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EMC

GRAY

Paris

Dated January 1, 1938

Rec'd. 9:10 a.m.

Secretary of State

Washington

2, January 1, noon.

FROM COCHRAN.

Budget was debated in Senate session that lasted until 4:30 this morning and in Chamber until midnight when clocks were turned back to permit technical passage before 1938. Senate reconvened at 8:30 this morning to resume debate and Chamber meeting later for shuttling of budget back and forth until adopted.

Minister of Finance announced last night that subscriptions to treasury loan closed 29th totaled four billion two hundred million francs.

BULLITT.

RR

Col. Harrington

Jan 1, 1.667.000

increase 38.000.

~~✓~~

~~TC 1/26~~

BB

GRAY

Paris

Dated January 2, 1938

Rec'd 9:25 a.m.

Secretary of State,
Washington.

4, January 2, noon.

FROM COCHRAN

Senate by 276 to 20 and Chamber by 537 to 63
early this morning adopted 1938 budget with income at
fifty-four billion seven hundred and seventy-six
million and disbursements fifty-four billion seven
hundred and seventy-six million and disbursements
fifty-four billion seven hundred and thirty-nine
million thus showing surplus of thirty-seven million
francs. Parliament adjourned until January 11th.

BULLITT

JLS

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 3, 1933.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.L. W. Knake

Mr. Bolton called me at 11 o'clock today. There had been quite a definite change over the weekend, he said, and for that reason he wanted to give me a ring. The dollar was offered in most financial centers in Europe, not in large quantities, but rather steadily, partly because of the "friction between administration and your business people" and partly because some people feared that the President, in his coming message to Congress, might recommend inflationary measures. The firmness of the sterling rate, he thought, was also due to the deterioration of the situation in France, as a result of which sterling was in demand for French account.

Paris was very pessimistic and Cariguel's recent losses of gold and foreign exchange must total about a billion francs, most of which, much to Bolton's regret, the British had been gaining, in addition to the £40,000,000 of the British sterling credit to France which had been repaid during December. If, after the President's speech this afternoon, the dollar should go down further, they would start widening the premium on gold even if it should become necessary to go into the market and buy gold aggressively. Heretofore they had been able to rely more or less on demand from hoarders, which of late, however, had disappeared.

I referred to telephone conversations some six weeks ago or so, in the course of which I had stated that we had reason to assume that requests for gold on the part of some of the members of the

Agreement
Tripartite, who had omitted to convert balances immediately, would be

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 3, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

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promptly granted. He might be interested to know, I continued, that in the meantime two such requests, totaling over \$100,000,000, had been received and complied with almost within a few minutes. This was good news, Bolton replied.

Bolton reverted to my frequent inquiries as to the size of Japanese balances in the London market and repeated that they had no particular knowledge. Nevertheless, he was reasonably certain that neither the Japanese nor the Chinese had much there. The Japanese, he continued, had recently again been pushing dollars into the London market and the Bank of England had taken about \$5,000,000 from them just before the end of the year; the purpose of this had probably been window dressing to give the Yokohama Specie Bank a chance to make a decent showing at the end of the year. Bolton spoke of strong rumors in the London market to the effect that the Chinese had obtained very substantial dollar loans (from \$50,000,000 to \$100,000,000) from banks in our market. I replied that I had heard no such rumors nor did I take any stock in them.

LWK:EMC

JR

GRAY

Paris

Dated January 3, 1938

Rec'd 3:05 p.m.

Secretary of State,
Washington.

6, January 3, 5 p.m.

FROM COCHRAN.

French control yielded some sterling especially in early trading around 147.30. This afternoon exchange deals few and feature is weakness of dollar. Paris traders say tendency here is inspired by London which is bearish on dollar since city believes reduction in American price for domestic silver will lead to United States being offered important amounts of foreign silver with resultant weakness of our currency if we try to keep price around that paid to countries with which treasury has special arrangements. Since France is not primarily interested in silver, American policy announcements are not so far subject of much press comment. Market observers think the Treasury is simply seeking to withdraw as smoothly as possible from an unsound silver arrangement, into which politics forced the Administration. Belga has weakened sympathetically with the dollar. Rentes up and French capitalists pleased by fact that provision requiring taxpayers

-2- #6, January 3, 5 p.m., from Paris.

taxpayers to report their bank accounts mentioned in my
1794, December 31, 5 p.m., was thrown out of finance law.
Today traders are doing little but awaiting market
indications.

(END ONE)

BULLITT

CSB

EDA

GRAY

PARIS

Dated January 3, 1938

Received 5:44 p.m.

Secretary of State

Washington

6, January 3, 5 p.m. (SECTION TWO)

Press reports city of Helsinki borrowing thirteen and a half million crowns in Sweden through Stockholm's Enskilda Bank at three and a half percent, proceeds to redeem Helsinki four and a half sterling loan 1911.

Reuter reports from Berlin article by Schacht just published in "periodical for German law".

" 'The time for a lasting organization of international currency affairs' he says 'will come only after the spirit of Versailles has been overcome, not only politically, but also economically.

'This necessitates above all a settlement of the question of international debts, a better raw material distribution (*) the industrial countries of the world, which, so far as Germany is concerned, is linked up with the necessity of Germany's return to her colonies, and finally the termination of the general economic war'.

Dr.

EDA - 2 - #6, January 3, 5 p.m. from Paris (Section 2)

Dr. Schacht makes a strong plea for the gold currency which is scorned by some national socialists. 'No matter what the future order of world currencies will be, it will always rest on the gold basis,' he writes.

The gold basis, he explains, is neither a capitalistic invention nor a dogma, but a practical technical instrument indispensable in many respects.

Whether it will be possible to work on it in future without certain binding international agreements, he concludes, is a question which cannot yet be answered".

(END OF MESSAGE).

BULLITT

EMB:RGC

(*) Apparent omission

EG

GRAY

London

Dated January 3, 1938

Secretary of State,

Washington.

4, January 3, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

One. It may be of interest that the news director of the British Broadcasting Corporation informs me privately that so great has been the demand from the city that it has been forced this afternoon to rearrange its schedule in order to rebroadcast the President's speech in toto.

Two. An erroneous report published in today's TIMES from its own correspondent in The Hague to the effect that the Dutch Government in its reply to the written report of the Dutch Senate on the budget for 1938 "that the financial position of the country must be considered as very serious" caused some difficulties between Amsterdam and London. No such statement was made but apparently Colijn with characteristic forthrightness did say in a recent speech to an economic organization that Holland had at least for the present reached a peak in its present recovery movements.

Three

-2- No. 4, January 3, 6 p.m. from London

THREE. The delay in the posting in New York of the silver price caused speculative activity but the expectation here is that no drastic alteration will take place. The concluding paragraph of Reid's article in today's DAILY TELEGRAPH reflects city opinion:

"America's policy of bilateral agreements with silver producing countries or holding countries has not so far covered either India, Australia or Peru. But that omission should occasion no concern for if the daily surplus of metal is taken by the United States from London the New York price will continue to regulate the world price. Silver for 1938 therefore seems fairly well assured but few believe that America will agree to take indefinitely the world's silver production and any metal from eastern hoards at artificial prices in order to placate domestic silver interests."

Four. The heavy sales of francs which occurred in the morning were in the city's opinion occasioned by the fact that a good many French individuals and firms found it in their interest to be long of cash over the year end but have now retaken their former positions.

Five. The dollar weakened decidedly on the expectation that the President's message would contain "reflationary measures."

GROUP MEETING

January 3, 1938
9:20 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Haas
Mr. Lochhead
Mr. Gibbons
Mr. Upham
Mr. Bell
Mr. McReynolds

H.M.Jr: Good morning.

Let me ask a question. Does anybody know, when they give you letters addressed to me for you people to answer, does anybody ever check you up?

Upham: Oh yes.

H.M.Jr: Regular?

Upham: The few I get are checked up.

H.M.Jr: Do they follow you up?

Upham: Yes. It isn't often necessary.

McR: Cy's right this morning. Big lip, but certainly tops.

H.M.Jr: But they do check you. Who checks you?

Upham: I don't know, somebody from Mrs. Forbush's office.

H.M.Jr: But they do. Well, that's where it should be.

McR: A check from Mrs. Forbush's office, one from mine too.

H.M.Jr: When you go upstairs, take a look at that, will you please?

McR: I've got a boy that's been working for a week on a system of handling that stuff so as to be sure there isn't anything missed, and I haven't got his report yet.

H.M.Jr: Well, when you go up, might take a look.

McR: But I'll say as far as the physical location of that

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stuff and the time of that - as to opening - I'll see as to that.

H.M.Jr: And, very meanly, I was upstairs at one minute past nine and found several people absent. But the checking and so forth and so on - Mac, will you?

McR: Yes. Well, so far as the checking is concerned, I've got - one of Ballinger's boys has been working for a week or ten days; he's supposed to lay on my desk an outline of how that is going to be handled, so I'll know every day that the check has been made.

H.M.Jr: It's your responsibility.

McR: Yes, it's my responsibility.

H.M.Jr: How's Havana?

Gibbons: Very nice.

H.M.Jr: Very nice? When did you get back?

Gibbons: This morning.

H.M.Jr: Did you come back by boat?

Gibbons: No. I started to come back by plane, but there was no flying, so I came back by train.

H.M.Jr: No flying?

Gibbons: No flying yesterday, and I wanted to be here today.

H.M.Jr: You mean commercial planes weren't flying?

Gibbons: No. I was coming up on a Coast Guard plane. He'll probably come up today.

H.M.Jr: Who's he?

Gibbons: Olson.

H.M.Jr: Oh.

Gibbons: If I came back by boat, I wouldn't get back until late this morning.

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H.M.Jr: What was it, engine trouble?

Gibbons: No, the weather. Raining all day all the way along the Coast.

H.M.Jr: You mean yesterday?

Gibbons: Yesterday and Saturday.

H.M.Jr: How far did you get?

Gibbons: I got to Miami and came up on the 10 o'clock train Saturday night. Otherwise, just taking a desperate chance.

H.M.Jr: What - did Olson go down and meet you?

Gibbons: Had to come down and meet me at Miami.

H.M.Jr: How was it in Havana?

Gibbons: It's very warm. It was about, I'd say, 75, 76. I had a head cold when I left here. Cleared it up. Laid out in the sun most of the time.

Oliphant: (Nods nothing)

H.M.Jr: Ros?

Magill: I presume I'll go back up on the Hill again today for the Sub-committee meeting. It is not clear yet when the hearings will start and hence when the Treasury will be called on to make its statement which will open the public hearings. I'll try to find that out today. When I do, I'd like to talk to you about the character of the statement.

H.M.Jr: All right. I'd like to talk to you.

Last night I tried to get McReynolds, but they didn't locate him. He wasn't there. So I asked Ballinger and Harold Graves to come in. I don't know whether you (McReynolds) were out; I mean it's not

McReynolds: Well, I was home after 8 o'clock.

H.M.Jr: And the point that I made with Harold - I told him to take it up with you (Magill) - was that just as soon

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as he gets out from under this Social Security, I want to do in Internal Revenue what we did so very successfully with Alcohol; namely, in Alcohol we went to Chicago and set up a model office and after all the bugs were out we said, "Now, this is the way Alcohol should be controlled and now we'll model every office after Chicago." We took the most difficult one.

Now, I've told him - I mean I'm getting impatient - I want to get next to the taxpayer. I want to take whatever is the most difficult situation and get all the bugs out of it - I mean really get down and do something. And I think the place to do it is the first man that contacts the taxpayer - get him and work back, the way we did with Alcohol. It's so difficult to do it from this end.

He says, of course, the most difficult situation is in New York, and he's crazy about the idea. I mean he'd practically move to New York, you see. But I just gave it to him to think about. And before, of course, we do anything, I want him to talk to you.

Magill: Well, I think he's about in a position to start this now.

H.M.Jr: But I want - wherever the Revenue man contacts the taxpayer, start with him and work from that position back. And let's see if we really can't, while I'm - if I'm here for three years, if we can't do something, see? Because he ran into a very bad situation on Social Security which he says is now cured.

But Graves can do it, and he likes the idea, and I said to think it over and to talk to you. How does it strike you?

Magill: I think it is a very good idea. As I say, I think he's about in a position to start that, because he has made surveys of several of the offices now in the field and how cases are apportioned, and so on. I like your idea of starting with the difficult office, which would be Krigbaum's office up there - Customs House, New York - in the Whitehall Building. I don't see why he couldn't do it quite soon now, because I think he's got his feet on the ground.

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H.M.Jr: He says he could.

But we worked that out with Alcohol. We took Chicago, made a model. That's where we had the greatest difficulty. And if we - nothing could be more difficult than we had with the Alcohol, because we really had the underworld element to deal with. If we can do it with that, I know we can do it with the other, if he will actually go there and stay long enough until he has it licked. But I think it's hopeless to do it from here, because he gets so many complaints. When you deal first-hand with the taxpayers, then begin to trace them back and find out where the trouble is - but if you start here, you don't have the raw material - I mean the actual cases.

Magill: Well, one of his chief problems in any of these offices is to work on the distribution of cases among the men; that is, as you know, only a comparatively small number of all the returns can be examined, and one of the principal duties is to work out some method of assignment of those cases to the men so they'll work on the cases that should be worked on and discard those that don't need to be.

H.M.Jr: He told me, for instance, twenty thousand people filed their Social Security blanks in the wrong office. Just filed them in the wrong office. And they don't know this division

McR: That's one reason why New York is the most appropriate place to start, because you've got a hopeless situation with respect to jurisdiction of the various different collectors. Five collectors' districts within one zone. You can't - it's hard to distinguish

H.M.Jr: We'll make the next meeting - of course, you (McR) be there, see - but I'm going to meet with you and those fellows who are doing what you might call administrative reorganization once a week, see; I'm going to meet with them once a week. Because, as I told them, I'm going to bring terrific pressure on them and if they can take it they can get results.

Gibbons: Ballinger took that idea in Customs. Started in New York.

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- H.M.Jr: Well, he hasn't got it very good. I told Ballinger so last night. I told him I'm getting very impatient. He hasn't got New York right yet. I told the same thing to Ballinger. I said I'd like to get one office. He started complaining about - that each Customs office is a little kingdom to itself. I said, "Well now, listen, Ballinger, I'm going to begin to bring the pressure on you fellows and something is going to give some place. I'm getting very impatient. Been here four years and Customs still is lousy. I'm getting very impatient. I'm just going to put the pressure on you and something is going to crack somewhere."
- Gibbons: Of course, for about six weeks he's been on housing.
- H.M.Jr: Well, I don't think that's correct, is it, Mac?
- McR: Not altogether.
- H.M.Jr: Well, it oughtn't to be on one man anyhow. Ballinger is here to assist McReynolds, who is here to assist me. Just the way Harold Graves is; that's what Harold Graves is paid for. He's an Assistant to the Secretary; so is Ballinger.
- And as far as - as a matter of fact, I don't think he gave - what, a month? Whatever it was, my attitude is that the President appointed somebody to set up a housing authority and I'm here to help the President, so now I want to see that that housing authority got a fair start; and if I had to do it over again, I'd do it the same way. But just to take Ballinger for one month shouldn't mean that the whole Customs thing ..
- Gibbons: I told him you'd be stepping on us. Promised the first of December, and then - you know.
- H.M.Jr: But I still say it oughtn't to all have to center on Ballinger, and it's
- Gibbons: No, he sent his field men up there. Of course, I don't have anything to do with the selection of the men.
- H.M.Jr: He hasn't got New York right, and he doesn't begin

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to say that he's got a model office that we can model other offices after.

And he says he is just ready with his recommendations now to divide the technical and the legal phases. He is just ready. He said he only told Mac the other day that he is ready now to put it on Mac's desk.

Gibbons: That's here in the Bureau.

H.M.Jr: Yes. And he says he's ready to make recommendations on that, so that the legal division should be legal and the administrative end over there should be - assume the administrative and technical responsibility, which arrangement I'm sure the legal division will accept with three cheers.

But I'm not - I mean when we have people - I mean it always takes it out on me to try to do it once you see clearly what the thing is, and it's terrifically hard to get the results.

Gibbons: How long has he been on that job now - two years, two and a half years?

Oliphant: I like your idea of starting in New York with the Internal Revenue thing, because I've had in mind something I've been anxious to get under way, and that is to decentralize my office and put some good lawyers in New York so they won't have to come down to work on tax cases. We have - oh, about a lawyer and a half up there, and we ought to have a first-class legal shop in New York City.

H.M.Jr: Well, there's something radically wrong when two sisters in the same family have identical tax cases and one gets one ruling and one gets identically the opposite ruling. Two sisters in the same family get identically opposite rulings on identically the same case.

And I know that Magill is just as anxious as I am. But, as I say, nothing is set. I've just made the suggestion. He'll take it. But I had a little pep left last night and I gave it to those two men.

Gibbons: Did you hear about the case of your friend the Professor? Ruled last year against him, this year

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in favor of him, on exemption.

H.M.Jr: No.

Gibbons: I gave Mr. Oliphant the story. Exactly the same thing, analogous situation to that. Princeton University - the same outfit, same material. They ruled against

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

Gibbons: Customs. This year they ruled in favor of them.

H.M.Jr: Well, who in Customs?

Gibbons: The legal division. Johnson, I suppose.

Oliphant: The ruling was not called to Johnson's attention last year. The present ruling is right.

I had in mind that in New York we'd have an office headed up by a man as good as the very best man down here, so you could really get New York business men to transact business in New York with the legal office, without having to come down here on everything.

Gibbons: Well, the worst situation Internal Revenue, it seems to me - a man in San Francisco, for instance, probably makes three or four trips to Washington to get a ruling; gets here, finds that they're not having a hearing, has to go back and keep coming up again. That's been going on ever since 1917. Seattle - Texas - terrible thing. Get down here

H.M.Jr: George?

Haas: I'll have that competitive position calculation. Take about a day and a half to do it.

H.M.Jr: That's not bad.

Haas: Just to bring it up to date.

Some time today or tomorrow or the next day, if you have about 15 minutes, I'd like to talk to you about some work we're doing in the shop.

H.M.Jr: Fine.

-9-

George, that thing of the United States and the principal countries that we do business with - if you run the line, when we have an unfavorable balance, it goes below a line, and with favorable balance above.

Haas: You mean trade?

H.M.Jr: Yes. Could that be brought up to date?

Haas: Uh-huh.

H.M.Jr: The Department of Commerce figures are out, say, for October - would they be? Wouldn't they?

Bell: Just about.

Haas: November ought to be out ...

H.M.Jr: You know the one I mean.

Haas: Yes, where you have the trade. Exports and imports; then below, a balance line which shows where ...

H.M.Jr: I mean you have them shaded, you know; when it is unfavorable, it goes below, and favorable it's above.

Haas: Yes.

H.M.Jr: You can look at the line and see United States trade, whatever it was, with 15 or 20 countries. One for each country.

Haas: Uh-huh.

H.M.Jr: Is that a big job?

Haas: Oh, I don't know. Take probably two or three days.

H.M.Jr: Well, you've done that chart for me before. Have the boys do it, will you?

Haas: Yes.

H.M.Jr: I want all of the South American countries included in that.

Haas: Yes, sir.

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H.M.Jr: What?

Haas: O.A.

H.M.Jr: All of the South American, and then whatever the other principal ones are. George?

Haas: Yes, sir, I'll have that for you.

H.M.Jr: Incidentally, if you haven't read Lionel Edie in today's Tribune - most likely haven't - very intelligent. He's done what I asked you people; he's going back and tracing what he thinks the faults are as to mistakes made, monetary and fiscal, during the past 12 to 18 months.

Haas: Fine. Did you see Robert Warren's discussion of that in the Sunday Post? Warren, of Case-Pomeroy.

H.M.Jr: I'd like to see it.

Upham: This morning, wasn't it?

Haas: It was in the Washington Post Sunday.

H.M.Jr: I'd like to see it. But Lionel Edie - very interesting.

Haas: We've got that memorandum written already, but I want to go over it.

H.M.Jr: Anything else, George?

Haas: That's all. It can wait until I see you.

H.M.Jr: All right.

Lochhead: London silver a little unsteady. Worked out at 43.35 (¢).

H.M.Jr: Herbert Gaston did a beautiful job Friday night. You know what he did, don't you? You see, 9 o'clock is the dividing line between afternoon and morning papers. So he got them to promise not to put it on the wire until 8, and not to interview anybody until 9 o'clock. By that time all the Senators and

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Congressmen were "New Yearing," so they weren't able to get a single interview, and ran it just as a straight news story.

If you (Lochhead) will stay a minute, I want to talk to you.

Gibbons: Nothing more than the Professor. I thought - you know, the fact that you were in the picture - it seemed to me a terrible thing that they decided against him. Went clear through without any interference over here. I certainly jumped up in the air when I saw it.

H.M.Jr: Has anybody written Flexner?

Oliphant: (Nods yes)

H.M.Jr: Did he get a letter from me?

Oliphant: I don't think so.

Gibbons: Got a letter prepared for my signature, to the Professor.

Upham: (Nods nothing)

Bell: I haven't anything.

McR: I have an estimate from Coast Guard for an additional Coast Guard air station in San Francisco, which was submitted by Waesche in the regular course, and I had prepared a letter; so I'm turning it down. But I saw Waesche some time within the last day or two - New Year's Eve I saw him - and he said that had been cleared by the Secretary; the Secretary had told him it would be coming along and would be approved. So I didn't send - I haven't sent the letter back.

H.M.Jr: O.K., fix it up. California gets it. What else?

McR: The Supervising Customs Agent at San Antonio

H.M.Jr: Louder, Mac.

McR: San Antonio Customs Agent wants to know whether they should make any independent investigation on the Mexican side of that survey of the Mexican coast by

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these fishing boats and what not. I think probably we shouldn't; that is, they shouldn't go over on the ...

H.M.Jr: No, no.

Anything else?

McR: No, nothing except this regulation that requires votes to be held

H.M.Jr: Well, I want time. I want time on that, Mac.

Would it be inconvenient for anybody if, beginning tomorrow, we meet at 9:15 instead of 9:30, doing it partly on account of Magill going on the Hill every morning? Would it be just as well for everybody? Upset anybody? It won't run over half an hour. Well, let's, beginning tomorrow, make it 9:15. It works out a little bit better in my shop.

HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

January 3, 1938

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until delivery of the President's message to the Congress has begun.

CAUTION: Extreme care must be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

In addressing the Congress on the state of the Union present facts and future hazards demand that I speak clearly and earnestly of the causes which underlie events of profound concern to all.

In spite of the determination of this Nation for peace, it has become clear that acts and policies of nations in other parts of the world have far-reaching effects not only upon their immediate neighbors but also on us.

I am thankful that I can tell you that our Nation is at peace. It has been kept at peace despite provocations which in other days, because of their seriousness could well have engendered war. The people of the United States and the Government of the United States have shown capacity for restraint and a civilized approach to the purposes of peace, while at the same time we maintain the integrity inherent in the sovereignty of 130,000,000 people, lest we weaken or destroy our influence for peace and jeopardize the sovereignty itself.

It is our traditional policy to live at peace with other nations. More than that, we have been among the leaders in advocating the use of pacific methods of discussion and conciliation in international differences. We have striven for the reduction of military forces.

But in a world of high tension and disorder, in a world where stable civilization is actually threatened, it becomes the responsibility of each nation which strives for peace at home and peace with and among others to be strong enough to assure the observance of those fundamentals of peaceful solution of conflicts which are the only ultimate basis for orderly existence.

Resolute in our determination to respect the rights of others, and to command respect for the rights of ourselves, we must keep ourselves adequately strong in self-defense.

There is a trend in the world away from the observance both of the letter and the spirit of treaties. We propose to observe, as we have in the past, our own treaty obligations; but we cannot be certain of reciprocity on the part of others.

Disregard for treaty obligations seems to have followed the surface trend away from the democratic representative form of government. It would seem, therefore, that world peace through international agreements, is most safe in the hands of democratic representative governments -- or, in other words, peace is most greatly jeopardized in and by those nations where democracy has been discarded or has never developed.

I have used the words "surface trend", for I still believe that civilized man increasingly insists and in the long

run will insist on genuine participation in his own government. Our people believe that over the years democracies of the world will survive, and democracy will be restored or established in those nations which today know it not. In that faith lies the future peace of mankind.

At home, conditions call for my equal candor. Events of recent months are new proof that we cannot conduct a national government after the practice of 1787, or 1837 or 1887, for the obvious reason that human needs and human desires are infinitely greater, infinitely more difficult to meet than in any previous period in the life of our Republic. Hitherto it has been an acknowledged duty of government to meet these desires and needs; nothing has occurred of late to absolve the Congress, the Courts or the President from that task. It faces us -- as squarely, as insistently, as in March, 1933.

Much of trouble in our own lifetime has sprung from a long period of inaction -- from ignoring what fundamentally was happening to us, and from a time-serving unwillingness to face facts as they forced themselves upon us.

Our national life rests on two nearly equal producing forces, agriculture and industry, each employing one-third of our citizens. The other third transports and distributes the products of the first two, or performs special services for the whole.

The first great force, agriculture -- and with it the production of timber, minerals and other natural resources -- went forward feverishly and thoughtlessly until nature rebelled and we saw deserts encroach, floods destroy, trees disappear and soil exhausted.

At the same time we have been discovering that vast numbers of our farming population live in a poverty more abject than that of many of the farmers of Europe whom we are wont to call peasants; that the prices of our products of agriculture are too often dependent on speculation by non-farming groups; and that foreign nations, eager to become self-sustaining or ready to put virgin land under the plough, are no longer buying our surpluses of cotton and wheat and lard and tobacco and fruit as they had before.

Since 1933 we have knowingly faced a choice of three remedies. First, to cut our cost of farm production below that of other nations -- an obvious impossibility in many crops today unless we revert to human slavery or its equivalent.

Second, to make the government the guarantor of farm prices and the underwriter of excess farm production without limit -- a course which would bankrupt the strongest government in the world in a decade.

Third, to place the primary responsibility directly on the farmers themselves, under the principle of majority rule, so that they may decide, with full knowledge of the facts of surpluses, scarcities, world markets and domestic needs, what the planting of each crop should be in order to maintain a reasonably adequate supply which will assure a minimum adequate price under the normal processes of the law of supply and demand.

That means adequacy of supply but not glut. It means adequate reserves against the day of drought. It is shameful misrepresentation to call this a policy of scarcity. It is in truth insurance before the fact, instead of government subsidy after the fact.

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Any such plan for the control of excessive surpluses and the speculation they bring has two enemies. There are those well-meaning theorists who harp on the inherent right of every free born American to do with his land what he wants — to cultivate it well — or badly; to conserve his timber by cutting only the annual increment thereof — or to strip it clean, let fire burn the slash, and erosion complete the ruin; to raise only one crop — and if that crop fails, to look for food and support from his neighbors or his government.

That, I assert is not an inherent right of citizenship. For if a man farms his land to the waste of the soil or the trees, he destroys not only his own assets but the Nation's assets. Or if by his methods he makes himself, year after year, a financial hazard of the community and the government, he becomes not only a social problem but an economic menace. The day has gone by when it could be claimed that government has no interest in such ill-considered practices and no right through representative methods to stop them.

The other group of enemies is perhaps less well-meaning. It includes those who for partisan purposes oppose each and every practical effort to help the situation, and also those who make money from undue fluctuations in crop prices.

I gladly note that measures which seek to initiate a government program for a balanced agriculture are now in conference between the two Houses of the Congress. In their final consideration, I hope for a sound consistent measure which will keep the cost of its administration within the figure of current government expenditures in aid of agriculture. The farmers of this Nation know that a balanced output can be put into effect without excessive cost and with the cooperation of the great majority of them.

If this balance can be created by an all-weather farm program, our farm population will soon be assured of relatively constant purchasing power. From this will flow two other practical results: the consuming public will be protected against excessive food and textile prices, and the industries of the Nation and their workers will find a steadier demand for wares sold to the agricultural third of our people.

To raise the purchasing power of the farmer is, however, not enough. It will not stay raised if we do not also raise the purchasing power of that third of the Nation which receives its income from industrial employment. Millions of industrial workers receive pay so low that they have little buying power. Aside from the undoubted fact that they thereby suffer great human hardship, they are unable to buy adequate food and shelter, to maintain health or to buy their share of manufactured goods.

We have not only seen minimum wage and maximum hour provisions prove their worth economically and socially under government auspices in 1939, 1934 and 1935, but the people of this country, by an overwhelming vote, are in favor of having the Congress — this Congress — put a floor below which industrial wages shall not fall, and a ceiling beyond which the hours of industrial labor shall not rise.

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Here again let us analyze the opposition. A part of it is sincere in believing that an effort thus to raise the purchasing power of lowest paid industrial workers is not the business of the Federal Government. Others give "lip service" to a general objective, but do not like any specific measure that is proposed. In both cases it is worth our while to wonder whether some of these opponents are not at heart opposed to any program for raising the wages of the underpaid or reducing the hours of the overworked.

Another group opposes legislation of this type on the ground that cheap labor will help their locality to acquire industries and outside capital, or to retain industries which today are surviving only because of existing low wages and long hours. It has been my thought that, especially during these past five years, this Nation has grown away from local or sectional selfishness and toward national patriotism and unity. I am disappointed by some recent actions and by some recent utterances which sound like the philosophy of half a century ago.

There are many communities in the United States where the average family income is pitifully low. It is in those communities that we find the poorest educational facilities and the worst conditions of health. Why? It is not because they are satisfied to live as they do. It is because those communities have the lowest per capita wealth and income; therefore, the lowest ability to pay taxes; and, therefore, inadequate functioning of local government.

Such communities exist in the East, in the Middle West, in the Far West, and in the South. Those who represent such areas in every part of the country do their constituents ill-service by blocking efforts to raise their incomes, their property values and, therefore, their whole scale of living. In the long run, the profits from child labor, low pay and overwork ensure not to the locality or region where they exist but to the absentee owners who have sent their capital into these exploited communities to gather larger profits for themselves. Indeed, new enterprises and new industries which bring permanent wealth will come more readily to those communities which insist on good pay and reasonable hours, for the simple reason that there they will find a greater industrial efficiency and happier workers.

No reasonable person seeks a complete uniformity in wages in every part of the United States; nor does any reasonable person seek an immediate and drastic change from the lowest pay to the highest pay. We are seeking, of course, only legislation to end starvation wages and intolerable hours; more desirable wages are and should continue to be the product of collective bargaining.

Many of those who represent great cities have shown their understanding of the necessity of helping the agricultural third of the Nation. I hope that those who represent constituencies primarily agricultural will not underestimate the importance of extending like aid to the industrial third.

Wage and hour legislation, therefore, is a problem which is definitely before this Congress for action. It is an essential part of economic recovery. It has the support of an overwhelming majority of our people in every walk of life. They have expressed themselves through the ballot box.

Again I revert to the increase of national purchasing power as an underlying necessity of the day. If you increase that purchasing power for the farmers and for the industrial workers -- especially for those in both groups who have least of it today -- you will increase the purchasing power of the final third of our population -- those who transport and distribute the products of farm and factory, and those of the professions who serve all groups. I have tried to make clear to you, and through you to the people of the United States, that this is an urgency which must be met by complete and not by partial action.

If it is met -- if the purchasing power of the Nation as a whole -- in other words, the total of the Nation's income -- can be still further increased -- other happy results will flow from such increase.

We have raised the Nation's income from thirty-eight billion dollars in the year 1932 to about sixty-eight billion dollars in the year 1937. Our goal, our objective is to raise it to ninety or one hundred billion dollars.

We have heard much about a balanced budget, and it is interesting to note that many of those who have pleaded for a balanced budget as the sole need now come to me to plead for additional government expenditures at the expense of unbalancing the budget. As the Congress is fully aware, the annual deficit, large for several years, has been declining the last fiscal year and this. The proposed budget for 1939, which I shall shortly send to the Congress, will exhibit a further decrease in the deficit, though not a balance between income and outgo.

To many who have pleaded with me for an immediate balancing of the budget, by a sharp curtailment or even elimination of government functions, I have asked the question -- "What present expenditures would you reduce or eliminate?" And the invariable answer has been "that is not my business -- I know nothing of the details, but I am sure that it could be done." That is not what you or I would sell helpful citizenship.

On only one point do most of them have a suggestion. They think that relief for the unemployed by the giving of work is wasteful, and when I pin them down I discover that at heart they are actually in favor of substituting a doll in place of useful work. To that neither I nor, I am confident, the Senators and Representatives in the Congress will ever consent.

I am as anxious as any banker or industrialist or business man or investor or economist that the budget of the United States Government be brought into balance as quickly as possible. But I lay down certain conditions which seem reasonable and which I believe all should accept.

The first condition is that we continue the policy of not permitting any needy American who can and is willing to work to starve because the Federal Government does not provide the work.

The second is that the Congress and the Executive join hands in eliminating or curtailing any Federal activity which can be eliminated or curtailed or even postponed without harming necessary government functions or the safety of the Nation from a national point of view. The third is to raise the purchasing power of the Nation to the point that the taxes on this purchasing power -- or, in other words, on the Nation's income -- will be sufficient to meet the necessary expenditures of the national government.

I have hitherto stated that, in my judgment, the expenditures of the national government cannot be cut much below seven billion dollars a year without destroying essential functions or letting people starve. That sum can be raised and will be cheerfully provided by the American people, if we can increase the Nation's income to a point well beyond the present level.

This does not mean that as the Nation's income goes up the Federal expenditures should rise in proportion. On the contrary, the Congress and the Executive should use every effort to hold the normal Federal expenditures to approximately the present level, thus making it possible, with an increase in the Nation's income and the resulting increase in tax receipts, not only to balance future budgets but to reduce the debt.

In line with this policy fall my former recommendations for the reorganization and improvement of the administrative structure of the government, both for immediate Executive needs and for the planning of future national needs. I renew those recommendations.

In relation to tax changes, three things should be kept in mind. First, the total sum to be derived by the Federal Treasury must not be decreased as a result of any changes in schedules. Second, abuses by individuals or corporations designed to escape tax-paying by using various methods of doing business, corporate and otherwise -- abuses which we have sought, with great success, to end -- must not be restored. Third, we should rightly change certain provisions where they are proven to work definite hardship, especially on the small business men of the Nation. But, speculative income should not be favored over earned income.

It is human nature to argue that this or that tax is responsible for every ill. It is human nature on the part of those who pay graduated taxes to attack all taxes based on the principle of ability to pay. These are the same complainants who for a generation blocked the imposition of a graduated income tax. They are the same complainants who would impose the type of flat sales tax which places the burden of government more on those least able to pay and less on those most able to pay.

Our conclusion must be that while proven hardships should be corrected, they should not be corrected in such a way as to restore abuses already terminated or to shift a greater burden to the less fortunate.

This subject leads naturally into the wider field of the public attitude toward business. The objective of increasing the purchasing power of the farming third, the industrial third and the service third of our population presupposes the cooperation of what we call capital and labor.

Capital is essential; reasonable earnings on capital are essential; but misuse of the powers of capital or selfish suspension of the employment of capital must be ended, or the capitalistic system will destroy itself through its own abuses.

The overwhelming majority of business men and bankers intend to be good citizens. Only a small minority have displayed poor citizenship by engaging in practices which are dishonest or definitely harmful to society. This statement is straightforward and true. No person in any responsible place in the Government of the United States today has ever taken any position contrary to it.

But, unfortunately for the country, when attention is called to, or attack is made on specific misuses of capital, there has been a deliberate purpose on the part of the condemned minority to distort the criticism into an attack on all capital. That is wilful deception but it does not long deceive.

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If attention is called to, or attack made on, certain wrongful business practices, there are those who are eager to call it "an attack on all business." That too is wilful deception that will not long deceive.

Let us consider certain facts:

There are practices which most people believe should be ended. They include tax avoidance through corporate and other methods, which I have previously mentioned; excessive capitalization, investment write-ups and security manipulations; price rigging and collusive bidding in defiance of the spirit of the anti-trust laws by methods which baffle prosecution under the present statutes. They include high pressure salesmanship which creates cycles of overproduction within given industries and consequent recessions in production until such time as the surplus is consumed; the use of patent laws to enable larger corporations to maintain high prices and withhold from the public the advantages of the progress of science; unfair competition which drives the smaller producer out of business locally, regionally or even on a national scale; intimidation of local or state government to prevent the enactment of laws for the protection of labor by threatening to move elsewhere; the shifting of actual production from one locality or region to another in pursuit of the cheapest wage scale.

The enumeration of these abuses does not mean that business as a whole is guilty of them. Again, it is deception that will not long deceive to tell the country that an attack on these abuses is an attack on business.

Another group of problems affecting business, which cannot be termed specific abuses, gives us food for grave thought about the future. Generically such problems arise out of the concentration of economic control to the detriment of the body politic -- control of other people's money, other people's labor, other people's lives.

In many instances such concentrations cannot be justified on the ground of operating efficiency, but have been created for the sake of securities profits, financial control, the suppression of competition and the ambition for power over others. In some lines of industry a very small numerical group is in such a position of influence that its actions are of necessity followed by the other units operating in the same field.

That such influences operate to control banking and finance is equally true, in spite of the many efforts, through Federal legislation, to take such control out of the hands of a small group. We have but to talk with hundreds of small bankers throughout the United States to realize that irrespective of local conditions, they are compelled in practice to accept the policies laid down by a small number of the larger banks in the Nation. The work undertaken by Andrew Jackson and Woodrow Wilson is not finished yet.

The ownership of vast properties or the organization of thousands of workers creates a heavy obligation of public service. The power should not be sought or sanctioned unless the responsibility is accepted as well. The man who seeks freedom from such responsibility in the name of individual liberty is either fooling himself or trying to cheat his fellow men. He wants to eat the fruits of orderly society without paying for them.

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As a Nation we have rejected any radical revolutionary program. For a permanent correction of grave weaknesses in our economic system we have relied on new applications of old democratic processes. It is not necessary to recount what has been accomplished in preserving the homes and livelihood of millions of workers on farms and in cities, in reconstructing a sound banking and credit system, in reviving trade and industry, in reestablishing security of life and property. All we need today is to look upon the fundamental, sound economic conditions to know that this business recession causes more perplexity than fear on the part of most people and to contrast our prevailing mental attitude with the terror and despair of five years ago.

Furthermore, we have a new moral climate in America. That means that we ask business and finance to recognize that fact, to cure such inequalities as they can cure without legislation but to join their government in the enactment of legislation where the ending of abuses and the steady functioning of our economic system calls for government assistance. The Nation has no obligation to make America safe for incompetent business men or for business men who fail to note the trend of the times and continue the use of machinery of economics and practices of finance as outworn as the cotton spindle of 1870.

Government can be expected to cooperate in every way with the business of the Nation provided the component parts of business abandon practices which do not belong to this day and age, and adopt price and production policies appropriate to the times.

In regard to the relationship of government to certain processes of business, to which I have referred, it seems clear to me that existing laws require reconstruction. I expect, therefore, to address the Congress in a special message on this subject, and I hope to have the help of business in the efforts of government to help business.

I have spoken of labor as another essential in the three great groups of the population in raising the Nation's income. Definite strides in collective bargaining have been made and the right of labor to organize has been nationally recognized. Nevertheless in the evolution of the process difficult situations have arisen in localities and among groups. Unfortunate divisions relating to jurisdiction among the workers themselves have retarded production within given industries and have, therefore, affected related industries. The construction of homes and other buildings has been hindered in some localities not only by unnecessarily high prices for materials but also by certain hourly wage scales.

For economic and social reasons our principal interest for the near future lies along two lines: first, the immediate desirability of increasing the wages of the lowest paid groups in all industry; and, second, in thinking in terms of regularizing the work of the individual worker more greatly through the year -- in other words, in thinking more in terms of the worker's total pay for a period of a whole year rather than in terms of his remuneration by the hour or by the day.

In the case of labor as in the case of capital, misrepresentation of the policy of the government of the United States is deception which will not long deceive. In both cases we seek cooperation. In every case power and responsibility must go hand in hand.

I have spoken of economic causes which throw the Nation's income out of balance; I have spoken of practices and abuses which demand correction through the cooperation of capital and labor with the government. But no government can help the destinies of people who insist on putting sectional and class-consciousness ahead of general weal. There must be proof that sectional and class interests are prepared more greatly than today to be national in outlook.

A government can punish specific acts of spoliation; but no government can conscript cooperation. We have improved some matters by way of remedial legislation. But where in some particulars that legislation has failed we cannot be sure whether it fails because some of its details are unwise or because it is being sabotaged. At any rate, we hold our objectives and our principles to be sound. We will never go back on them.

Government has a final responsibility for the well-being of its citizenship. If private cooperative endeavor fails to provide work for willing hands and relief for the unfortunate, those suffering hardship from no fault of their own have a right to call upon the government for aid; and a government worthy of its name must make fitting response.

It is the opportunity and the duty of all those who have faith in democratic methods as applied in industry, in agriculture and in business, as well as in the field of politics, to do their utmost to cooperate with government--without regard to political affiliation, special interests or economic prejudices,--in whatever program may be sanctioned by the chosen representatives of the people.

That presupposes on the part of the representatives of the people, a program, its enactment and its administration.

Not because of the pledges of party programs alone, not because of the clear policies of the past five years, but chiefly because of the need of national unity in ending mistakes of the past and meeting the necessities of today, we must carry on.

I do not propose to let the people down.

I am sure the Congress of the United States will not let the people down.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 3, 1938.

MEMORANDUM OF THE DAY'S ACTIVITIES

January 3, 1938

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Revision

The Committee met both morning and afternoon, taking up various questions of detail in the undistributed profits tax. The rest of the week will probably be taken up with matters of this character. Meantime a draft of the Subcommittee report has been completed and toward the end of the week will be taken up with the Subcommittee.

I talked to Mr. Vinson about a formal letter addressed to you by the Chairman of the Ways and Means Committee, asking about Treasury representation. He said he thought such a letter would be a good idea and for me to prepare what we wished.

2. Bureau Administration

I expect to talk to Mr. Graves tomorrow afternoon. He seems to be most concerned with a reorganization of the Collectors' Offices in New York, and in particular with their handling of Social Security matters. I want him also to direct attention to the Revenue Agents' Offices in the various localities and particularly to the administration of the income tax. In my opinion there is quite as much room for improvement in income tax administration as in any other field and the amounts involved are so great that close attention to them is imperative.

3. Mellon Case

On account of my engagements with the Subcommittee I have not been able to discuss the case at length with Mr. Oliphant, but I understood that he would not be ready before tomorrow. My general conclusion is that in view of the size of the case and the division of opinion in the Board an appeal ought to be taken unless it is quite clear that the Bureau has secured from the Board's decision as good a result as it could reasonably hope to obtain on the facts.

Rm

EDA

GRAY

MEXICO CITY

Dated January 4, 1938

Received 5:31 p.m.

Secretary of State

Washington

2, January 4, 1 p.m.

The resignations of the Ministers of the Interior and National Economy and the Chief of the Federal District were announced last night and the following appointments made to fill the respective vacancies Garcia Tellez formerly the President's private secretary, Efrain Buenrostro one of the three experts who investigated the financial capacity of the oil companies, and General Siurob formerly Chief of the Public Health Service. Castellanos formerly Attorney General for the Federal District and territories was appointed private secretary to the President and Leonides Almazan formerly Minister to Great Britain as Chief of Public Health Service a position he formerly held under President Ortiz Rubio.

No particular significance is attached to these cabinet changes other than a possible strengthening of the Government's policy regarding the oil companies
since

EDA - 2 - #2, January 4, 1 p.m. from Mexico City
since Fuenrostro now heads National Economy. The
new Chief of Public Health is a brother of General
Almazan and it might therefore be considered that
this appointment would tend to link more closely
this important army officer with the present adminis-
tration.

DANIELS

EMB:RGC

MEMORANDUM OF THE DAY'S ACTIVITIES

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January 4, 1938

To: The Secretary

From: Mr. Magill

1. Tax revision

The committee met both morning and afternoon. The principal action taken was the tentative adoption of the plan for imposing a surtax on industrial corporations whose stock is closely held, whose net income exceeds \$50,000, and which have distributed less than 60 percent of the net income in dividends. There was a considerable fight in the committee upon this latter tax. The subcommittee will take up capital gains tomorrow for the purpose of deciding some of the questions of policy which have arisen in the drafting of the provisions.

With luck the subcommittee might complete its work at the end of the week, since it will probably continue to meet both morning and afternoon. In that event the full committee might commence hearings around the 17th.

2. Reorganization of Internal Revenue offices in New York

Mr. Graves discussed with Mr. McReynolds and myself this noon two plans for the improvement of our administrative agencies in New York. First, he wants to make a study of the Collectors' offices to see what overlapping and confusion results from having four collectors with jurisdiction in greater New York City. We all agreed that this work should be undertaken as soon as it is cleared with yourself and with the Commissioner. Second, Mr. Graves is considering quite drastic improvements in the three Internal Revenue Agents' offices in New York, through a concentration of settlement activities in a single unit in New York. Mr. Graves is now preparing a descriptive memorandum on the subject and as soon as it is completed I should like to discuss the proposed changes with you. If you agree, we can then discuss them with the Commissioner upon his return to the city.

Rm

January 4, 1938

My dear Dr. Feis:

I acknowledge with thanks the receipt of your letter of December 22nd with which you transmitted, at the request of the Secretary of State, the letter from Minister Norman Armour addressed to Mr. Dunn.

*filed in
clearing that
date
(BOOK 15104 p. 4)*

I have read Mr. Armour's communication with interest and am returning it herewith for your records.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. Herbert Feis,
Economic Adviser,
State Department,
Washington, D. C.

Enclosure.

By messenger

1-5-38

January 4, 1938

Dear Mr. Welles:

Please accept my thanks for your courtesy in furnishing me with a copy of the letter from the Ambassador of Mexico, dated December 25th, and copy of memorandum of your conversation with Ambassador Najera and Minister of Finance Suarez of December 30th.

*filed in diary Dec 31, 1937
(Book 104 pp. 295, 297)*

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Sumner Welles,
Under-secretary of State,
State Department,
Washington, D. C.

NMC:mas

By messenger 1/5/38

January 4, 1938
11:31 a.m.

H.M.Jr: Hello.

Operator: Gordon Rentschler calling you.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello.

Gordon
Rentschler: Hello, Henry, good morning.

H.M.Jr: How are you?

R: Fine. I wondered whether there's any information about this Mexican situation that would be fair for you to tell me. Now, the reason I'm asking is this. This loan that they were planning

H.M.Jr: Yes.

R: ... to put through, they're not putting through, because they say that they've now rearranged their situation so there's no reason why we shouldn't loan them dollars against pesos.

H.M.Jr: Yes.

R: From our point of view, we do not wish to do it.

H.M.Jr: Yes.

R: Because we don't see that they've really got their things in shape so that's a proper thing for us to do.

H.M.Jr: Yes.

R: But they - it might be helpful to us if your Mexican silver agreement were in a position to be made public...

H.M.Jr: Yes.

R: at the present time; it might change our point of view. Now, if there's any embarrassment about that, why, don't let me have it.

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H.M.Jr: I - I can't talk just at the present time. I mean not - I mean there's nothing I can say.

R: Very good indeed. Now then, in the meantime

H.M.Jr: I mean it's

R: That's all right.

H.M.Jr: Let me just explain. It's - it's up to the Mexicans; if they want to tell, they can talk, see?

R: Yes.

H.M.Jr: But it's up to them to say what the agreement is.

R: Yes. Well, in the meantime, then, from our point of view, until they can - they will tell us, or until it becomes public through other channels

H.M.Jr: Yes.

R: ... we don't want to make a loan.

H.M.Jr: Uh-huh.

R: Excepting as it is against dollars or against gold.

H.M.Jr: I see.

R: Now, we'll have to be rather diplomatic in telling them that, but I'm just telling that to you.

H.M.Jr: I understand.

R: So we'll - we'll proceed from that point, and if there is any time when it can be given out, why, then I'd like to know.

H.M.Jr: Well ...

R: But I don't want anything prior to what - to anybody else.

H.M.Jr: They've - they've asked us not to.

R: Yes, I see. Well now, I don't want to embarrass you, then, in the least.

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H.M.Jr: No. Well - well, I - I really - I mean it's a confidence which is theirs, you see.

R: Certainly, it's theirs, I realize that. I rather appreciated that that might be the case.

H.M.Jr: Yes.

R: I think you've done a good job in getting the silver on the way down.

H.M.Jr: Yes.

R: - And I hope you can make some more steps as you go along a little later.

H.M.Jr: Well, I think we did the best we could under a very difficult situation.

R: That's a step in the right direction.

H.M.Jr: And ...

R: Can't take too long a step; you might split in the middle.

H.M.Jr: And the way that - I think we did the best we could.

R: I think it was taken pretty well too, don't you?

H.M.Jr: Extremely well.

R: Not so many squawks about it; they're not as many as I would have expected.

H.M.Jr: No, I - I was most pleased, and I - the reception it received

R: Yes.

H.M.Jr: ... on the Hill anyway.

R: Yes, I see, and that was - they were satisfied down there.

H.M.Jr: They seemed to be.

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R: Yes. What other reactions you getting this morning?

H.M.Jr: Me? I - I'm - I've actually got a breathing spell. I'm looking for something to do.

R: Oh, well now, that's too bad. If you've got a breathing spell, why don't you get your axe out and get some of this tax stuff straightened out?

H.M.Jr: Well, I'm - I'm going - I'm going down to Sea Island for ten days.

R: Oh, you are? When you going?

H.M.Jr: Next week.

R: I see. Well, you know - you have a good time down there. When you come back - when you come back with a lot of fresh air and a willingness to clean up the stuff.

H.M.Jr: Well, this has been four months as difficult as I've been through.

R: Yes, this has been a pretty tough four months, and it looks like we're going to have another tough four months.

H.M.Jr: Oh, don't say that.

R: Well, it don't look so good. We've got a lot of things that have to be done. Doggonit, we get such situations as this Erie and C & O mess. That upsets a lot of stuff and makes everybody stop again.

H.M.Jr: Well, my own shop ...

R: By the time we get ready to go, why, Mr. Jackson makes a speech or somebody don't put up money for the Erie, or

H.M.Jr: Yes. Well, my own shop

R: ... the like.

H.M.Jr: ... is in beautiful shape. I say the Treasury is in beautiful shape.

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R: Yes.

H.M.Jr: And I can go away for ten days.

R: Yes. Well, that's all right. As long as you've got your things all right, we won't do a lot of worrying about it.

H.M.Jr: Well, they are, they're in beautiful shape.

R: Well, all right, fellow. Well, good luck and have a nice holiday.

H.M.Jr: Thank you.

R: And I'll see you when you get back.

H.M.Jr: I hope so.

R: Bye-bye.

January 4, 1938
11:40 a.m.

H.M.Jr: Hello.

Senator Bulkley: Hello, Mr. Secretary, good morning, sir.

H.M.Jr: How are you?

B: Pretty good. I wanted to inquire of you what's due in your opinion about Mrs. Pyke.

H.M.Jr: Who?

B: Mrs. Pyke, Collector of Customs at Cleveland. Have you any further impressions about the character of her service there?

H.M.Jr: The Collector of Customs at Cleveland?

B: Yes, you remember Mrs. Pyke, of course.

H.M.Jr: Oh. Well, is there anything doing there?

B: Well, only in this way. Her term expires in April.

H.M.Jr: Yes.

B: And on account of some political factional disturbances in Cleveland, some people have started running rumors around that she will not be reappointed.

H.M.Jr: Well, they haven't come down

B: I have said nothing about it one way or the other.

H.M.Jr: This is the first I've heard of it.

B: Yes. I have said nothing about her reappointment, and I don't know just how the rumors arrive, but they have been around. And she came down here Sunday to ask me, "What about it?" And I told her that I knew nothing about it, that I had made no comment, had given the matter no thought, and wasn't in a position to tell her anything one way or the other.

H.M.Jr: I don't know a thing about it.

B: Well now, she says that she - she was actuated in

-2-

asking the question, partly to try to set at rest disturbing rumors and partly because she had the possibility of getting another job if she was not going to be reappointed.

- H.M.Jr: Well, as far as I know, the normal thing would be to reappoint her.
- B: The normal thing would be to reappoint her.
- H.M.Jr: Yes.
- B: And the - the argument against her would be extensive political activity, and I just wondered whether you had anything along that line.
- H.M.Jr: No.
- B: But ...
- H.M.Jr: No.
- B: Yeah.
- H.M.Jr: I have not.
- B: Yeah. Well now, of course, there is plenty of it, which can be either taken seriously or overlooked, according to your own viewpoint.
- H.M.Jr: Well, it's just - there's been no complaints filed with me about her, other than that original thing when they had that a couple years about - the run-in about the unemployment situation.
- B: Yes.
- H.M.Jr: You remember that.
- B: Yes, I remember that - what was it, she
- H.M.Jr: Oh, something - she was supposed to have been down to the State Capitol either lobbying for or against Hopkins, I don't know which it was.
- B: Yes. Well, I think she was trying to help the Governor out at that time.
- H.M.Jr: Yes.

-3-

- B: And now at the present time the situation is just about the opposite; she's raising the devil with the Governor now.
- H.M.Jr: Well, I really don't know, Senator. I have nothing, and as I say, if the President should ask me today, as far as I know there's nothing here been filed against her.
- B: Well, I'd like to ask your attitude about this. I was talking it over a little with Donahey.
- H.M.Jr: Yes.
- B: And we both thought that maybe the smart thing to do would be not to commit ourselves at all and just allow her to hold on without making any appointment until after election next year. What would you think of that? Would that be agreeable to you?
- H.M.Jr: Well, I wouldn't want to give snap judgment on that. I don't - you see, I'm not - I'd have to look at it just from the straight Treasury thing, you see, and you're getting in now - I mean on the politics I'd want to talk to the President and Jim Farley and see how they felt about it.
- B: Yes.
- H.M.Jr: Because I don't know anything about the political situation there, and of course you do. So would - would you mind talking it over with Farley and seeing how he feels?
- B: Yes, I did talk it over with him.
- H.M.Jr: Yes.
- B: And he thought that would be all right.
- H.M.Jr: Well - ah - well, you - you're putting it up to me?
- B: Oh, I - I - I'm not trying to hurry you at all. I just wanted to get your view.
- H.M.Jr: Well, the normal thing would be, we'd send her name up for reappointment.

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- B: Yes. Well, if Donahey and I thought it was better not to do that, you wouldn't feel obliged to do it, would you?
- H.M.Jr: Well, I'd certainly give your - the advice from you two gentlemen very serious consideration.
- B: Yes.
- H.M.Jr: See? But I think we'd have to have something more than just - you know.
- B: Well, I don't want to start smearing her and making charges against her.
- H.M.Jr: Yes.
- B: But I can tell you off the record that there's plenty that could be said if anybody wanted to. Now, I'm not saying it, because she's been very friendly to me and
- H.M.Jr: Well, let me - let me turn it over in my mind. May I?
- B: Yes, sure.
- H.M.Jr: O.K.
- B: Sure, O.K.
- H.M.Jr: Thank you.

January 4, 1938
11:48 a.m.

H.M.Jr: Hello.

Operator: Senator King.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Senator King: Happy New Year. I just got back from Puerto Rico. How are you?

H.M.Jr: I'm fine. And you?

King: Oh, just so-so. I - I've had poor sailing; I was sick all the way going and coming back.

H.M.Jr: Oh, that's most unpleasant.

KING: Yes. Well, how - how are you, how are you feeling?

H.M.Jr: Oh, I feel all right.

King: What did you do with silver while I was away?

H.M.Jr: Well ...

King: I just saw the paper this morning; I just got here.

H.M.Jr: Fifty percent seigniorage.

King: Yes. I see.

H.M.Jr: Sixty-four and a half cents.

King: Uh-huh.

H.M.Jr: And so far none of the mining companies have filed any complaints.

King: I see.

H.M.Jr: In fact some of them say they can live on that very nicely.

King: I see.

-2-

King: Do you think they're going to do anything to help us go forward with the silver policy?

H.M.Jr: If they are, they haven't told me.

King: Well, that's what I was afraid of.

H.M.Jr: No.

King: Well, I'll drop in and see you some of these days.

H.M.Jr: Do that.

King: Good luck to you.

H.M.Jr: Thank you.

January 4, 1938
12:43 p.m.

H.M.Jr: Hello.

Operator: Attorney General. Go ahead.

H.M.Jr: Hello.

Homer
Cummings: Hello, Henry.

H.M.Jr: How are you?

C: I'm fine.

H.M.Jr: Homer, I find I wrote you on December 22 a letter.

C: (Laughs) Then my - then the fault's in my shop.

H.M.Jr: I say, "The successful conclusion of the Liberty Bond coupon litigation in determining" etc. "is of course a great satisfaction to me, and I am sure it must be to you. Please accept my heartiest congratulations."

C: That's awfully nice of you, Henry.

H.M.Jr: Then I go on and mention the particular people.

C: That's fine.

H.M.Jr: I raised hell around here, and

C: And you found the letter.

H.M.Jr: Yes.

C: Well, good for you.

H.M.Jr: All right.

C: I'll find - I'll raise hell around my place now all right.

H.M.Jr: All right.

C: Good-bye.

January 4, 1938
12:47 p.m.

H.M.Jr: Hello.

Marriner
Eccles: Hello. Good morning, Henry.

H.M.Jr: Hello, Marriner. Happy New Year.

E: Same to you. I hope you had a pleasant holiday.

H.M.Jr: Well, I spent two-thirds of it in bed, resting, so it was very pleasant.

E: You weren't sick?

H.M.Jr: No, no, just resting.

E: Oh, fine.

What I called you about - you know this Byrnes Committee.

H.M.Jr: Byrnes?

E: It's on the investigation of the unemployment problem and - unemployment relief and what to do about it.

H.M.Jr: Oh yes.

E: The - the Senate just before they adjourned last year passed a special resolution

H.M.Jr: Yes, I know now.

E: ... appointing a Committee of - I think it was the Hatch-Murray resolution.

H.M.Jr: Professor Baker, isn't it, of Princeton, is the head of it?

E: No. Jimmy Byrnes.

H.M.Jr: Well, they've employed this man.

E: Well, I don't know - but Byrnes and Champ Clark and Senator Lodge, Frazier, Murray and Hatch.

H.M.Jr: Yes.

-2-

- E: Now, Byrnes called up from down in South Carolina last week to say that he wanted me to appear before that Committee.
- H.M.Jr: Uh-huh.
- E: And his man up here on the Hill got in touch with my office here, trying to say what the dickens they wanted.
- H.M.Jr: Yes.
- E: And they wanted me to appear tomorrow.
- H.M.Jr: Uh-huh.
- E: Well, I said I couldn't - I wished they'd put it off and let me appear later. I wanted to appear after some others appeared.
- H.M.Jr: Yes.
- E: In fact, I didn't want to appear at all. Byrnes called me yesterday morning and he said, "I want you to come up here and open up this hearing."
- H.M.Jr: Yes.
- E: He said, "I've been thinking about it," and he says, "We're bringing Green and Lewis and all these industrial leaders in, and we'll bring in the relief people." But he said, "I've been discussing this matter with the Committee and we want you to come up and to give us a general view of the situation; that is, what is the current situation as you see it, and what are the contributing factors, and what you think the prospects are, and what to do about it."
- H.M.Jr: Yes.
- E: I said, "Well, my God, you don't want anything."
Well, he said - he said, "You - labor will present their view and business their view," and he said, "You ought to be in a position to give a detached view of the thing that - based upon your own experience and your own national contacts here, and one that wouldn't be necessarily considered political." See?

-3-

H.M.Jr: Yes.

E: And he said, "We've been discussing it and we've decided that's what we want you to do."

H.M.Jr: Yes.

E: Well, I said, "You ought to give me until Friday to prepare something on it."

H.M.Jr: Yes.

E: "No," he said, "you don't need any - to prepare anything." He said, "You ought to know what the situation is. At least all we want is your personal opinion on it." He said, "You're not speaking for anybody." He said, "This is an investigation, and we're just going to bring a lot of people in here and we want you to start this thing off."

H.M.Jr: Uh-huh.

E: Well, I talked to him for fifteen minutes

H.M.Jr: Yes.

E: ... just pleading with him to get out of the damn thing, and I just didn't get to first base.

H.M.Jr: I see.

E: And instead of getting till Friday, begosh, he's - I've got to go up there this afternoon at 2:30.

H.M.Jr: Oh, my heavens.

E: He said they're opening it up today and he doesn't want anybody else; he wants me to appear first.

H.M.Jr: Gosh.

E: To lay down a general economic background.

H.M.Jr: I see.

-4-

- E: Well, I - I just wanted to tell you that, and if I say something up there that - that - that you don't agree with, or somebody else doesn't, I'm going to say this to them: that this is a - I'm expressing purely a personal opinion, ...
- H.M.Jr: Fine.
- E: ... I'm speaking neither for the Administration nor for the Reserve System.
- H.M.Jr: I see.
- E: And that I'm coming up here reluctantly and that - in fact, Byrnes - I said - Byrnes said that he would say that, that he hadn't given me any time for preparation and that I was coming up here very reluctantly and only under pressure of the Committee.
- H.M.Jr: Well, I wish you luck. It's a tough assignment.
- E: It's a hell of an assignment.
- H.M.Jr: Yes.
- E: But - but I - I didn't want to have to be subpoenaed, and I didn't want to get Byrnes sore.
- H.M.Jr: No.
- E: And I talked to him yesterday morning, and I thought I had him talked out of it.
- H.M.Jr: Uh-huh.
- E: And he said, "Well now, let me think about it. I'll see what I can do." And he came back, didn't call me until 5:30 last evening
- H.M.Jr: Yes.
- E: .. said, "I've been with the other members of the Committee, and we've got a program outlined," and he said, "We just - we've all agreed that we want you to open up tomorrow."
- H.M.Jr: Uh-huh. Well,

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E: That's one reason I didn't accept your luncheon date for today. I haven't got any appetite.

H.M.Jr: Uh-huh. Well, I'll hold my thumbs for you, wish you good luck.

E: Well, I'll see you - see you Thursday then.

H.M.Jr: That's right.

E: And I just - I wanted to let you know what I'm up against.

H.M.Jr: O.K.

E: All right.

H.M.Jr: Thank you very much.

E: Good-bye.

JR

GRAY

Paris

Dated January 4, 1938

Rec'd 2:30 p.m.

Secretary of State,
Washington.

12, January 4, 5 p.m.

FROM COCHRAN.

Paris exchange market more active today. French control continued to lose sterling. Dollar improved from its weakest level against sterling and franc after firmness of silver market yesterday gave assurance that United States would not let world silver price break and after moderate terms of President's speech from a monetary point of view became known.

French control also intervened in forward franc to bring three months premium on sterling from 4 7/16 to 4. Bank of France selling belgas importantly. One Paris American bank alone today bought two and one-half million from this source. French rentes improved. Market observer heard this evening that during present week a new loan will be launched in the name of Algeria for eight hundred million francs, interest six per cent and issue (END SECTION ONE).

BULLITT

csb

LMS

GRAY

Paris

Dated January 4, 1938

Rec'd 3:35 p. m.

Secretary of State,
Washington.

12, January 4, 5 p. m. (SECTION TWO)

price 89. Furthermore, the City of Paris is expected to come on to the market for one and a half billion francs before the end of the month. These two reports are not yet officially confirmed. Articles in financial press last evening and today, evidently officially inspired, prepares public for revelation of further drawing by Treasury on its credit with Bank of France, it being alleged that the Government preferred to do this rather than take all funds pledged in subscription to Treasury loan away from the market just at the end of the year.

French press interprets American bi-lateral silver agreements, particularly that with Mexico as revealing American interest in cooperating internationally toward currency stability. Some observers note how this agreement prescribing a fixed rate between the dollar and the peso has even gone farther than the tripartite arrangement.

(END SECTION TWO)

BULLITT

WGC:HPD

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 12 FROM
PARIS, JANUARY 4, 1938.

I visited National City's Paris manager. Several of his French customers, he said, were immediately converting their year-end dividends (francs) into sterling or dollars - the latter in spite of recurrent rumors that there may be further devaluation of the dollar. This banker expects that during 1938 the French foreign exchange income from tourists will drop much below that of 1937, since the Paris Exposition has been discontinued and in view of the American economic recession.

Pessimism expressed by Guaranty Trust over outlook for French Government because of the latter's repeating borrowing through Algeria, City of Paris ^{and other bodies} ~~undersigned(s)~~ bodies, all to the benefit of the Treasury, so soon after launching similar loans. The Government is paying such a high rate of interest that private interests are precluded from obtaining cheap funds for that ~~(s)~~ economic activity.

END MESSAGE.

BULLITT.

EA:LWW

EDA

PLAIN

LONDON

Dated January 4, 1938

Received 4:25 p.m.

Secretary of State
Washington

12, January 4, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

Commenting on the domestic aspect of the President's message the London TIMES states "American opinion will be relieved by the conciliatory tone of the address quieting the apprehensions which had been aroused by the recent attacks of some of Mr. Roosevelt's subordinates notably Mr. Ickes and Mr. Jackson upon 'monopolies and near monopolies.' Nor will the relief be confined to America for the whole world would be affected and knows that it would be affected by anything like the 'fight to a finish' between the Government and business interests which the Secretary of the Interior and the Assistant Attorney General appeared to contemplate with bellicose eagerness. Recovery everywhere would be choked by the stagnation which would be the immediate result of such a conflict in the United States and the efforts of the American Government to promote economic cooperation between

EDA - 2 - #12, January 4, 8 p.m. from London

between the nations would be gravely handicapped if they could not secure appeasement at home. Mr. Roosevelt struck a very different note without, however, abandoning - as it was not to be expected that he should abandon - any of the objectives of his policy."

Throughout the British press runs the thought that the key to the world recovery movement lies in the American situation. The consciousness that this is so has done nothing to moderate the tone of the comment in the British financial press as indicated by the opening and closing sentences in the FINANCIAL TIMES and FINANCIAL NEWS respectively.

"President Roosevelt's message to Congress on the state of the union contains little indication of a retreat from or a modification of the 'new deal' philosophy but Wall Street can perhaps derive from it two grains of comfort. The first is that it contains no precise reference to any 'trustbusting' campaign. The second is the occasional note of pleading which sounds strangely in a man whose utterances are usually so confident and almost dictatorial in tone. (****) The majority of American business men gratified though they may be by their exoneration from any charge of misusing

EDA - 3 - #12, January 4, 8 p.m. from London

misusing their capital will not find much in the President's message to tempt them to use it to better purpose".

"Politically, economically and financially President Roosevelt's message to Congress is frankly disappointing. He had disappointed those who hoped; and as regards those who feared one can only say that he spoke as though the Attorney General's Department had never breathed an unkind word about business. (****) The fact is that after this message we are still not in a position to see at all how Roosevelt stands on the question of the relations between Washington and business. The message so far as it does anything preserves the status quo. And despite the President's protestations most people will persist in regarding the status quo as a policy of general hostility towards capital".

2. The TIMES special correspondent at The Hague explains today the description "very serious" applied to the financial position of Holland referred to in paragraph 2 my No. 4, January 3, 6 p.m. by stating that the 1938 budget shows a deficit of 13 million guilders and that the restoration of the financial reserves of the Treasury is being hampered by the
increased

EDA - 4 - #12, January 4, 8 p.m. from London

increased expenditure on the defense forces.

3. A survey of the British economic outlook which appears in the January 1st number of the ECONOMIST is worthy of particular attention.

4. Yesterday's announcement has brought stability to the London silver market and there were no important dealings after fixing. The dollar reacted from yesterday's speculative movement.

JOHNSON

CSB

LMS

GRAY
LMS
1/5/38
McH

London

Dated January 5, 1938

Rec'd 3:47 p. m.

Secretary of State,
Washington.

14, January 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The French position is again beginning to command attention in the city and it is expected that this week's Bank of France statement will show advances to the French Treasury increased by five milliards. It is thought that there will be issued an explanatory statement to the effect that: one milliard will be kept in hand and that two milliards are due to be replaced when the December finances are fully paid up. Nevertheless the city expects that this development will have an adverse reaction and there are those who are beginning to predict that the French Treasury will find itself in difficulties about March.

Two. Einzig's comment on the weakness of the dollar may be of interest "while the President's remarks on business were less aggressive than was expected, on the other

RB -2- No. 14, January 5, 6 p. m. from London

the other hand he showed himself determined not to yield in the matter of the new deal legislation. For this reason it is not altogether unnatural that many people have jumped to the conclusion that having rejected the solution of the trade deadlock through a compromise, he might resort to the alternative solution of a second devaluation. This conclusion gains the more credence since devaluation rumors that got into circulation during last autumn have never been properly denied. The dollar scare died down even in the absence of such denials and the administration appears to have considered it wiser not to burn its body unconsciously.

Should the present feeling of vague uncertainty about the prospects of the dollar continue the chances are that a fair amount of 'hot money' will leave New York and that the United States will continue to lose gold. Simultaneously the hoarding demand for gold will revive in the London market. Already today the premium on gold was much higher even though the turn over was small. The exchange equalization account will probably continue to supply hoarders but will gain gold on balance if it should support the dollar to an adequate extent against depreciation."

JOHNSON

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 5, 1938, 5 p.m.

NO.: 17

FROM COCHRAN.

I refer to my telegram of December 27 in which I reported the status of French stabilization fund as of that date; telegram No. 1773. The holdings of the fund were raised slightly, expressed in current francs, by revaluation of certain gold assets at the end of the year. There was no intervention in behalf of the French control in London on the first of January. The control lost 50,000,000 francs sterling on the second of January, and 60,000,000 francs on the third of January. As of the close of business on the fourth of January, the total gold and foreign exchange holdings of the control were 4,800,000,000 francs.

This morning I called at the Bank of France. At that time the control was yielding a small amount of sterling and was keeping steady forward rates. I asked my contact about the rumors which I mentioned in my telegram No. 12 of January 4, with reference to early French loans, but he could not confirm the rumors. However, he was of the opinion that the Government would look for funds from every source

- 2 -

source that could possibly supply them. My contact admitted that it is difficult to preserve a currency in a country facing an enormous cost for armaments and at the same time undertaking to reduce the hours of labor.

Paris market was slow today but demand for sterling increased in late trading with Morgan, an important buyer. New French Government railway organization has come into market bidding for national defense bonds. Rentes are also gaining slightly. There is report that there may be concerted official efforts to improve Government security market in preparation for some sort of conversion operation.

Press stresses Mexican satisfaction at treatment received from United States Treasury in regard to silver.

BULLITT.

EA:LWW

GROUP MEETING

January 5, 1938
9:15 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Bell
Mr. Lochhead
Mr. Gibbons
Mr. Upham
Mr. McReynolds
Mr. Haas

McR: Rall was in when I got in my office this morning.

H.M.Jr: He was?

McR: And he's working for R.E.A. this week. So he was glad to have this week to do a little work for them before going over to F.H.A.

H.M.Jr: Fine.

McR: And he's perfectly happy.

H.M.Jr: He is?

McR: Yes. I told him to come in and talk to our boys some time this week about the set-up, just his angle on it.

Oliphant: May I report that Evans Clark, head of that foundation, said the man who knew most about very low cost housing on a cooperative basis was Flint Garrison, of the Consumers-Distributors Corporation, which is a Filene organization.

H.M.Jr: I see.

Oliphant: And he thought well of having him come down and lunching with him.

H.M.Jr: Uh-huh.

Oliphant: Do you want to sit in?

H.M.Jr: Yes, very much. I can't - I've got lunch every day this week.

Oliphant: He'd be willing to come Friday or any time after

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that. Couldn't come before Friday.

H.M.Jr: Let's say Friday - let's say Friday, 11 o'clock. Let's have McReynolds there. You have Rall there too.

McR: Friday at 11.

Oliphant: Flint Garrison.

H.M.Jr: Who?

Oliphant: Flint Garrison.

H.M.Jr: Flint Garrison.

What else have you got? I mean I'm seeing you and Magill right after this meeting. Well, you've got a checkbook there.

Oliphant: What?

H.M.Jr: Checkbook. I see some of your stubs.

Oliphant: Would you mind going ahead? I haven't done my home work.

H.M.Jr: Fair enough. We haven't got used to this 9:15 yet.

Oliphant: That's right.

H.M.Jr: Mr. Gaston?

Gaston: No, I don't think of anything, except Bob Kintner told me yesterday that a man close to the President told him that the President was considering some special treatment of capital gains which resulted from a man's own efforts and contributions, and he wanted to know what that could mean.

H.M.Jr: (Laughing) Contributions to the Democratic Party?

Gaston: That might be what's behind it.

Magill: When you and Mr. Kintner find out, would you mind telling me?

Gaston: I told Bob just exactly that; when he finds out, I'd be interested to know what it means.

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H.M.Jr: Well, you know, always before I go away I feel rested. I had 15 minutes yesterday with nothing to do.

Gaston: I talked to that other man that you asked me to talk to.

H.M.Jr: Yes.

Gaston: He's been ill for several months. That article that he wrote was something that he wrote several months ago, and he'd be very glad to talk to you. He's been in the hospital. Just got up yesterday, and he doesn't know whether he'll be in shape to travel. But he'll call me up Thursday or Friday to let me know whether he's in shape or not.

H.M.Jr: In the meantime let's get the original article.

Gaston: Yes.

H.M.Jr: Will you?

Gaston: Yes.

H.M.Jr: George, I'd like you to sit in on this 11 o'clock Friday thing. I'm interested in trying to get some real low cost housing through cooperatives.

Gaston: That's all.

H.M.Jr: Incidentally, in talking about somebody close to the President, I read in Arthur Krock this morning that somebody very close to the President told him that we're going back to the Dean Acheson and Sprague methods.

I've got Sprague's feature. I'm going to read it.

(Bell comes in)

Hello, Mr. Bell.

Bell: Good morning.

H.M.Jr: Haven't spent a nickel; come in.

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Magill?

Magill: The Committee is meeting both morning and afternoon with a view to speeding up the promulgation of a revenue bill.

H.M.Jr: The what?

Magill: Promulgation - seven dollar word.

H.M.Jr: Thank you.

Magill: That's a good way to speed it up, since it prevents anybody from doing any work on it. They are now engaged in reconsidering all the subjects that they have previously gone over, which is another way to speed it up.

H.M.Jr: I got a message something like this from you: that you had to see me tomorrow afternoon, but you would not be in, but if you did have to see me you could be found.

Magill: Mr. Kieley is reporting with his usual accuracy.

H.M.Jr: Is that approximately correct, with the usual twist I give to it?

Were you and Oliphant staying?

Magill: Right.

H.M.Jr: Right. Are you going to also do - you also going to do what Harold Graves wants at this time, or is that to be some other day?

Magill: I think we'd better do that another day.

H.M.Jr: All right. Do you want to do it tomorrow morning?

Magill: I'd be very glad to.

H.M.Jr: Well, shall I put you down for, say, 9:45?

Magill: If you can, that's the best time for me.

H.M.Jr: Magill, Graves .. - Mac, will you see him?

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McR: I'll tell Graves 9:45 tomorrow morning.

Magill: I have a letter here for you that I'll give you some time - right after this session.

H.M.Jr: All right. Now, you're all right?

Magill: Yes. You may be interested to know in passing that the President's message, so far as I can observe, has not had the slightest effect on this Committee. I thought that they would stop, look and listen for a few days at least with respect to the tax proposals or tax discussion; but, for example, the President was clearest on the subject of capital gains, and the disposition of the Committee seems to be now to go much further than they have gone. So it's a real job holding even the present lines, much less tightening up at all.

H.M.Jr: In which direction, Ros?

Magill: Lowering the rates. I don't know who they talked to during the Holidays, but they apparently did.

H.M.Jr: What else?

Magill: That's all.

H.M.Jr: Dan, Eccles is lunching with me tomorrow, and I think, if you don't mind, you'd better give me a little program so I might show him what the financing is, you see.

Bell: Uh-huh.

H.M.Jr: And I just want to throw this out to you in considering it. Do it the way we originally planned; and then, I don't see necessarily why we have to borrow so early on the June 15, because the longer the maturity the more we have to pay. But I'll go over it with you in the morning, see?

Bell: Uh-huh.

H.M.Jr: What?

Bell: All right.

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- H.M.Jr: But if you would. Would you mind just - you got time?
- Bell: Oh, sure, 24 hours.
- H.M.Jr: What?
- Bell: 24 hours. That's enough.
- H.M.Jr: And before I see this Comptroller's thing, inasmuch as Mac has made such a study of the Comptroller General's office, I think he ought to be in on it, too.
- Bell: At the end of this week I think we ought to talk to both Herbert and Mac on the thing.
- Gaston: Since that was an official report to Congress, it seems to me that the best way to handle it would be in a formal communication to the Committees of Congress, and make it public just as he did.
- H.M.Jr: Well, I think there's one thing on that which I ought to clear, and I'll try to clear it in Cabinet if I get a chance to. The President seemed surprised - I don't know whether he's right or wrong - that that memorandum - he didn't get a memorandum from the Comptroller General.
- Bell: Did he?
- H.M.Jr: That he did not. He seemed to think that before this publicity was given out the Comptroller General should have communicated to the President. I don't know whether he's right.
- Bell: This is an official report to the Congress which Congress directs the Comptroller General in the Budgeting and Accounting Act to render annually. This is the first one he's sent up since '32.
- H.M.Jr: Just before you do it - Mac, you're my contact man with Forster; you might have a little talk with Forster, ask him if we're going to answer the Comptroller General should we do it through the White House or direct with the Chairman of the Committee. Won't do any harm.

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- Bell: I think maybe we better have something Friday for you to take to Cabinet, at least an outline of what we're going to say.
- H.M.Jr: I think they're very serious charges, not just something you can brush off. I mean it gives that whole Harry Byrd wing the most marvelous springboard, and I think it's an Administration matter. And I don't think you can - when he says that these other agencies aren't under him - there was nothing illegal about them when they were set up. I mean when we set up Farm Credit, thanks to Mac, we put it under Civil Service, we put it in the Budget, we put it under the Comptroller General, and we did everything. But it was purely voluntary, and it was entirely the decision of Congress.
- Bell: Sure, he's attacking Congress on that, not the President.
- H.M.Jr: That's the point I want to get clear.
- Oliphant: That's what Vinson told Hester last night. He said that if we had two or three more reports like that, the reorganization bill would go through with a boom.
- H.M.Jr: It shows Vinson's smart; he and I agree.
- Oliphant: Well, Hester's been talking to Vinson.
- H.M.Jr: Well, I had the job - I mean being the head - of setting up the new agency. We had that thing just because we thought it was good, but it was just as good an agency without putting it in the Budget or Civil Service or the Comptroller General; but it was Congress did that.
- Bell: That's right.
- H.M.Jr: Huh? Well, I don't think it's - I don't think it's anything to be just laughed off.
- Bell: It's got to be very carefully considered. I think it's a good idea to take it to Cabinet Friday afternoon.
- Gaston: It's a swell opportunity, anyway, for the President's side.

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- H.M.Jr: Well, that's why I raised the question whether it would be just a communication from me to the Committees or whether it shouldn't clear through the White House. This isn't an attack on the Treasury, this is an attack on the President.
- McR: Treasury is merely incidentally mentioned.
- Oliphant: Just one.
- McR: Charges that we failed to cooperate.
- H.M.Jr: I think that Mac could raise that with Forster over there and he could - they could bring it up over there. What? Or if I'm going to do it at Cabinet, I can do it.
- Bell: I think that's the place to do it, at Cabinet.
- H.M.Jr: I'll do it at Cabinet.
- McR: All right.
- H.M.Jr: Let me see, Mr. Magill looks perfectly happy.
Archie?
- Lochhead: Nothing.
- H.M.Jr: Archie, the publicity in today's Times - I wish you'd talk to Gaston about it - the way this is given out about a shipment of gold, about gold. I mean it's sort of - "It is rumored in New York," it said, or something like that, "that it would be five million." Now, let's get this thing straight. If there's going to be a shipment of gold, let's have a straightforward way of announcing it, not sort of
- Gaston: Uh-huh.
- H.M.Jr: I mean I think there's room for criticism on the part of the newspapers there. I don't know who gives it out or whose job it is, but somebody should announce it - whether it's the French Government or the Treasury of the United States or the Federal Reserve, I'd like a clean-cut announcement.

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Lochhead: It's a central bank shipment by the Bank of France. The Federal Reserve has been giving out the announcement.

Gaston: We didn't utter a word about it, because the boys lately have fallen into the habit, when we tell them, "If you inquire into it in New York, you can probably find out there's going to be a shipment of gold," of saying, "It was learned at the Treasury today that there's going to be a shipment of five million dollars."

H.M.Jr: I'd like a clean-cut announcement from either here or New York. Will you work it up, please?

Gaston: Yes.

H.M.Jr: Will you, Herbert?

Gaston: Yes.

Lochhead: I think my recommendation there would be that the Fed would put those right on their statement every day.

H.M.Jr: Well, let's work it out and have a clean-cut announcement.

Lochhead: I'll check with Gaston.

Gibbons: I'd like to see you some time - no rush about it - Elmer Irey and Ballinger and myself. Probably ten minutes.

H.M.Jr: How about 10:15 - 11:15?

Gibbons: Today?

H.M.Jr: Yes.

Gibbons: O.K. That is, assuming I can get hold of both of them.

H.M.Jr: If I don't hear from you, I'll expect you. Have you any objection if Mr. McReynolds is here?

Gibbons: No, I'd ...

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H.M.Jr: All right. If there is no objection, Mr. McReynolds will be here. 11:15, Steve.

Gibbons: Yes.

H.M.Jr: George?

Gibbons: Incidentally, John Bright, the Ambassador, sent his regards. I forgot to tell you. From Cuba.

H.M.Jr: Oh, oh.

Gibbons: Marvelous fellow, and she's a charming woman.

H.M.Jr: Yes. Thank you.

Haas: Here's those reports from last night. Haven't got this morning's.

H.M.Jr: Oh. That's all right.

Haas: There's that Warren article. Nothing startling in it. And that other computation you asked for will be in some time today - international positions.

H.M.Jr: O.K.

Herbert, from George get what is this Customs position. I mean I'd just like to know, because Mr. Hull has a statement today - I mean what are the exports and imports. They asked the President a question yesterday - "Isn't it true that if you do Mr. Hull's trade treaties the Customs revenue is off?" And then the President said, "No, it's because our imports are off." I don't think that's right.

Gibbons: Just take Boston as an illustration. New York, of course, is the first, and then the other reports fluctuate; some years one is big - like New Orleans; this year Boston, 55 million dollars, and that's for the fiscal year '37.

H.M.Jr: Imports?

Gibbons: Imports. That was due to wool. Everybody was going right ahead. Now the wool has dropped off to such

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an extent - just the one item will probably bring the next year down to 35 million.

H.M.Jr: Well, the question I want to know first is the dollar volume, and then, was it reduction in tariffs or not. George can get that, see?

Gibbons: We can get it from day to day. Of course, you go to the Commerce Department and they're eight months behind, don't you know. But just a telegram to each Collector

McR: You're mistaken about that; they're catching up.

Gibbons: But it will fluctuate. His statement - that was a smart answer. That particular port is an illustration.

Bell: Don't forget, Customs got a little increase on the strength of Boston's big ...

Gibbons: Don't forget what? What was that wise-crack?

McR: Dan, you're not the Director of the Budget, you're on a straight payroll here; don't forget that.

H.M.Jr: I wouldn't ask to have the question repeated. Let it go, Steve.

Gibbons: He's not taking this down, is he?

H.M.Jr: Only one copy.

All right, George.

Haas: I'm all through, thank you.

Upham: Nothing.

H.M.Jr: Huh? What did I want to ask you? Oh. I think all of you would be interested that I had the bright idea all by myself to call on Carter Glass yesterday.

Upham: I noticed.

H.M.Jr: And he was simply delighted, and he suggested we have our pictures taken together.

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- Upham: His only picture he had all day, I understand.
- H.M.Jr: Well, no, they were taking pictures of himself and his grand-daughter.
- Upham: Aside from those.
- H.M.Jr: But he was - he just loved it. So I said this to him; I said, "Senator, how would you feel about a bill making it illegal for holding companies to own bank stocks?" And he says, "Fine. But how about Mr. Eccles? He's in that business."
- So I said, "Well, I want you to know that in my report on the Hill I said that's the only thing that worries me, and I don't like it."
- He said, "Neither do I." So he said, "But I don't want any banking legislation."
- So I said, "Well, neither do I." "But," I said, "couldn't we do this and just stop there, so as to make a start toward liquidating these bank holding companies?"
- He said, "If you and the President will tell me that you want that and nothing else, I'll put it through. But it's got to come directly from the President. Just tell me you want that and nothing else. I'll put it through."
- Upham: He's been critical of that group banking from the start.
- H.M.Jr: So I said, "Well, that doesn't mean we've got to dig into the branch banking or anything else."
- He said, "No. Just you and the President tell me you want that done; I'll put the bill through."
- Upham: Of course, Eccles is virtually out of that business. He does have branch systems.
- H.M.Jr: But they're across state lines.
- Upham: I thought he had one branch group in one state and another branch group in another state.

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- H.M.Jr: Not according to the list given me by the Comptroller of the Currency. No, he crosses. It's something like the First Securities - Securities First - I don't know which it is. But they're in three states. They're in Idaho, Utah, and Wyoming.
- Upham: I knew they used to be, but I thought that
- H.M.Jr: No, and they're all called the First Securities or Securities First.
- But Eccles is big enough. He ought to be
But I thought that was interesting.
- I think I'm going to move in there.
- Oliphant: On the branch banking side, the law now provides that if the state law expressly allows the state bank to have branches, then the national banks can have branches.
- H.M.Jr: Then the what?
- Oliphant: Then the national banks can have branches.
- H.M.Jr: Well, that's all right.
- Oliphant: That's all right, except the word "expressly." I think that might come out.
- Gibbons: That's in a state, but it doesn't go into interstate.
- Upham: Little more - "expressly and not by implication only" - pretty strong expression of Congressional intent.
- H.M.Jr: Meaning what?
- Upham: They just repeat - "expressly and not merely by implication."
- H.M.Jr: What does that mean?
- Upham: It means that the state law has to say something about permitting branch banking.
- Gaston: The fact they don't forbid it is not enough.

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- H.M.Jr: Well, let me put it in language that I can understand. If we passed a law saying it's illegal for a holding company to hold bank stock - and I take it we can only say national bank stock -
- Oliphant: Could cover the whole thing.
- H.M.Jr: ... well then, that leaves it open for each state to say whether they do or do not want branch banking within the state.
- Upham: That's right.
- H.M.Jr: I think that's all right.
- Oliphant: That's the way the law reads.
- H.M.Jr: Well, with the exception
- Oliphant: I mean on the latter thing.
- H.M.Jr: But it does permit holding companies.
- Oliphant: Oh yes.
- H.M.Jr: And - well, I've got to see the President. And in view of what the President said in his message about big banks, I should think the natural thing would be to follow this with a message. I mean in his message he talks about the influence of big banks, and I should think the natural thing would be for him to follow that with a message on holding companies in banking. Certainly if he wants to talk about concentration of wealth, I don't think I know of any place where there is more concentration than in these holding companies of bank stocks.
- Upham: Of course, there is another side to it. That whole group banking development in the Northwest was an attempt to get away from the New York-Wall Street influence and at that time was hailed as a very healthy development in banking.
- H.M.Jr: Do you believe it was?
- Upham: I think that particularly in that particular territory, it had a great deal of merit. I think it saved a great many banks. As a matter of fact,

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the Federal Reserve Bank of Minneapolis is officially on record to that effect.

H.M.Jr: Well, they keep saying - I mean it's like everything else, and that particular group may or may not be run well.

My impression when I was in Farm Credit, when I had a lot to do with them, was that they had not one glass eye, but two glass eyes. I mean they were a tough crowd.

Upham: Well, they got into trouble, of course.

H.M.Jr: Well, I had a lot to do with them, because we practically owned the State of North Dakota when I was in Farm Credit, and we had a lot to do with that crowd. And a tougher crowd, or more hard-boiled, or a crowd that was quicker to foreclose, I never met than that Northwest group. I mean they may have kept a few banks from failing, but when it came to cooperating on any program when I was in Farm Credit, God, that was as tough a crowd as we ever went up against. And the answer is, they may have saved their own skins, but as far as the farmers and home owners in that district were concerned, they didn't save them. You've met those people.

Upham: Oh yes.

H.M.Jr: Listen, and the heads of it - there is no more vitriolic anti-New Deal group than that group up there. There isn't a New Dealer in the crowd.

Gibbons: Wasn't the legal rate of interest about thirty-three and a third percent?

H.M.Jr: They may have saved their own skins, but they certainly - when I was in Farm Credit I came right up against that group, and that was the toughest crowd we had to deal with.

But that's - I just don't - I'm shooting for big game in peace times, and I think - I can see if we really have trouble that this situation - I don't like it, and I think it would be ... Now, I asked

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Tom Smith and Tom Smith said that - if you will just check - he says 85 percent of the bankers of this country would be with me on this.

Upham: I think that's true.

H.M.Jr: He said 85 percent of the bankers would be with me. Well, if you can get 85 percent of the bankers with you on something the Government wants to do, it's a great day.

Upham: Yes.

Oliphant: Looks suspicious.

Upham: Must be wrong, he says.

MEMORANDUM OF THE DAY'S ACTIVITIES

January 5, 1937

To: Secretary Morgenthau
From: Mr. Magill

The Subcommittee virtually completed its work in an all day session, except for the final consideration of its report. The Subcommittee considered various questions of policy in respect of capital gains and losses but made no changes of importance in the plan previously adopted. It is to meet at 10:30 tomorrow morning for a final clean up session.

After the meeting this afternoon Congressman Vinson suggested that it would be desirable for you, Mr. Doughton, Mr. Vinson and myself to call upon the President for fifteen minutes tomorrow to outline the major items in the Subcommittee's program. I agreed that it would be an excellent idea to bring the President down to date and to secure his approval of what has been done. Vinson asked that you make the appointment but in your absence I am going to call him and suggest that he or Mr. Doughton do so.

RM

For my diary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 5, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

To the memorandum which I wrote you concerning appealing the Mellon Case and which I read in the conference with you and Magill at 9:45 this morning, I attach, for your records, this statement of the results of our conference:

You requested a simple statement of the transactions entered into by Mr. Mellon which would be involved in such an appeal. I said I did not want to extemporize such a statement but would extend the memorandum mentioned above by including such statement. Later it was agreed that this statement should be prepared for you at a later time.

The discussion then moved from the wisdom of appeal to the desirability of making the proposed motions in the Board of Tax Appeals and pressing those motions. It was agreed that these motions should be made and pressed, and that, with the results thereof before us, we would later canvass the wisdom of appeal to the Circuit Court of Appeals.

I mentioned that I had discussed the matter with Robert Jackson and that he said the motions should be made and the appeal prosecuted. I further mentioned his statement that his name should not appear on the motions and that was agreed to.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

The question up for decision before January 6 in the Mellon case is whether it shall be appealed in the Circuit Court of Appeals of the Third Circuit; and assuming the case is to be appealed, what motions should be made before the Board of Tax Appeals to put the record in shape for such appeal?

I am advised by the men of my staff, who have been handling and are most familiar with this case, that there would be little chance of our losing any substantial part of the tax awarded to us by the Board and dependable reasons for expecting a substantial increase in recovery if the case is appealed.

Other cases are coming along which involve the same legal questions and a total tax liability, exclusive of interest, of some \$2,500,000. There would seem to be no justification for our failing to take and assert in the present Mellon case legal positions which it will be necessary for us to take and assert in these other cases.

Finally, as bearing on the question whether this case should be appealed, it is to be observed that if this were an ordinary case not involving Mr. Mellon, but involving similar amounts, it would, in the regular course, be appealed.

Preliminary to appeal, it is necessary to make certain motions to put the record in shape for appeal. This is necessitated by ambiguity in the decision of the Board of Tax Appeals. The motions which would be filed are as follows:

- (1) A claim for an additional deficiency,
- (2) A proposed amendment to the Commissioner's answer, (This has the same ultimate purpose as number (1), the difference being one of procedure and is proposed in order to save the Government's rights with reference to other questions which the Board has decided adversely.)
- (3) A motion for leave to file the amendment,
- (4) A motion for rehearing, (All four are necessitated by the Board's having advanced a new theory with respect to one of the issues on which appeal is contemplated; the principal purpose is to lay the foundation for the action requested in number (5).) and
- (5) A motion requesting the Board to revise and clarify its opinion and to reconsider the question to be appealed.

Harman O. [Signature]

Summary of conversation at Secretary's lunch attended by Mr. Crane and Mr. Armstrong of the Standard Oil Company of New Jersey and Mr. White - January 5, 1938.

Mr. Armstrong presented a lengthy memorandum summarizing the principal facts of the controversy between the oil companies in Mexico and the Mexican Government (a brief digest of that report is attached). Mr. Armstrong stated it was his opinion that the Mexican Government was intent upon gradually pushing out the foreign oil companies and acquiring the properties with little or no payment. By limiting the price which the oil companies could obtain in Mexico for their oil and gasoline (one-half of the Mexican oil produced is consumed in Mexico) and increasing taxes, royalties and labor costs, the production of oil in Mexico by foreign companies was becoming progressively less profitable.

He briefly outlined the situation with respect to property rights of the foreign oil companies and described the recent royalty arrangement made with the Eagle Oil Company (a subsidiary of the Dutch Shell Company).

The Secretary asked him why it was that the Dutch Shell completed the royalty arrangement whereas the American companies did not see fit to do so. Mr. Armstrong replied that one reason was that the titles which the Dutch Shell Company held to many of its properties was not very good and they, therefore, preferred to accept the new arrangement rather than run the risk of losing their properties through inadequate title rights.

In response to the Secretary's question as to the dominant interest in the Dutch Shell Company, Mr. Crane replied that he thought that there was a larger proportion of British than Dutch, though they operated sometimes as a British company and sometimes as a Dutch company, depending upon the situation.

The Secretary asked whether the treatment accorded by the Mexican Government to the American interests in Mexico was worse than that accorded the interest of other countries. Mr. Crane replied that he didn't know much about it but he seemed to think that was the case. Mr. Armstrong, however, disagreed. He felt that there was no discrimination against the American interest as compared with other foreign interests. It was his opinion that the discrimination was against all foreign interests as against Mexican. He also expressed the opinion that the foreign mining interests had not yet been subjected to the same degree of discrimination that the oil companies had, although he ventured the opinion that it would be only a matter of a few years when they too would be experiencing similar difficulties with the Mexican Government.

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The Secretary asked whether in their opinion the American Government was as aggressive as could reasonably be expected under the conditions and whether a more aggressive attitude would help. Mr. Armstrong replied that Ambassador Daniels appeared to have become more aggressive since his last trip to the United States but it was his (Armstrong's) opinion that any external pressure that could reasonably be exercised in favor of different treatment for the foreign companies would not be enough to offset the internal political pressure dragging the Government toward gradual elimination of foreign interests from Mexico.

The Secretary requested their opinion as to what they considered would be the situation, not in the immediate future, but in five or six years. Mr. Armstrong and Mr. Crane ~~agreed~~ that the situation looked rather dark for foreign companies that owned property in Mexico and likewise dark for the Mexican people and there was very little that the American Government could do about it. Mr. Crane added that the Government would probably go ahead with its plans as it could not stand if it attempted to abandon its present program of support of the labor unions, of land division and virtual confiscation of foreign owned properties. It was his opinion that after the Mexican Government had operated to dry up its chief source of revenue by driving out foreign capital a new government would come in which would offer foreign capital inducements to return.

Mr. Armstrong stated that his oil company and other American companies had not been re-investing any of their funds in Mexico in the last couple of years because of the increasing uncertainty with respect to the Mexican Government's intentions. In the last few months they have reduced their cash balances and the inventories to a bare working minimum.

Mr. Armstrong went on to describe the present acute situation with regard to labor. He said that the Mexican Government wanted them to post a bond for an indeterminant amount while the present labor controversy was being decided in the courts. He stated that the request for bond and payment of 75 percent of the back wages claimed due constituted much too large a sum for the American oil companies to risk.

The Secretary asked whether on or around January 31st the Mexican Government had not receded from its strong position held before that date. Mr. Armstrong said he was not aware of any such retreat but Mr. Crane was of the opinion that the Mexican Government had softened somewhat in its attitude. Both Mr. Armstrong and Mr. Crane believed that the requests of the Mexican Government with respect to wage rates and other labor conditions were preposterous and that none of the American oil companies would meet their present demands.

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Mr. Armstrong stated that he had recently had lunch with Dr. Suarez and that the latter had indicated his desire to do what he reasonably could to make conditions in Mexico such that foreign companies could operate profitably. Mr. Armstrong thought, however, that Dr. Suarez would be unable to significantly influence the trend even if he were sincere in desiring to do so. Mr. Crane said that Dr. Suarez had been in New York trying to borrow from \$5 to \$10 million by a peculiar arrangement involving the promise to maintain the dollar balance but not the pledge of those balances. According to Mr. Crane, Dr. Suarez wanted to leave the dollars with the New York bank but at the same time to include it as a part of the reserves of the Bank of Mexico. (It was not clear from Mr. Crane's statement whether the banks turned down the loan because of the presumed Mexican illegality of the procedure or because the Mexicans would not agree to leave the dollars as collateral.)

Mr. Crane and Mr. Armstrong both thought that the Mexican Government could lease tankers with which to export oil from Mexico if the foreign oil companies ceased operations but they both agreed the Mexican Government would have a very difficult time marketing that oil abroad.

The Secretary asked what the situation was with the other foreign business of the Standard Oil. Mr. Crane replied that they were doing very well everywhere else with the possible exception of Rumania. Mr. Crane said that British business was particularly profitable, and their business with Germany had been very good. The Secretary asked whether they were having any difficulty converting their marks into dollars. Mr. Crane replied that though they got marks for their sales they were able to put those marks to excellent use owing to their world-wide foreign enterprises. They were building several tankers in Germany with their mark proceeds and they were also buying materials then needed which they exported from Germany to their oil fields in Venezuela and other places. Though they were not getting all of their yen balances out of Japan they were on the whole doing rather well there too.

The Secretary asked if from the point of view of their business and from the point of view of America's competitive position in the world market they were satisfied with the present position of the dollar. Mr. Crane emphatically stated that they were quite satisfied with the position of the dollar and that they saw absolutely no reason for any change being made in the dollar price of gold. He expressed the opinion that the satisfactory state of affairs applied not only to the oil industry but to America's position in the international field as a whole. The Secretary emphasized the fact that he was not asking the question because he was thinking about making any change himself but merely because he wanted to know what was their opinion since they were constantly in the foreign market and they were thoroughly familiar with the business angle. Crane and Armstrong said they understood that.

The Secretary asked Mr. Crane what he thought of domestic business conditions and outlook. Mr. Crane replied that as far as his company was concerned they were not much affected by the recession. They had a good year and they were anticipating spending about 25 percent more in capital expenditures during 1938 than they had in 1937. Mr. Crane stated that their capital expenditures were not very flexible; they could not be speeded up and concentrated in the early part of 1938. Mr. Armstrong stated that he anticipated a somewhat lower price for crude oil during the coming year because of the increased activity in oil drilling that had recently been taking place.

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Digest of Report on Controversy between
Foreign Oil Companies and Mexican Government.

On November 3, 1936 the Syndicate of Petroleum Workers presented demands to the oil companies for a collective contract, comprising 251 clauses. Delays were requested and granted until a general strike finally went into effect May 28, 1937 and lasted till June 9, 1937. The strike was settled by appointment of a commission to investigate the companies' economic capacity to meet the labor demands.

The investigating commission rendered its report on August 3, 1937, and the oil companies and the syndicate were given three days to present their objections to the findings of the commission. Objections were filed by both entities on August 9th, and hearings before a special board were begun on August 19th. Hearings were terminated on October 20th, and briefs filed by both parties. The Labor Board made its final award on December 18, 1937.

The lengthy memorandum submitted by Mr. Armstrong of the Standard Oil Company of New Jersey appears to have been prepared by that company. It attempts to explain in great detail every step in the above procedure. It makes clear that the demands of the Syndicate are not for wages alone, but cover every phase of labor-management contact, including housing, savings participation, hours of work and overtime, accident sickness and death benefits, discharge and retirement payments, vacations, athletics, education, control of Syndicate in hiring and firing, promotion and reduction of personnel, medical service, etc.

The commission held that the companies were well able to pay the sum of 26,392,756 pesos which was stated as the cost of adhering to the labor demands. The companies stated that a nearer figure if the demands had to be met would be 40 to 50 million pesos.

The memorandum presented by Mr. Armstrong is a step by step objection to every demand of the Syndicate, and questions every decision of the commission and the special board who finally made the award. It protests the jurisdiction of the commission and board in handling the matter in question, and claims that Mexican laws are being defied. It attempts to show always that undoubted bias was shown by the commission and Labor Board, and that the individuals judged with preconceived and prejudiced opinions.

It is a blanket indictment of the methods followed and the decisions arrived at, the companies claiming finally that it is impossible for them to continue to operate under the conditions imposed.

The report states it is the obvious conclusion that the new social philosophy of Mexico tends to subordinate industry to the benefit and profit of the worker, which trend, if followed, will eliminate foreign capital from Mexico.

1-5-38. 92

Acute phase of the current oil situation in Mexico

1. Presidential decree ordering the oil companies to pay recent labor demands involving 26 million pesos.
2. Refusal of the companies to make this payment on the grounds that they could not possibly operate at a profit and pay those sums.
3. A compromise was offered by the Mexican Government. The compromise was that the wage question was to be taken to the Mexican highest court and that in the interim the oil companies were to leave a deposit of 75 percent of the 26 million pesos involved with the Bank of Mexico. (Inasmuch as the foreign oil companies did not have nearly enough funds to meet that deposit this would have meant a release of pressure on the Mexican peso. In other words, it was equivalent to an additional source of foreign exchange at a moment when the Mexican Government needed it badly.) The oil companies are afraid to leave that money on deposit for two reasons:

(a) In the first place, they fear the peso may depreciate and even if they get their deposit back they will lose on the transaction.

(b) They are not certain that the courts will decide against them and they feel it is better to fight the issue now than later with a large sum on deposit under control of the Mexican Government.

4. Buenrostro, newly appointed Secretary of National Economy, was head of the commission which recently reported on the oil companies'

(over)

ability to pay the 26 million pesos demanded by labor. This report was strongly denounced by the oil companies as being false in full page advertisements in the Mexican press. He is not likely to be over-sympathetic with the foreign oil companies views.

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January 5, 1938
11:35 a.m.

H.M.Jr: Hello.

Operator: Mr. Tom Smith.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Tom
Smith: Hello, Henry, this is Tom.

H.M.Jr: Good morning.

S: Fine. Henry, I've been - spent two miserable days checking my affairs here, and I can't get away.

H.M.Jr: Oh, you old so-and-so.

S: I'm going to be there the 15th just for a day.

H.M.Jr: Well, I won't be here.

S: And I'll tell you more about it if you - I'll be there the 15th and 16th; that's Saturday and Sunday.

H.M.Jr: I won't be here then; I'll be away.

S: You're going to be away.

H.M.Jr: I'm going South for ten days.

S: I - I can't do it. It's a long story and ...

H.M.Jr: Uh-huh.

S: ... I've - Mrs. Smith and I have talked it over. But that's the ...

H.M.Jr: That's the answer.

S: ... the decision I've reluctantly come to.

H.M.Jr: Well, I'm sorry.

S: Well, I am too. When will you be back?

H.M.Jr: I'll get back about the 24th.

S: Well, I'll see you in a few days after that. I'm coming - I've got to go to New York the 10th of February.

H.M.Jr: Uh-huh.

S: You'll be in Washington about that time, will you?

H.M.Jr: Yes, I will.

S: Well, Henry, I appreciate your interest and all that, and I'll explain in detail when I see you.

H.M.Jr: O.K.

S: And I - you have all my wishes for everything which - that can come to anybody.

H.M.Jr: Thank you.

S: O.K.

H.M.Jr: Good-bye.

S: Good-bye, Henry.

January 6, 1938
11:23 a.m.

K: Mr. Secretary?

H.M.Jr: Talking.

King: Good morning.

H.M.Jr: How are you?

K: I'm sick. How are you?

H.M.Jr: Didn't you call me this morning?

K: I called you, my dear friend. Some time ago - first let me give you a little historical background. A number of years ago Mr. Couzens and myself

H.M.Jr: Yes.

K: ... - I offered a resolution for an investigation of the Treasury Department, especially the tax section, don't you see. We found that a number of the persons there, after they'd get information regarding taxes and refunds and so on - they'd resign and go out and get cases, you see, and make big fees.

H.M.Jr: Yes.

K: I know a number that made very large fees.

H.M.Jr: Yes.

K: So we had a very extensive investigation called the Couzens Committee. I offered a resolution and Couzens offered one, and the Republicans were in charge, so I had to report out the Couzens bill instead of mine. And under it we held the investigation.

H.M.Jr: Yes.

K: The result was, among other things, that we concluded there ought to be a Tax - Board of Tax Appeals.

H.M.Jr: Yes.

K: But neither of us thought that it was to assume such a high-and-mighty attitude as it does now and thinks it's bigger than the Supreme Court of the United States.

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We thought that they would give bench opinions and push through the work instead of writing thirty-five or forty volumes of great long reports, as they've been doing.

H.M.Jr: Yes.

K: Well, one of the judges of the court - of course, the Republicans were in power - one of the judges of the - appointed was Mr. Logan Morris of Utah, ...

H.M.Jr: Yes.

K: ... fine man, and he's resigned.

H.M.Jr: Yes.

K: And he made a pretty good record, I'm told.

H.M.Jr: Yes.

K: There are several vacancies there now.

H.M.Jr: Yes.

K: Utah had a man upon the Supreme Court of the United States and he's resigned - George Sutherland, my former partner.

H.M.Jr: Uh-huh.

K: We've got nothing now in any of the judicial positions.

H.M.Jr: Yes.

K: Congressman Robinson - fine man, and he's been most loyal to the Administration in every possible way - he's in a very embarrassing situation. If he doesn't get this position, for which he's applied, he's got to know, because then he's got to get out and look after his fences, don't you see.

H.M.Jr: I see.

K: And it's putting him in a very embarrassing position. He doesn't want to announce his candidacy for Congress if there's a chance to get this position, and he

-3-

doesn't want to announce that he's a candidate for this position if he isn't going to get it.

H.M.Jr: Yes.

K: I'm speaking very frankly.

H.M.Jr: Yes.

K: And Congressman Robinson and Mr. Murdock have strongly endorsed him, and the people of my section, of the interlocking region.

H.M.Jr: Yes.

K: I don't - of course, I have no right to ask what you're going to do, but

H.M.Jr: I don't know, but certainly what you tell me has certainly made an impression, and I'll keep it in mind.

K: I wish you would, my dear friend, because you can see how embarrassing

H.M.Jr: I understand.

K: He's got to decide one way or the other.

H.M.Jr: All right.

K: I was told the other day that you had agreed upon somebody else in the Department.

H.M.Jr: Well, as far as - I've recommended somebody, but whether the President

K: Oh.

H.M.Jr: ... is going to accept my recommendation,

K: Oh, I see.

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

K: Well, you didn't recommend Robinson.

H.M.Jr: I did not.

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- K: Well then I suppose he's out.
- H.M.Jr: I don't know, because I'm only one.
- K: Uh-huh.
- H.M.Jr: But I'm - I always believe in telling you
- K: Very frank.
- H.M.Jr: ... and everybody else on the Hill just where I stand.
- K: Yes. Well, I always tell you.
- H.M.Jr: Right.
- K: Well, I should be very - I'll say very frankly I should be considerably disturbed if you appoint somebody out of your Department there. I don't like this idea of - I've told the Attorney General I didn't like his naming so many out of his own Department; I don't think it's quite right, isn't quite ethical. But that's not my business to say.
- H.M.Jr: Uh-huh.
- K: And I should scrutinize very carefully
- H.M.Jr: It's perfectly ethical. It's perfectly ethical. There's nothing unethical about it.
- K: Well, I don't know about that.
- H.M.Jr: Well, I - what's unethical about it?
- K: Well, I don't think that we ought to take men out of Departments and name the men - select them, put them - I told the Attorney General, "I don't think you ought to take men out of your Department and make them judges." Well, that's neither here nor there.
- H.M.Jr: No.
- K: Well, of course, if you've made that recommendation, I'll just tell Mr. Robinson he's out.
- H.M.Jr: But I - I mean I'm sorry to disagree with you.

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- K: I beg your pardon?
- H.M.Jr: I say I think it's highly ethical if a man - under the law we can't take anybody from Internal Revenue and put him into the Bureau - into the Board of Tax Appeals.
- K: Well, there's some reasons why I think they ought not to be appointed.
- H.M.Jr: Well, that might be an honest difference of opinion.
- K: Well, I suppose Mr. Robinson's name - Congressman Robinson's name, then, hasn't been up.
- H.M.Jr: Well, I've got the whole - I've got - I've got the whole list here, and - and - after all, I'm one, and Mr. Farley has got recommendations to make. I don't know what the President's going to do. I don't know. But there's a whole list of availables for the President to appoint.
- K: Well, I would imagine the President would follow your recommendation.
- H.M.Jr: Possibly. He didn't on the last one.
- K: I wonder if he ...
- H.M.Jr: I say he didn't on the last one.
- K: I beg your pardon?
- H.M.Jr: Did not on the last appointment to the Board of Tax Appeals.
- K: I didn't quite get that.
- H.M.Jr: He did not on the last recommendation for member of the Board of Tax Appeals.
- K: Uh-huh.
- H.M.Jr: I mean the last person he appointed, he did not follow it.
- K: Yes, I understand. Well

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H.M.Jr: So you don't know. Well, anyway

K: I wonder if Mr. - I wonder if Mr. Robinson's name has been brought to the attention of the President.

H.M.Jr: Well, I'll say this. I will bring it to his attention.

K: I wish you would.

H.M.Jr: I'll tell him of our conversation.

K: I wish you'd tell him about that - tell him as a historical matter.

H.M.Jr: I'll tell him of your - about Congressman Robinson.

K: I beg your pardon?

H.M.Jr: I will - I give you my word, I will bring Congressman Robinson's name to his attention.

K: Yes. I wish you would do that, and then bring his attention to the fact of - that - of his attitude now, don't you see.

H.M.Jr: Yes.

K: He can't - he's got to - he's got to cut bait or fish or something, you see.

H.M.Jr: Right. All right.

K: I'll be glad if you'll do that.

H.M.Jr: Thank you. Good-bye.

January 6, 1938
11:59 a.m.

H.M.Jr: Hello.

Operator: Colonel Harrington.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Colonel
Harrington: Good morning, sir.

H.M.Jr: How are you, Colonel?

H: Very well, thank you.

H.M.Jr: Have you got the figures as of last Saturday?

H: Yes, sir.

H.M.Jr: Could I have them please?

H: January first. ...

H.M.Jr: Just a moment. January first.

H: Total employment, 1,667,000.

H.M.Jr: 6-6-7.

H: That was an increase of 38,000.

H.M.Jr: Just a moment. During the week, increase of how much?

H: 38,000.

H.M.Jr: 38,000.

H: It's going at about 40,000 a week now.

H.M.Jr: And how does it look to you?

H: Yep.

H.M.Jr: I mean how is it going, all right?

H: Why, as far as we can tell, yes, sir. We're - we're not under any considerable pressure yet anywhere. We

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feel that we're meeting a situation. Up to this time we are not getting as much pressure as we really expected.

H.M.Jr:

Uh-huh.

H:

We think that's because it probably hasn't gotten through to us yet; that is, that a number of these people that have lost their jobs the last couple of months are still getting along on what - what they earn, and they don't go to the relief offices until they exhaust their resources, you know.

H.M.Jr:

Yes.

H:

That seems to be what's happening.

H.M.Jr:

Uh-huh. Could you come over and sort of bring Mr. Bell and myself up to date tomorrow?

H:

I'd be glad to, yes, sir.

H.M.Jr:

Just a minute. Mr. Bell's here. Let me ask him what time.

(Pause)

Bell says 11:30 tomorrow would be fine for him.

H:

11:30. Just a moment.

H.M.Jr:

How's that for you?

H:

All right, sir, I'll be there.

H.M.Jr:

Now, what Mr. Bell wants when you come along is how the actual unemployment figures are stacking up against the estimates.

H:

I see.

H.M.Jr:

See?

H:

Yes.

H.M.Jr:

In other words, are you running ahead or behind?

H:

I think we're running behind.

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H.M.Jr: Uh-huh.

H: But I'll have that.

H.M.Jr: Well, I made a little statement to the press this morning - they were pressing me on account of the budget - and I said up to - as of today, that we had no demands that we couldn't take care of.

H: That's correct.

H.M.Jr: As far as - I said - I was talking money.

H: Yes.

H.M.Jr: Money, see?

H: Well, we - up to today in employment we have no demands we haven't been able to meet.

H.M.Jr: But when you come over tomorrow, if you could tell me a little bit, something about what are the kind of projects that you're using this winter that are any way different - in other words, give me the plans - I mean what is the - how are we putting people to work this winter?

H: I see.

H.M.Jr: Could you give me a little - could you give me a little story on it?

H: All right, sir.

H.M.Jr: I mean are we - are we repairing roads, are we building sewers, or are we building buildings or - and that sort of thing, you see?

H: Yes, sir.

H.M.Jr: What - in other words, what are the bulk of the projects and how are they divided up?

H: I'll be glad to.

H.M.Jr: And - just a minute. (Aside: Anything you want to ask? What? -) I mean I don't know, but - if you had something, just a little description of what the

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projects are, I mean, in looking at the country as a whole.

H: I'll be glad to.

H.M.Jr: In other words, what I'm asking for, if you don't mind, is a sort of progress report.

H: I - I get it.

H.M.Jr: I mean not too much detail, but so that Bell and I can have kind of the feel of the situation.

H: Yes, sir.

H.M.Jr: See?

H: Yes, sir.

H.M.Jr: That'll be 11:30 tomorrow.

H: 11:30 tomorrow.

H.M.Jr: Thank you.

H: I'll be there.

H.M.Jr: Thank you.

January 6, 1938

Had a meeting with Bell and Taylor and after looking over the attached statement we decided that it would be unnecessary for us to increase our borrowings for the month of January. Also decided that we would ask Eccles to have an Open Market Committee meeting on Wednesday, February 2nd, at which time we would discuss further financing.

ESTIMATE OF CASH POSITION

January - June, 1938

(In millions of dollars)

	1938 January	February	March	April	May	June	Total
Balances at beginning of periods:	977	851	957	871	681	774	977
RECEIPTS:							
General revenue	314	353	972	313	397	815	3,164
Unemployment Trust Fund	45	88	42	37	76	48	336
U. S. Savings Bonds	60	35	30	30	25	25	205
Silver certificates	5	5	5	-	-	-	15
Sale of securities - Special accounts	10	10	-	-	-	-	20
Treasury bills	-	200 June	-	100 Sept.	200 Sept.	-	500
Treasury bonds and notes	-	-	-	-	-	-	-
Total available	1,411	1,542	2,006	1,351	1,379	1,662	5,217
EXPENDITURES:							
General	310	320	350	350	340	300	1,970
Emergency	220	200	200	180	160	150	1,110
Interest on public debt	15	20	155	70	10	175	445
Special transactions	-	15	-	-	30	-	45
Debt redemption	15	30	430	20	15	230	740
Gold purchases	-	-	-	50	50	50	150
Total	560	585	1,135	670	605	905	4,460
Balances at end of period:	851	957	871	681	774	757	757
Refunding Operations:							
Treasury bills:							
Regular	200	200	350	400	400	600	2,150
Special	-	-	400	-	-	200	600
Treasury notes	-	-	455	-	-	618	1,073
Total	200	200	1,205	400	400	1,418	3,823

ACCOUNTS AND DEPOSITS

January 5, 1938

MEMORANDUM OF THE DAY'S ACTIVITIES

January 6, 1938

To: The Secretary
From: Mr. Magill

1. Tax revision 1938

The subcommittee adjourned this noon, to meet again at the call of the chairman. It is contemplated that the draft of the subcommittee's report will be put in its hands at that time. Probably the meeting to consider the report will be held next Wednesday morning.

2. Report of corporate officers' salaries

Under one of the sections of the revenue law the Secretary is required to submit to Congress a list of corporation officers receiving \$15,000 a year or more. The Treasury regulations require the corporation to furnish information on its return and also the percentage of stockholdings of such officers. In the reports previously submitted to Congress and in the reports submitted this year these percentages of stockholdings were included, although the law does not specifically authorize or require the Secretary to report them. Mr. Doughton orally raised the question whether the percentages of stockholdings should appear in the report and is withholding the report submitted on January 3rd from the public for the present, until we advise him further on this point. Mr. Oliphant advised me yesterday that the Bureau had never submitted the question to him but that in his opinion the report should not contain this information.

In a conference this afternoon Messrs. Oliphant, McReynolds, and Gaston suggested that I should write Mr. Doughton, stating in substance that following his inquiry we had found that the report sent him erroneously included percentages of stockholdings and that we would submit a revised report within a few days. I personally disliked to do this, since the fact that former reports have been in a different form may lead to undesirable publicity; but Mr. Oliphant and Mr. Gaston are strongly of the view that the report made available to the public should not contain information as to stockholdings of corporate officers.

RM

Conference with the President on revenue revision attended by Secretary Morgenthau, Messrs. Doughton, Vinson, and Magill

Mr. Doughton arranged a conference with the President in order to report to him the work which the subcommittee has done on revenue revision. Mr. Doughton's secretary called me at 9:10 to inform me that Mr. Doughton wished me to attend the conference at 9:15 in the President's bedroom. I reported to Secretary Morgenthau who accompanied me to the conference.

Mr. Vinson described in some detail the treatment which the subcommittee proposed for corporations with incomes under \$25,000; corporations with larger incomes; and for closely held corporations which have more than \$50,000 net income and which distribute less than 60 percent of it. He said that corporations with incomes under \$25,000 would not be subjected to the undistributed profits tax but would be taxed 12½ percent on the first \$5,000, 14 percent on the next \$15,000, and 16 percent on the last \$5,000. Corporations with incomes exceeding \$25,000 will be taxed from 20 percent to 16 percent depending upon the amount of their incomes which is distributed in dividends. The subcommittee has agreed upon an additional tax of 20 percent in the cases of closely held corporations which have more than \$50,000 net income and which distribute less than 60 percent of it. The total tax imposed on such companies closely approximates that imposed by the existing law. A corporation falls within this general category (if the other conditions are met) if one man and his family owns 51 percent in value of its stock; or two men, exclusive of their families, own 53 percent; three men own 56 percent and so on up to ten men owning 75 percent. The President asked whether in-laws and family trusts are taken into account in connection with the family relationship. Mr. Vinson said he was not sure but thought that family trusts should be included. The President asked me whether there would be any loss of revenue through this plan. I told him that Mr. Parker, the committee expert, said there would not be. Our experts were inclined to be more conservative and thought there might be a loss of some one to two hundred million dollars, depending on business conditions but that there would be little if any loss in 1938. The greater loss of revenue would be sustained in years of prosperity.

There was some discussion about raising individual income tax rates and the President said that Senator La Follette would probably make such a proposal. He stated, however, that he thought it was politically undesirable to recommend at this time and also politically undesirable to recommend a reduction in the top surtax rates.

Mr. Vinson then described the proposed methods for taxing capital gains and losses. He said that the subcommittee had decided not to place such gains and losses in a category separate from an individual's other income, since the subcommittee felt that the tax on capital gains should be greater if the individual receiving them had a large income from other sources. I pointed out that the subcommittee had tried to carry

- 2 -

out the terms of the President's message on speculative gains by putting one year gains and losses into a distinct category separate from longer-term gains and losses. The President inquired regarding the rates applicable to individuals with large incomes and large capital gains. Mr. Vinson said that the committee had concluded that a flat maximum rate should be applied to capital gains in order that taxpayers selling property would have that degree of certainty as to the taxes to be paid. The President suggested that he would like to see the capital gains rates kept high, since he was fearful that the Senate would lower them. Mr. Vinson said that Senator Harrison had already expressed the view that the House rates are too high. The President asked where the lost revenue from the relief provisions had been made up and I told him that the estate and gift tax provisions had been tightened up through the elimination of one of the \$40,000 exemptions applicable to these taxes. I pointed out that these taxes were one of the best means of raising additional revenue and the President and the Congressmen agreed. The President particularly mentioned the possibility of increasing the rates on the lower and middle brackets and Vinson agreed. I told the President that the Treasury had in mind the desirability of combining the estate and gift taxes but that the plan had not yet been worked out. The Secretary suggested that he thought the capital stock tax ought to be repealed and that we ought to substitute one corporate tax for the three now imposed, if at all possible. The lost revenue could be made up by an increase in the normal tax. Mr. Doughton said that he thought the repeal of the capital stock tax was undesirable since there seemed to be no strong demand for it. Mr. Vinson also opposed the change on the ground that the capital stock tax enabled us to get some revenue from corporations losing money. I pointed out, however, that this was not true if the corporate officers decided when they made out their capital stock returns that the corporation would probably lose money. I also said that the capital stock tax was very undesirable and that an increase in the normal tax of one to two percent would raise the necessary revenue to replace it. Both Messrs. Vinson and Doughton felt that it was undesirable to raise the corporate income tax rates further.

The President asked what nuisance taxes had been repealed and Mr. Vinson listed them. He asked me how much revenue was involved and I said about \$25,000,000. Mr. Doughton said that he thought the repeal of the fur tax and the sporting goods tax was bad politically. The Secretary and I said that the Bureau of Internal Revenue informed us that these two taxes gave them more administrative difficulties than any of the others. The President emphasized the need for holding up the revenue to the amount provided for by the present laws. He seemed to be satisfied with the proposed bill as outlined and although I told him that there might be some loss of revenue amounting to one to two hundred million dollars, he did not ask that additional taxes should be imposed to make up this amount. Messrs. Doughton and Vinson both said that they thought they could hold the line against the Senate

- 3 -

in this instance since if the bill failed, the 1936 Act would remain in effect and they were not under the pressure for adjournment that they were in 1936.

After we left the room at 10:30, Mr. Doughton said that he interpreted the conference as meaning that the President had given us a green light on a bill as outlined. Mr. Vinson agreed.

Rm

Notes taken by Mr. Magill,
January 6, 1938.

January 6, 1938

In connection with the attached copy of letter from the British Ambassador, which Mr. Welles transmitted to Secretary Morgenthau, the latter telephoned Dr. Feis this afternoon.

He said, "Sumner Welles called me about the Chinese Ambassador in London calling on Anthony Eden and saying they had made a loan of \$150,000,000 in the United States. He (Welles) followed this up with a letter. The point I make is that Butterworth should know about this. It would be helpful to him and I am suggesting that if it is not too late to still send him a cable telling him about it and letting him know there is nothing to it, because on Friday Butterworth goes to the British Treasury.

COPYPersonalBRITISH EMBASSY
WASHINGTON, D.C.

January 6th, 1938.

Dear Mr. Welles:

You will remember our conversation of yesterday. The Chinese Ambassador in London had said that his Government was negotiating with the United States Government for a loan of \$125,000,000 for ten years at 3% and to be issued at 90. Yesterday he told the Foreign Office that an agreement had been signed in Washington for a loan of \$150,000,000, but he could not say definitely whether the United States Government were concerned or not!

Yours sincerely,

R. G. LINDSAY

The Honourable
Sumner Welles,
Under Secretary of State
of the United States.

THE UNDER SECRETARY OF STATE
WASHINGTON

January 6, 1938.

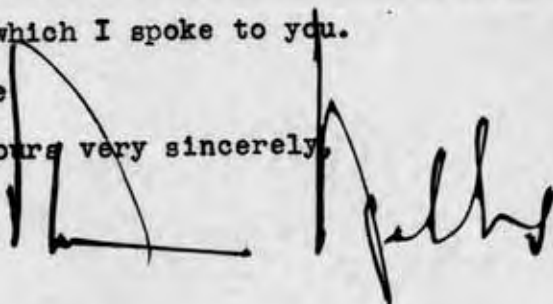
Personal and
Confidential

Dear Henry:

In accordance with our conversation of this morning, I enclose herewith a copy of the letter I received today from the British Ambassador of which I spoke to you.

Believe me

Yours very sincerely,

A handwritten signature in black ink, appearing to read "H. Morgenthau, Jr.", written over the typed name.

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

January 6, 1938

Dear Bill:

I have delayed answering your letter of December 9th until the State Department had made up its mind as to what title they wished to confer upon Mr. Merle Cochran.

I now learn from Mr. Messersmith that both the State Department and yourself are willing to inform the French Government that Mr. Cochran is acting as Financial Counselor to the Embassy and request the French Government to so list him in their diplomatic list. This is of course entirely agreeable to me. I appreciate the considerations which would make it difficult to effect any change of title on the American official list.


The last thing in the world that I want to do is even to make a suggestion as to how you should run the American Embassy in Paris. However, through the kindness of the Secretary of State, he has assigned men in Paris, London and Berlin to do special work for the Treasury and I feel that these men are more or less detached from regular Embassy work and responsibilities. Up to date, Mr. Cochran and Mr. Butterworth have been rendering the Treasury excellent service and I hope that the State Department will not, in the future, ask them to take on responsibilities additional to their Treasury work.

If you feel that it is important to show Mr. Matthews copies of Mr. Cochran's Treasury cables I am willing to accept your recommendation in this matter, but I sincerely hope that you will impress on Mr. Matthews the extremely confidential nature of these cables.

-2-

Hoping that 1938 will bring you continued
success, I remain

Sincerely yours,


(Signed) H. Morgenthau, Jr.

Honorable William C. Bullitt,
United States Ambassador,
American Embassy,
Paris,
France.

DEPARTMENT OF STATE
WASHINGTON

January 6, 1938.

Dear Henry:

This is what I have written Bill Bullitt regarding the Cochran matter, and I find before me this most interesting speech ~~on~~ my profession by Sir Josiah Stamp which I think may amuse you, and which please return.

Sincerely yours,

(signed) Herbert Feis

Enclosures:

Letter to Ambassador
Bullitt:
Article.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

C O P Y

Letter written by Mr. Feis to Ambassador Bullitt,
January 6, 1938.

"You will be receiving from the Secretary of the Treasury a reply regarding possible change in Cochran's title. He has discussed the reply with the Department. He recognizes the point which you made, and on which likewise everyone in the Department is in accord, that it would be unsatisfactory to have two Counselors at the Embassy. It does not seem possible or advisable, therefore, to make any change in Cochran's designation so far as the Department's action goes. On the other hand, Messersmith suggested, and Pierrepont Moffat agreed, that the Embassy might ask the French Government to designate him on their diplomatic list as Financial Counselor. I believe the Secretary of the Treasury is making this suggestion to you, and I want you to know everyone here is agreeable to it."

DEPARTMENT OF STATE
WASHINGTON

January 5, 1938.

My dear Mr. Secretary:

Mrs. Klotz sent me the enclosed letter from Ambassador Bullitt to yourself and the draft of your suggested reply, with the message that I should feel free to make suggestions in regard to it.

I have discussed it with Mr. Messersmith and with Mr. Moffat, who reviewed again the difficulty of actually creating on our own official records the title of Financial Counselor. But on the other hand, they are both sure that the same purpose can be effectively achieved by having the Embassy designate him as such vis-a-vis the French Government and in requesting the French Government to enter him as such on their diplomatic lists. I have, therefore, drawn up a suggested substitute second paragraph in accordance with that idea. Does this seem to you a satisfactory solution?

Sincerely yours,

(signed) Herbert Feis

Enclosures:

Letter from Mr. Bullitt;
draft reply;
suggested substitute for second paragraph.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

I now learn from Mr. Messersmith that both the State Department and yourself are willing to inform the French Government that Mr. Cochran is acting as Financial Counselor to the Embassy and request the French Government to so list him in their diplomatic list. This is of course entirely agreeable to me. I appreciate the considerations which would make it difficult to effect any change of title on the American official list.

COPY

(DRAFT OF LETTER TO AMBASSADOR BULLITT)

Dear Bill:

I have delayed answering your letter of December 9th until the State Department had made up its mind as to what title they wished to confer upon Mr. Merle Cochran.

I now learn from Mr. Messersmith that both the State Department and yourself are in agreement that Mr. Cochran should receive the title of Financial Counselor. This is, of course, entirely agreeable to me.

The last thing in the world that I want to do is even to make a suggestion as to how you should run the American Embassy in Paris. However, through the kindness of the Secretary of State, he has assigned men in Paris, London and Berlin to do special work for the Treasury and I feel that these men are more or less detached from regular Embassy work and responsibilities. Up to date, Mr. Cochran and Mr. Butterworth have been rendering the Treasury excellent service and I hope that the State Department will not, in the future, ask them to take on responsibilities additional to their Treasury work.

If you feel that it is important to show Mr. Matthews copies of Mr. Cochran's Treasury cables, I am willing to accept your recommendation in this matter, but I sincerely hope that you will impress on Mr. Matthews the extremely confidential nature

-2-

of these cables.

Hoping that 1938 will bring you continued success,

I remain,

Sincerely yours,

Honorable William C. Bullitt,
United States Ambassador,
American Embassy,
Paris, France.

C
O
P
Y

Embassy of the
United States of America

Paris, December 9, 1937.

Personal and
Strictly Confidential.

Dear Henry:

Cochran has just returned to Paris and has told me of your recommendation to the Department that he should be given the title of Counselor of Embassy in Paris. I am delighted that his work pleases you so much and that you find the Embassy useful. At any rate, we do our best.

The title which I should prefer for Cochran is that which is carried by his opposite number at the British Embassy who is listed in the French diplomatic list as Conseiller Financier, that is to say, Financial Counselor. You probably did not know, when you made your recommendation to the Department of State, that on two previous occasions there have been two Counselors of Embassy at this post. The result was to raise Hell, and one of the things I insisted upon before coming to Paris as Ambassador was that there should be one Counselor of Embassy here, and one only.

The Honorable

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

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The Counselor of Embassy has to act often as Charge d'Affaires. He needs all the prestige he can have from undivided possession of that title. The British, in order to give extra prestige to their Counselor of Embassy, go so far as to have him designated as British Minister to Paris. In the past, when there have been two American Counselors of Embassy in Paris, the minor Counselor has attempted to appear to be the major, there has been friction within the organization, and the French and everyone else have wondered who in the name of Heaven they had better deal with in the absence of the Ambassador. You can not run this show or any other without undivided authority at the top. If Cochran should be given the title of Financial Counselor, it would be perfectly clear that his work is confined to the financial field, and that Wilson is the boss in my absence. I realize that you will probably be astonished that I should treat your recommendation so solemnly; but please don't forget that for a long time I have been in the habit of taking you seriously.

I have recommended to the Department of State that Cochran should be given the title of Financial Counselor.

As I told you long ago, the weakest side of this Mission has always been the handling of economic matters. We have improved this somewhat of late, and recently H. Freeman Matthews who for a long time was Charge d'Affaires in Cuba was sent here. He is one of the most intelligent and reliable

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fellows in the Service. I have put Matthews in charge of the work of developing the economic reporting of the Mission, and he is already making excellent progress. It is obvious that he can not handle the economic work without having a thorough knowledge of the financial situation, and during Cochran's absence I have, therefore, shown him daily the financial telegrams which we have prepared, and I propose to continue this practice unless you have serious objection. As I have said before, Matthews is to the last degree reliable, and I ask you to accept my judgment on that.

If there is anything that we can do to improve the functioning of this Mission, I hope that you will let me know at once. It is beginning to be an efficient organization but I should like to make it even better. Incidentally, I discussed Wait's problems informally with Chautemps a few days ago and I hope for better results there also.

With every possible good wish to you and Mrs. Morgenthau, and to that nice daughter of yours who listen so politely when you and I talk, I am,

Yours heartily and sincerely,

(signed) Bill

William C. Bullitt.

FEDERAL RESERVE BANK
OF NEW YORK

January 6, 1938.

CONFIDENTIAL

Dear Mr. Secretary:

During the week just ended, the dollar has fluctuated moderately under the influence of political news from Washington, but is now at the level prevailing for the greater part of December. On Monday, the pound sterling opened at \$5.00 5/16 after closing at \$4.99 3/4 on Friday evening, and during the course of the day the rate went steadily and gradually higher, closing at \$5.01 1/16. The following day, however, after the President's message had appeared in the press, the sterling market receded to \$5.00 3/16. Yesterday's market showed a further fall to \$4.99 3/4, or the level around which sterling had been steady during all of December. Other principal European currencies varied in close correspondence with the pound sterling on Monday, Tuesday, and Wednesday, the French franc being held in the face of rather steady pressure at from 147.25 to 147.30 francs per pound. In the forward market franc weakness reached its height on Monday when quotations for three-months' francs reached a discount equivalent to 12 7/16 per cent per annum. Today's forward discount on three months' contracts is slightly improved at 11 1/4 per cent.

The principal foreign exchange rate movements during the past year were a further depreciation of French exchange from

January 6, 1938.

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\$0.0467 at the end of 1936 to \$0.0339 $\frac{3}{8}$ at the close of 1937, and a moderate advance in the pound sterling in terms of gold and gold currencies, the dollar-sterling rate rising $8 \frac{3}{4}$ cents net during 1937 to \$4.99 $\frac{3}{4}$ at the end of the year.

Although the downward revaluation of French exchange at the end of September 1936 was followed by a brief return movement of funds to Paris from foreign financial centers, this movement was halted about the middle of October, and during the remainder of 1936 and the first half of 1937 the franc was almost continuously under pressure as a result both of further flight of capital and of a passive balance of current commercial payments. In this respect developments in France were in marked contrast to the experience of Holland and Switzerland, which had undertaken downward readjustments of their currencies simultaneously with the franc revaluation. The causes of the French post-devaluation difficulties have been the subject of extensive discussion and controversy, and no attempt will be made to elucidate them here. Following the culmination of a serious financial crisis early in March, the French Government announced a special program to relieve the fiscal and exchange situation, but these measures led to only a short-lived reversal of the capital outflow, and in May and June pressure against the franc again reached serious proportions. At the beginning of July, a new cabinet, equipped with temporary emergency powers, abrogated the lower limit of franc devaluation established by the monetary legislation of October 1, 1936, and on July 1 closing quotations for the franc were \$0.0384 in this market and 128 $\frac{7}{8}$ francs per pound in London, representing a depreciation of about 12 per cent from the lower limit of devaluation previously in effect, and a total decline

January 6, 1938.

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of 42 per cent from the 1928-1936 gold parity. The franc declined further to the neighborhood of \$0.0375 after the middle of the month and remained close to this level until early in September, when a new downward tendency became evident. This movement carried the rate to a low of \$0.0328 1/2 on October 2, but in the subsequent month the quotation recovered to the neighborhood of \$0.0340, at which level it held steady during the remainder of the year. The stability of the franc in the last few months of the year was accompanied by a rather substantial return movement of capital to France from abroad, which, according to the Finance Minister, reached 10,000,000,000 francs. The return movement of capital to France from the middle of October to the middle of December 1937 was the first substantial inflow since 1934. At the end of the year, the franc was again under moderate pressure, however, requiring intermittent official support.

The pound-dollar rate, after receding gradually from a level of about \$4.91 in the latter part of December 1936 to \$4.87 7/8 early in March 1937, rose moderately during the remainder of that month and advanced at a more rapid rate during April, closing at \$4.95 on April 29. The quotation showed minor, irregular fluctuations in May and June, but again advanced considerably during July and touched \$4.99 1/4 early in August. In the succeeding few months, the pound eased to the level of \$4.95, but at the end of October a renewed upward movement got under way which carried the rate to a high of \$5.02 1/8 on November 8. During the remainder of the year, the pound remained close to \$5.00 with only slight day-to-day variations. This review of the year's movements indicates

January 6, 1938.

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that the advance in sterling was concentrated in three periods - April, July, and the early part of November. The April movement was associated with extensive liquidation of gold from private hoards and from the central reserves of a number of the smaller countries, owing to widespread rumors of a possible reduction in the gold price; the advance in July reflected primarily the effects of Japanese purchases of sterling with the dollar proceeds of gold shipments to the United States; the early November movement was promoted by rumors of a possible further devaluation of the dollar, which led to increased withdrawals of foreign balances from New York.

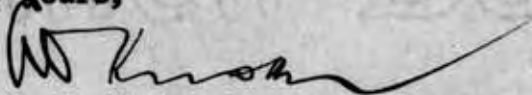
Among the other European currencies, the Swiss franc was quite steady in the vicinity of \$0.23, while the Netherlands guilder advanced moderately from \$0.5476 at the close of 1936 to \$0.5560 at the end of 1937. The Belgian monetary unit, though under pressure during a part of the year as the result both of internal political developments and of the further depreciation of French exchange, was held close to its lower gold point by official sales of gold. The pegged quotations for the Scandinavian currencies in terms of sterling were left unchanged during 1937. Dealings in the reichsmark and the lira remained subject to rigorous official restrictions.

A number of South American currencies showed moderate weakness in the latter part of the year, owing to continued growth in merchandise imports simultaneously with declining world prices for their exported raw materials. In Brazil, the Vargas coup was followed by abolition of the official rate for the milreis and by a more rigid foreign exchange control at the end of the year.

Pegged quotations for the Chinese and Japanese currencies

were continued during 1937, through extensive utilization of official reserves, since the trade balances of both countries were adverse.

Faithfully yours,



L. W. Knoke,
Vice President.

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

RECEIVED
JAN 10 1938
OFFICE OF THE SECRETARY OF THE TREASURY

JR

GRAY

London

Dated January 6, 1938

Rec'd 1:24 p.m.

Secretary of State,
Washington.

17, January 6, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. Referring to the fourth paragraph of my 263, December 9, 9 p.m., predicating further heavy increases in unemployment, the figures published today for the month ending December 14 show an increase of 166,000 as compared with November 15. Though much of the increase may be due to weather conditions which were unfavorable for outdoor work on the day of the count the not inconsiderable increase in such trades as cotton and wood manufacture, metal goods manufacture, pottery, boot and shoe manufacture, hosiery, electric goods manufacture and furniture making cannot be accounted for in this way and can have resulted only from a deterioration in the condition of the order books for the home and/or export markets for a broad selection of both consumption and capital goods.

The

-2- #17, January 6, 5 p.m., from London.

The month's recession in employment is the fourth in succession while the total number of unemployed as compared with the corresponding month in 1936 was for the first time higher and by 91,000; in other words all the gains of earlier months of 1937 have now been more than lost.

It should be noted however that the total numbers of unemployed are swelled this December by the numbers temporarily stopped which were up on last year by 143,000 whereas the numbers "wholly unemployed" or actually dismissed were about 49,000 fewer than a year ago. About half of the temporarily stopped will doubtless return to work when the weather conditions are more favorable to outside work. This takes a little of the sting out of the effect of the figures but as the FINANCIAL NEWS puts it "there is nothing to support the 'all's well' reports ^(of?) on some of the more exaggerated optimists".

Two. Waley states in connection with report in today's TIMES to the effect that on his recent trip to Turkey (paragraph two my 687 of November 2, 7 p.m.) informal conversations were begun in the matter of British participation in new Turkish industrial and mining schemes that "this is nothing more or less than Turkish wishful thinking".

Three.

-5- #17, January 6, 6 p.m., from London.

Three. Waley also referred to a note in today's FINANCIAL NEWS that the POLISH GAZETTA announced negotiations have been concluded between a British financial group and the Polish Government for a five million pound loan. He said that the facts of the matter are that the Poles are anxious to complete the electrification of all lines on the Warsaw suburban railway system, that the Export Credits Guarantee Department of the Board of Trade had made available credits for the work which is now being done, and that the Poles wish a further credit of a million pounds to complete the scheme. Waley said that the matter had not been finally settled but he implied that such a credit might well materialize.

Four. The British press make much of the American budget figures. Only the DAILY TELEGRAPH contains an editorial on this subject but it may be of interest to read its comment in connection with the concluding portion of the TIMES' editorial on public works in view of the unemployment returns:

"The combined deficits of Mr. Hoover and of Mr. Roosevelt since the onset of the recent slump have increased the national debt by no less than four billion two hundred eighty million pounds equal to the cost of a major

-4- #17, January 6, 5 p.m., from London.

major war. Doubtless certain assets of value have been acquired but for the greater part of the debt the country has little to show. It has not even got prosperity. No wonder Mr. Roosevelt has reached the disillusioning conclusion that the time has come to call a halt. Conceivably public works might be of use in arresting a slump if applied at the outset but their efficacy in mending a slump that is already well under way certainly appears to be discredited by the experience of the United States."

The TIMES concludes: "Nevertheless on a longer view Mr. Keynes' suggestion regarding the preparation of a reserved program of public works is not superfluous. Economic observations covering only the past few years and the present situation are quite possibly insufficient to shape the whole of a long term policy. The object in view is to stabilize prosperity over a long period and therefore no stabilizing influence can be neglected. There is another side even today to the unquestionable evidence of economic strength already quoted. For example, during the past two months (taking into account the effect of the Christmas trade) the improvement in employment seems to have halted; during 1937 imports have

-5- #17, January 6, 5 p.m., from London.

have increased much faster than exports; much importance has rightly been attached to the so far unpacified conflict between Washington and Wall Street with its repercussions upon commodity prices; and though the prospects of the revenue in this country at least until 1939 are favorable the prospects of expenditure are formidable. Sir Thomas Inskip has forecast a rise of between forty-five million and seventy million pounds in 1938-39 in the cost of rearmament which in its turn unhappily adds to the cost of upkeep and not to revenue. When everything is taken into account an examination of the possibilities of public works such as Mr. Keynes has suggested is certainly timely. Nobody would wish to see a blind rush into still vaster public expenditure or to give priority to any policy but that of encouraging private enterprise to expand. But our knowledge of how and where expenditure upon public works can be most usefully applied can and should be extended. Given the time-lag between the preparation and the execution of such works as Sir Arthur Salter has put at between two and three years if public works are ever to be a useful economic weapon the time to forge that weapon is now".

JOHNSON

HPD

JR

GRAY

Paris

Dated January 6, 1938

Rec'd 2:45 p.m.

Secretary of State,
Washington.

23, January 6, 4 p.m.

FROM COCHRAN.

Paris exchange market active today with French control obliged to yield large amount of sterling to hold rate at 147.31 throughout day. Two principal causes from franc weakness were (1) revelation in Bank of France statement as of December 30th that Treasury had drawn 5 billion francs on its credit and (2) threatened strike of bank employees, with some demonstrations in front of banks at 2 o'clock this afternoon, originally scheduled for this hour but now postponed provisionally until next Tuesday.

Active demand for dollars both in Paris and London with latter market, according to my trader contact, perplexed that dollar has continued to strengthen against sterling in spite of (1) President's budget speech showing deficit and increased outlay for armaments, (2) heavier purchases of silver by American authorities and (3) American absorption of more gold without reservation and (4) Eccles statement favoring spending. (END SECTION ONE).

BULLITT

CSB

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 23 OF
JANUARY 6, 1938, FROM PARIS.

I visited Couve de Astoville of the French Ministry of Finance this morning. He is in charge of the Movement of Funds Division (while Rueff is away temporarily), having recently been appointed Assistant Director. As soon as Bonnet's budget was passed he left Paris and he is still in the mountains on vacation. De Astoville showed me the communique which the Ministry of Finance plans to issue this afternoon in explanation of drawing from the Bank of France the amount of five billion francs. He told me it had been thought best to draw the large sum from the Bank rather than draw a second time early this same month. The Treasury, after meeting end of the year requirements out of this five billion, had 1,053,000,000 left to add to the deposit balance of 32,000,000 with the Bank of France.

In the communique it is stated that particularly heavy charges were made against the Treasury during the month of December, amounting to more than 10,600,000,000 francs, which includes the sum paid to the French stabilization fund for sterling necessary to reimburse British bankers for their credit.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 23 of
JANUARY 6, 1938, from Paris.

Treasury still has credit of 5,180,000,000 francs with Bank of France in addition to its deposit of 1,085,000,000. Furthermore communique says Treasury will receive in January 1,646,000,000 francs still due on loan payments, making total assured resources of 7,911,000,000 francs available before end of January.

I asked the Treasury official about prospective loans, and he said that as yet no negotiations had been opened with London. However, during the month of January at least one of the usual French public bondies will have to put a bond issue on the market. My contact thinks that at present the Treasury's position is much easier than it will be toward the month of March of this year.

My friend said, with regard to Van Zeeland's plan, that we did not need a report to tell us that economic recovery is impossible because of the world political situation. He said that now that the United States and Great Britain had finally been obliged to follow the other powers in arming the business of balanced budgets had become impossible.

END MESSAGE.

BULLITT.

EA:LWW

MBo

GRAY

London

Dated January 7, 1938

Rec'd 3:36 p.m.

Secretary of State

Washington.

22, January 7, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The issuance of the Bank of France statement showing a further increase in advances to the French Treasury of five milliards referred to in Number 14, January 5, 6 p.m., has occasioned the anticipated adverse comment. The pressure on the franc was considerable and the French fund lost a large amount of sterling. Incidentally the French authorities added to their difficulties by suddenly at noon letting the rate fall to 147.50 having held it rigidly at 147.30 for days; it proved expensive to put it back. The three months future rate has moved out to five francs with signs that the French fund is giving support. In the circumstances this makes it tantamount to option money.

There is an unconfirmed report in the City that Brazil will henceforward block all foreign balances.

JOHNSON

HPD:

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 7, 1938, 5 p.m.

No.: 27

FROM COCHRAN.

Paris market has been very heavy buyer of sterling today, control held rate at 147.30 until shortly before noon when it moved to 147.40. After lunch control brought rate back to 147.30 but yielded much sterling. Forward franc more offered with three months sterling at 5 franc premium. Slump in franc is attributed partly to yesterday's Bank of France statement but more importantly to unsatisfactory labor outlook. Prime Minister has appealed publicly to both employers and laborers to enter agreements and respect them but situation apparently deteriorating.

The Paris partners of Morgan gave a private luncheon today, at which I gained the idea from the other American guests, who represent in France General Electric, International Telephone, Standard Oil, American Radiator, and so on, that the labor outlook has disturbed them very much. Some of them feared that troubled in nearby French plants may spread to their own very quickly. These representatives would prefer to see the Government of France take a more firm stand than it has up to the present, rather than continue to try to compromise with labor. There was no report of difficulties in the Paris-American banking houses, but they

- 2 -

they understand that in some of the larger French institutions, such as Credit Lyonnais, there is much sullenness and even mild sabotage. It is reported by the Paris-American banks that there is an increased demand for American bank notes and British bank notes.

BULLITT.

EA: LWW

Paraphrase of telegram received

From: American Embassy, Paris

Date: January 7, 5 p.m.

No.: 29

FROM COCHRAN.

I learned this evening at five o'clock that French control's sterling losses for the day had approximated 400,000,000 francs up to that hour; losses January 5, were 100,000,000 and January 6, 400,000,000 francs. In my telegram No. 17 of January 5, 5 p.m. I gave losses on January 3 and 4 and holdings of control at the close of January 4. There is continued pressure on franc and sterling rate has moved to 147.35. According to my contact, the labor situation is to blame.

BULLITT

EA:DJW



DEPARTMENT OF STATE
WASHINGTON

January 3, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a copy of paraphrase of telegram No. 8 of January 8 to the American Embassy, London, with regard to a report that the Chinese Government is at present negotiating with the United States Government for a loan.

Sincerely yours,

Herbert Feis

Enclosure:

No. 8, January 6,
to London.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: January 6, 1938, 9 p.m.

NO.: 8

Today the British Ambassador informed us that his Government had advised him that the Chinese Ambassador in London has spoken with the Secretary for Foreign Affairs on Monday and said that the Chinese Government was at present negotiating with the Government of the United States for a loan of 125 million dollars for ten years at 3 percent and to be issued at 90. The Chinese Ambassador told the British Foreign Office yesterday that an agreement had been signed in Washington for a loan of 150 million dollars, but he could not definitely say whether or not the United States Government were concerned in the loan.

So far as the American Government is concerned there is no basis for this report. The Department has no knowledge that private parties have entered any such loan arrangement. Sir Ronald Lindsay is being informed of this.

The Secretary of State, in his most recent discussion with the Chinese Ambassador in Washington on this matter mentioned the constant Chinese silver purchases by our Treasury, and made clear that new legislation would be

necessary

- 2 -

for any loan by the Government.

Should Butterworth be questioned by the British Treasury about such a report, he may state that this Government is discussing no such loan transaction.

HULL.

EA:LWW

January 7, 1938

Present:

Mr. Taylor
Mr. Bell

Mr. Bell had prepared draft of memorandum to the President for the Secretary's signature and draft of letter for the President's signature to Jesse Jones in regard to authorizing the RFC to consider loans on new construction and to include loans to public utilities.

The Secretary suggested leaving out the second sentence in the second paragraph of the draft of his memorandum to the President, reading "In view of present business conditions, etc." Mr. Bell agreed.

The Secretary explained to Mr. Taylor as follows: "The only thing that is new, Wayne, is this: Dan and Jesse Jones came to an agreement that he was willing to say that any of the Ickes money which he gets through sale of bonds he would turn over to the Treasury provided that we would leave him his own receivables as a more or less revolving fund; in other words, anything that he has other than RFC receivables, the money comes in and he turns it over to us. It's a matter of \$600,000,000 or \$700,000,000." Bell said, "He will have between \$700,000,000 and \$800,000,000 of his own general notes and any repayments, principal or interest, on those he will use to make new loans, or if we make this other arrangement he goes into the market and finances his own requirements." HM, Jr added, "He agreed and the President and I agreed to do it. That's the only new thing."

The Secretary then read the third paragraph and thought it was a little confusing and Bell agreed it might be changed. He explained that what he had in mind was that "you have agreed to it only informally and tentatively." The Secretary remarked that there was no disagreement as between Jesse Jones, the White House and the Treasury, and Taylor said "Then I wouldn't say that the way you have" and Mr. Bell agreed.

HM, Jr then said: "What I would like to do is this: I think the letter is a little rough. Supposing you people take it and improve it and I will ask the President if he

-2-

will give us a little time Onday. Supposing we three do it again Monday, the 10th, at 9:45 a.m. "

Mr. Bell also had with him draft of reply to Jesse Jones' letter of December 10th to the Secretary re financing by RFC of its own needs. Bell said, "You have never answered that and it's right along the lines as the one we have just been discussing. You may not want to answer that until after the conference on Tuesday." HM, Jr replied, "I think we can have that answer ready and clean it all up." The Secretary then said to Mr. Taylor: "Wayne, you are on record that until his balance sheet is cleaned up, so that does not check. I told him until we get legislation through which will clean up his balance sheet, he will refrain from offering RFC securities to the public."

Taylor remarked, "On the RFC balance sheet, the way it was left before I went away was that on that particular point, as to interest, etc., there was nothing I could do about it and you were going to talk to the President about it."

HM, Jr concurred, saying "That's right. The only difference was should we refund to Jones the interest on the money which he gave away for relief purposes and I said that any money representing interest that he paid into the General Account of the Treasury, I would not refund." Bell said, "That's my understanding."

The Secretary then said, "That checks. So the next move is up to Jesse. Jesse can go ahead and put his bill through on the Hill cleaning up all those things. What we do about the interest rate -- we don't have to get legislation on that."

Taylor said, "No, not on that, but in his bill he provides for refunding the interest." Bell said, "He was to work that out, wasn't he, with Clarence Oppen. I thought the Secretary decided that he would not go along on that." HM, Jr remarked, "But I said unless the President gave his approval, I would not approve refunding to Jones any interest that RFC had paid into the Treasury." Mr. Taylor agreed, saying "That's right."

Continuing, HM, Jr said, "And that's where we stand. If he does not want to take that, he can take it up with

-3-

the President. If during my absence he wants to do that, then I think you and Bell ought to be there representing the Treasury or if he wants to wait until I come back, then wait. But that's the position I took. This is the position: if he calls you and if he does not want to accept the position which the Treasury took, I am ready to go and see the President with him."

Bell remarked, "The last I had was that you would not refund interest because it had already been covered into the Treasury, but I did not know that you told him you would go to the President." HM, Jr replied, "You were there. I said, "If this is not agreeable to you, Jesse, we can go over and see the President, but, I said, that's the way the matter stands." Bell said, "That's a good way to leave it."

Mr. Bell next brought up for discussion a memorandum he had prepared for the Secretary in connection with Home Owners' Loan Corporation. He said:

"The HOLC Act now contains a provision whereby it can sell its bonds and with the proceeds buy the shares of the Federal Savings and Loan Associations or the debentures of the Home Loan banks up to \$300,000,000. Now they have spent over \$200,000,000 of that money for the shares of the Federal Savings and Loan Associations and have not used any of it to buy debentures of the Home Loan banks. Now they want to use the balance of about \$90,000,000, keep it there so that they can clean up the Federal Savings and Loans situation by buying shares of those institutions where they have committed themselves or strengthening the institutions already approved. They want a new authorization of \$300,000,000 as a cushion only, so they can have it more or less as a guarantee fund whenever Home Loan Banks need money in times of stress.

"One way is to increase the present limit of \$300,000,000; the other is to authorize the Secretary to purchase \$300,000,000 of securities just the same way that you now have authority to purchase FDIC, HOLC, Federal Farm Mortgage, or US Housing Authority. You remember, we discussed this the other day and we thought it might be a good idea to have HOLC out of the picture and let it carry on its corporation functions in connection with the bonds that it has issued on mortgages. Talking to Wayne yesterday, he, I think, had a different opinion and he preferred to leave the Corporation in the field and not have them come direct to the Treasury. He can speak for himself on it."

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Mr. Taylor responded: "You see, you have got these two systems, one is FCA and the other is what you might describe as the Federal Loan. The relationship between the securities is practically identical. With the Federal Land Banks securities you have never had the power of the Federal Land Banks coming direct and selling their obligations to the Treasury and I ..."

Interrupting, Mr. Bell said: "You don't have it now; we have had it." Continuing, Mr. Taylor said: "You have them clearing through the Federal Farm Mortgage Corporation. I think we ought to stick to that principle in this case."

HM, Jr said "I can't get hot and bothered over it because I haven't studied it. I think this looking forward to closer coordination in all these lending agencies -- I think we ought to work out a pattern which is the best way to handle their securities. I don't know which is the best way, but I do say it should be uniform. Maybe Farm Credit is wrong in handling it that way, but I do think it would be a mistake to handle it one way in Farm Credit, another in Home Owners' Loan and another in United States Housing." Mr. Taylor remarked, "It's all part of the same picture." HM, Jr said, "I don't know who is right."

Mr. Bell then said, "I don't know that it makes a lot of difference to the Treasury. We already have authority to purchase Federal Land Bank bonds. In the first few years of its existence we did purchase \$200,000,000. There is a little difference between Home Owners and FCA. HOLC can carry on until its job is done. I mean the Federal Farm Mortgage Corporation can do that, but HOLC is out of the picture as far as new business is concerned and from a Budget standpoint I think HOLC ought to be considered in liquidation."

Mr. Taylor suggested, "If you do nothing, I think he's all right." HM, Jr inquired, "If you do nothing, what is his situation?" Taylor replied, "I think if you do nothing, he's fine until you review that whole picture. He's got a perfectly good market." Bell said, "One thing worrying Delano is sometimes you run into a situation like March '33 when he could not sell his securities for anything."

Mr. Taylor said, "I would certainly let it ride," and HM, Jr agreed, saying "I would let it ride." He then

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then asked Mr. Bell, "Do you feel very keen about it?" and Bell answered, "No. I am just arguing Delano's side. He's got \$90,000,000 cash." HM, Jr then decided, "Let's let it go."

Mr. Bell then said, "The only thing I have left is the Sinking Fund letter. I hate to keep bothering you about it." HM, Jr said, "Why not? You just had to change that page." Mr. Bell answered, "Yes, I changed that and I have apologized for not answering." HM, Jr signed the letter.

The Secretary then discussed with Mr. Bell, Mr. Taylor and Mr. McReynolds the desirability of securing an assistant for Taylor. He said that what Bell had said about the importance of having a continuation from one Administration to another of a Civil Service employee. He suggested Kilby. Bell said, "Kilby is a good man. Of course you are taking him out of a place where he is needed. Broughton is not well." HM, Jr said, "He could sort of break somebody in to take his place. In looking all around the people that I have contact with, I don't know anybody -- he has good personality; his figures are accurate; he does not get ruffled." Taylor said, "I check completely with the Civil Service idea; that you have to have continuity. I think Kilby is a fine fellow."

At this point, Bell said, "You could not question Kilby's ability. That stuff, up to the time it gets to be an issue, has always been handled by me or my predecessors; was never handled in the Secretary's office, but my office always cleared through the Assistant Secretary or the Under-secretary in charge of finances. We always before, understand, had an Under-secretary in charge of finances and it always cleared through that office; never through the Secretary's." Then Secretary Taylor said, "The only other fellow I thought of was Heffelfinger." Bell said, "He's a good man; one of the best around here."

HM, Jr then instructed Mr. McReynolds to work on it and have a nominee for him when he returns from Sea Island. McReynolds then remarked, "You are taking away Dan's place in the Treasury." HM, Jr explained, "No, I am talking about Wayne Taylor's place, the independent agencies and I have been carrying the final responsibility and it's very hard on me." McReynolds said, "I know,

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but if Danny was not Acting Director of the Budget this meeting would not take place. I think Bell would like to be back in this spot and I don't want to fill it before Dan gets loose from the Budget."

HM, Jr then said, "Now, wait a minute. Dan knows me very well and he knows I always say just what I think. Danny came to me several weeks ago and said he thought of making a decision. Taylor came to me before he left on his vacation and he was all hot and bothered. It all makes my daily work very difficult. Frankly, I want it smoothed out. You, Bell, have to rely on somebody who would be a sort of liaison between Taylor and the Commissioner of Accounts and Deposits and my office. Now, there is enough to keep one man busy just being there in contact with the financing of the independent agencies. It's a full-time job. I say between now and the 24th, when I come back, I should think the three of you could work out some suggestions. And I want to say that Bell is the first man to say to me that he personally feels that the thing is sliding between." Mr. Bell said, "Sure I do. I think you are right. I think it ought to be straightened out."

Mr. McReynolds then remarked, "I was merely hoping that some day we would get a break and get Dan back in the Treasury."

HM, Jr concluded the meeting by saying, "I beg of you, two weeks from Monday please have something for me."

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JAN 10 1938

MEMORANDUM TO THE PRESIDENT:

By your memorandum of December 23, 1937, you referred to me a draft of a letter prepared by Jesse Jones, addressed to himself, for your signature, which would authorize the Reconstruction Finance Corporation to consider loans on new construction and plant expansion at rates and terms that the borrowers can afford to meet; including loans to public utilities for extension, and improvement, and asked me to speak to you about the matter.

You will recall that we have discussed ~~on previous occasions~~ on previous occasions, and since your Budget Summation of October 19, 1937, which placed certain restrictions upon the lending activities of the Reconstruction Finance Corporation, the question of permitting the Reconstruction Finance Corporation to carry out commitments already made or to handle applications filed previous to the time of the Budget Summation.

As you know, I have under consideration with Mr. Jones the submission to Congress of legislation which would in effect simplify the balance sheet of the Reconstruction Finance Corporation and eliminate those items which should not be considered extensions of credit; also we are considering the question of permitting the Reconstruction Finance Corporation to finance its own requirements by the sale of its obligations in the market. This would take the Reconstruction Finance

- 2 -

Corporation receipts and expenditures out of the budget figures except that the proceeds from the sale of any Public Works Administration obligations held by the Reconstruction Finance Corporation would come into the Treasury as a repayment on account of the Reconstruction Finance Corporation notes held by the Treasury and thereby be a credit against budget expenditures.

Pending the conclusion of these arrangements I suggest, therefore, that you sign the attached letter to Mr. Jones stating that you would prefer not to sign a general letter of this character at this time but will consider from time to time, needs of the general situation as well as the conditions prevailing in individual fields of credit.

(Sgd) H. ROBERTSON JR.

DWB:MLS
1/10/38

My dear Jesse:

With reference to our conversation of December 21, 1937, and the draft of a letter for my signature which you left with me for my consideration, I do not believe that it is desirable to give you general instructions at this time.

I agree with you that ample credit should be available for new construction, and while it is my intention to get the Government out of the leading business as early as possible, credit must be available for all worthy purposes if people are to have work.

I understand that you have under consideration the subsection to Congress of legislation which will in effect simplify the balance sheet of the Reconstruction Finance Corporation and eliminate those items which should not be considered extensions of credit, and in addition that you are considering the question of having the Reconstruction Finance Corporation finance its own requirements by the sale of its obligations in the market. The result of this second operation would be to eliminate Reconstruction Finance Corporation receipts and expenditures from the budget figures except that the proceeds from the sale of any Public Works Administration obligations held by Reconstruction Finance Corporation would come into the Treasury as a repayment on account of the Reconstruction Finance Corporation notes held by the Treasury and thereby be a credit against budget expenditures.

Pending the conclusion of these arrangements and within the limits of your set, I desire that you give consideration to new construction loans which would tend to maintain or increase employment where there is an economic need for the construction, and in this connection that you discuss with me these requirements, the needs of the general situation and conditions prevailing in individual fields of credit.

Very truly yours,

Honorable Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

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YMEMORANDUM TO THE PRESIDENT:

By your memorandum of December 23, 1937, you referred to me a draft of a letter prepared by Jesse Jones, addressed to himself, for your signature, which would authorize the Reconstruction Finance Corporation to consider loans on new construction and plant expansion at rates and terms that the borrowers can afford to meet; including loans to public utilities for extension and improvement and properties of various character upon which the Reconstruction Finance Corporation, ^{RFC} Mortgage Company might make loans, and asked me to speak to you about this matter.

You will recall that we have discussed on previous occasions, and since your Budget Summation of October 19, 1937 which placed certain restrictions upon the lending activities of the Reconstruction Finance Corporation, the question of permitting the Reconstruction Finance Corporation to make loans on commitments already made ^{or on applications filed} at the time of the Budget Summation. (~~In view of present business conditions, it may be advisable to relax some of these restrictions but I would not want to see you permit the Corporation to again enter the field of lending for general purposes at this time. I should prefer to wait thirty to sixty days to see whether or not business conditions will not improve of their own accord without any stimulus from the Government.~~)

Furthermore, I have under consideration with Mr. Jones, and *you will recall* this matter was discussed with you at the time that we discussed the Budget Message, the question of permitting the Reconstruction Finance

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Corporation to finance its own requirements by the sale of its obligations on the market. This would take the Reconstruction Finance Corporation receipts and expenditures out of the budget figures except that the proceeds from the sale of any Public Works Administration obligations held by the Reconstruction Finance Corporation would come into the Treasury as a repayment on account of the Reconstruction Finance Corporation notes held by the Treasury and thereby be a credit against budget expenditures.

I suggest, therefore, that you sign the attached letter to Mr. Jones stating that you would prefer not to sign a general letter of this character at this time but will consider from time to time, as the situation demands, each class of loans and before approving any general class will wait until after he and the Secretary of the Treasury have come to some agreement on the financing arrangements.

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My dear Jesse:

You left with me, on December 21, 1937, draft of a letter for my signature authorizing the Reconstruction Finance Corporation to again enter the general field of lending.

While there may be need for lending in particular fields where credit is lacking, I do not at this time wish to give you general instructions regarding this matter.

In the meantime
~~Before giving any instructions,~~ I would like for you and the Secretary of the Treasury to come to some agreement as to your future financial requirements and the method by which the funds can be raised. In the meantime, I shall be glad to consider each class of loans that may be necessary to meet the immediate situation.

Very truly yours,

C
O
P
YTHE WHITE HOUSE
Washington

December 23, 1937

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

Dear Dan:

Please speak to me the next time
I see you.

H.M.Jr.

THE WHITE HOUSE
WashingtonC
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December 21, 1937

Dear Jesse:

(When I wrote you October 18th to restrict RFC lending, I was working toward a balanced budget and the withdrawal of the government from the lending field, but) due to the apparent lack of credit for new construction and plant expansion at rates and terms that borrowers can afford to meet, I wish your Corporation to consider loans of this character. *When the utilities are willing etc*

You might include loans to public utilities for extensions and improvements under your authority to make industrial loans. You might also offer to make loans for the construction of new business properties of various character through The RFC Mortgage Company, where there appears an economic need for the buildings, and where the loans can be made on a sound basis.

In order however for your lending not to affect the current budget, your requirements should be provided through the sale of your securities to the public instead of borrowing from the Treasury.

Your capital stock of \$500,000,000, which you advised me is unimpaired, should give you ample borrowing capacity without ever calling upon the Treasury.

We have demonstrated that the government can lend intelligently, and while it is my intention to get the government out of the lending business as early as possible, credit must be available for all worthy purposes if people are to have work.

It may be desirable to ask Congress to amend your Act permitting loans to municipalities for construction purposes, particularly for the purchase of materials in cooperation with relief labor, taking securities that you would later sell to the public as you have been doing with PWA securities and your own self-liquidating loans.

Within the limits of your Act I desire that you give consideration to the character of loans herein enumerated and authorize them when in the judgment of your Board a proper and useful purpose will be served.

COPY

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

December 10, 1937

Dear Henry:

In view of the apparent necessity for a continuation of RFC lending for some time to come, I suggest that in accordance with the provisions of Section 7 of the Reconstruction Finance Corporation Act, as amended, ~~that we or you~~ sell our notes to investors as we need the funds for further disbursements on loans already approved and for any new lending, and for such additional amount as may be necessary to return to the Treasury the budget estimate for the current fiscal year for this Corporation.

In this way we would be able to finance ourselves without affecting the current budget, provided our funds were treated by you in the same manner as funds of other governmental agencies which borrow direct instead of from the Treasury.

The RFC Act contemplated that our requirements in excess of our capital stock would be obtained in this manner.

Sincerely yours,

/s/ Jesse H. Jones

Chairman

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

*no answer
made to
this at
Jan 7
meeting*

(10)

January 5, 1938.

TO THE SECRETARY:

Under authority of Section 4(a) of the Home Owners' Loan Corporation Act, the Corporation is authorized to sell \$300,000,000 of its bonds and use the proceeds thereof to purchase debentures of the Home Loan banks or the shares of Federal Savings and Loan Associations, members of the Home Loan Bank System and institutions insured by the Federal Savings and Loan Insurance Corporation. The bonds of the Home Owners' Loan Corporation are guaranteed as to both principal and interest, and in addition the Secretary of the Treasury has authority to purchase their bonds in case the Corporation could not sell them on the market.

As you know the Home Loan banks have recently been financing their requirements through the sale in the market of their consolidated debentures, but the fact that the fund above mentioned has been available for the purchase of such debentures has enabled the Home Loan banks to make future commitments regardless of the success of any offering of their securities in the market. This fund has, therefore, acted as a sort of guarantee.

More than \$200,000,000 of this fund has been used to purchase the shares of the savings institutions leaving only about \$90,000,000 available for the two purposes. It is my understanding that the Home Loan Bank Board would like to keep this balance to clean up the Federal Savings and Loan Association situation, buying shares in some new institutions where commitments have already been made and strengthening others where we are already involved. It feels that there should be some fund available during times of stress and when it will not be able to sell consolidated debentures of the Home Loan banks, to assure these banks that funds will be available to meet their expanding loan requirements. The Board has therefore submitted informally to the Budget drafts of legislation which it recommends that Congress be asked to enact, providing the necessary fund to protect the Home Loan banks in meeting their future requirements. The Board recommends this legislation in one of two ways.

1. To increase the present limit of \$300,000,000 by a further \$300,000,000, permitting the Home Owners' Loan Corporation to buy the securities of the Home Loan banks.
2. To authorize the Secretary of the Treasury to purchase up to \$300,000,000 of such securities in the same manner as the Secretary is now authorized to purchase the securities of the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, Home Owners' Loan Corporation, Federal Farm Mortgage Corporation and the United States Housing Authority.

- 2 -

I believe that number one should not be considered as the Home Owners' Loan Corporation should be considered as in process of liquidation and should not be given any new authority to issue bonds or any additional duties or functions.

I recommend that the Home Loan Bank Board be informally advised that the Treasury and the Budget will approve a draft of legislation to amend Section 11 of the Federal Home Loan Bank Act in order to authorize the Secretary of the Treasury to purchase securities of the Home Loan banks in an aggregate amount of not to exceed \$300,000,000. This would place the entire matter of financing these banks in the hands of the Secretary of the Treasury.

After our discussion of yesterday I understood that you approved of this recommendation.

LNA/mlr

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THE CHASE NATIONAL BANK
of the City of New York
NEW YORK

For answer see
p. 240

Wathrop W. Aldrich
Chairman Board of Directors

August 11, 1937

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

Dear Secretary Morgenthau:

The so-called Victory Liberty Loan Act as amended (U.S.C. Title 31, Sec. 767) now provides as follows:

"There is created in the Treasury a cumulative sinking fund for the retirement of bonds and notes issued under Sections 752 to 755 and 757 of this Title **** and the First Liberty Bond Act **** and outstanding on July 1, 1920 and of bonds and notes thereafter issued under any of such Sections. The sinking fund and all additions thereto are hereby appropriated for the payment of such bonds and notes at maturity or for the redemption or purchase thereof before maturity by the Secretary of the Treasury at such prices and upon such terms and conditions as he shall prescribe and shall be available until all of such bonds and notes are retired. The average cost of the bonds and notes purchased shall not exceed par and accrued interest. **** For each fiscal year until all such bonds and notes are retired there is hereby appropriated out of any money in the Treasury, not otherwise appropriated, for the purposes of such sinking fund an amount equal to the sum of (1) 2 1/2 per centum of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1, 1920, and (2) the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed, or paid out of the sinking fund during such year or in previous years."

Section 308 of the Emergency Relief and Construction Act of 1932 approved July 21, 1932, and Section 210 of the National Industrial Recovery Act, approved June 16, 1933, provided for the annual addition of certain further sums to the sinking fund created by the above quoted Victory Liberty Loan Act, but did not increase

TO: Hon. Henry Morgenthau, Jr.

the cumulative feature of the sinking fund.

From the passage of the Victory Liberty Loan Act in 1919, until the year ending 1934, the full amount of this sinking fund appears to have been substantially expended currently each year by the Treasury Department, whether the Government's financial operations showed a deficit or a surplus or were in balance. For the year ending 1934, however, an unexpended balance of \$79,354,835 was carried over into the year 1935. Nevertheless this "carry-over" was substantially expended in full in the year 1935 together with the annual amount of the sinking fund for that year. For the year ending 1936, however, it appears that \$149,883,622.89 of the required amount of the sinking fund was not expended. It further appears from the Treasury Department press release of July 2, 1937, that only \$104,000,000 was expended for the sinking fund in the year 1937 instead of the full requirement of \$723,000,000, and that this lag in the operation of the sinking fund, coupled with the annual sinking fund appropriation for the year 1938, has created an unexpended balance in the sinking fund of \$1,200,000,000.

While it is true that from the point of view of the United States Government under the present condition of its budget, compliance with the sinking fund requirements and the retirement of debt thereby makes no net change in the principal amount of the public debt (though it may well affect interest rates on such debt), it would seem that prompt and full compliance at all times with the requirements of the Act concerning the sinking fund was important for the following reasons:

1. The Act provides that for each fiscal year there is appropriated for the purposes of such sinking fund (1) $2\frac{1}{2}\%$ of the aggregate net amount of bonds and notes outstanding on July 1, 1920, and (2) the interest which would have been payable during the fiscal year on the bonds and notes theretofore purchased or redeemed through the operation of the sinking fund. Thus, there is appropriated annually for the purposes of the sinking fund not only a fixed amount established by the $2\frac{1}{2}\%$ provision, but a secondary credit cumulative in character based on the interest which would have been paid on retired bonds. Unless the sinking fund is operated year by year as provided by the Act the progressively cumulative action of the fund through this secondary credit is impaired and the plan and purpose of the Act to this extent nullified.

2. A disregard of what would seem to be the mandatory requirements of the Act by failing promptly and currently to expend the sinking fund and by charging the operating budget of the Government only with the amount which the Treasury Department determines actually to expend results in an apparent but not a real reduction in the current Government deficit. It correspondingly results in an unwarranted increase of the charges against Government income in subsequent years. Added to these unfortunate results is the distortion

TO: Hon. Henry Morgenthau, Jr.

of the true position of the financial operations of the Government for a particular year in comparison with other years when the sinking fund requirements have been or are hereafter fully complied with. One of the necessary and important factors for a true comparison of the financial operations of the Government between one year and another is destroyed.

3. To postpone the requirements of the sinking fund and thus to pile up a large unexpended credit may well have an even more unfortunate result than the distortion of the picture of the financial operations of the Government from year to year. This is that the accumulated amount may eventually become so large that the hopelessness of attempting to perform this postponed and piled up financial obligation will end in the complete abandonment of the sinking fund.

4. The failure to expend this sinking fund as it comes into existence destroys one of the important forces in the maintenance of the market price of Government obligations, a force which holders of Government obligations would seem to have the right to look to by reason of the provisions of the Act, apart from any question of whether the Act is a "contract made with the bondholder by Congress", as it was so characterized by Congressman Garner at the hearings of the House Committee on Ways and Means in 1923 when the Act was slightly amended.

5. It would appear clear from the text of the Act, as well as from the records of Congress relating to its passage, that the matter of the prompt expenditure of this sinking fund, to the extent that obligations mature or are available for redemption or purchase at an average cost of not exceeding par and accrued interest, does not lie within the discretion of the Secretary of the Treasury. This view is confirmed by the practice consistently followed by the Treasury Department in periods of both surplus and deficit for fourteen years since the Act went into effect. If the exercise of the function vested in the Secretary of the Treasury is discretionary with him, it would seem to follow that he has the power to suspend the application of the sinking fund to the redemption of the national debt in periods of surplus as well as of deficit, in good as in bad times; that he can of his own motion bring about a so-called balanced or unbalanced budget simply by failing to comply with, or alternately complying with, the provisions of the Act, and that he can suspend indefinitely the application of the Act. This hardly seems to be within the contemplation of the Act, or with the general understanding of the purposes and safeguards associated with the term "sinking fund".

6. From the records of the Congress relating to the passage of the Act, it would seem to have been the intention and expectation of the Congress that there should not be repeated under this Act

The Chase National Bank
of the City of New York-

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Sheet No. 4.

TO: Hon. Henry Morgenthau, Jr.

what was considered to have been the reprehensible failure of successive administrations, to observe the provisions of the Civil War Sinking Fund Act. It would seem to be unfortunate if after a tradition of fourteen years of faithful compliance with the Victory Liberty Loan Act, both in years of deficit as well as in years of surplus, the Treasury Department should now abandon this sound tradition.

This Bank is a large holder of Government obligations. I am raising these matters with you solely in order that I may be fully and accurately informed on the subject. To this end I would appreciate it if you would correct me in any inaccuracies or misapprehensions that may be contained in this letter as well as give me such comment as you consider appropriate to make upon the authoritative attitude of the Secretary of the Treasury towards the requirements and purposes of the Act.

Respectfully yours,

(Signed) Winthrop W. Aldrich

Chairman Board of Directors

✓
January 7, 1933.

My dear Mr. Secretary:

Let me acknowledge your letter of January 5th, enclosing technical comments prepared in the Office of the Economic Advisor.

I appreciate your sending me this material which will have careful study in the Treasury Department.

Sincerely,

↓
(Signed) H. Morgenthau, Jr.

✓
The Honorable,
The Secretary of State.

GKF/bj

Enclosure to Dr. White for study.
per NMC

Mrs Forbush

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May we have an
ack of material ~~so~~
will be studied here.

—



DEPARTMENT OF STATE
WASHINGTON

In reply refer to

January 5, 1938

My dear Mr. Secretary:

As stated in my letter of December 16, 1937, acknowledging receipt of Treasury Department's confidential memorandum on Japan's foreign exchange resources, this Department has been engaged in checking and revising its report on the same subject in the light of the Treasury Department's memorandum of subsequent information.

In accordance with the intention indicated in my letter of December 16, I am enclosing technical comments prepared in the Office of the Economic Adviser, on the Treasury Department's memorandum, together with summary comparison with earlier estimate made in this Department.

Sincerely yours,

Enclosure:

Memorandum of comment,
dated December 23, 1937.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

168-A

Department of State

BUREAU
DIVISION

EA

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

TREASURY

December 23, 1937.

COMMENTS ON TREASURY DEPARTMENT'S CONFIDENTIAL
MEMORANDUM ON JAPAN'S FOREIGN EXCHANGE
RESOURCES* (DATED DECEMBER 13, 1937)

I. Gold Resources.

Treasury Department memorandum estimates that Japan had from \$270 to \$290 million in gold, as of November 30, 1937. Of this \$267 million are credited to Bank of Japan, and the undetermined balance to the Government's secret gold fund. It is stated that \$200 million in gold are "necessary to satisfy the existing legal reserve requirements of the banking system", leaving \$67 million available as "free gold plus whatever sums are in the secret fund which could be sold in foreign markets without new legislation."

On the basis of confidential figures and information furnished by the Research and Statistics Division of the Federal Reserve Board, it has been possible to arrive at a more definite estimate of the amount of gold remaining in the Treasury's "secret" gold fund. Even taking into account gold shipments subsequent to November 30, it appears that total Japanese gold holdings at
the

-2-

the present time are not far short of \$300 million. The basis on which this estimate is arrived at, with comparisons with the Treasury's figures, is indicated below.

1. The Treasury Department's estimate is derived by taking the United States dollar equivalent of the reported gold holdings of the Bank of Japan on March 1, 1937, deducting recorded gold exports from March through November, and adding estimated new gold production in Japanese-controlled areas through the same period, plus probable gold assets of the Banks of Chosen and Taiwan. As a check against this estimate, the following computation takes as its starting point reported Japanese gold holdings at the effective date of yen devaluation, August 25, 1937, since which Japan's gold assets have been divided between the fixed gold reserves of the Bank of Japan and the fluctuating holdings of the Treasury's Special Gold Account, to which all new gold purchases have been added, and from which all subsequent gold shipments have been made.

2. Under the yen devaluation law of August 10, 1937, the fine gold content of the yen was reduced from 750 to 290 milligrams, and the Banks of Chosen and Taiwan were required to transfer their gold holdings to the Bank of
Japan

-3-

Japan in exchange for yen notes. Expressed in yen of old legal content, the gold holdings of the Bank of Japan were taken on August 25 at 450 million yen^{1/}, and the transferred gold reserves of the Banks of Chosen and Taiwan at 19 million yen, or a total of 469 million yen. On the revalued basis, these holdings were written up to 1,213 million yen, equivalent to 396 million United States dollars (at 32.6 cents per yen).

3. While the yen profits of devaluation accrued to the Treasury, gold to the revalued amount of 801 million yen was left in the Bank of Japan as coverage for note circulation to such amount in excess of the legal fiduciary limit of 1 billion yen. This sum is accounted for as follows:^{2/}

	<u>Million YEN</u>
Gold reserves, Bank of Japan, August 25 (at old legal value).....	450
Gold transferred from Banks of Chosen and Taiwan (at old legal value).....	19
Gold to replace Government securities bought back by Treasury.....	300
Gold deposit by Treasury at Bank.....	<u>134</u>
Holdings of Bank after revaluation (469+339).	801

The Bank of Japan still shows its gold holdings at 801 million yen, equivalent to \$261 million. (\$267 million in Treasury Department memo.)

4. The
^{1/} Based on Government statement that the Bank would hold 450 million yen on August 25. The Bank's statement of August 21 shows^{2/}, however, gold holdings of 448.3 million yen.

^{2/} Data supplied by Federal Reserve Board.

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4. The remaining gold, amounting to 419 million revalued yen, or 134 million dollars, was allocated to the Government's Gold Fund Special Account, which was designed to be employed for maintaining the exchange value of the yen at 14 pence. Shipments of gold from Japan subsequent to the devaluation date (up to December 15) have amounted to \$110 million. Since these have presumably been made from the Government's Special Fund, a residue of only \$24 million is indicated, plus whatever new gold has been purchased with the yen proceeds of gold sales abroad.

5. Purchases of newly mined gold by the Bank of Japan from the beginning of 1937 up to August 25 amounted to 962,000 ounces, or an average of 120,000 ounces per month. Assuming this rate of acquisition to be maintained since devaluation, there is indicated an inflow up to December 15 of some 420,000 ounces, or about \$15 million of new gold, bringing the estimated total gold holdings of the Fund to about \$39 million.

6. The foregoing computations may be recapitulated as follows:

RESERVE

Between January 1 and August 25, the Bank of Japan made purchases of gold other than newly mined, to the amount of 1 billion ounces. In view of the vigorous efforts made to mobilize gold held by Japanese nationals, it is doubtful if there are any appreciable remaining holdings which might be acquired by the Fund.

-4-

to expand further under continued Government deficit financing, there does not appear to be warrant for regarding any portion of the Bank's gold holdings, under existing legal requirements, as being definitely available as "free" gold. This is, however, largely a matter of technical distinction. If it became necessary to draw upon the Bank's gold holdings, the Bank could under its statutes partially substitute silver in its specie reserves[✓] or pay the 3-percent tax on its excess issue, or the fiduciary limit could itself be raised by special legislation. The point is that the Bank's gold holdings, so far maintained intact at \$261 millions, constitute Japan's last line of gold resources, which, within very narrow limits, can be drawn on only by changing its present currency law.

8. Vigorous efforts are being made to expand gold production within the Japanese Empire and Manchukuo. The Gold Production Law of August 10 requires all gold mining enterprises

[✓] The statute of the Bank of Japan permits as much as one quarter of its total specie reserve against notes to be carried in the form of silver coin or bullion, although for many years the Bank has not included any silver in its specie reserve. The Bank's statement of October 30, 1937 shows among its assets \$9.7 million yen in "coin and bullion other than gold", part of which might be legally substituted for gold in its specie reserve.

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enterprises and gold smelting establishments to be licensed and to deliver their entire output to the Government at prices fixed by it. A supplementary order of the Department of Commerce and Industry of October 1 provides for payment of subsidies up to 50 percent of costs incurred by approved private enterprises for gold prospecting and drilling, and by contracting grading factories and refining establishments. Gold production in the Japanese Empire has shown considerable expansion since 1932, as indicated by the following table.

Gold Production in Japanese Empire^{1/}
(in kilograms)

<u>Period</u>	<u>Japan Proper</u>	<u>Chosen & Taiwan</u>	<u>Total</u>
1932	12,497	10,518	23,015
1933	13,729	12,160	25,889
1934	15,147	13,474	28,621
1935	17,837	--	--
1936	21,113	--	(42,000) ^{2/}
1937(6 mos.)	11,217	--	--

^{1/} Figures for 1932-34 from Japanese Trade and Industry (Mitsubishi ERS). Figures for subsequent years from Oriental Economist.

^{2/} As reported by Japan Chronicle, July 8, 1937.

Despite Government assistance and recourse to low-grade deposits, it does not appear that gold production in the Japanese Empire in 1937 will prove to be substantially larger than in 1936, when it amounted to some 42,000 kilograms or \$47 million. Monthly production figures

in

-3-

in Japan proper (which alone are published) have averaged about the same in 1937 as during 1936, indicating a production of about \$25 million for the year as a whole. As Ghosen and Taiwan together produce about as much as Japan proper, the total production for the Empire in 1937 may be estimated in the neighborhood of \$50 million^{1/}. Exports of gold from Japan during the year have been approximately five times this amount.

9. The Manchurian Gold Mining Company, formed in 1934, with capital subscribed jointly by the Manchukuo Government and the Southern Manchurian Railway, has pursued a program of active exploitation of the gold resources of Manchukuo, and announced last July that it planned an output of 200 million yen for the five-year period 1937-41. This envisages a virtual tripling of the current rate of production.

In 1936 the Bank of Manchou purchased 15 million yen of newly mined Manchurian gold. The Oriental Economist estimates an output for 1937 of 15 million yen, or about \$4 1/2 million. There does not appear to be evidence that Manchou gold has been imported into Japan. Nevertheless, the gold holdings of Bank of Manchou (which are not reported) and new production could be utilized in financing military imports into Manchukuo.

II. Foreign

^{1/} The Oriental Economist (October 1937) estimated that production of newly mined gold in the Japanese Empire

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II. Foreign Exchange Balances.

In the estimate of Japan's foreign exchange resources compiled by J.M. Jones in mid-September, foreign exchange balances held abroad by Japanese banks were set down as "negligible". The Treasury Department's memorandum puts Japanese bank balances in the United States at the end of November at a figure of \$50 million, with possible sterling balances of 2 to 4 million pounds in London.

Jones' report stated that according to information secured from the Treasury (through Mr. Loohead):

"The Yokohama Specie Bank has at present (ca. September 15) an overdraft in New York of \$7,400,000, whereas other Japanese banks have credits of \$6,400,000, leaving a net overdraft of \$1,000,000; and it seems likely that if there is an overdraft in New York, reserves in London must be small or negligible."

The most recent report of the Treasury Department's check-up on Japanese bank balances in New York reveals that on December 8 these amounted to \$45.2 million. A check made two weeks earlier (November 24) disclosed New York balances of \$45 million, of which approximately four fifths was held by the New York branch of the Yokohama Specie Bank. The figure of \$50 million for Japanese

bank

in 1937 would reach 170 million yen, which, at the new gold content of the yen, would be approximately equivalent to \$50 million.

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bank balances in this country, contained in the Treasury Department memorandum of November 30, includes an allowance of \$5 million for balances held outside New York City, chiefly in San Francisco.

Between March and October Japanese gold shipments to the United States appear to have been used, partly to meet the heavily adverse trade balance with this country during those months, and partly to buy sterling exchange for commercial settlements through London. The more recent gold shipments are apparently being used to build up dollar reserves, rather than to meet matured commercial obligations[✓]. The exchange situation has been eased, following the application of stringent import controls early in October, especially in respect to imports of cotton and wool. During the three months September through November, United States imports from Japan came within \$6 1/2 million of balancing American exports to Japan. In view, however, of the low levels to which stocks of most import materials have fallen in Japan, in view of the recent decline in Japanese exports, and of the unwillingness of American and British banks

and

✓ A Tokyo cable reported further shipments from Kobe on December 11 of 330,400 ounces (\$11.6 million) assigned to San Francisco branch of Yokohama Specie Bank.

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and export concerns to extend the credits sought by Japanese buyers,¹ the existing dollar balances are likely to be depleted early in 1938 unless further gold shipments can be made.

III. Foreign Security Holdings of Japanese Nationals.

The most elusive item in the computation of Japan's foreign exchange resources is the extent and valuation of Japanese holdings of negotiable foreign currency securities. All estimates emanating from Japanese sources appear to be considerably in excess of those indicated by capitalising reported income from such investments, or by checks made by the Treasury Department of Japanese holdings of dollar securities.

The Japanese Ministry of Finance, with which all holdings of foreign securities by Japanese nationals are required to be registered, reported such holdings at 391 million yen as of September 30, 1936.² It is stated

¹ According to the Journal of Commerce (December 15), New York "bankers familiar with Far Eastern trade declared that Japan is at present trying to buy on six months credit", although cash is being paid for urgently needed machine tools.

² The detailed figures are published in the Oriental Economist of April 1937 and were those used in Jones' report. The Treasury Department memorandum refers to an article in the Oriental Economist of October 1937, in which these holdings are given as 369 million yen (as of April 1937).

stated, however, that these "securities figures are based on face values and conversion into yen currency at (the old) mint par of exchange". Since the devaluation law raised the mint price of gold by 150 percent, the nominal value of these holdings in devalued yen would be approximately one billion yen (9.56×201 million), equivalent at current exchange rates to about 285 million dollars. [✓] Of the foreign securities reported by the Ministry of Finance as held by Japanese nationals at home and abroad (as of September 30, 1936), about three quarters were in the form of foreign Government or municipal bonds (exclusive of Kanonkuro), about 6 percent in corporate bonds, and 30 percent in stock shares.

The Finance Ministry's detailed statement on "Visible Trade of Japan in 1936" (published in Oriental Economist, November 1937) puts the receipts from interest and dividends on foreign securities (including interest on deposits abroad) at 34.4 million yen. Capitalized at 4 percent, this would represent liquid foreign assets amounting to 860 million yen, or \$245

[✓] The corresponding dollar figure in the Treasury Department memorandum is \$328 million, while Jones' computation indicates \$500 million. The discrepancy arises from differences in the basis of conversion of the old yen figures in the statement of the Ministry of Finance.

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\$945 million at current exchange rates. Interest receipts on foreign government and municipal bonds were separately reported as 22.2 million yen. Capitalised on the same basis, holdings in such form would amount to 555 million yen, or \$158 million. These figures are very much less than estimates given out in Japan, which have been as high as 1,300 million yen. 1/

An important consideration in analysing Japanese holdings of foreign securities is the distribution between those held by Japanese at home and those held by Japanese nationals and institutions abroad. The Finance Ministry's tabulation as of September 30, 1936 showed that 87 percent of all Japanese-owned foreign securities were held abroad, the proportion being as high as 95 percent in the case of Government bonds. 2/ To the extent that these securities are held by Japanese banking and insurance institutions abroad, their liquidation in exchange for yen credits is obviously limited by the necessity of maintaining foreign currency assets against the liabilities of such institutions

- 1/ Commercial Attaché Williams reports a statement emanating from the Ministry of Finance that Japanese holdings of dollar, sterling and franc bonds at the end of July 1937 amounted to 1,312 million yen.
- 2/ It is this circumstance which doubtless explains in part the discrepancy between the official figures of Japanese-owned foreign securities and the capitalised value of the income therefrom as shown in the Japanese balance of invisible trade.

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to depositors and policy holders. To the extent that they are held by Japanese nationals resident abroad, their surrender for yen securities or credits is dependent on the appeal of patriotism rather than an effective Government compulsion. This would suggest that only a small proportion of total nominal Japanese holdings of foreign securities could be readily converted into foreign currency balances.

No inclusive or reliable data are available as to the geographic distribution of Japanese holdings of foreign currency securities. A very considerable proportion of such investments are known to consist of obligations of the Chinese Government and of securities of Chinese corporations. Based upon exhaustive study of all available estimates, C. F. Remer summarizes Japanese holdings of direct and indirect obligations of the Chinese Government at the end of 1930 as follows:^{1/}

General secured loans (principal only)	32.5	million	yen
Railway obligations (excluding Manchuria).....	40.9	"	"
Obligations of communication utilities.....	35.4	"	"
Unsecured loans.....	<u>200.0</u>	"	"
Total.....	308.8	"	"

^{1/} C. F. Remer, Foreign Investments in China (1933),
p. 548.

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In addition to the above, Remer estimates Japanese investments in Chinese corporations at the end of 1930 at 77.4 million yen. For purposes of conversion into foreign exchange, this extensive block of Japanese nominal foreign "assets" may, under existing conditions, be virtually disregarded. Even in the past they have been more important as legal and political claims against China than as a source of realized income. Japanese direct business investments in China (estimated by Remer at 1,748 million yen at the end of 1930) are not only completely non-liquid assets, but have been for the most part physically destroyed in the course of current hostilities.

According to the Japanese Ministry of Finance, Japanese holdings of dollar securities at the end of July 1937 amounted to 360 million yen, which, at the current rate of exchange, would be equivalent to a little more than 100 million dollars. Such estimates as the United States Treasury Department has been able

to

1/ According to Remer (p. 516), no interest was paid even on Japan's share of China's secured loans between 1925 and 1930, arrears at the latter date amounting to 13 million yen.

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to make of Japanese investments in this country indicate that the above figure is unwarrantedly high. The Treasury's Research and Statistics Division has found the task of identifying Japanese investments in the United States an elusive and baffling one, and its estimates lie within a rather wide range. Exclusive of direct investments in commercial enterprises, banks and insurance companies, the value of Japanese holdings of negotiable dollar securities is believed to be somewhere between \$25 million and \$75 million. It is not improbable that a portion of Japanese holdings of dollar securities may have already been liquidated in the building up of the dollar bank balances noted under II. No reliable estimates are available as to the extent of Japanese holdings of sterling or other foreign currency securities, but those held by other than Japanese financial institutions abroad are believed to be inconsiderable.

Jones' summary table of Japanese foreign exchange resources places the realizable value of Japanese holdings of foreign securities at 500 million yen (or \$145 million at current exchange rates). The Treasury Department memorandum concludes that "it is conservative to estimate that Japan can realize \$85 million on the foreign holdings of her nationals." In view of the non-realizable character of Japanese holdings of Chinese obligations

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obligations and of the very high proportion of other foreign securities which are held by Japanese institutions and nationals abroad and the difficulties involved in acquiring command over these in exchange for yen securities or credits, it would appear that even the Treasury Department's conservative estimate of \$85 million may prove to be somewhat greater than the amount of foreign exchange which Japan could effectively realize through liquidation of such holdings.

IV. Japanese External Obligations.

The Ministry of Finance reported the amount of outstanding Japanese public and corporate obligations issued in foreign currencies, as of September 30, 1936, at 1,863 million yen (presumably at par value). Of these, 724 million yen, or 39 percent, were stated to be owned by Japanese nationals, with more than half held by Japanese abroad. ^{1/} Any extended selling of these in the foreign markets on which they are listed, as a means of realizing foreign exchange, would of course tend to drive down their market prices, in view of the restricted acceptability of such securities under existing conditions. As it is, Japanese Government 6 1/2 external bonds which were

^{1/} Oriental Economist, April 1937, pp. 217-18.

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were selling at par in New York in the early part of 1937 have been quoted during the year as low as 67 1/8, although recent quotations have ranged between 73 and 80. Japanese Government 5 1/2's declined during 1937 from a high of 89 3/8 to a low of 52 1/2, with recent quotations around 70. These declines have occurred despite maintenance in full to date of debt service on Japan's external loans. The increasing strain upon Japan's foreign exchange resources is likely to make the continuance of such service a matter of serious difficulty, and to be reflected in a further depreciation in the liquidating value of such Japanese-held obligations.

In the Treasury Department's memorandum it is estimated that "Japan might be able to acquire at least \$25 million of foreign exchange by marketing gradually" the holdings of her nationals in the form of Japanese foreign currency securities. Jones has made no allowance under this heading. We are inclined to regard the Treasury Department's estimate as a rather liberal one from the standpoint of Japanese availabilities.

In the Russo-Japanese War Japan was able to finance almost two thirds of the total cost of 1,720 million yen through foreign loans. In the present conflict with

China

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China, in which Japan has been declared to have violated the Nine Power Pacific Pact by all the signatories except Italy, she cannot count on floating loans in the countries which could alone furnish them and where such credits are most needed. Germany and Italy might be willing to supply her with munitions on credit, in return for certain concessions in China, but they are unable to furnish the raw materials for which alone Japan is externally dependent.

V. Comparative Summary.

In the appended table there are brought together, for purposes of comparison, the estimates of Japan's foreign exchange resources contained in the memoranda prepared (I) by J. M. Jones (September 30, 1937), (II) by the Treasury Department (November 30), and (III) those indicated by checks made by the writer as noted in the foregoing analysis (December 15).

Jones' estimates were computed in yen and have been converted into dollars at current exchange rates for purposes of comparison with the other estimates expressed in dollars. His total figure is about \$100 million in excess of the other estimates. This substantial difference is to be accounted for mainly by the following considerations:

(1) Differences

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(1) Differences in basis of computing Japan's gold reserves under devaluation.

(2) Exports of gold subsequent to date of Jones' estimate.

(3) Jones' incorrect procedure in including annual gold production among resources at a given date.

(4) Jones' acceptance of official Japanese figures of holdings of foreign securities on questionable basis of yen computation, without due allowance for their effective realisable value.

On the other hand, Japanese resources in the form of foreign bank balances, which, at the date of Jones' report, were found to be "negligible", appear to have since been built up to a level of from 55 to 65 million as shown in the later estimates.

Checks made by the writer indicate that Japan's total gold holdings are nearer the \$300 million level than the figure of \$275 given in the Treasury Department's memorandum. On the other hand, the amount which may be regarded as "free" gold, in excess of present legal reserve requirements of the Bank of Japan, would appear to be only about one half of the Treasury Department's estimate of \$75 million. Apart from these diminishing stocks, future Japanese gold exports can be met from new

Japanese

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JAPAN'S FOREIGN EXCHANGE RESOURCESEstimates of --

<u>Constituent</u>	<u>I</u> <u>J. M. Jones</u> <u>Sept. 30/37</u>		<u>II</u> <u>Treasury Department</u> <u>Nov. 30/37</u>	<u>III</u> <u>H. S. Patton</u> <u>Dec. 15/37</u>
	<u>Million</u> <u>yen</u>	<u>Million</u> <u>Dollars</u> <u>(at \$1.00</u> <u>= 3.5 yen)</u>	<u>(Millions of dollars)</u>	
(1) Gold.....	1,147	328	275	300
(2) Gold production (annual).....	300	87	Production during 1937 allowed for under (1). (Estimated production for 1937 30-50 million dollars) (Production 1937 - \$50 million)	
(3) Gold, silver and foreign exchange held by Banks of Chosen & Taiwan.	100	28	Gold holdings guessed at 40 million. In- cluded in (7).	Gold holdings -- \$15 million. Included in (1).
(4) Coin and bullion other than gold held by Bank of Japan.....	55	16	Not shown. Silver exports in- cluded in estimates of trade balance.	Unlikely to be used out- side Japanese Empire, Manchukuo or China.
(5) Recoverable gold and silver.....	Not separately shown		25	15 (?)
(6) Foreign exchange balances.....	Negligible		65	55
(7) Foreign security holdings. Realis- able value.....	500	143	65	60
(8) Holdings by Japan- ese in foreign of Japanese foreign currency obligations. Realisable value.....	Not included		25	20 (?)
Total realisable resources.....	2,002	572	475	470

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Japanese gold production, which may average as much as \$5 million monthly during 1938.

Our analysis leads us to reduce somewhat the Treasury Department's estimates of the foreign exchange that might be effectively realized through the liquidation of Japanese-held foreign securities and Japanese obligations expressed in foreign currencies. Our total figure of available Japanese foreign exchange resources comes out about the same as the Treasury Department's estimate, but we are inclined to reduce the amount which the latter regards as realizable from Japan's first line of exchange availabilities, as indicated below.

	Treasury Dept. Estimate (million dollars)	Our Estimate
Gold (in excess of legal reserve requirements).....	75	40
Foreign bank balances.....	65	55
Foreign securities at liqui- dation value.....	<u>85</u>	<u>80</u>
Total.....	225	175

One of the imponderables in the exchange situation would appear to be the extent to which Japanese nationals resident abroad and Japanese-controlled institutions outside Japan are willing and able to liquidate their foreign property and security holdings in exchange for yen securities or credits. Another is the extent to which Japanese importers may succeed in securing commercial credits

abroad

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abroad. No doubt these possibilities will be pursued with characteristic Japanese resourcefulness, but the results are dependent on other things than the authority of the Japanese Government.

EA:HSP:EB

1/10/28
JCS

RE INCOME TAX SETTLEMENT PROCEDURE

January 7, 1937
3:00 p.m.

Present: Mr. Magill
Mr. McReynolds
Mr. Graves

H.M.Jr: Well, Colonel?

Graves: Yes, sir.

H.M.Jr: Professor? Doctor? What's the meeting for?

Magill: I don't know the - Graves has got two proposals, as I understand it, one having to do with the New York Collectors' offices, the point being that you've got four - or is it five Collectors up there?

Graves: Four operated in metropolitan New York area.

Magill: Operated in metropolitan New York. And you get into a good deal of confusion as to where returns should be filed, and which fellow is to make the examinations, how to get returns from one office to the other. And, as you know, the Internal Revenue agents operate separately and independently, and there are several of those offices up in metropolitan New York.

Graves: Three.

Magill: So he has another plan for coordinating some of the work of the Internal Revenue agents.

That's the preface. I think you (Graves) better give the Secretary a little of the Collectors.

Graves: I think Mr. Magill stated the Collectors situation. The two, as a matter of fact, are not related except that they happen to be in the same area and both in the same Bureau. And both in my opinion ought to have attention but they don't belong together. Either could be handled alone.

The proposition that you spoke to me about at your house on Sunday had to do with Revenue agents, as I understood you, which had more

H.M.Jr: No, I was thinking more of the whole - the way I put it was this: I'd like to start with the man who

-2-

contacts the taxpayer and work backward. That's the way I put it, didn't I?

Graves: That's right.

H.M.Jr: That's the way. I mean start with the fellow who contacts the taxpayer and work from him straight back to the Commissioner, instead of going from the Commissioner down. Now, where is that in conflict with what Magill wants or you want or McReynolds wants, or anybody else?

Graves: It's not in conflict at all.

Magill: It isn't in conflict at all. It's just a matter of fitting what you're saying into what you might call the statutory limitations of the present system.

H.M.Jr: Well, how is that to be done?

Magill: Well now, go ahead.

Graves: Well, I've put on one piece of paper

H.M.Jr: Well, read it.

Graves: ... a proposal that relates to the revenue agents business.

H.M.Jr: All right, read it.

Graves: "Set up in New York City an administrative settlement group, accountable directly to the Deputy Commissioner, to dispose of deficiency and overassessment cases that have been closed without agreement by the agents in charge of the three New York City districts.

"This group should be composed of the best settlement men available (probably not fewer than thirty or forty) chosen from the technical staff, the Conference Division, the Engineering and Valuation Division, and the field offices, and should be headed preferably either by Mr. Marrs, head of the technical staff, or by Mr. Mooney, head of the Conference Division, each of whom has shown outstanding ability in the direction of settlement work."

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McR: That would mean that that settlement unit would be located in New York City.

H.M.Jr: Yes.

Graves: "The new settlement group should (a) grant a hearing to every taxpayer who, after full discussion of his case in the office of the revenue agent in charge, still protests the agent's findings; (b) make on behalf of the Commissioner a final administrative determination of the deficiency or overassessment, and endeavor to secure the taxpayer's agreement thereto; (c) send the case back to the agent in charge for such action as may be required to carry out the determination, including the issuance of a statutory notice of deficiency" - that's the 90-day letter - "when necessary; and (d) negotiate settlement after the issuance of the statutory notices whenever it seems advisable.

"Assign to duty at New York a picked group of attorneys (probably not fewer than twenty) from the Chief Counsel's office to (a) advise the administrative settlement group, on request, with respect to legal questions

H.M.Jr: Wait a minute. Start there again.

Graves: "Assign to duty at New York a picked group of attorneys (probably not fewer than twenty) from the Chief Counsel's office to (a) "

H.M.Jr: You mean the General Counsel?

McR: Yes.

Magill: That's right.

Graves: Wenchel's office. Chief Counsel is the term they use for the head of the legal group in the Bureau of Internal Revenue.

"... to advise the administrative settlement group, on request, with respect to legal questions arising in the consideration of taxpayers' protests; examine cases in which statutory notices of deficiency are to be issued and advise whether the proposed determination

-4-

can be successfully defended on appeal; and to represent the Commissioner in the trial of appealed cases before the Board of Tax Appeals. The legal staff should have no authority to settle cases independently of the administrative settlement group."

Now, the next proposition

- H.M.Jr: What do you want that group up there for? If you're going to have the other people there, why do you need the second group?
- Graves: Here's the situation. At the present time a substantial fraction of the income tax cases in New York, and in terms of money the most of the cases, ~~can not~~ be settled up there. They are brought down here to the Bureau, so that your taxpayers with respect to those cases have to keep shuttling back and forth.
- H.M.Jr: Well, how does this help it?
- Graves: You put the settlement authority right
- H.M.Jr: It's going to shuttle back and forth, but it goes between the taxpayer and Mr. A, who is in New York, instead of
- Graves: No, you have Mr. A in Washington, and Mr. B and Mr. C. You have three stages in the consideration of tax cases here, so that if your taxpayer is not satisfied with the determination made by the revenue agent in New York, he comes here and first he talks to the people in the Audit and Review Division. If he can't get them to propose a settlement that is satisfactory to him, all right, he asks for another conference before the Conference Division. And if he can't come to a conclusion that is satisfactory to him with the Conference Division, all right, he lets the thing go to 90-day letter, after which he then may have a chance to compromise or adjudicate his case either with the technical staff or with the Chief Counsel's office, as he may elect.
- H.M.Jr: Is that 90-day letter written into the law?
- Magill: Yes.
- Graves: Yes. So this proposition, Mr. Morgenthau, would

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substitute one settlement authority for three.
That's what this would do.

- H.M.Jr: Well, he goes in there, the way you have it there, and you have, you say, a representative from the technical staff, and they listen to this taxpayer's case. And if they come to an agreement, they can't sign him up there; then it's got to go back to the agent, doesn't it?
- McR: It only goes back to the agent for routine
- Graves: They'd sign him up. You're talking about my proposal?
- H.M.Jr: Yes.
- Graves: They'd sign him up there if he agrees to it.
- H.M.Jr: Can they sign him up on the spot?
- Graves: That's right.
- H.M.Jr: But if he doesn't agree
- Graves: Then the taxpayer would appeal. His only recourse is to appeal to the Board of Tax Appeals.
- H.M.Jr: What I envisage is this. Can you have - like a court, but instead of a court have sitting at a round table every single agency of the Treasury that has anything to say about the taxpayer?
- Graves: That's what we'd have here.
- H.M.Jr: So that if this taxpayer comes in and he sits in and he's arguing should he pay \$50,000 or \$100,000 and they come to an agreement that this fellow should pay \$75,000, that you have in that room everybody that has anything to say from the Treasury - "O.K., we take seventy-five. Sign it. It's finished."
- Magill: That's the idea.
- McR: Exactly what he's proposing to do.
- H.M.Jr: I mean so that there's nothing else, so that the final decision is then and there.

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Graves: That's this.

H.M.Jr: I mean in this room there would be a representative of the General Counsel.

Graves: That's right.

H.M.Jr: Sitting in this room. So that if that man says, "All right, I'll settle for \$75,000" - "All right, sign on this piece of paper." And it's settled then and there.

Graves: Then and there.

H.M.Jr: No matter how big the case is.

Graves: That's right.

H.M.Jr: Well, that isn't the way - you don't get that from listening to your description, but that's

Graves: Well, that's what is contemplated here: that this settlement group would have all of the authority that there is in the Treasury Department to settle a case; that if they can't settle a case

H.M.Jr: Is that what they do in England?

Graves: ... they send the statutory notice to the taxpayer, and his only recourse is to appeal.

H.M.Jr: They settle these things right in the field?

Magill: Yes.

H.M.Jr: Now look, before you do this - and then sending it back to the agent - he's just the clerical

Graves: That's right.

H.M.Jr: You didn't make that clear.

Look, before you do this thing, I'd like to set up one court, instead of - before you set up 30, 40 people. I don't believe in doing that in as big and broad a way. I'd like to set up what I'd call a tax

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court. That's what it would amount to, wouldn't it?

Magill: It would be an administrative board.

H.M.Jr: Well, it is in a sense a court, isn't it?

Magill: No, not in the sense I'd use it, but you can call it that. We know what you're talking about. You call it a court.

H.M.Jr: Let me call it an administrative tax court.

Graves: That's right; that's what it is.

H.M.Jr: Set up only one, only do it the way you do it, see? Set up one and run it for a month, two months, three months, and let's get

Magill: We have really done that, I guess.

Graves: I've done a poor job of telling this. This contemplates only one.

H.M.Jr: I mean I only want this show going on in one place. This action should only take place in one room. In other words, have only one of these courts until we get the bugs out.

Graves: That's all that is proposed here.

H.M.Jr: What are you saying forty people for?

Graves: To take care of all the cases that originate in that area.

H.M.Jr: I mean I don't want to - I expect you to take care of only part of the cases until you perfect that thing. What you're talking about, to take care of all the cases in that district - I say just set it up on a trial basis; don't go up there and say, "We're going to do them all on this thing." Eventually, yes.

Graves: Yes.

H.M.Jr: I mean, in other words, I don't want ten or fifteen groups sitting. I only want one group sitting, having

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hearings, at the beginning.

Graves: I don't know of any way that you could get the advantages you had in this system unless you could cover the whole

H.M.Jr: Under this thing, you might have twenty groups sitting. The thing might just go haywire - until you had the thing perfected.

Graves: We have this same thing in an aggravated way in the Bureau here now. We have the Conference Division under Mr. Mooney, whose name I mentioned, with 60 men who are settling these cases day by day, singly or in pairs. We have, then, in the technical staff, under Mr. Marrs, about 130 other men who are settling cases in this way, either singly or in pairs. Then we have the Chief Counsel's office and the Appeals Division; they have about 120 people who on the eve of trial are settling these cases. There is no

H.M.Jr: Wait a minute. Is this what they tried out at Cleveland?

Magill: It's the same general thought.

McR: Except you're going further; in other words, you're covering the ground here, instead of only undertaking the first step, as they did in Cleveland.

H.M.Jr: If you're insisting on doing the whole district, why take such a big district to try this out? If this is the plan - I mean as I understand, the taxpayer is coming in, and everybody that's got anything to say is in the same room; this fellow appears with his attorney, I suppose.

Graves: He appears with his attorney, and the revenue agent who made the investigation appears also, and there are the two parties, you might say.

Magill: I think the reason for New York is that it's the toughest district in the country.

H.M.Jr: Also the mistakes would be more glaring.

Magill: You bet they would.

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- H.M.Jr: I mean the mistakes we made.
- Magill: No doubt about that.
- H.M.Jr: And your newspapers are much keener and much more critical, too.
- Graves: On the other hand, we have - New York is the only place in the country where we have three revenue agents' offices operating in the same town.
- H.M.Jr: That doesn't bother me - I mean for the moment, because you're not going to set this up at all in districts.
- Graves: Well, I was following your suggestion that we ...
- H.M.Jr: Overlap.
- Graves: operate experimentally on this thing.
- H.M.Jr: But listen, Harold, old man, why can't you try this in a much smaller town and cut your eye-teeth? In Richmond.
- Magill: "herein does this differ from Cleveland?
- McR: Haven't got enough to do in a place like Richmond to really get any experience.
- Graves: This mainly differs from the Cleveland plan in this. In the Cleveland plan, the revenue agent in charge is the examining officer and the settling officer; he is the fellow who stirs up the controversy and he is the fellow who settles it if it is to be settled. In this plan, the revenue agent finds the deficiency and asserts it against the taxpayer, who protests, and then the protest by the taxpayer is considered by this settlement group, which is in a sense a third party new to the proposition. You get a fair and impartial consideration of the thing.
- H.M.Jr: Now, Harold, look, what I envisage is this. Let's say we start this thing, we have a room, and all these people are in. Now, I'd like to see this work as one group and work for a month. Then, if it goes along, why, multiply it even twenty times, and as many times as necessary to take care of it.

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But to open this thing and put this thing - let's say - what would you have, maybe 20 groups all sitting at the same time?

Graves: Well, you'd probably have each case considered by one of this group.

Magill: These groups operate very informally, and that's one of the chief advantages. More a case of my sitting down at the desk with you.

H.M.Jr: But I'm thinking that at the beginning Graves would have to sit there with the group and watch the machinery; I'd send Mac up, and if you weren't on the Hill you'd go up. If there was one group you could watch it and see. These people would be working together like that for the first time, and chances are

Graves: Well, I'm afraid that isn't exactly right, Mr. Morgenthau. We have almost this identical procedure now in Washington, but repeated over and over again by these different sub-divisions of the Bureau. If you're a taxpayer

H.M.Jr: Let me put it another way. Are these groups going to hit - how many districts are there in New York, four?

Graves: Three Revenue.

H.M.Jr: They're just going to disregard district lines and hear them anyway?

Graves: This group will hear cases originating in all three districts.

H.M.Jr: I again come back, why couldn't you fix - say, "All right, we'll take the oldest cases here." Get one group; after it's going, everybody's satisfied, keep multiplying it, instead of bringing sixty people down and starting them all at once.

Graves: Well, I'm just trying to figure out if there is any basis on which you could take a fraction of cases and subject them to this procedure and allow the remainder to go through the regular channels. I doubt very much if there is any basis ...

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- H.M.Jr: If you can't, I again come back to the thing that you take a small district. I'd much rather try it in a small district.
- McR: Well, you could do this, Harold. At the beginning you could limit it, you could take the cases from only one of the three New York districts. That would be - you could cut it to a third that way. Take Krigbohm.
- H.M.Jr: I still don't like it. This is what I say after listening to you fellows today. Then I'll let Magill talk. I either would go to a much smaller town and start with one of these groups, or work it out so that you could start in one district with one group, then multiply the groups in a district as fast as necessary. But you and Mac and Magill, or representative of Magill, can't be in twenty rooms at the same time. I don't care how well you set this up on paper; until you see the thing work, there will be bugs in it. There will be people that you bring there that don't believe in it - Treasury people
- Magill: That's true.
- H.M.Jr: who don't believe in it. And they'll say, "My God, Morgenthau is trying something new, and it's just ten times worse than it was." One of our own people will tell them - you know they'll put - our own people will fight this; don't like to move, or it spoils their contacts, or their authority, or puts them down or up or something. I mean I haven't been in the Treasury for four years for nothing and seen the people that have tried to block you right in the Treasury.
- Graves: Of course, Mr. Marrs and Mr. Mooney, whose names I have written into this memorandum
- H.M.Jr: Harold, listen, I don't give a hoot - I've tried to get things through Mr. Russell. When I told Russell when I came here that I want these things settled within the calendar year, they just laughed at me. I said, "If you don't do it, I'll get somebody else to do it" or words to that effect, didn't I?
- McR: Yes.

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H.M.Jr: By God, they're doing it. But I just had to take it out of my own - bing, bing, bing - like that. Now, having that, we had - this man (Magill) couldn't get the information he wanted last March until he went himself into the field.

McR: You won't get this done unless you order ...

H.M.Jr: Listen, Harold, you're going up against a very tough machine. Now, Magill, with all the telegrams, all the authority - the Under Secretary - couldn't get the information he wanted for the President of the United States until he personally went into the field and got it. I'm not going to take a chance of having this spring full-blown from my forehead and hope that it's a full-grown child; I want to start and nurse this thing, and either try it out in a small city and perfect it - Richmond, Baltimore - or do it one group at a time in New York, then multiply it.

Now, all you've got to do is to go into - what's the name of the fellow in the second district - what's his name?

Graves: Krigbohm.

McR: Krigbohm, or Allen.

Magill: You're thinking of Higgins, I expect.

H.M.Jr: We'll take Krigbohm. "What's the oldest case you got pending? We'll start with that and work from there back towards now."

"Well, how did you arrive at this thing?"

"Well, we took the case which was the oldest case."

Take the ones that are oldest and work from those backwards. Also be the most difficult. But take the cases which are the oldest on the calendar and work from those backwards.

Magill: I think your small city is better.

H.M.Jr: I'm not saying, but I

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McR:

I'd like to talk to that just a minute, before you come to the decision. In New York - you see, there is one more step that you haven't considered yet; that is, after they issue the 90-day letter and there is no further action and the case would have to go to trial before the Board of Tax Appeals; it comes in, gets tried some time. They have always had difficulty in and complained over the New York district, because they had no place to hold their hearings, they had no court room except by sufferance of somebody else.

Now, I have tentatively - no formal contract yet - set aside in the new building there on Veazey Street a court room for the Board of Tax Appeals, and I've got the promise of their Chairman that they will set up a section of the Board of Tax Appeals to operate there twelve months of the year. So that your cases from your settlement group, with the lawyers helping them - the lawyers who are there working on those cases would try the cases before the Board of Tax Appeals. They would go directly from your settlement group to the New York section of the Board of Tax Appeals, and the fellow who is familiar with the case - doesn't have to start in all over again - will be available to try his cases.

I have also set aside in that building, by kicking some other department out,....

H.M.Jr:

That's all right.

McR:

... a space for your settlement group, contiguous to your Board of Tax Appeals court room. Now, you've got your agent - you've got one of your agents located in that building. We'd have our settlement group located in that building, we'd have our Board of Tax Appeals court room located in that building, and we've pretty near got a factory set-up to handle the cases that arise.

Now, as I say, nothing final about

H.M.Jr:

All right, all right. Then I say to you, by God, you start this thing one group at a time and multiply it just as fast as you get the bugs out.

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- Graves: Would you still insist that we stay away from New York, or would you
- H.M.Jr: No, no.
- Graves: ... would you permit us to take one division up there of the three?
- H.M.Jr: Take one division of the three, but in that division one group at a time.
- McR: In other words, don't move so many people in. Take the best people you can get for a settlement group and take - or the basis that the boss gives is as good as any; that is, take from Krigbohm's office, which is located in that building now physically - he's been moved in - take the unsettled cases that he has, the oldest unsettled cases that he's got, and move them into your settlement group and try them that way. We'll have to work that out.
- H.M.Jr: If you have one group - all right, you'll take a man from Krigbohm, won't you, one of his agents?
- Graves: You mean to compose this settlement group?
- H.M.Jr: No, I mean in this group there would be four or five different agencies of the Treasury represented.
- Graves: Well, they would be all from the Income Tax Unit, plus the Chief Counsel.
- Magill: Wouldn't have to have more than two men at the outside. Maybe one.
- H.M.Jr: What I want sitting there is his superior, and that as we multiply these groups and he gets this thing - if this group works all right, all right, get that one going; then start another group.
- McR: Suppose you take Mooney and make him the head of your settlement group in New York. He's the head of your Conference Division here in Washington. They've got an overlap between his and Marrs' division; Harold thinks they ought to be combined here anyhow. But suppose you detached Mooney and take him over there and set him up at the head of the settlement group. Then the men that he would - instead of taking forty

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men that he'd expect to work with him, take one from Wenchel's office and a couple more from Mooney's office here, or from Marrs' office, and start out with a total of a half dozen men in your settlement group in New York, and just begin by handling all they can, starting in with your older cases and bringing it forward.

H.M.Jr: That's right. Then when Mr. Mooney has got one group - Mr. Mooney is sitting with this group, and then when Mr. Mooney is satisfied that that group is functioning properly, he calls in enough people - he says, "Tom, you take this on; I've got this running - group number one. All right, we'll start group number two." Then Mr. Mooney moves to group number two, and he breaks the fellows in. "Now you've learned this thing." And he takes group number two and starts that. Then Mr. Mooney goes to group number three, and he multiplies it. But you develop the technique and learn from mistakes.

I've been through this thing too often, and this idea of starting twenty groups all at the same time - I'd start one group. All right, when Mr. Mooney is satisfied that this thing is working satisfactorily I'd want a representative of the New York Bar there, something like that, invite them to come in. Have they got a tax division? If they have ...

Magill: No.

H.M.Jr: What?

Magill: You get into trouble there in disclosing trade secrets, etc., and information.

H.M.Jr: Well, throw that out. All right. But let Mr. Mooney sit there, you sit there, and Mac sits there - Magill or somebody - myself - and let's watch this group for two or three days. "All right, now this is all right." I don't care how good the person is, you can't put a thing like that on paper and have it work, knowing that the old crowd over there - be some of them hope the thing will fail. This is too revolutionary, this is too simple, this is too good.

Now, Harold, I think what I'm saying is horse sense.

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Graves: Yes.

H.M.Jr: Now, the only thing - it means it's a little bit slower.

"But how did you pick the cases?"

"We took the oldest cases on the docket."

And then once you've got the technique, I don't care how fast you multiply it.

What do you (Magill) think?

Magill: Well, I think you want to go pretty slow on the multiplying, as a matter of fact, because you can't tell - I don't know, but ordinarily with these things - I know seems to have been true of that Cleveland experiment - you can't tell very much about them for quite a while. And your best point you've made, I think, is the amount of - I don't - I've forgotten my word - but the amount of criticism and so on that goes on from within the Bureau. There's plenty of people down there who don't like this Cleveland thing now, which we all know, and they'll do what they can to "bitch" it.

Graves: I was just thinking of this. Being in the same community, we're pretty near bound to have the same routine to be followed. We pick one group of cases and attempt to deny to those taxpayers the right to bring their cases to Washington, while allowing other taxpayers outside that group to bring their cases to Washington. I don't know where we're going to be.

H.M.Jr: It's very simple. We have a very carefully prepared announcement: "We are trying this thing out. We don't know whether it is going to be a success. How do we pick the cases? We pick the oldest ones on the docket. We are going to run this as a laboratory. After we have run it for a number of weeks, we will then say whether we think it is successful. If successful, we multiply it and let it spread. If we think it is unsuccessful and impractical, we close it up." That's all.

I'm - I wouldn't O.K. that memorandum the way it is now. I'd be scared to death of it. And I'd want

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everybody that had anything to say to say to me, "Now, I'm satisfied this is a success, this is a step forward." Hell, we may find it may not be any good. Maybe the way they've got it set up now is the right way. Maybe our fellows aren't smart enough to do this thing. Maybe - we may not have sufficiently capable people.

Graves: Well, there's something in that.

McR: Well, talking from that viewpoint, we are not undertaking to do anything there that we are not already doing.

H.M.Jr: But Mac, old man, we're trying to do something revolutionary. We're trying to settle cases on the spot. Never been done in the history of Internal Revenue. All I'm saying to you - the more I talk the more I'm convinced I'm right - I say give birth to one unit, watch it; then, when everybody is convinced it's all right, let's talk it over.

Magill: I've got another idea - and I'm speaking in the dark - but now we've got these things going on, experiments of this general character, in Cleveland and in Dallas and in San Francisco, and to some extent in the third New York, haven't we?

Graves: Right.

Magill: Would it be possible to change any or all of those units around to conform with this general procedure?

Graves: Yes, it would.

Magill: Why wouldn't that be a good idea?

Graves: I was thinking. Of course, where you precisely parallel the revenue agents' office by this settlement group, the advantages of the arrangement are very much thinned down. My exception to this is that ultimately, if this is any good, you will have maybe for the whole United States twelve or fifteen settlement groups in the field, each covering the territory of two or three or four or five different revenue agents' offices. Now, where you just superimpose your settlement group on the revenue agents'

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office

H.M.Jr: Listen, gentlemen, think this thing over. Before I leave Tuesday, we'll meet on this once more. But think this over in view of what I said, will you? Think it over once more. And if you could meet with them once before I see them, Ros - huh?

Magill: Yes, I can do that.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

one copy to 210
Mr. Reynolds
one copy to
Mr. Rall 1-7-38
DATE JAN 7 1938

TO Secretary Morgenthau
FROM Mr. Oliphant

Foley advises me that the most feasible method of financing Mr. Rall's cooperative housing plan - one which would not require his cooperative to furnish equity either by way of cash or land and which could be put in operation without legislation - would be loans to the cooperative by the Farm Security Administration (formerly Resettlement Administration). This Administration still has about \$14,000,000 and is now authorized to make loans to cooperatives for projects which in the determination of the Administrator involve rural rehabilitation. The difficulty is what constitutes rural rehabilitation. The close relationship between the project and rural rehabilitation would have to be shown in each case. A practical solution would be for the Farm Security Administration to submit a typical project to the Comptroller General as a test case.

If, on the other hand, the cooperative could put up some money or land, it could borrow the remaining funds from the RFC Mortgage Company, which has power to lend money secured by a first mortgage to almost any type of borrower, including individuals and cooperative associations. Such mortgages accepted by the Company would be insurable by the Federal Housing Administration.

Samuel Oliphant

GROUP MEETING

January 7, 1938
9:15 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Lochhead
Mr. Bell
Mr. Upham
Mr. Gibbons
Mr. McReynolds

H.M.Jr: Good morning, gentlemen.

Ros?

Magill: I think nothing particular. I would like, at your -
I understand I'll see you at 2:30.

H.M.Jr: Yes.

Magill: That's on this tax bill. I think it would be well
if you do have some time for Graves and Mac and
myself. Either take it out of that hour

H.M.Jr: I put you down for an hour.

Magill: Well, that wasn't Mac and Graves.

H.M.Jr: Can't you do it in that time?

Magill: I think you probably could. I don't want them taking
up all the hour.

H.M.Jr: Well, tell them three o'clock. Let them be in Mac's
office from three o'clock on.

Magill: That would be all right.

H.M.Jr: How's that?

Magill: That'll be all right.

McR: I'll have Graves in my office.

H.M.Jr: Do a hell of a lot of talking in an hour.

Magill: I should think so.

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H.M.Jr: I should think so. And if you don't get through, do it some time Saturday and Sunday.

Magill: I think an hour will do if you put it that way; they have to come in second, so they can't fudge on the first half of the hour.

H.M.Jr: All right. Then you wait until 2:30.

McR: I think we can get through our conversation with the boss in ten, fifteen minutes at the outside.

Magill: Good. 3:15.

McR: All I want is the approval, and I think the boss will give it.

H.M.Jr: What a man! All right. Anyway, Graves will be in there chinning with Mac at three o'clock.

Magill: Got Russell coming up this morning on this Dwight compromise. I think we can get through without disturbing anybody in terms of our previous discussion.

Oliphant: When's that?

Magill: Ten o'clock. You've been advised. You may not know it.

H.M.Jr: What else?

Oliphant: Nothing right at the moment.

H.M.Jr: All right. If there is anything, let me know.

Oliphant: About noon I may give you a ring.

H.M.Jr: All right.

Taylor: Commodity Credit and R.F.C. while you're away?

H.M.Jr: Not a thing, other than what was in the President's budget message. He specifically laid it down, didn't he?

Bell: For Commodity Credit.

H.M.Jr: But R.F.C.?

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- Bell: Well, that's one thing I want to discuss at this 9:45 meeting - is the Jesse Jones letter. I don't know whether that's what you have in mind.
- Taylor: No, I don't. He just called me up last night. Said he was going away, be back on the 10th or 11th, and that's just before you go.
- H.M.Jr: Well, let's take it - Dan's got a lapful. I don't know what it all is.
- Bell: Most of it is Commodity Credit - or R.F.C.
- H.M.Jr: We're going to do it right after this meeting. Anything else?
- Taylor: (Nods no)
- H.M.Jr: Herbert?
- Gaston: Did you see that letter from Bob Allen?
- H.M.Jr: I personally sent it to you.
- Gaston: Yes. I tried to get Bob yesterday.
- H.M.Jr: I thought you'd enjoy it.
- Gaston: Yes, it's very enjoyable. Very characteristic. I tried to find out something from the Bureau of Internal Revenue. It's something that came out from Baltimore. Don't know just what it is. In the meantime, I'm trying to get hold of Bob. Left word for him to call me, but he didn't.
- H.M.Jr: I don't think it will get out, but in case it does we have loaned 22 men in the 22 states that have unemployment insurance to Mr. Altmeyer.
- Gaston: Uh-huh.
- H.M.Jr: As trouble-shooters. Now, the thought was that they should be there in case there is trouble; but technically, we've loaned them to them. I don't want any publicity, but if anybody does ask you any questions, better talk to Eddie Bartelt about it, because he's

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handling it for me.

Gaston: Yes, yes.

H.M.Jr: I mean I don't want any publicity, but if somebody should raise the question - "What's the Treasury doing there?" - Eddie Bartelt has got the story, see?

Gaston: Yes. Well, it wouldn't do any harm if it should come out.

H.M.Jr: I don't care. I'd rather not.

McR: The Treasury ~~doesn't want~~ to give the impression that it's taking over Social Security. Lowers their prestige.

Gaston: Well

Bell: Or that they are in the hole.

McR: Or that they are in the hole, yes. We're just trying to keep them from getting

H.M.Jr: I'd rather it didn't.

Gaston: Well, I better talk to somebody about it and find out just what it is in advance.

H.M.Jr: The chances are it won't come out, because Social Security takes darn good care; but some state might get a little bit I just want to let - we really don't want any publicity.

Gaston: Yes, I understand.

McR: When this thing came up, I intended to talk to Herbert about it, let him know, but he was not feeling well.

H.M.Jr: Evidently Mac

Gaston: I can always tell the right kind of a story a little better when something comes up, if I know about it.

McR: You weren't here when it happened.

H.M.Jr: ... is apologizing, so I imagine he slipped.

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Gaston: Oh no, we're taking ample precautions right now. You told me.

McR: I'll tell Herbert about it.

H.M.Jr: I mean that's the only thing I've been doing, and I've got to confess about it.

Gaston: Well, you're the best confessor here.

H.M.Jr: Thank you.

Now, has Mac had a chance to tell you (Gibbons) - talk to you about these different ports?

McR: No, I haven't.

H.M.Jr: Well, you will.

McR: When I get a chance.

Gibbons: Probably tomorrow.

McR: Had a line in front of my door yesterday.

H.M.Jr: All right.

Lochhead: (Nods nothing)

H.M.Jr: Where did you say you got that pain in the neck?

Lochhead: No, I got a pain in the neck, but I don't know just what particular thing gave it to me.

Upham: Did you see this paragraph in this New York State banking report?

H.M.Jr: I think - well ...

Upham: A paragraph.

H.M.Jr: Well, are we in too?

Upham: Well, they aren't doing anything about disestablishing existing institutions. They're just preventing any further expansion in that direction than is permitted by branch banking. That's the recommendation. They

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don't go quite as far as I understand we propose to go.

H.M.Jr: Give that to - oh, you (Oliphant) have one. Wonderful! Wosh, you're all good today.

Can?

Bell: There is a scheme on foot, being worked up by outside lawyers and some people in the State Department, to liquidate all the functions under the Settlement of the War Claims Act, and try to do it without any legislation, which means a very complicated affair. I'd like to find out a little more about it, and then I'd like to work with one of Mr. Oliphant's men

Oliphant: Oppen.

Bell: ... so as to be ahead of the game when the time comes, because the time for filing applications on the Settlement of the War Claims Act expires on March 10. I don't want them to throw that in our lap on March 1 and not know anything about it, and I am pretty certain that it's coming. I understand the German Government has agreed to it. It's just a question

Oliphant: I'll speak to Oppen and tell him.

H.M.Jr: Yes, but Taylor is our contact with the State Department. What do you know about it, anything?

Taylor: Nothing.

H.M.Jr: Is it a State Department matter?

Bell: It is partly a State Department matter and partly a Treasury. The Treasury handles all the money. The application - you see, it's in the State Department only by reason of the fact that the Mixed Claims Commission is located over there.

H.M.Jr: Do you (Taylor) want to find out who's handling it over at the State Department?

Taylor: Probably Livesey, isn't it?

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Bell: No, I don't think so. It hasn't reached that stage. More in Hackworth's. Martin is head of the Mixed Claims Commission; that is, he's the counsel.

H.M.Jr: Well, supposing you find out, Wayne.

Taylor: All right.

H.M.Jr: What else?

Bell: That's all I have.

H.M.Jr: Is that all?

Bell: (Nods yes)

H.M.Jr: You're coming in at 11:30.

Bell: Yes, sir.

H.M.Jr: And you're (Oliphant) coming in with Flint (Garrison) at 11. And ...

McR: 11.

H.M.Jr: And Udo (Rall).

McR: Udo.

H.M.Jr: Mac?

McR: Did anybody tell you yesterday that they got Schwartz?

H.M.Jr: Did anybody else tell me?

McR: Yes.

H.M.Jr: No.

McR: Almer came in the first thing yesterday morning. I had a call in for him; I was going to talk to him about how we'd get him. He came busting in the first thing, said, "You know, we got Schwartz." Boy over in Paris got him.

H.M.Jr: Did he? Who?

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- McR: What's-his-name - Wait.
- H.M.Jr: I'd like a little report today on that.
- McR: Well, Elmer's getting up a report. He said he wasn't at all proud of the way Wait had handled it, but he did get him finally.
- H.M.Jr: Well, I'd like to have the facts on it.
- McR: He's preparing a report. He hasn't adequate facts. He said he's asked Wait for a report, which he hasn't got.
- H.M.Jr: Well, let's wait until - I'm not trying to pun here - when you have the whole business, whole thing tied up in a nice bouquet.
- McR: It's being worked on.
- H.M.Jr: Are they going to bring the fellow home?
- McR: Yes indeed. He's in hand now. The thing will be taken care of.
- H.M.Jr: That was quick action, wasn't it?
- McR: That's another case where I did something very quickly because I didn't know anything about it.
- Gibbons: What kind of a case is it?
- H.M.Jr: This is the fellow Schwartz, who is a missing link in this world narcotic ring.
- Gibbons: Oh.
- H.M.Jr: And he's an informer.
- McR: Informer they couldn't find when they had him indicted.
- H.M.Jr: They couldn't find him. I told Mac I was getting sick and tired of it. Told him at the house six o'clock in the evening. Next morning, produces him. I mean that's the kind
- Magill: Mac probably had him all the time, waiting for you.

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- H.M.Jr: Going to get him back to the United States?
- McR: Oh yes. Elmer told me he was on the way.
- H.M.Jr: What about the other Schwartz, in New York, mixed up in this passport business? Just suspended him. Like to get that boy. Better make a note about him. He works as a - what do you call him, Deputy something in Internal Revenue?
- Gaston: Joe Higgins's office.
- H.M.Jr: Joe Higgins's office, yes. What they going to do with that boy? Doesn't do any harm every once in a while to check up on these fellows, and I'd like to know. Looks something funny on that other Schwartz. And you're going to read that particular correspondence for me.
- McR: Yes, I've got it on my desk.
- H.M.Jr: Take it home or something. Let me know Monday about it.
- McR: I've got it on my desk.
- There's a thing I haven't told you anything about yet. Interesting thing. This old ...
- H.M.Jr: This isn't something that you failed to deliver on?
- McR: No. The old Tugwell organization over there in Procurement have a couple of furniture men in charge of their furniture section. Designed a lot of special furniture for their projects. It turned out that both of those fellows, two main men in the place, are independently in the furniture business - in the furniture selling business, and advertising themselves in the New York directory and Washington directory, both. The one designing the furniture is the head of the outfit over there at Farm Security, and then, representing dealers and
- H.M.Jr: Representing who?
- McR: Representing furniture dealers all over the country - or furniture manufacturers all over the country, he has a sales agency. Well, it didn't get any place. We've

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got a big submission of specifications for a hundred thousand dollars worth of the stuff to be bought. But, of course, our boys haven't - they haven't issued any of these. We're going to have - the specifications are very poorly drawn in the first place. They just didn't get any place at all. But if it had been in their hands and they had been allowed to do it, why, you'd have found them... That's a letter to Wallace merely telling him that he's got that kind of guys on his roll. When it first came up, my inclination was that we'd issue the specifications, let him go ahead and bid, so we could put them in jail. But I think

H.M.Jr: Who brought it to our attention?

McR: Senator Minton, on the basis of one of his constituents being a furniture man.

H.M.Jr: What else?

McR: That's all.

H.M.Jr: All right.

Well then, Taylor, Bell and I can go to work.

Conference at Secretary's home, January 8, 1938, at 6 p.m.

Present: Secretary Morgenthau, Assistant Secretary Taylor, Messrs. Feis, Livesey, and White.

The Secretary indicated that Secretary Hull had telephoned him that afternoon urging him to take up the matter pending with Hungary. The Secretary asked Livesey to outline the situation. Livesey stated that the Hungarian Minister was eager to complete an arrangement for resuming payment on the Hungarian Government's debt of \$1.9 million to the United States Government as he had to leave for a visit to Cuba and possibly to Mexico. Livesey stated that an offer was made of an annual payment of \$40 thousand. This sum was to be applied to the principal of the debt and no payments of interest were to be made. All payments that had been made in the past, whether of interest or on account of principal, were to be treated as payment on the principal.

The Secretary expressed some surprise at the apparent excitement — that is, for Secretary Hull — in Secretary Hull's telephone conversation. The Secretary stated that he couldn't understand the need for urgency in the matter and asked Feis if he could explain it. Feis stated that Secretary Hull was doubtless reflecting his (Feis') discussion with Secretary Hull. He (Feis) in turn had been urgent in his conversation with Secretary Hull because of Taylor's eagerness to have the matter settled before the Secretary left for the South.

The Secretary asked if there was any reason why Mr. Pelenyi couldn't wait a month before making the arrangements as he (the Secretary) didn't wish to undertake the settlement of the case without adequate preparation and examination of the pertinent material. Feis agreed that he did not see any reason why that would not be possible.

Livesey stated that a Mr. Habas was in close communication with the Hungarian Government and was apparently their financial adviser here on matters of foreign loans. Mr. Habas has no diplomatic standing nor is he an official of the Hungarian Government, but he was active in the conferences with the State Department on the Hungarian loan.

The Secretary stated that Riefler had just returned from Europe and had been spending the week discussing, among other things, the Hungarian situation and asked Feis whether Riefler's views would not be helpful on the problem. Feis responded that Livesey had been

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with the problem ten years and probably knew more about the inter-governmental debt situation than any man in the Government.

The Secretary stated that there was a more important issue at stake than the small amount involved in the Hungarian settlement. He stated that the President had very definite views with respect to tackling the inter-governmental debt problem and that he, the Secretary, would not take any steps whatsoever to handle the inter-governmental debt settlements until and unless the President had indicated to him definitely: (1) whether any negotiations toward debt settlements were to be undertaken; (2) if so, who was to undertake them; and (3) what guiding principle or rule of thumb was to be applied in the handling of those debts.

The Secretary went on to say that if Secretary Hull wished to make an appointment with the President on the matter he (Secretary M.) would be glad to join him in the presentation of these questions. Feis said he would communicate that to Secretary Hull.

Livesey then took up some of the details of the proposed offer by Hungary, but the Secretary stated that he did not wish to consider any of the details until he heard from the President on the above three points. In any case, he said he would not wish to decide on the problem without adequate preparation and study inasmuch as whatever was done in the case of Hungary would doubtless have a bearing on our inter-governmental debt situation with other countries.

The Secretary asked Livesey for a report on the status of the Hungarian debt to the United States Government and computations as to how much the same settlement would yield if applied to each of the other foreign government loans due the United States Government. Livesey said he would send the report to the Secretary on the next day as they had the material all ready.

RE FINANCING FOR STRAUS

January 10, 1938.
10:15 A. M.

Present: Mr. Bell
Mr. Taylor

Bell: I don't question whether they would use twenty-five million dollars in the calendar year. I talked to Keyserling a month ago on D. C. housing. He told me he did not think they would need any funds before March. I think it would be so small you probably would not want them to go out on the market.

Taylor: When you have a twenty-five million maximum I don't think they ought to go into the market.

H.M.Jr: My own thought was to write him a letter and say, we notice that for six months he may want twenty-five million dollars. All right, if he does, the Treasury will buy them, up to twenty-five millions.

Bell: On such terms and conditions as seem justified at that time.

H.M.Jr: That's right.

Taylor: The other question was about the fiscal agency.

Bell: That's right simple. As long as you buy you are the fiscal agency.

Taylor: Do we want to use Smith as a fiscal agent? Personally I would prefer to do it on that basis, to have them use one of those people and build that thing up.

H.M.Jr: I think it's too early. If they are only going to have twenty-five millions I think it's too early. Tell this fellow, so he won't worry, that we're ready, in the next six months, to buy twenty-five millions. Do you suppose you could have a letter prepared?

Bell: You mean you will purchase from time to time until you reach an aggregate of twenty-five million?

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H.M.Jr:

That's right.

Bell:

As a matter of fact, payment on these bonds is going to come out of appropriations made by Congress.

H.M.Jr:

I would say, do what we said, and have a letter for me this afternoon. Drop back at three-thirty.

January 8, 1938.
11:50 a.m.

H.M.Jr: Hello, Mr. Alexander.

Will W.
Alexander: Yes, Mr. Secretary.

H.M.Jr: Good evening. How do you do?

A: Fine, thank you, sir.

H.M.Jr: Mr. Alexander, I've got very much interested in these houses which were built by some cooperatives in Idaho.

A: In Idaho?

H.M.Jr: Yes.

A: Yes.

H.M.Jr: And Mr. Udo Rall, who was in charge of that self-help cooperative work up to the first of July with Hopkins - I've had him sort of helping here temporarily.

A: Yes.

H.M.Jr: Now, I wonder if Monday you could see Mr. Rall and Mr. Foley

A: Yes, sir.

H.M.Jr: .. the attorney ...

A: Yes.

H.M.Jr: ... and listen to them and then see whether the possibility - if we couldn't get a little money to complete the thing in Idaho and maybe start one more.

A: All right, sir.

H.M.Jr: It's a matter of - oh, between ten and twenty-five thousand dollars.

A: Yes, sir.

H.M.Jr: I mean it isn't a matter of great money, but I just ...

A:; Yes, sir.

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H.M.Jr: - with a very little money, three or four hundred dollars, they've been able to get these people started out there to build their own homes.

A: Is that rural stuff, or suburban, or what?

H.M.Jr: Suburban.

A: Yes. Could they come to see me at eleven Monday?

H.M.Jr: They'll be there.

A: At eleven Monday.

H.M.Jr: At eleven Monday.

A: Yes. And I'll have my people that are ...

H.M.Jr: It looks as though it had - I mean I'd like to see one more started, and as I say, I'm talking in terms of some ten to twenty-five thousand dollars.

A: Yes.

H.M.Jr: And - which - well, around Washington is not much money?

A: (Laughs) Fortunately, I guess.

H.M.Jr: No, but they really are - if you're not familiar with, I think you'll be impressed. I'm tremendously impressed.

A: All right, sir, I'll be delighted to see them at eleven on Monday.

H.M.Jr: Righto.

A: Thank you. Good luck.

January 8, 1938.
12:00 noon

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

L. W. Knoke: Hello.

H.M.Jr: Hello, Knoke.

K: Good morning, Mr. Secretary.

H.M.Jr: Governor Harrison is sitting here at my desk. I wanted to ask you about Brazil.

K: Yes.

H.M.Jr: What do you know?

K: Well, I - I called up Mr. Taylor this morning; I didn't know you were in.

H.M.Jr: He told me about it.

K: Yes.

H.M.Jr: I wanted ...

K: That the information - there is nothing new available in the market today.

H.M.Jr: Yes.

K: Nothing new in addition to what we had last night, and that is what I told Mr. Taylor shortly this morning. I think generally speaking it's correct to say that all the indications are the situation is altogether unsatisfactory.

H.M.Jr: Yes.

K: Ah - they are - we are getting a confirmation of the report now that balances belonging to foreigners

H.M.Jr: Yes.

K: ... seem to have been frozen. They called - they say they have blocked all balances belonging to foreigners,

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and the Guaranty told me they had cabled to Rio last night to get a confirmation, but Rio hasn't answered yet.

H.M.Jr: Uh-huh.

Knoke: Ah - their demand - their need for foreign exchange, I dare say, is extreme. The latest regulations seem to indicate that, the regulations calling upon all people who have overdrawn their milreis account to state the amount to which they have overdrawn

H.M.Jr: Yes.

K: ...within 48 hours, and to provide cover within 30 days.

H.M.Jr: Oh.

K: I dare say it's a correct assumption that the Brazilians are very short of foreign exchange.

H.M.Jr: Well, Knoke, what I wanted to get from you - have you any idea what's brought this about? I mean looking at it not from the hour-to-hour, but looking back over the twelve months, what's happened down there?

K: Well, what happened, of course, was that they got hit very badly by the drop in coffee prices.

H.M.Jr: I see.

K: I think that is the fundamental weakness of their economic system.

H.M.Jr: I see.

K: They tried to - they tried hard over a number of months and years to get - arrive at an understanding with other coffee-producing countries, particularly Guatemala and Colombia

H.M.Jr: Yes.

K: ... supporting the price of coffee abroad and regulating the exports of coffee.

H.M.Jr: I see.

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- K: That fell through also late in the summer, early in the fall of this year.
- H.M.Jr: Yes.
- K: But I think, in a nutshell, it is the extraordinary drop in the coffee price which spelled final ruin.
- H.M.Jr: Well, it's - it's not very cheerful, is it?
- K: No, it is not. Anything but cheerful. They tried to bluff over it at the time they gave up the official rate about two months ago, and assured everybody that no - no further consequences
- H.M.Jr: Well, there's nothing we can do here now - I mean unless the Government of Brazil comes forward and asks for help, is there?
- K: Positively not, no.
- H.M.Jr: That's what I think.
- K: No.
- H.M.Jr: And then this last suggestion that we let them borrow against gold in a storage warehouse down in Brazil is the bunk, isn't it?
- K: Well, I -- ...
- H.M.Jr: Did you hear about that?
- K: Well, I didn't hear it as concisely as that, but I took it from what Mr. Taylor told me that that's what they were driving at. That's what Pierson is working on.
- H.M.Jr: Yes.
- K: Yes.
- H.M.Jr: Well ...
- K: Well, I don't see how anybody could encourage that kind of business.

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H.M.Jr: No, no.

K: I just looked over the agreement you made with Costa - Souza Costa in July and August.

H.M.Jr: Yes.

K: That seems to me to provide all the machinery necessary ,...

H.M.Jr: That's right.

K: ... if they want to send gold.

H.M.Jr: That's right. Well, all right.

K: But it's not an encouraging picture by any means.

H.M.Jr: All right. Cheero.

K: All right, sir.

H.M.Jr: The U.S.A. is still a good place to live in.

K: Well, it seems to be, yes - very definitely so.

H.M.Jr: All right.

K: Right, sir.

H.M.Jr: Good-bye.

January 10, 1938.
9:55 a.m.

H.M.Jr: Hello.

Operator: Mr. Straus.

H.M.Jr: Hello.

Nathan
Straus: Good morning, Henry.

H.M.Jr: Good morning, Nathan. Nathan, be prepared for what I hope is a pleasant shock.

S: Yes.

H.M.Jr: We here in the Treasury would like to have put into this housing bill on the Hill two amendments.

S: Yes.

H.M.Jr: One which would permit the Government to loan to limited dividend corporations.

S: Yes.

H.M.Jr: And the other one permit them to lend to cooperative groups that want to build houses.

S: Well, I'm with you exactly one hundred percent.

H.M.Jr: Swell.

S: I fought for that just as hard as I knew how all last summer, and I fought and got licked.

H.M.Jr: Well now, then you have no objection to the Treasury putting its shoulder to that - those two particular amendments.

S: No, it would make the biggest difference, if that could be put over. Not in the course of a month or two, but in the course of a year, it would make more difference in actual building than everything that Mr. FHA is doing put together.

H.M.Jr: Well, we had a hunch down here that that was so, and that's why I'm interested.

S: The biggest part of the English program was not the Government-subsidized housing.

H.M.Jr: Yes.

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- S: It was the money that went into limited-dividend and cooperatives through their - what corresponds roughly to our building and loan associations, and from Government sources. It could be rented at full economic rentals, of course.
- H.M.Jr: Yes. Well, I suppose that that would follow.
- S: Henry, could I talk to you a minute about it?
- H.M.Jr: Sure.
- S: There is a certain hostility in certain quarters because friends of ours in high places lost money on Radburn.
- H.M.Jr: Where is Radburn?
- S: Radburn was an alleged - ill-conceived limited-dividend affair in New Jersey which was a purely experimental project by Clarence Stein and the Bings; and certain friends in high places lost a little money in that and therefore the word "limited-dividend" has a particularly ominous connotation. Now, it's just as reasonable to damn the whole limited-dividend movement because somebody lost money in that as to say it of the guys that experimented a long time with flying machines before a fellow called Orville Wright came along and perfected them.
- H.M.Jr: Yes. Who - who's the high place?
- S: Mrs. Roosevelt.
- H.M.Jr: Did she?
- S: Yes.
- H.M.Jr: She had money in it?
- S: She had a few thousand dollars in Radburn and lost it, and the moment I talked to her last summer - every time I'd say limited-dividends she'd explain me how they didn't work.
- H.M.Jr: Well! Ah - ...

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- S: You are on the right track one hundred percent and you'll have every houser in the country with you.
- H.M.Jr: I'm sure it would be easy enough to explain it to her, because, frankly, I've never known her to be influenced by her own pocketbook before.
- S: I don't think she's influenced by her own pocketbook, but I think her judgment is clouded by an unfortunate personal experience.
- H.M.Jr: Oh, well, that may be possible.
- S: ~~That's~~ That's all that I mean.
- H.M.Jr: Yes.
- S: Because it couldn't affect her own pocketbook ...
- H.M.Jr: No.
- S: ... even remotely.
- H.M.Jr: No. Well ...
- S: That was long, long ago. But - just the way my own wife says. But I think the men- - the word has an unpleasant connotation; that's all I mean.
- H.M.Jr: Well, I think - wasn't Clarence ^Opper in on that too? I mean wasn't he counsel for Bings?
- S: I didn't know that. I knew that Clarence Stein, who was the architect at Hillside, was the architect.
- H.M.Jr: Oh.
- S: And the thing was nobly conceived. As I tell you, Helen put quite a little money into it.
- H.M.Jr: Yes.
- S: But it was just bad judgment.
- H.M.Jr: Yes.

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- S: Now, they did an important experimental, pioneering work. I don't know how else it could have been done. And I think whatever money was lost in it was well lost.
- H.M.Jr: All right. Well, now, Nathan, I'm going to put it in the hands of Ed Foley.
- S: Yes.
- H.M.Jr: And he'll show you the amendments as they're drawn and let you people look over them.
- S: Right.
- H.M.Jr: And then I'm going to ask him to work with you, and I don't think - I'm not going to call up anybody else.
- S: Well now, there I must ask your judgment. You know, I act entirely through Wagner.
- H.M.Jr: Yes.
- S: And it would depend entirely on Wagner's wishes as to whether he wants to put these things in, and so forth. But if he would, it would help us perfectly enormously.
- H.M.Jr: I'll call him up myself.
- S: Oh well, of course, if you would handle, it'd be swell.
- H.M.Jr: Well, I'll call him up and tell him I'm interested and that we're - that if he has no objections, that we'd like to work with him and with you on it.
- S: And would you emphasize very strongly when you do that that it was in the original bill, because he might not recall that, you know.
- H.M.Jr: Yes.
- S: Gosh.
- H.M.Jr: Sure. Sure. I'll do that. And then, I'm leaving town at noon tomorrow and from this point on Foley will carry the ball.

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S: I'm not to do anything until I hear from Foley.

H.M.Jr: Right.

S: Fine.

H.M.Jr: Thank you, Nathan.

S: Good luck, Henry.

H.M.Jr: Good-bye.

January 10, 1938.
10:03 a.m.

H.M.Jr: Hello.

Operator: Senator Wagner.

H.M.Jr: Hello.

Robert F. Wagner: Yes.

H.M.Jr: Hello, Bob?

W: Hello, Henry.

H.M.Jr: How are you?

W: Oh, got a cold. Otherwise, all right.

H.M.Jr: Well, that's too bad. You ...

W: Well, we always - we've always got something, haven't we?

H.M.Jr: That's right.

W: (Laughs)

H.M.Jr: Bob, what I'm calling

W: Except you. You're always in perfect shape.

H.M.Jr: Oh, go on now. Listen, when did you take the blarney stuff?

W: Yes.

H.M.Jr: What I'm calling up about is this. I just got through talking to Nathan Straus.

W: Yes.

H.M.Jr: And in your original bill it was possible for the Government to loan to limited-dividend corporations, and also to cooperatives.

W: Yes.

H.M.Jr: And we here in the Treasury think that it would be very useful if that could be put back in again. And Nathan says that he doesn't know anything which would

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be more helpful over a period of a year from now, than that.

W: Yes.

H.M.Jr: And he said that certain groups had it knocked out. And I think if that's put back in, there are people who will make use of that - those funds. And I'd like if I could, if it's agreeable to you - you know, Foley is with us now, you know - Ed Foley.

W: Yes.

H.M.Jr: And I'd like to have him either to call on you maybe with Nathan Straus and go over it

W: Yes.

H.M.Jr: Would that be

W: Henry, here's one of the difficulties. You see, one of the reasons - it was stricken out because they said this ought to be purely a slum clearance proposition and nothing else

H.M.Jr: Yes.

W: ... and the money ought not to be diverted to these purely private enterprises.

H.M.Jr: Yes.

W: You see? Although in this housing bill that's now in conference

H.M.Jr: Yes.

W: ... we've got - you know, this mortgage association may make loans to the limited-dividend corporations; and besides, their loan may be insured by the Government.

H.M.Jr: I know.

W: But of course that's a little different again. But there was quite a lot of sentiment; that's the reason I struck it right out. I saw that it would endanger

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the bill.

H.M.Jr: Well, Bob, I'm - I always talk frankly to you.

W: Yes.

H.M.Jr: I'm terribly worried that if you're going to wait for these cities to cooperate, we're not going to get anything.

W: Yes, I'm afraid so.

H.M.Jr: And you take an outfit like that Garment Workers up in the Bronx.

W: Yes.

H.M.Jr: Well now, those sort of people could be helped.

W: Yes.

H.M.Jr: And I understand that some of them are ready to go.

W: Yes.

H.M.Jr: See?

W: Of course, there wouldn't be any slum clearance in it, would there? That's the difficulty. And ...

H.M.Jr: It's - it's low cost housing.

W: Yes, I know.

H.M.Jr: And - and - ah - limit the amount that could be used for this purpose.

W: Yes. I think you'll have real difficulty with it, but I'm willing to undertake it. Will you get the President to support it?

H.M.Jr: I'll speak to him at lunch.

W: Yes, talk to him at lunch.

H.M.Jr: I'll talk to him at lunch, and I'll tell him that - that we here think it would build low-cost houses; it

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would just give another - two more strings to the bowl.

W: Yes.

H.M.Jr: And I think we've got everything to gain and nothing to lose. And if he thinks well I'll ask him to either call you or write you a little note.

W: Yes. Or - that would be - authorize me to quote him, don't you know.

H.M.Jr: All right.

W: Something of ~~that~~ kind, see?

H.M.Jr: I'll take it up with him at lunch, and if you don't hear from him, then you know I was unsuccessful.

W: All right.

H.M.Jr: How's that?

W: All right, Henry.

H.M.Jr: Thank you.

W: Thank you.

January 10, 1938

My dear Mr. Aldrich:

Reference is made to your letter of August 11, 1937, raising certain points in connection with the application of the sinking fund created by the Victory Liberty Loan Act, as amended, and requesting such comments as I might consider appropriate to make upon the authoritative attitude of the Secretary of the Treasury towards the requirements and purposes of the Act. I am sorry that your letter has not been answered sooner but the pressure of public business would not permit me to give it my personal attention until this time.

I appreciate your interest in this matter and have carefully noted the reasons advanced in support of your views. It seems to me that your inquiry is twofold. First, does the law lay a duty on the Secretary of the Treasury to exhaust the sinking fund each year in retiring bonds and notes? And second, assuming that it does not, but that the Secretary of the Treasury would be at liberty under the law so to expend the sinking fund, what reasons of policy underlie the Department's present practice?

As indicated in your letter, the principal provisions relating to the sinking fund are contained in the so-called Victory Liberty Loan Act, as amended (U.S.C. title 31, section 767), the pertinent provisions of which are as follows:

"There is created in the Treasury a cumulative sinking fund for the retirement of bonds and notes issued under * * * various Liberty Bond Acts and the Victory Liberty Loan Act, and outstanding on July 1, 1920, and of bonds and notes thereafter issued, under any of such Acts. The sinking fund and all additions thereto are hereby appropriated for the payment of such bonds and notes at maturity, or for the redemption or purchase thereof before maturity by the Secretary of the Treasury at such prices and upon such terms and conditions as he shall prescribe, and shall be available until all such bonds and notes are retired. * * *. For each fiscal year, until all such bonds and notes are retired there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, for the purposes of such sinking fund, an amount equal to the sum of (1) $2\frac{1}{2}$ per centum of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1, 1920, and (2) the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed, or paid out of the sinking fund during such year or in previous years."

Section 6 of the Victory Liberty Loan act, which originally created the sinking fund, specifically repealed certain sections of the Revised Statutes - to wit: Sections 3688, 3694, 3695, 3696, and part of Section 3689. An examination of Section 3694 reveals that it provided for a special fund (in the nature of a sinking fund) to be used for the retirement of the public debt. It was couched in terms which clearly imposed a duty upon the Secretary of the Treasury to use the sinking fund for the retirement of 1 per centum of the public debt each fiscal year. The pertinent part of Section 3694 is as follows:

"The coin paid for duties on imported goods shall be set apart as a special fund, and shall be applied as follows:

"First. To the payment in coin of the interest on the bonds and notes of the United States.

"Second. To the purchases or payment of one per centum of the entire debt of the United States, to be made within each fiscal year, which is to be set apart as a sinking fund, * * *"

The repeal of that section and the substitution of the instant sinking fund provision, which is not couched in any language imposing a duty to use the fund at any particular time indicates clearly that it was the intention of Congress to eliminate any such duty.

Further evidence of the absence of a mandate in the Act to expend the sinking fund each year is to be found in the difference between the language providing for the appropriation into the sinking fund and that making an appropriation covering expenditure out of the fund so created for the retirement of the public debt. In the terms of the Act: "For each fiscal year * * * there is hereby appropriated * * * for the purpose of such sinking fund, an amount equal to * * *." (Underscoring supplied) The appropriation of the fund so created is couched in the following language: "The sinking fund and all additions thereto are hereby appropriated for the payment of such bonds and notes at maturity, or for the redemption or purchase thereof before maturity * * *."

In the absence of a specific direction in this provision that the appropriation for each fiscal year must be expended during that year, the Act is to be so interpreted that the intent of Congress is carried out and unreasonable conclusions are avoided. The intent of Congress, expressed in identical language in the House and Senate reports on the bill, was as follows: "This section (section 6) repeals the old sinking fund provisions * * and creates a 2-1/2 per cent cumulative sinking fund calculated to retire the whole war debt in 25 years." (Underscoring supplied) Senate Report No. 786, 65th Congress, 3d Session, p. 6; H.R. Report No. 1131, 65th Congress, 3d Session, p. 6. Bearing in mind that the purpose of the sinking fund provision of

the Act was to retire debt, it would seem that the Act is not a mandate to the Secretary of the Treasury to use the fund each year to the extent it is available in retiring bonds and notes. As is generally recognized and is admitted in your letter, the payment of matured obligations out of the sinking fund does not retire debt in deficit years since new obligations must be sold in order to obtain the money to retire the matured obligations either through the sinking fund or the general fund of the Treasury.

Had it been the purpose of the Congress to impose a duty to exhaust the sinking fund each year, it would have been simple for the statutes thus to provide in so many words. But it does not do so. Indeed, it does not include the usual and familiar provision under which expenditures contemplated to be allocated in yearly periods are ordinarily authorized. The committees of the Congress dealing with the subject of the sinking fund were entirely familiar with annual operating appropriations which are used for the various departments. Such appropriations, if not obligated during the fiscal year for which they are made available, lapse at the end of that year and can not be obligated thereafter. Had the Congress intended to indicate a policy that the sinking fund be exhausted each year, the usual provision just described might readily have been inserted. The absence of the express imposition of a duty and of the usual provision indicating a policy of yearly allocation, and the presence of the provision that the amount of the sinking fund should be available until the bonds and notes are retired, warrant only one inference--namely, a legislative purpose to leave the timing of the expenditure of the sinking fund to the sound discretion of the Department in the light of circumstances as they might arise. The reports of the Secretary of the Treasury to Congress have expressly indicated that part of the sinking fund has not been expended in the fiscal years 1934, 1935 and 1936. Congress has not questioned such handling of the sinking fund.

You suggest that existing legislation vests a legal right in the holders of Government obligations that the sinking fund shall be used to maintain the market price of such obligations. There are many reasons indicating that such was not the intention of Congress. I mention only one: Under the express terms of the sinking fund provision the entire sinking fund could be used for the payment of maturing obligations. I am unable to see how in deficit years the market price of Government obligations would in any way be adversely affected by maturing obligations being paid out of the general fund of the Treasury or refunded into other Government obligations instead of being paid out of the sinking fund.

Accordingly, it is the view of this Department that under the law discretionary authority is vested in the Secretary of the Treasury to expend or not to expend the sinking fund appropriations in any one year.

In connection with your inquiry as to the reasons of policy underlying the Department's present practice with respect to the sinking fund, I desire to make the following comments:

- 4 -

I am quite certain that you and I would agree that the purpose of the sinking fund is to reduce the public debt and not to adjust outstanding public debt obligations as between holders. I believe that the existing Treasury policy aims to permit the full amount of the sinking fund to be applied eventually to the actual reduction of the public debt, whereas the suggested alternative of using the entire sinking fund each year when there is a deficit would have no beneficial results to the holders of matured obligations.

I do not believe that the accumulation of a credit in the sinking fund during deficit years to be applied in years when revenues of the Government exceed expenditures will result in an abandonment of the sinking fund. From the point of view of holders of matured obligations it would appear to make no difference whether upon maturity they are paid from the sinking fund or from other moneys available for the retirement of the public debt at maturity.

As you know, the Treasury Department through its Daily Statement, the Public Debt Statement and in other ways makes available to the public full information concerning the receipts and expenditures of the Government. Accordingly, I am unable to understand how it may be justly charged that the failure to expend the entire sinking fund in any one year obscures the true budgetary and fiscal situation or distorts the true position of the financial operations of the Government for that year in comparison with other years when the entire sinking fund has been expended.

I trust that the foregoing gives you the information which you desire and will be of assistance to you in connection with your consideration of this problem.

Very truly yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Winthrop W. Aldrich,
Chairman, Board of Directors,
The Chase National Bank,
New York, New York.

EB:lll

Typed 9/27/37

OFFICE OF
THE SECRETARY OF THE TREASURY

244

R & S

January 10, 1938

Ribbon copies of attached memo were
mailed to the following today:

(Letters of transmittal dated 1/10/38)
(signed by the Secretary)

The President

Secretary of State

Secretary of War - ATTENTION:

COL STRONG (G-2)

TREASURY DEPARTMENT

245

INTER OFFICE COMMUNICATION

DATE January 8, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China
(Preliminary data)

United States trade with Japan during the first four weeks of December 1937.

(1) United States exports to Japan during the first four weeks of December were considerably lower than during the first four weeks of November and October of this year.

United States exports to Japan

	First four weeks of		
	<u>December 1937</u>	<u>November 1937</u>	<u>October 1937</u>
1st Week	\$ 1,704,000	\$ 1,180,000	\$ 1,727,000
2nd Week	5,305,000	4,813,000	5,746,000
3rd Week	2,394,000	4,745,000	4,492,000
4th Week	<u>3,033,000</u>	<u>3,730,000</u>	<u>6,763,000</u>
Total 4 Weeks	\$12,436,000	\$14,468,000	\$18,728,000

(2) United States imports from Japan during the first four weeks of December compared with the same weeks of November and October of this year decreased sharply, the decrease being particularly severe in the last two weeks of December.

United States imports from Japan

	First four weeks of		
	<u>December 1937</u>	<u>November 1937</u>	<u>October 1937</u>
1st Week	\$2,159,000	\$ 3,239,000	\$ 3,328,000
2nd Week	3,406,000	3,654,000	3,984,000
3rd Week	2,672,000	4,333,000	3,419,000
4th Week	<u>1,318,000</u>	<u>3,714,000</u>	<u>4,060,000</u>
Total 4 Weeks	\$9,555,000	\$ 14,940,000	\$14,791,000

The imports from Japan, in 1935 and 1936, did not decrease during December of those years compared with previous months. In December 1936, United States imports from Japan amounted to

Secretary Morgenthau - 2

\$16,427,000 compared with \$15,340,000 for November of that year; in December 1935, United States imports from Japan amounted to \$14,370,000 compared with \$14,022,000 for the preceding month.

(3) The following items show large decreases in our exports to Japan during the first four weeks of December as compared with the first four weeks of November and October of 1937:

	First four weeks of		
	December 1937	November 1937	October 1937
Petroleum products	\$3,333,000	\$4,451,000	\$4,216,000
Industrial machinery	982,000	1,383,000	1,345,000
Iron & steel semi-mfrs.	899,000	1,172,000	3,580,000
Vehicles, parts & accessories	710,000	840,000	634,000
Copper	681,000	1,570,000	1,441,000
Scrap iron & steel	479,000	564,000	994,000
Scrap brass & brass	304,000	550,000	418,000
Hides and skins	270,000	372,000	833,000
Fertilizers	134,000	234,000	208,000
Coal tar products	102,000	181,000	255,000
Ferro-alloys	51,000	356,000	279,000
Industrial chemicals	33,000	216,000	133,000
Pig iron	Nil	201,000	887,000

The following items show large increases in our exports during the first four weeks of December as compared with our exports of these items during the first four weeks of November and October of 1937:

	First four weeks of		
	December 1937	November 1937	October 1937
Cotton, raw	\$1,650,000	\$673,000	\$ 941,000
Paper base stocks	1,389,000	940,000	1,106,000
Tobacco and manufactures	257,000	Nil	19,000

(4) The imports of raw silk decreased by more than \$3,000,000 in the first four weeks of December compared with the first four weeks of November 1937. Imports other than silk also declined sharply during the first four weeks of December, compared with previous months.

	Imports during the first four weeks of		
	December 1937	November 1937	October 1937
Raw silk	\$4,925,000	\$8,094,000	\$8,021,000
Imports other than raw silk	4,630,000	6,846,000	6,770,000
Total	\$9,555,000	\$14,940,000	\$14,791,000

Secretary Morgenthau - 3

The items imported from Japan showing increases in the first four weeks of December as compared with the first four weeks of November 1937 were tea, chemicals and related products, metals and manufactures, flax, hemp and ramie manufactures, and bristles. All the other significant items decreased in the later period.

(5) Of the total of \$12,436,000 of exports to Japan during the first four weeks of December 1937, the following items account for almost all. The November 1937 figures are shown for comparison.

	<u>First four weeks of December 1937</u>	<u>November 1937</u>
Petroleum products	\$3,333,000	\$4,451,000
Raw cotton	1,650,000	673,000
Paper base stock	1,389,000	940,000
Industrial machinery	982,000	1,383,000
Iron and steel semi-manufactures	899,000	1,172,000
Vehicles, parts and accessories	710,000	840,000
Copper	681,000	1,570,000
Scrap iron and steel	479,000	564,000
Scrap brass and brass	304,000	550,000
Hides and skins	270,000	372,000
Tobacco and manufactures	257,000	Nil
Fertilizers	134,000	234,000
Wood, unmanufactured	118,000	94,000
Coal tar products	102,000	181,000
Pig lead	95,000	41,000
Edible vegetable products	59,000	19,000
Naval stores, gums and resins	57,000	92,000
Chemical specialties	54,000	17,000
Ferro-alloys	51,000	356,000
Industrial chemicals	33,000	216,000
All other	<u>779,000</u>	<u>703,000</u>
Total	\$12,436,000	\$14,468,000

Secretary Morgenthau - 4

(6) Of the total of \$9,555,000 of our imports from Japan during the first four weeks of December 1937, the following items account for almost all. The November 1937 figures are shown for comparison.

	<u>First four weeks of</u> <u>December 1937</u>	<u>November 1937</u>
Raw silk	\$4,925,000	\$8,095,000
Cotton manufactures	698,000	979,000
Tea	448,000	433,000
Porcelain and chinaware	272,000	308,000
Paper and manufactures	248,000	260,000
Pyrethrum flowers	246,000	373,000
Fish	244,000	500,000
Silk manufactures	205,000	455,000
Chemicals and related products	191,000	94,000
Vegetable food products except tea	168,000	187,000
Metals and manufactures	155,000	139,000
Flax, hemp and ramie and manufactures	153,000	142,000
Earthenware	112,000	220,000
Wool and manufactures	106,000	183,000
Rayon and manufactures	104,000	205,000
Wood and manufactures	99,000	443,000
Glass and glassware	92,000	189,000
Bristles	74,000	67,000
All other	<u>1,015,000</u>	<u>1,668,000</u>
Total	\$9,555,000	\$14,940,000

Secretary Morgenthau - 5

United States trade with China during the first four weeks of December 1937.

(1) United States exports to Hong Kong, China and Manchuria during the first four weeks of December increased slightly over the first four weeks of November 1937, the increase being in our exports to Shanghai, South China ports and Hong Kong.

United States exports to:

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 4 weeks of December 1937	\$2,417,000	\$4,523,000	\$6,940,000
1st 4 weeks of November 1937	2,656,000	3,067,000	5,723,000
Whole month of December 1936			\$5,255,000

(2) United States imports from Hong Kong, China and Manchuria during the first four weeks of December were lower than the first four weeks of November 1937.

United States imports from:

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 4 weeks of December 1937	\$1,053,000	\$3,683,000	\$4,736,000
1st 4 weeks of November 1937	1,845,000	3,917,000	5,762,000
Whole month of December 1936			\$5,365,000

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(3) Leading export items to China:

(a) To North China and Manchuria

	First four weeks of	
	<u>December 1937</u>	<u>November 1937</u>
Iron and steel semi-manufactures	\$1,429,000	\$1,510,000
Vehicles, parts and accessories	439,000	312,000
Petroleum products	198,000	267,000
Tobacco and manufactures	96,000	197,000
Industrial machinery	83,000	14,000
Wood, unmanufactured	59,000	61,000
Raw cotton	38,000	168,000
All other	<u>75,000</u>	<u>127,000</u>
Total	\$2,417,000	\$2,656,000

(b) To Shanghai, South China ports and Hong Kong

	First four weeks of	
	<u>December 1937</u>	<u>November 1937</u>
Petroleum products	\$1,055,000	\$ 808,000
Vehicles, parts and accessories	971,000	231,000
Iron and steel semi-manufactures	606,000	524,000
Tobacco and manufactures	596,000	399,000
Edible vegetable products	271,000	201,000
Printed matter	109,000	133,000
Firearms and ammunition	99,000	46,000
Paper manufactures	96,000	65,000
All other	<u>720,000</u>	<u>660,000</u>
Total	\$4,523,000	\$3,067,000

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(4) Leading imports from China during the first four weeks of December 1937.

(a) From North China and Manchuria

	<u>First four weeks of December 1937</u>	<u>November 1937</u>
Bristles	\$ 398,000	\$ 787,000
Wool and manufactures	179,000	494,000
Leather	101,000	98,000
Cotton manufactures	69,000	57,000
Perilla oil	57,000	63,000
All other	<u>249,000</u>	<u>346,000</u>
Total	\$1,053,000	\$1,845,000

(b) From Shanghai, South China ports and Hong Kong

	<u>First four weeks of December 1937</u>	<u>November 1937</u>
Wood oil	\$ 745,000	\$ 624,000
Tin	567,000	641,000
Flax, hemp and ramie	523,000	423,000
Bristles	262,000	194,000
Food products except tea	190,000	142,000
Wool and manufactures	175,000	139,000
Leather	168,000	106,000
Raw silk	141,000	412,000
Cotton manufactures	106,000	100,000
Tungsten ore	84,000	48,000
Tea	74,000	132,000
All other	<u>648,000</u>	<u>956,000</u>
Total	\$3,683,000	\$3,917,000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 10, 1938.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Hungary

Hungary has strict exchange controls, import quotas, multiple currencies, clearing agreements, and blocked balances.

The National Bank of Hungary has about \$16 million worth of gold and about \$12 million worth of foreign exchange. Her gold holdings have been the same for a long time but her foreign exchange resources have doubled in the past year.

The total external debt of Hungary has been estimated at about \$500,000,000 (in various currencies), classified as follows:

Government long-term	\$160 million
Government short-term	60 million
Private long- and short-term	280 million

The external debt privately held by Americans has been estimated at \$90 million.

Although all foreign debts are in partial default, new arrangements were made during 1937 covering most of the external obligations.

The United States Government loan to Hungary made in 1920 to enable Hungary to purchase flour, etc., funded in 1923:

Principal.....	\$1,685,836
Interest accrued from May 29, 1920 to Dec. 15, 1923, at 4½ percent.....	253,917
Total principal and interest accrued and unpaid.....	\$1,939,753

The Hungarian Government has not made any payments on the loan since July 1932.

The economic situation in Hungary has undergone a substantial improvement during the past year. Her export surplus has increased and production and employment have risen.

Secretary Morgenthau - 2

Over half Hungary's foreign trade is with Germany, Austria and Italy. According to our trade figures we bought in 1937 about \$5.4 million from Hungary and sold her about \$.6 million. Hungary's trade figures, however, show larger purchases from us, doubtless because of purchase of American goods indirectly.

Hungary is considered as being in the German and Italian "orbit". She is in the "revisionist bloc", its foreign policy dominated by the principle of recovering the territory it lost by the Versailles Treaty. Italy and Hungary have common aims, but Hungary does not believe Italy can be trusted to succeed or to help Hungary if she does succeed. In recent months Italy has shown less favor to Hungary and more to Yugoslavia.

Germany's propaganda movement in Hungary is intense and controls over 100 newspapers, and is reported to have a strong ally in Admiral Horthy, the Regent of Hungary. The Germans, it is reported, attempted a coup in the spring of 1937 but the coup did not come off and German influence in the government is reported to have been lessened in recent months. One of the goals of Hungary is the recovery of Slovakia from Czechoslovakia. So Hungary would like to cooperate with Germany to destroy Czechoslovakia, but there is the fear that if the buffer between her and Germany is removed Hungary may lose her independence to Germany.

A possibility that is just beginning to receive attention in Europe is closer collaboration with the Little Entente - i.e., cooperation with the democracies of Western Europe.

The government has promised to pass laws within a few months which will tend to democratize the country -- including the extension of the secret ballot to rural districts.

DEPARTMENT OF STATE

ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS
MEMORANDUM

January 10, 1938.

My dear Mr. Secretary:

I haven't yet been able to discuss with Mr. Hull the question of a joint appointment at the White House to present the question of whether conversations should be started regarding a possible debt refunding agreement with Hungary. I plan to try to get the matter before him later this morning. However, I hasten to rush over to you an examination of the apparent results of certain of the main formulas of settlement that have been suggested - were they to be applied to our main debtors.

Herbert Feis

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

January 10, 1938.

HUNGARIAN DEBT NEGOTIATIONS.

The Hungarian Minister and Mr. Eugene Havas, who without diplomatic status acts as financial adviser to the Hungarian Legation, have instructions to negotiate a permanent readjustment of the relief debt of Hungary to the United States. This has been announced in the Minister's debt note published December 15 stating that the Hungarian Government hoped at an early date to avail itself of the assurance (contained in the semi-annual debt notes of the Department of State) that the United States will consider any proposals made through diplomatic channels regarding the payment of indebtedness. The Minister is anxious to open discussions at once in view of negotiations now proceeding between his Government and other creditors.

\$1,685,000, borrowed by Hungary in 1920 and increased by accrued interest of \$253,000, was funded April 25, 1924, into \$1,938,000 of bonds paying 3% interest for ten years and 3 1/2% after December 15, 1933. No payments have been made since June 15, 1931, and arrears

now

now stand at about \$457,845. The principal of the debt has been reduced by payments to \$1,908,560.

In 1937 Hungary began negotiations with various creditor groups to establish a régime of foreign debt payments to replace its Transfer Moratorium decreed December 23, 1931, under which no direct payments in foreign currencies have been made on any long-term debt except partial payments on the League Loan of 1924. This loan enjoys a contractual priority over the Hungarian debt to the United States by declaration of the Secretary of the Treasury of the United States expressly authorized in the Act of Congress authorizing the debt agreement of April 28, 1934, with Hungary. Effective February 1, 1936, Hungary has made a permanent readjustment of the League Loan. This settlement provides for paying interest at 60% of the coupon rate, cancellation of unpaid arrears of interest, and redemption of the loan beginning August 2, 1940, by open market purchase through an annual sinking fund of 1% of the amount of the loan now outstanding.

The Hungarian Minister has made no official proposal to the United States. Havas indicated a month ago that the Hungarian Minister of Finance would be willing to offer fifty annuities of 2% of the principal amount of the debt. This

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This would be fifty annual payments of about \$38,000. More recently Havas has indicated that the proposal would be (1) the establishment of a new principal amount by crediting past interest payments as payments against principal and (2) the discharge of this new principal by 25 or 30 annuities of about \$40,000 each.

Mr. Havas has not indicated any basis for limiting the annual payments to \$40,000 a year, except to say that it is as much as the Hungarian Government would justify to other creditors with which it is negotiating. It is about 60% of the average annual payments for combined interest and capital provided for in the debt agreement of April 28, 1934, but is little more than 50% of the current annuities under that agreement.

Following are comparative figures illustrating possible bases of repaying principal without interest: (parenthesis figures are payments scheduled for fiscal or calendar year 1938 under existing debt agreements, disregarding moratorium repayments)

1. Repayment of present outstanding principal by 50 equal annual payments:

Great Britain	\$4,368,000,000:- 50 = \$87,360,000	(\$183,125,000)
France	\$3,863,850,000:- 50 = \$77,273,000	(\$105,000,000)

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Italy \$2,004,900,000 ÷ 50 = \$40,098,000 (\$17,008,875)

Hungary \$1,908,560 ÷ 50 = \$38,171.20 (\$76,222)

2. Repayment of present outstanding principal by thirty equal annual payments:

Great Britain \$4,368,000,000 ÷ 30 = \$145,600,000 (\$183,125,000)

France \$3,863,650,000 ÷ 30 = \$128,788,000 (\$105,000,000)

Italy \$2,004,900,000 ÷ 30 = \$66,830,000 (\$17,008,875)

Hungary \$1,908,560 ÷ 30 = \$63,618 (\$76,222)

3. Similar schedule but after establishing new principal by subtracting interest already paid on funded debt:

Great Britain \$2,135,230,000 ÷ 30 = \$71,174,333 (\$183,125,000)

France \$3,825,000,000 ÷ 30 = \$127,500,000 (\$105,000,000)

Italy \$1,999,132,000 ÷ 30 = \$66,637,733 (\$17,008,875)

Hungary \$1,514,742 ÷ 30 = \$50,491 (\$76,222)

4. Similar schedule but after establishing a new principal by crediting all payments against the amount originally borrowed:

Great Britain	\$4,277,000,000	
Original debt	2,024,848,817	
All payments	\$2,252,151,183	30 = \$75,100,000 -
New principal		(183,125,000)

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France	Original debt	\$3,404,818,945	
	All payments	<u>488,075,821</u>	
		\$2,918,743,054	÷ 30 = \$97,291,400 (\$105,000,000)

Italy	Original debt	\$1,648,034,050	
	All payments	<u>100,829,880</u>	
		1,547,204,170	÷ 30 = \$51,573,400 (\$17,008,875)

Hungary	Original debt	\$1,885,835.61	
	All payments	<u>478,294.48</u>	
		\$1,207,541.13	÷ 30 = \$40,251.37 (\$76,222)

Hungary has not proposed permanent settlements of any other debts except the League Loan of 1924. It has, however, made proposals covering payments for three years beginning August 15, 1937. On Hungarian Government Treasury Bills of 1930 and 1931 (^{5-3/4} past due obligations payable in several foreign currencies on which interest has been paid in pengos utilisable by holders to yield interest not exceeding 1 1/2% in their own currencies), the Hungarian Government has offered to pay 1 1/2% in foreign currencies, and to apply 1 1/2% of the outstanding capital amounts to the repurchase of bills by tender, it being understood that the Hungarian Government is not obliged to buy if the price asked exceeds 45% of the nominal amount of the bill.

The Hungarian Government is negotiating with holders of other obligations of its own including pre-war debts the capital amount of which was reduced to twenty-seven or twenty-two percent of original amounts some years ago

and

-6-

and Hungary proposes to pay interest of 1 1/4% on these amounts for the next three years.

On non-governmental foreign debts the Hungarian Government in July, 1937, announced a three-year offer to permit payment in foreign currencies, in full satisfaction of coupons, of interest at 1 1/2, 1 5/8, and 1 3/4% for contractual interest of 4% or less, 4 to 4 1/2% and over 4 1/2%, respectively. This offer was stated to be based on the assumption that present possibilities for obtaining the necessary foreign exchange would continue during the period covered by the proposal.

In respect of comparative treatment, Havas made the point that other creditors will not receive full payment of principal, since obligations other than those owed by the United States will be redeemed by purchase in the open market at prices much lower than par. The new arrangements have all been reached by agreements with creditor representatives in each of which some right of open market purchase has been reserved.

The actual payments required for full service on the indebtedness to the United States are so small that considerations of equity in comparison with the treatment of other creditors seem to be the only plausible basis Hungary can put forward for bargaining over paying a few thousand dollars

-7-

dollars more or less to the United States although the accrued arrears in payments to the United States total \$457,845 which would be a substantial amount for Hungary.

Equality of terms with the League Loan would figure about as follows:

60% of interest rate of 3 1/2% would give interest rate of 2.1%.

Uniform annuity of 1% of present outstanding amount \$1,908,560 would give amortization of \$19,085 - say \$19,000 per annum beginning in 1940.

	Schedule			Total
	<u>Principal</u>	<u>Interest</u>	<u>Amortization</u>	<u>Amount</u>
1938	\$1,908,560	\$40,080	—	\$40,080
1939	1,908,560	40,080	—	40,080
1940	1,908,560	40,080	\$19,000	59,080
1941	1,891,560	39,681	19,000	58,681
1942	1,872,560	39,282	19,000	58,282

Etc., etc.

Equality with the Treasury Bills at 1 1/2% interest and 1 1/2% amortization would give \$29,128 for each or a total of \$58,256.

The present memorandum is hastily prepared and subject to minor error or mis-statement.

EA:LIVESKY:DJW

This page is corrected in accordance with att memo from Mr. Livesky

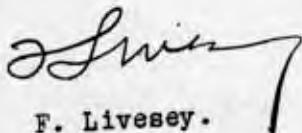
DEPARTMENT OF STATE

ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

January 10, 1938.

On the last page of my memorandum of this date, entitled "Hungarian Debt Negotiations", is a miscalculation affecting comparison with the terms given the League Loan. The memorandum states that 60% of $3\frac{1}{2}\%$ is 2.8%. Obviously this should be 2.1%. This reduces the payments in the "Schedule" by about \$13,000 per annum, a matter of considerable importance in this comparison.

The attached sheet should be substituted for the last page of the memorandum.



F. Livesey.

1-10-38

MEMORANDUM TO THE PRESIDENT:

By your memorandum of December 23, 1937, you referred to me a draft of a letter prepared by Jesse Jones, addressed to himself, for your signature, which would authorize the Reconstruction Finance Corporation to consider loans on new construction and plant expansion at rates and terms that the borrowers can afford to meet; including loans to public utilities for extension, and improvement, and asked me to speak to you about the matter.

You will recall that we have discussed this problem on previous occasions, and since your Budget Summation of October 19, 1937, which placed certain restrictions upon the lending activities of the Reconstruction Finance Corporation, the question of permitting the Reconstruction Finance Corporation to carry out commitments already made or to handle applications filed previous to the time of the Budget Summation.

As you know, I have under consideration with Mr. Jones the submission to Congress of legislation which would in effect simplify the balance sheet of the Reconstruction Finance Corporation and eliminate those items which should not be considered extensions of credit; also we are considering the question of permitting the Reconstruction Finance Corporation to finance its own requirements by the sale of its obligations in the market. This would take the Reconstruction Finance

- 2 -

Corperation receipts and expenditures out of the budget figures except that the proceeds from the sale of any Public Works Administration obligations held by the Reconstruction Finance Corporation would come into the Treasury as a repayment on account of the Reconstruction Finance Corporation notes held by the Treasury and thereby be a credit against budget expenditures.

Pending the conclusion of these arrangements I suggest, therefore, that you sign the attached letter to Mr. Jones stating that you would prefer not to sign a general letter of this character at this time but will consider from time to time, needs of the general situation as well as the conditions prevailing in individual fields of credit.

DWB:MLS
1/10/38

1-0-38

My dear Jesse:

With reference to our conversation of December 21, 1937, and the draft of a letter for my signature which you left with me for my consideration, I do not believe that it is desirable to give you general instructions at this time.

I agree with you that ample credit should be available for new construction, and while it is my intention to get the government out of the lending business as early as possible, credit must be available for all worthy purposes if people are to have work.

I understand that you have under consideration the submission to Congress of legislation which will in effect simplify the balance sheet of the Reconstruction Finance Corporation and eliminate those items which should not be considered extensions of credit, and in addition that you are considering the question of having the Reconstruction Finance Corporation finance its own requirements by the sale of its obligations in the market. The result of this second operation would be to eliminate Reconstruction Finance Corporation receipts and expenditures from the budget figures except that the proceeds from the sale of any Public Works Administration obligations held by Reconstruction Finance Corporation would come into the Treasury as a repayment on account of the Reconstruction Finance Corporation notes held by the Treasury and thereby be a credit against budget expenditures.

Pending the conclusion of these arrangements and within the limits of your Act, I desire that you give consideration to new construction loans which would tend to maintain or increase employment where there is an economic need for the construction, and in this connection that you discuss with me these requirements, the needs of the general situation and conditions prevailing in individual fields of credit.

Very truly yours,

Honorable Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

THE WHITE HOUSE
WASHINGTON

December 23, 1937.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

Dear Dan:

Please speak
to me the next time
I see you. Wm. J.

THE WHITE HOUSE
WASHINGTON

December 21, 1937

Dear Jesse:

(When I wrote you October 18th to restrict RFC lending, I was working toward a balanced budget and the withdrawal of the government from the lending field, but) due to the apparent lack of credit for new construction and plant expansion at rates and terms that borrowers can afford to meet, I wish your Corporation to consider loans of this character. *where the utilities are working*

You might include loans to public utilities for extensions and improvements under your authority to make industrial loans. You might also offer to make loans for the construction of new business properties of various character through The RFC Mortgage Company, where there appears an economic need for the buildings, and where the loans can be made on a sound basis.

In order however for your lending not to affect the current budget, your requirements should be provided through the sale of your securities to the public instead of borrowing from the Treasury.

Your capital stock of \$500,000,000, which you advised me is unimpaired, should give you ample borrowing capacity without ever calling upon the Treasury.

We have demonstrated that the government can lend intelligently, and while it is my intention to get the government out of the lending business as early as possible, credit must be available for all worthy purposes if people are to have work.

It may be desirable to ask Congress to amend your Act permitting loans to municipalities for construction purposes, particularly for the purchase of materials in cooperation with relief labor, taking securities that you would later sell to the public as you have been doing with PWA securities and your own self-liquidating loans.

Within the limits of your Act I desire that you give consideration to the character of loans herein enumerated and authorize them when in the judgment of your Board a proper and useful purpose will be served.

1-10-38.

Mr. Nathan Straus,
Administrator,
United States Housing Authority,
Washington, D. C.

My dear Mr. Administrator:

I have your letter of January 5, 1938, advising that the United States Housing Authority, in the near future, will be faced with the problem of obtaining funds for making loans to local public housing agencies for low-rent housing and slum clearance. In this connection you request advice as to whether the Treasury would be willing to purchase the bonds of the United States Housing Authority and, in case bonds are so purchased, would it act as fiscal agent for the Authority in the event the bonds are resold to the public, taking care of all changes in registry, the forwarding of interest checks and the redemption of coupons.

In reply, you are advised that in order to provide funds to meet your requirements over the next few months, the Treasury will be willing to purchase, up to an aggregate of \$25,000,000, the obligations of the United States Housing Authority under the provisions of Section 20 (d) of the Act, upon such terms and conditions as would seem to be justified at the time the purchases are made.

I shall be glad to discuss with you the question of the Treasury rendering service to your organization in connection with registry, forwarding interest checks and redemption of coupons, at the time the bonds which the Treasury purchases are resold to the market, or whenever the guaranteed obligations of the Authority are sold directly to the market.

It will be appreciated if you will let me know as far in advance as possible just when you will need funds for the purposes of the Act, so that the Treasury representatives and your representatives may agree upon the terms and conditions of the obligations to be issued.

Very truly yours,

Secretary of the Treasury.

DWB:MLB
1/10/38

DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY

WASHINGTON

January 5, 1938.

My dear Mr. Secretary:

The United States Housing Authority in the near future will be faced with the problem of obtaining funds for making loans to local public housing agencies for low-rent housing and slum clearance. I am writing to ask your advice and assistance in dealing with this problem.

Under Section 20 (a) of the United States Housing Act of 1937, the United States Housing Authority is authorized to issue obligations guaranteed as to principal and interest by the United States, which it may sell to obtain funds for loans but not grants.

Section 20 (e) of the Act authorizes the Authority to request the Secretary of the Treasury to market obligations issued by us. It occurs to us, however, that the Treasury might be willing to participate in this financing by taking advantage of section 20 (d) of the Act which authorizes the Secretary of the Treasury to purchase obligations issued by the Authority. This procedure would be preferable to us.

In deciding whether you will be able to extend this assistance, you will naturally want to know in what amounts and at what periods the United States Housing Authority proposes to issue obligations. Under the law, as you know, the United States Housing Authority is now authorized to issue such obligations in an amount not to exceed one hundred million dollars (\$100,000,000). However, the amount of obligations which we are likely to issue during the next six months, or even the next year, will be quite small because it will take some time for the building program backed by our loans to get in full swing. I feel fairly certain that not more than twenty-five million dollars (\$25,000,000) worth of such obligations will need to be issued within the next six months, and it will be feasible under our program for us to let you know well in advance as to the amount of obligations which we shall have to issue periodically thereafter.

In view of these facts, the following two questions are submitted for your advice:

- (1) Is the Treasury willing to purchase the bonds of the United States Housing Authority, and if so, what terms would be satisfactory?

-2-

- (2) Inasmuch as these bonds are to be both registered and coupon, will the Treasury Department, having purchased these bonds, act as fiscal agent for the Authority in the event the bonds are resold to the public, taking care of all changes in registry, the forwarding of interest checks and the redemption of coupons?

Thanking you for your consideration of these questions, I remain,

~~Faithfully yours,~~

(Sgd.) Nathan Straus

**NATHAN STRAUS,
Administrator.**

The Honorable,

The Secretary of the Treasury.

For the Secretary

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OBLIGATIONS, WORKS PROGRESS ADMINISTRATION AND NATIONAL YOUTH
ADMINISTRATION, FISCAL YEAR 1937.

		Apportionments President's letter of Dec. 20, 1937
First quarter	\$571,100,000)	<u>\$620,000,000</u>
Second quarter	<u>501,100,000)</u>	
Total, first six months	1,072,200,000	
Third quarter	434,400,000	380,000,000
Fourth quarter	<u>380,400,000</u>	<u>300,000,000</u>
Total	\$1,887,000,000	\$1,300,000,000

Jan 11, 1938

1938

1937

272

Jan 1.

380

300

680

430

620

350

680

90

WORKS PROGRESS ADMINISTRATION

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

HARRY L. HOPKINS
ADMINISTRATOR

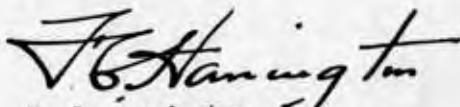
January 10, 1938

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

In accordance with your request,
I am enclosing a memorandum concerning the
present relief situation, and a tabulation
showing our estimated expenditures for relief
and unemployment, exclusive of work programs,
for the first six months of 1938.

Sincerely yours,



F. C. Harrington
Assistant Administrator
Chief Engineer

RECEIVED

JAN 10 11 20

RECEIVED
OFFICE

PRESENT RELIEF SITUATION

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Approximately 1,800,000 persons lost their jobs between September 15 and December 15, 1937. It is estimated that with the decline in Christmas trade and in the automobile industry an additional 1,000,000 will have lost their jobs by the middle of January, 1938. The total decrease in employment during this period will, therefore, approximate 2,800,000. On the basis of past experience, from 35 to 40 percent would represent the increase in relief families.

There is a lag of from two to three months between the loss of a job and application for relief and a further lag, due to the machinery of relief, before certification for WPA employment.

For these reasons, the large decline in employment did not hit the relief rolls or the WPA to an appreciable degree until the month of December. During December and during the first part of January, the situation was met, with certain exceptions noted below, by the WPA and by direct relief. The WPA, however, has never employed all of the employable persons in need of relief.

In the middle west the WPA is accepting employable persons as they are certified by the relief agencies.

A similar condition exists in the far west, with the exception of Northern California where a shortage of white collar projects is responsible for the lack of assignment of some 3,000 persons.

In the northeast, Massachusetts and Rhode Island have persons from the relief rolls awaiting assignment, with the WPA quota substantially filled. The quota has not been shifted from other states to meet this situation because the need exists in the other states but the machinery of certification has been slower. Consequently, it would be unfair to transfer the quotas.

The south is a special problem. Here, the situation is one of long-term poverty, in addition to current declines in employment. The number certified, particularly in the southeast, is in excess of WPA quotas. These states, however, have been given an equitable proportion of the total employment available and approximately the same proportion of need is being met as in the past.

A large number of the recently unemployed are currently reaching the relief agencies and soon will be certified to the WPA. This pressure of need will reach a peak in the latter part of January and in February.

This need will occur, despite the inauguration of unemployment compensation. There will be no unemployment compensation at all in 26 states and only 50 or 60 percent of the recently unemployed workers in the other 22 states will be eligible for compensation.

ESTIMATED RELIEF AND UNEMPLOYMENT EXPENDITURES

Excluding Work Programs

	Jan. thru June 1938	June 1937	Net Change
	(In millions)		
Unemployment Compensation (State)	\$200	\$ 0	\$200
Farm Security Loans & Grants (Federal)	70	87	- 17
Social Security (Old Age, dependent children and blind) (Federal, State & Local)	250	198	52
Direct Relief (State and Local)	250	242	8
Total	770	527	243
Average Monthly	128	88	40
W P A allotment by President	680		
W P A obligations			\$1,072,200,000 (no allotment made for this period)

770
 680
 1,450
 1.4

1,072
 527
 1,599

January 10, 1938.
11:05 a.m.

H.M.Jr: Hello.

Operator: Senator Bulkley didn't attend the Committee meeting this morning, but I'll try and locate him and have him call you.

H.M.Jr: Oh.

Operator: But I have Speaker Bankhead on the wire.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

William B.
Bankhead: Hello, Mr. Secretary.

H.M.Jr: I want to congratulate you on that speech of Saturday night.

B: Well, that's very nice of you indeed, sir; I appreciate it very much.

H.M.Jr: A magnificent speech.

B: Thanks very much, Mr. Secretary.

H.M.Jr: I don't know when I enjoyed anything as much.

B: Well, I was glad to see you there, and what little contribution I could make to the occasion by that little speech, I was very happy to do it, of course. I think we had a fine meeting and the President made a magnificent speech.

H.M.Jr: Indeed.

Mr. Speaker, ...

B: Yes.

H.M.Jr: ... in case somebody should ask you what we've done with Mexico, I thought you'd like to know.

B: Yes.

-2-

H.M.Jr: All that we've done is, we've told them that we would buy 35 million ounces of silver.

B: 35 million ounces.

H.M.Jr: At 45 cents.

B: Wait just a minute. 35 million ounces of silver at 45 cents an ounce. All right, Mr. Secretary.

H.M.Jr: And no other agreements of any other kind as far as we're concerned.

B: Yes.

H.M.Jr: They've made a lot of statements, and they're all foolish.

B: Yes.

H.M.Jr: And that's all.

B: All right.

H.M.Jr: I thought you'd like to know.

B: Well, I'm glad to get that information, because there's been some talk about it in the press, you know, and I always like to have the facts.

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

B: All right.

H.M.Jr: Thank you.

B: Thank you very much.

January 10, 1938.
11:43 a.m.

Alben
Barkley: Hello.

H.M.Jr: Hello, Alben?

B: Yes.

H.M.Jr: Henry talking.

B: Yes.

H.M.Jr: I thought you'd like to know what the real situation is on our buying silver from Mexico in case you were asked.

B: Yes.

H.M.Jr: What we did on the 31st of December was to buy 35 million ounces of silver from the Mexican Government at 45 cents.

B: Yes.

H.M.Jr: And that's all we did.

B: 35 million?

H.M.Jr: 35 million ounces at 45 cents. Now, they've had a lot of stuff about - we were going to help them out with the stabilization fund and all that kind of stuff. There's nothing to it, see?

B: Un-huh.

H.M.Jr: I mean it was just a clean-cut purchase of silver.

B: Well, what was the particular reason for purchasing it from Mexico?

H.M.Jr: Well, under the Silver Purchase Act we've got to buy silver.

B: I know.

H.M.Jr: And they had this silver for sale, and if we didn't buy it they might have dumped it on the market anyway.

B: Yes.

-2-

H.M.Jr: And for your own information, it was very helpful to the State Department

B: Yes.

H.M.Jr: ... to get them to ...

B: The question might be asked, why buy this silver from Mexico if other - if American silver interests had it for sale? And I just wanted to find out.

H.M.Jr: American interests?

B: If, yes.

H.M.Jr: Well, we buy all

B: You buy it all anyhow.

H.M.Jr: We buy all American production at 64½ cents.

B: Yes, so that this in no way interfered with any arrangement with American silver interests.

H.M.Jr: None whatsoever. And it simply gave our State Department boys something that they could say, "Well look, we're doing something for you, and ..."

B: Yes.

H.M.Jr: "... don't treat our nationals too hard down there."

B: In other words, it put them sort of under obligation to us.

H.M.Jr: Yes. But the two things supposedly have no connection.

B: No, I understand.

H.M.Jr: But actually it was very helpful to the State Department.

B: All right, Henry, thank you.

H.M.Jr: Thank you.

B: Good luck.

January 10, 1938.
11:55 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Key
Pittman: Hello.

H.M.Jr: Key?

P: Yes.

H.M.Jr: Henry.

P: Yes.

H.M.Jr: I wanted to give you first-hand just what we did do with Mexico, because the papers have been carrying a lot of silly stories.

P: Yes.

H.M.Jr: On the 31st of December I bought from Mexico 35 million ounces of silver at 45 cents.

P: Oh.

H.M.Jr: Hello?

P: Yes.

H.M.Jr: To be delivered if and when they could deliver it.

P: Yes.

H.M.Jr: And that is all. Now, there's nothing about the stabilization fund or our trying to stabilize their rate or anything else, see?

P: Yes.

H.M.Jr: And that's all there is to the whole deal.

P: I see.

H.M.Jr: And the stories that have been coming out of Mexico

-2-

City that we've done this, that and the other thing are - just aren't true.

P: Yes.

H.M.Jr: And I thought you'd like to have the first-hand information.

P: Yes. You know, Henry, I think that before we do any more agreements with Mexico, if we are going to start doing anything for them, they ought to get straightened out a little bit in their State Department down there.

H.M.Jr: Well, as - for your own information, before I did this, the State Department had a very serious talk with them, see?

P: Yes.

H.M.Jr: And I held off till the last minute, and the State - and they did give the State Department some pretty definite assurances that from now on they would treat our nationals better.

P: Yes.

H.M.Jr: But I'm not supposed to know anything about that.

P: That's so, but the - the situation down there is not so very good.

H.M.Jr: Well, I know that, but here was 35 million, and if we didn't buy it, they'd dump it on the market.

P: Yes.

H.M.Jr: And under the Act I've got to buy silver and I thought that this would stabilize the market.

P: Yes.

H.M.Jr: But all the other stuff that's behind the scenes, officially I don't know anything about.

P: Yes.

H.M.Jr: But I wanted you to know that the stabilization fund is in no way involved in this thing.

P: I see. Much obliged to you, Henry.

H.M.Jr: Thank you.

January 10, 1938
12:00 noon

Operator: Go ahead.

H.M.Jr: Hello.

Charles L. McNary: Hello, Mr. Secretary.

H.M.Jr: How are you?

McNary: All right. How are you?

H.M.Jr: Fine.

H.M.Jr: Senator, the last couple days the press have been carrying information as to what the United States Treasury was supposed to have done with Mexico on silver.

M: Yes.

H.M.Jr: And I wanted to tell you just what we did do.

M: Uh-huh.

H.M.Jr: On the 31st of December the Mexican Government offered us 35 million ounces of silver

M: Yes.

H.M.Jr: ... at that day's price, which was 45 cents, and we bought it.

M: Yes.

H.M.Jr: That's all we've done.

M: Yes.

H.M.Jr: And the American stabilization fund is in no way involved, in no way whatsoever.

M: Yes.

H.M.Jr: And I wanted you to have that information.

M: Well, that's very thoughtful and kind of you. I didn't question but what it was done perfectly and fine.

-2-

H.M. Jr: Well, I wanted to give it to you first-hand.

McNary: Well, that's awfully nice.

H.M. Jr: Thank you very much.

M: Thank you, Mr. Secretary.

RE LETTER ANSWERING CRITICISMS FROM
THE COMPTROLLER GENERAL

January 10, 1938.
2:00 p.m.

Present: Mr. Gaston
Mr. Bartelt
Mr. McReynolds
Mr. Bell

Gaston: The back page (of letter) is on top there.

H.M.Jr: Where is McReynolds?

Gaston: I just called his office.

H.M.Jr: I just left him.

Bartelt: There are four signature papers. The letters are identical, except the four signature papers.

H.M.Jr: My God, what is this, a book? Do you expect me to read this?

Gaston: It's only 15 pages.

Bartelt: It's very interesting.

H.M.Jr: Jesus Christ, 15 pages to call the fellow a liar.

(Begins reading)

You wouldn't say "as responsible head of one of the Departments"? We're not the only department, are we?

Gaston: Well, he's - it's the Treasury Department he's criticizing.

H.M.Jr: Is he?

Do you think it would be a mistake to underline some of this stuff that I think is important?

Gaston: Oh

H.M.Jr: What? I mean so the President can catch it. I can underline it in pencil.

Gaston: Yes, all right.

-2-

Bartelt: Or here's a carbon you can take.

H.M.Jr: No, he wouldn't read a carbon.

(McReynolds comes in)

McReynolds is the name, huh?

(Continues reading)

On page 12 you begin to get a little human. Top of page 12.

Bartelt: Coming into the home stretch there.

H.M.Jr: Gee whiz, on the top of 13 - "been peremptory, arbitrary, and capricious."

McR: Even worse, if you can think of any more words.

H.M.Jr: Do you (Gaston) think it's all right?

Gaston: Yes. I wrote it. I think it's all right.

McR: Just doesn't have any

Gaston: I think this one case proves that.

H.M.Jr: Which case?

Gaston: This particular case about the symbols.

H.M.Jr: Oh.

Gaston: And Mr. Bartelt has got plenty of other instances.

McR: McCarl never would have issued those regulations if he had stayed in office, in my opinion. You talked to me about him.

H.M.Jr: Gee whiz, who wrote this? This is hot stuff.

McR: Herbert took Eddie's stuff and wrote it so it would have a whip to it. The damnedest stuff.

-3-

- H.M.Jr: This is good.
- In one thing - "However appropriate that attitude may be to the work of the Comptroller General in his function as an auditor" - you couldn't get in there somewhere the fact that he only audits after money has been paid?
- McR: Well, that isn't true entirely.
- H.M.Jr: Oh, it's not true entirely.
- McR: In some of the cases in some of the departments, there is a pre-audit.
- H.M.Jr: Well ...
- McR: That last paragraph - that's just
- H.M.Jr: Yes. This is McReynolds on 14, isn't it? No?
- McR: No.
- H.M.Jr: No?
- McR: All I did was to listen and criticize.
- H.M.Jr: Do you like the word "czar" for the Comptroller General?
- McR: Well, I never used that; I always called it "Jesus Christ."
- H.M.Jr: I mean would you prefer the word "czar" to "dictator"?
- Gaston: You could use - instead of "a very czar," you could use the word "dictator."
- H.M.Jr: Well, I don't want to change words unless they are important.
- Bartelt: I think he's been referred to as an autocrat.
- H.M.Jr: It's all right - "czar" - what, Herbert?
- Gaston: I think it's all right.
- McR: You get the same impression.

-4-

- H.M.Jr: This is good: "without any responsibility to the Chief Executive elected by the people and with"
It's O.K. by me. (Signs letter)
- McR: You could write a hundred pages on that, but I think they've got it pretty well condensed. I'm satisfied with the reply.
- H.M.Jr: Now, what I want is this. Are you entirely familiar with this, Herbert?
- Gaston: Yes.
- H.M.Jr: You are?
- Gaston: Yes, sir.
- McR: He connected the whole thing.
- H.M.Jr: I don't expect the President - I think you better take this over and ask Steve Early whether he wants to take a look at it or not, you see - the last part.
- Gaston: Yes.
- H.M.Jr: Whether there is any question in his mind, see?
- Gaston: Yes, all right.
- H.M.Jr: Don't you think so? That's rather on Forster. Don't you think so?
- Gaston: Will I suggest that he take it up with the President?
- H.M.Jr: No, you tell him that I'm going to see the President at three. I think it's all right, but he might want to read the last - from page 12 on, you see. I mean the President has only allowed me twenty minutes, and I don't want to have him... Let him decide, you see. I mean simply say - well, you can say, what does he think? Because we want to send this up tonight.
- Gaston: Yes, yes.
- H.M.Jr: You see, I want to know by four o'clock what to tell the press.

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I think it's a swell job.

Gaston: Shall I take this original over to Steve, or take him a copy?

H.M.Jr: I'd take him a copy.

I think it's a swell job.

Now, how have we handled a release of this?

Gaston: I thought that after this thing is sent up there we'll give them an opportunity to receive it, then we'll put out a mimeograph of it.

H.M.Jr: Well, I mean when you send a thing like that on the Hill, don't you give them time to receive it, or

Gaston: Yes, I think so.

H.M.Jr: Would you give it out - that ought to go out for the morning papers, so the boys have a chance to put it on the wires. I mean if it went up tonight, to be delivered in the morning, I think - tomorrow's what, Tuesday, isn't it?

Gaston: Yes.

H.M.Jr: I think it ought to be for Wednesday morning release.

Gaston: That's what I was going to say.

H.M.Jr: I think it ought to be for Wednesday morning, so the men have plenty of time to go around and talk to the Comptroller - everything else. Give it to them noon tomorrow for Wednesday morning release, wouldn't you, or give it to them late Tuesday night? Well, think it over.

Gaston: Yes, yes. Let's see, what was the original plan? Afternoon paper release, wasn't it?

H.M.Jr: Well, it's much better to give it to them for morning release. Get much better break all over the country. Don't you think so?

Gaston: Yes, I think you get a better break throughout the country.

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H.M.Jr: Yes.

Gaston: I'd just as soon there wouldn't be too much opportunity of reply on the same day.

(Bell comes in)

H.M.Jr: Well, I'll be damned if I sign that report. That's the darnedest thing I ever saw.

Bell: What's the matter with it?

~~H.M.Jr:~~ My God, it's just dynamite.

Bell: You mean it isn't strong enough?

H.M.Jr: It's too strong. Would you sign that if you were Secretary of the Treasury?

Bell: I think I would.

H.M.Jr: What? You would? Well

Gaston: All right, Dan, it's signed.

Bell: I thought that was coming.

Gaston: If you would have run out on us, now

(Hearty laughter)

Bell: It would have been terrible if I had said, "Well, I'd think about it."

H.M.Jr: Well, I notice you did a little rolling of your eyes. I couldn't watch everybody. Did you give it away, Naster?

Bell: Everyone had a poker smile.

H.M.Jr: I notice he kind of rolled his eyes around.

I'm asking Gaston to go over and see Steve Early, to see whether it's

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Bell: What are the headlines, Herbert, in that?

H.M.Jr: (On White House phone) Is Mr. Early in?

Bell: Is it likely to be "Morgenthau Calls Elliot Inefficient"?

Gaston: Yes. Or "Seeking to Extend His Power."

H.M.Jr: (On White House phone) Well, when he gets back Mr. Gaston wants him.

He isn't in from lunch.

Gaston: Not in from lunch.

H.M.Jr: What do you think? Think maybe I better show that to the President - last three or four pages?

Bell: Well, that's what you said.

H.M.Jr: Let me have this complete set.

But I still say you (Gaston) could show it to Early.

I want the original.

McR: If the boss is going to take it, better give him the original.

Gaston: You have only one original.

Bartelt: One complete original and the signature page. I've got the rest of them upstairs.

H.M.Jr: From page 12 on is just as good. Is that in order?

Gaston: That's all in order.

H.M.Jr: From page 12. I still want Early to see it. What?

Gaston: Yes.

H.M.Jr: Why don't you do this, Herbert? Go over with me and wait, you see?

Gaston: Yes. I wonder if there is an extra signature page on the bottom of that. I'm afraid there's two

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signature pages.

H.M.Jr: Yes.

This thing really starts from page 11.

Bell: Last three or four pages.

Gaston: They're all "Mr. Chairman" so it's all the same.

Bartelt: Did you tell him who they're going to?

Gaston: We've got them to Cochran, Byrnes, and Lewis.

Bell: And Cochran.

Gaston: Two to Cochran.

Bell: Cochran is Chairman of two Committees.

Gaston: Cochran is Chairman of Expenditures and Reorganization.
Lewis is Chairman of Expenditures, and Byrnes is
Chairman ...

H.M.Jr: On 11 it begins to get hot.

Bartelt: Hotter as it gets to the end.

H.M.Jr: Would you show it to Early too? No, if I'm going to
show it to the President I think that's enough.

Gaston: I think that's enough.

H.M.Jr: Yes.

H.M.Jr: That was quite a test for you (Bell)

My dear Mr. Chairman:

The Annual Report to the Congress of the Acting Comptroller General of the United States for the fiscal year 1937, contains statements seriously reflecting on the conduct by the United States Treasury Department of the public business with which it is charged by law, involving the care of the public funds entrusted to it.

It is my belief that charges of this character having been brought formally to the attention of the Congress it is my duty, as responsible head of the Department which has been criticized, to reply to them, and I am therefore addressing myself to you as Chairman of a Committee of the Congress which will have before it for consideration matters touched upon by the Acting Comptroller General's report.

The specific criticism directed at the Treasury Department by the Acting Comptroller General is that the Treasury Department has failed to cooperate with the General Accounting Office in providing a proper accounting system for the Government, and two instances are cited by the Acting Comptroller General to sustain this criticism.

Obviously, nothing can be more vital to the orderly transaction of public affairs than the safekeeping of the

public funds and the maintenance of accounts in such form as to permit the efficient transaction of the public business, and to preserve an accurate record of all transactions for the information of Congress and the people. The Secretary of the Treasury is charged with a grave responsibility for the collection, safe-keeping, and proper disbursement of the public moneys, a responsibility which he must discharge in full compliance with the laws enacted by the Congress. He can not relieve himself of this responsibility by obedience to the mere direction of any other officer of the Government.

Realizing to the full this responsibility with which I am charged by law, I began, as soon as the report of the Acting Comptroller General was brought to my notice, a careful review of the relations between the Treasury Department and the Office of the Comptroller General, with the particular purpose of determining whether there was justice in the criticism which the Acting Comptroller General has made of the Department. It is my belief, after a most careful examination, that the criticism of the Acting Comptroller General is without merit and that it is merely an incident in a continuing effort of the General Accounting Office to assume duties not entrusted to it by law, and to assert authority neither expressly granted by law, nor properly deducible by implication from the law.

This effort of the Office of the Comptroller General is well illustrated, I think, by the two instances cited by the

- 3 -

Acting Comptroller General to show lack of cooperation by the Treasury Department with his office. They also reveal, it seems to me, a most serious basic fault in the whole conception of their responsibilities which seems from the start to have prevented the officers in charge of the General Accounting Office from rendering the public service that the Congress expected of them when it passed the Budget and Accounting Act. For that reason, after dealing with the specific criticisms of the Treasury in the report of the Acting Comptroller General, I shall offer some observations on this deeper phase of the matter.

The first of the two instances cited by the Acting Comptroller General relates to the failure of the Treasury Department to use symbols and titles prescribed by the Comptroller General for appropriation and receipt accounts. The other relates to failure of certain corporations to comply with accounting procedures prescribed by the Comptroller General.

Symbols and Titles for Appropriation
and Receipt Accounts

The criticism of the Treasury relating to its failure to use symbols and titles for appropriation and receipt accounts appears on pages 2 and 3 of the Acting Comptroller General's report, and reads:

" * * * a new system of symbols and titles for appropriation and receipt accounts was prescribed by General Regulations No. 84, dated June 15, 1936. The obvious purposes of General Regulations No. 84 are --

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- "(a) A proper classification of public moneys, both receipts and appropriations.
- "(b) A positive identification of receipt accounts with their related appropriation accounts.
- "(c) A more thorough and speedier analysis of the financial accounts of the Government.

"On the whole the new system and procedure, as modified to fit unusual conditions, has proven satisfactory and is a decided improvement over the old systems. The change from the old system of symbols and account designations to the new entailed some additional work and expense during the fiscal year 1937, both in the General Accounting Office and in the administrative offices, but the results justify and more than offset the difficulties encountered. In effecting such change the departments and establishments generally cooperated fully. The Treasury Department, however, refused to adopt the prescribed symbols in connection with its records and as a result many administrative offices have been compelled to show both the old and the new symbols on many of their accounting documents. Repeated efforts have failed to elicit from the Treasury Department any real reason why the new symbols should not be adopted there, or that such adoption would not be altogether in the best interests of the Government. The situation thus disclosed evidences the type of difficulties encountered by the General Accounting Office in its efforts to develop and establish a proper and adequate system of accounts for the Government. Under existing law it may prescribe but no power is given to enforce compliance with prescribed procedures."

In definite answer to the foregoing statement it may be

said:

1. The Comptroller General exceeded his authority in prescribing the new system of symbols and titles for appropriation and receipt accounts as carried in the official accounts of the United States Treasury.

2. The "obvious" purposes of the new system were not as indicated on page 2 of the Acting Comptroller General's report under the captions (a), (b), and (c), (above), for the reason that all of such purposes were being covered under the old system of symbols and account titles.
3. The determination of account symbols and titles of appropriations and receipt accounts has been a prerogative of the Secretary of the Treasury from the beginning of the Government and has never been questioned by a Comptroller. It is a necessary incident to the drawing of warrants, for which the Secretary of the Treasury is responsible under the law.
4. The classification of receipts and expenditures of the Government is of more concern to the Treasury Department than it is to the General Accounting Office. The new system of symbols consisted of approximately 700 pages, involving 12,000 items, and subsequent revisions proved that they were not sufficiently reliable for use by the Treasury Department. The Treasury's accounts must be accurate.
5. The regulations prescribing the new symbols were dated June 15, 1936, only 16 days before the beginning of the new fiscal year to which they were to apply. The regulations were never officially transmitted by the Comptroller General to the Secretary of the Treasury. The Department was able to procure a copy informally about June 22nd. This was after the Treasury had prepared all of its ledger sheets and warrants covering appropriations for the new fiscal year.
6. The Treasury had not been previously consulted as to whether the new system would meet its needs.
7. The Treasury endeavored to reconcile its differences with the General Accounting Office, with no success.

8. The new system has resulted in an increase in the administrative expenses of the Government. (See for instance, hearings before the House Appropriations Committee on the Key Appropriation Bill for the fiscal year 1958.)

9. The sentiments of the Treasury's position is definitely established by the correspondence between the Secretary of the Treasury and the Acting Comptroller General, copies of which are attached hereto.

Generalizations

The second matter on which the Acting Comptroller General alleges that the Treasury has failed to cooperate with the General Accounting Office in establishing a proper accounting procedure relates to the handling of funds of corporations, particularly the case of the Federal Savings and Loan Insurance Corporation. It is said that "the Treasury Department still refuses to cooperate with the General Accounting Office in having such funds covered into the Treasury."

Several facts stand out in the case of the Federal Savings and Loan Insurance Corporation. These may be enumerated as follows:

1. The law neither requires nor authorizes the covering of the Corporation's funds into the Treasury.
2. The Corporation is authorized to "deposit" its money into the Treasury; or, with the approval of the Secretary of the Treasury, it may even deposit its money with a Federal Reserve bank. Or, it may invest its money in obligations of the United States, or in interest are guaranteed by the United States.

3. It is the policy of the Treasury not to become a party to procedures which are not authorized by law, even though prescribed by the Comptroller General. The Treasury Department does not interpret the Budget and Accounting Act as relieving it of its own responsibilities to see that the laws of the United States in which it is concerned are complied with.

4. Upon request of the Corporation, the Treasury attempted to reconcile the opposing views of the Corporation and the General Accounting Office. In fact, the Treasury proposed a procedure which was substantially the same as the regular established procedure, the only difference being as follows: Instead of using a formal requisition prescribed by the Comptroller General and a formal Treasury Warrant, the procedure involved provided for the writing of a letter to the Secretary of the Treasury by the Corporation, requesting the transfer of money from the Corporation's general account to a disbursing account. It is important to note, however, that provision was made for the approval of such requests by the Comptroller General before the money was to be made available to the Corporation for disbursement purposes. This procedure was agreed to orally by representatives of the General Accounting Office and was followed for some time, until the Comptroller General himself, by a formal letter, upset the procedure; whereupon the Corporation determined further attempts to cooperate with the General Accounting Office were not warranted.

In considering the case of the Federal Savings and Loan Insurance Corporation, and comparing it with a regular department or establishment of the Government, it must be borne in mind that the Treasury Department has entirely different responsibilities in the two cases.

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As to the Federal Savings and Loan Insurance Corporation, the Treasury's responsibility was only that of a depository. The capital of this Corporation was provided through the subscription of \$100,000,000 of its capital stock by the Home Owners' Loan Corporation, which stock was paid for in the form of FSLIC bonds. Congress did not even make an appropriation from the Treasury in this case as is usually done in creating corporations. The Treasury Department did not have the responsibility of issuing a warrant authorizing the Corporation to spend its money, as is done in the case of a regular department or establishment of the Government. The Treasury Department acted only as the Corporation's bank.

On page 21 of the Acting Comptroller General's report it is stated that the Electric Home and Farm Authority "is another instance where the action of the Treasury Department undertakes to counsel and direct the setting up of accounting procedures", and on page 27 a similar reference is made to the Treasury Department concerning the Home Owners' Loan Corporation.

The facts in these cases are essentially the same as those mentioned in connection with the Federal Savings and Loan Insurance Corporation.

The Treasury Department has never interfered with the setting up of accounting procedures by the Comptroller General, but, on the contrary, has frequently attempted to reconcile the differences between the General Accounting Office and adminis-

trative agencies in order to promote the general public interest wherever the Treasury Department was in any way involved. In the instant cases the Treasury Department is responsible for handling the corporations' funds, and has felt a duty to seek solutions to the problems submitted to it by administrative agencies in connection with its daily operations. The reconciliation of these differences is not a task coveted by the Treasury Department, and the work of the Treasury would be greatly lightened if the General Accounting Office should attempt seriously to understand the operating problems of administrative agencies, and should cooperate in devising accounting practices to meet the requirements of good administration.

Both of the instances above are revealing in their reflection of the general attitude of the Office of the Comptroller General toward its responsibilities. They illustrate not only the effort of that office to extend the sphere of its responsibility in disregard of the law, but the arbitrary and peremptory method that it adopts to accomplish this object. The first of the two cases is more important, however, since it shows very clearly the spirit of the approach of the General Accounting Office toward one of the most important of the responsibilities with which it is charged by law.

That responsibility is stated in Section 309 of the Budget and Accounting Act as follows: "The Comptroller General shall prescribe the forms, systems, and procedure for adminis-

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trative appropriation and fund accounting in the several departments and establishments, and for the administrative examination of fiscal officers' accounts and claims against the United States."

It was on this authority that the Comptroller General relied in attempting to force on the Treasury Department, without consultation or adequate notice, an entirely new and complicated set of symbols for the central receipt and appropriation accounts in the Treasury, symbols that were proved by subsequent revisions and corrections to be ill suited to meeting Treasury requirements. Commenting on the refusal of the Treasury to adopt these symbols instantly, a course which inevitably would have caused great confusion in the public accounts and needless expense to the Government, the Acting Comptroller General comments:

"Under existing law it (the General Accounting Office) may prescribe but no power is given to enforce compliance with prescribed procedures."

Later he adds:

"Much more rapid progress would be assured if the law imposing this tremendously important responsibility carried also the means for compelling observance."

Elsewhere in his report (Page 4) he gives his idea of the purpose which this authority to prescribe forms should serve in the hands of the Comptroller General. There the primary need of adequate records for administrative purposes, to fulfill the functions for which the Government exists, is recognized but

briefly. The Acting Comptroller General's interest is centered in providing papers for audit. He says:

"In such circumstances the General Accounting Office becomes peculiarly related to the entire fiscal machinery of the Government and through the utilization of the fiscal data necessarily concentrated in the General Accounting Office for the purpose of the audit it constitutes the center into which the accounting records of the Government should and are now being properly coordinated."

It should not require argument to convince any reasonably intelligent person that the main purpose of Government or the main purpose of keeping Government accounts is not to provide materials for an audit. The main purpose is to provide the working equipment for carrying out the Government's functions. It is an administrative purpose; auditing is an incident, and a system which adequately serves administrative needs must necessarily furnish adequate information for complete audit. But to subordinate the working needs of the Government to the purpose of providing an abundance of documents for auditing purposes would inevitably be fatal to administrative efficiency.

The Congress has not given the General Accounting Office any authority to do this. The failure of the Congress to give the Comptroller General authority to force upon the executive departments any accounting system he may devise can not be regarded as an accident or an oversight, since it corresponds to a common-sense view of the problem. Surely no private corporation would force an

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its administrative staff an accounting system devised by a firm of auditors without giving its own accountants and executives a thorough opportunity to pass upon its worthiness and suitability; and no firm of accountants worthy of confidence would undertake to recommend such a system without full consultation with staff accountants and executives as to the working requirements of the business and a most thorough effort to satisfy them on every step contemplated.

What the Congress did in fact impose upon the Comptroller General was a duty to consult and cooperate with the officers of the executive departments in devising and putting into effect a thoroughly adequate system of departmental records. That commission by its very nature could not have been accomplished without the most thorough cooperation, diligent effort to understand the problems with which operating executives are faced and a spirit of mutual respect and patient endeavor to reach a meeting of minds.

The Treasury Department has always stood ready to give effect to the law in its full letter and spirit and to accomplish the sort of cooperation which the law contemplated. But it has not been met by a similar spirit on the part of the Comptroller General. It has not enjoyed the cooperation from the Comptroller General's office which it had a right to expect, in view of the express terms of the law. The Comptroller General's actions have

not been cooperative; they have instead been peremptory, arbitrary, and capricious.

I shall be glad to supply to your Committee, if you should desire it, abundant evidence in support of this statement.

The Comptroller General appears to have taken too literally the press references to his position as that of "watchdog of the Treasury", and in seeking to realize that figurative description to have conceived his function to be that of snuffing at the heels of the administrative officers of the Government, and undertaking to hamper them in the faithful performance of their duties, rather than cooperating with them to render more efficient service. However appropriate that attitude may be to the work of the Comptroller General in his function as an auditor, it can not be applied to those functions — such as that of prescribing forms of records — which are supplemental to the work of the administrative branch of the Government, without causing injury to the public service.

To interfere with the proper exercise of administrative authority is to interfere with, and to divide, administrative responsibility. That has been the direction of the Comptroller General's efforts. Not satisfied with what he has accomplished by a process of determined infiltration and assertion of unauthorized authority, he is now seeking from the Congress a most smearing grant of power.

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To combat that request is one of the chief purposes of this communication. I do not combat it out of any jealous desire to safeguard the lawfully granted authority of the Treasury Department, but rather because of a sincere belief that to grant the Comptroller General the authority he seeks would be absolutely fatal to good administration and would introduce untold possibilities of confusion and betrayal of the public trust.

The Comptroller General's request for this new authority is contained on page 12 of his report. He proposes an amendment to Section 209 of the Budget and Accounting Act (cited above) to read as follows:

"Provided, that appropriated or other moneys, available to any department or establishment as indicated in Section 2, shall not be advanced for expenditure or be expended whenever there is substantial failure to install and maintain systems of accounting and procedures relating to the receipt, deposit, application or expenditure of public, quasi-public, trust or corporate funds, prescribed pursuant to this section."

The effect of the enactment of this proposal would indeed be to make a very near of the Comptroller General. It would give him authority to interfere with and to nullify almost any act of an administrative ~~branch~~ of the Government, to hamper by delay and to blockade by inaction or caprice the exercise of the most essential governmental functions. It would in effect make him the most powerful administrative officer of the Government, but without any responsibility to the Chief Executive elected by the people and with

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only such supervision of his acts as the Congress might be able to supply through occasional investigation.

Such a mingling of huge executive responsibility with the function of audit could not do otherwise than to prejudice the integrity of the Comptroller General's audits, besides introducing hopeless confusion into governmental affairs.

The inability of the Acting Comptroller General to visualize the implications of his proposal is, I think, a more serious reflection on his capacity to undertake such a responsibility than any criticism of him which anyone else might voice.

It is extremely important that a good and effective system of audit of Government accounts be maintained, and not the least of the dangers in this proposal of the Acting Comptroller General is its menace to the integrity of the auditing process. It would be menaced not only by confusion of responsibility but by the probability that so stringent a control over expenditures would result in the exemption by Congress of many specific appropriations from all supervision by the General Accounting Office.

Very truly yours,

Secretary of the Treasury.

EFB:MLB
1-10-38

Honorable James F. Byrnes,
Chairman, Select Committee on
Government Organization,
United States Senate,
Washington, D. C.

Enclosures.

January 10, 1938

I sent for the Mexican Ambassador and he was at my house last night at seven o'clock. I called his attention to the Kluckhorn article in the New York Times (Copy attached.)

U. S. PEGS THE PESO, BUYS MORE SILVER, MEXICO ANNOUNCES

NY
Suarez Reports Stabilization
Fund Aid and 35,000,000-
Ounce Purchase of Metal

SAYS WE WILL SHIP GOLD
JAN 9 1938
He Denies 'Horse Trading,' but
Weights Ending Tax—U. S.
Officials Doubt Peso Report

By FRANK L. KLUCKHOHN

Special Cable to THE NEW YORK TIMES.

MEXICO CITY, Jan. 8. — The United States Government has given assistance to Mexico in a moment of great need, enabling the regime of President Lazaro Cardenas to continue its social reform program and strengthening its position.

This was revealed today when Secretary of Finance Eduardo Suarez announced that the United States stabilization fund was operating to maintain the exchange rate of 3.50 pesos to the dollar.

He also announced that the Federal Reserve Bank of New York was buying 35,000,000 ounces of the Bank of Mexico's silver, representing virtually all that has been accumulated by the bank under the London silver agreement during the years it has been in force, in addition to regular monthly United States silver purchases.

"An arrangement has been made for the United States stabilization fund to maintain the exchange of the dollar and the peso," the Secretary of Finance declared. "We also have an agreement for the United States to buy silver futures for a year, in addition to 35,000,000 ounces of silver held under the London agreement."

He explained that the United States Treasury, through the Federal Reserve Bank of New York as agent, had agreed to buy 5,000,000 ounces of newly mined silver a month at a price to be fixed from day to day.

Book Value of Bank's Silver

The 35,000,000 additional ounces of silver has been held by the Bank of Mexico with a book value of 35 cents an ounce, Luis Montes de Oca, director of the Bank of Mexico, explained.

While Señor Suarez refused to reveal its purchase price, it was reported to be 45 cents an ounce. The Federal Reserve Bank of New York will ship gold in exchange for this silver, he said.

The full extent of the United States aid to the Mexican regime was revealed at a moment when, according to Vicente Lombardo Toledano, chief of the Confederation of Mexican Workers, the dominant labor union, 10,000 of the 30,000 farm families at La Laguna, the government's key agrarian project, are unpaid and the nationwide land division program is faltering.

The Bank of Mexico's reserves have fallen from 62.2 per cent on Aug. 1 to slightly over 48 per cent, and the government's overdraft on the Bank of Mexico is critical.

Señor Suarez, in a statement at a press conference the day after his return from Washington, indicated that President Roosevelt had undoubtedly given the greatest aid ever vouchsafed by the United States Government, to a Mexican regime.

He asserted that there had been

"not haggling" with regard to the United States help for Mexico, Washington giving the aid in a spirit of friendship.

He added, however, that he was "suspicious" removing the 3 per cent surtax on imports into Mexico and was "hopeful" that wage and other difficulties in the petroleum industry, in which United States companies have a \$175,000,000 interest, "will be settled satisfactorily for both sides."

Señor Suarez stressed that there had been no agreement with the United States on these matters, but added, "We are grateful that the negotiations were conducted in a spirit of reciprocity."

There was no commitment that the campaign for the Mexicanization of industry affecting United States interests would be definitely dropped, and the agrarian campaign affecting United States landowners is expected to continue in the future.

Benito Naves asserted that the agreement had been made "in order to increase United States trade with Mexico."

In addition to the arrangements for the purchase of silver for peg-

ging the peso, Señor Suarez declared, he was making private arrangements for the disposal of the government's petroleum royalties on the deal completed with British interests in November for development of the vast of the rich Posa Rica field, and was expecting to get "an advance on the petroleum the government will obtain."

With regard to the probability of obtaining an advance, Señor Suarez refused to say what concerns he was dealing with other than "they are not German or Japanese." He said that he hoped to give news of the signing of a definite agreement in the coming week.

He also remarked that he had concluded an agreement with Texas cotton concerns, including Anderson, Clayton & Co., for them to continue to operate in Mexico and finance private cotton crops, particularly in the Matamoros district near the northeast border. He added that he was hopeful these companies would also help finance the cotton crops on the government's community farms.

He contended that the arrangement would help maintain the interior price of cotton at "at least 14 cents."

The Finance Secretary remarked that payments would now be made for the cotton gins, plows and other machinery taken from private United States, British and Spanish landowners whose territory and implements were seized in November, 1935, when the land was divided in the La Laguna region, the new deals for obtaining money from the United States presumably making this possible.

"We have always had very good

relations with the United States Government and we hope to continue on the same basis of mutual respect," he concluded. "We have found that the Washington officials felt they could deal with Mexico without making demands in return for each concession. We are grateful.

"I suppose that the solution of the petroleum problem will be satisfactory to both parties. This is my conviction and hope."

U. S. Officials Doubt Report

Special to The New York Times.

WASHINGTON, Jan. 8.—Treasury officials declined to comment tonight on press reports of revelations by Eduardo Suarez, Mexican Secretary of Finance, concerning recent negotiations here. It was evident, however, that they did not agree that the Treasury's stabilization fund would be used to support the peso, and they were inclined to believe, unofficially, that Señor Suarez must have been misunderstood.

It is a fixed policy, they let it be understood, that the currency of no country will be supported out of the stabilization fund, although the Treasury at all times will cooperate with other countries in producing stable exchange rates in relation to the dollar, where possible.

Both the Treasury and the State Department declined to discuss any details of silver purchases or of trade concessions Mexico may be able to grant in return for American cooperation during the period of adjustment arising from President Roosevelt's year-end cut in the price for domestically mined silver.

EMBAJADA DE MEXICO

Washington, D. C.,
January 10, 1958.

To His Excellency Henry Morgenthau Jr.,
Secretary of the Treasury,
Washington, D. C.

My dear Secretary Morgenthau:

Referring to our conversation of yesterday, I am glad to enclose herewith the Spanish text, and the translation in English, of the statement made last night by Secretary Suarez, concerning the misunderstanding to which you referred. I hope that this will help to make the situation clear.

You may, of course, make of this statement any use that you deem convenient. The Embassy has already sent to every newspaper, in Washington, a copy of Secretary Suarez' statement; but, through the press channels of your office, this statement could receive a wider publicity.

Very sincerely yours,

J. Castillo Nájera
Francisco Castillo Nájera,
Ambassador.

Enc. 2.

THE STATEMENT MADE BY SECRETARY OF FINANCE
SUAREZ IN MEXICO CITY, ON THE 9TH OF JANUARY 1938.

The Mexican Press commenting my impressions on my recent trip to the United States, has shown some discrepancy on one of the points to which it refers. In order to avoid any misunderstanding, I wish to make it clear that the information, according to which the Mexican Government, in connection with recent agreements, may use the stabilization fund of the United States of America, is erroneous.

Washington, D. C., January 10, 1938.



EMBAJADA DE MEXICO

DECLARACION DEL SEÑOR SECRETARIO DE HACIENDA,
SUAREZ, HECHA EL 9 DE ENERO DE 1938.

En vista de que la prensa de la capital, al publicar mis impresiones sobre mi reciente viaje a los Estados Unidos, muestra algunas discrepancias sobre uno de los temas tratados, a fin de evitar cualquiera mala inteligencia sobre el particular, manifiesto ser equivocada la información de que el Gobierno de México, por virtud de los arreglos realizados podrá usar del fondo de estabilización del Gobierno de los Estados Unidos.

Washington, D. C., 10 de enero de 1938.



January 10, 1938

Last night (Sunday) I had tea with the President and mentioned to him about the Kluckhorn article in the New York Times where he said that we were using the stabilization fund and the President said I had better send for the Mexican Ambassador and ask him how he gets that way. I got home and called the Ambassador and he came out.

The Ambassador was very much chagrined and had been trying to get Suarez on the 'phone and if he said it he wanted him to correct it. The Ambassador was very ~~ad-~~preciative.

This morning in comes a statement from Suarez which they had given to the press completely denying it. I told the Ambassador that I did not want to have to call Mr. Suarez and say it is a mistake and the Ambassador agreed, saying, Oh, no. It is much better coming from us. This morning they had distributed all over Washington a denial through the press. I told him to also send a copy to Mr. Hull.

As he left, the Mexican Ambassador said, "Don't let's forget we are very anxious for you to take on the big matter," which means the offer which I made to assist them in reorganizing their finances. But it is interesting that he should again mention it. When I get back, I will do it.

January 10, 1938

Talked to Senator Wagner and told him that I wanted to get an amendment to the Housing Bill which would make it permissible for the United States Government to lend money to cooperative enterprises that want to build houses and to limited dividend companies.

Before calling him I called Straus and Straus is most anxious, most enthusiastic; says it is very important. Wagner was kind of lukewarm; says it is not slum clearance, but if the President would send word he wants it, he would have it put in.

Ed Foley is carrying the ball on it and I am going to ask the President and ask him to send Wagner either a chit or a note and then let Foley work with Straus on it. I told Foley I am willing to lend each type of organization \$25,000,000. For instance, the Garment Workers of New York have built a very successful housing project in New York which is a complete success. As the bill is written now, this type of organization cannot come in and the time may come when we may be tickled to death to have that kind come in, especially if Straus falls down on his thing with municipalities, which I think he will.

The reason Wagner does not like it is because it is so much better than what he has, because this is a straight loan, no grants, and makes the other thing look silly.

But I would like to be on record as Secretary of the Treasury and have the President and the rest of the fellows say this is the kind of thing we are in favor of.

Jan. 10, 1938.

Mr. J. E. Crane telephoned the following to Mr. Knoke

Memorandum to Secretary Morgenthau

In accordance with arrangements made through the State Department with the Mexican Government, a special representative of the oil companies is going to Mexico to talk with President Cardenas. Mr. Thomas R. Armstrong of the Standard Oil Company of New Jersey has been selected by the companies for this mission. Meanwhile the labor award is being held in abeyance.



TREASURY DEPARTMENT

WASHINGTON

MEMORANDUM OF CONFERENCE IN THE SECRETARY'S OFFICE
(AT LUNCH) AT 1 O'CLOCK, MONDAY, JANUARY 10, 1938.

Present: The Secretary
Mr. Magill
Mr. McReynolds
Mr. Graves

Subject: Establishment of experimental settlement unit to expedite disposition of income-tax cases in the Bureau of Internal Revenue.

The Secretary called upon Mr. Graves for alternative suggestions, in lieu of those previously made, for the establishment of a special settlement group for the metropolitan area of New York City, which had been discussed at earlier conferences.

Mr. Graves pointed out the possibility of using the Atlanta Division, the Chicago Division, the San Francisco Division, or the Los Angeles Division, for the proposed experimental arrangement, and gave the approximate number of protested cases originating in each of these divisions.

After discussion, the Los Angeles Division was selected. The controlling reasons were: first, the fact that this division is a long distance from Washington, which would appear to justify the proposed arrangement purely as a matter of convenience to taxpayers; and, second, the fact that a nucleus for the proposed settlement group is already to be found at Los Angeles, where a number of representatives of the technical staff, as well as a number of engineer revenue agents, are now stationed. The suggestion was favorably considered that after a reasonable time, in the event the experiment proves successful, cases originating in the Seattle and San Francisco Divisions might also be referred to the proposed settlement agency.

It was decided that Mr. Graves should present the plan to Commissioner Helvering, and undertake to secure his agreement to it.

January 10, 1938

On returning from the White House this afternoon HM, Jr said the President had agreed to send up the nomination of Clarence Oppenheimer to be a member of the Board of Tax Appeals.

HM, Jr sent for J.F.T. O'Connor and told him the President is tickled to death with this branch banking thing and wants to send a three-page message to Congress following up the idea of remote control and using as an example branch banking, making it impossible for any bank to hold bank stock. He asked O'Connor and Gaston to work together on this message and to get in touch with Jesse Jones, Marriner Eccles and Crowley and tell them that this is what the President is going to do. He also suggested that someone speak to Carter Glass about it as he, HM, Jr., had already mentioned it to him.

The Secretary then had Ed Foley come in and told him that the President had enthusiastically approved the idea of amending the Housing Act to include loans to cooperative groups and to take care of limited dividends. The Secretary also telephoned Senator Wagner and told Foley that Wagner had said fine, lukewarmly, but I have to take care of a fellow named Schwartz to get the amendment through.

MEMORANDUM OF THE DAY'S ACTIVITIES

January 10, 1938

To: The Secretary

From: Mr. Magill

1. Tax revision, 1938

The Democratic members of the Ways and Means Committee met both morning and afternoon to receive an explanation of the major recommendations about to be made by the subcommittee. Although there was a spirited discussion of some questions, the group seemed to be well satisfied with the proposed recommendations as a whole.

The present schedule is that the subcommittee will receive the draft report on Wednesday and that public hearings by the full committee will begin Friday with my appearance on behalf of the Treasury.

RM

January 10, 1938
4:39 p.m.

H.M.Jr: Hello.

Operator: Senator Wagner.

H.M.Jr: Hello.

Robert Wagner: Hello, Henry.

H.M.Jr: Hello, Bob?

W: Yes.

H.M.Jr: Bob, is my word good with you?

W: Always.

H.M.Jr: Well, I talked to the President about those two amendments, the one that - the non-profit housing, or what you - limited-dividend, ...

W: Yes.

H.M.Jr: ... and the other, the cooperative.

W: Well, you don't - non-profit and limited-dividends are - aren't - are profit enterprises.

H.M.Jr: I mean limited-dividend.

W: Limited.

H.M.Jr: Yes.

W: The dividends are profits. Yes.

H.M.Jr: And the other permitting co-ops.

W: Yes.

H.M.Jr: And he is most enthusiastic and he said please to tell you so.

W: Well, fine; then, if we prepare those amendments, he'll support it.

H.M.Jr: Enthusiastically.

-2-

W: Fine.

H.M.Jr: Now, I don't know whether you know Ed Foley is with me now.

W: Yes, he is.

H.M.Jr: And he's working on it.

W: All right.

H.M.Jr: Now, should I have him contact you?

W: Yes.

H.M.Jr: How's that?

W: When he's ready.

H.M.Jr: When he's ready.

W: Yes.

H.M.Jr: But if you'll take my word, the President said

W: Well, of course, Henry. My God.

H.M.Jr: ... to tell you that he was enthusiastic for those two amendments.

W: My only fault with you is that you never give me a damn thing.

H.M.Jr: Oh, go to hell.

W: Say, ...

H.M.Jr: (Laughs heartily)

W: Say, while you're on ... - you don't, but I never ask you for anything.

H.M.Jr: Oh, go on.

W: I know - I got sense enough not to ask for anything.

H.M.Jr: Well, you ask. You try.

-3-

- W: No, I don't want I tell you what I - you're interested in this Board of Tax Appeals.
- H.M.Jr: Yes.
- W: There's a vacancy there.
- H.M.Jr: Yes, and the President's just agreed to fill it.
- W: What's that?
- H.M.Jr: He's just agreed to fill it. He's just agreed today on the man.
- W: Oh, has he?
- H.M.Jr: Yes, he did.
- W: Oh, hell. I wanted that for our assemblyman - ex-assemblyman.
- H.M.Jr: Oh.
- W: You know, I think it's a mistake to appoint a man that's been practicing around Washington on the Board like that.
- H.M.Jr: Well, I - he agreed - he agreed today on the man.
- W: Where's he from?
- H.M.Jr: New York. I don't know - I suppose they checked with you, but
- W: Oh no, they never checked with me. Who is it, Sprague?
- H.M.Jr: No, Clarence Oppen. He's - ah - he's here in the Treasury.
- W: Oh. Oh, he's in the Treasury now.
- H.M.Jr: Yes. He used to be counsel for the New York Housing Authority. He came down here five years ago with me.
- W: Gee, you boys just fill up - you don't give us fellows any consideration of any kind.

-4-

H.M.Jr: Oh

W: Does that leave a - what does that leave in - leave a place in your Department?

H.M.Jr: Yes.

W: Well now, let me tell you about Swartz.

H.M.Jr: All right.

W: Just a moment.

H.M.Jr: O.K.

W: William Swartz. He was up in the Assembly for eight years. He made a fine record there.

H.M.Jr: Yes.

W: But he's a - and he's a very intelligent fellow, and he's very honest. He's one of those dead straight fellows that - in public service he's just an idealist. He couldn't go back to the Assembly because he couldn't afford it. I'd like to see him in public service because he's a fine type. The President knows him. And I'd like to do something for him, because he's been a

H.M.Jr: What's his first name, Bob?

W: William. William Swartz.

H.M.Jr: How - how can we

W: You see, I - you know, I have an idea - of course, your - this appointment is all right, if it comes right out of your Department. But, Henry, I think it's an awful mistake to appoint these fellows that have been more or less lobbying around Washington.

H.M.Jr: Oh, don't fear - oh, no, no. This fellow is here.

W: I know, but that's - I know a fellow you had under consideration off and on has been practicing around here, and they - I think it's a better thing to take a man from the outside and put him in.

-5-

H.M.Jr: I agree with you.

W: Don't you agree with me?

H.M.Jr: I do.

W: Well, this fellow's a very high class fellow.

H.M.Jr: Where is Swartz?

W: What?

H.M.Jr: Where's the - what's his address?

W: I think it's - 2 Lafayette Street is his office.

H.M.Jr: I see. Well, if I

W: I'm very much interested in him because he is a fine character and I know he's one of those fellows that is so straight that I'd trust him anywhere. And that's a very important thing these days.

H.M.Jr: Surely. William Swartz, 2 Lafayette Street.

W: Yes.

H.M.Jr: I'll get in touch with him right away.

W: How much does this pay?

H.M.Jr: I don't know off-hand.

W: I see. Well, anyway, I'm awfully interested in him.

H.M.Jr: Right.

W: If you want me to send for him, I will, or if you'd rather do it yourself

H.M.Jr: Well, the trouble is I'm going away tomorrow for a few days.

W: I see. All right.

H.M.Jr: And I'm going to ask somebody here, though, to get in touch with him and contact him.

W: All right.

H.M.Jr: I'll ask McReynolds or somebody.

W: Thank you very much.

H.M.Jr: Thank you, Bob.

W: Good-bye.

January 10, 1938
4:58 p.m.

H.M.Jr: Hello.

Operator: Nathan Straus.

H.M.Jr: Hello.

Nathan
Straus: Yes, Henry.

H.M.Jr: Nathan, I talked to Senator Wagner about these two amendments.

S: Yes.

H.M.Jr: Limited-dividend and cooperatives.

S: Yes.

H.M.Jr: He said he wanted the President's word on it.

S: Yes.

H.M.Jr: I spoke to the President, and the President was most enthusiastic about it.

S: Fine.

H.M.Jr: He said that's just the kind of thing that he wants.

S: Did you tell Bob?

H.M.Jr: And I called up Wagner and told him.

S: Gosh, you get things going fast, don't you?

H.M.Jr: Well, it cost me a seven-thousand-dollar-job lawyer, but that's all right.

S: (Laughs)

H.M.Jr: So - ah - jobs are limited as well as the dividends.

S: (Laughs)

H.M.Jr: So I'll tell Foley to work with you and with ...

S: Keyserling.

-2-

H.M.Jr: ...Keyserling.

S: All right, I'll see him myself while you're away.
How long you going to be gone?

H.M.Jr: Ten days. And McReynolds is also watching the thing.

S: All right. That's two swell men. No two men I'd
rather work with.

H.M.Jr: Fine. Good-bye.

S: "Congrats."

H.M.Jr: All right.

S: Have a good time.

H.M.Jr: Thank you.

S: Good-bye.

JAPAN'S STOCK OF IMPORTANT IMPORTED RAW MATERIALS*Confidential* 327

The following estimate of supply of important imported raw materials in Japan was submitted by Col. Bratton, Department of War. Col. Bratton stated that the following estimates prepared in G-2 were hardly more than intelligent guesses but they were the best estimates he had available.

As of July 1, 1937, (i.e., before acute hostilities with China broke out) Japan had the following:

Oil	18 months' supply		
Cotton	12 "	"	"
Iron and steel	12 "	"	"
Copper	12 "	"	"
Crude rubber	6 "	"	"
Wool	3 "	"	"
Chemical fertilizer	3 "	"	"
Nickel	12 "	"	"
Lead	6 "	"	"
Tin	6 "	"	"
Zinc	6 "	"	"

From July 1, 1937 to January 1, 1938 Col. Bratton estimates that stocks of these materials have not been reduced by more than 10 percent. In other words, he stated that Japan now has on hand approximately 90 percent of the above amounts.

Colonel Bratton stated that the above estimates were preliminary and that he hoped to have more carefully prepared estimates ready within a few weeks.

January 10, 1938.
10:18 a.m.

Operator: Mr. Taylor.

Wayne
Taylor: Yes.

H.M.Jr: Herbert Feis just called, and he said he saw Mr. Hull and talked to him about this question of the Hungarian debt, and Mr. Hull said that he wanted to devote his morning to the Far Eastern situation and that he thought that under the circumstances we could let the thing go until I came back.

T: Fine.

H.M.Jr: And Herbert Feis said after all it was he, Herbert Feis, who's been the person that's bringing the pressure to bear, and that he would get in touch with the Hungarian Minister and tell - give him, I don't know, some excuse why we couldn't do it for ten days or two weeks. And he furthermore said that Mr. Hull said that on my return he, Mr. Hull, would be very glad to call up the President and ask him to see the two of us to discuss the question of how we should handle debts of foreign countries.

T: Well, I would say that was in very good shape.

H.M.Jr: I would say that that was in perfect shape.

T: Yes.

H.M.Jr: And Herbert said in regard to the Far Eastern situation that they have no confirmation either way, and that - I said if anything happened, to let you know so that you could communicate directly with me.

T: Right.

H.M.Jr: But he said in drawing up - confidentially, in drawing up the Neutrality Proclamation, under Section 3 they're making no exceptions of any kind; that is, as to loans, et cetera.

T: Yes.

H.M.Jr: There are no exceptions made.

T: Yes.

-2-

H.M.Jr: So I would take it that under that we would have nothing to do, you see?

T: Yes.

H.M.Jr: Is that right?

T: That's my - that's my impression.

H.M.Jr: Well, you might talk to Clarence Opper and sort of go over it.

T: Yes.

H.M.Jr: But if there are no exceptions made, I don't see that we'd come in on it.

T: Except - ah - I think the Act itself exempts the Government, you see?

H.M.Jr: Well, you might take a look at it.

T: Yes.

H.M.Jr: Now, so there's no misunderstanding, I told - ah - what's-his-name - Archie that if he sees anything come over the ticker, it's his responsibility to locate me and get in touch with me right away.

T: Check.

H.M.Jr: So I'll leave word with the girls here in the office and my operator that if - if there's something like that breaks, because Archie would get it first

T: Yes.

H.M.Jr: ... and - and so between you and Archie I'll leave it that one or the other of you will reach me, you see?

T: Right.

H.M.Jr: And - if anything like that should break. Shall we leave it that way?

T: Yes.

-3-

H.M.Jr: All right.

T: Well, have a swell time.

H.M.Jr: Well, I'll - you'll hear from me a couple more times before I go.

T: All right.

H.M.Jr: And I also told Herbert that I - before I left, I was going to call up Mr. Hull and say good-bye.

T: Well, I think that's - that's pretty good tactics.

H.M.Jr: Well, I usually do that anyhow.

T: Yes.

H.M.Jr: After all, he's my senior in the Cabinet and I think I always do call him up.

T: Uh-huh.

H.M.Jr: And I always call him up when I come back. There's no differences. Herbert told me - I guess - he said that - he put it very politely, that Mr. Hull last night was pretty tired and pretty much upset, and he said, "He gets that way, and I guess we all do." And I gather this morning he's feeling all right.

T: Good.

H.M.Jr: O.K.

T: Right.

H.M.Jr: I'll talk to you again.

T: Yes.

H.M.Jr: Good-bye.