We ask you to believe that we appreciate this kindness. We shall preserve the cordial relationship and accord which exists between us and our friend the Government of the United States of America.

In closing, we present to Your Excellency, to the officials of your government and to the American people our unalloyed good wishes and heart-felt salutations. Written this third day of Dhu al-Hijja, 1352 A.H.

(Signed) Said bin Taimur
Dear Mr. President:

I attach a copy of a report which Mr. Child has just submitted on his observations of the European situation. He specially asked me to put this in your hands while you were on your trip, otherwise, I should not have bothered you with it until you returned.

With kindest regards.

Faithfully yours,

[Signature]

The President,

INTRODUCTION TO RECOVERY OF WORLD TRADE

THE EGYPTIAN PANAMA JUNE 1924

FINAL REPORT

of

EDWARD WASHBURN CHILD

Advisor to the Secretary of State in his capacity as Chairman of the American Delegation to the London Monetary and Economic Conferences.
I.

The report will be in two parts.

1. **Present European Problems as they affect United States Economic Policy.**

   This will be a panegyric or a brocade of the European situation.

   Your Adviser visited twelve capitals and twenty-six cities and industrial centers. He omitted visits to Spain, Portugal, Roumania, Bulgaria, Turkey, Yugoslavia, Greece, the new Baltic States and Scandinavia for two reasons: (A) it was impossible in the time allotted to go, even when invited, to all the countries of the "outer circle" of Europe or to one without appearing to discriminate. (B) Information of such countries flowed in from delegations and diplomatic missions, from officials of contiguous countries and from the press.

   This report, made confidentially, is presented in lieu of chicken-feed dispatches; they would have been bits of a jigsaw puzzle with no one to fit them together after their receipt.

   The views expressed are amalgamated from those gathered from hundreds of conferences with (1) Statesmen, (2) experts, (3) bankers, (4) industrialists, (5) our own diplomatic staffs, (6) the diplomat of other nations, (7) publishers and journalist-observers, (8) the foreign press, (9) an immense correspondence which flowed in upon your Adviser, (10) books and pamphlets official and otherwise, (11) delegations of commercial men, (12) public opinion, (13) institutions such as the "League of Nations" "The International Institute of Agriculture" and the Bank of International Settlements at Basel. All views were measured, by comparison with such facts, statistics, realities and counter opinions as your Adviser travelling without a secretary could assemble.

   The material was gathered in such a manner as to offend no United States foreign mission or officer thereof. Cooperation and guidance of each mission were sought in all cases, even when not needed, and usually were obtained in generous and understanding spirit.

   In each instance it was explained that the report of your
Adviser was in no way in competition with reports from the diplomatic missions and to support this policy your Adviser turned over such detailed material and news information which came to his hands currently for transmission to the State Department, if the mission so willed, as, in many cases, it did not.

It appeared inadvisable to dispatch hastily to the Secretary piecemeal impressions which might require revision in light of future exploration. In addition to this you Adviser having been provided with no travelling secretary, was always faced with a choice of reporting through the clerical staff of United States missions where differences of opinion might exist or engaging outside clerical assistance where confidential matters and candid statements were at hazard. Furthermore, the world is surfeited already with a flood of facts to prove its economic disorders. More bulk of information is no longer a treasure, if no broad view or comparisons are at hand to make it intelligible.

For this reason your Adviser has sought to reduce by a variety of redistillations, by report, to a minimum of brevity.

II

SUPPORTING STATEMENTS

Under this heading will be presented the impressions given by the separate European nations visited, of the League officials at Geneva, of the Institute of Agriculture at Rome, of the International Chamber of Commerce, etc.

In this section II, caution must be exercised lest it appear that one national view may be accepted without regard for the national views elsewhere set forth. Caution must be exercised also against mere propaganda motive and this phase I have pointed out where necessary.

The names and titles of important persons interviewed are submitted to confidential treatment by the Secretary of State in his discretion.

Your Adviser has refrained from expressing personal views. He is not to be held responsible for approval or disapproval of the expressions gathered, the opinions given him or the conclusions to be drawn from them or their supporting facts, except in such instances as he specially sets forth material as being his own contribution of opinion.
There is, however, no advice equal to facts so arranged that the conclusion is reached by the one advised.

II.

Present European problems as they affect United States Economic Policy.

The sum total of opinions, almost without any gain or loss, support the following major recognitions.

In Europe the kindergarten conclusions that the flow of trade will be desirable and its further or continued obstructions will cause ultimate if not immediate pain and poverty of life-conditions are drugs on the market.

These conclusions are accompanied, as in our own country, by wearisome expostitions, facts, figures and heavy erudite verbiage which make a disc record replayed upon the machine of almost every statesman and economist. The theoretical economist also adds to the impediwaste by forgetting that the world is as it is, and not as we wish it to be.

II.

No one even offers a short cut to restoration of trade unless it be those who having no responsibility write pamphlets and monographs.

Europe is all diagnosis and, unless it be from witch doctors and evangelists, Europe has no prescription.

III.

The political disease of Europe, internal and international, has a major part in the economic blight just as the economic blight produces bankruptcy and political crises. The affect of political blight upon economic problems takes not one but many forms. Among these may be listed the following grave factors which instead of ameliorating economic nationalism, tend to accentuate it.

Statesmen who desire to obtain or hold place, particularly in parliamentary governments, use fear as stock in trade. This is not only political fear of invasion or aggressions of force upon security, but fear of competition in the economic field. There are still numbers of guiding statesmen with bureaucratic satellites who live in the practice of a world of conquest - a world which has not lost its tradition that fear is the resort of those who desire to cling to office within a nation and that internationalism is a game of chess which has not varied since the days of Metternich. Their diplomatic agents abroad are dominated by this attitude
and neither in training for economic thinking nor in habit of mind are they fitted to deal with modern economic problems. They balk rather than advance solutions. Economics is a subject from which they withdraw their paws like cats who have trod on water. Indeed, in the United States we ourselves may take thought of the efficiency of the old school which regards protocol and political reporting as being the ultimate purpose of international representation.

Europe is being honeycombed by the chameleons of fear. Bogies abound, most of them unfounded in cold reason as your Adviser will illustrate:

The political mind - let us mark it well - is the last to accept the thought that in the building of the world market the major problem is not the creation of producing power but the development of consuming or purchasing power. The average European political bellwether of Nation A is astounded at the idea that the important question usually is not that his competitor X has sold more machinery or goods this year, or made more investments in Nation Y and even surpassed A in the trade with Y, but that his own sales or investments have increased because Y has gained new purchasing power by the trade with X. The European political mind is reluctant to accept a world where instead of taking wealth by conquest, wealth is made by productive labor and the building of consuming power at home and abroad to absorb its output.

The political mind does not properly estimate as evil the pressure and exigency which appear for reason of self-protection to drive nations forward, building great walls as, the political mind does not see it as a rush toward retrograde. A hopelessness makes the European politician spread his hands apart in woe and fasten his eyes upon selfish today. The means of escape from the backwash of the economic intoxication of the post-war period seems too remote to be allowed to even alight upon his desk as a problem.

Hence the majority of the political leaders in Europe either admit that their own purchasing power is exhausted, unless it can be revived by the purchasing power of their neighbor which in turn, is to be restored by some undiscovered sorcery. They retreat reluctantly to a world laissez-faire policy, even those who believe it to be suicide. In
some instances, they accept as a last resort the philosophy of self-sufficiency especially when their more powerful industrial groups, as in instances later set forth, offer processes, machines and substitutes, with promises to supplant thereby the needs of importation. The political leader who will not content himself with inertia and economic nationalism is the exception. Still more rare is the leader who fully recognizes that the complete desolation of a world economic structure will not stop at the house of economic nationalism, but will slide downward still further to the hovels of parochial economy where dwells self-subsistence of petty groups or even individuals. Such a retrograde, the politicians will not always admit, as deeper thinkers do, is the way to the bottom. It is the path backward to the wooden spoon, no matter how happy its user may be. The only interruptions to this glacial period, say the more enlightened, will be devised from brains capable of weaving new world economy. The alternatives to interruptions of trade isolation, they say, will be the resort of governments, armament or none, to war or of peoples to Communism or chaos.

With these considerations, the political mind in Europe concerns itself too little and no school of leadership has yet arisen to take it a place.

IV

Following the straits of politicians particularly in sick democracies and, often, of the pressure of bankruptcy, the whole fabric of European civilization has turned its eyes away from the problem of international economics to the problems of international phobias and of making both ends meet at home. It is said in all quarters that this centering of attention upon political, as distinguished from economic internationalism, and upon domestic problems of unemployed, social unrest, balancing budgets, devices of diverse taxation methods, internal loans, has drawn the eyes not only of leaders but of the peoples away from such questions as were presented for solution by the London Conference. In addition, a permeating cynicism has grown up as to the great-conference method. Opinion is universal, it now appears, that conferences of cumbersome pretentiousness and of unpreparedness on the part of even great nations, are show-windows, where instead of achievement there is exhibited, in sorry
array, only pricked balloons and the emasculated meaningless expressions of good intentions issued with ridiculous solemnity.

This opinion is held even after due weight is given to the value of advertising of the longer vistas of the world's desperate needs. Everywhere it is said that humanity has lost its little faith in such vistas unless the feet of practical action can take actual steps down the path.

It is pointed out, even by the more conspicuous delegates to the London Conference, that agreements or truces arrived at, in less than a year, have been already towards futility or in the case of the tariff truce have been abrogated in favor of a waltz of reprisals, unnatural bi-lateral bargaining upward, increase of quota and license vises, further transfer embargoes. Instead of no consciousness of national vision toward world economy, there has been an enlarged awareness of national economic self-defense and aggression.

Even if multi-lateral agreements are to be sought, it is believed that they must be sought by a fresh start not hindered by the suspicions and spleen, the cynicism and doubts engendered by former experiments. Even such enthusiasts as League officials, today consider the passing around of the subject of world economy, even as a large conference subject, only upon a wholly new platter.

Not a voice in Europe said to your Adviser that the London Conference should re-convene.

I

The facts, and their implications, however, are realized in every country by those with the time or inclination to look forward the far, rather than the near horizons of self-interest.

It is accepted that world trade has dropped to less than a third of normal. It is well known that the United States has lost a larger proportion than the other naturally competing large nations, but it is realized by wise heads that the seriousness of our situation is less than that of European powers dependent upon their foreign trade, because our own foreign trade which has sustained the loss is only a small, though it be a vital part of our national business.
From 1929 to 1933, the depressing April 1934 figures furnished
your Adviser, by Trip, President of the Bank of Netherlands, are as
follows:-

<table>
<thead>
<tr>
<th>Country</th>
<th>1931 to 1932</th>
<th>1932 to 1933</th>
<th>1933 to 1934</th>
<th>1934 to 1935</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>- 26</td>
<td>- 53</td>
<td>- 24</td>
<td>- 29</td>
</tr>
<tr>
<td>Great Britain</td>
<td>- 37</td>
<td>- 25</td>
<td>- 8</td>
<td>- 4</td>
</tr>
<tr>
<td>&amp; Northern</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Island</td>
<td>- 37</td>
<td>- 25</td>
<td>- 8</td>
<td>- 4</td>
</tr>
<tr>
<td>France</td>
<td>- 30</td>
<td>- 35</td>
<td>- 5</td>
<td>- 6</td>
</tr>
<tr>
<td>Germany</td>
<td>- 31</td>
<td>- 40</td>
<td>- 10</td>
<td>- 15</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>- 31</td>
<td>- 36</td>
<td>- 7</td>
<td>- 14</td>
</tr>
<tr>
<td>Belgium &amp;</td>
<td>- 31</td>
<td>- 36</td>
<td>- 9</td>
<td>- 5</td>
</tr>
<tr>
<td>Luxembourg</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>- 29</td>
<td>- 32</td>
<td>- 10</td>
<td>- 15</td>
</tr>
<tr>
<td>Switzerland</td>
<td>- 22</td>
<td>- 41</td>
<td>- 10</td>
<td>- 6</td>
</tr>
</tbody>
</table>

Self-sufficiency in national economy, it is admitted, is more
easily attained by the United States, if such is to be the world's des-
perate program. Your Adviser was not denied that assertion, even by
those whose thesis was that the United States could not maintain its for-
er standard of living without selling and buying abroad. In any case of
devil take-him-most, the United States, even if the devil finally took
civilisations all, would break the tape far ahead of all other nations.
The only possible exception would be France with her savings and her pec-
uliar economic fabric and life philosophy.

Self-sufficiency, and its booms and apologies, proceeds in
Europe only from political and financial bankruptcy. Added to these are
spleens, exhibited by such reprisal centers as Ireland against the United
Kingdom. There, de Valera revealed to your Adviser his plan of campaign,
a campaign not without its significance, considering the importance to the
United Kingdom (See Part II). Countries of the Little Entente, because of
spleen are determined to wall-in such unfortunate economic monstrosities
as Austria and Hungary.

This program of self-sufficiency begins to be the last slender
thread upon which bankrupt Germany with its converting industry is pretend-
ing to hang its economy. Your Adviser was stuffed with this propaganda.
even though he was aware of the influence being used by certain groups of German industrialists who would profit by its processes.

The sum total of opinion supporting self-sufficiency, self-subsistence and, by clear implication, a return, not only to pure national economy but also to parochial economy and hence an accepted and violent retrogression to lower standards of living, comes principally from the hatreds and financial torture chambers created by the War and its subsequent treatment.

Opinion in Europe has changed in five years and indeed appears to have changed in five months. Europe has begun to ask which was the greater outrage - the War or the Peace. It may well be that the invasion of Belgium and the ambitions of German militarism were of less damage to the civilised world than the injustices and the thumb screws, the school boy errors and the frothing at the mouth of the peace makers. For now it is the feared and bankrupt undigested Germany which dominates the scene. She keeps the minds of Europe away from economic solutions. Austria and Hungary, ultimately will be impossible to sustain as national units and therefore they too threaten the political structure. The whole of political Europe is busy building defense corridors, alliances, and secret intrigues, exceeding today even the pre-war intrigues. We fail to realize how much such considerations swamp all efforts toward new world economy.

When your Adviser asked Mussolini if he would discuss economics with Hitler, he said, "Will there be any time left?"

It was the peace treaties which created the desperation of political and financial impossibilities. It was the peace treaties which, in part, at least began the drive toward the desperation of self-sufficiency to be accepted by useful and worried peoples, long after personal blame for war attached to any of these living. Even the foreign disciplinarians of throttled losers of the War begin to realize that in social decadence, violence, bankruptcy and economic stagnation they have created, from hate, a vulture brood of almost insoluble problems, resting on the ashes of both vanquished and victors, awaiting decadence or evidencing themselves in such a volcano as Germany, about to erupt again.

What then is to be done? The essence drawn from hundreds of com-
versations in Europe indicates that the problem is primarily a European problem. A significant remark upon Wallace's pamphlet "America must choose" was made often to your Adviser, to wit: "The pamphlet should have been called, "Was America Chosen?" It was often implied that she cannot in the sense that she cannot, probably will not and should not attempt to iron out the complex political wrinkles of another continent now in economic chaos largely because of the hopeless tangle of economic vision with political expediency. Endless are the views that time will be required to straighten out the European internal problems before decisive action can be obtained for monetary and trade barrier monstrousities.

When candid opinion is evoked in England, France, Germany, Italy and other nations, the immediate importance of America is diminished. Particularly it is diminished because of past experience with her wise restraint from putting down stakes in a game far from her self-interest and from her fitness to make offers or dictate solutions. "Too often", said European statesmen to your Adviser, "Your zealous representatives have promised the treasures at the end of the rainbow. Too often, in the middle of our black night, one after another of your delegates has been forced to abandon the role of the man from Cook's."

The American idealism where it appears in sincerity is appreciated but rated no higher than its actual achievements.

There is widespread interest in America's experiments with her domestic economy. The spirited and courageous manner in which it is conducted, the close margins which Europeans believe are involved in some of the domestic measures taken, the slow appreciations that whatever plight we are in differs substantially from those of nations in Europe, create a secondary present interest among statesmen, bankers and industrialists alike. Whatever the opinion of our home policies however, there is no substantial opinion that America will have the panacea for a sick world economy or a sick European economy. Those who assert differently do so for trading purposes. Europe though looking to America with the faint hope that somehow America will pass the cake again, does not look to America to give ready made answers to "What shall we do?"

Understanding is coming that our monetary policy is not, as the Continent once believed, based upon an economic war with the British Empire but that our monetary policy was based upon the need to deflate false and
artificial values and at the same time to reap, by something like a painless capital levy for patient people, a crop of wealth which would feed, mainly those persons dislocated from the construction industry with its high-pressure sales and banker made distensions of plant investment and its pyramiding on mirages of yesterday's false expectancy.

Understanding is coming that we, at the end were supporting our excesses at home by loans abroad, never to be repaid, and that these also were made by the same high-pressure investment system. Understanding is coming that our export trade stripped of its mask was the purchase of our own goods followed by the free gift to others of substantially more than two-thirds of all we exported.

As Lloyd George described ourCOMMENT to your adviser, we were like the penny bun man in Piccadilly who is accosted by an early wanderer. The wanderer asks for the loan of a sixpence. The bun man says "What for?" The answer: "To buy threepence of buns from you and spend the rest to ride home on."

Understanding is coming that we have learned our lesson. Europe believes that we may extend commercial credits in our export trade where such credits are sound but it is not believed that long-term credits or loans are safe for us or that we in our sober senses will go on being the penny bun man even in the case of Russia. Everywhere, whether the subject discussed be it Russia or any other country with a doubtful internal economy, your Adviser was told that long term credits, whatever the standing of more unconsolidated commercial credits, would be a prodigious folly.

In respects such as these, America must establish a reality of common sense, sound practice and resistance to the importunings of wild-cat foreign borrowers, before Europe, her statesmen or her people will accord to America the right to wise and sound leadership.

That Europe in every instance will try to prove that America is in part to blame for trade stagnancy, cannot be denied. From one end to the other of your Adviser's exploration there was reiterated the glib statement of the vital necessity to us of export trade and the need to lower tariff walls of our own in order to buy in exchange for what we sell, and of our part in disturbing the monetary and exchange stabilization.
The argument that countries, some of which have none of the gold we want or others which have the gold we do not want, therefore have no way to absorb our goods unless by sending us theirs, becomes something of a worn-out cornet sole. Sir John Simon, Barthou and Rist, Schmidt and Schacht, Mussolini and Asquinni, Dollfuss, Inrody and Beneš all play the same tune. Were the principle to be applied to whole world economy then the theory of "balance of trade or bust" is correct enough; applied however between two nations it is much like the theory of the village butcher who refuses to engage the undertaker to bury his wife unless the undertaker agrees to be paid in lamb chops. Yet such is the desire to obtain easy admittance to American markets that examples are everywhere given to show that American imports must be shut off by tariff, quotas and licenses unless America's tariffs are lowered. In Germany they say oil will be shut out and liquid fuel will be obtained from coal; in Italy is threatened the use of hemp adulteration to cut in half the consumption of cotton. The ministries of commerce and industry all over Europe are teeming with substitutes which are shaken under the American nose as threats of a self-sufficiency to supplant American imports.

In addition there is growing a tendency to tell America about her own problems of export as they affect her domestic economy. It is pointed out that other countries with large agricultural production have not enjoyed the high standard of living which the American farmer has enjoyed, and that our export of agricultural and mining products have been the sole reason for our superior living standard. China with its $8, per capita of foreign trade and like countries, they say, can stand the storm of self-subsistence because they are used to it, but America with only 26 per cent of her population engaged in agriculture and with her agricultural wage already maladjusted unfavorably in relation to the industrial wage, finds in export her sole salvation from agricultural disaster. If a program of economic nationalism, self-sufficiency and self-subsistence is to be imposed upon the world, it is the agricultural countries which can best stand the storm. America, however, they say is disproportionately industrial and urbanized. Hence in a trade frozen world and with no purchasing power in her agricultural population America may find wolves in the streets of her boasted industrial cities and only
heating from the windows of the Empire State Building.

Such is the thesis of those who do not look to America for a world solution of the economic inflation but who nevertheless still hope for her to do something immediate and handsome in opening her domestic markets to the world.

As a further inducement for her to do so there is added the argument that America from the point of view of naval defense, as well as from economic competition is exposed to the Yellow Peril. As to the first your Adviser, in conversations reported in Part II of his report took the position of inquiry. What would be the means bellif? The Philippines? Probably they are not as desirable as the Dutch Indie nor as much threatened as Australia. Then is it the problem of the open door on the Asiatic mainland? But we sell raw material to the convertor, Japan, if the Chinese purchasing power is developed by anyone, even by Japan, it will be money in the bag. At least a developed market, open or half open is incomparably larger than that of the consuming power in the present China jelly. The desire to create suspicion by the United States of Japan is everywhere evident.

As for the Japanese production-competition the matter is far more serious for exclusively competing convertor nations or traders such as the English or Dutch than for us who provide Japan with raw materials. No one can gainsay the fact that the concern as to Japanese competition in Europe and in the Far East is great indeed. Embargo is a word upon the lips of all. Everywhere one hears of Japanese bicyclos retailed for seven or eight dollars, shoes which undersell any made, silk clothing for summer wear in attractive imitation of light woolens sold at absurdly low prices. Debates as to whether it is the low standard of living in Japan or the more advantage of new machinery, old need not be scrapped at a loss, or efficient methods which cause this heyday of Japanese salesmanship are to be heard everywhere from foreign offices to the street corners. The rather obvious prophecy that Japan with an ever increasing investment will face new tariff quotas, embargos and gluts of markets and will then be tempted to extend worthless credits, leading Japan to ruin, just as we did, does not figure in the European panic. Today's menace is the vital interest. The Japanese with whom I have talked in Europe, however,
see their danger and know that it exceeds any that we risked in overbuilding productive capacity at home and financing our own abnormal and self-purchased export. For if the bubble bursts in Japan everything is ripe for an internal social disorder unequalled in the history of Nippon and menacing Communism.

In relation to Japan, the English are deeply concerned with keeping out of commitments in Europe which prevent free action in the Pacific. It is evident to them on second thought, about Japanese armament and Japanese production and salesmanship, that friendly relations are to be retained. If scolding is to be done, a catapult should be used. If sympathy with Japanese claims for Pacific sea power are to be supported, they must be paid for by trade agreements with Japan. France is in a somewhat similar position, but of course, has no great influence to propose an open or tacit or secret concession as to naval armament in exchange for open or tacit or secret zone, territorial or trade agreements. At the same moment when in the last two months your Adviser is told of the trade and other menace of Japan and of competition by yellow races, a powerful section of the British press is saying that Japan must be allowed almost complete freedom of development of her industries and of her penetration of the mainland. Such may be the adequate reasons why delay in commitments as to naval defense may appeal to wise American policy or even the playing of such a card proposing a release of all commitments as to building and let the ability to spend be the check upon relative power in the Pacific. Some Continental statesmen suggest that this is the only card at this moment left in our innocent hand.

Summing up then the question of what to do to avert further hardening of trade arteries with its implication of return to national or even parochial economy and what to do to restore by painful building, it appears that no particular burden lies upon America to give the answer. Europe certainly mistrust American ability and our experience may be said to lead us to some mistrust of European ability to receive and act upon our advice. To add to the tidal wave of woeful diagnosis and prophecy unless we are able to induce cooperative action either by effective pressure or by good intentioned cajoling words, is just now to be futile and waste our power.
Really sincere and friendly cooperation from the highest quarter, Britain, apparently is not ripe. There is no vision yet to pass over differences and competitions in order to cooperate with us to save the world fabric or to save even that small proportion of the world's total population which has ascendency because it has achieved a high standard of living by ships, and trade and exchange of products, now also seriously jeopardized. The self-subsistence peoples of yesterday can take care of themselves or may even supplant, in some cases, civilisations whose lack of vitality will be disclosed when their economic doors are locked.

Europe knows all this. Necessity and pain after a little while will be her discipline. If war is averted because it is known to pay no one or if weary populations take the matter of exchange of goods into their own hands and so recover from the political messes into which parliamentary governments and inadequate dictators have led them, there will be hope of decisive action in Europe toward a world economy.

In the absence of decisive general cooperative action in Europe and in the absence of our immediate potency to guide or attract, even in minor measure, the European nations from their welter of boundaries and their winter of frozen trade, it is the belief of the best equipped minds in Europe that the monetary and economic questions before the London Conference are now more subject to skillful treatment in slowly built practices, in new methods of dealing, in the painstaking re-establishment of some universal and interchangeable measure of value, than they are now responsive to generalities or to wholesale statements of more diagnosis or meaningless expressions of interest.

For this more skillful treatment there are bright sides to the European panorama - even since the London Conference. In general, orders of raw or semi-manufactured goods are increasing in size. Where converting manufacturers were ordering say four and five tons of such and such, your adviser was often informed that these orders had increased to twenty and thirty tons. Though this may have been the stimulation, sometimes artificial, of domestic production for domestic purposes, it was some measure of increasing confidence. This is important because confidence means credit and credit, in one form or another, supports most of the
world's normal business.

This confidence appears in part due to a new appraisal of the war
scare. These should be examined from the point of view of restoration of
normal trade through slow processes based on new theories of obtaining se-
curity and by mutual interest in economies and new attentiveness to new
economic rather than to old political problems. Though by no means is
there assurance against conflict, the dangers appear lessening even to
European leaders. At the moment they are even more concerned and dis-
tracted by unstable Germany and scandals which have robbed the French of
almost their last shred of faith in their parliamentary extravagances.

The prognosis of economic trends depending as it does upon the
disturbed political apprehensions, external and internal, the latter re-
quire examination. The consensus of opinion of course is that Germany,
either as a possible aggressor or as a center of social disintegration is
the dominant figure in the picture. The English fears of airplane attack
and of future naval rivalry based on new technique have, it is said, some
foundation, but the maximum damage of raiding forces, it is admitted, no
matter how fearful inspiring is much lower than popular opinion believes. The
French are in a state where for more than a decade the politicians stok in
trade has been security from German invasion. Today the best informed
minds believe that through preparing for and concentrating on what is gen-
erally known as machine gun defense, there is little prospect of Germany
equipping herself with the heavy movable weapons for advance and substantial
invasion. What remains however is the saturation of the French population
with the fear of such aggression. Barthou calls on London to sign security
ploges, most of which are made already by the situation itself rather than
by signatures: The French Government must please its populace! As between
France and Germany the soundest minds in Europe believe that if it is im-
possible to distinguish between aggression and defense - Europe believes it
impossible - then the first move is more likely to come from France under
the name of preventive acts or of sanctions. The ticklish moment, it is
said, will come when the plebiscite in the Saar results in an obligation
of Germany to reimburse France for all her investments there. She cannot
pay. What then?
In passing it must be pointed out that exiles or refugees from Germany, particularly those of the banking class, who once were forces for urging the case of Germany, are now in Paris intriguing to bring reprisals against Germany and chaos or invasion if possible.

The German regimentation of uniformed men - and women - has less military significance than sensational reports give to it. As one Cabinet officer, who is an old friend and not a Nazi said to your Adviser, "When the school house is on fire the teacher plays a national anthem and the children are required to march in good order." The implication is clear. The brown shirts, many of whom are unemployed, who often get free meals and uniforms, are kept occupied and out of the red mischief in which many were formerly engaged. Germany is far from stable; Hitler is between the Scylla of Communism and the Charybdis of conservative nationalism.

The regimentation however has lost its bloom in Germany. After twelve years in Italy, Fascism is more bountiful than ever; after a short experience your Adviser sees the German people with no stomach for that which they would replace if they had a new possible program as will be shown in Part II. Germany though bankrupt on paper has the genius and the multitude of hands for labor. Her people therefore are weary with alien oppression. The restoration of some of her colonies for an outlet to population and produce is being seriously urged within and, in some quarters, outside of Germany. The critical moment in her present government, it is said, will come when her treasury notes, issued in fact as a kind of secondary currency to stimulate business, have to be consolidated by an internal loan. That loan will not be made. Five or six months from now or sooner the present government, if no outside abuse gives it the weapon of fascism, may fall. Its leadership has not been strong enough to shake off third rate lieutenants or even disloyal aids, and the industrialists and bankers are losing patience as well as the people. The danger from the point of view of the strong men in Germany will then be the danger of social chaos unless the nationalist element becomes secretly woven into a basket into which power will drop. If this fails certain good opinion states that Southern Germany will be through with Berlin. Nor would it be bad news to Mussolini if then Austria joined Bavaria, France's objection to the contrary notwithstanding.

Your Adviser presents such matters as gathered from the highest quarters.
In the meantime Austria's independence is supported by France and Italy. France fearing Germany and Italy desiring to maintain a corridor along her shore-exposed frontiers. Russia should not be underestimated. Her weakness is that she is without loyal military support and is dependent upon alien patronage. He assures the observer that the Austrian danger is for the time being allayed or suspended.

Military domination of the governments of Togo-Slavia, Roumania and Bulgaria has a deep significance, and this significance is more potent for Budapest than for Philadelphia. Military cabinets give no assurance against violence or even against external conflict but, more important, they are not equipped to contribute to economic solutions no matter how small the contribution of these countries in any case might be.

The French corridor and the Little Entente cannot be said to be strengthening. French financial support becomes more difficult for France the more the bucket loses its bottom. Poland, who has freed herself with her defenseless position between two fires, has suddenly realized that she may play one side against the other. The absence of natural boundary defenses has been minimized by new methods and instruments of war. "Poland," said one expert in the French foreign office, "is feeling her oats." But this cannot be said to be an indication of Poland being a disturbing element in Europe; perhaps like Italy her slowly forming slogan of "Nothing for Nothing" may militate for peace. All in all then, the dangers and the fears of war in Europe, whatever the immanence of internal chaos, are, if anything, less than when the London Conference assembled. To the extent that this gives to the solution of economic problems and to confidence, common opinion enters it upon the bright side.

Europe is not as bankrupt as she appears. Were world change of goods to take an upward turn, England would fill the vacuum of her lost textile and colliery production with something else. Germany would have almost no gold but starting at the bottom financially she is still an industrial power of brains and hands to convert goods almost without an equal. France is the same old France, whose pinch-penny people, like hers, will give up their lives but not their eggs even to their own government. The untaxed and almost untaxable wealth of France remains in the old mattresses. Gold Napoleons are not often on the streets but humble homes rest with
their faint area. Stability of social texture in France is somewhat ins-
ured by what the French people have saved; whatever their political
passions may be, they remember the money in the old sock. The crisis of
loss of faith in their parliamentary government either because of its
futility or outrageous corruption, has been bridged by the management
of the "Old man's government" of Doumercq. Though they have lost some-
what their grip upon their "ring around Germany" their security of bound-
aries is considered by those who know to be doubly insured by their milit-
ary supremacy. The danger is a France disintegrated within and led by a
government which saves itself by the gesture of aggressive war.

Italy may be financially embarrassed but her population is com-
pletely Fascist, ready for sacrifices and proud of national unity, and
consequently possessing a resilient reserve. Mussolini sees clearly the
light of Italy's need for a recovered world economy.

Austria, Czechoslovakia and Poland are beginning a recovery in
the same sense that they are beginning to seek and give markets.

IX

The two greatest obstacles to restoration of exchange of goods,
it is obvious, are (1) the absence of any common monetary measure of value,
permitting transactions to be expressed in terms of a standard unit or by
bookkeeping on the basis of such a unit. (2) the absence of the proper
negotiating machinery to make exchanges with reciprocal advantage.

As to the first it is almost useless, they say, to recite again
that the world, unless it desires utmost inconvenience and perhaps econom-
ically wreckage, must find some fixed measure and the sooner the better.

At the Bank of International Settlements this is the dominant
idea; it saturates the banks of Europe and the thought of the International
Chamber of Commerce "Realizing the period of internal need of the United
States for monetary manipulation" says the consensus "we now the less
assert that this period has come to an end. We know the necessities which
caused the United States to disavow the London Conference by destroying
fixed measures of value, but the time has come to re-establish a stable
measure. That international measure must be simple and rare. It is gold.
Regardless of the level of currencies in relation to gold, gold must be
the basis; the alternatives are silver, iron, Cheshire Cheese wampum and
small shells."
<table>
<thead>
<tr>
<th>Date</th>
<th>Gold Value (Gold Standard)</th>
<th>Gold Value (London, March)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 1923-1925</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1925-1926</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1926-1927</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1927-1928</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1928-1929</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1929-1930</td>
<td>30.92</td>
<td>31.76</td>
</tr>
<tr>
<td>March 31, 1930-1931</td>
<td>30.92</td>
<td>31.76</td>
</tr>
</tbody>
</table>

The central issue was a fluctuation in the value of gold. The gold standard was subject to fluctuation and uncertainty, which threatened the stability of world trade and prosperity. The period from 1926 to 1930 was marked by a decline in the value of gold, which contributed to economic instability. The fluctuation in gold prices was not only due to market forces but also to political and economic policies. The gold standard was a system where gold was the basis for the value of currencies, and any deviation from the gold standard could lead to economic disruptions. The importance of maintaining the gold standard was recognized, but the practical challenges of doing so in the face of economic pressures and political considerations were significant. The efforts to stabilize the gold standard and to maintain its value were crucial for the stability of international trade and finance.
The best information which can be gathered today from the gold bloc and, indeed, from the financial mints outside of it, indicates a strengthening rather than a weakening of the gold school.

Passing from the lack of monetary measure of value as an obstacle to a reviving of world trade, the other, and second obstacle, is found in the obstructions to exchange of goods inherent in antiquated methods of treatment of reciprocal exchanges. The large conference method being shelved by European opinion, it is the problems of bi-lateral, tri-lateral or uni-lateral dealing which require, both internally in dealing with one's own nationals and externally in maintaining constancy of mutual advantage, a highly developed and until now apparently, a special technique combined with vigorous common sense.

As stated already diplomacy with a mentality as now trained, with its ponderosities and career-bred fear of positive action and its love of negation is the last quarter to which any nation may look for the development of such technique. Nor does the civil service even when as highly developed as that of England offer much hope except the expectancy of expert advice based on figures of the past. Reciprocal trading does not imply obtaining of a uni-lateral advantage but the setting up of a mutual gain bi-laterally. To build otherwise is to build on the sand, to engender hatreds and distrusts and to make agreements to be evaded, broken or denounced. The diplomat does not usually know nor want to know the complex backgrounds for trade deals; the civil servant tends to believe he is smart if he gives nothing away and takes what is beyond good conscience. He saves his own skin and office and has wrecked the future of mutuality.

Dictators however or those with untrammeled power to appoint, may set up boards of able men, enlisting also the experts of government and trade bodies to hear the respective cases of importers, of protected industries, of consumers. England as might be expected, has chosen such a method of dealing with import and export problems and the recommendations to the Treasury and the Board of Trade are accepted in almost all cases as a basis for reciprocal dealing in tariff and quota questions. One fact appears obvious in this period of complex trading problems where the need is to wean exchange of goods away from the realm of blocked commerce and blocked payments, to convince public opinion, to suppress selfish lobbying and political pressure on the legislative side of government, to keep constancy of
The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.

The factor of labor is not to be neglected. Neither men of govern-
ment nor politicians, nor industrialists may fail to recognize that failure on their
part will mean stagnation for a restored trade and a world economy.
part to restore world trade may not result in an international labor move-
ment to take the matter of exchange of commodities out of their hands, or to
demand a part in the technique of commerce in an attempt to preserve, and
equalise somewhat, the standard of living. Hence in Genève contacts with the
International Labor Organization, whose successes have not been negligible,
reveal a new weight and significance to its international movement. Divorced
from the League which, thought it does not, could inject it with a political
control it would, in a world of frozen trade, become a factor of such power
that the United States should give it constant attention. Such is the opinion
of enlightened European statesmen who bend their minds across the adamantine
difficulties which stand in the way of restored and normal trade-flow
threatening not only standards of workers living but the very existence of a
civilisation higher than the self-subsistence basis.

II

Your advisor realises that much that he reports is already known
to you, that he may have in some instances failed in his interpretations and
fallen short in making them clear. He has neither tried to please nor to
find differences with present American policy. He has reserved his own rec-
ommendations for American policy for he reasserts that the best advice is a
set of facts and impressions which lead the one advised to his own conclu-
sions.

There is a moral side to these conclusions, it is said. Reprival
is no step toward mutual advantage. Sharp bargaining may cause glee to the
horse dealer but contributes less than nothing to the common and ultimate
welfare of the world's economic texture. A policy of self-sufficiency may
seem of temporary advantage to some nations but it is of such damage to
even as to make a pariah of narrow, short-sighted traders.

There is need for inventive genius and liberality as well as for
static knowledge to deal with the whole subject but if Europe suggests that
America is the particular appointed prophet in the economic world, this is
the moment to button up the watch-pockets.

Your Adviser in all his contacts has been met with friendliness
and no small part of the value of his services has been in the fact that he
had no unfulfillable promises to give away and no missionary superiority to
bestow on less enlightened people than his own. As your Adviser he was wel-
comed as a new kind of emissary whose mission was appreciated not only as
a traveller from the United States but one who without indiscretion inevit-
ably transferred the feel of one country where he had been to others to which
he was going.

Let it not be thought however that he left any doubt as to where
lay the burden of making American markets for European goods; it lies with
European governments and with European producers. The initiative in elaborate
and ambitious programs of economic peace lies in a Europe vexed by political
vices and other obstructions to that peace.
PART II

SUPPORTING STATEMENTS BY COMMISSIONERS
of the position and the extent of the threat to the nation. 

The letter is addressed to President Roosevelt and outlines the importance of immediate action to combat the German threat. It emphasizes the need for increased military preparedness and the importance of providing support to the Allies. The letter is signed by various ministers and officials, including the Secretary of War, the Secretary of the Navy, and the Secretary of Commerce. The letter stresses the urgency of the situation and the urgent need for a unified response from the United States.

In conclusion, the letter highlights the critical nature of the situation facing the nation and calls for decisive action to protect the country from further aggression. It underscores the importance of unity and cooperation among the Allied nations in order to overcome the common threat.
Information furnished by opposition professors and economists. Joseph Johnson of Trinity College, Dublin. General O'Suift and others.

The passion of the present Free State leadership is to further sever the ties with England. The Governor General is not even a figurehead because he lives in humble quarters and is never seen and expresses no opinions. The move to abolish the Senate was on in early April. Here again the political urge dominates the economic problems for, with political domination of England abolished the De Valera policy as stated is to leave no chance for domination through economic power. The program of self-sufficiency is aimed at England, first to set up economic independence, second for reprisals against English limitations of exports, particularly cattle, to the English market. Spokesmen for De Valera have gone so far as to say that if need be Ireland will give up her tea in reprisal.

De Valera's own emphasis was a justification of the land annuity guaranteed payments and a demonstration of the importance of the Irish markets to the British export and re-export. He asserted that in 1931, the Free State took from the British 59 million pounds sterling in imports whereas India, Germany and France took about 22 million pounds sterling and the United States only 26 million. This surprising set of figures continued until the trade war started in 1932 and then were reduced to the extent that the Free State dropped from first place to sixth place in 1933 and absorbed from the British exports only 25 million pounds sterling. The figures were confirmed by diplomatic offices of Germany and France and are not only interesting because they show what the usually unrealized importance to the British of the Free State market (only a part of Ireland) but indicate the enormous and rapid shrinkage which a system of barriers may bring about.

There is a tendency to support the doctrine of self-sufficiency by a philosophical willingness to accept a modest standard of living in exchange for what are called spiritual values, the happiness factor and national pride.

French Ambassador at Rome and now an intimate Adviser of Doumergue, the
Prime Minister, numerous private bankers. Alexander Lysenko, former
Imperial Russian representative to the Vatican, now a close observer of
French economics.

In no country is there a greater entanglement of political, eco-
nomic and financial affairs. The month of April saw something of an emer-
gence from a perfect slough of futility and corruption of parliamentary
government. The crisis therefore was more acute than the general world real-
ises for the complete fall of authority of the state was at hand. In six
months, Herriot, Balmier, Sarrat, Daladier had failed to govern. The gov-
ernment finances of a country rich in private savings approached bankruptcy.
The bankers could not sell government issues so little faith did the pop-
ulation have in the State. Private credit was vanishing along with public
credit. The devaluation of the dollar it said, added to the panic, for it
was rumoured that the franc would go. Hitler was a menace; either Leninism
or military nationalism to follow him were worse. New military expenses
were a new burden to break the camel's back and still may be though it must
always be borne in mind that France in private wealth is still well larded.

So great was the resentment against parliamentary government that
in fact doctors in some instances refused to treat deputies. The Stavisky
case filled the pail; it revealed that the higher-ups were as bad as the
peasant politicians. Various para-fascist organizations began to take form
and to demonstrate. The situation began to take the familiar shapes which
preceded revolutions in Russian and Italy. Those in France were conservat-
ive; they were forming in many instances by a desire not for chaos but to pro-
tect savings under a stronger State and under another constitution. The
troops in Paris could not be relied upon. Herriot, Tardieu, Pétain, accepted
Doumergue and upheld him because he was trusted by all — not a romantic
hero but honesty sometimes is romance.

What then are the interests of France? Three. To see Doumergue
avert financial chaos. To see him avert social violence. To see him avert
war — which the French detest.

At this point the thesis as told from many of the above sources is
interrupted to point out that for the moment world economy is of secondary
or tertiary interest. The trade negotiations with the British failed in
March and are being retaken. They engage a secondary interest. Barthou told your Adviser quite candidly that he was too busy with Poland and Czechoslovakia to know much about world trade barriers. Even when the French mind flexes toward the subject it is an academic mind. Such matters are referred to the "competent bureaus." The gold cover in the Bank of France in late April was 78%. The threat of social violence or of financial panic however appears to the French official financial and expert group as far more important immediately, than exports and imports.

In this state of affairs French opinion asserts that it is disillusioned about attempts to thaw out world trade. France accepts the quota and license systems and intends to use them to fight with. To change this policy would require a far greater stability within France and something other than the pre-war mentality of the Government of Old Men. The quota system was forced when 1931 showed a great deficit in trade balance and the pressure of internal business and finance on the government was irresistible. The predecessor of M. Lannesruex in the trade treaty office was the creator of the office, M. Paul Elbel, who far from being an adherent of the doctrine of normal international flow had ideas of entrusting all international exchange to exclusive government control.

France it must be noted, catalogued in the minds of most European financiers and economists as being a case apart. Her economic theory is work and savings, and a moderate, rather than a higher standard of living. She dislikes regimentation and modern industry. It is said that only one person in seven gainfully engaged is on a pay-roll, i.e. her production is family or cooperative production in small units. "France" as Lloyd George once said "detests German organisation and industrial efficiency. She detests the contamination of industrialism almost as much as she fears invasions by arms."

For all the post war years the system of parliamentary government and short span ministries have lived great lives politically by appeals to French fear of war and French reluctance to reach into the old sock and pay a tax. Hence the population today is saturated with fear of German ascendancy and ultimate invasion and equally and quite sincerely resentful of any suggestion of payment of "wart debts" as one of them joyously suggested. These considerations are live seals in the French soul; world economy interests few.
French minds are set upon trying to decide which would be the worst—a Germany on her feet in industry, a Hitler forced to violence to maintain office, or a State of Germany in communism with contamination spreading to some ticklish situation in Paris where troops may in the future refuse to row the mobs, where even today the head of the Paris policy starts in horror against an indignity to the French people when it is suggested that he might use tear gas.

**GERMANY (D) Berlin, Bonn, Rome.**

**Narren Von Neurath, Minister of Foreign Affairs. Schmidt, Minister of Economy. Ernst Hanfstaengl, Director of Foreign Press and Advisor of Hitler. Schacht, President of the Reichsbank. Rischer, Managing Director of the Dresdner Bank, Bruning, the former President of the Reich, who is more or less in hiding and must be seen secretly, various members of the Foreign Office, various members of the diplomatic corps including English, Italian and Belgian, from all of whom most valuable views were obtainable. Risscher and Siemens of the Electrical industry. Krupp Von Bodel and Poosen of Stuhl, Dinsburg of the Chemical industry. Other industrialists and under secretaries of the Government. Dr. B. W. Von Balow.**

To see Hitler, for which arrangement was offered, appeared to promise no gain because of the difficulty of language and for reasons of policy.

The regime in Germany faces mounting difficulties, mainly based upon (1) lethargy and secret doubts of a people somewhat disillusioned about Nazi fanaticism. (2) The slow withdrawal of the support of industrialists and financiers. (3) the increasing disaffection of monarchist or nationalist mentalities. (4) an intrigue by the latter to supersede Hitlerism which may have the support of Hindenburg. (5) Reaping of the crop of unwise excesses in persecution. (6) Communist squirmings. (7) Government bankruptcy. (8) The facts that a great industrial nation eager for productive labor is reduced to a gold cover of about 4% and has no more resource for taxation and probably cannot refund in any manner, even its internal obligations, that another collapse of the mark is inevitable, that no markets are found for its production, that over-population is volcanic and finally the fact that Hitlerism is thought to have intensified rather than helped the catalogue of war.

Your Adviser does not regard seriously any prospect of a return to
old constitutional leadership. If Ewing has a solution, he fails to state it. When challenged for a coherent program, he and others retreat to generalities about human liberties and to mere criticism. The fear of the old constitutionalists is an ultimate revolt of Brown Shirts in favor of the communism which many of them abandoned temporarily. The displaced political figures are constantly being approached by offers of bribes from Paris to forestall trouble and are therefore aware of the anti-Hitler propaganda which comes from private financial sources. The nationalists, some of whom, as the world knows are indigestibles within the Cabinet are beginning to fear chaos unless they organize, and accommodate Hitlerism. It is significant that in this Juncture Hitler backs water, that he cannot throw off his lieutenants some of whom are irresponsible and, in some cases, grotesque men, that the final step in regimentation—the completion of the Arbeit phalanx is not such a success as to please industrial leaders.

The results of the Italian revolution are not being achieved in Germany. Opinion in the countries surrounding Germany is that Hitler falters in the wrong places and goes to excesses in others. He has gambled upon an oratory which he dares and handles with skill rather than upon administration in which his capacity is limited. Hence any foreign criticism, boycotts and reprisal hide rather than expose his weaknesses and give him more to do appear as a persecuted savior of his people.

The alarmists reports of military preparation have been grossly and immoderately exaggerated. There have been purchases and accumulations of raw material for munition purposes but their bulk, even if converted into arms, does not warrant the belief that any aggression is possible, except that of airplane raids, nor that if aggression were proposed the population of Germany itself would not revolt because of its futility. Besides France, Poland, and Czechoslovakia are alive with preparedness.

The possibility that Bavaria, which is Nazi but not Berlin Nazi, may break away, if chaos comes, is proving a source of considerable speculation. France and Italy, for different reasons would find this a relief and rumours with some foundation say that some plotting is afoot.

The background of this political picture, with a sunset of Governmental bankruptcy, is no advantageous place to paint a world economy program. The latter is not immediate enough no matter how vital to a Germany that must
export to live. Hemmed in by a constricting diminution of export possibilities, and with no gold to pay, German policy begins to weigh all the possibilities of self-sufficiency. Schacht and Krupp von Bohlen, with whom your Adviser spent a week with a group of the larger industrialists, have no stomachs for that philosophy but certain groups of industrialists who have processes and substitutes to exploit are practical enough to exploit them to serve a propagandaized self-sufficiency. Meanwhile the pressure to bar imports by all the devices known creates a panic among German consumers who rely upon raw stocks from abroad. Delegations from Armenia and other places interested in obtaining American cotton and delegations dependent upon importing American oil and other delegations came to see your Adviser, pleading of course for American admittance of German goods so that raw materials for their use could be received in Germany.

As stated in the main body of your Adviser's report the Great Punitive Peace has created in the center of Europe a Germany which may be less of a problem to herself than to all of Western Civilization. It is as if the wrath of man had evoked the wrath of God; two milestones which while they grind outwardly on the victims of war are making mincemeat of the new and innocent generation of forty-million Germans.

SWITZERLAND. E. G. KANANZ. R. BALD.

The Financial and Economic secretariat of the League. The Labor Organization Secretariat, Stepanoff. W. A. Hiddle. It is the Japanese member of the Economic Section of the London Conference. M. Quevauy of the Bank of International Settlements, and various industrialists particularly in the dye industry and others. The Secretary General of the League was absent at a week-end.

Switzerland, it is said, under no circumstances will go off the gold standard. She is getting along better than the rest of the world. It is admitted that the standard of living must be somewhat reduced; it has been high and supported in part by tourist expenditures which curiously enough are dependent now upon German tourists. Switzerland is interested in reduction of American tariffs. She would be interested in an economic pui-lateral group if the United States would consider a principle based on the Gushby plan.

The League itself is cynical about the London Conference. Members of the Economic Section including Cullen are of the opinion that nothing can
be done. The meetings of this section have been emasculatE. Every question
is put on ice. There is doubt that any center of caution and timidity can
deal with emergency situations or will dare to commit itself except to meaning-
less phrases. There are the inward, if not outward expressions. More import-
ant was the Disarmament meeting but nothing was expected of that either.

The League has been reduced to a service station and even that has
began to feel the dry rot of bureaucratic cumbersome and the futility of
cautions mewlings and of the sky printing press.

The International Labor Organization as stated has taken on new sig-
nificance since the problem of trade stagnation may make standard of living
questions paramount in relation to all the producing hands of the world.
Furthermore labor governments in several hitherto capitalistic countries may
take trade questions into its own hands. The association with the League is
the Organization's greatest burden. Though this affiliation is slender it
means possible manipulation by the League and thus issues a warning to American
policy and indeed to United States Labor itself, which may not be interested
in equalization of standards downward.

ITALY. Rome, Milan, Turin, Piacenza, Venice.

The King, in two interviews. Mussolini. Savich, Foreign Affairs.
Publisher of Popolo d'Italia, Mussolini's own paper and the Rosso's unlisted
adviser. Reports from officials of the International Institute of Agriculture
in Rome. Cerutti, formerly Chairman of the Confederation of Commerce.
Numerous bankers and industrialists. Sir Eric Drummond, formerly Secretary
General of the League of Nations, now British Ambassador. The German Ambas-
dador, Various officials of the Roman Church.

Italy in some respects like Scandinavia, Holland, Belgium, Switzer-
land, Portugal, Ireland (because of her desire to yield to America parts of
her import cut from the British trade) and to a lesser degree Czechooslovakia
and Poland all enjoy a stability, unity of national spirit and a comparative
salvency, which renders her capable of turning attention to some campaign to
restore stabilization of values and international trade. Italy may be includ-
ed in those countries where absence of impending political earthquake or of
complete financial collapse in government gives some promise of enlightened
cooperation in trade-flow.
The interest of Italy in Bavaria, Austria, and Hungary is not solely an interest in a protective ring at the North; it includes to some small degree interest in a field of development and of economic union to relieve the monotonous positions of Austria and Hungary and replace them with an economic mutuality. The idea has persisted since the days of Don Sturzo's leadership of the Partite Populari when he exposed the whole program to your Advisor.

Mussolini hopes for a stabilization of the pound, dollar, and lire in which he may join before October. He believes that gold countries would have to revalue wherever necessary, even France. He sees this as a preface to a thesis of breaking the economic ice.

"Glaciers will turn into rivers."

The key must be turned by someone. Economic war between the United States and Britain is ultimate loss to both so great that no jack-staws should be played. (In the thought that British and American cooperation is required he differs from Colijn and Trip who believe apparently that the United States, Holland, Scandinavia, and perhaps Belgium and Italy can force adherence of others to something in the nature of a stabilized economic union of reciprocity.)

In the meantime Mussolini's ministers are playing the same dice record beard everywhere in Europe. "If you can't take any more I can't pay for yours, not even those that I have regarded as necessities in the past, if forced to do so, I will find substitutes to create self-sufficiency." Asquini, Minister of Corporations, even finds virtue in such necessity. "It is much true that self-sufficiency is not always bad economy since it produces new products of great use in progress toward higher, not lower, standards of living. He exhibits samples of new textiles from hemp and jute and vegetable silks. The world's need for cotton may be cut in half in the near future and so on."

In the financial situation such that is depressing may be said. Jung in a successful campaign to reduce interest on the internal loans failed to figure on the past export of such loans and in May was added to be on his way out of power yielding an increased prestige to Beneduce who was absent from Rome. But the productive internal economy is well in hand and public works to absorb unemployment are wisely created as a capital investment.
The recovery of the Pontine Marshes is a great achievement, reforestation and roads have enriched and tied together the internal assets. The spirit of the people has not lagged. Far from relaxing power by weariness, Mussolini has mellowed and those who diagnose this as approach of age are far from the truth. The machine he has built is more effective now than ever, especially as a machine indistinguishable to an assembly of ambitious personalities. These are the bases of confidence which support the thin financial margins.

AUSTRIA. 6.

Chancellor Dollfuss. Richard Schuller, Advisor on all external affairs and an old friend. Louis Blaha, Foreign Office Chief de Cabinet. Dr. Anton Apold, Manager of Austria's largest steel and iron industry. Maurice Press, Adviser, National Bank. Adrian Van Hengel, President Credit-Austriat, the largest bank. Jaques Kahane, Director Mercabank. The Minister of Foreign Affairs and various others. Otto Spahn, Professor of Economics, said to be the original advocate of the theory of the Corporate State.

As stated already the political and banking crisis in Austria threatened alliance or a merger with Germany. Austria, being an impossible economic unit as pared down by the peace, could only have her independence guaranteed from without. France and Italy undoubtedly had understanding that Dollfuss should be maintained but only German political stupidity is responsible for failure of the Nazi plan. Instead of wooing Austria when the time was ripe, stronger methods and dictatorial attitudes defeated German ends. The highest authority in Italy says "We were alarmed but Germany's lack of assertion came to the rescue." The two outstanding results are a continued Dollfuss, dependent it is believed upon alien support but without any legal forces of arms behind him. He depends upon outside financial props. These have brought about an intense bank amalgamation wiping out broadly speaking all other Austrian banks. Nazism still corrupts some military and police and prosecution except for the greatest excesses is held back by a government which feels that moderation is more potent than heavy handed discipline.

There is no assured political stability except that guaranteed from without and by the very nature of Austria's boundaries there is ever present gross economic anomalies and constant financial apprehensions. No hope exists to sell to such a country unless there is something to purchase
from her and this possible import from her is very thin. She is too weak to
swing much influence in any building of world economy. Her people are Ger-
manic in feeling but like Serbia have no taste for Berlin or for excessive in-
terference with personal freedom. The Nazi movement however is far from dead.
Released political prisoners of the Nazi group tell your Adviser that the move-
ment will not end but enlightened ones deplore the "outrage" system which is
inspired from without for it will turn Austria anti-Nazi in the long run.

HUNGARY III. Budapest and industrial towns.

Gulason de Kanya, Minister of Foreign Affairs. Dola de Imredy,
Minister of Finance. Adviser of the National Bank. Baron Marcel Bank, Dir-
ector of the Hungarian Discount and Exchange Bank. Mr. Bruce, English, League
of Nations Adviser to Hungary (Royal Tyler was absent). Undersecretaries of
Ministries of Foreign Affairs and Finance. (The President was absent for holi-
days).

Hungary, as Mr. Bruce states it, has no hope of pulling out of the
hole; the Little Entente and Yugoslavia are only too glad to yield no territo-
rial or economic favors. Agricultural products sell for nothing and the cost
of manufactured articles is absurdly high. The standard of living of the gen-
eral population is declining rapidly. The privileged classes live on credit
which must ultimately break down. Even in the Government there is no pretense
of any other state of affairs. Nothing remains except complaint about the
Treaty of Trianon and important hatreds. Without economic union with neigh-
boring countries or others, Hungary finds herself surrounded by military dict-
atorships and enemy countries with economic walls raised against her. As a
market for or a supplier to the United States, she must be considered with
the hope of some measure of rehabilitation emerging from an economic union with
Italy and Austria.

CZECHOSLOVAKIA. I

Benes, perpetual Minister of Foreign Affairs, an old friend. Jan
Masaryk, son of the President. The President had just passed through a tri-
mphant election but was very ill. Dr. Masaryk, his daughter. Mr. English,
President of the National Bank who engineered the devaluation of the crown.
Other bank officials and industrialists.

The political stability of Czechoslovakia will remain only while
Haaryk lives. What will happen afterward no one will say. From the point of view of a key factor in France's "Eastern Corridor" the best information is that even if hence, regarded as Francophile and even accused of being a French agent, desires to support France, an opposition to continued subservience will arise especially since France can no longer afford further financial support. The Industrialists seek markets and lean towards independence of action in so doing. While the army is being kept at concert pitch, the trading instinct of the Czech begins to look forward to commercial exchanges with Germany. It is here in Czechoslovakia that we begin to find the ambition of Germany to release herself in an eastward direction.

American exports of cotton and cotton yarns to Czechoslovakia dropped from 974 million krones in 1930 to 450 million in 1933. Mining oils dropped from 101 million in 1930 to 45 million in 1933. Fats show about the same decreases.

The government now desires to buy direct from America and not have the purchases pass over Germany.

The willingness to negotiate reciprocal arrangement is expressed in almost all quarters.

POLAND.

Colonel Wacław Siewek, former Prime Minister, closest personal friend of Marshal Pilsudski, who was absent, Minister of Finance, Lechimick, Podolski, Anglo-Saxon Section Foreign Affairs, Rajchman, Minister of Industry and Commerce, Szczepan, Under-secretary of Foreign Affairs, Witold Wankowski, Chief of Treaty and Commercial Policy. Labernski, Foreign Office, Industrialists.

The standard of living in Poland is low indeed. It is in large part a self-subsistence country and its expenditure on defense is the major part of its budget now nearly balanced. Heretofore guided by France and like Czechoslovakia, Poland feels a desire to find her way more independently. She regards herself as an important factor in coming European development and tends to adopt the policy of giving no pledges not well paid for. Barthou had just visited Poland with great fanfare of friendship but it is understood his mission failed. Except for exports of ore there is not much in the Polish market—peasant industries, chocolate and cordials of good quality.
It is of interest that the Japanese mission in Poland of which Nebumi Ito is the head is considered by the secret services in Europe as the mainspring of Japanese manipulation and propaganda on the Continent. Ito, who came to see your Adviser, is also director of the League's Japanese bureau and a member of the Economic Section of the London Conference.

BELGIUM. M. Brussels, Antwerp, Louvain, Ghent, etc.

King Leopold. Mr. Rymans, Minister of Foreign Affairs. Van Conwaers, Minister of National Economy and Agriculture. Jasper, Minister of Foreign Affairs. Sap, Minister of Finance. Fontham, Minister of Public Works.


An overturn of the Cabinet was in process which shifted the personnel without substantial change except that Rymans was replaced by Jasper who was an old acquaintance from the days of the Genoa Conference. The presence of the old king is missed. His roots had gone deep. In Europe he spoke quietly here and there and to good effect. Ministries are not stable but there is stability in the regime and constitution. Furthermore, Belgium though more overpopulated than any other civilized country keeps her chin above water and has a good position to look around with some detachment. Her statements and her bankers are seasoned without loss of vitality and the business mind is becoming more evident in policy than the political mind, in spite of the division of the country into Flemish and Walloon factions. In Belgium is found the trail of an interest for world economy, for exchange and a higher standard of living or at least a stand against retrogression. Men like Van Conwaers and the younger Van Zeeland, who has just been given a ministry without portfolio, are eager to discuss ways and means to create economic unions for reciprocity. Though meritorious they suggest the Gattty agreement principle as the path for nations not too preoccupied by the international chessboards of fear or by internal instability.

As in Italy, the idea grows that nations which are free to act need not wait for the others whose preoccupations in other directions wreck conferences in which their membership produces only discord and bad odors.

"If the whole menu is not digestible we can try a few of the dishes."

Franck of the National Bank, a staid man, thought stabilization on
gold values could well precede attempts to form plu-lateral arrangements but that steps forward should be taken in any case to weave uni-lateral, triangular and multi-trangular exchanges.

NEDERLAND. Hague and Amsterdam.

De Graeff, Minister of Foreign Affairs. Colijn, dominant personality in the Cabinet and Chairman of the Economic Section on the London Conference. Trip of the Bank of Netherlands. Under-secretaries and various banking and industrialist members of the trade organisations in Amsterdam and the Hague.

Colijn and Trip have two of the most satisfactory and best realist minds in Europe. He who would devise ways to reopen the flow of international trade would make no mistake in choosing these two to be among his advisers, and since the Netherlands are largely guided by their counsel, it may be the best of all European nations with which to work on solutions of the problems of world economy.

Neither of these men believe that normal international business can be done until currencies settle down on a gold value; both believe however that if world economies are to be freed from politics the places to begin the campaign are the countries which have stability, which refrain from tugging to every economic question a demand for a political concession, pledge or consideration, which can give attention to the subject and regard reciprocity as being mutual advantage and not as a fish trap. Both assert that Scandinavia is fertile territory for such progress and perhaps Belgium, Switzerland and Italy.

CONCLUSION

No re-convention of the London Conference is practical.

Little may be expected in contributions to trade flow from governments either (A) bankrupt. (B) on a precipice of internal discord or financial explosion or in process of reorganization. (C) consumed by war fever and thus engaged in two businesses (1) armament (2) intrigues with which Europe now seethes as never before.

Some common measure of value must be established to create confidence in tomorrow's worth of anything, hence stabilisation on a gold basis is needed for international exchange.

It is possible for a certain number of trading countries, freed from others of impediments, to begin at once an attempt to form a reciprocity group, which may be released by judicial interpretation as a crown from the constriction-
ing soils of the most favored nation clause.

That the problem in the ultimate is not production of goods unless goods and credit may be the means of building purchasing power.

The relative position of one or more competing trading nations in any market is less important to any of them than the purchasing power built by the activity of any or all of them in that market.

Hence economic unions of reciprocity may not only develop trade between nations in the group, but will aid all nations by building purchasing capacity.

NOTE:—Your Adviser has omitted from this report as irrelevant the extended views obtained of inter-governmental debts, moratoria, and blocked transfers. He has omitted as well the laudatory or critical expressions towards the Roosevelt Administration and its economic programs; in large measure they have been put at his disposal.

He has omitted his own views as to the much needed resourcefulness and changes required to build efficiency and constancy in economic reciprocity.

The expenditures of your Adviser have been much below the estimates and budget.
My dear Mr. President:

I enclose herewith copy of a telegram from Ambassador Grew in Japan reporting that Hirota had told him yesterday that Japan had definitely decided to give notice before December 31, 1934, to terminate the Washington Naval Treaty.

I have sent a paraphrase of this to Norman Davis and another to the Secretary of the Navy emphasizing its strictly confidential nature and the importance of preventing any leak from American sources before the negotiations scheduled to be held in London in mid-October.

Faithfully yours,

Enclosure: Copy of telegram.

The President,

The White House.
This telegram must be closely paraphrased before being communicated to anyone (A) to anyone.

Tokyo

Dated September 18, 1934
Re' d 2:47 a.m.

Secretary of State,
Washington.

204, September 18, noon.

My 202, September 17, noon and previous.

The Minister for Foreign Affairs told me yesterday that Japan had definitely decided to give notice before December 31, 1934 to terminate the Washington Naval Treaty. The Minister said that although many elements in the Navy wished to abrogate immediately, he had insisted on waiting until after the London conversations in October because he intended to discuss this subject with the other signatories before abrogation in order not to give offense and also in order to avoid the unfavorable atmosphere prior to the next Naval Conference which might be created if abrogation should take place without some preliminary mutual understanding. He said that the discussions concerning abrogation would be conducted with the various signatories separately and that the matter
matter would be taken up by Ambassador Matsudaira with the American delegation to the preliminary conversations in London.

GREW

RR CSB
October 11, 1934.

Dear Mr. President:

Attached hereto is a memorandum relative to claims of our nationals against the Government of Turkey, and also for your consideration and for your signature, should you approve, the documents authorizing Fred K. Nielsen our representative to conclude the settlement agreed on. The suggestion that we should close the controversy by accepting the Turkish offer of $1,300,000 and avoid further expense by placing Nielsen in position to act immediately has Secretary Hull's approval.

Yours very sincerely,

Enclosures: 
As stated.

The President, 
The White House.
October 10, 1934

TURKISH CLAIMS

Mr. Fred K. Nielsen, designated by the President several months ago to go to Turkey to endeavor to effect a settlement of outstanding claims of nationals of each country against the other, has recently reported that he has been able to obtain from the Turkish representatives an offer of a lump sum settlement of American claims. The original offer was $500,000. This was raised after considerable discussion and examination of the claims to $1,200,000, to be paid in twelve annual installments. Mr. Nielsen recommended acceptance of the offer, but, on instructions from the Department to endeavor to obtain more money, payable in a shorter period of time, was able to have it increased to $1,300,000, payable in thirteen annual installments. He reported that, owing to the financial condition of Turkey, it was not possible to shorten the period for payment. He thinks this amount will be sufficient to cover all meritorious claims, other than those of naturalized citizens of Turkish origin which
which the Turkish Government has refused to consider, since, under Turkish law, they are regarded as Turkish nationals. Turkey has not advanced any claims against this Government. He was authorized to accept the offer as the only alternative to interminable delay and increased expenses with no prospect for a better settlement in the end.

We have instructed Mr. Nielsen to remain in Istanbul until a final agreement is signed. He now reports that such an agreement is in immediate prospect, but that the Turkish representatives do not consider that his present commission is sufficiently broad to enable him to sign the agreement and have asked that he be given full powers.

If the President approves the attached full power, the text can be promptly cabled to Mr. Nielsen in order that he may conclude the agreement and return to the United States.

Machinery for distributing money to claimants will be one of domestic concern only, recommendations for which will be submitted at a later date.
October 17, 1934.

Dear Mr. Forster:

I have had this map marked so that it shows plainly both Inner and Outer Mongolia - and also shows how Inner Mongolia overlaps with "Manchukuo". If it is of no further use to you, you may care to retain it in your files.

[Signature]

W.C. [last name illegible]

H.R. [last name illegible]
November 8, 1934

My dear Mr. President:

I enclose a copy of a telegram which has just been received by the Bureau of Insular Affairs from the Governor General of the Philippines in reply to the two telegrams which we have sent him with respect to changes in the tariff. In view of the statement, as quoted in the telegram, of Speaker Paredes and the adjournment of the Legislature, I do not see that there is anything else we can do at present.

Representative Fish called me on the telephone from New York and I gave him the substance of this telegram from the Governor General. He seemed a good deal upset and critical of the

The President,

The White House.
State Department for having failed to put through the tariff changes. We all feel here that it was better not to bring pressure to bear on the Philippine Legislature.

Faithfully yours,

[Signature]

Enclosure:

Copy of telegram from Governor General of the Philippines, November 8, 1934.
Radiogram received November 9, 1934.

Secretary of War,
Cox

8th. No. 497.

CONFIDENTIAL. Reference Bureau's 545, November 7th, Bureau's 531, November 1st, was immediately considered with President Pro Tempore of Senate, Speaker of the House, and Secretary of Finance. Opinion was firm that, with but few days of session left, it was impossible to successfully retake position on tariff measures, particularly changing basis from rates to quantitative limitations. On Tuesday November 6th a caucus of Majority Party was called and thereafter Speaker Paredes issued the following statement: "After consultation with President Quezon, and the other legislative leaders, we have decided to defer action on the tariff until a thorough study is made of the whole question of American-Philippine trade relations and the views of the Congressional Committee arriving from the United States are ascertained as to the definite future trade relations between the Philippines and the United States. We hope that, upon the establishment of the Commonwealth, all the necessary data will be at hand to formulate a definite trade policy, not only with America, but with other countries.

We
We have already started hearings on the tariff bill drafted by the committee headed by Senator Quirino and we hope to get through with the work very soon. We would have preferred to act on this tariff legislation during the present session, but such an important measure requires careful consideration and the Legislature has not had the necessary time to study and consider the bill submitted by the committee.

Murphy.
November 9, 1934.

The Secretary of State encloses for the information of the President a copy of the telegrams indicated below.

Enclosures:
No. 55, November 8, 4 p. m., San Jose, from Sack.
Telegram from Minister Baker at Bangkok.
McL
Gray.
Bangkok.
Undated.
Received November 9, 1934,
3:23 a.m.

Secretary of State,
Washington,

Present my congratulations President election results.

BAKER.

JS
Secretary of State
Washington

55, November 8, 4 pm.

FOR THE INFORMATION OF THE PRESIDENT.

The overwhelming vindication accorded President Roosevelt in Tuesday's elections has profoundly impressed and, insofar as I can ascertain, has delighted Costa Ricans. I have been congratulated for the President by President Jiminez, the President of the Congress, and many other prominent officials and diplomats.

SACK

CIB MAN

GRAY
SAN JOSE
Dated November 8, 1934
Rec'd 7:10 pm
ASSISTANT SECRETARY OF STATE
WASHINGTON

November 24, 1934.

Dear Mr. Mac:

I am sorry that apparently our wires were crossed when we talked last night on the telephone about Secretary Hull's memorandum which I dictated to Mr. Kannee over the telephone yesterday afternoon. I am afraid some of the note got garbled in the transcription.

I am enclosing herewith a copy of the memorandum. It is merely a very private and confidential memorandum which Secretary Hull wanted to go to the President so that the President might have a full understanding of the situation with regard to the Brazilian Trade

The Honorable
Marvin H. McIntyre,
Assistant Secretary to the President,
The White House.
Trade Agreement. Because of the recent statements of Mr. Peek, the Secretary felt out of abundance of caution that he would like to keep the President informed at every stage of the proceedings and would like to have the President's authorization before he delivers the draft texts to the Brazilian Ambassador.

In accordance with the authorization which you gave from the President over the telephone last night, we are handing the proposed draft texts of the Brazilian Agreement to the Brazilian Ambassador this morning. As I explained to you over the telephone, these are rather lengthy documents and I need hardly add that neither the Brazilian Ambassador nor anyone else will see the private memorandum which I telephoned to Mr. Kannee yesterday afternoon.

Ever sincerely yours,

[Signature]
MEMORANDUM FROM THE SECRETARY OF STATE TO THE PRESIDENT,
DICTATED OVER THE TELEPHONE BY ASSISTANT SECRETARY
SAYRE TO MR. RANNEE AT WARM SPRINGS, GEORGIA,
AT 5:15 P.M., NOVEMBER 23, 1934.

On October 30, 1934, a carefully prepared memorandum was handed to the Brazilian Ambassador setting forth the suggestions of the United States as to the basis for the trade agreement to be entered into between Brazil and the United States. This memorandum had been the subject of discussion between the State Department and organizations represented by the Trade Agreements Committee on the one hand and Mr. George M. Peck on the other. As a result of a discussion between Mr. Peck, Mr. Welles, and Mr. Seyre, final agreement was reached as to this memorandum. The President approved it and it was accordingly handed to the Brazilian Ambassador.

The Brazilian Ambassador now states that he believes that his Government is favorably disposed toward going forward along the lines indicated by this memorandum but that before giving a definite reply he wishes to submit to his Government a definite text in order to indicate with precision what the United States Government has in mind. The acceptance of the United States proposal will mean the rejection of proposals now being made to Brazil.
by the German Government. The Brazilian Government has therefore declined to make any commitments to the German Government until a decision is reached with respect to the United States. A German delegation empowered to negotiate with the Brazilian Government left Rio when this became known to them and will return to Rio in about ten days. The Brazilian Ambassador therefore says that time is of the essence and that the chances of the Brazilian Government's accepting the American proposals will be very greatly increased if the American proposals can be put before the Brazilian Government at once.

The drafts have therefore been prepared of a proposed trade agreement between Brazil and the United States, including a joint declaration of policy to be given out by the two Governments upon the signing of the agreement. These drafts have been prepared in accordance with the suggestions contained in the memorandum handed to the Brazilian Ambassador on October 30th and approved by the President. These draft texts have been worked out by the Interdepartmental Trade Agreements Committees and have had the approval of these Committees. At the meeting of the Executive Committee on Commercial Policy held this morning the texts were approved and agreed to unanimously by all present except Mr. George N. Peek who voted against them all. Since the urgency
urgency is great, the Secretary of State would like to present these drafts to the Brazilian Ambassador tomorrow morning.

As has already been explained to the President, the principle embodied both in the trade and financial clauses of the agreement is that of unconditional-most-favored-nation treatment. The Brazilian Government and ourselves pledge reciprocally in all matters dealt with in the agreement that each shall accord to the other treatment no less favorable than that given any other country. This means, as far as the handling of foreign exchange matters go, that if Brazil should enter into an arrangement with any country providing better exchange treatment than is now being granted such improved treatment would have to be accorded to American trade. It leaves liberty of action to Brazil and protects American trade against any form of inequality or discrimination. The Brazilian Ambassador has informally stated that his Government will be prepared to relinquish all exchange control on future commercial transactions upon the conclusion of the proposed treaty and to take steps, within a period of some twelve months, to clear up present blocked exchanges provided normal American banking facilities are obtained. It will be our intention upon the conclusion of the proposed trade agreement to request the
the Brazilian Government to make simultaneously a declara-
tion in this sense.

As regards the trade treatment, the Brazilian Government
would reduce various tariffs now applying to exports
in the United States. Naturally we have selected in our
requests for reduction those commodities that we are in a
position to supply to the Brazilian Government in competi-
tion with the outside world.

This general approach is the one prevailing in existing
treaties of the United States. It is also based on the
view that the rule of equality of treatment and the con-
tinuation of a system affording full possibilities for
triangular trade operations are necessary in order to main-
tain the position of American commerce in many countries
which now buy much more from us than we buy from them,
particularly the chief European trading countries. The
conviction that this is the soundest general approach to
the subject is shared by all the Departments represented
in the trade agreements work except that of the Special
Adviser on Foreign Trade. The documents in the case were
voted on favorably at this morning's meeting by the repre-
sentatives of the State, Commerce, Treasury, and Agriculture
Departments, and by the Agricultural Adjustment Adminis-
tration, by the Tariff Commission, and by the National
Recovery Administration.
November 26, 1934.

My dear Mr. President:

The Assembly of the League of Nations has adopted a report providing for the peaceful solution of the Chaco dispute. In accordance with the provisions of the report, this Government has received two invitations from the Secretary General of the League of Nations requesting the United States to participate in the deliberations of an Advisory Committee whose seat shall be at Geneva, and likewise to appoint a representative to take part in the duties of a so-called "Neutral Supervisory Commission" to deal with the military aspects involved in the cessation of hostilities between Bolivia and Paraguay and in the taking of measures necessary to provide for the neutrality of a zone which it is proposed shall extend between the military forces of the belligerent nations in the Chaco.

As you will recall, this Government has upon repeated occasions lent its best efforts towards a peace-

The President,

The White House.
ful settlement of the Chaco dispute. From 1929 until 1933 the United States, with other American republics, through a so-called "Commission of Neutrals" sitting in Washington, endeavored in consultation with the two parties to the dispute to find an agreement acceptable to both Bolivia and Paraguay providing for a peaceful settlement of the controversy. While the League of Nations had taken cognizance of the dispute from its inception, since both Bolivia and Paraguay were members, so long as the so-called Commission of Neutrals in Washington was functioning, the League supported the endeavors of this Commission and it was only upon the rejection of the formula for settlement finally submitted by the Commission that the League in the spring of 1933 adopted a more active policy. In the autumn of 1933 a Commission of the League, composed largely of representatives of the European powers, was dispatched to South America with instructions to seek to bring about a cessation of hostilities and to obtain an agreement on the part of both belligerents to submit the controversy to arbitration. During the course of the Montevideo Conference, as you will recall, the moral support of the American republics represented in the Conference, including that of the United States, was offered this peace agency. The efforts of the League
Commission, however, failed, inasmuch as none of the reports or recommendations which they formulated were acceptable to the belligerents. Upon the failure of this phase of League activity, the initiative in July last was taken by the Argentine Government, which requested and obtained the active cooperation and support of the United States and Brazil in seeking to bring about an agreement between Paraguay and Bolivia upon bases formulated by Dr. Saavedra Lamas, the Argentine Foreign Minister, which provided for a peaceful adjudication of the dispute. In September last, owing to the fact that the League Assembly was due to meet and, under the terms of the Covenant, was obligated to take further cognizance of the dispute owing to the demand previously formulated by Bolivia, these negotiations were suspended at the instigation of Argentina and with the acquiescence of Paraguay and Bolivia.

The report now adopted by the Assembly provides primarily for three separate stages in the proposed solution of the dispute:

1. The creation of a Neutral Supervisory Commission to be composed of representatives of Argentina, Chile, Peru, Uruguay, (all members of the League) and of Brazil and the United States, neither one of which is a member of the League, should the latter two states agree
agree to participate. The duties of this Commission are to supervise and facilitate the cessation of hostilities between Bolivia and Paraguay, and to regulate the control of a temporary neutral zone between the military forces of the two countries the width of which shall be fixed by the Commission. The Commission is to assemble at Buenos Aires and to decide where its headquarters shall be. It is authorized to determine its own methods of work and to make its own rules of procedure; and its decisions are to be by a majority vote of the members present. The chair is to be held by all members in rotation and should the votes be equally divided, the chairman is to have a casting vote. It is stated that the creation of the neutral zone is "a measure of a purely military character", and that it is not the intent "to prejudice in any way the settlement of the territorial or frontier questions involved in the present dispute".

(2) There is to be constituted with its seat in Geneva an Advisory Committee composed of the representatives of twenty-three states, including European and Asiatic powers as well as American states, which is constituted "to follow the situation more especially as regards the execution of the Assembly's recommendations for the settlement of the dispute and to assist the
members of the League to concert their action and their attitude among themselves and with non-member states, more particularly as regards the most effective application, the modification, or withdrawal of the prohibiting of the supply of arms". The Committee shall have power "to make any communication, recommendation, or proposal which it considers desirable to the members of the League, the Assembly, or the Council"; it is particularly to "bear in mind the Assembly's desire that the state of breach of obligations (of the Covenant of the League of Nations) to settle disputes by peaceful means shall promptly be brought to an end".

(3) The holding of a conference of representatives of American states to meet at Buenos Aires within one month of the date of cessation of hostilities, for the purpose of conducting negotiations looking to the conclusion of a treaty of peace. This conference would be limited to the American republics and would assemble upon the invitation of the President of the Argentine Republic. Its purpose would be to find within a period of not to exceed two months an agreement between Bolivia and Paraguay based upon the final delimitation of the frontier between the two countries, and upon security and economic clauses. In the event that this conference should
should not succeed in attaining its objective, the report of the League provides that the two belligerent Governments are bound to call upon the Permanent Court of International Justice to give judgment in accordance with provisions which they shall previously have agreed upon.

Neither Bolivia nor Paraguay have as yet expressed themselves with regard to the report.

Throughout the years that this controversy has continued, and during the period when actual warfare has existed, the finding of a peaceful settlement has repeatedly been hampered by disagreement between the American mediating nations. The present report of the League provides the first occasion upon which all of the American republics (other than Brazil and the United States) have officially agreed upon a formal recommendation for the settlement of the dispute. There has likewise, as you know, existed on the part of certain of the American republics the suspicion that the United States might attempt through its major influence to dictate to the exclusion of other American nations the settlement of the controversy. Because of the special circumstances existing, I fear that were the United States to appear to adopt an attitude of passive opposition and refuse to cooperate, so far as it is able to do so, with the other
other American republics in this peace effort which has 
met with their official approval, the blame for the pos-
sible failure of the League efforts, or for the refusal 
of Bolivia or Paraguay to agree to the terms of the re-
port, would be placed definitely upon the United States 
and that as a result thereof a very considerable amount 
of resentment might be created against this Government. 
While it would unquestionably be desirable that all 
inter-American disputes be adjusted by purely American 
peace agencies, the time has not yet come when the ne-
necessary machinery is functioning, nor have the peace 
agencies created by common agreement between the Ameri-
can nations so far acquired sufficient prestige to prove 
their usefulness at this juncture. On the other hand I 
am, of course, clear that the United States should not 
take part in any committee which is constituted to sit 
in Geneva and which is responsive solely to the neces-
sities and exigencies of the League organization.

For the reasons above expressed, and after very 
full consideration of the important elements in this 
situation, I believe that the wisest course for this 
Government to follow would be to decline the invitation 
to participate in the Advisory Committee of Geneva, but 
to indicate its willingness to take part in the confer-
ence to be called by the President of Argentina, and in
the work of the Neutral Supervisory Commission, provided
the American representative on the latter Commission
shall be without power to vote or to commit this Govern-
ment in any way without specific instructions to that
effect.

I am attaching herewith for your consideration the
text of the two invitations received from the Secretary
General of the League of Nations and of the draft replies
which I recommend should be sent in reply thereto.

Throughout the course of the past months the Gov-
ernment of Brazil, which is, as I have said above, like
ourselves, not a member of the League, has been in close
and friendly consultation with this Government regarding
all developments in the Chaco dispute. Similar invita-
tions have been extended to Brazil, and before our offi-
cial replies are sent to Geneva, I desire to consult
fully with the Government of Brazil in order that if
possible our replies may be of similar tenor.

I shall greatly appreciate your early decision as
to the policy here recommended, inasmuch as if our offi-
cial reply to Geneva is not sent in the near future
considerable misunderstanding of our position may ensue
and an opportunity may be afforded for misconstruc-

of
of the motive for our delay in replying to the invitations of the League.

Faithfully yours,

Enclosures:
From American Consul, Geneva, Hon. B. F. H. Hubert
No. 354, November 24, 10 p.m.
From American Consul, Geneva,
No. 356, November 24, midnight.
Two draft telegrams to American Consul, Geneva.
November 27, 1934.

Draft reply to League invitation to participate in Advisory Committee.

AMOONSUL
GENEVA (SWITZERLAND).

Your 356, November 24, midnight.

Please address the following reply to Avenol:

QUOTE My Government has directed me to make the following reply to your letter of November 24, 1934, in transmitting the invitation of the Advisory Committee appointed by the Assembly of the League of Nations in accordance with part six of the report adopted on that date by the Assembly concerning the dispute between Bolivia and Paraguay.

My Government has given attentive consideration to the duties and responsibilities of the Advisory Committee as set out in the aforementioned report. The Advisory Committee, which has already met at Geneva, is composed of representatives of twenty-three States, including the States members of the Council of the League of Nations as well as other States. The Committee has been constituted "to follow the situation, more especially as regards the execution of the Assembly's recommendations..."
for the settlement of the dispute and to assist the mem-
bers of the League to concert their action and their atti-
tude among themselves and with non-member States, more
particularly as regards the most effective application,
the modification, or withdrawal of the prohibiting of
the supply of arms", as well as "to make any proposals
it may think desirable". The Committee "shall have power
to make any communication, recommendation or proposal
which it considers desirable to the members of the League,
the Assembly, or the Council. It shall communicate its
reports to the Governments of the States non-members of
the League which are cooperating in its work, as well as
to the members of the League. The Committee shall more
particularly bear in mind the Assembly's desire that the
state of breach of obligations (of the Covenant of the
League of Nations) to settle disputes by peaceful means
shall promptly be brought to an end".

In view of these powers, duties, and responsibilities
of the Advisory Committee as above briefly reviewed, my
Government, inasmuch as it is not a member of the League
of Nations, does not find it possible to collaborate in
the work of this Committee. However, in accordance with
the policy of my Government, which it has consistently
followed, and repeatedly announced, of furthering in
every
every possible and practical manner, the peaceful settlement of this dispute, my Government will be glad to instruct me to maintain informal contact with the members of the Advisory Committee for purposes of information, if this should be found agreeable by the Committee.

END QUOTE.
Draft Reply to League invitation to participate in Neutral Supervisory Commission.

AMCONSUL

Geneva (Switzerland)

Your 354, November 24, 10 p.m.

Please make reply to Avenol as follows:

QUOTE I duly transmitted to my Government the courteous invitation of the Assembly of the League of Nations conveyed in your letter of November 24, 1934, to cooperate in the work of the Neutral Supervisory Commission set up under paragraph twelve of part four of the report adopted on that date by the Assembly concerning the dispute between Bolivia and Paraguay. In reply I am directed to express the appreciation of my Government for this invitation and to say that my Government, taking into consideration that the Neutral Supervisory Commission will be composed of representatives of American States meeting on American soil for the specific purpose of supervising and facilitating the execution of measures relating to the cessation of hostilities, which measures would have been previously agreed to by both parties to the dispute, will be happy to cooperate with the Neutral Supervisory Commission by appointing a member of the Commission, who would, however, participate in the labors of the Commission without power to vote or to commit the United States except under specific instructions from the Government of the United States.
My Government desires me to add a reference to paragraph thirteen of part four of the report, which provides for a conference of representatives of American States to meet at Buenos Aires within one month from the date of the cessation of hostilities for the purpose of conducting negotiations looking to the conclusion of a treaty of peace. My Government has noted that the report provides that the President of the Argentine Republic would be requested to fix the date of the conference and to invite, among other American States, to participate therein the States represented on the "Washington Committee of Neutrals," of which the United States is one. I am directed to inform you that my Government upon receipt of an invitation from the President of the Argentine Republic to take part in such conference will be happy to accept. UNQUOTE
Warm Springs, Ga.,
November 28, 1934.

My dear Mr. Ambassador:—

That is a most delightful letter of yours and I do wish you would write me more often.

What you tell me about Mustapha Kemal is a perfect pen picture of the man and I love your stories which so well illustrate his personality.

I had a letter from our Minister to Tehran the other day and he tells me that the Shah is trying to model Persia as much as possible on the philosophy and practices used by Kemal in Turkey.

I understand that your predecessor is working on another book and I shall be interested to see if he still insists on the striking resemblance between the President of Turkey and the President of the U. S. A.

With my sincere regards,

Faithfully yours,

P. R. Robert D. Skimmer,
American Embassy,
Istanbul,
Turkey.
Istanbul, Turkey,
October 23, 1934.

Personal and Confidential

Dear Mr. President:

Almost the last remark you made to me when I saw you in Washington one year ago, or thereabouts, was to ask that I write you privately my impressions of the Gazi, Mustapha Kemal. I have put off doing so from day to day, knowing that you had many more important things to read, but as my esteemed predecessor has now told me that he intends writing another book, one that is to be in the Plutarchian style, drawing a parallel between you and the Gazi, it seems high time that I break my silence.

The President,  
The White House,  
Washington.
silence. I can think of no one in a prominent station in the whole world so little like yourself as Mustapha Kemal, and if I were writing the book instead of my friend Sherrill, instead of drawing a parallel I should draw my lines at right angles, as the only meeting point is in the fact that both are presidents.

That is not to say that Mustapha Kemal is not a remarkable man — anyone who runs a considerable country successfully for eleven years, and at the same time wastes his physical resources as he does, is, in more ways than one, a remarkable man. There are as many stories afloat about him as there used to be about President Coolidge, some true, some apocryphal — and very few indeed Sunday school stories!

When the Shah of Persia visited Ankara, on two nights in succession, and after long days spent in reviewing troops and what-not, the Gazi went into poker games that lasted from midnight
night until nine o'clock the next morning on one occasion, and ten o'clock on another, and the one man who emerged from these games fresh and well disposed was our President.

To illustrate his almost uncanny hold up-on the people, who try to anticipate his lightest wishes, let me mention that when he came to Istanbul this summer, he liked going with his cronies to the Park Hotel to watch the dancing and the attractive girls. One evening, having heard the muezzin in a near-by minaret call the faithful to prayer, he made some not too complimentary remarks about muezzins, minarets, and prayer. That was all. The next time he appeared at the Park Hotel, which was within a few days, the offending minaret had disappeared. His worshippers had had it demolished. It was a very nice minaret.

There is much honesty in his make-up. When I came out here everybody was reading the "Grey Wolf".

"Yes, Excellency."
"Well,"
Wolf\textquotedbl", (a biography of the Gazi), and as its circulation was then prohibited we kept it carefully out of sight. It gives the Gazi credit for many things, and it also tells of his relations with women in the plainest language. It got to the Gazi that there was such a book, and that its circulation had been forbidden, so he procured a copy and had its contents made known to him. Then he called in the proper people and said:

"Why have you excluded the book?"

"Because it is extremely scandalous, Excellency."

"Nonsense," said he, "Does it not say that I am a great man?"

"Yes, Excellency."

"A great patriot?"

"Yes, Excellency."

"A winner of battles?"

"Yes, Excellency."

"That I created the Turkish State?"

"Yes, Excellency."

"Well,
"Well, where is the harm in letting these people read all that?" he Kessal inquired.

"True, Excellency, but there is much about women."

"Yes, Excellency."

"What of it? These things simply prove that I possess all the qualities of a real Turk."

"True, Excellency."

"What I did, I did. The book tells the truth. It gives me much credit. Your prohibition is idiotic."

I like the following which indicates that this singular, crude, brilliant at times, ruthless man possesses also a heart. A certain politician who at one time had been close to the Gazi died last winter when I was in Ankara. It was said of him that he had told the Gazi a good many unpleasant truths, in consequence of which their relations had become somewhat strained and they no longer saw each other. A secretary at the presidency knew that this politician had fallen desperately ill, but did not mention..."
the matter to his chief until the poor man was actually dead. Mustapha Kemal inquired:

"You knew that _______ was very low?"

"Yes, Excellency."

"And you failed to tell me?"

"Yes, Excellency. I knew that your relations were not as good as they had been, and I thought it best not to disturb Your Excellency."

"Fool. You should have told me at once when you knew that he was about to die. That man and I have been friends. Had I known that he was going to die I should have gone to him at once and I should have held out my hand and have assured him of my affection. Now it is too late."

The particular secretary referred to soon left the presidency.

Nowadays the Gazi takes little exercise, no doubt drinks much more than is good for him, and enjoys hearty food. Probably one day he will
will pay the penalty of his indiscretions, but
today he can work harder and longer than any
of his associates, and his appearance indicates
an excellent state of health.

But all of the foregoing is by way of lead-
ing up to what occurs to me as the great achieve-
ment of this man who, born and bred under the
Sultans, a witness to the rise of dictatorships
in Europe, who might have said: "I am the State,
and after me the deluge," yet who decided to
found a Republic. Unquestionably the Turkish
people, ignorant, poor, illiterate, are not to-
day qualified to operate a democratic state ac-
cording to our notions; unquestionably today the
strong-arm government of Mustapha Kemal is the
kind of government that can keep order and get
things done; but the Gazi, as I try to read his
conceptions, has looked out into the future when
he himself shall have passed on, and he has made
up his mind while he possesses power to lift up
his people, if it can be done, to such a point
that
that it will be possible for them to take over the liberal institutions which he has founded and to continue the orderly administration that he has organized. Therefore, today, every act of government follows the constitutional rule. Let us admit that these acts are practically dictated from the top; nevertheless, the mere carrying on of parliamentary procedure, the mere repetition of a variety of constitutional practices, forges habits not easily shaken off, and in the long run may render possible the full realization of the plan. At least so it looks today. When we take into account the cheap and ill thought-out attacks on democracy now rather popular in Europe (but less so since the executions in Germany) is it not remarkable that it remained for Turkey to say to the world: "We have lived under a dictatorship for a thousand years, we know more about dictatorships than any country in the world. It was an autocratic system that brought ruin to Turkey. We have now resolved to prepare ourselves to live as
as a republic as more likely to give us peace and happiness than any other known system of government." And they are making quite a success of it.

I must apologize, Mr. President, for venturing to take up your time. I am always, very respectfully and

Sincerely yours,

[Signature]

Richard N. Nixon
November 28, 1934.

Dear Mr. President:

I think it would be well if you can find the time to devote thirty or forty minutes to an examination of the attached three memoranda on different phases of commercial policy. The several departments of the Government, acting through their experts, are, according to my understanding, in entire harmony with the ideas expressed herein, with the sole exception of our good friend Peek. The press, as I stated to you on the train, is generally supporting the same.

I trust you are thoroughly enjoying your visit to Warm Springs. I shall send you a memorandum early in the week offering a few suggestions for whatever they may be worth.

My best regards,

Enclosures:
Three memoranda.

Cordell Hull

The President,
Warm Springs, Georgia.
A manifest goal of governmental policy must necessarily be the achievement of full and stable prosperity. People in most parts of the world will not be satisfied with less. Such a degree of prosperity can be brought about only by a restoration of the normal volume of international trade. Full experience with the many narrow and short-sighted trade methods and devices which have been introduced during the post-war period, and especially during the depression, have demonstrated that the limited scope of barter transactions and purely quid pro quo bilateral bargaining methods of trade give in the main only temporary relief. They do not, therefore, have the effect or the tendency to bring about a general lowering of trade barriers so as to permit a general and healthy increase of trade. They do not in most instances contemplate the favored-nation policy.

The wider and comprehensive trade policy, the initial step in which is our present reciprocity program, embodies the doctrine of equality of commercial and industrial treatment, the elimination by agreement of the more objectionable trade methods and practices, and the gradual removal or reduction by nations, proceeding simultaneously, of excessive trade barriers to the fullest volume of mutually profitable trade between them.
This renders it possible for the hard-headed business man in every part of the world, without even the knowledge of governments or government officials anywhere, to enter into a vast range of trading transactions deemed mutually profitable, and to carry them out without unreasonable obstructions at international boundaries. This constitutes an immense and valuable portion of international trade.

The present commercial situation in the world violates the very essentials of the program of liberal commercial policy above defined, and this in spite of the fact that it is universally agreed that nations must return to this broader commercial and economic course before satisfactory business recovery can be expected. The United States by continuing to stand for and to seek to keep alive the doctrine of equality of treatment, in contrast with the present narrow and discriminatory practices and methods prevalent in a large part of the world, can perform an incalculable service for itself in world leadership and in the promotion of worldwide recovery. Should the United States now reverse its position, throw overboard a liberal commercial policy, and join in the procession of nations pursuing discriminatory economic policies, the one remaining ray of hope in the restoration of world commerce
commerce would be blotted out. It is manifest that
the United States never faced a more outstanding re-
ponsibility to furnish the world both a program that
is sound and leadership that is alert and aggressive
than at this crucial stage while there is yet a chance
to save and finally to restore a normal economic situation.

It is in these circumstances that this Gov-
ernment is adhering steadfastly to the unconditional
most-favored-nation policy as nearly as possible. To
abandon the doctrine of equality of commercial treat-
ment would be inconsistent with our persistent demand
that the German Government cease violating that doctrine
and pay the debts of $2,000,000,000 due our nationals,
in order to invoke preference to collect only $20,000,000
due to our nationals from Brazil; would be to abandon
our recent protests to many governments for open
violation of the same doctrine of equality of commercial
and industrial rights under solemn treaty provisions by
proposing to give themselves trade preferences; and in
brief to reverse our entire attitude of complaint to
many countries against discriminations or unfair
practices to which our international financial and
commercial interests are being subjected.

Furthermore, should this Government abandon
its present policy, it would have to denounce its
present
present thirty-odd unconditional most-favored-nation treaties and agreements, and during the indefinite future join the forces of economic short-sightedness and disaster and march with them in the direction of less trade, less employment, lower living standards, steadily increasing friction and strife between countries, with resulting increases of armament rivalry, and more unsatisfactory international relationships in every essential respect.

Those without adequate vision and without real comprehension of the full economic picture, proclaim to the American people that today they are suffering severely because they have delayed entering into discriminatory and narrow trading arrangements and devices such as are being pursued in Europe. It is necessary to keep in mind the long-run objective of commercial policy and not to destroy the large advantages which now flow to us from most-favored-nation treatment by embarking upon a policy of counter-discrimination.

That our present commercial policy is not proving to be a hindrance is shown by the fact that during the current year the increase in exports from the United States compares favorably with the exports from Europe, although it is true that our currency policy as compared with the currency policy of the gold bloc countries in Europe must be taken into account.

It
It should be recognized that there is a grave danger that quid pro quo bargaining and other narrow methods of trading result in the reduction rather than the increase of the total volume of commerce between nations. Under the increasingly chaotic and confused conditions now prevailing, the policies and methods which I have criticized, including the practice by each trading country of raising tariff and other obstructions for bargaining purposes, fosters increase in rates rather than reductions.

Why should not the United States in this grave crisis proclaim and strongly maintain the broad liberal program of economic restoration which was adopted at Montevideo, which has already enlisted the support of many countries and awakened hope in others not yet able to follow? Why should we not plead with other nations to proceed simultaneously with the United States in support of this sound and comprehensive program for international business recovery, which even they agree must be finally supported if this great economic objective is to be attained? If and when other nations should prove obdurate to this same policy, there would then be ample time for this Government to consider modifying or abandoning any of the fundamentals of this broad program of policies. Of course, in the present dislocated economic situation the unconditional form of
the favored-nation doctrine will encounter difficulties in its administration. It is believed that any substitute policy will encounter still more difficulties, as heretofore indicated.

Naturally, therefore, instances may arise in which this Government will find it necessary to make a modification here and there, preferably temporarily, to the unconditional form of the favored-nation doctrine. The latter, however, should at all times be kept alive and made the ultimate economic goal of all trading nations.
MEMORANDUM

The United States Trade Agreement Program and Most-Favored-Nation Treatment.

The question of the desirability of following a most-favored-nation policy in our trade agreements program raises fundamental issues. In shaping American commercial policy two possible courses are open. The one is to follow a policy based upon most-favored-nation treatment, a generalization of rates and an effort to accord equality of treatment and commercial privileges to all nations which do not discriminate against American trade. The other is to adopt a policy of trading with individual nations privilege for privilege on a bilateral bargaining basis, thus according frankly preferential treatment to individual countries with consequent general discrimination against others. At present there is a strong trend in Europe in the direction of the latter policy. Which of the two the United States will find it more advantageous to follow ultimately will depend upon future developments which at present no one can foretell. The present determination of policy, however, must rest upon the effort to secure the maximum advantages to American commerce and industry in the light of existing conditions and future probabilities in so far as they can now be gauged.

The
polic. The policy best calculated to achieve the ultimate objectives which the United States seeks would seem that of most-favored-nation treatment and generalization of commercial treatment. Five outstanding reasons may be suggested:

I. The rule of commercial equality and most-favored-nation treatment is in general the rule of least disturbance in international trade and of economic peace. The contrary is the rule of disequilibrium and economic war. A policy of preferences accorded to individual nations and of consequent general discriminations is a policy of irritations and consequent economic conflict; and economic conflict intensifies the danger of armed conflict and therefore the need of increased expenditures for armament. Therefore this policy.

II. The policy of equality and generalized tariff concessions to all nations alike is the prevailing practice between the United States and most countries, the main exceptions being France, Canada and Spain. To those nations to which we are now according equality of tariff treatment, either under most-favored-nation treaties or in actual practice, we sell a very substantial part of our exports. A departure from our present practice would involve a grave risk of retaliatory action on their part. The danger is that by such a reversal of policy...
policy we would lose more in dollars and cents by reason of such retaliatory action than we would gain. favorable

III. The policy of equality of treatment to all is best calculated to increase the sadly shrunken trade of the world. Nations today are suffering grievously from reduced trade due to high trade barriers such as tariff walls, quota restrictions, exchange control, government monopolies, and the like. Our objective should be to reduce these trade barriers. A policy of general equality of treatment would operate to widen the sphere of trade more effectively than any other principle because the trade of every country benefits from each reduction rather than the trade of a single country. It is therefore this policy that offers the greatest promise for a substantial expansion of world trade, and of American trade.

IV. The policy of special preferential treatment to some nations and discriminations to others would tend to stimulate other nations with whom we are about to negotiate to reduce quotas, raise tariffs, and erect other trade barriers in order to secure increased bargaining advantage as against the time of entering into trade negotiations with the United States; for when special privileges are traded off bilaterally one against another which