy had been "taken in" by the English and Daddy said, "Yes, 100%." Farley said he had done too much talking and Daddy said, "Yes, a week ago he got himself into a little trouble". Farley said that Kennedy had set himself up as the mediator on Anglo-Irish relations, whereas actually he has nothing to do with them. He said the reason he happened to know something about it was that Mr. McWhite had come to him (Farley) to try and put the situation before the President because he didn't want to do it through the usual channels, which would be through the English Embassy. He (Farley) had arranged to have an appointment for tea with the President and that the President had been sympathetic and had sent recommendations which were delivered to the English and that afterwards the President had shown him a most appreciative letter from DeValera and that Kennedy had had absolutely nothing to do with it.

September 26, 1938

Eddie Flynn called up the President on the telephone and said that the New York State Convention is two days off. Flynn protested to the President on account of Wagner's statement that he would not run for Governor.

The President very emphatically said, "I do not blame Wagner. He has a perfect right to do what he wants and," he said, "Eddie, don't be childish when you say you will not give him the nomination for Senator. Of course you will." He said, "You will nominate Lehman for Governor and use all the pressure you can find and Lehman will have to take it and like it. It is ridiculous to come here two days before the Convention. All of you people have fallen down on your jobs. I want Mead for Senator on the short term."

May

COPY

0044

October 17, 1938

Dear Mr. President:

The events of the past weeks have brought home to all of us the increasing effectiveness of the forces of aggression. Since 1931 we have seen, succeeding each other with briefer and briefer intervals between, the fall of Manchuria and the invasion of China, the conquest of Ethiopia, fomented unrest in Latin America and in the Near East, armed intervention in Spain, the annexation of Austria, and the dismemberment of Czechoslovakia -- All in seven short years.

Nor can we expect aggression to end there. Japan at first wanted only Manchuria; then North China; now she will not be content with less than the whole of China. Italy wanted only Ethiopia; now she wants control of North Africa. Germany wanted only equality in armaments, then the remilitarization of the Rhineland, then Austria, then Czechoslovakia, now colonies. The current claim of an aggressor power is always its last -- until the next one.

So well have the aggressor nations mastered the tactics of aggression that a victory in one part of the world is followed by outbursts of aggression elsewhere. Germany's victory in Czechoslovakia is followed with indecent haste by Polish and Hungarian demands. Japan, watching her opportunity, loses no time in attacking Canton, while in Palestine, Arab discontent is fomented to fever pitch.

We should learn the lesson which the history of the last seven years has to teach us. Let us not repeat the short-sighted mistakes of Britain and France. The impact of the aggressor nations upon American life and American interests has so far, to be sure, been more insidious than overt but it will be too late if we wait until the effects are obvious. Who in France as late as 1930 would have dreamt that in less than a decade that great democratic nation was to become a second-rate power, shorn of influence in central Europe, dependent upon a grudging and demanding ally for security? Who would have expected that Great Britain's might would be challenged in the Mediterranean, that her economic interests would be brushed aside in China, and that the Premier of England would hurry to Hitler to plead that he be not too demanding or impatient, and to plead, moreover in humble tones lest the dictator take umbrage and demand more?

Let us while we can peacefully do so try to check the aggressors. Let us not be placed in the position of having to compound with them. Let it not be necessary for the President of the United States to fly to Tokyo and in humble manner plead with the Kikado that he be content with half the Phillippines rather than wage war for the whole. Such a possibility may seem ridiculous now, but no more ridiculous than Chamberlain's flight to Berlin would have seemed seven years ago.

In March of this year Winston Churchill called upon England to act, saying "If we do not stand up to the dictators now, we shall only prepare the day when we shall have to stand up to them under far more adverse conditions. Two years ago it was safe, three years ago it was easy, and four years ago a mere dispatch might have rectified the position... Now the victors are the vanquished, and those who threw down their arms in the field and sued for an armistice are striding on to world mastery." The basis for the present humiliation of England was laid in 1931, when England failed to join the United States in disapproval of Japanese aggression in Manchuria. The basis of either humiliation or war for the United States is being laid today by a foreign policy that shuts its eyes to aggression and withholds economic support from those who resist.

I know you are firmly convinced as I am firmly convinced that the forces of aggression must be stopped. By whom if not by us? I believe that we are the only country in the world now in a position to initiate effective steps to stop aggression by peaceful means. Once the United States takes the lead in developing an effective program, democratic forces in all countries -- even those now submerged in the aggressor nations -- will take heart. In England and in France groups within the government and without will be stimulated and encouraged to press for parallel action.

To use our great financial strength to help safeguard future peace for the United States, and to make your "Good Neighbor" policy really effective, we should introduce at once a program of peaceful action on two fronts -- in the Far East and in Latin America. In these two areas we can move most effectively and with the least complication.

Two opportunities are now before us:

1. The extension of credit to China. It is yet possible for such aid to be of decisive help. Sanguine as I desire to be, I am forced to the view that without substantial financial aid given promptly the Chinese resistance may soon disintegrate. By risking little more than the cost of one battleship we can give

renewed vitality and effectiveness to the Chinese. We can do more than that. By our action we can further the struggle of democracy against aggression everywhere.

I am pleading China's cause with a special urgency because you have on numerous occasions told me to proceed with proposals for assistance to China. All my efforts to secure immediate substantial aid for China have proved of no avail against the adamant foreign policy of doing nothing which could possibly be objected to by an aggressor nation. I need not tell you that I respect the integrity and sincerity of those who hold the belief that a course of inaction is the right one, but the issues at stake go beyond any one of us and do not permit me to remain silent. What greater force for peace could there be than the emergence of a unified China?

2. The extension of credit to Latin American countries. Our neighbors to the South are sorely in need of capital and commerce to enable them to develop their resources free from foreign intervention. Unless we assist them they will become a helpless field for political and economic exploitation by the aggressor nations. Already some inroads have been made in that direction. Now, after the Munich agreement, we may expect that Germany, Italy and Japan will become bolder and more effective in their attempts to establish areas of economic and political support to the south of us. We can stop that penetration by an intelligent use of a small proportion of our enormous gold and silver holdings.

The measures we may adopt can be developed as the specific occasions requiring assistance may arise. We have several such occasions before us right now: Brazil, Cuba, Mexico, Peru. The details of the assistance can be worked out in conjunction with the representatives of those governments, but it is first necessary that we accept in principle the need for positive action of this kind as a part of our "Good Neighbor" policy.

European events of the last month have made me feel more certain than ever of the wisdom of initiating a positive program of assistance along the lines indicated above. Reports from China convince me that the need for quick action is urgent.

Sincerely,

The President,  
Hyde Park, N. Y.

January 31, 1939

Saw the President this morning after he had seen Senator Sheppard. I said, "You know you sent for me". He said, "Oh did I". I said, "I want to talk about the French planes". He said, "Oh I don't want to go into all the details". I said, "Well, Mr. President, I do. You haven't even heard my side of the story". He said, "Well let me tell you what I have on my mind. After the first meeting, which took place in my office, you went out in the outer office and McIntyre reported that you had a terrible row with Woodring". I said, "Mr. President, that just isn't so. What actually happened was that Edison came up to me and said, 'Are you satisfied with the cooperation you are getting from the Navy' and I said, 'Naturally so' and then Louis Johnson asked me whether I was satisfied with the cooperation I got from the Army and I said, 'No' and I never even raised my voice.

The President next said, "Well you shouldn't have flashed that order on Woodring in my office whereby you suggested that Procurement take over the buying of planes. That was too much of a shock to Woodring". I didn't try to explain it because there was no sense in explaining my action as I felt it needed no explanation.

The President said next, "Why did you tell the people on the Hill that you had a letter from me authorizing you to proceed with the French"? I said, "Mr. President, I didn't. You told me that I could say that you had given me instructions which I repeated to the Committee but I scrupulously refrained from saying I had any letter from you and it was Harry Woodring who let that cat out of the bag". I said, "Furthermore, Woodring cross-examined me as to how long, before the Cabinet Meeting at which we discussed the French planes, had I known about the French Mission and I refused to answer". And I said, "Woodring got very angry, particularly when I said that the French wanted to get these planes by the first of July". The President, when I first started, told me that I had no right to give the Committee the order that General Arnold had sent out to the West Coast, permitting the French to see these planes. So I said, "Mr. President, I was confronted with two alternatives, inasmuch as General Arnold was out of town and could not appear; I could go on the Hill and say that General Arnold was a liar or I could produce the orders which he had issued, making it possible for the French to see these planes, and inasmuch as I didn't want to call General Arnold a liar, I had no choice in the matter. And I said, "To show you that the Regular Army seems to bear me no ill will, I have seen General Craig, since my hearing, and he seems very friendly and General Arnold took

the trouble to call me up and tell me that he had been reported incorrectly in the statements that he made about the Treasury's responsibilities". And then I said to the President, "You know the Army was terrifically jealous of the fact that we used Naval Officers in this work. As a matter of fact, they asked what right did Procurement have to write to an American manufacturer about Army planes".

I said, "While I was away, Woodring got all excited because he said we had broken faith with him and sent the French out to see the Douglas plane. It turned out, upon investigation, that Louis Johnson had known all about what we were doing; had known that the French Mission had not gone but had withheld the information from Woodring. It seems to me that most of the difficulty that I have met with is on account of the constant clash between Woodring and Johnson". I then gave the President a copy of the schedule which Collins gave me, showing that we could get for the French 100 new Martin bombers by the first of October and 100 of the latest Douglas bombers by January, and I think maybe by the end of December. I said, "In other words, we are going to do in less than a year what it normally takes the Army several years". I said, "Woodring told Tommy Corboran that the fact that I had been able to do so well for the French has made a perfect fool out of him".

The President said, "Well you know I have plans to clean up that situation". I guess he meant either Woodring or Johnson so I said, "Mr. President, you can take six months or a year to clean up some other situations in other departments but in the case of the War Department it is a matter of days because, for your international speeches to be effective, you must be backed up with the best air fleet in the world and, if we are going to do that, it is a matter of days to get the thing in order." During the whole conversation, the President's attitude was the same as it always is - he displayed no anger and no resentment whatever towards me. I said, "After all, Mr. President, you gave me a mission to perform, namely, to get the French these planes and I have done it. I have been successful". He said, "That is right". I gathered that after the testimony Woodring came down off the Hill and tattered to teacher all about me and that's where the President got it from.

The President said he was going to see Senator Sheppard and some Members of the Committee at 12:30 and he turned to McIntyre and said, "I want Kannee present to take down notes". So I said, "At last, Mr. President, I see you are getting canny".



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

0049

PROCUREMENT DIVISION

WASHINGTON

January 30, 1939

MEMORANDUM FOR THE SECRETARY

There is attached hereto copy of a memorandum forwarded to the Assistant Secretary of War on January 28th concerning probable deliveries of airplanes and engines for the French Government.

There is also enclosed a memorandum showing in detail the months during which such deliveries are at the present proposed to be made. The plane which the Douglas Company is offering is a light attack bomber known as DB-7 which crashed at Inglewood, California, on Monday, January 23rd. The Martin is known as their Model 167, the prototype of which is due for completion about March 1, 1939.

The Douglas schedule, at the request of the French representatives, is being considered by the factory at this time to determine whether the suggestion of the French to expedite deliveries can be met. Any change in this schedule will be transmitted to you as soon as determined.

*H. Jones*

*11/11/39*

January 28, 1939

## MEMORANDUM FOR THE ASSISTANT SECRETARY OF WAR

In accordance with the understanding reached at our conference on January 19, 1939, the French Mission is at present negotiating for three contracts, one with the Martin Company for 118 light attack bombers, delivery to begin in June and to be completed by October 1, 1939; one with the Douglas Company for 100 light attack bombers, delivery to begin in June and be completed by the end of January, 1940; and one with the Pratt & Whitney Company for 840 R-1820 type engines, delivery to begin in April and be completed in January, 1940.

The French representatives propose to issue letters of command in connection with each of these purchases as soon as details concerning provisions of the contracts can be arranged with the manufacturers indicated, such letters to be followed as soon as possible by formal contracts. It is understood that efforts will be made to have letters of command issued over the present week-end.

Requests for clearance for restricted items will be initiated by manufacturers concerned when it becomes apparent what items are involved.

H. E. Collins

1950	Douglas	Martin	Curtiss	Frett & Whitney Engines	Whitney Engines
April			1	1	
May			15	58	
June	1	20	54	101	
July	2	25	30	86	23
August	7	25		100	25
September	15	25		50	22
October	15			40	25
November	20			50	8
December	25			60	10
1949					13
January	15				15
February					

November 13, 1938

The President asked me to come to the White House at five o'clock Saturday. Also present: Harry Hopkins and Assistant Secretary of War Louis Johnson. President said that he wanted to talk to us about the aviation program.

Developed during the course of the conversation that Hopkins had spent several days in and around Los Angeles visiting airplane factories. This was news to me.

Johnson told the President that they estimated that private industry could produce 11,000 planes over and above commercial needs, which they estimate at 4,000. It seems that the Army expects shortly to have two new models of planes which they feel will be better than anything in the world.

The President also has in mind that the Government will build somewhere between eight and ten factories to produce planes. As near as I could make out, he is now talking in terms of producing 10,000 planes over a period of two years and that while he expects WPA to build these eight or ten plants, he only expects to put one or two of them in operation. I also gathered that they expect to equip these Government plants with the necessary machinery, all eight or ten.

Every time I have talked to the President, the number of planes he has in mind has become less. The first time he discussed it with me was the night at Hyde Park.

I said it seemed to me the most important thing was to change the procurement law. Johnson said that he had his lawyers working on it. So I said, Well, if they were drawing up the regular thing, it wouldn't be any good because the President would have to have sufficient leeway to do most anything that he found necessary in order to get the planes quickly and at a fair price. I suggested that they bring into the picture Herman Oliphant and Robert Jackson. And I said Herman Oliphant has an original, an ingenious mind, and I was sure he could be of assistance.

The President said, Well, how do you think we ought to pay for them? I said, well, I thought his original suggestion of doing it with a fixed fee would be the best, but have the procurement law drawn so that you could move in any direction and wouldn't be held up by red tape. Johnson reminded the President that he had sent a memorandum to him at Hyde Park asking his permission to bring in the airplane manufacturers to discuss this with him and the President said it was all right. Originally the President opposed this idea.

He seems to be leaning more and more towards giving the private manufacturers the first chance, and I guess he has become convinced that in England, particularly, the Government has been unable to manufacture planes in their own plants known as so-called shadow factories. I guess he has also become convinced not to use automobile manufacturers to build planes, the way they have in England.

I said that I thought that if they set up a board on procurement, it ought to have the same kind of power that the Housing Board had in England; that for any component part that went into a plane if the manufacturer tried to charge an exorbitant price that this Board should have the authority to make them supply the planes with parts at reasonable prices. Johnson said this would be most important because about 75% of the parts of a plane are built outside and then brought to the principal factory for assembling. The President, as a sort of side remark, said we will leave to a future day what sort of top organization we will have. I don't know what he meant, but evidently has in mind setting up some kind of new organization to run the show.

Johnson then again asked the President if he could bring the manufacturers to Washington and he would like to have me sit in with them when they come to town.

The President discussed the needs of the Navy at considerable length and decided that they were in pretty good shape. He read a memorandum in which they claim that they felt that they needed five different types. The President felt four might be enough. He didn't seem to favor a long-range flying boat except in a few

isolated cases, such as possibly the Philippines, Guam, Wake Island. He seemed to know that this type of flying boat could only rise from smooth water.

He felt that the Navy could go on and get enough planes for their needs without building a special program for them. I think he is right. The limiting factor in the case of the Navy is the number of airplane carriers that they have.

Johnson seemed to be very much on his toes and seemed to know what it was all about. Hopkins contributed practically nothing although the President seems to be using him more and more as an assistant to himself.

During the hour and fifty minutes that I was there it developed that Hopkins had sent the President a letter in regard to relief and also I gathered that they seemed to think that he was going to run out of money in January. Hopkins whispered to me that he had to see me. I told him he could see me any time he wanted to.

The President then said, beginning with the first of July Hopkins would only need \$125,000,000 a month or a billion and a half for the year and would take out of that money enough to build whatever the Army needs in the way of factories, etc., for airplane use. I then spoke up and said, Well, Mr. President, have you discarded the idea of putting on one side all of the National Defense money -- X billions of dollars or whatever it is -- and then raise a so-called Defense tax? He said no; he had not. I said I thought it was much better to lump all this money together and then take part of that money and give it to Hopkins, rather than take some of Hopkins' money and give it to the Army. He agreed.

When Johnson was here with me (Sunday afternoon) today, 5:30 to 6, I told him, in confidence, that the way the situation looks now we will have another 4 billion deficit next year and if we do and unless the President decides to raise a couple of billion dollars special tax for National Defense purposes, that the headlines, when he announces his budget, will be "Government Again Faces for Second Year a 4 Billion Deficit." and, I said, your whole National Defense program will take a back seat and I said that I am very fearful that people will fight the whole program to keep us from having such a big deficit

unless we do something about raising more money. And I was pleased to see that Johnson agreed.

At the meeting Saturday, when I pressed for a special Defense tax, I turned to Hopkins and said, Do you agree? and he said yes, he did. However, on Saturday, the President was very vague about it, but he did not say no. I came away from Saturday's meeting feeling that the President was rushing the whole thing terribly and really wasn't giving it anything like the time or thought it deserved. As a result of the Saturday meeting, he told us to come back at 2 o'clock on Monday when we would talk about method of procurement and what kind of a law we need in order to operate his program.

I also feel, however, that in the month or so that the President has been discussing this thing, he is getting more and more practical about it and, as Louis Johnson said, he has gone from 40,000 planes a year down to 10,000 planes in two years. So I think we have made some progress.

The President and Johnson asked me yesterday whether I thought the number of planes they were discussing was the right number and I said I wasn't qualified in any way to answer that. In fact, I told Johnson today I didn't know why I was asked to sit in on the matter anyway, but he seems to be very insistent that he wants me present. (That is, Johnson.)

GOSSIP: Johnson said he was awfully worried; that he had been so loyal to Woodring, but he did not know what to do with this: that they were going to build the school for 1500 master mechanics at the old armory plate factory at Charlestown, West Virginia, and that when Woodring heard about it he went to Oscar Chapman and told him to get busy on the congressman from Denver and tell him that if this school was built at West Virginia it would mean that the school at Denver would be undermined -- and didn't I think that that was sabotaging the President's program and what should he do about it? I told him as long as he was asking my advice, I would do nothing about it. He then told me that the President had promised him a number of times right after election he was going to make him Secretary of War.

February 1, 1939

0056

Called on the President between 10 and 10:30. Showed him the story in to-day's Tribune with the part underlined in blue pencil. He read it very carefully. After reading it he said, "It is absolutely false. I never said it. The story is made out of whole cloth".

So I said, "Mr. President, the reason that I am here is I am taking up a transcript of the testimony with every item marked that I said and the item marked where Woodring refers to the letter. Do you want to see it?" He said, "No, I don't want to see it". I said, "Don't you want to look at it?" He said, "No". I said, "What shall I do?" He said, "Send it up. Have you a copy of it?" I said, "For your own confidential information I had one photostat made of it which I am putting in the safe". He said, "Fine, that's just between you and me" and I said, "O.K." Then he went on to say what a fine meeting he had yesterday, how fine the Committee was and what he said to them and they said to him about Mexico, oil and silver and he chatted along for five minutes.

I said, "Mr. President, as long as you seem in such a good humor now that I am back from Boca Grande how about giving me back my three cutters and my 15 airplanes?" So he said, "If my memory serves me right, I referred that to the files". I said, "How about having files on parade?" But he laughed instead of giving me the approval. He said, "Well I don't want to complicate the 550 million dollars" so I said, "How about letting this bill go up on the Hill asking for this money and let it stand on its own feet and see if we can get it?" He said, "Absolutely allright, as long as you don't take it out of the 550". I said, "We may send it up with your blessing?" He said, "Absolutely. Tell Dan Bell it is allright."

Special attention of Mr. McReynolds, Associate Justice of the Supreme Court:

NOTICE

On entering the President's bedroom, I said to the President's Secretary, Colonel Marvin Mc Intyre, "Have you given Mr. Smith an appointment?" Colonel Marvin McIntyre answered me very disagreeably and said, "NO. I THOUGHT I TOLD YOU TO GIVE ME A WRITTEN CHIT FOR THIS APPOINTMENT?" I said, in a very humble and mellow manner, "I asked Mr. McReynolds about that". So Colonel Marvin McIntyre said, "Well I didn't get it", whereupon he returns to the

President and asked him for an appointment for Mr. Smith and got it. He said, "Please send this by Registered Mail to Mr. McReynolds".

# Roosevelt Says U. S. Must Assist Britain and France if Nazis Come; Chamberlain Asks a Nazi Token

## President Calls Senate Military Committee to Secret Defense Meeting

## America's Frontier Placed in France'

## Hits Commitments Have Already Been Made for Joint Stand Against Axis

By Jack Beall

WASHINGTON, Jan. 11.—President Roosevelt told the Senate Military Affairs Committee today in a secret meeting at the White House that this country should be prepared to render assistance in Great Britain and France in the event of a war in Europe.

In such a war, he is reported to have advised the members of the United States would be "in France."

It is reported to have indicated that there was already a definite understanding and positive commitments between the United States and the European countries.

"The responsible heads of the European states have agreed to this," he is reported to have said. "The President is reported to have said that the committee had the country itself to proceed to help the European countries against the Soviet Union, France and the United States, and that the committee should be prepared to do so."

When the Senator said "What about Germany?" and Roosevelt is reported to have said "It is a question that might well be asked."

After the meeting, the President is reported to have said "It is a question that might well be asked."

He had the committee through a discussion of the present international situation, and what might be expected if the United States and Great Britain were to be attacked by the Axis powers.

The President is reported to have said that the committee should be prepared to do so. He said that the committee should be prepared to do so. He said that the committee should be prepared to do so.

A pledge of support was elicited from the Senators before the President entered into the expedition of the

The committee had been called yesterday to discuss the possibility of why a French Air Ministry representative had been found in Los Angeles last week. Roosevelt said the committee had discussed that the President intended to designate an Ambassador in Chief to gain "confidence" and the cooperation of the War, Navy and Treasury Departments in showing a French air station the latest type bombing and fighting planes with a view to purchase.

President Roosevelt is reported to have indicated the importance of the letters which the committee had heard he had written, requesting the committee of the Department for the French mission, and to have said that they were not letters but were "letters" in a narrow sense, which he is reported to have said in connection with the committee's consideration.

Ready to Proceed Then

The President is understood to have justly offered to practice "confidence" in the committee's thought, "I would read my handwriting."

The extraordinary meeting of the Military Affairs Committee at the White House, which has had no precedent since the meeting of the committee in 1917, was attended by the President, Speaker Clegg, Senator Charles McNary, Democrat of Oregon, chairman of the committee, and other members of the committee. The committee is reported to have discussed the possibility of the United States providing a loan to France and other countries. The committee is reported to have discussed the possibility of the United States providing a loan to France and other countries. The committee is reported to have discussed the possibility of the United States providing a loan to France and other countries.

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commitments were delivered in Europe, with Japan dominant in Asia. The President is reported to have said that the committee should be prepared to do so. He said that the committee should be prepared to do so.

World Exported Air Forces

An indication of the President's attitude toward a foreign policy which would be based on "confidence" in a committee was shown by the fact that he is reported to have said that the committee should be prepared to do so. He said that the committee should be prepared to do so.

Senator Charles McNary, Democrat of Oregon, chairman of the committee, is reported to have said that the committee should be prepared to do so. He said that the committee should be prepared to do so.

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April 11, 1939

I asked the President if he had anything on his mind and he said only one thing - he wanted to make sure that I was going to "get" Moe Annenberg. I assured him that I felt very confident that we would.

I then told him that I had some red meat to feed him. He said, "Fine". I gave him a copy of White's report of April 8th. (Attached) I told him that I felt that following his declaration in Chicago that we quarantine the aggressor nations, plus his recent statement that we would do something besides mere words, that this would be an excellent time to take up with Great Britain the question of the control of the basic war materials. In the first place, it would be a test of English sincerity as to whether or not they meant business in regard to Germany and Italy. I felt that anything up to a billion dollars would be cheap to spend in getting control of things like oil, tin and manganese; that Russia would be an important factor and so would Mexico.

The President seemed intensely interested and said one of the difficulties to overcome would be the cry that Germany would let out that this was a plan to encircle her and how would we answer such a statement. The President told me that he had an idea which he would like to do if the State Department would only let him, namely, he'd like to write a letter to Hitler and Mussolini suggesting that they give sacred guarantees that they would not absorb any other countries in Europe and that if they were willing to give such guarantees that he in turn would be willing to meet them at the Azores and sit around a table and discuss (1) disarmament and (2) world trade. I said I thought that that would be a splendid first move because if they turned him down he then would have a good excuse to go ahead with my plan and he said, "That's exactly what I had in mind."

I then told him that I was waiting to hear from the Attorney General as to whether or not it was legal for us to continue to sell munitions to Germany. He said, "Yes, I know about that because Cordell Hull called me up on the phone to complain about your actions". I said, "Well that's the sort of thing you want me to do, isn't it, Mr. President?" He said, "Yes".

I said, "In connection with the possibilities of a world war, I want to bring down four men and have them familiarize themselves with the special work that I want them to do:

m. B.

1. Tom Smith - to look after banking.
2. Basil Harris - to look after customs and shipping.
3. Earle Bailie - to look after foreign exchange and stock exchange.
4. E. R. Stettinius - to head up central purchasing over Procurement.

The President questioned the possibility of bringing down Earle Bailie because he said he thought he was a poor market operator. I said, "I don't agree with you, Mr. President". He said, "Look how badly he has done with Lehman Brothers, etc." I said, "He has no connection with Lehman Brothers".

He (The President) was absolutely opposed to Stettinius on the grounds that a man of his backing would not have the guts to keep copper, etc., from going too high at the beginning of a war. I disagreed warmly with him on this. I said, "What type of person would you suggest?" He said, "Somebody like Hutchins of Chicago or Leon Henderson or Jim Landis". I think the President is wrong and I hope to convince him. I think we need a practical fellow like Stettinius.

I asked him whether Hutchins was going to be the head of SEC and he said, "No".

He said that Saturday Joe Kennedy had said that Treasury, the SEC and the Federal Reserve ought to be ready in case of a war to look after the New York Stock Market and I told him that I was not ready and that's why I wanted these four men to come down and have everything ready in case of an emergency. The President said, "Be sure and talk it over with Bill Douglas and ask him what he would think of Earle Bailie". I said I would.

I then asked him if I could talk to Calvin Magruder about coming with us as General Counsel and he said, "Yes, I consider him a fine man".

I asked him when he was going to do something about the Argentine and he said he had it in mind and would talk to Hull about it this afternoon.

I then read him the second half of the Comptroller's letter - all that the Comptroller wants L. M. Giannini to write. The President likes this. I told the President that he had done me a great service when he asked for this letter as I had been

holding out on the grounds that if we loan this money to the Bank of America, on the basis that Jones etal had agreed on, that I felt it was unfair to SEC; that when the group got Bill Douglas to write a letter saying he thought it was all right, my last excuse was gone.

I found the President in excellent humor and he seemed to exude kindly feelings toward me. He told me a very long story about Sam Rosenman and how he helped Herbert Lehman prepare a speech during election, which gave me an opportunity to tell him that about a month ago when the Vice-President began to try to proselyte me I told the Vice-President that I was a Roosevelt man and that since then the Vice-President treated me extremely cruelly. The President was intensely interested in what I told him and seemed extremely pleased that I said, "I was a Roosevelt man". He said, "You know the Vice-President usually comes down to meet me at the station when I come in but he wasn't there this morning".

*Put in  
Presidential diary  
JTB*

0062

April 8, 1939

Secretary Morgenthau

Mr. White

**Subject:** Preliminary report on the possibilities of depriving the aggressor countries of needed strategic war materials.

SUMMARY

What are the possible measures short of complete military blockade which could prevent the countries from obtaining necessary strategic materials?

You have suggested two possibilities for preliminary examination:

1. Purchase and accumulation by leading non-aggressor nations of strategic materials.
2. Prohibition by international agreement of exports of certain of these strategic materials to aggressor nations.

The aggressor countries and their allies (Germany, Austria, Czechoslovakia, Italy, Albania, Japan, Spain, Hungary, Manchoukuo, parts of China) would, in the event of major conflict, need imports of roughly \$100 million per month of the following strategic materials:

Manganese	Rubber	Manila fiber
Copper	Petroleum	Tungsten
Tin	Nickel	Cotton

(There are several other items important strategically but not important quantitatively. Some of them will be taken up later.)

None of these commodities could be obtained in adequate amounts for the group as a whole except from countries outside those enumerated above.

In our opinion the measure -- if combined with the principle of the first proposal -- is effective, practicable, and relatively inexpensive. The real issue is whether it is yet politically feasible.

*JTB*

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1. The first proposal is for the United States, either alone or together with Great Britain and France, and possibly some smaller countries, to accumulate large stocks of these materials and thereby reduce the world supply available to the aggressor nations.

A survey of the consequences of such a step leads us to the tentative conclusion that if taken alone its efficacy lies far more in its political implications than in its economic or military effects. It does not appear that this method will either prevent the aggressor countries from obtaining adequate materials to conduct a war nor will it raise the cost of the materials to the aggressor countries enough to embarrass them seriously.

The political importance of such a step is that the United States would be taking common measures with the democracies of Western Europe against aggression. Germany fears greatly the industrial and economic might of the United States actively placed on the side of the European democracies.

The proposal taken by itself has the following disadvantages:

(a) The aggressor countries would still be able to obtain enough of the most important strategic materials to carry on a war. The increased demand for those commodities would before long call forth increased supplies and at the same time curtail consumption for industrial uses. The price of those materials, would, it is true, increase substantially, yet not enough to reduce their foreign exchange resources sufficiently to interfere seriously with their purchases.

(b) Several of the aggressor countries doubtless have outstanding contracts which would provide additional stocks at current prices.

(c) The program would be expensive to democratic countries. In order to leave inadequate supplies for the aggressor nations they would probably have to purchase and withhold from the market at least \$100 million of material a month and possibly twice that amount.

(d) It would disrupt markets for peacetime consumption of these commodities. In all of these materials the industrial uses are far more important quantitatively than military uses.

Though these disadvantages weigh heavily against the proposal solely as a device to deprive aggressor nations of needed materials serious consideration should be given to the accumulation of strategic materials by the United States on other grounds. In the event of war abroad, exports to the United States of certain vital raw materials from Asia may either be stopped or made subject to the will of Japan. Accumulation of certain vital raw materials should be undertaken not only to insure the amount of materials necessary for adequate defense, but to prevent our economy from being disorganized by the cutting off of the source of supply of needed raw materials as a consequence of a major war.

The materials which we must have and which we must obtain from areas vulnerable to foreign naval interference include tin, rubber, manganese, tungsten, manilla sisal, mica and raw silk.

A one or two year supply of these materials could be obtained with an expenditure of about several hundred million dollars. Incidentally, increased purchases of that magnitude would help stimulate our exports. These purchases could be financed in any of several ways which would not involve an increase in the deficit.

2. The second proposal you wished to have examined is an attempt to secure an agreement among as many of the non-aggressor nations as possible to prohibit the exports to aggressor nations either directly or indirectly of as many of the important strategic materials as would be feasible.

A preliminary survey indicates that this proposal is feasible.

(a) The sources of supply of at least eight of the vital strategic materials which the aggressor countries (taken together) must import are almost completely under the control of the United States, the British Empire, France, Russia, Netherlands and Belgium. For several additional major items the inclusion of one or two more countries would make the control complete.

(b) The value of the imports by the aggressor nations of those materials is not so large as to make it impracticable for the leading non-aggressor countries to bear the expense or burden incident to such a program.

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Methods of compensation or purchase can be devised which will eliminate opposition by small countries and private corporations based on fears of economic loss.

(c) The aggressor nations would be extremely vulnerable to what would virtually amount to an embargo of vital materials. These countries must import substantial quantities of those materials not only to maintain their military strength but to prevent a sharp deterioration in their economy.

(d) In the case of nickel, tin and oil (if Russian and Mexican oil could be taken care of) relatively a few corporations control the international market and effective cooperation could be easily obtained.

The difficulties of the plan are:

(a) It would be essential to have the enthusiastic support of the British Empire and of Russia.

(b) England, France and Russia must be willing to give military guarantees to the smaller countries cooperating. This is particularly true of the Netherlands and Rumania.

(c) The great majority of the people of the United States must be in favor of that degree of American participation in foreign affairs involved in the plan.

(d) The principal argument that will be used against this measure is that its adoption would precipitate war.

(e) To be effective, the steps taken must be such as will prevent shipments of strategic materials from non-cooperating countries from reaching the aggressor nations.

(f) The period of negotiations should not be long enough to permit the aggressor nations to accumulate such larger stocks.

Conclusion:

In our opinion the measure -- if combined with the principle of the first proposal -- is effective, practicable, and relatively inexpensive. It is a measure which comes under the "quarantine-the-aggressor" principle of the President's Chicago speech. The real issue is whether it is yet politically feasible.

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Any step in the direction of this proposal will have a powerful political effect in raising the morale and encouraging the democratic countries to make firm stand against further aggression. Even discussion -- if official -- of the proposal would be a help in that direction.

The following briefly outlines the situation with respect to the more important commodities:

A preliminary survey of the resources and needs of the aggressor nations indicates that none of them produces adequate amounts of many of the important strategic materials.

Germany, when fully organized for war, must either import, have substitutes for, or have stocks of the following essential raw materials:

95% of natural petroleum	10% of zinc	75% of wool
75% of copper	100% of rubber	70% of phosphates
50% of lead	95% of manganese	100% of tin
25% of sulphur	100% of nickel	100% of antimony
100% of cotton	100% of chromite	100% of mercury
95% of bauxite	95% of tungsten	100% of mica

Italy, Japan (and their allies) can supply Germany only with sulphur, zinc, lead, mercury and some copper.

The situation with respect to Italy is even worse and with Japan, equally bad. Japan must import:

35% of her iron	100% of her bauxite	100% of her wool
55% of her oil	50% of her zinc	75% of her potash
5% of her copper	100% of her rubber	75% of her phosphates
80% of her lead	50% of her manganese	90% of her antimony
80% of her cotton	100% of her nickel	75% of her tin
		90% of her mercury

Of these items her allies could supply Japan with nitrate, potash, zinc, lead and mercury.

These figures indicate that measures which would be ineffective against the British Empire, the United States or Russia are feasible against the present aggressor bloc.

Before any conclusions may be finally drawn with respect to the efficacy of any proposal, we need more information with respect to the stocks on hand in the aggressor nations and their needs during the conduct of a major war. We have some information on these points, but not enough.

(a) Nickel

The British Empire produces 95 percent of the total. Japan owns nickel ore mines in New Caledonia, but New Caledonia is under French control. Therefore, it would seem to be relatively easy to prevent the direct export of this metal to the aggressors.

(b) Manganese ore

This (according to the men in the Navy Department with whom I spoke) is one of the three most important of all the strategic materials. The chief sources of manganese are Russia (along the Black Sea), the British Empire, Brazil and Cuba. The best quality manganese comes from Russia. Numerous countries (see Appendix) produce small quantities.

Of these smaller countries, Rumania, Hungary, Bulgaria, produce approximately 80,000 tons, and Japan produces 70,000, Italy 25,000, making a total of approximately 200,000 tons that would be available to the aggressor countries from within their own group. Whether 200,000 tons a year would be enough to keep the aggressor powers adequately supplied is doubtful but we need more information on this point. Judging from the fact that the stock pile recommended for the United States by our military authorities is 1 million tons of ore, and that German imports were around 400,000 tons in 1938, an annual supply of 200,000 tons for all the aggressor nations seems inadequate.

(c) Copper

Leading copper producers are United States, the British Empire, Chile, Belgian Congo, Russia. These five groups together produce 90 percent of total world output. Japan, Yugoslavia, Spain and Germany together produce roughly 200,000 tons a year. Together, Japan, Italy and Germany imported double that amount in 1937.

(d) Oil

The United States, Russia, Venezuela, together produce 75 percent of total oil output. The British Empire, Iran, the Netherlands East Indies, Mexico, Colombia, produce an additional 10 percent. Italy produces virtually none; Germany and Japan together, about 8 million barrels, or less than 1/2 percent of the world output, Poland, 4 million barrels and Argentina, 17 million barrels.

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Germany, however, produces a high grade synthetic fuel which is reported (by the War Department) to supply two-thirds of her current needs. To judge from the continued increase in petroleum imports from 1935 thru 1938 this is doubtful. Japan and Italy, however, so far produce only negligible quantities of synthetic fuel, though they are increasing their capacities. It appears that Germany cannot supply herself and certainly not the other aggressor countries. Germany is reported to have large stocks on hand.

In order to bar enough exports to the aggressors, the oil from Rumania, Mexico, Venezuela, Colombia and Russia would have to be included in the agreement.

In the case of oil there is another possibility that presents itself. It may be possible to operate through controlling companies. It would probably be found that a few large oil companies control the supply of oil even outside the United States, British Empire and Russia. Therefore the approach might be through the companies in those countries outside of the three mentioned.

(e) Tungsten ore

The bulk of tungsten ore is produced by China, British Empire and the United States. But Portugal produces 2 million tons (almost as much as the United States) and Germany is reported (by the War Department) to have accumulated an enormous stock pile equivalent to 60 percent of the world stock of tungsten ore which she obtained from China. More information would be necessary before you can conclude whether anything can be accomplished by the prohibition of tungsten from export.

(f) Tin

The aggressor nations produce very little tin. The British Empire, Bolivia, and the Dutch East Indies, Siam, China, produce 95 percent of the total tin output. Germany, Italy and Japan imported 20 percent of the 1938 output, and almost that in earlier years. If they do not have adequate stocks on hand and if the enumerated countries would agree to prohibit exports of tin we have here a commodity which might well lend itself to such agreement. According to the War Department it is of first rank importance for numerous uses in military purposes.

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(g) Rubber

Germany, Italy and Japan produce no natural rubber. Their imports in 1937 constituted about 18 percent of the total world output of natural rubber. The British Empire, the French Empire and the Netherlands Empire together account for 94 percent of the total world output. The only two countries outside of these three empires that produce substantial quantities of rubber are Siam, which produces 4 percent, and Brazil, which produces 1 percent. It is reported that Germany will be 25 percent self-sufficient by means of synthetic rubber at the end of 1939 and 50 percent self-sufficient at the end of 1941.

(h) Cotton

Cotton linters are essential in the manufacture of powder. For Japan, Germany and Italy cotton would also be essential for their export industries and home consumption. These three countries imported 40 percent of the total world imports in 1937. The United States, the British Empire and Russia produce three-fourths of the world raw cotton. China did produce about 10 percent and a portion of that output is in areas under Japanese control. Brazil produces about 7 percent. It is very doubtful whether Japan or Italy have large stocks of cotton on hand, though it is reported that there were substantial stocks in Germany.

There are numerous other strategic war materials but either they are produced in adequate quantity among the aggressor nations (e.g., raw silk, sulphur, bauxite, optical glass) or they are very unimportant in total value (e.g., quartz crystal, molybdenum, etc.). In a more comprehensive report it would be necessary to study numerous of these minor commodities (for example, quartz crystal, is essential in radio equipment and is found only in Brazil; manila fiber has no substitute, is absolutely essential in merchant marine and is found only in the Philippines and Sumatra; mica has no satisfactory substitute for important electrical uses; only known sources India and Madagascar; hides and wool are essential important and costly items which the aggressor countries import in large amounts.

(Appended are some tables of source of supply and of imports of leading strategic war materials.)

HDW:lrs  
4/10/39

Rubber

	<u>Present Production</u>	<u>Present Stocks</u>	<u>Apparent Consumption or</u>
	<u>(Long tons)</u>		<u>imports in 1937</u>
Germany	-		115,008
Italy	-		24,820
Japan	-		62,182

Leading producers of rubber in 1937

Netherland Indies	431,646	British Empire	896,463
		Malaya	459,980
French Indo China	43,399	Ceylon	70,359
		Sarivak	25,922
Siam	35,551		
		North Borneo	13,213
Brazil	15,576	India	9,777
		Burma	7,232

Copper ore

	<u>Present Production</u> <u>(In metric tons)</u>	<u>Apparent Consumption or</u> <u>Net Imports in 1937</u>
Germany	28,000	263,000
Italy	417	80,000
Japan	100,000	210,000

Leading producers of copper ore in 1937

United States	760,000	British Empire	499,000
Chile	413,000	Canada	289,000
Belgian Congo	150,000	Northern Rhodesia	180,000
U.S.S.R.	93,000	Australia	20,000
Mexico	46,000	Cyprus	17,000
Yugoslavia	42,000	Union of S Africa	12,000
Peru	36,000	British India	11,000
Spain	30,000		
Norway	23,000		
Cuba	13,000		
Finland	12,000		
Sweden	8,000		

Tin

	<u>Present Production</u> <u>(In long tons)</u>	<u>Apparent Consumption or</u> <u>Imports in 1937</u>
Germany	100	15,800
Italy	443	4,618
Japan	2,210	11,000

Leading producers of tin in 1936

Bolivia	25,371	British Empire	61,773
Netherlands		Malaya	25,247
E. Indies	21,001	Nigeria	7,305
Siam	13,616	Burma	3,990
China	11,250	Australia	3,600
Belgian Congo	7,316	United Kingdom	2,000
Poland	1,819	Union of S. Africa	558
French Indo		Uganda	174
China	1,575	Southern Rhodesia	267
Argentina	1,335	Tanganyika	263
Portugal	800	S. W. Africa	169

Nickel

	<u>Present Production (in metric tons)</u>	<u>Apparent Consumption or Imports in 1937</u>
Germany	300	14,000
Italy	-	2,500
Japan	-	8,000

Leading producers of nickel in 1937:

New Caledonia	6,830	British Empire	103,183
U.S.S.R.	2,000	Canada	101,963
Norway	1,505	British India	1,220
Greece	1,255		

Tungsten ore

	<u>Present Production</u>	<u>Apparent consumption or imports</u>
	(In metric tons)	
Germany	-	
Italy	-	
Japan	2,000	

Leading producers of tungsten ore in 1937

China	17,805	British Empire	7,675
United States	3,175	British India	5,300
Portugal	1,948	Malay States	1,200
Bolivia	1,802	Australia	900
Argentina	702	Southern Rhodesia	275

Manganese ore

	<u>Present Production</u>	<u>Apparent consumption or imports in 1937</u>
	(In metric tons)	
Germany	242	
Italy	25,000	
Japan	70,000	

Leading producers of manganese ore in 1937

(In metric tons)

U. S. S. R.	3,000,000	Chile	5,000
Brazil	253,661	Bulgaria	3,000
Cuba	131,299	British Empire	<u>2,132,861</u>
French Morocco	79,113	British India	826,498
China	51,545	Union of	
Rumania	50,749	South Africa	631,194
United States	43,000	Gold Coast	555,638
Hungary	25,000	Egypt	134,972
Philippines	12,206	Northern	
Netherland Indies	8,600	Rhodesia	2,379
Sweden	6,000	Australia	2,000
Turkey	5,200		

Crude petroleum

	<u>Present Production</u>	<u>Apparent consumption or imports in 1937</u>
(In thousand barrels)		
Germany	4,300	40,000
Italy	109	17,500
Japan	3,614	35,000

Leading producers of crude petroleum in 1937

(In thousand barrels)	
United States	1,212,530
U.S.S.R.	217,535
Venezuela	191,599
Iran	72,154
Netherland East Indies	60,165
Rumania	48,800
Mexico	38,861
Colombia	23,315
Argentina	18,900
Peru	16,045
Poland	3,790
British Empire	41,202
Trinidad	17,750
British India	2,648
Bahrain Island	8,361
Canada	7,450

Raw cotton

	<u>Present Production</u>	<u>Apparent consumption or net imports in 1937</u>
(In thousand bales)		
Germany	-	1,500
Italy	20	500
Japan	216	4,200

Leading producers of cotton in 1937

United States	18,786
China	3,600
U.S.S.R.	3,482
Brasil	2,205
Peru	424
Mexico	326
Argentina	281
Turkey	157
Iran	156
Belgian Congo	141
British Empire	7,637
British India	4,867
Egypt	2,262
Uganda	314
Egyptian Sudan	234