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Copy

CHINESE EMBASSY  
WASHINGTON

TEXT OF A TELEGRAM FROM HIS EXCELLENCY  
DR. H. H. KUNG, PRESIDENT OF THE EXECUTIVE YUAN,  
DATED CHUNGKING, NOVEMBER 9, 1938.

Kindly transmit the following message from the Generalissimo to the President, which has my hearty concurrence:

"I greatly appreciate your friendly interest and effort and those of Secretary Hull and Secretary Morgenthau as manifested in what you have done for my country and especially in what you are doing at a time when the fate of my country is regarded by skeptic observers as already beyond hope. I especially appreciate the kind efforts of your Government in the silver purchase, in the proposed loan, and in the most recent stand on the Nine-Power Treaty.

"You may be interested to know that, in my address to the nation on October 31st, I have stressed the following points: that China will continue her policy of prolonged nation-wide resistance till we can obtain military initiative in the war; that we can only win final victory through greatest hardship and sacrifice; that this war is "revolutionary warfare" wherein the spirit of the people will ultimately win out, -- witness the wars of American Independence, French and Russian Revolutions,

Revolutions, and Turkish Emancipation; that China's main base of resistance is the vast hinterland, and the past sixteen months of resistance has succeeded in retarding the westward advance of the enemy, thus enabling us to develop communications and remove some industries thither, and concentrate weapons to wear down the invader; and lastly, that now the war is really "nation-wide" and the enemy drawn to the interior, both time and geography are favorable to China's side.

"You may also be interested to know that this policy was unanimously adopted by the People's Political Council at its Second Session.

"You must have read of reports of peace moves and peace talks in China. On the question of peace, I wish to assure you, Mr. President, that, while Japan has indicated some willingness to talk peace, and while our people are peace-loving and would not be unreasonable regarding peace, peace is impossible simply because China cannot possibly undertake to negotiate for peace as long as Japan insists upon "direct dealing" with China without the good offices of friendly powers in whom we can trust,- which, of course, means a peace to be dictated by Japan. As long as Japan does not fundamentally repent and revise her policy, China has no alternative but continue her struggle for her right to live and develop  
without



without external interference.

"I am deeply interested in your Government's recent protest to Tokyo on the question of the Open Door in the Chinese territory now under military occupation by Japan. The present war in China has most eloquently vindicated the wisdom of the fathers of the Open Door Policy and the Nine-Power Treaty that an independent and modernized China is the only stable and effective means to keep the Door of China open to all nations."

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Wednesday  
November 9, 1938  
9:48 a.m.

Archie  
Lochhead: Hello.

Operator: Mr. Cochran.  
(Speaking to Overseas Operator: Mr. Lochhead  
is on the line.)

Overseas  
Operator: Thank you. Hello, Mr. Lochhead.

Lochhead: Yes. Mr. Lochhead speaking.

H. Merle  
Cochran: Hello.

Lochhead: Good morning, Merle.

C: How are you?

Lochhead: Very well, thank you.

C: Oh, Archie, did Henry speak to you yesterday  
afternoon after I talked with him?

Lochhead: Ah - No. Did you speak to him in the afternoon  
after the morning call?

C: No. No. It was morning with you.

Lochhead: Well, I heard a part of the morning call from  
which I understood that there was nothing going  
on at the time. In other words, didn't they tell  
you that they were interested in ah - exchanging  
tax - Hello - exchanging tax information?

C: Yes. That's it.

Lochhead: And that's the only thing they had mentioned to  
you.

C: Yes.

Lochhead: Well now, I haven't heard anything more and the  
Secretary is on his way down from New York and  
won't be here I don't think until after eleven.

C: I see. Well, the point is just this. You recall  
he asked me to call him back at nine this morning  
whatever I had.

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Lochhead: Yes.

C: And so I - I was over seeing our friend just at that time so I couldn't call but I thought I'd better let you know a little bit now.

Lochhead: Right.

C: Yesterday after I telephoned him, you see, then I talked with the messenger a while - sort of exchanging views. Then last night at 8 o'clock the red haired fellow called for me and took me over to see his chief. Hello.

Lochhead: Yes.

C: And he read a draft message to my people on this thing.

Lochhead: Yes.

C: You see I've been wanting something definite. And the message in substance - well, I - I - let me go a little further. I asked two questions. I said, "Are you giving me this document or am I to take it down or make notes?" And I said, "Principally, since I've talked originally here with number one and had a - - - and then a messenger came who had talked with both number one and number two in my native land. Am I to say that this is a joint reply from one and two?" And number two said, "Well I talked with number one about this this morning, but," he said, "tomorrow I will be able to tell you that this is a joint reply." And he said, "I'll put it in writing." See?

Lochhead: Yes.

C: And I was to be called today, at least, and they said they would also get in touch with the messenger - they wanted to see him again. He wasn't with me, you see, then. And the reply as read was still rough - it was in a draft. But it was about what I told the Secretary earlier. That is, interested in negotiating an addendum, see?

Lochhead: Yes. That's the same thing you spoke of yesterday morning.

C: Yes. He said the other is not compatible with their program.

L: I see.

C: And now, after I - and then when I just asked these questions which I thought especially the second was appropriate - don't you?

O: Three minutes.

L: Hello.

C: Hello.

L: I didn't just get that last inquiry.

C: I say, I asked only the two questions. One about writing this down or in writing or submitting it to me orally, or what.

L: Yes.

C: And the second one about - is it a reply from both of the men. I mean I thought that was -

L: Yes.

C: in circumstances, don't you?

L: Yes. I think it was proper to ask him that much.

C: Yes. Well, then ah - then I'm to be called back today. And after talking with them the messenger and I had a long visit last night. And they called him in this morning, that is, the redhead called him in and went over the - got a little more background from him on the whole thing. Then they called me over at one o'clock along with the messenger and we just saw the redhead then. And he scowled quite a bit and he wanted to reaffirm how much he appreciated this and - feel around a little bit more. And I - I insisted on it - they - they've got to tell us what they want - if anything. And so they're going to have another consultation this afternoon - they're going to call - I'm to call at four thirty to see when I'm to go over to see them again. But it'll probably be late in the evening, that is 6 or 7 o'clock.

L: At 6 or 7 o'clock Paris time?

C: Yes. I mean, they're - they're - I'm to call there - telephone at 4:30 to my friend to see when they're going to be ready to give me something further.

L: Yes. Well now, I presume after you've had that talk that you'll call the Secretary again.

C: Well, I won't phone him until after they've called me over.

L: Oh, that's - that's right. After they've called you over and told you what they have on their mind -

C: Yeah.

L: - then you'll call the Secretary and give him the results?

C: That's right. But so far the call at 4:30 would just be to see whether they're going to see me later - to fix an hour.

L: That's right.

C: But it's likely that it'll be around 6 or 7 or 8.

L: That's right. Well, that would give you plenty of time to call her this afternoon.

C: Yes.

L: All right, then, Merle. Thank you a lot. And I'll let the Secretary/as soon as he comes in in regard to this. know

C: You - you see the proposition as it is. I mean the redhead says that if these things had come three days earlier they'd have been put in.

L: I see.

C: Before the other gentleman left.

L: Well.

C: Anyway, they may try to - to want part of it or they may want us to sound out our neighbors - I'm not just sure of what, but -

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- L: Well, the main thing is they have to come across and give us something definite that we can work on.
- C: That I insisted last night - ah - and they gave me that, you see.
- L: Yes.
- C: And then I wanted even more and I said, "Is this a reply from the two?" Because I don't think I consider - I'd consider it definite if I were not convinced of that, do you?
- L: I don't think there's anything definite yet.
- C: Well, but I mean, even that thing - if I just had it from number two it would not have satisfied ah - our chief.
- L: Oh, no. No. Whatever you have must be official and not just a personal opinion as far as I can see.
- C: And has to include the top man over here.
- L: That's right. It must be the top man and it must represent the opinion of not only the one but both of them.
- C: That's right.
- L: That's right.
- C: But that's the only thing I insisted on last night. I didn't insist that it be in writing at all.
- L: No. But you do insist though that it represent both of their opinions.
- C: That's right. That's the only thing I insisted on.
- L: All right, then, Merle. Well then, we'll wait to hear from you again then.
- C: All right. There's no use calling me because I'll be drifting around.
- L: No. We'll wait - we'll wait to hear from you.

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C: Yes. But I - I'll put in a call of some sort tonight - whatever I have.

L: All right. Thank you, Merle.

C: Thank you, Archie.

L: Goodbye.

C: Goodbye.

## GROUP MEETING

November 9, 1938.  
11:45 A. M.

Present: Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Duffield  
Mr. Hanes  
Mr. Gibbons  
Mr. Lochhead  
Mr. White  
Mr. Bell  
Mr. McReynolds  
Miss Chauncey

H.M.Jr: I missed my train for the first time in six years last night.

Gaston: Oh, you really missed it, huh?

H.M.Jr: I missed it by three minutes. No one told me what time the train left. I didn't want to leave Governor Lehman until we knew he was elected.

McReynolds: He had a pretty close squeeze.

H.M.Jr: Hello, Steve (Mr. Gibbons comes in), congratulations.

Gibbons: Congratulations on New York.

(Mr. Hanes comes in)

H.M.Jr: Hello, John.

Hanes: Good morning.

H.M.Jr: We stopped in at the New York Times, but it was - the atmosphere was so unfriendly I couldn't take it, Herman.

Gaston: It was, huh?

H.M.Jr: Glowing with the Republican sweep of the country.



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Gaston: Who'd you see in there, James?

H.M.Jr: No, it was up in Arthur Sultzberger's suite - a lot of - well, I didn't - all, practically Anti-New Dealers.

(Mr. Oliphant comes in.)

Hello Herman. How are you? You look happy.

Oliphant: Yes, I am fine.

Gibbons: Mrs. Ross called me this morning; her state went Republican and she just simply couldn't believe it.

H.M.Jr: Well, she loses her job, doesn't she? We don't want any Republicans around here.

Gibbons: She lost her state.

H.M.Jr: Don't you know about Mrs. Ross? John, you've got to get initiated. Mrs. Ross comes from a state where men are men and women are Governors.

(Mr. Bell comes in.)

Hanes: I was just asking what state that was.

H.M.Jr: Huh, and there are a few more; if you don't know them, one of the boys can take you outside and tell you. (Laughter)

Herman, I have here a letter from Harold Ickes which I am going to acknowledge - a copy for you - in which he gives me a list of four different attorneys.

Oliphant: Uh huh, I've been working on that problem.

H.M.Jr: Have you ever heard of Hayes McKinney?

Oliphant: No.

H.M.Jr: You have not? Anyway, I'll give you that copy. And George, here is a letter to Allan Pope. I asked you to send some fellow up there about two weeks ago.

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Haas: Oh, I know you did; that's one on me.

H.M.Jr: What happened?

Haas: I made a note of it but I must have slipped; I remember you called me.

H.M.Jr: I called you. He's got five or six hundred charts which are available to us.

Haas: They are in New York City, you say?

H.M.Jr: (To Miss Chauncey) Give Haas a copy of that. Remember, George?

Haas: Yes, that's one on me; I don't know how I slipped; I wrote it down.

H.M.Jr: And you fellows - I'll see that you get a copy - well, supposing I read it, and then let Upham see this; there's only one thing in here of any significance; you can make notes. This is from A. P. to Marvin McIntyre. This is a rather remarkable sentence which I don't get the significance of, but which you fellows who are following, might. This is November 1.

"You will doubtless recall my stating to you that I did not sign the directors' letter and I am therefore free to act on my own and independently of the bank."

Hanes: Who is that from?

H.M.Jr: Giannini.

"You will doubtless recall my stating to you that I did not sign the directors' letter and I am therefore free to act on my own and independently of the bank."

(Looking at Mr. Oliphant.) Huh?

Oliphant: I don't see that one.

H.M.Jr: Huh?

Oliphant: I don't see that one.

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H.M.Jr: I don't know. Well, anyway - copy to Preston Delano. But that is the only thing.

And Mac, here is a letter from Isador Lubin, drawing my attention to this seven hundred fifty-five thousand yards of woolen fabrics going out on the rising markets now. Did you ever set up that Committee, as I asked you to?

McReynolds: (Silence)

H.M.Jr: No. Anyway, thank him, and say that Mr. McReynolds will give it his usual prompt and full attention.

(Laughter)

McReynolds: There is a Committee working on that stuff, but there is ....

H.M.Jr: That's a good Committee.

McReynolds: But there is - the things of that kind are things that are controlled by W. P. A. in the Procurement.

H.M.Jr: No, this is armament - armament. We were going to set up a little informal committee, with Lubin's help, and Procurement, that when things are going up very rapidly we would try to postpone the orders and when things are going down we'd try to have an accumulation of textiles, cotton, wool... It was a darn good idea, even if it was mine.

McReynolds: Well, they ....

H.M.Jr: Mac, if you .....

McReynolds: They have been milling around over there - they have never been able to get very much - W. P. A.

H.M.Jr: Well, let's use this as a .....

McReynolds: All right.

H.M.Jr: Huh?

McReynolds: Yes sir.

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H.M.Jr: (Looks at Mr. Oliphant.)

Oliphant: That's all I've got - of my pleasantness.

H.M.Jr: You all right?

Oliphant: I'm going to talk - I've been talking that over with Wenchel and I am going to talk it over with Irely. I first want to find out who the judges are likely to be; how the calendars are set.

H.M.Jr: Yes. Incidentally, Taylor said he's coming in at three o'clock to report on his meeting this morning over at the State Department on counter-vailing duties. You (Mr. Hanes) are interested in that?

Hanes: Yes.

Oliphant: Three o'clock.

White: Three o'clock.

H.M.Jr: Are you (Mr. Gibbons) interested in that?

Gibbons: (Nods "Yes.")

H.M.Jr: Herman - Herbert?

Gaston: There is a photographer here from Fortune - Otto Hagel.

H.M.Jr: Who?

Gaston: And he would like very much to get a picture or two for this article on the Public Debt, and - ah -

H.M.Jr: Has he got a big camera?

Gaston: Nice camera.

H.M.Jr: Big one?

Gaston: I don't know how big it is.

H.M.Jr: Wide angle lens?

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- Gaston: He'd like very much - particularly he'd like to get you in conference with people with whom you consult in the Treasury Department before an issue, such as Mr. Bell, and Mr. Taylor, and Mr. Haas.
- H.M.Jr: It's all right with me.
- Gaston: He's taking Mr. Wilson's picture, and taking a picture of the vaults.
- H.M.Jr: They tell me they had the best looking and most intelligent research worker here two weeks on this thing, and you kept her out of my office.
- Gaston: Oh, you didn't see Judith - Miss Kenna? We'll get her down here. We have another .....
- H.M.Jr: This one, they tell me, is very intelligent - a research worker. They don't come in here when they are good looking. (Laughter)
- Bell: They can't get out of Herbert's office. (Laughter)
- H.M.Jr: Did you see her?
- Gaston: She had a long talk with Dan.
- H.M.Jr: She's been here two weeks; you didn't have any conferences with her, for two weeks?
- Bell: Oh, just as she got ready to leave she came in and wanted to ask a few questions.
- H.M.Jr: Well, you fix it up with Miss Chauncey.
- Gaston: All right, he (Otto Hagel) will be here all day today.

Your friend, H. B. Ellison, of the Christian Science Monitor, financial writer of the Christian Science - he writes to you to tell you he is now broadcasting weekly over the British Broadcasting Company network, and if there is anything he can do for the Treasury Department or you in connection with his foreign broadcasts, he'd be glad to do it.

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H.M.Jr: Is he an American citizen?

Gaston: H. B. Ellison, of the Christian Science Monitor.

H.M.Jr: Keep that in mind, next time somebody slips ....

Gaston: That is what prompted it, apparently.

H.M.Jr: Anything else?

Gaston: Mr. Haas will report about this project of a monthly Treasury Bulletin. The boys have shaped up something pretty good, but it will be rather expensive. If we could do it, it will cost less than the Budget spends for printing every year, and that Treasury Department appropriation - if we could just take that budget - printing budget - we'd get along very nicely. It would probably cost us twenty-five to thirty thousand a year.

Bell: What do you mean, it's in the Treasury budget?

Gaston: It's the Bureau of the Budget. It's in the Treasury's budget.

Bell: It is a printing budget, giving - it isn't in the present printing appropriation.

H.M.Jr: You'll get Dan sore in a minute.

Gaston: I thought he'd be thinking of alternatives.

Bell: No, the printing appropriation for the Government is about twice as big as it ought to be now. I am not in favor of increasing it.

H.M.Jr: Well, where does that leave us?

Gaston: Well, we'll have to, apparently, if we issue this as a monthly publication, or even as a quarterly publication, we'd have to get an authorization and deficiency appropriation to do it.

H.M.Jr: Well, let's let this - let's have a little talk about just that sometime, huh?

Gaston: Yes. Yes, we've got a very nice dummy that Mr. Haas' boys fixed up.

H.M.Jr: Well, let's, Miss Chauncey, give them a time, when we get a little breathing spell. Let's mark this about number three on the list.

Anything else?

Gaston: Nothing else.

Duffield: I've got your Trans-America chart, roughed out, anyway.

H.M.Jr: Yes.

Duffield: That's all.

H.M.Jr: I'll see him at three thirty. I'll tell you what we'll do. When we get through with this counter-vailing duties, the people in on that will be interested in this, you see; be sometime - three fifteen or three thirty - you will be available?

Duffield: Uh huh.

H.M.Jr: Huh?

Duffield: Yes sir.

Chauncey: Mr. Delano ..... (Low)

H.M.Jr: Is Delano around?

Oliphant: I don't think he is.

Duffield: No. That's all.

H.M.Jr: I just had this thought in mind; after we had one simple key chart, we might break it up into individual key charts, depending on whose responsibility it is.

Duffield: I have marked in this chart, in the various units, what Federal agency, if any, has any responsibility.

H.M.Jr: I see. Anything else?

Duffield: That is all.

H.M.Jr: Right after three o'clock I'd like to take a look at it.

George?

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Haas: I have a few things. Here are these new orders. I think you will want to take a look at that United States Steel right away. And you might look at American Woolen. I was trying to explain it, but I think you gave me the explanation a little while ago.

H.M.Jr: You mean that McReynolds Committee?

Haas: All those went through the roof. I was wondering what was happening.

H.M.Jr: (Looks at books.) All right.

Haas: I've got this dummy; I'll hold that until I hear from you on that.

The other thing is that we have another set of figures and have the balloon charts made up again for the month of October; you might want to look at those sometime.

H.M.Jr: All right; anything else?

Haas: No.

H.M.Jr: I am interested - you lay great stress on this drag in commodity prices, don't you?

Haas: Yes. I think that is the weakest spot in the situation; in fact, everything else seems to be very nice.

H.M.Jr: John?

Hanes: I have a letter from one of those importers who came down to see us on tung oil. I thought I'd read it just for those here who are interested, because I don't know about this thing.

"We now have advices from Hongkong that some 2300 tons of this oil has been shipped from there to the Export and Import Bank in Washington, apparently by the Chinese government. Naturally we are very much concerned with this because of its possible effect on our market....." and asking us if we have any information. So far as I can find out we have none.



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White: We found this out, that there are - no such shipment would have been sent, and to their knowledge was sent, though there was a shipment sent to the Bank of China agency in New York, and they had previously sent some shipments, and, possibly, the information got garbled and reached them in this form, but they can not say positively that none was shipped, but they'd be very much surprised if any were shipped. No such instructions reached there, nor would there be a likelihood of their getting such instructions.

Hanes: It doesn't seem possible that such would be done.

H.M.Jr: What shall we do about it?

Hanes: Mainly these men are concerned - we asked them about it. I think we ought to make answer, and I am asking .....

H.M.Jr: Will you call the group together that worked on that thing and give me an answer at nine thirty tomorrow morning?

Hanes: Yes.

H.M.Jr: Get the group together. Huh?

Hanes: Yes sir.

H.M.Jr: Will you do that?

Hanes: Yes sir.

H.M.Jr: Or, if you get them together before three o'clock, we can clear it at three o'clock - give them twenty-four hour service if I can clear it at three o'clock; bring it up at three.

Hanes: That is all I have.

Oliphant: I think what we ought to do is call these men up and say it isn't so.

White: The only one who could possibly know, at this end, is Chen and his associates, and that is what they say; they all say it is garbled. I can frame a letter, and draft something.

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H.M.Jr: All right. Anything else, John.

Hanes: I've got a memorandum on the New York Unit; I was up there all day Monday and spent all day. I have written a memorandum which I will give your secretary. It's not too long.

H.M.Jr: You going to have Johnson here at three?

Oliphant: He's on another job.

Gibbons: Gardner Jackson and Mr. Emerson, of the C. I. O. are coming in at two thirty. Their representative in New York doesn't know that the Treasury has anything to do with the Coast Guard, and they have given out a letter to the press which was printed in the Times, criticizing the Coast Guard, so I told them they'd better bring these fellows down and get acquainted with us. Mr. Gaston and Mr. Oliphant, and I have asked Mac to come in.

H.M.Jr: Did we ever appoint a Labor Advisor?

Gibbons: No, we haven't got him yet, but the relations up there are very harmonious - Jackson and Emerson, and Commander Derby and Commander Gelly of the Coast Guard.

H.M.Jr: I thought we were going to appoint a Labor Advisor.

Gibbons: What was the last you had talked on that, Herman?

H.M.Jr: It was up to Waesche.

McReynolds: Well, he couldn't find anybody.

Gibbons: They couldn't find anybody they could all agree on. But we'll discuss that today.

On the Judge Lauer thing, Mrs. Lauer brought newspaper women and a reporter up to her apartment. That is the way this story broke, originally. I couldn't find out for quite some time.

H.M.Jr: She gave it out herself?

Gibbons: She gave it out, practically, herself. The Agents who were up there thought they were friends of hers. Then she wanted them to kill the story, and the

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one on the New York Daily News - she said, no, it was news. I send you a copy.

H.M.Jr: I haven't read it yet.

Gibbons: Chick Schwarz read it.

One thing we've got to straighten out, between us and the Customs and the State Department is what is a "diplomatic passport"? This Consul in New York had given this fellow Shapiro a letter which the Customs would recognize as giving him immunity from being examined, and now the Consul says he didn't mean it for the United States Customs; it was merely a letter to go down and travel through Nicaragua. But we'll finally get a complete report on the thing. This fellow, Shapiro, is quite a person.

H.M.Jr: All right.

Gibbons: Has quite a criminal record.

H.M.Jr: Anything else?

Gibbons: Nothing.

H.M.Jr: (Nods to Mr. White.)

White: One of Wallace's men was here several days ago to go over - (H.M.Jr. looks puzzled) one of Wallace's men, to go over the balances of payment, in anticipation of a conference I understand he's going to have with you, so if you are interested in knowing the results of that any time before you have the conference .....

H.M.Jr: Well, Wallace mentioned balance of payments at Cabinet. He talked about it, and then he sort of casually said he didn't suppose the Treasury was interested, were we?

White: Well, they wanted to find out in here .....

H.M.Jr: The President allowed we were, and that he should take it up with us. But - ah - ah, I thought we'd get around to it next week.

White: I have the draft of the agenda tomorrow, if you want to look at it today.

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H.M.Jr: Yeah, very definitely. Well, do you - then we'll do this bank, and then I'll do this thing with you. As a matter of fact, I can do it right after this meeting - the agenda, right after this meeting.

(Nods to Mr. Lochhead.)

Lochhead: Nothing new on the markets.

H.M.Jr: Daniel?

Bell: You recall that some time ago I took up with you the question of providing depository securities for Social Security payments.

H.M.Jr: Yes sir.

Bell: We have now reached the state of California.

H.M.Jr: Yes sir.

Bell: And the question comes up as to whether you want to put any more deposits in the Anglo or the Bank of America. The Bank of America is now right before us. They are holding seven or eight million dollars in deposits from the states. We probably can get by with somewhere between two and three million dollars deposits; the state account will be reduced to about two hundred thousand. But we will be secured.

H.M.Jr: Tell you what I'd like to do - if Hanes, you, and Taylor, and a representative of the Comptroller's Office will get together and make a recommendation to me.

Bell: All right.

H.M.Jr: Please, make a recommendation to me, and remember, on anything to do with banks, before I move I told Delano I'd give him a chance to make a recommendation too; anything like this, you see?

Bell: You mean because of the involvement of the regular depository facilities.

H.M.Jr: Not day to day, but regular matters, these things under investigation, and he's interested.

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Bell: We're going ahead, you know, on our day to day investigations of these institutions to see what we can give them in the way of deposits for the Social Security work.

H.M.Jr: Why not tell Delano about it?

Bell: Fine; fine.

H.M.Jr: And explain it to him.

Bell: All right.

H.M.Jr: I am sorry I couldn't go along with you on your Wages and Hours, but we must be legal, Dan, we must be legal.

Bell: It's o. k. by me.

H.M.Jr: What will they do now?

Bell: Well, I suppose Harry Hopkins will loan some people and they will probably make a project out of it. I don't believe they can take the people over after they get the money. We are going to send him a list of our accountants and any of them he wants, after looking over the record why we will let him have them.

H.M.Jr: Anything else?

Bell: That's all. Oh, I have a letter from Al Siler, of Chicago, which you don't need to read now, but later on; it's not so important.

H.M.Jr: Yeah. What else?

Bell: That's all.

H.M.Jr: (Nods to Mr. McReynolds)

McReynolds: Congress passed a law at the last session which authorized the detail of Federal employees to South America Republics, and authorized this Government to pay their salaries and expenses.

H.M.Jr: To do what?

McReynolds: Assist them in their Government activities - rather an unusual thing; I never heard of it until I saw the final draft of the (word misunderstood) - of the State Department.

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Bell: Good neighbor policy.

H.M.Jr: Is it to loan people?

McReynolds: And, incidentally, authorizes the payment of fifty per cent bonus and salary if necessary.

Bell: (Nods "Yes.")

McReynolds: The State Department has now had a letter from Paraguay.....

H.M.Jr: Paraguay? You've got to talk louder, Mac, I can't hear you.

McReynolds: Paragua has notified them that next week they are going to be up here asking for the detail of at least four people qualified in four subjects, and they say they will be willing to reimburse the Government to the extent of fifty percent of the cost. They want a Customs Tariff man. They have in mind a man who is over in the Tariff Commission now, who has worked down there before, so that may relieve us of that. They want one on Internal Revenue and Land Taxes; one Fiscal Accountancy and Statistics; and one on Banking, Currency, and State Monopolies, and they are going to be on our necks here. They are going to the State Department.

H.M.Jr: Well, I think it's fine; that's the best thing we've had yet.

Gaston: Great! Great.

H.M.Jr: I think that's swell.

McReynolds: They are going to the State Department next week, and the question will come up as to whether the Treasury will detail somebody to go down there.

H.M.Jr: Absolutely. That's fine; that's grand. I think that's swell.

McReynolds: Of course, the question .....

H.M.Jr: I'd like to take a personal interest in that; I think that's fine.

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- Bell: Wallace is going to delegate a number of people from Agriculture. He probably will even set up a laboratory down there some place.
- H.M.Jr: In Paraguay?
- Bell: No, in some South American country.
- H.M.Jr: I think that's fine, Mac; you push it, and when you've got suggestions, let me know, will you?
- McReynolds: Of course, we don't know. This is merely a letter from the Charge d'affaires down there in the State Department.
- H.M.Jr: We'll have to work on selecting personnel.
- McReynolds: I wanted to take it up with you. There's at least three subjects there; I wanted to take it up with the people in the Treasury to clear, as to the people who would be available and most logical people as to who is available.
- H.M.Jr: Will you give me an answer Monday morning as to who is available.
- McReynolds: I don't see how you could make a selection until these fellows are here and you know more than has been given us in this letter from this Charge as to what the problems are.
- H.M.Jr: Well, think about it anyway.
- McReynolds: We could put on notice anybody who will have to make the selection.
- H.M.Jr: I want to cooperate one hundred per cent. I want to get that across.
- McReynolds: As soon as - the State Department undoubtedly will come over here.
- H.M.Jr: But get that across, will you Mac? What else?
- McReynolds: Peoples called before Federal Trade Commission on their hearings on this cement case; they told him he'd be over there a couple hours; he was over there three days. He did a very good job of testifying and they can't - the Federal Trade people talked to me about it said he handled the

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testimony very well. Peoples has suggested a man to take the place of this man Klauder, who died, on his Advisory staff. He is Craig, of the ....

H.M.Jr: Craig?

McReynolds: Craig.

H.M.Jr: Paul Craig.

McReynolds: The other members of the Board have recommended this man.

H.M.Jr: All right.

McReynolds: I guess the only other thing I have here is a memorandum that you told me to prepare about this housing - ninety per cent - local.

H.M.Jr: Oh yeah, yes.

McReynolds: This memorandum was prepared by Ed Foley.

H.M.Jr: Yeah.

McReynolds: I asked him to do it. Now he's confined - after we talked it over quite at length he's confined the argument in here to the effect on our Government credit; that is, pointing out the fact that while under their proposal if they can borrow money at the rate they say they can, it's a quarter under what the Government charges, it would mean about eighteen cents a room saving on the rent. But that there would be no - the only way they could borrow that way is under the supposition that it is a Government guarantee offer, and of course it isn't a Government guarantee.

H.M.Jr: Let me read it, Mac; let me read it and see whether that is what I want, may I?

McReynolds: Yes, by all means.

H.M.Jr: What else?

McReynolds: I have nothing.

H.M.Jr: What?

McReynolds: I have nothing.



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H.M.Jr: Let me read it. You people will be most likely interested to know that Mrs. Klotz is up in the hospital in New York; I don't know quite how sick she is. I thought it might be nice if this group might want to send her some flowers.

McReynolds: What hospital?

H.M.Jr: I'll attend to it, and we can send her a card from the nine thirty group.

Gibbons: Mrs. Gibbons is up there; can she go and see her?

H.M.Jr: I don't think she wants to see anybody. I know she isn't seeing anybody.

McReynolds: I didn't know she was ill.

H.M.Jr: You can tell - they don't know just what it is, but they will know in a day or two. I thought it would be nice, so if you (Miss Chauncey) will take care of it, you and Miss Wais.

Chauncey: Yes sir, I'll have Miss Wais or somebody send the flowers.

McReynolds: Make it good.

H.M.Jr: All right.

November 9, 1938.  
12:35 p.m.

HMJr: Hello.  
Cordell  
Hull: Henry, what's going on?  
HMJr: Well, they had an election they tell me Cordell.  
H: Well, you've got - you've had notice of it then, I see.  
HMJr: Yes. It wasn't too bad, was it?  
H: Well it wasn't too - it could have been much worse.  
HMJr: Yes.  
H: It was - it was as bad as I care to see it, right now.  
HMJr: That's right. Cordell, I'm calling up on this. Your people sent us over this British trade treaty.  
H: Yes.  
HMJr: And then last night there were some new questions raised in regard to the clause having to do with gold and silver. We were also told that the British wanted to sign on Armistice Day.  
H: No, didn't want to.  
HMJr: Pardon me.  
H: They did not want to.  
HMJr: They did.  
H: Uh!  
HMJr: They did. No, what - I mean, what I want to know is, if this - if you want us to clear this, why - by Armistice Day, I'll drop everything else, but if we've got more time than that I'd like to take additional time.  
H: Yes. Well, I - I think Henry that that idea was abandoned some days ago because the British didn't want to offend the Germans in the first place and second place they couldn't be ready.

HMJr: Well then, I don't have to give an answer to this before Friday.

H: I think - I think it'll be - we're keeping - we're undertaking, of course, to keep it awfully confidential, but I think it will be somewhere near the 17th. That would be about a week from now.

HMJr: Well, I'll push it as hard as I can, but it just gives me time to try to do the thing intelligently, that's all.

H: Yes. Well you go along. You take enough time to do it satisfactorily, Henry.

HMJr: Because we only got that stuff between four and five, last night. There was some objection that the English raised.

H: Yes, I see.

HMJr: And if you said to me, "Well now, you - you'd like this by Armistice Day, well we'd give you an answer, but if we've got three or four days, why it makes it a little bit more comfortable.

H: Yes. You think you can get through with it about how soon?

HMJr: Oh well, we'll give - we'll give you an answer by Saturday.

H: Oh, yes. All right. I'm sure that's all right, Henry.

HMJr: And we'll try to do it tomorrow, but not later than Saturday.

H: Yes. Well, that's all right.

HMJr: How's that?

H: That's all right.

HMJr: Thank you.

H: Thank you Henry.

November 9, 1938

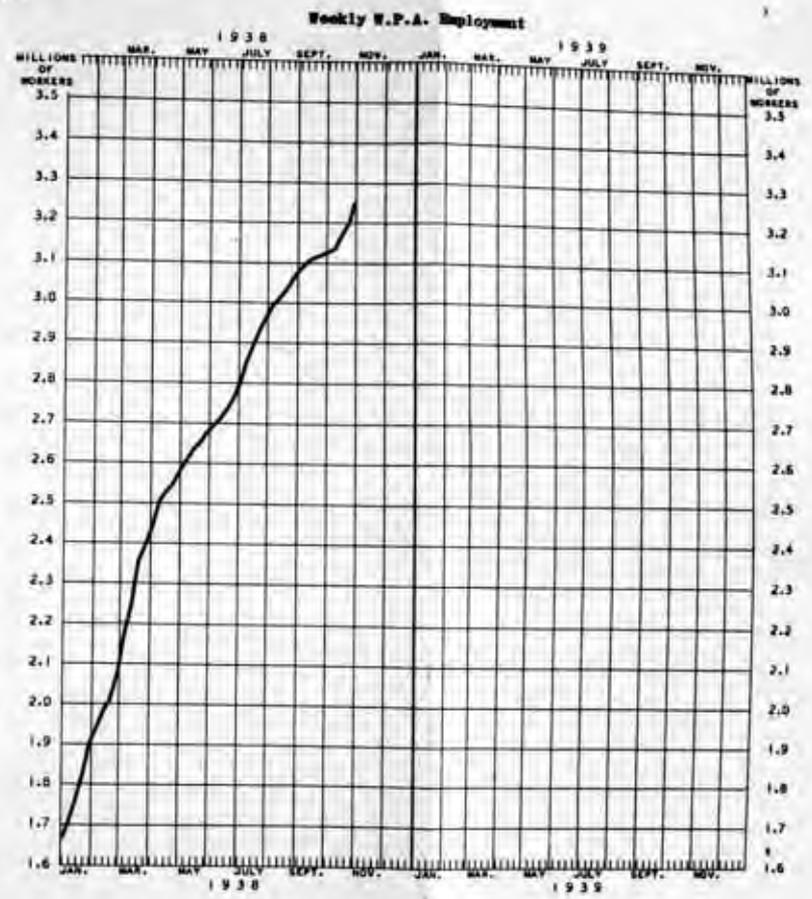
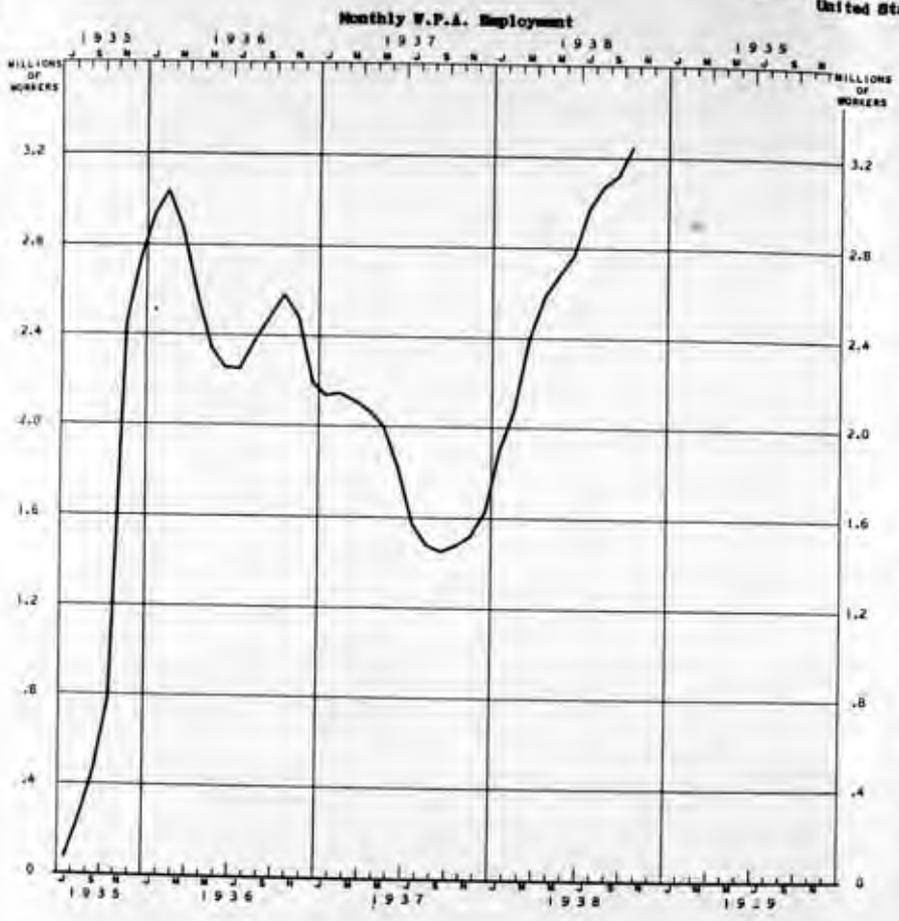
To: The Secretary  
From: Miss Lonigan *e. l.*

The total number of WPA workers on October 29, 1938 is 3,245,000. The increase during the week from October 22 to October 29, was 44,000 workers.

WPA employment has increased 1,768,000 during the year from October 30, 1937 to October 29, 1938.

This is the highest number of persons that has ever received WPA employment.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

Office of the Secretary of the Treasury  
Division of Research and Statistics

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## WORKS PROGRESS ADMINISTRATION

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Number of Workers Employed - Monthly  
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,076
March	2,395
April	2,583
May	2,680
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245 <sup>a/</sup>

Source: Works Progress Administration

<sup>a/</sup> ConfidentialMonthly figures are weekly figures for the latest week  
of the month.

They include certified and non-certified workers.

## WORKS PROGRESS ADMINISTRATION

33

Number of Workers Employed - Weekly  
 United States

Week ending 1938	Number of Workers (In thousands)
February 5	1,945
February 12	1,985
February 19	2,009
February 26	2,076
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,444
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,583
May 7	2,608
May 14	2,638
May 21	2,652
May 28	2,680
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167
October 22	3,201
October 29	3,245 <sup>a/</sup>

Source: Works Progress Administration  
a/ Confidential

November 9, 1938

To: The Secretary

From: Mr. Hansen

I spent Monday, November 7th, in the new Decentralized Unit of the Technical Staff in New York. Mr. Graves was with me and we had a long and thorough discussion with both Mr. Mooney and Mr. Hansen, and later with the Collector of Internal Revenue, Mr. Kirgbaum. I am encouraged by the progress they seem to be making. The Unit seems to be functioning smoothly, although at one time there was a little friction between Mr. Mooney and Mr. Hansen, I am told.

At the present time they have approximately 2000 cases which have been referred to them for possible settlement or hearing before the Board of Tax Appeals. They are getting good cooperation from the Board in the matter of dockets set down for hearing, with the result that about two-thirds of these cases have been settled or settlement agreed to prior to hearing before the Board. Of course, there are many details of the organization yet to be worked out but most of these are purely routine. The one real concrete suggestion which, with your permission, I will take to the Chairman, Mr. Arundell, is that the Board of Tax Appeals give us a little more time on cases coming up for hearing. The Technical Unit would like to have as much as ninety days notice from the Board of Tax Appeals on such cases. I would like to see Mr. Arundell regarding this sometime this week.

The work of the Unit is going to increase materially on January 1st and Mr. Graves and I are now exploring the possibility of more personnel for that particular Division. The present indications are that the Unit will require five to seven more men for conference work especially.



# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

35

DATE November 9, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information -

It was pointed out yesterday to Moffett, Chief of the Western European Division of the State Department, that Mr. Hull's letter with respect to the transfer of jurisdiction in the Sudeten area did not cover transfers to Hungary and Poland. Moffett stated he realized that, but that the State Department was completely without any information with respect to those transfers. He stated that the Department was working actively on the question and he would notify the Treasury Department as soon as they were in possession of more definite information.

*Herman Oliphant*

RE CHANGED TARIFFS ON IMPORTS FROM  
SUDETEN TERRITORIES

November 9, 1938,  
3:15 p.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. White  
Mr. Gaston  
Mr. Lochhead

H.M.Jr: I tell you, let's give this clearance before the other thing, then may I do your meeting?

Taylor: Yes.

H.M.Jr: I mean, lecturing myself and everybody else, we'll do things promptly but not with a pistol to my head, so that I can live a little longer and everybody else around me; now, they brought in something five minutes past one and I refused to sign it before we get a chance to look at it. It's this order on Czechoslovakia. Where is it now? Who all has seen it?

Oliphant: White, Taylor.

H.M.Jr: You (Hanes) want to clear this? Not particularly.

Hanes: (Nods no)

H.M.Jr: "State Department having today announced to Treasury Department a change of jurisdiction from Czechoslovak to German ..." - is that English: "from Czechoslovak to German"?

Gaston: Yes, the jurisdiction is changed from Czechoslovak.

H.M.Jr: From Czechoslovakian to German, or Czechoslovakia to Germany.

Gaston: A change of jurisdiction from Czechoslovakia to Germany.

H.M.Jr: It doesn't say that. It says "Czechoslovak to German."

Gaston: It should be "Czechoslovakia to Germany."

H.M.Jr: Well, it isn't.

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- Gaston: Oh, "from Czechoslovak to German." "Czechoslovak" is an adjective.
- White: It's rarely used, but it's accurate.
- Taylor: You could say "Czechoslovakian."
- White: I think that's the correct way.
- H.M.Jr: "... from Czechoslovak to German in those Sudeten areas now under German occupation, products of those areas exported from any country on or after November 10, 1938, shall be regarded as products of Germany for the purposes of the marking provisions of the Tariff Act of 1930 and for determining applicable rates of duty. Such areas are to be regarded as parts of Germany on and after November 10, 1938, for determining dates of exportation for customs purposes. Give importers all possible notice."
- Now, if importers - "Give importers all possible notice" - how can we give them all possible notice?
- Oliphant: We have no authority under the statute to grant any extension.
- H.M.Jr: We went all through that once before - 30 days.
- Oliphant: Can't. I mean you have to make it operative as of the day it's announced, and whatever day you choose you'll have the same problem.
- H.M.Jr: It seems awful tough.
- White: Well, it's the date of exportation, and the importers have been hurrying it.
- Taylor: If you make it the date of exportation - I mean the exportation from the other side, why, that's the equivalent of giving them two weeks, in order to catch the stuff on the high seas.
- White: And besides, they've been anticipating this.
- H.M.Jr: Well, is anybody not satisfied? Please note, I gave everybody two hours, including myself.
- All right, now who puts this in the works, huh?

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Gaston: I do.

H.M.Jr: Then will you come back, Herbert?

Gaston: Yes, yes.

Oliphant: Will you tell Cairns?

White: That takes care of the trade agreement reductions too.

Gaston: I'll get Cairns on this.

H.M.Jr: All right. Now, I asked, why just that part of Czechoslovakia which is occupied by Germany? What about that part occupied by Hungary, that part occupied by Poland?

White: Same thing.

H.M.Jr: And I think unless we want to subject ourselves to criticism that we're treating the German Sudeten part different than we are Poland and Hungary - I think we ought to do the others as promptly as possible.

Taylor: Different time element involved.

H.M.Jr: Well, I think not too much time should drag; otherwise, the Germans would rightfully say, "You pick on us but you don't pick on Hungary or Poland." I mean I just raise that point, gentlemen.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Wednesday, November 9, 1938.

Press Service  
No. 15-28

James H. Moyle, Commissioner of Customs, made public the following telegram of today's date, which he despatched to all Collectors of Customs:

"State Department having today announced to Treasury Department a change of jurisdiction from Czechoslovak to German in those Sudeten areas now under German occupation, products of those areas exported from any country on or after November 10, 1938, shall be regarded as products of Germany for the purposes of the marking provisions of the Tariff Act of 1930 and for determining applicable rates of duty. Such areas are to be regarded as parts of Germany on and after November 10, 1938, for determining dates of exportation for customs purposes. Give importers all possible notice."

--oOo--

RE COUNTERVAILING DUTIES AGAINST  
GERMANY

November 9, 1938.  
3:35 p.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. White  
Mr. Gaston  
Mr. Lockheed

H.M.Jr: Go ahead, Wayne.

Taylor: They had this special meeting called of the Commercial Policy Committee to consider the communication that you had sent over. It had been referred to them by the Secretary.

I explained the Treasury point of view, which was that there was a violation of Section 303; if there was such a violation, why, it was your job to enforce it, and that you felt you didn't have any option on that; and that you had given the information to the Secretary of State to inform him of the situation which had been found and asking for his advice and comments, if any. They wanted to know when that should be in as far as the time element went. I said, "The sooner the better."

H.M.Jr: Yes, it's ten days now. We sent it over Monday a week ago.

Taylor: And that whereas it might take a long time and you could string it out and so on, why, that that - I didn't think that that would be the way you'd like to have it handled, and that you would like to have an answer as soon as it was possible for them to do it.

Then they wanted to know whether that should be in the form of a report from the Commercial Policy Committee to the Secretary of State. I said I didn't think that you were very interested in that; that the Secretary of State could get all the advice that he wanted to from whomever he wanted to, but that in the last analysis you were asking him. And if he wanted to be advised by the Commercial Policy Committee or any other group, why, that was, I was sure, all right with you; that you were relying on him for an answer.

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H.W.Jr: That's right.

Taylor: When there was quite a lot of discussion as to whether the legal position was correct or not. I said that as far as we were concerned, that wasn't up for discussion; that if they wanted to go into that, why, that was something else again, but that you'd been advised by the General Counsel's office that this was the situation.

H.W.Jr: That's right.

Taylor: And that ...

Oliphant: I sent copies to them.

H.W.Jr: Yes, I know.

Taylor: And that you were relying on that and were giving that information to the Secretary of State.

Then they got into various other aspects of what the effect of this, let's say, decision would be. There were various points that were brought out, but none of which were conclusive.

All realized that it was very important; that it might be possible - wanted to bring out the possibility of delaying action. I said, "Well, I just can't comment on that. That's - I mean anything that the Secretary of State wishes to tell the Secretary of the Treasury I'm sure will be of interest to him, and that he's relying on you for whatever advice you can give him."

Two other things. They talked about agriculture, the effect on agriculture. Wheeler was there, from Agriculture, and he took the position that it was unquestionably going to lose quite a lot of cotton business, but that as far as the Secretary went, he wasn't sure whether the Secretary wouldn't feel that under the circumstances it was all right to do that. But he said he couldn't speak for the Secretary; that he personally probably would feel the other way, but he felt the Secretary would go along the lines that under all the circumstances it might be a good thing to do it, to take the chance of losing all of it.

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There was the question of the possible effect on the negotiations which are now going on about the refugee question. I think that the Secretary, when he writes the letter to you, will mention that.

He will also mention the question of the possible effect on Brazil, because if you shut off the supply of cotton here, the general impression was that that would immediately shove the heat on Brazil and improve the German trading position down there. I'm just mentioning some of the things that were brought up.

H.M. Jr: Uh-huh.

Taylor: Final decision was that an immediate letter - I mean, in other words, immediate in terms of a couple of days - was going to be sent over to you in which they would mention various things and would probably ask for more time, but that you would have the letter in your possession in which the Secretary of State did bring out these various things and - points of measure, policy, etc.

H.M. Jr: You see, they sent over a question on gold and silver in the British trade treaty between four and five yesterday, and they expect an answer today. I sent over a letter to them Monday a week ago on something, and this is the first time they even take it up - which isn't cricket.

I spoke to Mr. Hull, incidentally, this morning and I said this came over and I said if he told me that they were going to do the British trade treaty on Armistice Day, why, I'd give him an answer, I'd drop everything else, but if they weren't, I'd appreciate his telling me. So in the strictest of confidence, he told me they were not going to do it Armistice Day, and made the very interesting comment that the British were fearful of the effect it would have on Germany - announcing a trade treaty with us on Armistice Day. And they now have a date, the 17th, something like that. He cautioned me to be extra careful about it, and I caution the rest of you. But from our standpoint, I'm tickled to death it went over, because if we do have something with the French - well, if the treaty was just on and our thing shouldn't go just to their liking and had some repercussions on the trade treaty, why, they might blame



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us; but if we have, so to speak, a clear field from now until the 15th to work with the French, it makes that much easier. I mean all I've got to think about is my own responsibility, and I don't have to think about any repercussions on Mr. Hull's pet child. So I'm tickled to death from the Treasury standpoint that their business will go over until after the 15th; then we can just - we'll do it the way we always do our thing, not worry about anything of theirs.

But I'm just - I just would point out, if they raise the question, that they do ask us for 24-hour service; we have great difficulty in getting service in two weeks.

Oliphant: Had you heard that they wanted to do the trade agreement on the same day, namely the 11th, that they did the Italian trade treaty?

H.M.Jr: Well, I didn't ask about the Italian trade treaty.

Oliphant: Uh-huh.

H.M.Jr: That was Italian-British.

Oliphant: Italian-British. Look like we were sanctioning ....

H.M.Jr: Well, I didn't ask Mr. Hull anything about it, because I didn't feel that was our business. But I wanted to know how much time we had in answering them on the gold and silver.

Well then, Wayne, I gather from that we just sit here and wait.

Taylor: Yes. You haven't had your answer yet.

H.M.Jr: Haven't had any answer. Haven't even had an acknowledgment of my letter to Mr. Hull.

Oliphant: I'd like to ...

Taylor: I think the answer that you're going to get will be in the form of a preliminary answer.

H.M.Jr: I see.

Taylor: But it will raise certain questions that they will then be investigating.

H.M.Jr: Well, they can do the investigating. My position is that I just rest on the opinion of the General Counsel, who advises me to act under the law. Now, I may like it or dislike it, it doesn't make any difference to me, if it's the law, I've got to carry it out. And what they're trying to do is not to interpret the law, I gather, but interpret the effects of it.

Taylor: No.

Oliphant: I'm not sure they're not trying to do something a little more. I'd like to say this. It's clear on all the facts that the action is going to be taken, see? Now, they've been pretty cordial about informal cooperation with us, and you took the pains to have me send a copy of this over to Hickman ...

White: Hackworth.

Oliphant: .... Hackworth, yes - the counsel over there. Well now, since the action is going to be taken, then it's the whole Administration moving, and I'd deplore very much getting a letter from them that puts us on the spot and isolates us on this thing. So I would have hoped that it would just occur to them to come over and say, "Now, would you like to have this sort of a letter?" Maybe there will be things in there we wouldn't want in the records at all. And I'm sure we under like circumstances would do the same thing with them.

Taylor: Well, that's ....

Oliphant: I'm afraid from what you say about that conversation it's moving in the direction of making this thing very much - isolating us from the rest of the Administration in taking this action.

Now the other one was handled on the other basis, you remember. We brought it to the President's attention and the President suggested that under the circumstances I get the opinion of the Attorney

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General, and then it was a move on the part of Mr. Roosevelt and his Administration.

- Taylor: Well, I think that the impression that I get is that they feel that this one ought to be handled in about that same way.
- Oliphant: Well, it can be handled in that same way without their putting stuff into the letter that would be....
- Taylor: Well, I didn't try to - didn't try to suggest what they ought to put in it, Herman. I did everything I could....
- H.M.Jr: Well, what you report is satisfactory to me.
- Taylor: ...to do it the other way. I said that I - "The only comment that I can make on it is that saying in the letter that it had been referred to the Commercial Policy Committee, and so on, isn't going to be of any interest to the Secretary of the Treasury."
- Oliphant: Well, he (Taylor) handled it the only way he could. I was just suggesting another move.
- H.M.Jr: I think this ....
- Taylor: And I also emphasized in every way that I could that you had written that letter with the idea of getting an expression of opinion, or any advice that the State Department could give on it. And I said, "Now, how that is handled I can't - I can't comment on it. I can not suggest to you what should be in that letter."
- They were first talking about simply a letter of acknowledgment and saying, "We're going to - we'd like more time to study that." And I advised against that. I said, "I don't think that that's going to help the situation at all, because that can go on indefinitely."
- H.M.Jr: Well, I think - let's see what happens. After all, if the letter should take such a form that it is unacceptable, I can always ask Mr. Hull to withdraw it; but I do very much want an answer, and I want it this week.

- Taylor: Well, that's - that's what I was saying, that you have - "I know that he feels that the matter is urgent, that he wishes your advice as soon as possible."
- H.M.Jr: Well, I think the fact that Mr. Hackworth had a copy of it and isn't going to dispute it - evidently the legal part of it - or was he there?
- Taylor: No, he wasn't there. Frank Sayre gave quite a long speech on the legal aspects.
- Olliphant: Professor of Law at Harvard.
- Taylor: Yes, Professor of Law at Harvard.
- H.M.Jr: Is he?
- White: Former - ex.
- H.M.Jr: Sayre is a lawyer.
- Olliphant: Never practiced.
- H.M.Jr: Well, I think we've spent enough time on this, so let's - I'll wait. Thanks for going over there.
- White: Is there any legal question involved with respect to the Secretary asking State Department as to the performance of something which is required by Congress?
- Olliphant: No. Just the way we did before - comments and suggestions.
- H.M.Jr: That's all, Harry. (White leaves)
- Olliphant: I think it was handled the only way it could be handled. I'm satisfied. It's a very difficult thing, but it's all right.
- Taylor: There was considerable conversation in the meeting on a more or less informal basis to the effect that if we were going to move in this field, that we ought to do it on a perfectly broad Administration policy basis, you see.
- Olliphant: Not snipe.

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- Taylor: That's right, and that was - that was the indication that I got of the way they were feeling about it, and I helped them along all I could in that.
- Oliphant: Trouble with State is they never move in particular cases nor along a broad line.
- H.M.Jr: Well, the thing that always burns me up is that they always want 24-hour service, but if you can get monthly service out of them you're pretty good. But I'm tickled to death that they're not going to do it on Armistice Day.

TEXT OF A TELEGRAM FROM HIS EXCELLENCY  
DR. H. H. KUNG, PRESIDENT OF THE EXECUTIVE YUAN,  
DATED CHUNGKING, NOVEMBER 9, 1938.

Kindly transmit the following message from the Generalissimo to the President, which has my hearty concurrence:

"I greatly appreciate your friendly interest and effort and those of Secretary Hull and Secretary Morgenthau as manifested in what you have done for my country and especially in what you are doing at a time when the fate of my country is regarded by skeptic observers as already beyond hope. I especially appreciate the kind efforts of your Government in the silver purchase, in the proposed loan, and in the most recent stand on the Nine-Power Treaty.

"You may be interested to know that, in my address to the nation on October 31st, I have stressed the following points: that China will continue her policy of prolonged nation-wide resistance till we can obtain military initiative in the war; that we can only win final victory through greatest hardship and sacrifice; that this war is "revolutionary warfare" wherein the spirit of the people will ultimately win out, -- witness the wars of American Independence, French and Russian Revolutions, and Turkish Emancipation; that China's main base of resistance is the vast hinterland, and the past sixteen months of resistance has succeeded  
in retarding

in retarding the westward advance of the enemy, thus enabling us to develop communications and remove some industries thither, and concentrate weapons to wear down the invader; and lastly, that now the war is really "nation-wide" and the enemy drawn to the interior, both time and geography are favorable to China's side.

"You may also be interested to know that this policy was unanimously adopted by the People's Political Council at its Second Session.

"You must have read of reports of peace moves and peace talks in China. On the question of peace, I wish to assure you, Mr. President, that, while Japan has indicated some willingness to talk peace, and while our people are peace-loving and would not be unreasonable regarding peace, peace is impossible simply because China cannot possibly undertake to negotiate for peace as long as Japan insists upon "direct dealing" with China without the good offices of friendly powers in whom we can trust,- which, of course, means a peace to be dictated by Japan. As long as Japan does not fundamentally repent and revise her policy, China has no alternative but continue her struggle for her right to live and develop without external interference.

"I am deeply interested in your Government's recent protest to Tokyo on the question of the Open Door in the Chinese territory now under military occupation by Japan. The present war in China has most eloquently vindicated the wisdom of the fathers of the Open Door Policy and the Nine-Power Treaty that an independent and modernized China is the only stable and effective means to keep the Door of China open to all nations."

November 9, 1938.  
5:40 p.m.

Archie  
Lochhead: Hello.

Operator: The Secretary calling you. Go ahead.

HMJr: Yes.

L: Yes, Mr. Morgenthau.

HMJr: Archie. Mrs. Spangler told me about this call from Cochran.

L: Yes.

HMJr: I've got to get a little rest.

L: Well, do you want me to just take it then, and have the record made?

HMJr: Yes. And have a record made, and then after I - I'm through resting, if you're home, you can tell me what it's about.

L: All right, I'll do that.

HMJr: But -

L: Well, I didn't know whether you wanted me to take it while you were -

HMJr: Well, if he wants to talk to me, and it's important enough -

L: Yes.

HMJr: I'll talk after - I'll talk after seven-thirty.

L: After seven-thirty.

HMJr: Any time after seven-thirty.

L: All right, and if there's not, I'll give you a call after seven-thirty and let you know what it is.

HMJr: Right. But if it's that important, needs decision, I'll talk after seven-thirty.

L: O.K. Well then, I'll get the call put right through.



- 2 -

HMJr: And - because he may just call up and say again, the red headed fellow this, that and the other thing.

L: Yes. Yes. Well, I'm afraid that's what it is.

HMJr: But if it's - if they need an answer tonight, they - I'll talk to him after seven-thirty, and tell him not to go through London.

L: Not to go through London.

HMJr: No. If he calls you.

L: All right, then.

HMJr: And then you'll - you'll wait.

L: I'll wait and take the call.

November 9, 1938.  
5:45 p.m.

Archie  
Lochhead: Hello.

Operator: Mr. Lochhead, the direct to Paris circuit is out of order until after six o'clock. Do you want it the other way?

L: Well, this one can go the other way, but if he's talking to the Secretary, let's see - just a moment - the Secretary said he didn't want to go through the London circuit.

O: I know he did.

L: But on the other hand I think that referred to his call that he was going to make the - to make to him.

O: I see.

L: So I guess we'd better take this one here.

O: All right.

L: Because if there's anything important, I'll choke him off and have him go back to the other circuit.

O: All right.

L: Right. Thank you.

November 9, 1938.  
8:08 p.m.

Archie  
Lochhead: Hello.

H. Merle  
Cochran: Hello.

L: Merle?

C: Yes, Archie?

L: Yes Merle. I - I'm taking the call, Merle, because the Secretary will not be available until after seven thirty.

C: I see - after seven thirty; that means . -

L: An hour and a half. Now, the reason I'm taking the call is this. If there's anything very important -

C: It is, extremely important.

L: It is extremely important?

C: But I think I'd better go ahead and give it to you, Archie.

L: Well now, wait a moment, Merle. You're speaking - you're speaking on the London circuit.

C: That's just it, and -

L: Well, he didn't want -

C:

L: Well, if he didn't want - he didn't want to, - if it's anything important, he didn't want it to go over that circuit.

C: Then, ah, we'll cut this off and call you back right away on the - on the direct.

L: I see. But you want to - you -

C: ... in a few minutes.

L: I see. But it's important enough that you want to speak to me and then have me relay it to him, is that it?

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C: My secretary and partner are here.

L: Your party is there.

C: No, my partner.

L: Yes. I see, and it's important enough that you  
- you want to put it through that.

C: No, no. If you'll hold on just a minute.

L: Yes.

C: Hold on one minute until I speak with my friend  
here.

L: All right.

C: Just a second.

L: Yes.

C: Archie?

L: Yes.

C: We're going to put the call through to you on  
another circuit.

L: I see. You'll put it through to me, but on the  
other circuit.

C: Yes. But listen, I think you ought to get word  
to the Secretary right away, that we have an  
important - facilities bearing upon the message  
by which he will probably want to act tonight.  
It's imperative that he does get it if he takes  
any action.

L: I see.

C: And we think it calls for action.

L: Well, I'll tell you. You get me on the other  
circuit and I'll be able - I mean I've gotten  
strict instructions I can't touch him until  
seven-thirty, but as soon as seven-thirty comes  
I'll get it to him.

C: I see.

- 3 -

L: That'll be just about an hour and a half.

C: I see. But I'll - you get yourself on the other line

L: Yes, well now, I'll - I'll ring off now and then you will put the call through on the other line.

C: That's right.

L: All right, I'll wait for it.

C: I just wanted to warn you that it is important.

L: All right, then.

C:

L: Goodbye.

November 9, 1938.

6:15 p.m.

Archie  
Lochhead: Hello.

H. Merle  
Cochran: Hello.

L: All right. Now Merle, this is the message, which was handed to you today.

C: The **only translation** which we made about the French **text** as read to us.

L: As read to you and this message was given to you by Number One or Number Two.

C: No, by the red headed assistant to Number Two.

L: The red headed assistant to Number Two.

C: Right.

L: Right. Now then, do you want to read that message?

C: Yes. But he gave it in the name of the other two. Both Number One and Number Two.

L: He gave it in the name of both Number One and Number Two.

C: That's right.

L: Right.

C: As you'll see from the message.

L: Yes.

C: November 9, 1938.

L: That's November 9, 1938.

C: Number one, paragraph one.

L: Number one, paragraph one.

C: Paragraph one.

L: Paragraph one.

- \*Paragraph One:**  
C: The President of the Council of Ministers and the Minister of Finance express their hearty thanks to President Roosevelt and to the Secretary of the Treasury, for the message which has been transmitted to them by Mr. J.M. They are taking cognizance of it with the greatest interest and they wish to express their appreciation and their gratitude for the efforts made by the President and the Secretary to reinforce the efficacy of the tripartite agreement, to which the French Government remains very deeply attached, and also to increase the already existing solidarity between the three democracies parties thereto."
- \*Paragraph Two:**  
The French Government is entirely favorable to an exchange of information which would in the monetary field facilitate the action of the responsible authorities and in the fiscal field improve effectively the means at the disposal of its administration to detect and to repress fraud."
- \*Paragraph Three:**  
The French Government understands that the American Government already has at its disposal, by virtue of the legislation already in force in the United States, the necessary means of investigation enabling it to know the movements of foreign assets and the means to communicate such information to the States of which ~~the~~ owners of such assets are nationals. The French legislation does not provide the same facilities and in particular does not discriminate between the rights of the administration toward French nationals and its rights toward foreigners. Special legislative measures would therefore be necessary."
- \*Paragraph Four:**  
Before pursuing further the setting up of the details of the procedure which would be made necessary for the application of the measures envisaged in Mr. J.M.'s message the President of the Council and the Minister of Finance believe it desirable to know the opinion of the British Government. Since the French market is, as a matter of fact, in direct contact with the British market even more so than with the American market by reason of the proximity of Paris and London, the measures envisaged in the communication of Mr. J.M. would not only be inoperative, but dangerous for the French currency if the British Government did not endorse them

unreservedly. The French Government suggests therefore that the British Government be consulted without delay and since it possesses the power to legislate by decree only until the 15th of November it would like to know its opinion as promptly as possible."

That's the end of the message.

L: Now, let me see. I've been concentrating on words, not on meanings to a great extent.

C: Yes.

L: Now, just a second. (aside) I want you to start just from the message itself - you don't have to go to number one - just start the message out, I want it typed. Where it says paragraph one - yes, you start that. - Hello.

C: Hello.

L: Well now, as far as I understand, they finally got around to telling you that they haven't got the legislation necessary just now, and that secondly it's so important that they'd have to get the opinion of the British Government on it.

C: No, that's not it. They say that they're very much interested in our proposition.

L: They are very much interested.

C: That they're entirely favorable.

L: Yes.

C: Exchange of information.

L: Yes. Exchange of information is favorable. Right.

C: Yes. In both the monetary and the fiscal field.

L: Yes.

C: They've used fiscal as tax, you know.

L: Yes.

C: That's the way the Secretary got it.



- L: No. no.
- C: And the - the important part is that **paragraph two** you see?
- L: Yes.
- C: And then they state that they do not yet have the rules to put the thing into effect as easily as we could.
- L: Yes.
- C: That they would have to use decree powers to do that.
- L: Yes, they'd have to use their decree powers to do it. Right.
- C: Which expires November 15th.
- L: Right.
- C: In fact they want the **Act to stand the** opinion of the British Government.
- L: Now, in other words they put that up straight to us. Now they would like us to get the opinion of the British Government?
- C: That's right. Absolutely.
- L: But they have - this is the first time they've said anything to that effect?
- C: This is the first thing - the thing they gave me last night was - would not have been satisfactory as far as - if it represented the answer on Number One as well as Number Two, they admitted that it did not.
- L: Yes.
- C: Given in the mail. In the documents both names appear.
- L: Yes.
- C: And from that - official.
- L: This is official.

C: And arrived at **after great debate** and discussion.

L: Well, now, let me ask you personally, Cochran. I had a feeling the last couple of days that from the general news we had that they had been embarked on a program or committed so that they could not do this. Now - and therefore that they were being polite but not pursuing it very hard. Now, do you get the feeling that there's a change in opinion there? That they have swung around today and are looking with more absolute favor on doing it than they - than say yesterday.

C: Don't get me to say "absolute favor". I can't - I can't do that. They had some difference between the two partners.

L: Yes. Well, now, let me ask you something else. Even you feel that on the present line up - the Government line up over there, that they could go ahead and do this even if they got a favorable response.

C: I think they could, yes.

L: I see. Because you know, on the other means, this means opening up this whole thing with the other people.

C: Yes.

L: And you'd hate to start and - opening this all up, unless you felt that they - they were definitely going to do it if the other people agreed. I mean, in other words, is this a way out for them? Do they feel that we won't get something - that they don't want to close it right off and say no. That they want us to take it up with the other people, feeling that the other people will say no.

C: Well, I can't tell you without - with respect to my partner here too.

L: Yes.

C: And then when I talked with Number Two.

L: Yes.

C: First time.

L: Yes.

C: I found him ~~not~~ enthusiastic, and I think my partner would say that the first time he talked with him, he found a certain frigidity in the atmosphere.

L: Yes. Well now I'll tell you Cochran, what I'm trying to do is to get this - get this written up, you see?

C: Yes.

L: And then I'll - I think I'll have it written up in time to get to the Secretary at half-past seven.

C: Yes.

L: And then I'll bring it up with him and I think he will immediately then call you, or call you somewhere after half-past seven our time.

C: Well, my friend and I shall be right here at my apartment.

L: I see.

C: You'd better take the number or they'll be calling the Embassy. It's Kleber -

L: K-L-E-B-E-R

C: 79 -

L: 79

C: 02

L: 02. Kleber 7902

C: That's right.

L: That's your apartment and that's where you'll be.

C: Yes, both of us will be here.

L: I see. Well now, the point is then, that we may have to go to work to - and he'd probably want us to approach the other people.

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- C: I mean -
- L: You get that very strongly that it looks up to us now to approach them?
- C: If that is the question, well - just a second -
- L: I'll tell you why, between - Merle.
- C: Yes.
- L: I had the feeling the Secretary was kind of cooling down. He thought this whole thing, this morning, when I told him, he thought the whole thing was being kind of let down, you see, and I didn't feel that he was quite as enthusiastic as he was in the beginning. I'm just saying that personally.
- C: I see.
- L: And so I'm just wondering if this is going to be strong enough to carry it through again, now. These are just personal opinions.
- C: Yes, I . . . . . And then when he gets on the phone, why we'll **both** explain it to him -
- L: Fine. Well, I think that'll be better to have him call you. In the meantime, I'll try to get people together in case we need anybody.
- C: Just one second.
- L: Yes.
- C: What we mean here is that there's been difficulties - **if** accepted to get out this statement which we have.
- L: I see. Well, I'll tell you - I'll get that statement made up and then we'll get in touch with you, then.
- C: You - you get it fixed up and we'll both be ready to talk to the Secretary.
- L: Fine.
- C: And if you're going to do anything - time is an element, you see -

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L: Oh yes, -  
          **Saturday**  
C: Friday/and Sunday are holidays here -  
          There's  
L: Oh, yes. /no doubt time is the element all the  
way through on this. All right then, I'll get  
after this right away.

C: All right, then we'll be here when you call back.

L: Fine. Goodbye.

C: All right.

L: Goodnight.

November 9, 1938.

7:58 p.m.

HMJr: Hello. Hello.

Operator: Just a minute.

HMJr: Who is this please?

O: This is the Washington D. C. long distance operator.

O: Mr. Morgenthau.

HMJr: Hello.

O: We've lost Paris, but just a second.

HMJr: Thank you.

O: I'll ring you back, sir. Hello.

HMJr: Hello.

O: I'll ring you back, sir. We lost Paris for a moment.

HMJr: Lost Paris.

O: Yes.

HMJr: Well, I'm all right.

O: Mr. Cochran was right on the line there, but we lost Paris.

O: Hello. Hello, operator.

O: Yes, we lost Paris. Hold on.

O: Yes.

O: I'll wait on here. This is his operator.

O: Yes. All right. Thank you. Hold on.

O: Hello, Mr. Hickman.

Hickman: Hello.

O: We've lost Paris, Mr. Hickman, so you can turn it off for a minute and I'll ring you when we want it on again.

H: All right, I'll be right here.

O: Huhhuh.

Hickman: Hello.

O: You can put it on again, Mr. Hickman.

H: All right, it's on.

November 9, 1938.  
8:03 p.m.

HMJr: Hello.

Operator: Mr. Morgenthau.

HMJr: Yes.

O: Go ahead please.

H. Merle  
Cochran: Hello.

HMJr: Hello.

O: Mr. Secretary.

HMJr: Hello Cochran.

O: I'm here at my apartment and **my friend**  
is with me.

HMJr: I don't hear you.

O: I say I am at my apartment and **my friend**  
is here with me, listening in.

HMJr: Well, let - can I talk to him?

O: Yes.

HMJr: Let me talk to him.

O: What's that?

HMJr: I'd like to talk to him.

O: All right, sir.

Monnet: Hello.

HMJr: Hello Mr. Monnett.

M: How are you?

HMJr: I'm very well. Mr. Monnet, I've read this  
message and frankly it just doesn't make sense  
to me. Hello.

M: I can't hear you.

HMJr: I say the message - hello.



M: Hello.

HMJr: Can you hear me now?

M: I can hear you now.

HMJr: I say I have read the message.

M: Yes.

HMJr: And it does not make sense to me.

M: Does not make sense to you.

HMJr: No. Because I - I've got nothing to tell the English, because I don't know whether this is - a question that the French Government wishes to put up or whether the French Government is ready to do something.

M:

HMJr: I'm sorry, you - we have not a very good connection.

M: bad connection.

HMJr: Hello.

M: Let's try and get a better one.

Operator: One moment please.

HMJr: I can't hear.

O: All right. One moment please, Mr. Morgenthau. Hello, Mr. Henry Morgenthau.

HMJr: Hello. Yes.

O: That is the direct Paris circuit and our circuits to London, they're having some static interference on those circuits, at present.

HMJr: To London.

O: Yes. But you're talking on the direct Paris circuit.

HMJr: Well, let me try it once more.

O: All right, sir. One moment. Go ahead please.

Monnett: Hello.

HMJr: Hello.

M:

HMJr: Hello Mr. Monnett.

M: Yes, this is him speaking.

HMJr: Can you hear me?

M: Yes, I hear you.

HMJr: I say, I have nothing to tell the English. I mean I'm not going to put up a hypothetical question to the English - hello.

M: Hello.

HMJr: I mean I don't know whether the French want to go forward or whether this is simply a hypothetical question.

M: Now, give me a chance, do you - I do understand the position - hello.

HMJr: What is that please, Mr. Monnett?

M: I said, let me understand - explain to you what I understand would be the position.

HMJr: Yes.

M:

HMJr: I'm sorry I don't get it.

M: They have had a great deal of discussion. Hello. Can you hear me?

HMJr: No, I didn't - I don't understand you.

M: We have a very bad connection tonight.

HMJr: Yes, but they tell me that all the connections to London are worse.

M: I will try.

HMJr: Yes, please.

M: I say that the whole scheme on this matter has had a great deal of discussion.

HMJr: I understand.

M: And you remember our first conversation.

HMJr: Our conversation.

M: Our first conversation on the telephone.

HMJr: Our first conversation, yes.

M: Yes. You remember that?

HMJr: I remember that.

M: Well now, the whole thing .....

HMJr: Yes.

M: Certainly has come around to the idea expressed by him.

HMJr: He has come around.

M: He has come around. Now the difficult thing has been after you have seen him.

HMJr: Yes.

M: His program was very different - an entirely different plan.

HMJr: His program was what?

M: Was entirely different.

HMJr: His program in the newspapers was different.

M: Yes.

HMJr: Yes.

M: A lot. And they say this, at this point. They say that they are prepared - this 15th - that they are prepared -

HMJr: Yes.

M: To go through - to go through -

HMJr: They are prepared - let me repeat - they are prepared to go through -

M: and - information - exchange of information.

HMJr: With the exchange of information.

M: In other words, they certainly are prepared - an extension of the tripartite - information -

HMJr: I'm sorry, I don't get that.

M: Can you get me?

HMJr: No, I don't. I'm sorry.

M:

HMJr: Let me see whether I can hear Cochran any better, will you please.

M: What?

HMJr: Let me see whether I can hear Cochran any better. I'm used to his voice.

H. Merle Cochran: Can you understand me better?

HMJr: Yes. Much better.

G: Monnet said that the French belief indicates a willingness to now. An extension of the tripartite.

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HMJr: Yes.

C: In both fields - both monetary and fiscal tax fields.

HMJr: Monetary - now let me - that they're willing to exchange information in the monetary and tax field.

C: Our new system in the tax

HMJr: What's that?

C: In paragraph two, in your statement.

HMJr: Yes.

C: Where they say "fiscal" that means "tax".

HMJr: Yes.

C: And in a special they are willing to exchange information in that field.

HMJr: But Cochran, as we say over here, and so what. I mean, we're going - what are going to do after we've exchanged the information?

C:

HMJr: Now wait a minute, now, that's something that Archie didn't get. Do I understand that they say they are ready to make the giving of this information compulsory.

C: That couldn't have been in the right sentence.

HMJr: What's that?

C: In the third paragraph, if the French legislation does not provide the same facilities that you have.

HMJr: Well, I understand that. But they're willing to make it compulsory to give the information.

C: No.

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HMJr: Well, supposing they do that, then what?

C: That's as far as they have gone in this. There's nothing about control after that, nothing about repatriation.

HMJr: Well, that's the whole point.

C: All right.

HMJr: I mean - Cochran, I'm not going to - I'm not going to be kidded.

C: I didn't get that.

HMJr: I'm not going to be fooled.

C: No.  
background. As I've told you the background a couple of days ago.

HMJr: Well, but I don't care what the background is. I'm not interested.

C:

HMJr: But I don't care. I mean I'm too busy a man to be fooling around with this stuff.

C:

HMJr: I mean I - I've spent hours and days on this thing and I don't want to - you can tell him I don't want to be bothered any more with French trouble unless they're ready to do business. I'm getting sick and tired of it.

C: Well, I'll hold in confidence with the top man.

HMJr: No now, I'm not - you're just to tell him what I am saying, that's all. Hello.

C: My friend here wants to talk to you on that.

HMJr: I mean I'm sick and tired of it. I can't be bothered any more. I don't want to hear anything more unless they want to do business.

C: Monnett wants to talk to you on this.

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- HMJr: But I mean - I - I spent hours hanging on the telephone and I'm to put up a hypothetical question to the British, it's perfectly ridiculous.
- C: Well, we've been able to get.
- HMJr: Well, I'm not going to ask the French. I'm not asking them to do anything.
- C: Last night they gave me a reply which indicated definitely that the Minister of Finance offered to negotiate a double taxation with you but they found this was not consistent with the program of the . . . Now that was the impression I got from the Minister.
- HMJr: But I'm not talking about taxation. I'm not - this this is talking - they've got a serious problem. Now, why are they trying to crowd the issue. If they don't want to go through with the program please tell me because I have lots of other things to attend to.
- C: I'm - I'm just communicating the message as I got it. And last night I gave you the message
- HMJr: Well, what I want to know - are they going to put in exchange control or are they not?
- C: They would not.
- HMJr: What?
- C: They would not put it in to begin with.
- HMJr: Well then, the whole thing is a failure.
- C: **I mean they have no idea.**
- HMJr: What's that?
- C: . . . **exchange control** would not be sufficient with the program which they are going **to adopt.**
- HMJr: Well, they can do anything that they want and I've got lots of other things to attend to.
- C: All right, sir. Just a minute. Monnett insists

Monnett: Hello. Hello.

WHR: Hello.

M: This is Monnett speaking.

WHR: Hello.

M: I say, hello. This is Monnett speaking.

WHR: Yes.

M: I say, I - I heard what you just said to Cochran.

WHR: Good.

M: And I figured on this -  
you don't see difficulties, but this - my understanding, clear understanding is that they do mean business.

by this method definitely commits the best contemporary measures  
Now they have not by this method, brought **the events** of the exchange control, and if that is the question which we could definitely clear with them we will,

WHR: Well, I'm sorry but I've lived with this French situation for five years now and - the critical situation that they're in, this thing just doesn't make sense to me.

M: Well, now look -

WHR: I mean I don't know what I'm to tell the British.

M: I can't hear you, sir.

WHR: I don't know what I'm to tell the British.

M: if you please, after this talk tonight there's still a more definite - what you're going to tell the British. I'm sure that with the program as laid already, I think we **ascertain** definitely the thing, one way or the other tomorrow.



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HMJr: Well, Mr. Monnett. Hello.

M: Yes.

HMJr: You and I spent one week on this matter. Now - I have certainly for five years shown my interest in the French problem, but it just puts me in the position as though the French were going to do me a favor.

M: Not this - this message does not mean that at all.

HMJr: Well, I just don't understand it, and Mr. Lockheed who's sitting next to me, he doesn't understand it any more than I do. It just seems silly. Hello.

M: Yes.

HMJr: It seems just silly to us. We don't understand it. I'm not going to put up a message like this to the British. I mean we can exchange information any time, and after we've exchanged information what are we going to do? Hello.

M: **I don't hear you very well.**

HMJr: I mean after we exchange information, what are we going to do?

M: What -

HMJr: I mean what are the French going to do? Mr. Monnett.

M: They say that they are deliberately - that they **know** definitely agreeing that the British agree with the exchange of information, but they prefer to dispose of the procedure that has been drawn in England, and that you and I work together.

HMJr: Yes, but supposing I send for a representative of the British tonight, and I say the French put up a question to me, are the British and United States Governments willing to exchange information? And then the British will say to me - hello.

M: **And make the information compulsory.**

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HMJr: Well, and supposing they do make it compulsory, then what? I mean why are the - I mean - the French either do the thing the whole way, but don't go one quarter of the way.

M: Hello. Let me tell it to you. My innermost feeling is this. That we are prepared and anxious to go the whole way but they want the name of the certain control which we know of.

HMJr: They want what?

M: They want to advise the name of the exchange control.

HMJr: I don't - I'm sorry I don't hear you.

M: They want to advise the name of the exchange control.

HMJr: Well, what are they going to do?

M: Look, let us - after this talk, definitely clear the matter further tomorrow morning. That will be some difficulty with very great progress.

HMJr: Well I'm sorry, I didn't understand.

M: I say we have made already some very great progress.

HMJr: Well, I wish I thought so, but neither Mr. Lochhead and I appreciate it.

M: I tell you. I agree with you on one thing. That tax measures that have been weakened by your friend  
Hello.

HMJr: The message, what?

M: This message has been weakened by your friend

HMJr: Yes.

M:

HMJr: It leaves what?

M: It leaves.....

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HMJr: Yes. Well I - I mean - it - if I take the message just the way it is written, to me it's meaningless.

M: I can't hear you.

HMJr: If I take the message, just - exactly the way I received it, it's meaningless. Hello.

M: Yes.

HMJr: And - I mean - I want to do all I can but - but I can't - as I explained - I can't do it for the French. The French have got a critical situation and they've got to make up their minds whether they want to operate or not, and - and I would say they have not yet made up their minds that they expect to use the knife and operate.

M: I think - on the text we've had I'm clear that they've made up their mind. Otherwise we wouldn't have telephoned you tonight.

HMJr: Well then, why not say so.

M: I agree with you that the language used is not - seems to be clear. Now let us clear that up tomorrow morning, and we won't go very much further into this, either one way or the other.

HMJr: Well, that's what I'd like.

M: All right.

HMJr: But - but -

M: Cochran and I, we'll have a talk with them in the morning and clear definitely this conflict. If they are prepared to the British and after that what are they prepared definitely to -

HMJr: Now should I say anything to the British tonight?

M: How do you feel about it?

HMJr: How's that?

M: How do you feel about it?

HMJr: Well, I - think it's useless, I think it's just -

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M: I suggest

HW: Hello.

M: How do you feel about it?

HW: Well the only - the only advantage would be that they'd know that something was coming, that's all.

M: Are you prepared to talk to them tomorrow morning?

HW: Yes, I'm prepared any time.

M: But, - would you prefer - would you like it better? Talk to them only **tomorrow morning** after we've talked to you - talked with these people once more.

HW: Well, let me just stop and think a minute, will you? Will you hold on a minute, please. Wait a minute, please.

Archie  
Lockheed: Mr. Monnett.

M: Yes.

L: This is Mr. Lockheed speaking.

M: Oh, yes.

L: Mr. Monnett, you explained that it would be necessary for the French Government to pass decrees by November 15th, in order to make the people report what their foreign holdings are.

M: Yes.

L: Now, you understand that United States already has legislation to that effect and we do get such information.

M: I didn't understand what you said then.

L: We, already, the United States, already does get such information.

M: You have the legislation to compel the people to send that information.

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- L: Yes. We get that information.
- M: Oh, you do.
- L: Now, however, we have not got exchange control, at the moment.
- M: No.
- L: If the French pass the legislation to get information.
- M: Yes.
- L: Then are they, at the same time, going to pass legislation or decrees enforcing rules to make those people to bring the money back home. Are they?
- M: **I just now told** - There is no definite commitment at this moment, on this point.
- L: Well, if there is no definite commitment that they are going to do that, they - by November 15th, they would have no right to make those commitments. I mean, in other words, they would have to pass decrees by November 15th, not only asking for information, but also giving them powers to enforce rules that would make the people bring the money back.
- M: Yes. And this **merely had been** given to us this afternoon.
- L: Yes.
- M: And states definitely that they are prepared to take compulsory measures to have - to force the people to give this information.
- L: Yes. To give the information.
- M: Well, now let me just continue. You see, they say - and I wish you would read **what it says at** the beginning of paragraph four.
- L: Just one second. The beginning of paragraph four, yes.
- M: Yes. Before pursuing further the setting up of the details of the procedure which would be made necessary **on** the application of the measures

envisaged in the message, the etc., you see?

L: Yes.

M: The Minister must know the opinion of the British Government. In other words, what they do mean is this, that this is the day we will definitely - definitely commit the statement **by compulsory measures to force the people by such reports to inform of their foreign holdings.**  
Second,

be prepared to take steps, but the exact steps to take, we want to as soon as  
we know that the British and you are

L: Well, as the Secretary said that puts us in a - in the position of asking a hypothetical question of the British. Well now, if the French said that if the British agreed we will put through those measures, then we could ask a question, but all they're saying is what will the British - what will the British think about this and then after we get this opinion we'll decide whether or not we'll do it.

M: You mean what we'll do but what other steps will come after.

L: Yes. In other words, have we got - is - I mean, to use the words frankly, right out, is the French Government prepared to put in exchange, stringent exchange control provided that the British are agreeable, or are they simply wanting to know is - would the British Government be agreeable and then the French Government make up their minds after they hear from the British.

M: Look, the whole question what I do believe comes down to one word, because exchange control, a new man, I think

L: What's that again please?

M: I think they will do everything except call it by name.

L: No, I don't hear you.

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- M: I think they will do everything except call it by name.
- L: I'm sorry, I can't hear you.
- M: I -
- H. Merle Cochran: Hello Archie.
- L: Yes, Merle.
- C: Monnett says he thinks they'll do everything toward that end of the exchange control, but not call it by that name.
- L: That you'll do everything toward exchange control but you won't call it by that name.
- C: That's everything.
- L: Well, what are we going to call it by to the British? We can't dodge the question when we're talking to the British.
- C: And -
- L: Now listen, Merle -
- C:
- L: Well listen, Merle, the way I get it is this, the British say - Hello.
- C: Hello. Yes. You people require a definite commitment on exchange control as you can not get it.
- L: If it requires a definite commitment to exchange control Mr. Reynaud can not do it. Is that what I get?
- C: Yes. And have indicated that having said that you'll put on no measure that you can't get him now before November 15th to take a positive measure of exchange control.

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- L: Now, as I understand it, Mr. Reynaud has made a public statement that he'll have no exchange control.
- C: He'll have no measure of restraint.
- L: He has no measures -
- C: Of restraint.
- L: Of restraint.
- C: Of restraint, yes.
- L: So therefore, he's flinching with the idea of exchange control, but he doesn't want to use the word.
- C: I won't even say that much. I won't go that far.
- L: You won't go that far.
- C: No, I will not.
- L: But - but listen, here's the only point Merle, putting it up here, I can understand from what you say now that that's why they worded the message this way. They said that they will go ahead and ask for information. Now then I presume they mean there that if they get that information that it would be the same as exchange control.
- C: No, no.
- L: Well, what I meant was that <sup>if</sup> they had that information indirectly they could probably force the people to bring money back.
- C: Quite possibly, yes.
- L: Well now, if that is the case, you can get exchange of information with the United States at any time. That's not special and then it's up to the French to use it the way they want it.
- C: Yes.
- L: But if we're going to go to the British and say, "You have to give information", first of all the British are going to say the same thing as they've always said, probably that they haven't got that information and they don't have laws to enforce it.



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- Q: Yes.
- L: They're going to tell you that right away.
- Q: Yes.
- L: So therefore, where do we end up at all? You just did a **stalemate**. But it puts us in the position of going to the British and saying "The French want to know whether with exchange information" and if the British says "For what reason," we can't say anything because you can't say exchange control over there. In other words, is the French Ministry as it's constituted just now, prepared to cross this bridge or not?
- Q: Ah - information I haven't talked with the top man, and the day after my friend here, talked to him, a couple of days, I saw the second man you know.
- L: Yes.
- Q: And his reaction was definitely to the effect that this arrangement - this plan, was not consistent with his program.
- L: That's right, and I can understand that. He thought that this arrangement wouldn't be consistent with his program.
- Q: And while he has conceded now, there's been a certain conciliation between the two, that this statement which is so much longer than the one last night. It was not delivered to me, but read to me.
- L: Yes.
- Q: , but my personal view, I don't insist - my personal view is that he will not subscribe with decrees which would be interpreted as exchange control.
- L: Well listen Merle, getting down to the fact that that is the case, is it the proper time then, if we'll be honest with - with ourselves, with each other on this, we have told them that if they wish to put in exchange control we would not object and we would do our best to cooperate with that.

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Now, they have made certain public commitments which apparently would prevent them from putting in exchange control.

C: That's right.

L: We - so therefore, our offer is not at the moment, acceptable to them in that form.

C: It's not in the full sense.

L: Now if that is the case - so therefore, instead of coming back and simply telling us that owing to the promises that they have made or the pledges they have made that they can not accept our recommendation but thank us - they're going around in a circle and trying to say, "We can't do this, but we can do something else."

C: Well that's exactly the result of what I did last night. It's the result of when I heard that message from the one man, you see?

C: Yes.

C: And which definitely put it in those terms.

L: Yes. Well, now, Marle, just in - personally - I'm speaking to you personally just now, I haven't checked with the Secretary. Wouldn't it be better, right at the present time, to let them know that we have made this suggestion but the circumstances at the moment, probably don't allow them to accept it. There's no hard feelings on our part. We've made this suggestion several times and we would simply let it lie this way. They know the way we feel. If they can't act on it just now why not wait until circumstances come so that they can approach it themselves again?

C: Personally, I think that's the thing to do.

L: Don't you think that's the thing to do?

C: I do.

L: I see. Well now, just a second, you wish to speak to the Secretary a moment.

C: All right.

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HMJr: Hello.

C: Hello Mr. Secretary.

HMJr: Before we get on any other business, I want to know how Mrs.. Cochran is.

C: She's getting on very well today.

HMJr: Good.

C: I was out at the hospital this evening at six o'clock, and she's doing very nicely, thank you.

HMJr: Well, I'm glad to hear that. Now, do you want to say something?

C: Did you hear just what I said to Archie?

HMJr: No. I can't hear. We only have one telephone. I can't listen.

C: Do you have the going or not?

HMJr: No, I'm at home.

C: Oh, I see.

HMJr: No, I can't hear. I don't know what you said.

C: Monnett wants another talk with those people here.

HMJr: Yes.

C: And - I mean - with the best in the world so that everyone and in particular this one thing.

HMJr: Yes.

C: About half of these people are willing to the thing which you really want. That is a definite control.

HMJr: Yes.

C: And

in this business of decree laws.

HMJr: Unless what?

C: In this stage of decree laws which must be out by November 15th, I am convinced that he will not take a **clear cut step in making exchange control.**

HMJr: I understand.

C: On the exchange of information he has noted that he wants anything that would help in that, his position, last night, was he wanted it in the double taxation of **general agreement.**

HMJr: Well, that we can do any time.

C: That's what I told him.

HMJr: And it doesn't - we can do that any time, and it's so unimportant that anytime at all we can do that.

C: I know it's - been done already.

HMJr: But it's very unimportant, but I'm glad to get that and I - I want to ask your advice. Now it seems to me that it's much better for me not to say anything to the British until I have something definite to inform them.

C: Well, as long as you think that - **and I feel that you do** - requires a definite control by them I should not speak to the British.

HMJr: I feel that unless the French accept the plan which I talked over with Monnett, see? Hello.

C: Hello.

HMJr: Hello.

C: Yes.

HMJr: Anything less than that plan will fail.

C: Yes.

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HMJr: I feel that very very strongly.

C: Yes.

HMJr: Now what's the sense, and if they can't do it, anything short of that will fail.

C: Well the thing should not go further, in my opinion.

HMJr: What's that?

C: I really - I **made the** definite statement that we should not go further.

HMJr: Yes.

C: They want to put the question to them tomorrow.

HMJr: They want what?

C: I say - I make a definite recommendation that we go no further.

HMJr: Well, I - that's just the way I feel.

C: Monnett would take it further away from tomorrow.

HMJr: They talk with them tomorrow?

C: Yes.

HMJr: Now Cochran, now - I'm talking to you - now - as simply as a messenger, see?

C: Yes.

HMJr: I mean not as - I was asking your advice a minute ago.

C: Yes.

HMJr: And the message that I want to get over to them - anything **less**, any half way measures - hello.

C: Yes.

HMJr: By them, at this time, I feel are sure to fail.

C: Yes.

HMJr: And until they want to go all the way, I'm not going to communicate with the British.

C: All right, sir. Now that's definite.

HMJr: What? Hello.

C: Yes.

HMJr: And you agree with me, don't you?

C: I do absolutely.

HMJr: Is Mr. Monnett listening?

C: Yes, and he says he agrees with that.

HMJr: And Mr. Monnett agrees.

C: He does.

HMJr: Well you tell him that - again -

C:

HMJr: All right. Well, he again proves to me that he's a man of more than common sense.

C: He's smiling when you say that.

HMJr: Well he is, I mean he understands this thing, and I have a little sense, not much, but I'm not going to be kidded, that's all, and - I've been at this now for five years, and **their** situation is practically hopeless and unless they go all the way, they'll just sink lower and lower. Now that's the thing.

C: Uhhuh.

HMJr: And any half way measure at this time will be worse than nothing.

C: Yes.

HMJr: And I'm not going to be a partner to a half way measure, and then say, "Well you see the

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tripartite did this and this" and then again it's another failure.

C: Yes. I understand.

HMJr: And I'm going to sit tight until they come all the way or they can go their own way.

C: Right.

HMJr: Now, I've the greatest confidence in Mr. Monnett because he is a realist, he knows what this is all about, and I feel that he and I look eye to eye on this matter.

C: He's gone as far as anyone possibly could have gone. He's gone further than I to go, I'll tell you that.

HMJr: Well I'm sure he's gone further than anybody else could go.

C: Absolutely.

HMJr: But he'll have to go a little bit further, as a good citizen.

C: All right.

HMJr: And maybe you could put that man back in Justice again.

C:

HMJr: What?

C: If we'd had <sup>this</sup> four days earlier, it would have gone through.

HMJr: If you'd had it when?

C: The four days earlier,

HMJr: Well - it would have gone through.

C: Yes. Not a question in the world, it would have gone through a hundred per cent.

HMJr: Well, they ought to swap around again.

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C: They may before the year is over.

HMJr: What's that?

C: They may make one of these days.

HMJr: Well now, does Mr. Monnett agree? With my position.

C: Yes. I am to see the man who gave me this, and give him that message of yours?

HMJr: What's that?

C: Is it understood now that I am to see the man who gave this message to us and say that anything less than half way measures will fail, and that you don't want to act on this?

HMJr: Who - who would you give that to?

C: Roueff is the one who handed me this.

HMJr: Oh I wouldn't bother with Roueff. I would insist on seeing Paul Reynaud.

C: It is not definite as yet as to whether I should see him, or do you want Monnett to see

HMJr: Well, I would - I would let Monnett decide that.

C: Let him decide that.

HMJr: Yes.

C: The message originally went to the top man.

HMJr: Well, I think that he ought to go back and see Mr. - Number one and tell him how I feel tonight. I wouldn't bother with Roueff, I wouldn't bother with Paul Reynaud.

C: All right.

HMJr: I mean that's the way I feel, but he can decide himself.

C: Well, he - he himself that I should go and see the second man.

HMJr: Well, but I - hello.



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C: Hello.

HMJr: We won't get anywhere with the second man.

C: Well, I mean my point is this. We've got to get on with him in his program there -

HMJr: Well look - Cochran -

C: Yes.

HMJr: You people will have to use your own judgment as to who you see on your end. I don't want to attempt to advise you.

C: Well, I mean it's just this one point as to whether I should or whether he should.

HMJr: Well I think it's more or less an eternal matter and my feeling is that it would be better if he would.

C: If he would?

HMJr: Yes. I - I don't want you, as my representative, to be put in the place to try to sell them this program.

C: Right.

HMJr: Hello.

C: Yes.

HMJr: I don't want to sell them - you're my personal representative.

C: I haven't tried to sell it. I

HMJr: No, let Monnett sell it.

C: All right.

HMJr: He's a good salesman.

C: All right.

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HMJr: And let him do the selling and you just transmit whatever they say..

C: All right. I'll communicate anything that he gives me from them.

HMJr: But let Monnett do the selling.

C: All right.

HMJr: All right.

C: Goodbye.

HMJr: Goodbye.

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE November 9, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnobeBANK OF ENGLAND.

Mr. Bolton called me at 10:05 a.m. As a result of rumors to the effect that a rate of \$4.50 to the pound had been agreed upon in the Anglo-American trade pact to be signed this week, Paris, Amsterdam, Brussels and Zurich had been heavy buyers of dollars, pushing the sterling rate down to 4.75 1/4 compared with 4.76 9/16 Monday's closing in New York. At the same time reports had reached London from Paris that Reynaud planned to raise the price of gold in Paris which, of course, had also lead to dollar buying. In the face of this demand for dollars he had had to support the sterling currency on rather a substantial scale, spending altogether \$19,000,000 yesterday and today offset by a purchase from the Argentine of \$7,000,000. The position of sterling continued to be "anything but very strong." There was considerable doubt as to its true worth and against that kind of a background bear attacks were bound to be successful. He had taken it upon himself unofficially to speak to some of the banks in London and deny these rumors as to a \$4.50 rate for sterling provided for in the trade treaty. Prior to the report from Paris that the gold price there would be raised, Carigual had had rather an easy time and had taken in between £2,000,000 and £3,000,000 but had lost all that since yesterday morning.

I explained to Bolton the sudden spurt sterling had taken here late in the afternoon on Monday under buying for Argentine account in connection with a successful flotation of the Argentine loan here last week.

LWK:KW

REB

GRAY

London

Dated November 9, 1938

Rec'd 3:53 p. m.

Secretary of State,  
Washington.

1303, November 9, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Due to the persistence of the rumors referred to in No. 1300, November 8, 6 p. m., the dollar opened bid at 4.75  $\frac{3}{4}$ . It went to  $\frac{1}{8}$  with hardly any business being transacted at which point the British authorities intervened and moved the rate to  $\frac{3}{8}$ . It remained there for gold fixing and until after New York opened. Gold was fixed at 146 shillings 3 pence, 246 bars being dealt in of which a fair amount was supplied by the British fund.

The franc remained steady at 178.80 but the French fund had to give a considerable amount of sterling. It seemed to be more than sympathetic weakness with the pound.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 9, 1938, 5 p.m.

NO.: 1887

FROM COCHRAN.

In Journal Official today there is an announcement that the interest rate on two-year national defense bonds and 18 months bonds of the autonomous National Defense Board has been reduced from 4.25 to 4 percent.

In France buying of gold coins has been resumed. Following the trend that began yesterday afternoon francs are being offered against sterling. There are continued rumors that over the weekend something may be done about realigning at 4.50 the dollar-pound rate. There is current gossip that since the elections in the United States are over, Washington might do something about Anglo-American monetary relations in concluding the trade agreement between the two countries. There has even been suggestion that the strength of French industrial shares and some heavy buying of gold shares during the past two days were indications of some approaching tripartite agreement, possibly including de facto stability of the French franc. Today both French rentes and shares are weaker.

In the press it is expected that on Saturday the decree laws are to be approved by the Council of Ministers, and that same night Reynaud will discuss them in a radio broadcast. On Sunday they would then be pub-

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lished in the JOURNAL OFFICIEL. The Finance Minister continues to receive good accounts in the press. This morning at the Ministry of Finance my friends were not absolutely sure that it would be possible to print the decrees so that they could appear in JOURNEE OFFICIALE on Sunday, but they are working toward that end.

At five o'clock I had a talk with the Bank of France. The French stabilization fund had a bad day, my friend told me. It lost around 1,000,000 pounds as a result of an attack started yesterday afternoon through the rumor of a 4.50 pound-dollar rate.

END MESSAGE.

WILSON.

EA:LWW

RE STERLING EXCHANGE RATE

November 10, 1938.  
3:00 p.m.

Present: Mr. Taylor  
Mr. White  
Mr. Lochhead  
Mr. Bernstein  
Mr. Viner  
Mr. Alvin H. Hansen  
Mr. Feis  
Mr. Riefler  
Mr. Goldenweiser  
Mr. Williams

H.M.Jr: Harry, you got all these questions answered?

White: There has been some progress made during lunch hour and while we were here, and Mr. Williams has a statement, I think, that he wants to indicate. It hasn't received the attention of all here, but it will be the basis of any further discussion, if there are any differences of opinion.

Williams: I don't want to do this. I want you to do it. But it doesn't matter.

White: You better do it.

H.M.Jr: Now that you've given it a label.

Williams: Here's the gist, I think, of what we've been saying to each other. That the decline in sterling is for us a serious question; we think we ought to make that clear: we are concerned about it. That, secondly, if it continues it's bound to raise questions here - I mean in our country, Congress or elsewhere, about the tripartite, what it means, what it's for. Three, we see no very convincing trade reason for this fall; that, looking ahead to our recovery, it seems to us that there will be an increase of our import trade and that there oughtn't to be an important decline of sterling so far as trade is concerned.

And we can add to that our feeling that there are some important reasons why they may wish sterling not to fall: questions of prestige, questions of what they

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have to pay for basic products, armament and so on. I don't know how much we'd want to elaborate that.

Then the next point, and the essential one, is that capital movements can, however, cause great instability. Now, those capital movements are, of course, of various sorts. Just now one thinks about the flow of funds into the stock market, but there are many other aspects of the question.

And that we think it is thoroughly in the spirit of the tripartite to ask for the facts and discuss a policy with respect to such movements; our thought being that if there is any essential trade reason for sterling to change, why, that would be consistent with the tripartite, but if it is not that, but merely capital movements of one sort or another, possibly temporary in their effects, that that is a thoroughly valid reason under the tripartite for a discussion of some sort. Now what that might lead into, one doesn't know. The question might be, how much gold are they willing to give up for such a reason? Even before that, there is the question of whether they would agree with such an analysis.

Then there is the question whether anything can be done to lessen the capital movements. That, of course, harks back to earlier studies, doesn't it?

But that whole range of problems we think constitute a very valid and possibly fruitful ground for consultation.

Have I summed it up more or less right?

White: as far as I can see. I don't know whether there is any difference of opinion among those who hear it. I certainly have none.

H.M.Jr: Well, it's all right with me; it's all right with me.

White: What we thought we might do - if this looks appropriate to you, then we might draw up a simple statement, including various topics that you might want to touch upon, and then you could decide whether you want to do them through Bewley or through Cochran or any other way you'd wish.



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- H.M. Jr: Of course, aside from everything else - I mean just putting the question of Great Britain to one side, and as for the short-run outlook, I'm much more worried about the French situation than I am about the British situation. And if the French don't really do something to get control of their own situation, I think they're through, and I think it's only a matter of months. And unless they really face this very, very difficult situation that they have and - I mean for five years they've been talking about a return of confidence, and during those five years they've let what - four billion dollars of gold go out of the country, huh?
- White: Three.
- H.M. Jr: How much do you (Lochhead) say?
- Lochhead: Well, you have to put it in dollars, so three billion, yes - I mean it's about three billion plus.
- H.M. Jr: Three billion - three billion plus.
- Lochhead: Three billion plus.
- H.M. Jr: Until they get a really - I say they've just got two choices. One is to grapple with that foreign capital which has left the country; or, continue doing what they are doing and wait until the situation is so bad they won't be able to do anything. And I've never been more discouraged about it, and I think there is going to come a time when the amount of time that the United States Treasury puts on it just isn't worth it. I mean to hang on the telephone and spend hours and spend nights and - it gets - they won't listen, they won't be realistic about the situation, they keep getting worse and worse and worse.
- White: There was no discussion of the French situation.
- H.M. Jr: No, I'm just throwing this into the ....
- Viner: I'd like to add one point to those propositions which may or may not be discussed, I don't know; and that is, our discussions with England may very well cover the question of our mutual interest with respect to the exchange rates of other currencies

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than sterling and the dollar. That takes in the French, but it also takes in the sterling bloc and so forth.

H.H.Jr: Well, I'm not saying everything I know on the French situation, because they've got an hourly situation which either will or won't come to a head between now and the 15th, when their decrees expire; but I was largely saying this so Professor Riefler would know how I felt, if he doesn't already know how I feel, when he gets abroad. But I always use my rubber band and I've broken so many rubber bands, and I can't get any that I can stretch much further to include the French in this thing. And it's - it's a desperate situation and I certainly have done everything I could to let them know how I feel. But it seems that the Frenchman in peace time doesn't seem to be a very patriotic citizen. When they thought they were going to war, why, they suddenly found that they had no money and they had to bring a little of their money home. Rather than mobilizing, they gained capital; I thought it was a very interesting phenomenon. But in peace times they can't get their money out fast enough.

But I should think not only discussing the French thing, but also the other countries in the sterling area - I mean ...

Viner: Of course, there they have the same interest we have; they're embarrassed by the fact that the sterling area is following them as closely as it is.

H.H.Jr: So if you people would add that to your agenda, what I'd like to have is a memorandum before me along those lines, so that when I ask Mr. Bewley to come in and see me - and Dr. Feis would be present if he'll come - why, I'd just like to go over this thing very informally, based on such a memorandum; I'd like to point out to them how I feel about other countries, and particularly the French thing if that doesn't clear up between now and the 15th.

Feis: In the French situation, I wonder whether a very important, if not a determining element is the fact that so much of the wealth is already outside of the country, so that instead of further depreciation of the franc being a threat it is a source of

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prospective gain, the transfer has gone so far and been so extensive.

- H.M.Jr: Plus the fact that most of the members of the government and cabinet have their money outside too.
- Williams: Turns on whether they can stabilize externally. If they could, then there is a strong presumption, since so much capital has gone out, that it will come back.
- Feis: There is so much out now that the further they depreciate before stabilization, you say, "Well, presently France will stabilize, then we'll move this back and have a greater volume of francs than ever before."
- Riefler: I think it would be well not to put the French discussion too far in the forefront of this one, because last time when Phillips was here the whole - really the whole session was devoted to France and we didn't find out so much about England, and this time we're genuinely concerned about the British pound. Hate to see the discussion ....
- H.M.Jr: Win, you're right. I'm saying it partly for your benefit and partly because I've got a hen on right now which may not hatch, but at least I'll know whether it will or won't before the 15th; and I don't think I'll see Mr. Bewley until after the 15th, because I don't feel I can talk to him unless this thing - until we know what the French will or won't do. Well, they're supposed to do it Saturday; they've told us they're going to do it Saturday and - I mean their decrees - and after we can take a look.... I couldn't do it before Saturday anyway. But I agree with you that the stress should be on sterling.
- Taylor: In those headings or under those headings that John read there, why, you can include ideas about commodity prices and so forth, because I think they've got that on their mind a little bit and we certainly have it on ours, and it isn't excluded from any one of those headings that you have there.
- H.M.Jr: No, that's right. Harry, is there anybody that Mr. Wallace has working for him who particularly follows

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foreign exchange?

- White: He has somebody who follows the balance of payments and the foreign situation.
- H.M.Jr: Who's that?
- White: Leslie Wheeler; and he has an assistant. Now, which of the two, I don't know, but Leslie Wheeler is usually the man who - Wheeler is their foreign - the man who takes ....
- H.M.Jr: Is he an expert in wheat?
- White: Well, he is presumably an expert in the foreign markets for agricultural products.
- H.M.Jr: Well, wasn't he in London on wheat?
- White: He was in Rome on wheat.
- Taylor: He's a pretty good boy, don't you think so, Herbert?
- Feis: Yes. I shouldn't expect him to add anything that hasn't been brought out, but he's a capable fellow.
- White: That's right.
- H.M.Jr: What I was thinking might be a nice thing to do would be to show him this and ask him if he had any suggestions, see; then let them feel sort of that they're in the family.
- White: He could show it to Secretary Wallace.
- H.M.Jr: Ask him to show it to Wallace, see?
- White: We'll have something Monday or Tuesday, unless you want it sooner.
- H.M.Jr: No, no, I couldn't handle it before Monday.
- White: All right, I'll ....
- Gold'r: They are, of course, very much concerned about it in the Department, and there was to be today and then later was called off, one of those conferences that

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the Secretary of Agriculture holds to which Mr. Gardner and myself usually go. And he particularly wanted to have the problem of sterling and its bearing on agricultural prices brought in.

- H.M.Jr: Well, I was - I haven't got the whole story, but at Cabinet Wallace brought up that he's been making a study of balance of payments and he asked me whether I was interested. And White says that they get all their figures from him.
- White: Well, figures are available to both of us, and those figures that are not available - we usually go over and get them.
- Gold'r: Have to get them from you. This is the only source of those figures.
- White: That's right.
- H.M.Jr: Well, maybe if you show him this - maybe Mr. Wallace might want to go into it further.
- White: He has a legitimate interest in it.
- H.M.Jr: Yes, and it might be taking time by the forelock if we got them in there before they ...
- Viner: ... before they got you in.
- H.M.Jr: Thank you. I wanted somebody to say that.
- Feis: Fine.
- H.M.Jr: What?
- White: I'll get in touch with him this afternoon.
- H.M.Jr: Yes, before they ask us to use a needle.
- Now, this thing Dr. Feis wants us to give him an answer on.
- White: Bernie has the story.
- Bernstein: Well, we went over ....

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- H.M.Jr: You (Riefler) got your bag and all that sort of thing? What? I'll have a car waiting for you. You can leave here sharp 20 of and make it.
- (Gives instructions to messenger)
- Go ahead, Bernie.
- Bernstein: The suggestion which the British made would have limited perhaps the Government's freedom in gold and silver action, and we have countered with a suggestion which would retain the language of the existing agreement as far as actions with regard to gold and silver are concerned and, if the State Department is willing, accepting the British suggestions with respect to munitions and war.
- H.M.Jr: That - say that again; I don't get that.
- Bernstein: Well, the change of language is in an introductory clause. We said that nothing - the existing agreement says that "nothing in the trade agreement is to prevent any measures with respect to aforementioned categories of action."
- H.M.Jr: You mean nothing in the trade treaty should change the following four ....
- Bernstein: Nothing in the trade agreement should prevent either government from doing what it wants to do in the following four fields. And the first of the four fields is gold and silver. The next three fields are matters which concern, it would seem, more particularly the State Department rather than the ....
- H.M.Jr: What are they?
- Bernstein: They relate to neutrality, arms and ammunition, and the existence of a state of war or hostilities.
- H.M.Jr: Well, how can we object to that?
- Bernstein: With respect to the last three?
- H.M.Jr: No, the first.

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- Bernstein: Well, with respect to the first, the suggestion that the British are making would limit the conduct of each government more than does the language in the existing agreement.
- H.M.Jr: I don't understand it. As I understand it, what they're saying is that "if in the future you want to change any of the four following things, you are free to do so."
- Bernstein: The existing agreement does that. That's the existing printed draft.
- H.M.Jr: They want changes?
- Bernstein: What the British are proposing is a change which would restrict more so than does this.
- H.M.Jr: Well, how would it restrict?
- Bernstein: Well, it says that any prohibitions and restrictions which either government might want to make with respect to gold and silver would not be affected by the trade agreement, whereas the prior suggestion said "any measure," so there is ....
- White: To give you an illustration, Mr. Secretary, supposing we decided we wanted to put on certain duties on silver which would discriminate against British India silver in favor of some other silver. Under the terms as we have it now, you would have the power to do that without contravening any of the sections in the clause. Under the terms of the provision as suggested by the British, you would not have the power to do so without violating the terms of the agreement.
- H.M.Jr: Is that worth fighting for?
- White: If that's the only thing, it's hard to understand why it is worth fighting for. But we'd be in a better position to decide that if we knew why they were fighting for it.
- H.M.Jr: Why not ask them?
- White: We asked the State Department, and they weren't able to tell us any more than that.

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- H.M.Jr: Well, let's send for Bewley and ask him.
- White: That was our suggestion. That was the suggestion.
- Viner: I think myself that they don't have gold and silver in mind. Under the present wording, which has been apparently in the previous agreements, either government is free to do what it likes about duties or anything else if there is a state of war or hostilities. And I'm sure that wasn't the intent of it, but that's what it says.
- H.M.Jr: This is a Treasury matter. Why not send for Bewley and ask him what it means?
- White: If it relates to the fourth matter, then Treasury is not directly concerned; it's a matter of the State Department. We called up to find out about that, and their answer was that so far as they know the attention of the British was directed against the gold and silver in this matter. That may not be the case; they may have the wrong impression.
- H.M.Jr: Well, do you (Feis) see any reason we shouldn't ask Bewley what it means?
- Feis: I think you'd be magnifying the importance of it if you go to the Treasury attaché.
- H.M.Jr: Well, why?
- Feis: Particularly - well, it would be the first item in the whole course of the discussion that's been directly discussed.
- H.M.Jr: This affects me. This affects me.
- Viner: Why not ask this diplomatically?
- Feis: I would suggest you let it go through the regular way, let it be taken to Overton, who is the head of their mission here, and let Overton put it either to Bewley or the British Treasury.
- H.M.Jr: That's all right. Will you do that? Will you do it today?
- Feis: I'll gladly do it, though I think it will work out more smoothly if you let the matter follow the channel



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that's there and let Mr. Bernstein carry it back to whoever gave it, whoever he's in touch with over in the Department, and with that instruction.

Bernstein: Well, it didn't come to me. Harry, do you know who ....

White: The regular channel.

Taylor: I entirely agree. Use the regular channel.

H.M.Jr: What is the regular channel?

White: The regular channel would be the Trade Agreement Committee - the man who happened to call me up; and the answer would go back to the person who called me up.

H.M.Jr: Who is that?

White: It would be Mr. Reinstein, who is, I take it, the secretary of the negotiating committee with the British Treasury on the American side.

H.M.Jr: Would that be all right?

Feis: Yes, I think so.

H.M.Jr: Well, who does it, you or Bernstein?

White: I do it, or usually Mr. Taylor when it's a matter of importance.

Taylor: It depends. I mean if it comes over and I - Harry and I will talk - usually talk over what the channel should be, and we try to carry - try to keep it out of, let's say, ...

H.M.Jr: What would you suggest in this case?

Taylor: Why, I think in this case if Harry would call up Hawkins or I call up Hawkins ...

White: I think you better call him up.

Taylor: Yes.

H.M.Jr: All right. Then will you take and let me know what the answer is, and tell them that pending that we'll

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sit tight?

Feis: May I say that the formulation we've been employing - the first formulation is a very back-handed formulation, which is that "nothing in this agreement shall be construed to prevent either party from applying any measures in those categories." And the counter form that they suggest is the direct one, that "the provisions of these agreements will not affect..." My notion is that they were merely substituting direct phraseology for indirect phraseology, and had no intention of changing substance whatsoever.

Now, the only way in which they might affect substance is in this field of gold and silver movements, because of the fact that the phrase "prohibitions and restrictions" is not as broad as the phrase "any measures."

Viner: But that's effective in all four categories. Under the present arrangement the outbreak of hostilities would enable either us or them to raise the duties.

White: Or laws.

Feis: That's intended.

Viner: It's intended?

Feis: Intended to have the power of denouncing.

Viner: Then this would act .....

White: Must be a matter of substance, I should gather.

Taylor: We're only interested in the gold and silver aspects of it.

H.M.Jr: And personally, if the British were smart, they'd strike that out and take the other. I wouldn't raise it, unless it's awfully important. If it's awfully important, I'd like to know what it's all about. You can tell whoever you talk to that I can't understand it; before I can understand it, it would take me quite a little while; and unless it's awfully important to the English, with particular reference to gold and silver, they ought to strike it out.

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Taylor: And use the language that it had, which is already in. That's the equivalent; you can change it around - its order, so it's clear, if you want to.

Riefler: We had a feeling that it was important from our point of view to adopt the other language in respect to (d).

White: No, that's an open question. But in any case, I think it's a question for the State Department.

H.M.Jr: That doesn't - you're all being very - I'd just like to leave it the way it is. I mean these things suddenly brought up - and I don't want to hold up anybody over there unless it's very important.

Taylor: But that's limited to the gold and silver.

H.M.Jr: That's the only thing that concerns me. Nothing else to me is my business.

All right? Well now, what else is there? We've got you fellows down here.

White: Unless you wanted to discuss some of the matters relating to the French - that was on the agenda, but you don't want to get that far.

H.M.Jr: Let me take a minute or two, see if Riefler has anything on his mind before he sails.

Riefler: I don't have anything.

H.M.Jr: Sure?

Riefler: Except that I would very much like to be informed of any subsequent things that I ought to know.

H.M.Jr: Will you remember, Archie?

Viner: Is Phillips going to be at this meeting? I suppose you want to send greetings through Riefler?

H.M.Jr: Oh sure.

Riefler: Send your warmest greetings.

H.M.Jr: That's right. Sure, that goes without saying. And tell him I'm still disappointed that he insisted on

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eating Yorkshire ham instead of Northern duck.

Lochhead: You should have given him Virginia ham.

H.M.Jr: What?

Lochhead: Should have given him Virginia ham.

H.M.Jr: He'll laugh, because he was sore about the Northern duck after he saw how good it was. Then he expects them to change their way of doing business.

Professor Hansen?

Hansen: No, I haven't anything.

H.M.Jr: Got something I ought to know about or something I'm doing wrong?

Hansen: I have no comments at this time.

H.M.Jr: Huh?

Hansen: I haven't any comments at this time.

H.M.Jr: Want to stick some pins?

Viner: Nor promises.

Hansen: No promises. No, I haven't anything to say just now.

H.M.Jr: Do you think sterling is something really important to worry about?

Hansen: I think so.

H.M.Jr: What?

Hansen: I think so definitely. I'd stress very strongly that first point that John made, that we're very much concerned about the decline of sterling.

H.M.Jr: Do you think Wallace can do much with commodity prices until we get sterling straightened out?

Hansen: I don't think so.

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H.M.Jr: What?

Hansen: I don't think so.

Riefler: Don't think he can do much with commodity prices after we get straightened out.

Viner: He can't, but that may.

White: Makes his problem all the more difficult.

Gold'r: I have this one comment to make on one phase of this memorandum. That is that I feel the memorandum does - or the way that John Williams outlined it does bring it out, but I feel that it is awfully important that there be in the memorandum, or certainly be in our mind when any discussions begin, the fact that there is a very great difference between a decline in sterling that is due to trade and a decline in sterling that is due to a matter of capital.

A decline in sterling that is due to trade, to the fact that the British have to buy more of our goods, may be one that we can view quite philosophically, because it isn't going to mean a decline in our prices. If the sterling is declining because they're buying our goods, we don't need to worry about it.

But if sterling is declining because a whole lot of capital is coming to this country and that movement of the capital results in a lower sterling, which in turn depresses our prices, then we are very much concerned about it. And I think there is a really sharp distinction there.

We've got probably five billions of foreign balances and they've got three and a half or three billion three of gold. The question is, how much of that gold are they willing to use to keep sterling steady, if those balances move in very large amounts? That, I think, is very important, and I think that implied in the memorandum is the fact that we've got to find out from them what those balances really are and what the gold really is, because neither of those facts is known. Both of them are estimates. And we ought to impress upon them that we need to know those facts if we are going to be able to formulate our own policy and to work out any kind of a working

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agreement with them, or continued working agreement with them, because otherwise we've got to work in the dark.

White: This might be of some slight interest. (Hands to H.M.Jr a note just brought in)

(H.M.Jr reads note and hands it to Feis)

White: That would be one of the things we have to include, very definitely. That's one of the important ....

Gold'r: It's in, but I just wanted to emphasize that a little.

H.M.Jr: Give that (note) to Taylor.

Williams: I have a feeling that the point you make now, Goldenweiser, ought to come in as a point in the memorandum fairly early; that we say we're greatly concerned, of course, about sterling, and our people are going to ask, "What's the tripartite about?" And then make the distinction between a decline that is on trade account and the decline that is on capital account.

Viner: And then bring in the commodity emphasis at that point.

Williams: And say what we've been saying about that point, see, and then the next point would be that we see no trade reason for a fundamental change in the level of sterling. Then make this point about our import trade recovering with the recovery. Then go on to say that we do feel that capital movements are an unstabilizing influence and of the kind that the tripartite ought to be concerned with, you see, whereas that is just the question that came up. And then go on to say that we'd like the facts and a formulation of policy or discussions. I agree that that ought to come in, ought to be spelled out.

H.M.Jr: I just wanted - I think you (Riefler) better go.

Riefler: Goodbye.

H.M.Jr: Good luck. Thank you for coming down.

Gold'r: Goodbye, Win.

-17-

Taylor: Goodbye, Win.

Leis: Au revoir.

H.M.Jr: Goodbye.

(Riefler leaves)

Wayne, do you want to say something on this?

Taylor: No, I think there's - when you get into the field of discussing those various questions, why, many other things will open up. I know that - I mean commodity prices is one of the things that interests them just as much as it does us, not only with Bewley but any other Britisher that you run into, and there are a great many of them.

Lochhead: Keep it fairly simple at the beginning, because after all this would be only the opening of discussion.

Williams: Ought to be fairly simple, or it will go in so many directions.

Taylor: I think it will all open up from the discussion of, let's say, very simple - complicated subjects but simple questions. I mean really the most important thing that is being reflected in the price of sterling and so on - how the British economy is going to come out of the period, what their budget picture is going to look like, all of that is in these transactions that are being reflected in the market. The impression that I get from talking to a great many people is that they are more bearish about the long-range possibility of the British Treasury, say, or the British economy, than they are about any particular thing that is happening at the present time.

Williams: That's right.

H.M.Jr: Well, we had a very smart Swiss banker - Burgess asked me to see him - and he made one comment which is very interesting, anyway. He said that up to now there's been very little flight of British capital, but that if this thing continued to fall more and the British capitalists got worried and that began to move out, you just couldn't hold the pound at any price; but up

to now that the British capitalist has not moved his money out.

Gold'r: Incidentally, he never does.

Viner: He never has in history yet - as far as I know he never has - but whether ....

White: The situation has been very different.

Viner: Yes. Historical situations are never quite parallel, so I wouldn't have too much confidence that he won't do it.

H.M.Jr: His government never moved it out either before.

Gold'r: I wouldn't say they never would do it, but the fact that they're very much more reluctant to do it than the French is emphasized.

H.M.Jr: But has the British Government ever moved its money out for safekeeping?

Taylor: but they don't consider when they're - you see, the point there which I think is worth mentioning, is that when they invest in American securities or in Argentine securities, whatever it may be, the Britisher doesn't think that he's taking his money out - well, actually he is - but he's just an international trader, and that's lovely, that's part of his business, there is no ....

H.M.Jr: Well, I just mention it because this Swiss banker seemed to be an exceptionally intelligent fellow, and just offer it for what it's worth.

Jake - I mean Archie?

Lochhead: No, we've had the discussion; there seemed to be a fairly good start for discussion.

H.M.Jr: I think so.

Feis: Looking down that list that Harry White circulated this morning of recent changes in exchange rates, the picture that does emerge quite clearly is the dollar moving up against the whole world, not



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merely against sterling, even for the past few days. You can say that perhaps what's happened is the strengthening of the dollar rather than the weakening of sterling. But I think you have at least temporarily that situation.

- Viner: I'd stress that point; I've been stressing it all along. Nevertheless, I think sterling has a major responsibility for that - that a lot of them are moving down toward the dollar simply because they are staying on an even keel with sterling, that sterling is dragging them along. Some have some degree of independence.
- White: A few are beginning to object. There is some question even in Japan.
- Viner: I don't know the solution to that. I don't know how you can solve that - their drag along with sterling. But it's something ....
- Hansen: That's the thing that makes it serious. If it were only a small country, or even one country, it wouldn't make so much difference; but when sterling goes down the world goes down. That's the thing that makes it serious, especially for our agriculture.
- White: What they're doing is pushing us up, because it's the dollar practically against the rest of the countries. So their action is really, in a sense, operating on us.
- Viner: They've lost their freedom in somewhat the same degree that we've lost it, because of the rest of the world tying itself to them.
- H.M.Jr: Harry?
- White: We've got about 40 pages of single-spaced in which all these questions of capital movements, the British balance of payments, their budget, our balance of payments, relative wage rates and profits, and the whole question, are being examined from a variety of angles, and that will be the large report which will be for your own information and for the information of those persons here. But the questions touched upon, I take it, in brief will probably take two pages at

-20-

most, probably three; we'll try to get it down to one, if possible.

- H.M.Jr: But that memorandum that you had this morning - will you give a copy of that to Naster for my file? I have no copy.
- White: Yes. But there is, as I say, a very large report prepared from their angle and ours.
- H.M.Jr: I'll take off a week-end and read it.  
Anything else?
- Williams: I haven't anything.
- Feis: No, sir.
- H.M.Jr: I'd like to take a minute or two - I don't - I think you can go, Bernstein - ....  
(Bernstein leaves)
- Gold'r: Mr. ....
- H.M.Jr: Just before I leave - we leave this subject, may I say one thing. I just want to say that when this memorandum is written up, I should be very happy if you'd let us have a chance to see it and make such suggestions as we wish, and then return them to you for final editing.
- Hansen: Couldn't we spend a little time right now in going over it? It's probably been typed - the one we dictated.
- Viner: I think we ought to get it in form, ought to work on it now.
- Williams: I think we ought to start on a fresh one.
- Hansen: Yes.
- Williams: I think we ought to start on a fresh memorandum.
- Hansen: I think so - one, two, three, four. That's the trouble with the memorandum. That finally all came out.

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H.M.Jr: You (Viner) better go on that. I don't know when your train goes.

Viner: I'm not sure myself. I think it's five o'clock.

H.M.Jr: Well, if you people ....

Viner: It leaves at 5:45.

H.M.Jr: If you people have time, I think get it down before you leave town.

Viner: I think that's the best way.

H.M.Jr: What?

Viner: That would be fine.

H.M.Jr: I appreciate tremendously the people from out of town coming down. It's a big help to us. And we'll see what we can do with it next week; then when we get a series of answers in a couple of weeks we'll have you down to take a look at those, if you like to come back.

Can you think of anything else, Herbert?

Feis: No, sir.

H.M.Jr: Are you going to stay with this crowd?

Feis: No, sir.

H.M.Jr: But we'll see you before evening.

Feis: I hope so.

H.M.Jr: All right.

November 9, 1938

Secretary Morgenthau

Mr. White

Subject: Agenda for conference to be held November 10, 1938  
on the sterling situation

A. Summary of discussion in meeting of October 21, 1938,  
called to confer on the sterling situation.

The Secretary on that date submitted the following questions to the conference for consideration:

1. Were the recent movements in sterling exchange such as to give rise for legitimate concern on our part?
2. Should the occasion be taken to have included in the contemplated British-American trade agreement a paragraph making provision for automatic termination of the agreement if sterling dropped below X?
3. If in the opinion of the group such a device were not a feasible method of protecting the dollar position, what other measures could the group suggest as appropriate and effective?

The conclusions reached by the group after much discussion were:

1. That the sterling dollar situation had shown sufficient instability and weakness to justify concern with respect to the future course of sterling.
2. That a further drop in the sterling rate might have adverse effects on the American economy. (There was, however, no attempt to agree upon the extent of a decline which would be serious for the United States.)
3. That it would be unwise on the whole to include in the trade agreement any provision which would automatically terminate the agreement at a pre-determined exchange level or automatically provide for consultation; and that protection against a more unfavorable sterling rate was more appropriately and more effectively to be sought under the provisions existing in the Tripartite Accord.

Secretary Morgenthau - 2

4. That it would be desirable, however, to have established, either through informal understanding, or possibly as an amendment to the Tripartite Accord, arrangements for more frequent consultation among the three Treasuries with respect to actual or contemplated changes in pertinent situations. As a preliminary step the current situation should be explored for the purpose of determining the kind of questions and the kind of discussion that might be presented in the event a consultation on exchange rates were to be arranged.

5. That it was desirable to consider more carefully the question as to whether consultations -- which all present regarded as desirable -- should take the form of a formal or informal conference, or of an exchange of technical memoranda among the Treasuries, or an exchange of factual information, or some combination of the foregoing.

This meeting has been called to carry forward the discussion of the feasibility of consultation with the British under the Tripartite Accord with respect to the course of the dollar-sterling rate and related matters, and the form such consultation should take.

8. Is it still desirable to arrange for a consultation with the British on the dollar-sterling situation?

Has the situation changed sufficiently since the meeting of October 21, 1938 to warrant postponement of consultation with the British with respect to the sterling rate?

1. The course of sterling and of world currencies has not declined since that date. On October 21 sterling was 4.7550. This morning sterling was 4.7600. On one day -- November 1st -- it had dropped slightly below the level prevailing on October 21 - i.e., to 4.7537, and had reached a high of 4.776 on October 27. Other currencies have kept pace with sterling (see table of changes in exchange rates in Exhibit A).

2. British press comments since October 21 suggest (a) that American press comments on the meeting here may have had some influence in checking further falls of sterling, and (b) the feeling persists that sterling at current rates is overvalued vis a vis the dollar. (See summarized press statements, Exhibit B.)

Secretary Morgenthau - 3

3. The signing of the British-American trade agreement. A very brief summary analysis of the concessions received and the concessions granted in the trade agreement are contained in Exhibit C.

4. Recent developments in the British business situation indicate that business is not getting better and that the outlook for improved business is not promising. A summary review of the pertinent information with respect to the business situation in England is to be found in Exhibit D.

C. If it be concluded that the situation still calls for an exchange of views between the members of the Tripartite:

1. Should it take place as a formal consultation?
2. Or as an exchange of memoranda from the technical staff after adequate information has been obtained to make possible a comprehensive report to the Secretary?
3. Or a request for information from the British via Butterworth such as will enable the Treasury to prepare a comprehensive report embodying our views with respect to the appropriate dollar-sterling rate at this time?
4. Submission of the report to the Secretary for consideration as to whether it shall at that time be forwarded to the British Treasury for comment and exchange of views?

D. What information would we like to get from the British?

In general we should like to ascertain the criterion, or criteria, by which the British Treasury is guided in its decisions with respect to the sterling price of gold. We would also like to have such of the following information as is available to the British Treasury. (In all cases similar information is now already available to the British Treasury or we would be willing to supply what is not now available.)

1. The loss of gold sustained by the Equalization Fund by weeks during the past three months and the amount the Fund contains now.
2. Estimate of the amount of gold in hoards in England and the amount estimated as added to the hoards since August 1, 1938.

Secretary Morgenthau - 4

3. Amount of gold earmarked in the United Kingdom for foreign account.

4. Information with respect to the foreign short-term banking funds now held in the London market broken down by leading countries, and changes which have occurred since August 1.

5. British short-term funds held in foreign countries other than the United States, classified by leading countries.

6. Monthly or quarterly figures showing security transactions in the London market for account of foreigners in British domestic securities and foreign securities.

7. Confidential estimate of the British balance of payments for 1939 as drawn up by the British Treasury.

8. Their position on forward exchange of leading currencies.

9. Is the time opportune for preliminary negotiations for the purpose of:

1. Revision of existing Tripartite Accord to include provision for automatic consultation when variations of X percent in exchange rates occur, (or/and possibly Y percent in the spread of selected index of wholesale prices).

2. Provision for the exchange among the members of information with respect to holdings in foreign countries and foreign holdings in their own country which would facilitate supervision over international capital movements should any country decide to exercise such supervision.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: November 10, 1938, noon

NO.: 717

The Commercial Attaché of the Embassy has been informed by the Bank of Japan that on the SS TERUKAWA MARU which sailed from Kobe on the ninth of November there was shipped gold valued at 20,000,000 yen.

GREW

EA:LWW



REB

GRAY

Berlin

Dated November 10, 1938

Rec'd 3:12 p. m.

Secretary of State,  
Washington.

608, November 10, 7 p. m.

NUMBER 31 FOR TREASURY FROM HEATH.

The Reichsbank statement for the first week of November shows a greater than normal decrease in loans and credits. The entire portfolio of bills and checks, loans on securities and security holdings, were simply increased 818 million marks during the last week in October to a total of 8423 million marks decreased 524 million marks to a figure of 7899 million marks on November 7. The repayment of fresh credits was 64.3% as compared with a repayment of 44% during the first week of November 1937.

Currency circulation decreased  $3\frac{1}{2}\%$  from 9856 million marks on October 31 to 9506 million marks on November 7. On October 7, 1938 currency circulation stood at 9048 million marks and on November 7, 1937 at 707 million marks. Taking into account that there is nearly always a decrease in currency circulation during the first week of the month there has not been much progress in reducing circulation  
from

REB

2-#608, From Berlin, Nov. 10, 7p.m.

from the total of 10,154 million marks attained September 30 although the inspired financial press predicted that there would be a large monetary decrease during October and November. Of course, some 200 million marks were issued to convert Czech crowns in Sudeten hands.

In spite of the huge loan (1850 million marks) floated during October the money market remains easy and it is understood that the gold discount bank Reichsbank subsidiary has been able to sell new issues of single bills during the last few days the present circulation of which is understood considerably to exceed the previous high point of 1,300 million.

Published rates for call money for yesterday were low at from 2 1/8 to 2 3/8% as compared with quoted rates of over 3% in June last. It is to be noted, however, that these quoted rates apply to large inter-banking transactions and frequently are considerably under rates for smaller transactions.

WILSON

CSB

REB

GRAY

London

Dated November 10, 1938

Rec'd 4:20 p. m.

Secretary of State,  
Washington.

1306, November 10, 6 p. m.

FOR TREASURY FROM BUTTERWORTH:

British security markets have showed some strength today due to the optimistic character of the Prime Minister's speech and to yesterday's upward movement in Wall Street. However, sterling has been weak against almost all centers due to the continued circulation of rumors to the effect that the pound will move shortly to 4.50 or 4.60 to the dollar. The dollar opened bid at 4.75 $\frac{1}{2}$ , moved rapidly to 4.74  $\frac{3}{4}$  at which point the British authorities intervened and they have been supplying substantial quantities of dollars at that rate until near the close when they let it drop to five-elevenths. Dealers estimate that they have given between 20 and 25 millions of dollars. Gold fixing was also unusually large, 453 bars at 146 shillings five one pence. The British fund supplied about half the total.

The

REB

2-#1306, Nov.10,6p.m. From London

The franc has also been under pressure and the French fund must have lost around £2,000,000 today. With tomorrow a holiday in France, dealers were nervous lest some new development take place before the market reopened.

KENNEDY

EMB

ROW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 10, 1938, 6 p.m.

NO.: 1898

FROM COCHRAN.

At half-past five this evening when I talked with the Bank of France 2,000,000 pounds had been lost by the stabilization fund. The rate was around 178.87. This my friend told me was the result of the speculative attack against the franc which began two days ago; the attack he said had been skillfully carried out. Today the Governor of the Bank of France had seen the Finance Minister, who was still resolute against franc devaluation. In connection with the above-mentioned attack, on the market it is rumored that with the revaluation of the gold stock expected through the decree laws the franc will be reduced from 179 to 184 or 185. Confidentially I have been given to understand that the British control had yielded \$25,000,000 by 5 o'clock in addition to the gold which it had put on the market. There have been important purchases of dollars on the continent, presumably because the American stock market picked up.

Another rumor on the market is that Governor Norman of the Bank of England is here in connection with the plans for the French financial decrees. If the Governor is here, his presence is not known to the Bank of France or to any of my friends. They tell me that no one of them

can

- 3 -

can conceive of the Governor's getting in touch with the French Ministry of Finance in any circumstances; if he is in Paris at all, it is most likely that he is visiting his nephew while on his way to the meetings of the BIS this weekend at Basle.

In today's issue of AGENCE ECONOMIQUE there is one column of discussion of possible rearrangements of the tripartite. The pen of the Paris editor Bollack is clearly shown in the article, although it has a New York date line, because the article ties in the war debt settlement, abrogation of the Johnson Law and reopening of capital markets.

The November 3 statement of the Bank of France showed no significant changes. Coverage was 40.71 versus 40.47. Greater strength in French rentes and shares. Reports of serious anti-Semitic attacks in Germany caused part of the uneasiness on the foreign exchange market. The banks and market in Paris will not be open until Monday.

This afternoon I was visited by Yanagita of the Bank of Japan who is on his way to Basel from London; it is his opinion that for the present at least sterling will not cross 4.73.

For October the French visible foreign trade deficit is 1,048,000,000 francs compared with 881,000,000 for the preceding month. For the month of October 1937 it was 1,350,000,000. For the first ten months therefore the

- 3 -

total visible deficit is 13,661,000,000 compared with  
14,683,000,000 for the corresponding period in 1937.

END MESSAGE.

WILSON.

EA:LWW

OFFICE OF THE SECRETARY

U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

REB

## TELEGRAM SENT

GRAY

November 10, 1938.

7 p. m.

AMEMBASSY

LONDON (ENGLAND)

693

Secretary of the Treasury wishes Butterworth to return for a brief consultation. Suggests MANHATTAN sailing November 18. If this agreeable to the Ambassador, Department authorizes.

HULL  
(GF)

EA:HF:EB Eu A-M



C A B L E

131

From: Bankers Trust Co., N. Y.  
London Office

Date: November 10, 1938

STRONG DEMAND FOR DOLLARS ESPECIALLY ON FRENCH ACCOUNT.  
BANK OF ENGLAND HOLDING RATE AT 4.74-3/4 ESTIMATED MUST HAVE  
SOLD BETWEEN \$7 TO 10 MILLION SPOT FRANCS OFFERED BUT HELD BY  
FRENCH CONTROL. FORWARDS STEADY. DE CASTELLANE HEARD THAT  
CERTAIN CONVERSATIONS TAKING PLACE IN FINANCIAL CIRCLES BUT  
NOT WITH RESPONSIBLE AUTHORITIES AND IT IS BELIEVED BRITISH  
AUTHORITIES FAVOR PRESENT CROSSRATE NOT TO UPSET SCANDINAVIAN  
COUNTRIES ALSO TO PRESERVE THEIR POSITION FOR FUTURE INTERNAL  
BORROWING. FRENCH BANKER BELIEVES LONDON CONTACTED WASHINGTON  
RECENTLY REGARDING POSSIBILITY ADJUSTMENT CROSSRATE HE BELIEVES  
SOMETHING WILL HAPPEN THIS WEEKEND BUT BRITISH REQUEST FOR NEW  
CROSSRATES WILL BE ONLY MET HALFWAY SAY 4.60 OR 4.70 BOURSE  
VERY STRONG. NOW BELIEVED MINISTER OF FINANCE'S PROGRAM AS  
SOMEWHAT WEAK. UNDERSTAND STRONG DISSENTIONS WITHIN CABINET  
AND CABINET CRISIS NOT UNLIKELY NEAR FUTURE.

**CONFIDENTIAL**

C A B L E

132



From: Bank of England, London

Date: November 10, 1938

Total sales \$38 million. Continental rumors regarding a trade pact rate of 4.50 have received apparent confirmation from Paris reporting that the Reynaud plan will include a proportionate devaluation of the franc these baseless rumors have caused a flight of capital from London and an increase of current speculation against sterling 4.74-5/8 turnover \$60 million

Bolton

Received from FRB 4:15 pm

Yunnanfu, Yunnan,

November 10th, 1938

The Honorable

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

Dear Mr. Secretary,

I enclose two sets of reports typed from notes just received  
from Dr. Buck, posted from Sian.

Respectfully,

*Enid Saunders*

Enid Saunders

Secretary to Dr. Buck

RECEIVED  
NOV 15 1938  
U.S. DEPARTMENT OF TREASURY  
COMMUNICATIONS SECTION

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November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

RESUME OF THE SITUATION IN CHINA

People in Szechwan and Yunnanfu, of the intelligentsia class, were greatly shocked by the fall of Canton, and shortly thereafter by the fall of Hankow. They feel that China is almost hopelessly cut off from the world, and they question more than ever China's chance of success. It made some feel that it might be necessary to negotiate for peace, in view of the absence of adequate assistance from foreign powers. There is universal disapproval of Chamberlain's policy, and the Chinese have little if any confidence in England. They trust America as to having no ulterior motives, but they would like stronger action from America.

The new turn in events has also led many to consider that China's only hope is to throw her lot in with Russia, but the more observing feel that Russia may not offer much greater assistance than at present.

The prevalent attitude is that fighting must continue, that this is an unfavorable time to talk peace, that winning the war is not as easy as thought at first, and that the war will be a long one.

Sianfu, November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

INTERVIEW WITH GOVERNOR CHANG TING-WEN OF SHENSI

(Who is also the Generalissimo's highest representative for the four northwestern provinces. He is making the necessary arrangements for my visit to Lanchow, where foreigners' travel is only permitted by special arrangement.)

"There is no special problem relating to currency. There is a considerable amount of hoarded silver in the province. We have just sent 650,000 yuan in silver to Chungking. A Ministry of Finance order is to be issued to increase the premium paid for silver, so as to facilitate its collection.

"Our problem in Shensi is one of isolation, with no market for our cotton. The province is pushing small scale industries and handicrafts, as it is impossible to obtain machinery for large factories. We are also giving considerable attention to transportation by native methods. Goods such as cotton will be transported by cart from one relay station to another.

"The Chinese are naturally interested in closer cooperation with Russia. However, it seems unlikely that Russia will give much more assistance. Russia has not forgotten how China kicked her out in 1927.

"There is no talk of peace here. There is only one road for us, and that is to see the light ahead and fight. The Japanese are now giving more attention to the northwest.

"The attitude of the people toward the Chinese Soviet government to the north is about evenly divided. One half of the visitors to that area bring back favorable reports and the other half unfavorable. Naturally we cooperate with them to defeat Japan.

"The yielding policy of Chamberlain cannot be successful. It only holds the fire down for a short period."

Sianfu, November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

TALKS WITH AN IMPORTANT OFFICIAL - A RETURNED STUDENT

"The fall of Canton and Hankow created no shock in Sian. There has been no suggestion of talking peace here. People feel quite safe here. They are not afraid of air raids after their first experience. The deep soil affords excellent bomb-proof dugouts.

"The Chinese communists cannot succeed in gaining control in China. We cooperate with them to defeat Japan. The Red Army is paid by the Central Government, but it takes orders from the Third Internationale. Their government has no special feature which will recommend itself to the Chinese population as a whole.

"Four large factories from Hankow (three cotton mills and one flour mill) have been moved to Paochi, seventy miles west of Sian, at the terminus of the Lunghai Railway. These factory buildings are in the initial stages of building.

"Refugees have increased the population of Sian by 130,000. Thirty thousand refugees are being settled on vacant land. Ten thousand refugees are fed and housed by the government in Sianfu.

"The yielding policy of England is bound to fail. If the Powers do not assist China adequately, and China is conquered, all foreign rights and interests in China will be forfeited. Americans are interested in Americani-



zation. Chinese who have studied in America, I dare say, are much more Americanized than Italians and other nationalities in America. America should not forfeit her influence in China. If China has to become a colonial possession we would want it to be a Phillipines or India rather than a Korea or Formosa. Even you (referring to me) will be ousted if Japan succeeds.

"We Chinese feel a common bond of interest with Americans, and we fear this will be lost unless America will help us more in this situation where we have been attacked without adequate means of defence. We want American influence in China."

(In regard to this feeling, one Chinese once expressed it by saying that America should not hesitate to push her trade and influence in China because the Chinese would welcome it. J.L.B.)

"There are 600,000 guerillas in North China, and while there are no spectacular victories, the small successes here and there are a heavy toll on Japanese forces."

Sianfu, November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

Interview with an important banker, well acquainted with conditions,  
who reports as follows:

#### CURRENCY

"There are no currency problems in Sianfu. The premium on silver is six yuan notes per 100 silver dollars. The price of gold is still rising. Before the war started it was 140 yuan per Chinese ounce, and now it is 210 yuan. Hoarding of gold and silver is prevalent."

#### THE WAR AND RUSSIAN HELP

"The Japanese cannot win this war. There is no talk here about having closer relations with Russia. Russia has not really helped very much. I know that she has sent only 400 planes, mostly pursuits, and only 2000 motor trucks. Practically no Russian munitions have been imported. There are no Russians in Sianfu. There are some Russians in Lanchow, but not a great number."

#### CHINESE COMMUNISTS

"All visitors to the Chinese communist territory to the north bring back favorable reports of the government there. The local people in that territory are also pleased with it. Well over 10,000 students and people without jobs have gone through Sianfu and into the Chinese communist territory. Whether or not they are able people I cannot say."

#### ROADS

"There are about 300 trucks engaged in transportation in and out of Sianfu, mostly transporting military supplies to Lanchow as Sian has an

oversupply. Several banks are transporting a small amount of cotton to Szechwan from Sianfu, a producing area, but the transportation cost is great.\*

"The road between Sianfu and Lanchow is only three-fifths paved, as it passes through country where it is difficult to obtain stone. The road west of Lanchow is paved only in Chinese Turkestan, and is a good road there. The road from Sianfu to Chengtu is paved, but during heavy rains cannot be used because streams cut across and tear out the road."

\* There is a difference in price of cotton at Sianfu and Chengtu of over 65 yuan per 133 pounds.

Chengtu, November 1st, 1938

To Secretary Morgenthau

From J. Lossing Buck

INTERNATIONAL RELATIONS

An official states that the Central Government has issued an order to cease criticism of Italy and Germany. The reason is interpreted as an attempt to act in a friendly manner toward all nations, and it is considered that undue criticism creates adverse effects on China herself.

The Generalissimo has issued an order for the Kuomintang magazine to cease publication because of its unfriendly attitude toward Soviet Russia.

October 28th, 1938.

To Secretary Morgenthau

From J. Lossing Buck

SALT ADMINISTRATION

Tzeliuchen, Szechwan

A visit to the salt wells of Szechwan at Tzeliuchen proved very interesting. Last year the revenue from the tax on the salt production of these wells amounted to 28 million yuan. The loss of the salt production in East China has resulted in a policy of increasing the production of these wells. The salt administration has invested three million yuan in loans to salt producers for the purpose of reboring old wells and the installation of better equipment. The plan is to double production, but this is impossible for years.

Difficulty in transporting well equipment for maintenance purposes may result in the closing of many wells. Every effort is being made to get this equipment from Hong Kong at any cost of transportation.

October 30th/November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

CHENG TU

The city of Chengtu is much more attractive than Chungking or Yunnanfu. The shops have their entire front open to the street, with goods attractively displayed. Most streets are devoted to one type of goods - even to the copper kettle street, where one is deafened by the hammering of copper metal into kettles.

Nearly ten thousand men are feverishly levelling a new military field two miles from the city.

The city is crowded with refugees and rents are being raised. Only a small amount of building is taking place compared with Chungking or Yunnanfu.

The climate of Chengtu is better than Chungking, but both have very little sun from October to March. Chungking is a very depressing place because of the damp cloudy weather, its irregular topography and difficulty of communication, its congestion and dirtiness, and its location in a pocket amongst surrounding hills. Most people from the outside are depressed by it, and it is an unfortunate place for a capital from this point of view.

Yunnanfu on the other hand has an elevation of nearly 7000 feet, is situated on a plain with mountains in the distance and a large lake a few miles away. It has an equable climate, neither hot nor cold the year round.

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October 27th/30th, 1938

To Secretary Morgenthau

From J. Lossing Buck

## CHUNGKING TO CHENG TU

The motor road is in fair condition, but the surface is uneven, so that a Ford car is very uncomfortable at a speed above 20 miles an hour. The distance is about 400 miles, and traffic very light during the two days of my actual travelling - eight private cars and twelve trucks and a few buses. Soldiers were much more in evidence. One group was met near Chungking, apparently on the way to the front. Several large groups of students were seen in training at different points along the motor road.

November 3rd, 1938

To Secretary Morgenthau

From J. Lossing Buck

CHENGTU TO SIANFU BY AIR

The trip was three hours, two hours of which were over very rugged country, having an elevation of 5000 to 9000 feet. The motor road between Chengtu and Sian passes through this rough country, and after having travelled over the Yunnanfu-Chungking road I can well imagine the type of road and the costliness of transportation over it.



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Chengtu, October 31st, 1938

To Secretary Morgenthau

From J. Lossing Buck

CURRENCY AND PRECIOUS METALS AT CHENGTU

An official in the Central Bank gives the following information:

"Copper coins have advanced in value from the rate of one yuan for 120 coppers, on October 10th, 1938, to 115 coppers on October 31st, 1938. The copper value of the coins is greater than the face value and for this reason some melting by private merchants is taking place.

"The premium on silver has also increased; the legal rate is 100 silver dollars for 115 legal tender notes, whereas the open market rate has now advanced to 100 silver dollars for 128 yuan notes. Consequently the Central Bank is now unable to collect silver. The silver is being held as reserves by the commercial and provincial banks, for new note issues by the provincial bank and as a reserve basis for obtaining notes of the Central Bank for circulation by the commercial banks.

"Gold has advanced from the price of 220 yuan per Chinese ounce on October 1st, to 240 yuan per Chinese ounce on October 31st. Some of this gold is being shipped by plane to Sianfu and Lanchow for local consumption where the price of gold is higher than at Chengtu."

Chengtú, November 2nd, 1938

One of my private investigators gives the following information:

"One hundred dollars in silver yuan exchange for 140 yuan notes.

The purchase of silver privately is easy, and at night as one passes the exchange shops one hears the ringing of silver dollars as accounts are taken.

"Sikong merchants are buying silver bars to sell to the Sikong provincial government mints, which are producing silver dollars. Silver is purchased in Chengtú at 1.80 yuan per Chinese ounce, and is sold at 2.60 yuan in Sikong. A Ministry of Finance order has just come into force, preventing these shipments by the motor road. They will continue, however, on the back paths by carriers and pack animals.

"Gold, silver and copper, and interest rates all advanced in price immediately upon the fall of Hankow, and became difficult to obtain. The chief reason for the rise is the demand for precious metals for savings in the form of jewelry and for hoarding."

Chengtu, October 31st, 1938

To Secretary Morgenthau

From J. Lossing Buck

AIRCRAFT IN CHINA

An American aircraft technician, representing Curtiss Wright in the Central China Aircraft Company, reports that before the factory was moved from Hangchow 300 planes had already been constructed and put into operation, and that even after moving to Hankow 60 planes had been manufactured and made available for the Air Force. The Company has a repair factory here in Chengtu, while the manufacture of planes is to be done in a new factory at Yunnanfu. The engines of the Russian planes are not as serviceable as the Curtiss Wright engines, and therefore these engines are being taken out and American engines substituted. This American representative also reports an increased amount of aircraft from Russia being on the way.

He also reports the common failing of Chinese to recognize the importance of thorough training. Pilots and other air technicians think they are fully trained after they have learned only the rudiments.

November 2nd, 1938

To Secretary Morgenthau

From J. Lossing Buck

SZECHWAN, POLITICAL AND MILITARY

General Teng Hsi-how, Pacification Commissioner for Szechwan, states:

"The province has 600,000 new recruits. There is some discussion of talking peace but resistance will continue, as peace at this juncture is impossible. Szechwan officials are unwilling to welcome the Chinese Reds but will of course cooperate with them to defeat the Japanese. There is more talk about having closer relations with Russia, but it is a question how far Russia is willing to participate."

General Teng's attitude indicates a dislike for the Reds, but one of cooperation with the Central Government.

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Chengtou, November 2nd, 1938.

To Secretary Morgenthau

From J. Lossing Buck

## INTERVIEW WITH DR. CHANG, PRESIDENT OF WEST CHINA UNION UNIVERSITY

Dr. Chang raises the question whether or not the foreign powers realize that if they do not take strong action in regard to the Sino-Japanese situation their influence and prestige in the East will be entirely cut off. Dr. Chang, like so many others, also criticizes the Chamberlain policy of giving in to Germany.

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Sianfu, November 5th, 1938

To Secretary Morgenthau

From J. Lossing Buck

## A SHENSI MISSIONARY'S REPORT ON THE REDS

A medical missionary from North Shensi in the Chinese Soviet territory does not give the glowing reports which are often heard of the Reds. He states:

"Most of the wounded soldiers who come to the hospital have been shot in the back, showing that they were running away from the Japs. Just before our town was attacked there were six thousand guerillas, but they did not give effective resistance to the Japs. The army in that section force civilians to become recruits and to assist in transportation of supplies. Harsh methods are used, even to shooting any who refuse to enlist.

"My impression is that the Red Army is building up its strength and is conserving its forces in part at least to maintain its existence and to extend its control over a larger territory, both during and after the war.

"The poor people are favorable to the new government; the rich dislike it because they are compelled to give up their wealth; the middle class are ~~not~~ favorable to it, but accept it better than the rich."

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SECRETARY'S CORRESPONDENCE DIVISION

## GROUP MEETING

November 10, 1938.  
9:30 A. M.

Present: Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Taylor  
Mr. Hanes  
Mr. Viner  
Mr. Gibbons  
Mr. Duffield  
Mr. White  
Mr. Lochhead  
Mr. Bell  
Mr. McReynolds  
Miss Chauncey  
Mr. Cairns  
Mr. Feis (briefly)

H.M.Jr: Archie and I had a grand time last night. I stood on my feet for fifty minutes, arguing with the French, and then when I began to get a little impatient and tell them I wasn't going to put up a hypothetical question to the English, Archie got on; he was fresh and he finished it. Anybody that wants to read the conversations, it is available, on the phone. They certainly had me with my tongue hanging out.

Oliphant: Had what?

H.M.Jr: Had me with my tongue hanging out.

Lochhead: The Secretary made the mistake of answering the phone when he was standing in the corner, thinking he was going to finish it up, and he never did get sat down.

H.M.Jr: Where is Hanes? John, is it agreeable to you that we have the economists meet in your room this morning? I have a press conference at ten thirty; I don't want to have them step out. Will you (Miss Chauncey) tell Mr. Kieley they will go into Mr. Hanes' room?

(Mr. Hanes nodded "Yes.")



(Miss Chauncey leaves.)

- H.M.Jr: George, would you get together with Lubin, and ask him to take this, plus his thing, and see whether - oh, just sit down and talk to him about it, you see?
- Haas: Uh huh.
- H.M.Jr: And out of the two - can I get a joint memorandum from the two of you?
- Haas: Yes sir.
- H.M.Jr: You get it?
- Haas: I get it. The unemployment part connected up with it.
- H.M.Jr: Just a question of where labor, factory employment of the W. P. A. - if there is any relation between the two. If I could have it by Monday, a joint memorandum from the two of you.
- Haas: Uh huh.
- H.M.Jr: Now, at my press conference, Mr. Gaston, there are several statements, which I don't understand. You (Mr. Gibbons) were coming at three yesterday.
- Gibbons: We had that conference with the labor people; they came in and I just hung on.
- H.M.Jr: I thought I invited you.
- Gibbons: I told Herman I .....
- H.M.Jr: Just a second; I want to read this out loud.
- "Sharp protests against the Treasury Department's order were telegraphed to Washington last night by importers and customs brokers who said they were taken completely by surprise by the suddenness of the ruling invoking German status for marking and duty purposes for all merchandise shipped from German-occupied areas of Czechoslovakia. They face heavy financial losses, they said, because of the Department's failure to follow its usual custom and grant thirty to sixty days grace before enforcing the order."

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Then they go on to say, "The official order covering Austrian merchandise was . . . ." - here this is the New York Times - supposed to print news. "When the status of Austria was changed by German occupation, it was pointed out, importers received thirty days' advance notice of a change in duty rates and slightly more than sixty days' warning on the change in marking requirements on Austrian products. The official order covering Austrian merchandise was issued April 6."

Now, is that true or isn't it?

Gaston: It's true, I think; yes.

H.M.Jr: That's what I asked yesterday, and I was told I had to do it on the same day; we had to do it the same with Austria - thirty days in one case, and sixty in the other. I was told I had to do it within the hour. Well, I asked Mr. Oliphant. Mr. Oliphant said I had to do it within the hour, and here they say the Austrian got thirty days notice on the one hand, and sixty on the other. Now, why can we do that in the case of Austria?

Oliphant: I just want to verify that; I don't think it's true.

H.M.Jr: Well, I thought somebody said it is true.

Gaston: Well, Cairns told me. I know they did grant a period in which either marking was accepted, and I think that was sixty days, and Cairns said yesterday, "We can't follow the Austrian thing because this is in effect now."

H.M.Jr: Well, now, that puts me in a terrible position. I mean, I asked, "Is this fair?" I said, "Can't we give them some notice," and I was told point blank yesterday we couldn't give them any; we couldn't; we had to do it in the hour.

Let's have somebody in here; I have only got until ten o'clock.

Oliphant: I'll be glad to get the data.

H.M.Jr: I wish you would, because somebody has to account for this to me.

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- Viner: Can't that order be amended?
- H.M.Jr: Oh, why should we? I asked point blank, as a matter of fairness to the business men, yesterday, and said, "Why can't we give the business men some notice?" I was told I had to do it within the hour, by Gaston and Oliphant.
- Gaston: I am sorry, Mr. Secretary; I didn't tell you that. I - I - I was - I didn't understand that I was in on making a decision at all.
- White: (Breaks in.)
- Gaston: Excuse me just a moment, Harry. Mr. Cairns told me what would have to be done, and Mr. Oliphant asked if I would speak to you about it; I said, no, I would much prefer he did it; it was his matter and I'd much prefer he'd take it up with you.
- H.M.Jr: I am sorry; I am sorry.
- Gaston: I didn't want to understand you to say that.
- White: That statement was made very clearly.
- H.M.Jr: What's that?
- White: Namely, that it did have to be done at that time; did they need any more notice, and I know I expressed a view, and someone else expressed a view that the notice they would be getting would be in the ordering of the material that this related to - the goods which would be exported from today on.
- Gibbons: That doesn't give them the relief that they've got a million units already made and already marked.
- H.M.Jr: I asked particularly whether we couldn't give them some notice, and I was told no.
- White: That is right.
- H.M.Jr: That it had to be done the day we received the letter from Hull.
- Gibbons: It doesn't seem practical we did it sixty days in one time and thirty days in another.

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- H.M.Jr: I know. But I am going to answer it. Well ---  
Mac?
- McReynolds: I didn't get to talk to Mr. Hanes but very  
briefly about that state thing.
- H.M.Jr: Why not have Cairns come in here and put him on  
the spot?
- Gaston: I think he's gone (Mr. Oliphant) to get Cairns.
- H.M.Jr: I want him to come in here.
- Viner: (Getting up to leave.) I'm not going to stay here;  
you don't want me.....
- H.M.Jr: (Goes to door with Mr. Viner, talking low, and  
returns to desk.)
- McReynolds: There was nothing on the telephone conversations  
on the suicide of this fellow last night.
- H.M.Jr: Purely a Department of Justice suicide?
- McReynolds: It was just a Department of Justice suicide. Of  
course they had - Ireys' boys had gotten admissions  
from him of five or six different contributions  
that had been made to him, as he termed "borrow-  
ing."
- H.M.Jr: I don't want to do it now. If you have anything  
let me know.
- McReynolds: Absolutely. It seems that they were making  
the case and there were no questions about the case  
they were going to make.
- Bell: May I give .....
- H.M.Jr: Excuse me; you want a share of this responsibility,  
but you want to turn it to the .....
- White: I'll have to share the responsibility, but the  
exporters did not get any notice. I also thought  
it was the law; I can't avoid that responsibility.  
That Austrian case had notice, but I took the  
legal opinion that there was some difference, but  
I wasn't troubled by the fact that they wouldn't  
give more notice than they have, and in that I  
have to accept that responsibility very definitely.

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Bell: May I give the Postal Savings, well, fifteen million dollars, two per cent?

H.M.Jr: Yes.

Bell: That's all I have.

H.M.Jr: Look, don't leave - will you bring this up again, because I want a little time.

Bell: I thought you'd be interested.

H.M.Jr: Will you rub my nose in it?

Bell: Yeah.

H.M.Jr: Huh? Anything else?

Bell: That's all.

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: Nothing new.

White: (Nods "Nothing.")

Gibbons: Nothing else, no.

H.M.Jr: You (Mr. McReynolds) didn't have a chance to speak to John?

McReynolds: Well, it's ....

H.M.Jr: Just a minute.

(Mr. Oliphant and Mr. Cairns come in.)

H.M.Jr: Cairns and Oliphant, first let me get to the bottom of this. What is the situation?

Oliphant: About the market situation. In the case of Austria when they took over Austria there wasn't any Austria left, but in the case of the Sudeten land, when they took over the Sudeten lands, there was still Czechoslovakia left, and to give them permission to continue to import goods marked "Czechoslovakia," it would just be a violation of the statute.

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- H.M.Jr: Why?
- Oliphant: Because it is misleading. There isn't any Austria that can be treated as a province of Germany.
- H.M.Jr: You mean to say that you are not going to let - Praha is still in Czechoslovakia and they can't bring in goods from Praha?
- Oliphant: No goods manufactured in the Sudeten land, marked "Manufactured in Czechoslovakia."
- H.M.Jr: Here - but here - I am - I am - I am - I've got an order in a factory in what is today German Czechoslovakia. I placed that order in July for a thousand pairs of gloves, or shoes, and they are working on that. Now, they were going to get it over here for Christmas, and they have delivered me half, and the other half isn't delivered. Now you fellows bought it - the American merchants bought it. I can't get that fine distinction; I can't get the fine distinction like the fellow shouldn't be put on thirty days' notice.
- Oliphant: Well, this is it, unless the statute just doesn't provide for it.
- H.M.Jr: Well, how could the statute be written when a thing like this has never happened before?
- Cairns: May I read the statute; it's very short.  
(U. S. C. 15, Sec. 116.)  
"No article of imported merchandise which shall .... bear a name or mark calculated to induce the public to believe .... that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured shall be admitted to entry at any Custom House of the United States."
- Oliphant: Now, if in two weeks from now, let's assume we did try to give them thirty - sixty days notice, these gloves that you were talking about would be marked, in this case, supposed to have been made in Czechoslovakia.
- Gibbons: It's all based on that word "calculated," isn't it?

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- Oliphant: Now, if those gloves are brought in, it is calculated as to where those gloves are made; they are not made in Czechoslovakia. The State Department had .....
- H.M.Jr: Well, if you want to say that, well, when did the Germans go in there? On October 1.
- White: No, before that - about September 31, over a three-day period.
- H.M.Jr: No, it wasn't until October 1. No, you're wrong; it wasn't then; they were going to go to war on October 1, and they went in a week later. Hitler was supposed to go in on October one, and he gave them another week, and went in there October 10. Now if you are going to be as technical as that, that has been misleading for at least thirty days.
- Oliphant: That is because it is not coming from the Treasury Department, the Customs, to settle those international questions, and under our system of Government it is the State Department's duty to tell us which is Czecho and which is Germany.
- H.M.Jr: Let's look at it as a question of convenience for the American business man, doing business over there. Now where - where does it leave him?
- White: Well, I have some information on that respect that might have some bearing. When that happened, several importers immediately got concerned with respect to the change in the statute; in fact, two got in touch with me to ask me what was going to be done. I said I didn't know, and they indicated that they were going to hurry to get their goods in. They had thirty days already in which to do it, and I gather that all other importers, anticipating a change of this kind, increased their orders, and expedited their orders insofar as they can. As a matter of actual fact, they did have some notice, and further, any additional thirty or sixty days' notice in this case would have meant they'd speeded up imports from that area, so from the point of view of what is due the American manufacturer, he has received, actually, some notice.
- H.M.Jr: Importers.

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- White: Importers. Some notice, granted however that he hasn't known definitely when it would come into effect.
- H.M.Jr: Here is the thing coming into effect. You say that the former Austrian manufacturer could continue manufacturing for thirty days, mark it - stamp it, "Made in Austria." That was all right; he could continue to do that for thirty days. When that territory was taken over and occupied by Germany could the goods continue to be manufactured in old Austria for thirty days and marked "Made in Austria?" You ruled that way, didn't you?
- Cairns: Yes.
- Oliphant: That is true.
- H.M.Jr: But here you say because they take half of Czechoslovakia, or a piece of it, that they can't continue to manufacture in that now German territory and continue to call it Greater Czecho.
- Oliphant: If they call it "Made in Sudeten Land," then it would be true, parallel to the Austrian situation. If they say "Made in Czechoslovakia," it is false and misleading, in fact. If they say, "Made in the Province of Germany," .....
- White: There is a settled difference, Mr. Secretary, and it is this:
- H.M.Jr: I can't - in one case it is continued to be "Made in Austria" thirty days, and you say that is all right, but you say "Made in Czechoslovakia," in Sudeten Lands, that is not O. K.
- Oliphant: You say "Made in Sudeten Land?"
- H.M.Jr: I say Czechoslovakia.
- White: If it were made in Austria, after everybody knew there was no longer any Austria, there could not be any misleading information. When, however, there is a Czechoslovakia that does exist, and the goods are made in Sudetenland and yet marked "Made in Czechoslovakia," anyone could be definitely misled; he would be of the opinion that it was



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- made in Czechoslovakia because Czechoslovakia did exist. No, the more I think of it, the less I think the difference is.
- Gibbons: What does the word "calculate" mean?
- H.M.Jr: Let me ask a fellow that we all admit is fair, and I think he will tell me whether I am wrong. Mac, you weren't in on this at all. Just give me your honest opinion. I don't mean that it is - if you'd sat in and heard this argument yesterday, how would you judge now?
- McReynolds: Well, I think I would rule just as Oliphant did. I think, inescapably, you are misleading the public so long as there is a Czechoslovakia. This stuff is made in Germany - what is now German territory, and if you permit the importation of stuff made in the German territory after this date, I don't see how you can avoid misleading the public. Anybody who didn't want to buy anything made in Germany, would have bought it if it was made in Czecho, as Czecho is now limited, wasn't willing to buy it if it was made in German territory, is inescapably misled by that language. That would have been my advice.
- H.M.Jr: Notwithstanding what we did in Austria.
- McReynolds: I don't think that is comparable at all because Austria means Germany - nothing else.
- Gaston: There is no competition with any other Austrian goods - any other Austria. There was a Province of Germany. You are not saying it is made in some other country that actually exists. In this case you are saying "Made in Czechoslovakia;" it is a falsehood because there is a Czecho turning out products in competition with the German product.
- H.M.Jr: You think this is a fair ruling?
- Gaston: I would prefer some way be found to give the importers more time. There is no way to do it.
- Gibbons: Tomorrow, today, yesterday, the stuff that was made and ready for shipment, marked "Made in Czechoslovakia," there was no intent to defraud and mislead anybody; it was then Czecho. They

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should be given thirty days, in my opinion, in all practical purposes, in which to get that stuff out of there. Anything made after today, processed in Czecho is a different thing, but this thing doesn't make sense.

- Gaston: That is the rule, Steve, that is the rule. Anything made before yesterday has got to be .....
- Lochhead: Was it anything shipped before yesterday?
- Gibbons: As I understand it, it's got to be in transit by midnight last night.
- Taylor: Yeah. It has to be shipped.
- Oliphant: Well, it would have to be honestly marked at the time they are imported to the United States.
- Gibbons: All right, but you can't do that on twenty-four hours' notice.
- H.M.Jr: Let's say something was on the train, on board the train, and it's a load of gloves, before midnight last night; you have to change the markings on that?
- Gibbons: That's what I understand, yes.
- H.M.Jr: I've got a thousand pairs of gloves marked "Made in Czechoslovakia" put on board the train yesterday.
- Cairns: Where is the train today?
- Gibbons: In Czechoslovakia.
- H.M.Jr: It left the factory for - I mean, it's on the cars; it may have left the siding; it may still be on the siding, but it's left the factory. Let's say it's still on the siding; the engine didn't pick it up; it's in the freight yard, although it left the factory.
- Cairns: In Germany.
- H.M.Jr: In Sudetenland - in that part of Germany which they took from Czecho. It left the factory put in a box car, sealed, but the locomotive didn't pick it up.

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Cairns: We went further in this case than we have ever gone; we have made it the date of export from Germany. Usually it is the date of import, or the date of release from warehouse, but we did not want to catch goods in transit. We, undoubtedly, will catch some goods; we didn't want to. And we think the bulk has escaped.

H.M.Jr: What about this question of stuffing a warehouse?

Cairns: That's all right.

H.M.Jr: What about a bonded warehouse in Hamburg?

Cairns: That is all right too.

H.M.Jr: Is Bremen a bonded warehouse?

Cairns: I don't recall.

H.M.Jr: Any warehouse, any bonded warehouse, is all right?

Cairns: Yes. There undoubtedly will be some cases of hardship, but we did the best we could to minimize it.

H.M.Jr: You see, there are two points; one is a thirty days' notice and then they gave them sixty days notice in the case of Austria.

Cairns: Thirty days.

H.M.Jr: Thirty days.

White: Is there any leeway that would be legal?

Oliphant: I don't know of any. I think we might seek to change the statute and give us authority in those cases.

H.M.Jr: Oh, no ..... Well, I can't explain it to the press. It wasn't explained to them yesterday, was it, Herman?

Gaston: No, there was no explanation.

H.M.Jr: So you see, they get the jump on us and they are on the offensive. Who is going to explain it? I can't explain it.

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- White: It appears to me to be purely a legal interpretation of the law.
- H.M.Jr: Herbert, who do you want to explain it? I can't explain it.
- Gastoni: Well, I think you could do one of two things. That is, have someone from - Mr. Oliphant, or someone from his division here to answer any questions that might come up on it. Of course, that would invite questions.
- H.M.Jr: I'd like to invite questions, because I think that this is - well, quoting Cairns, I think you are imposing undue hardships on these importers. That's what I think. I think it is - I can't help but think it is a very arbitrary rule.
- Gibbons: I think that literal interpretation of that language of that Act, you are not justified in doing it.
- H.M.Jr: I - I - I don't - I .....
- Gibbons: I, of course, am not a lawyer.
- Oliphant: This is what we found in almost all of these Customs questions. You are between two fires; here is one side presented, later the other side - the other fire. Now the only sound and safe procedure in these cases is just to try to tell them what the law says. If you get away from that you are increasing it, and within the limits of what that permits that will be fair.
- White: Isn't an indication of that, that you did give virtually ninety days notice in the case of Austria, which affected Germany, which indicates your desires to give the importers as much time as possible? In this instance, apparently, the law does not allow it.
- H.M.Jr: Yeah, but Harry, if I am an importer, and in view of the fact that Austria was given thirty and sixty days' notice, I expect to get as much notice as I did in the case of Austria.
- White: My answer will be that the law is a bad one and they should seek to change the law if there is no

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jurisdiction .....

- H.M.Jr: You, even now - I mean, I am going by what the Treasury did by Austria, and I think, at least I am going to get thirty days' notice in this case of recent acquisition of territory.
- Cairns: We heard last night that the Trade Association - the Secretary of that Trade Association, said he was mailing out letters to his fifteen hundred members, repeating the substance of the telegram, and he remarked that he thought that they had full notice, really; they had all read the newspapers and had thirty or more days' notice.
- McReynolds: As far as the explanation is concerned, Mr. Secretary, it doesn't seem to me that our position is particularly difficult, in comparison with the Austria case. The answer is that the cases are not comparable; in the one case there could be no misleading by the marking of Austrian goods, because anybody who knows what happened over there, knows that Austria is Germany. In the case of Czechoslovakia you've got a case where there is a Czechoslovakia, appreciably, and to permit the continuation of imports so marked, is misleading the public into believing that the stuff was manufactured not in Sudeten Germany, but in Czechoslovakia, whether the goods were manufactured five years ago or five minutes ago. The fact remains that whatever advantage currently exists to the exporter, is to German citizens and not to a Czechoslovakian, so it doesn't seem to me the cases are comparable. The very fact that there wasn't an Austria and there is a Czechoslovakia - take them apart and it gives us an entirely different problem to consider.
- White: I think there is something to be said about the fact that importers must have hastened to get goods from that area in order to be able to say they were made in Czechoslovakia, and in order to be able to take advantage of rates of duty which, in the intent of the makers, they had no intention of applying to Germany because of discriminatory treatment, and, therefore, from the ethical grounds, if that is what is being raised for the moment, since the legal issue has been settled, I don't think that the importer who may have attempted to get goods in in a hurry, is particularly in a vulnerable position.

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- H.M.Jr: Let me ask Cairns a question. Cairns, if you were going to modify this to the benefit of the American importer, I mean, give them a little more time, what direction would you do it in? I mean, this case, for instance, that hypothetical case I just gave: the stuff was loaded, it is in transit somewhere in Sudetenland; it hasn't gotten out yet. I mean, the fellow's got - he's got to open the boxes and got to remark this stuff, and all the rest of the stuff.
- Cairns: Well, if he has obtained his Consular Invoices prior to the loading in the sealed car, and the car is sealed on the siding, in Germany, we might be able to extend it to the date of the Consular Certification.
- H.M.Jr: What is the common practice? I mean, do they do that?
- Cairns: I don't know at what stage they get the certification.
- (Mr. Feis comes in.)
- Feis: I beg your pardon, Mr. Secretary, could I be of any use in this thing?
- Cairns: I have discussed it with Mr. Feis. He might give his views.
- H.M.Jr: (Speaks low to Miss Chauncey; she leaves.)
- I am raising the question of why the Legal Department ruled this way, in connection with Sudetenland in one case and gave them notice - and why they gave the importers from Austria thirty days notice. See?
- Feis: Well, I don't know whether you want me in here or not.
- H.M.Jr: You are welcome.
- Feis: I just came in to say one thing; that after we had finished talking, what was done was understood over at the Department.
- H.M.Jr: I don't get you, Herbert.

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- Feis: Well, I talked with Mr. Cairns and Mr. Taylor on this question of time; we had some talk of the legal aspects, not very convincing to me, as I said at the time, but when it was pointed out that setting this date as an export date from Germany gave a two-weeks' period, and over at the Department it seems that that two-weeks' period roughly took care of the requirements of equity, why, we said, "All right."
- H.M.Jr: What two-weeks' period?
- Feis: The two-weeks' period involved in setting the date, as I understood it, as an export date from Germany.
- H.M.Jr: The date as of yesterday?
- Feis: Applicable to shipments from Germany, so that the stuff in transit from Germany, on its way, could be withdrawn.
- H.M.Jr: I don't know anything about two-weeks shipments.
- Taylor: That is approximately the time for crossing the water, and so on.
- H.M.Jr: Does the State Department feel that this order did not require any notice?
- Feis: We had an inclination that some notice ought to be given, but more or less roughly agreed on this idea of these two weeks involved in setting the date as of movement from Germany.
- H.M.Jr: Well, I just asked Cairns - I raised a hypothetical question; that was, a fellow loaded his car, the car is sealed and the goods are in there; it is marked "Czechoslovakia;" the locomotive hadn't picked the car up. What position was he in? Well, the position under this ruling, some place rather, he's got to unpack all his stuff and remark it, "Made in Germany," and I asked Cairns just as you came in, if we were going to modify it in any way, how would you do it, and he said this, that effective after they got the Consular Invoices - if he got his Consular Invoices, he didn't have to change the mark. I was just asking him, is that common practice to get the Consular Invoices prior to shipment. Is that the way it is done?

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- Cairns: That I do not know; I don't know, but I think it is.
- Lochhead: Yes, but they can only get the Consular Invoices when they have made arrangements for the boat, because they put in the Consular Invoices with the steamer.
- White: They also need to make exchanges.
- Gibbons: ... if they do, but if they don't they are penalized.
- H.M.Jr: If a Consular Invoice date was filled out, I mean so that a fellow - I am making a shipment; I get my Consular Invoice; that date would be the ruling date. If that would help out the importer, I think that would be a fair thing to do, if that would help him, because I can't budge those figures, because he's gotten the dates, and then the stuff is loaded and in transit, and anything that had a Consular Invoice, dated November 9, would be in the clear?
- Cairns: We could accept that as evidence of the date of shipment.
- H.M.Jr: And in this I am not laying down at all; I am just raising it as a possibility.
- Oliphant: I'd like to raise this thought: It strikes me from these questions you'll have a lot more questions; you might think it desirable to have Gaston meet the men and have Johnson and Cairns - anybody you want - to answer questions.
- Feis: (Rising) I just thought that it might help to clarify it.
- H.M.Jr: Sit down; we'll be through in one second.  
What do you think, Herbert?
- Gaston: I think that would be all right, simply to say your Legal Division advised you it had to be done in that way, and the question between this and the Austrian situation and the general reasons for the order; if they want to go into the details of it, they could come to my office and Mr. Johnson and Cairns could go over it with them.



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H.M.Jr: Yeah, and that doesn't make it as important as if we did it here.

Taylor: Yes, much better that way.

H.M.Jr: How much time do you want on this Consular Invoice thing?

Oliphant: I don't .....

H.M.Jr: Huh? Couple hours?

Oliphant: Yes; a chance to talk it over with some of the men over at the Bureau, and get what the facts are with reference to the actual practice.

H.M.Jr: What is the actual practice?

Oliphant: And I want to be sure that we take our stand at that point where, under the statute, we've got the strongest position, whether they attack from this side or the other side. We've got to remember we are between two fires.

H.M.Jr: Can an importer sue us for damages?

Oliphant: No, but we can get lots of ..... (speaking low)

H.M.Jr: What?

Oliphant: .... get lots of heat and publicity, etc., to counter part of that thing you had there - from other quarters.

H.M.Jr: You want to come back, shall we say at twelve o'clock? Will that give you time, or would you rather do it after lunch?

Oliphant: I'd rather do it after lunch.

H.M.Jr: Three o'clock.

Oliphant: Three o'clock.

Gaston: I'd like to suggest, if you consider modifying the order, you might consider modifying it more properly somewhat to this effect: That shipments made from Germany prior to this date of yesterday, come in as a matter of course; shipments made after

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that date, where it is maintained that they were actually manufactured prior to that date, could be withheld from entry and the importer be permitted to submit proof of his contention that the goods were actually manufactured in Czecho prior to that date.

H.M.Jr: Well ....

Oliphant: I'd like to go into all of that.

H.M.Mr: All of that. If you come back at three .....  
Anybody who's sitting in on that before, will come back at three.

I'm sorry to take up so much time on this, but -  
well, go into Hanes' office now, those who are going to work on this.

November 9, 1938.

Dear Mr. Pope:

On my return to the office, after a few days' absence, I find your letter of November 1st admitting me. I appreciate your desire to arrange matters so that a representative from this office may have ready access to your records.

Mr. Henry Murphy, of our Division of Research and Statistics, will avail himself of the privilege of going over the charts, etc., and will communicate directly with you in order to set a time that will be convenient to all concerned.

With all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Allan M. Pope, President,  
The First Boston Corporation,  
One Hundred Broadway,  
New York, New York.

AM/abs

November 3, 1938.

Dear Mr. Pope:

Your letter of November 1st has been received in Washington in the absence of the Secretary. He will not be back here until next Wednesday, but as soon as he is at his desk, I shall be glad to bring your letter to his attention, and I know that you will hear further concerning the matter of which you write.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. Allan M. Pope, President,  
The First Boston Corporation,  
One Hundred Broadway,  
New York, New York.

GWF/dbs



## THE FIRST BOSTON CORPORATION

ALLAN M. POPE  
PRESIDENTONE HUNDRED BROADWAY  
NEW YORK

November 1, 1958.

My dear Mr. Secretary:-

With reference to the matter I spoke to you about recently with regard to five or six hundred charts we have which we find very valuable to government investors, if you will advise me who would come to look over them prior to your December financing I should be very glad to get in touch with him and arrange the details because I feel that whoever comes will probably want to spend a good part of a day and I should like to have one of our senior officers available to go over the matter with him at that time.

Very sincerely yours,

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

November 9, 1938

To: The Secretary

From: Mr. Hanes

I spent Monday, November 7th, in the new Decentralized Unit of the Technical Staff in New York. Mr. Graves was with me and we had a long and thorough discussion with both Mr. Mooney and Mr. Hansen, and later with the Collector of Internal Revenue, Mr. Kingosum. I am encouraged by the progress they seem to be making. The Unit seems to be functioning smoothly, although at one time there was a little friction between Mr. Mooney and Mr. Hansen, I am told.

At the present time they have approximately 2000 cases which have been referred to them for possible settlement or hearing before the Board of Tax Appeals. They are getting good cooperation from the Board in the matter of dockets set down for hearing, with the result that about two-thirds of these cases have been settled or settlement agreed to prior to hearing before the Board. Of course, there are many details of the organization yet to be worked out but most of these are purely routine. The one real concrete suggestion which, with your permission, I will take to the Chairman, Mr. Arundell, is that the Board of Tax Appeals give us a little more time on cases coming up for hearing. The Technical Unit would like to have as much as ninety days notice from the Board of Tax Appeals on such cases. I would like to see Mr. Arundell regarding this sometime this week.

The work of the Unit is going to increase materially on January 1st and Mr. Graves and I are now exploring the possibility of more personnel for that particular Division. The present indications are that the Unit will require five to seven more men for conference work especially.

J.W.H.

(CONFIDENTIAL)

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STRICTLY CONFIDENTIAL

PARAPHRASE

A telegram (no. 673) of November 10, 1938, from the American Embassy at Peiping reads substantially as follows:

Mr. Hall-Patch, Financial Adviser of the British Embassy in China, has informed the American Consul General at Tientsin that he will soon leave for England by way of the United States and that he looks forward to discussing with officials of the Treasury Department in Washington the economic and financial situation in north China. The views expressed by Hall-Patch in regard to the position of foreign businessmen in north China are of a pessimistic nature and he does not anticipate that their position will improve "until the economic situation in Japan becomes such that the military are forced to modify their present attitude which is something not to be expected in the near future". There is a decided shortage in north China of Chinese Government currency according to Hall-Patch who is of the opinion that between now and the time when such currency will cease to be legal tender in north China (March 10) the shortage will become increasingly great. He is of the opinion also that the Japanese military will remain adamant in their attitude toward the economic development of north China and he prophesies the establishment of extreme measures for exchange control which will seriously affect foreign trade especially the trade of foreign businessmen.

893.51/6722

November 10, 1938.  
12:39 p.m.

Merriner  
Eccles:

Hello.

HMJr:

Good morning, Merriner.

E:

Oh, hello, Henry.

HMJr:

I had a press conference and one of the boys asked me when we thought we'd meet with the open market committee - executive committee. I said, I thought sometime along about November 30th, so I wondered whether you'd like to invite the group to come down on November 30th. It's a Wednesday.

E:

That suits me all right, but say, I've got to be out of town on the first.

HMJr:

Well, that's a Thursday. Would that be convenient? The 30th, to get to where you're going to be.

E:

See, when's Thanksgiving? That's the week before isn't it? That's Thursday the week before. That'll be all right.

HMJr:

Our financing will be announced, if we do any, on the morning of December 5th, you see?

E:

Huhhuh. Is that soon enough for you?

HMJr:

I just checked with Ball, he said yes.

E:

The 30th is O.K.

HMJr:

The 30th is O.K. If you want to make it the 29th, it's all right.

E:

Well, it - I think that might be a little better.

HMJr:

All right. Well then, let's say eleven o'clock the 29th.

E:

Eleven o'clock on the 29th.

HMJr:

Yes. Will you get the notices -

E:

Yes. I'll - I'll see that they get down here.

HMJr:

All right.



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E: All right, then. When did you get back? Are you in Washington now?

HMJr: Oh, yes. I got back the morning after.

E: Oh, yes. Yesterday. Yes, damn makes me sick.

HMJr: Yes. Quite a time.

E: Yes. Well, I don't know, it's - what the devil we can do about it, it's too late now.

HMJr: That's right.

E: All right.

HMJr: All right.

E: Goodbye.

RE CHANGE IN TARIFFS ON IMPORTS  
FROM SUDETEN TERRITORIES

November 10, 1938.  
2:45 p.m.

Present: Mr. Taylor  
Mr. White  
Mr. Gibbons  
Mr. Johnson  
Mr. Oliphant  
Mr. Gaston  
Mr. Cairns

H.M.Jr: Czechoslovakia, I am here.

Oliphant: Well, I've been thinking about your suggestion.

H.M.Jr: Yes, Mr. Oliphant.

Oliphant: And I think it practically works out that the mass of the cases that you have in mind are taken care of, and it works out this way practically - in the practical administration and - operation and administration. In the telegram to the Collectors that was sent out yesterday ....

H.M.Jr: The reason I was looking - these fellows just loaded down with books, but you don't bring anything. Just wondered how you did it. Huh?

Oliphant: I picked their brains, let them do the work.

... we used the word "export" as a cut-off date, you see. Now, when you come to apply the word "export," the men in the field will refer to our regulations where the meaning of "export" is worked out. And those are existing regulations not framed for the present purposes, long-standing regulations. And now, since typically they'd provide - the regulations provide that where you don't know the exact time of export, when it crossed the line, and you typically wouldn't because there isn't a Treasury man on the freight train, we'll take the date that the consular invoice is certified. And I think under that rule the great mass of these cases will just be taken care of. That's about the story.

H.M.Jr: Could I ask Johnson a question?

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- Oliphant: I wish you would.
- H.M.Jr: Johnson, what is the usual procedure for any country - how does a manufacturer go about in his approach to the consular service? How does he do that?
- Johnson: When his goods are ready for shipment he prepares an invoice on a State Department form, which lists certain required information as to value, and either takes or mails that to the American consular officer.
- Oliphant: That's before or after packing, Johnson?
- H.M.Jr: Oliphant asks, "Is that before or after packing?"
- Johnson: Usually that would be after packing. There is no specific requirement. But the required information covers costs of packing.
- H.M.Jr: Yes. Well, what I'm - but would it be something like this? I've got a thousand units that I want to sell, and - I mean I have sold them, and I've manufactured them; I'm about getting ready for shipment. So several days, or how much in advance of that would I send this document - my documents to the consular service?
- Johnson: Ordinarily it would be very close to the shipping date.
- H.M.Jr: But I would send them far enough in advance so I could get them mailed back to me and have them there before I put them on the train.
- Johnson: Ordinarily, yes, sir.
- H.M.Jr: But I have to get those before I put them on the train or truck or both?
- Johnson: You do not have to have them. Sometimes they are issued after the goods have been shipped.
- H.M.Jr: But what's the common practice?
- Johnson: The common practice would be to get it sooner, before the goods are shipped.

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- H.M.Jr: Well, if we take the date on the consular invoice, is that going to leave - isn't that as good a cut-off date as you can get?
- Johnson: You've got to base it on exportation and take that as the usual rule for determining the date of exportation, but not the exclusive rule, as I see it.
- H.M.Jr: You'd have - you'd have this and then you'd have under that exceptions?
- Oliphant: Well, it's this way. We say "date of exportation." Now, our regulations will govern the mass of cases, see, the mass of cases; that is, we don't know exactly when they are exported, because nobody was standing there watching. Therefore, we'll say, nothing else appearing, the date of the certification of the consular invoice.
- H.M.Jr: Well now, does that mean that that's the final date in all cases?
- Oliphant: No, I think there will be exceptional cases.
- Johnson: There will be those exceptional cases where it will be obvious that the date of certification is after the date of exportation, for example. We know when the boat sailed from Hamburg, we'll say, on which the goods arrived, and that appears on the entry papers. If that date is earlier than the date on the consular invoice, the date on the consular invoice is obviously not the date of exportation.
- H.M.Jr: I see. So - but this would clarify this thing greatly, wouldn't it?
- Johnson: Yes, sir.
- H.M.Jr: Bringing in the consular service there.
- Oliphant: That is, without any change in existing regulations, the normal case, as opposed to the occasional exceptional case, is taken care of, and that's as near as we can get to working out to what is just and fair and practical.
- H.M.Jr: I think under the circumstances - I guess this is about as good as you can do.

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White: Has your attention been called to the comment in the Baltimore Sun about the criticism of the Administration for not having acted sooner? There's a phrase that might - bears on something that Oliphant said - that you might be criticized the other way because you didn't take action .....

(Oliphant hands H.M.Jr a clipping)

H.M.Jr: Is this it?

Oliphant: No, that's just Matt Woll's letter.

H.M.Jr: Oh.

(White hands H.M.Jr a clipping)

White: It's a long paragraph, but the pertinent part is there, which bears on the point mentioned.

Oliphant: We've made no collection of that sort of thing.

White: What'd you say?

Oliphant: We've made no collection of those things.

White: No, it just happened to come to my attention. One of the boys saw it. I don't know whether that's an isolated case or whether that's been repeated in many papers. In fact, I don't even know who the organization is they refer to.

H.M.Jr: Well, the American Wage Earners Protective Conference - I don't know whether that's ....

Gaston: That's Matt Woll.

White: Is that the same?

H.M.Jr: I think this is the same thing.

Oliphant: The text of the letter was in the Herald-Tribune Sunday.

H.M.Jr: It's the same thing - "American Wage Earners Protective Conference." These are both the same.

White: Are they? I see. Then, in the Journal of Commerce an

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article appeared - there's no criticism in it at all.

H.M.Jr: Well, I'm not going to - I don't think I've yet tried to interpret Mr. Oliphant's rulings. I mean I either accept them or don't. And I accept this, with this - now shall I say - interpretation as to the enforcement.

Oliphant: Description of the way it actually works.

H.M.Jr: Yes.

Now Johnson, I understand - Mr. Oliphant told me you're seeing a representative of the German Embassy this afternoon, he's asked to see you.

Johnson: Yes, sir.

H.M.Jr: Well, is there any doubt in your mind as to the justice or injustice of this ruling?

Johnson: No, sir. I think any question is on the side of whether we have been too liberal - my frank opinion.

H.M.Jr: How?

Johnson: By basing it on the date of exportation rather than on the date of arrival in this country.

H.M.Jr: Oh. Well, that's a new one. Ought to have been here this morning. In other words, you give the fellow ....

Oliphant: Well, it's a good thing not to talk about.

H.M.Jr: I see.

Well now, let me ask you this. Supposing you're asked the question, "Well, why just on the Sudetenland? why don't you do the same thing for the section taken over by Poland and the section taken over by Hungary? Why don't you do it simultaneously, Mr. Johnson?"

Johnson: Because we have no advice from the proper governmental authority as to any change of sovereignty

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over those regions. Mr. Cairns will tell you that we talked to the State ....

Cairns: I gave you (Oliphant) a memo.

H.M.Jr: I got it last night. I got the memo. I got Mr. Oliphant's memorandum on that last night.

Well, that's something that this country boy can't understand - that Mr. Moffatt the day before yesterday says that the State Department has no information as to what Hungary or Poland did in Czechoslovakia.

Cairns: The delimitation of the area - they don't have that; and they just did get the Czechoslovak - the Sudeten delimitation. We have two sets of maps which don't quite coincide: one from the Czechs and one from the Germans.

H.M.Jr: Well, I don't know whose responsibility it is, but I - I don't know whether it's the legal or Mr. Taylor's; but certainly I wish the two of you would get together and press the State Department as hard as possible that they give us a description of that part of Czechoslovakia which the Poles have taken over and that part which Hungary took - if they haven't got it, let them cable for it - because I think we're exposed to criticism from the Germans if we single them out and don't do anything in regard to the Polish and Hungarian area.

Oliphant: Well, that would be Taylor's job as we normally operate.

H.M.Jr: Yes, and if you'd (Taylor) be willing to take that, I wish you'd press and ask them please to get out a cable; that we find it most embarrassing that we can't move on all three fronts at the same time.

Taylor: There's a major difference in time ....

H.M.Jr: True.

Taylor: ... of accomplishment there.

H.M.Jr: My thought is, if you began to press now, maybe we'd get it in a couple weeks, if we had luck. What? And then, anyway, we're making the record here. I'd

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do it. I'd have some sort of a record that we're pressing for this, so that if anybody asks us - "Well, we've been pressing for this information."

Taylor: We've already made that point, but ....

Cairns: In the letter we did.

Taylor: Yes. And we can also - I mean Johnson in his conversation this afternoon with the German people, why, can answer that without any question as soon as we get the definitive information, why, naturally we'll take exactly the same action.

H.M.Jr: O.K.

Oliphant: Now, one other thing I want to mention. I think there is one additional thing that we might do to aid in the smooth operation of the thing abroad. That is, we find this morning when we get from the State Department a copy of the dispatch that they sent to their consular officials in the two areas as to when one was to leave off and the other fellow was to begin, that that hasn't been worked over very smoothly. And I suggest the boys go over and talk to them, be sure their instructions to their consuls gear in exactly with our smooth machinery.

H.M.Jr: May I make a third suggestion. There goes out from the State Department a radio newspaper describing this thing as it goes on, to all officers. Ask that what goes into that, describing this thing.... - I mean they send it to every State Department official, every Naval and Army officer; everybody in Foreign Service gets that dispatch which they send on the radio. It's typed out.

Gaston: Yes.

H.M.Jr: There's a fellow who writes that. If he would consult us ....

Anybody got any questions now on this?

Taylor: The fellow who writes that - his name is Thomas.

Gaston: I think so.



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- H.M.Jr: Let's have that ....
- Gaston: Have him include in that dispatch our announcement.
- H.M.Jr: And a prompt interpretation, and a proper interpretation, so that our consular officers can explain this thing.
- Oliphant: Well, there's a mistake in their instructions. It's a little rough, needs to be worked over again. And I suggest that Cairns and Johnson get in touch with them.
- H.M.Jr: Anybody not satisfied? O.K.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Herman Oliphant

November 10, 1938

For your information

The State Department advises that they will send this afternoon to the consular officers in Europe concerned a cablegram to clarify the instructions they sent last night, and that they are including the following language:

"Consuls should notify shippers that United States customs requirements as to marking, rates of duty, and information in respect of foreign or export value or cost of production will be determined by reference to date of removal of the goods from Sudeten area under German occupation if such removal is in course of direct shipment to the United States. Nothing to the contrary appearing, the date of certification of consular invoice will, as usual, be taken as date of removal."

*AO*

November 10, 1938

To: The Secretary

From: Mr. Hanes

Mr. James Gould of the Commercial Factors Corporation, New York City, called me on the telephone this afternoon to lodge a protest with respect to the ruling of the Commissioner of Customs issued on November 9th regarding duty rates on goods imported from the former Czechoslovakian Sudeten areas, now under German jurisdiction.

Mr. Gould stated that this ruling would prove a severe hardship to those importers who had placed orders with Sudeten manufacturers during June and July for delivery of goods now in anticipation of the Christmas trade. Mr. Gould said that if the importers were forced to mark such goods "made in Germany" it would be almost impossible to dispose of them at retail in this country. Also, that in the case of Austria importers were given 60 days notice with respect to the marking provisions of the Tariff Act.

J. W. H.

## TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 10, 1938

TO The Secretary  
FROM Mr. Taylor

I called Harry Hawkins, Chief of the Trade Agreements Division at the State Department, informing him that as far as references to gold and silver were concerned, we preferred the broader language contained in the draft which had been earlier approved. Hawkins informed me that he would take the question up with Overton of the British Trade Agreements. Shortly after five o'clock Hawkins called me back and said that Overton had been instructed to request the same language which had appeared in previous Trade Agreements, namely, the language which contained "prohibitions and restrictions"; that this language had appeared in our Agreements with practically all other countries, and that they saw no reason why they should be in effect discriminated against.

I then discussed the situation with Harry White, Jake Viner, and Bernstein - who in turn checked with Oliphant - and their feeling was that we are adequately protected by agreeing to the language which had appeared in the previous agreements. I then called you and obtained your approval of our agreeing to the change requested by the British. After discussing the matter with you, I called Hawkins and told him that we were agreeable to the change in language requested by the British.

well

O.K.  
11/10/38

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Herman Oliphant

November 10, 1938

For your information

I again had a telephone call from New York from Mr. J. David Stern, publisher of the New York Post, saying that he wanted to see me, without mentioning what about, and I told him I would see him Saturday at 11 o'clock.



*has been  
checked* 192

**FEDERAL RESERVE BANK  
OF NEW YORK**

November 10, 1938.

Dear Mr. Secretary:

No corporate security issue is scheduled for marketing this week. Unless some private sale or small public offering appears on Friday or Saturday, there will be no corporate financing to list in this period. The absence of corporate flotation, furthermore, will probably continue for another week. Around November 23 the Commonwealth Edison Company issues, which were described in last week's report, will be eligible to come out of registration, and in the week after that several issues may be ready for offering. Large corporate issues now in registration with the Securities and Exchange Commission are:

- \$34,000,000 Commonwealth Edison Company, first mortgage 3 1/2s of 1968 for sale to insurance companies, and
- 25,300,000 Commonwealth Edison Company convertible debenture 3 1/2s, 1958, for stockholders.
- 21,071,600 Continental Oil Company convertible debentures, x, 1948, for stockholders.
- 6,000,000 National Gypsum Company \$4.50 preferred.
- 13,000,000 Union Electric Company \$5.00 preferred.

All of the Continental Oil debentures and parts of the Commonwealth Edison bonds and National Gypsum preferred stock are for new capital. Other plans for new financing are reported to be almost at the stage of registration.

Municipal bond awards, so far this week, have amounted to about \$4,200,000. Some \$6,600,000 more is scheduled for award on Saturday. Recent municipal issues have been distributed quickly. Issues by Massachusetts and Connecticut, totaling \$44,000,000, the former to finance repair of hurricane damage, are up for award on November 14 and 21, respectively.

The \$25,000,000 of Argentine Republic 4 1/2 per cent bonds of 1948, offered last week, are still quoted in the market at a moderate discount under the issue price (95 1/2), but almost all of the issue is now believed to have been placed.

On Wednesday, November 9, the Dominion of Canada registered a \$40,000,000 issue of 3 per cent bonds of 1968, which is likely to be marketed on November 17. (This issue only has to stay in registration for seven days.) The issue is to refund a maturity of 3 year 2% notes on January 1, 1939, and is the first borrowing by Canada in this market since January 1937.

Yours faithfully,



Allan Sproul,  
First Vice President.

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

November 12, 1938.

Dear Mr. Sproul:

The Secretary has asked me to thank you for your letter of November 10th, which reached his office this morning. He is very glad to have the information it contains, and appreciates your giving it to him.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. Allan Sproul,  
First Vice President, Federal Reserve  
Bank of New York,  
New York, New York.

GXF/dbs



November 10, 1938

HM, Jr today suggested to Mr. Oliphant the idea of having Governor Murphy as attorney for the Moe Ammenberg case. He said, "He will be available January 1. He will out-Dewey Dewey." Oliphant said his first impression it was a grand idea and Mr. Gaston, who was present, thought it was all right.

November 10, 1938.  
4:35 p.m.

WMJr: Hello.

Operator: Chairman Eccles. Go ahead.

WMJr: Hello.

Merriner  
Eccles: Oh, Henry.

WMJr: Yes.

E: You - that meeting for Tuesday, I find in checking up that Tuesday is the day when the Federal advisory council comes in here.

WMJr: Oh!

E: And if Wednesday is all right with you, that was your first suggestion.

WMJr: Absolutely.

E: Why then I'll won't call it until Wednesday.

WMJr: No. That'll be the 30th.

E: That's on the 30th. You suggested that first and I thought Tuesday would be better but I find that this - the council is coming in and expect to meet us here Tuesday morning.

WMJr: Suit me fine.

E: So I'll call it for Wednesday morning at eleven, then.

WMJr: If you would, please.

E: All right.

WMJr: Thank you.

E: Thank you.

November 11, 1938

HM, Jr telephoned to Col. McIntyre today and asked him to make an appointment for him to see the President to deliver the message from General Chiang Kai-shek.

No. 119

STRICTLY CONFIDENTIAL

AMERICAN CONSULATE  
Yunnanfu, China, November 11, 1938.

SUBJECT: Burma-Yunnan Highway.

The Honorable  
The Secretary of State  
Washington, D. C.

SIR:

I have the honor to refer to this Consulate's despatch No. 117 of November 5, 1938, entitled: Preliminary Report on the Burma-Yunnan Highway, and to quote below an excerpt from a letter dated October 22, 1938, from Mr. T. D. Payne, an American missionary resident at Mengka, Yunnan, concerning the condition of the road. Mr. Payne made the trip over the road in October, going by motor bus from Yunnanfu to Siakwan and by pack horses from Siakwan to Mengka, which is located on the Burma border.

-5-

"The road is in good condition so far as Lungling, but care will be needed on temporary bridges. West of Hsiakuan the grades are steep and in one place a hundred workmen were clearing away a slide that even made foot travel impossible. The Salween bridge has the same four heavy cables it was built with, but hangings have been strengthened, two cars have crossed it empty. One of these, a car belonging to the Mengshi laird, is said by the Chinese to have gone on to Yunnanfu. I have heard of no other car crossing the province.

"The road down from Lungling is in bad condition and in many places no stone surface is in evidence. But men are working on it and with the cooler weather it should be easy for traffic to get thru."

The American mentioned in the despatch under reference as now en route to Burma by private motor car, has not yet returned to Yunnanfu.

Respectfully yours,

Paul W. Meyer,  
American Consul.

815.4  
PWH/Jac

In quintuplicate  
Copies to:

Embassy, Peiping.  
Embassy, Chungking.  
Consulate, Shanghai.  
Consulate, Rangoon.  
Commercial Attache, Shanghai.

RECEIVED  
FEB 2 1935  
COMMUNICATIONS SECTION  
U.S. DEPARTMENT OF STATE

November 11, 1938.

M E M O R A N D U M

Re: Chinese tung oil loan.

At five minutes to two I saw the President, and I took with me all my papers in regard to the tung oil loan. I delivered to him my message from General Chiang Kai-shek. The President read the message.

I said, "You know, Mr. President, you told me to tell K. P. Chen that if you got a satisfactory message from the Generalissimo, that we could go ahead with the loan."

The President said, "Well, this is satisfactory, isn't it?"

I said, "Yes, I think so."

So he said, "Have you cleared it with Hull?" and I said, "No."

He said, "Well, get Hull to acquiesce." I only had about two minutes with him as he went right in to Cabinet.

At Cabinet I asked Hull whether I could go back with him to the State Department, but he said he was sorry, he couldn't, because he was going to see the Italian Ambassador.

I tried to get Hull again at five o'clock, and he was playing croquet.

H.M.Jr.

Nov 11, 1938 - Cabinet met to full

THE WHITE HOUSE  
WASHINGTON

201

I would like to  
walk back with  
you to your office.

Henry

Sorry - Unless Cabinet  
adjourns by 3-35-

I must go to depot to see  
Italian ambassador off -

202

11-11-38.

My dear Mr. President:

I am enclosing herewith:

1. My recommendation to you regarding the purchase of tung oil from China.

2. Photostatic copy of letter from Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, bearing on the same subject. (*orig is filed 10/24/38*)

3. An inter office memorandum from Assistant Secretary Wayne Taylor. 10-20-38 ?

Sincerely,

Secretary of the Treasury

The President,

The White House.



Traft # 1  
5/12 plan

203

My dear Mr. President:

As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems. As you are fully aware, from an economic standpoint, China's plight at the moment is desperate; her morale is badly shaken and without immediate outside assistance she may not be able to hold out much longer against Japanese aggression. If this Government is to come to China's assistance in her present crisis, now is the time to do so. It is believed that a comparatively small advance at this time will enable China to continue her defense for a considerable time, if not indefinitely. Should China collapse, undoubtedly it will be necessary for this Government to spend large additional sums for naval expansion. The construction and maintenance of two separate fleets would then seem inevitable. From a broad national viewpoint, the advancement to the Chinese Government of the cost of a new battleship appears to be a sound venture even though there is little chance that this advance will ever be repaid. But if a plan can be evolved which affords a reasonable chance for repayment of the advance, the resulting national benefit is even more apparent. And though perhaps of more intangible advantage, there should not be overlooked the very considerable value to the United States in having China's good-will for the future. The potential

-2-

economic development of China is admittedly enormous, and if this country helps China in her time of need, resulting benefit to American trade and business can be counted upon in the years to come.

With these objectives in view, we have exhausted the possibilities which have occurred to us. The only scheme which appears feasible is a comparatively simple one - in essence it is simply the financing of an exchange of necessary Chinese goods for our products. China produces, and is in a position to export, tung or wood oil - an industrial product much needed here and of particular value in the manufacture of quick-drying varnish and paint. Last year approximately 75,000 tons of this oil were consumed in this country of which less than 5 per cent was produced domestically. It is obvious that more than 95 per cent of our needs must be imported in any event. Accordingly, it would seem that no competition harmful to American industry could result from the importation of a large supply of tung oil from China.

In order to finance the purchase of Chinese tung oil, a Chinese trading corporation has just been organized under New York law. This corporation, which will be controlled by the Chinese Government, will make a contract to purchase 350,000 tons of tung oil from the appropriate Chinese agency, delivery to be made in fixed yearly amounts over a five year period, beginning at 50,000 tons per year and increasing 10,000 tons annually. The trading corporation would pay the Chinese agency immediately a percentage of the purchase price. By way of example assume that one-half of the purchase price will be advanced before any tung oil is

delivered. If the oil is purchased for 124 per pound, the cost of the five years' supply of tung oil will be \$84,000,000. On this basis the initial payment to the Chinese Government will be \$42,000,000 which should be adequate for their immediate needs. The Chinese trading corporations would obtain the funds for this advance by way of loan from the Export-Import Bank which would be put in funds for this purpose through the purchase by the R.F.C. of preferred stock of the Bank. Security for this loan would be

- A. All inventories and other assets of the Chinese trading corporation, and
- B. A loan agreement between the Export-Import Bank and the Chinese trading corporation based upon the contract of the Chinese Government to deliver tung oil to the trading corporation. The loan agreement would also provide that upon the sale of tung oil in this country, according to the above example, one-half would be paid to the Export-Import Bank to retire the loan, and the other half would be credited to the Chinese Government.

Adequate provisions to insure that no disruption of the business of either the American dealers or consumers will take place, and that all dealers and consumers will be treated on a parity would be included in the contract between the Export-Import Bank and the Chinese trading corporation. An additional safeguard would be a requirement that all proceeds of the loan would be expended by the Chinese trading corporation

←

for the purchase of American goods. As all loan proceeds will be expended for products of American industry, business will be stimulated and employment created. The Chinese trading corporation would also sell the tung oil in this country at prices based upon the contract between it and the Chinese agency, making nominal allowance for operating expenses (i.e., the Chinese trading corporation will not realize a profit from the transaction) so it is expected that the price of tung oil to American consumers will be somewhat reduced below the average for the past few years and that speculation will be curtailed or perhaps eliminated entirely.

I am informed that the plan would meet the approval of tung oil consumers since it would affect price stabilization of a product which has been subject to drastic price fluctuations as well as insuring Americans a regular and continuous supply of tung oil.

Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early conference with representatives of the Treasury, the R.F.C. and the Export-Import Bank might prove helpful.

Sincerely,

Secretary of the Treasury.

The President

The White House.

EHFjr/met 10-21-38

*Draft # 2  
5 year plan*

My dear Mr. President:

As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems.

As you are fully aware, from an economic standpoint, China's plight at the moment is desperate; her morale is badly shaken and without immediate outside assistance she may not be able to hold out much longer against Japanese aggression. If this Government is to come to China's assistance in her present crisis, now is the time to do so. It is believed that a comparatively small loan at this time will enable China to continue her defense for a considerable time, if not indefinitely. Should China collapse, undoubtedly it will be necessary for this Government to spend large additional sums for naval expansion. The construction and maintenance of two separate fleets would then seem inevitable.

From a broad national viewpoint, even a comparatively small loan to the Chinese Government at this time, therefore, would appear to be a sound venture even though the repayment of the loan is doubtful. But if a plan can be evolved which also affords a reasonable chance of repayment of the loan, the resulting national benefit is even a

- 2 -

apparent. And though perhaps of less tangible advantage, there should not be overlooked the added material value to the United States in having China's good-will for the future. The potential economic development of China is admittedly enormous; and if this country helps China in her time of need, a resulting benefit to American trade and business can be counted upon in the years to come.

With these objectives in view, we have exhausted the possibilities which have occurred to us. The only plan which appears feasible is a comparatively simple one - in essence it is merely the financing of an exchange of necessary Chinese goods for domestic products. China produces, and is in a position to export, tung or wood oil - an industrial product much needed here and of particular value in the manufacture of quick-drying varnish and paint. Last year approximately 75,000 tons of this oil were consumed here of which less than 5 per cent was produced domestically. It is obvious, therefore, that as more than 95 per cent of our needs must be imported in any event, no competition harmful to American industry can result from the importation of tung oil from China.

In order to finance the purchase of Chinese tung oil, a Chinese trading corporation has just been organized under New York law. The plan under discussion contemplates that this corporation, which will be controlled by the Chinese Government, will make a contract to purchase 350,000 tons of tung oil from the appropriate Chinese agency, delivery to be made in fixed yearly amounts over a five year period,

- 3 -

beginning at 50,000 tons per year and increasing 10,000 tons annually. The trading corporation will pay the Chinese agency immediately one-half or more of the purchase price which will be advanced before any tung oil is delivered. If the oil is purchased for .12¢ per pound, the cost of the five years' supply of tung oil would be \$84,000,000. If the initial payment is one-half of the purchase price the Chinese Government would receive \$42,000,000 which should be adequate for their immediate needs. The Chinese trading corporation would obtain the necessary funds for this initial payment by way of loan from the Export-Import Bank. The Bank, in turn, would be put in funds for this purpose through the purchase by the R.F.C. of its preferred stock. Security for the loan would be:

- A. All inventories and other assets of the Chinese trading corporation,
- B. A loan agreement between the Export-Import Bank and the Chinese trading corporation based upon the contract of the Chinese agency to deliver tung oil to the trading corporation. The loan agreement would also provide that upon the sale of tung oil in this country, according to the above example, one-half would be paid to the Export-Import Bank to retire the loan, and the other half would be credited to the Chinese agency, and
- C. An unconditional guarantee of the notes of the Chinese trading corporation by the Chinese Government.

- 4 -

Adequate provisions to insure that no disruption of the business of either the American dealers or consumers will take place, and that all dealers and consumers will be treated on a parity would be included in the contract between the Export-Import Bank and the Chinese trading corporation. An additional safeguard would be a requirement that all the proceeds from the sale of tung oil, i.e., \$54,000,000, would be expended by the Chinese trading corporation for the purchase of American goods, and to this extent business in this country will be stimulated and employment created. The Chinese trading corporation would also sell the tung oil in this country at prices based upon the contract between it and the Chinese agency, making nominal allowance for operating expenses (i.e., the Chinese trading corporation will not realize a profit from the transaction) so it is expected that the price of tung oil to American consumers will be somewhat reduced below the average for the past few years and that speculation will be curtailed or perhaps eliminated entirely.

I am informed that the plan would meet the approval of tung oil consumers since it would effect price stabilization of a product which has been subject to drastic price fluctuations (during the last few years the price has ranged from 6¢ to 29¢ per pound) as well as insuring a regular and continuous supply of tung oil in this country.

Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early



- 5 -

conference with representatives of the Treasury, the R.F.C. and the  
Export-Import Bank might prove helpful.

Sincerely,

Secretary of the Treasury.

The President

The White House.

EMF/eb 10-21-38

3rd draft 212

- 5 -

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Export-Import Bank might prove helpful.

Sincerely,

Secretary of the Treasury.

The President

The White House.

EHF/eb 10-21-38

ENH

My dear Mr. President:

As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems.

As you are fully aware, from an economic standpoint, China's plight at the moment is desperate; her morale is badly shaken and without immediate outside assistance she may not be able to hold out much longer against Japanese aggression. If this Government is to come to China's assistance in her present crisis, now is the time to do so. It is believed that a comparatively small loan at this time will enable China to continue her defense for a considerable time, if not indefinitely. Should China collapse, undoubtedly it will be necessary for this Government to spend large additional sums for naval expansion. The construction and maintenance of two separate fleets would then seem inevitable.

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- 3 -

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- C. An unconditional guarantee of the notes of the Chinese trading corporation by the Chinese Government.

- 4 -

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Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: November 12, 1 p.m., 1938

NO.: 261

Reference my telegram 254 of November 5, 1.p.m. The Bank of Brazil will close exchange during the week of November 14 for maturities and daily quotas from October 1 to October 8 inclusive, according to information given me by the Director of Exchange.

Office announcement has been made that effective November 14 the Bank of Brazil will be authorized to purchase compensation marks in payment for cotton to be exported to Germany from the northern part of Brazil. I am confidentially informed by the Director of Exchange that the quantity will be restricted to 10,000 metric tons. Suspension of the purchase of compensation marks for all coffee and cocoa sales and for cotton from other producing areas is still being continued by the Bank of Brazil. Please inform Department of Commerce.

SCOTTEN

EA:DJW





USS TULSA NOV 12 1938

For Nicol from T. V. Soong Quote Please convey my warmest appreciation to Sooy for loan which coming at this moment is tremendously heartening and will undoubtedly strengthen national resistance. Also my hearty congratulations to all our friends whose joint exertions have made it possible. You may rely on me to inform you of any important developments. Meanwhile trust America will keep vigilant eye on reported negotiations at Rome between four great powers on future of China Unquote.

CAMPBELL

November 12, 1938

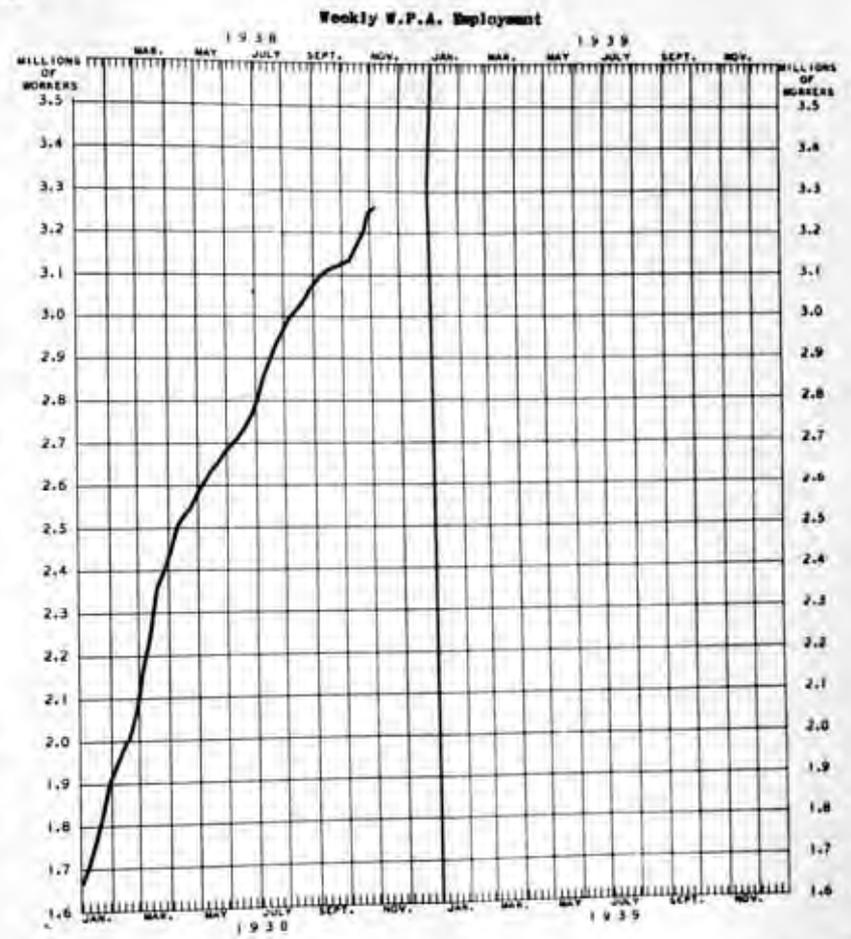
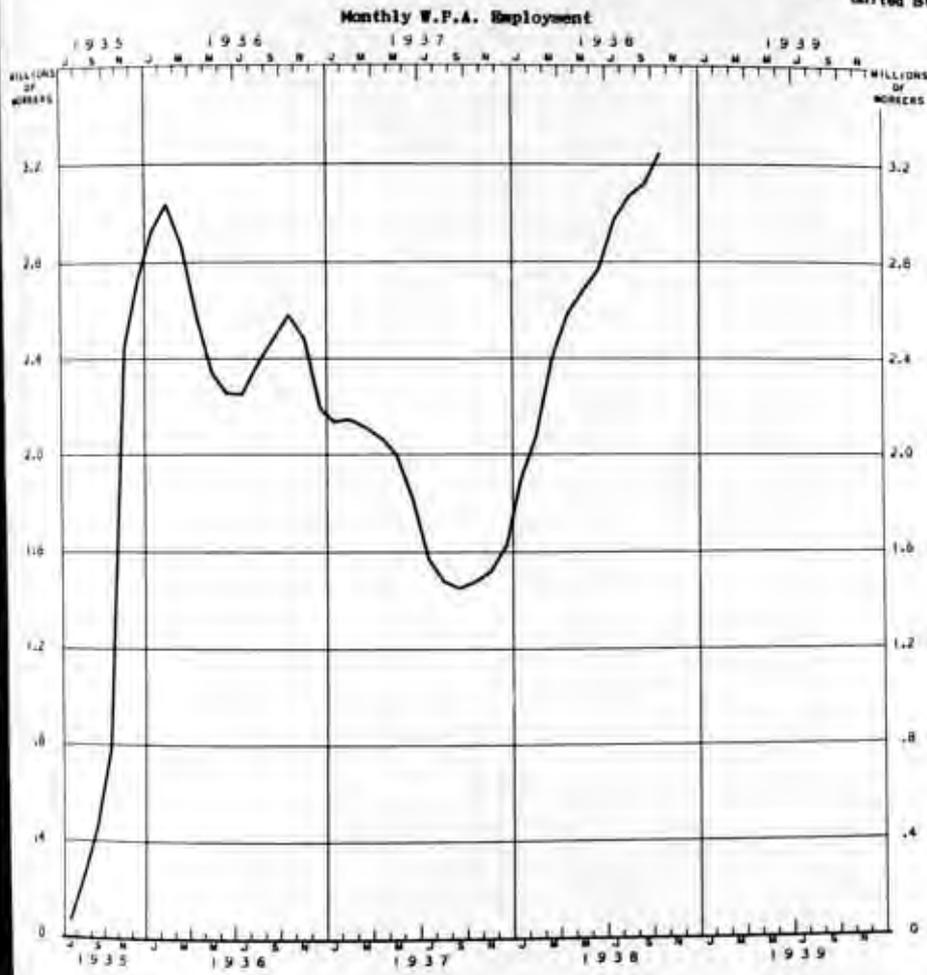
To: The Secretary  
From: Miss Lonigan *g.l.*

The total number of WPA workers on November 5, 1938 is 3,263,000. The increase during the week from October 29 to November 5, was 18,000 workers.

WPA employment has increased 1,774,000 during the year from November 6, 1937 to November 5, 1938.

This is the highest number of persons that has ever received WPA employment.

### WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States



SOURCE: WORKS PROGRESS ADMINISTRATION

Office of the Secretary of the Treasury  
Division of Research and Statistics

Z -

## WORKS PROGRESS ADMINISTRATION

## Number of Workers Employed - Weekly

222

## United States

Week ending 1938	Number of Workers (In thousands)
February 5	1,945
February 12	1,985
February 19	2,009
February 26	2,075
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,443
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,582
May 7	2,608
May 14	2,638
May 21	2,652
May 28	2,678
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263 <sup>a/</sup>

Source: Works Progress Administration  
<sup>a/</sup> Confidential

WORKS PROGRESS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

223

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,376
September	2,482
October	2,581
November	2,482
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245 <sup>a/</sup>

Source: Works Progress Administration

<sup>a/</sup> Confidential

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

C A B L E

224

*MM*

From: Bankers Trust Co., N. Y.  
London Office

Date: November 12, 1938

DEMAND FOR DOLLARS STILL PERSISTENT AND BANK OF  
ENGLAND YESTERDAY AND TODAY SOLD AT 4.7375 FORWARDS  
WANTED. SPOT FRANCS OFFERED AND CONTROL HOLDING RATE  
AT 178-29/32 FORWARDS ERRATIC.

CONFIDENTIAL

EG

GRAY

Bombay

Dated November 12, 1938

Rec'd 9 a.m.

Secretary of State,  
Washington.

November 12, 11 a.m.

FOR THE SECRETARY OF THE TREASURY.

Silver market quietly steady ready standing at rupees 50-13 for 100 tolas with slight fluctuations. Stocks estimated at 4500 bars average daily offtake between 25 and 30 bars. Imports 152 bars.

Gold market dominated by purchases reported in some newspapers to be by the Reserve Bank of India. Ready opened at rupees 36-8-6 per tola declined to 36-8 closed at 36-10-1.

WATERMAN

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 12, 1938, noon

NO.: 1903

FROM COCHRAN.

At half-past eleven I had a talk with the Bank of France. Yesterday and this morning the stabilization fund has had to yield sterling at London in order to maintain the rate around 178.90. Official British losses of sterling had continued heavy, my friend told me. Local currency is still hurt by gossip of further franc depreciation. The usual story of discord in the French Government is also going around. It is said that the Minister of Public Works Démonzie is so vigorously opposing the plans of Reynaud that it may be necessary to effect a compromise which will weaken them.

The revenue returns in France for the month of September are almost 19,000,000 francs less than was estimated, which are the smallest for any month since April and reflect the crisis of September (in the foregoing figure account is taken of increased taxation decreed under the full powers of last April).

It is reported in Amsterdam press news that arrangements are being made for the Mendelssohn group to give a new credit of about 100,000,000 florins to the French Government. This would be for three months and renewable four times. The interest rate would be 3 1/4 percent.

This

Regraded Unclassified



- 2 -

This credit would permit the paying off of the Mendelssohn credit to the French Railways, part of which matures on the 29th of this month. The Netherlands Bank, it is estimated, would not offer to this credit the rediscounting facilities given to the other credits.

Reynaud is expected to broadcast the plans of the Government at eight o'clock tonight, following today's meetings of the Cabinet and Council of Ministers. Tonight I shall cable a summary and also tomorrow I shall summarize any ~~XXXX~~ decrees that might be announced. I am not going to Basel this weekend, under present circumstances; it will be possible for me to get a report of developments and conversations either through returning friends, or by going to Basel for a brief visit myself in a few days.

END MESSAGE.

WILSON.

EA:LWW

REB

GRAY

London

Dated November 12, 1938

Rec'd 12:28 p. m.

Secretary of State,  
Washington.

1310, November 12, 3 p. m.

An official of the British Treasury intimated that the negotiations for trucks referred to in paragraph C of my 840, August 31, 7 p. m., are now progressing more favorably although the Export Credit Guarantees Department is still having some difficulty with the Chinese regarding specifications.

Incidentally the Chinese have given the British to understand that a ~~210,000,000~~<sup>940,000,000</sup> wheat credit has been authorized by Washington. My informant inquired whether this was so and I agreed to pass on such information as I received.

KENNEDY

RR-CSB

11-12-38  
 RECEIVED  
 DEPARTMENT OF STATE  
 NOV 15 1938

REB

GRAY

London

Dated November 12, 1938

Rec'd 1:23 p. m.

Secretary of State,  
Washington.

1309, November 12, 1 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. British Treasury informs me in confidence that Monick, French Financial Attache, called yesterday afternoon and gave a long dissertation in very general terms regarding Reynaud's measures but although he gave the impression of taking them deeply into his confidence, he did not really convey any necessary details. He described Reynaud's decrees as radical and drastic and designed to increase the French national income from 220 to 350 milliards and emphasized that the French policy must work more and French capital must be more fruitful, et cetera.

Monick was, however, specific about two statements which he had apparently been instructed by Reynaud to make: (one) that Reynaud felt that France had not yet gotten the full benefit from the last depreciation of the franc and that there was no question in his mind of depreciating the franc further; and (two) that Reynaud did not desire to

have

REB

2-#1309, From London, Nov. 12, 1p.m.

have recourse to the London money market at the present time; all he asked was that the good press in England, which he has been getting and for which he was grateful, should be continued.

Two. The dollar continued bid today. The rate remained around 4.73-3/4 with the British authorities giving steady support to the pound. One hundred and fourteen bars were sold at today's gold fixing at 146 shillings 9 pence which was 1-1/2 pence advance on yesterday's price and gave a half pence premium. The British authorities supported the franc yesterday at 178-29/32 and at which level it has been held today from Paris.

Incidentally, in discussing yesterday's exchange movements, today's FINANCIAL NEWS states "speculative buying of dollars on rumors of a downward adjustment in the sterling dollar rate in connection with the coming Anglo-American trade pact, showed a marked increase yesterday, despite the fact that many world centers were on holiday. The regrettable failure of the American authorities to avert a sharp depreciation in the pound in the overnight dealings in New York lent color to the wild rumors circulated in London and Paris during the past few days. The British authorities

REB

3-#1309, From London, Nov. 12, 1p.m.

authorities at first endeavored to dispel the unfortunate impression created by the United States official attitude by actively bidding for sterling until the exchange had passed well beyond the 4.74 level. When, however, sterling came under renewed pressure in the afternoon, British official resistance only assumed a determined character when the exchange again neared the 4.73-3/4 mark.

Many continental quarters transferring funds from Paris and London to New York attach hardly more importance to the wild rumors circulated during the past few days than do market quarters. But there is a general feeling that there is nothing to lose by purchases of dollars at the present time, French quarters in particular favoring conversion of Paris balances into dollars at least until the nature of the pending Reynaud economic decrees is revealed. The prospect of a big investment demand for United States exchange as a sequel to a rise on Wall Street has heightened the attractions of the dollar, just as the prospect of a big expansion in rearmament expenditure has had an adverse effect upon sterling.

Market circles in London still cling strongly to the view that the British authorities will not agree to de facto or de jure stabilization of the sterling dollar rate at the present

REB

4-#1309, From London, Nov. 12, 1p.m.

present time. It is also believed that there is not the slightest hope of the American authorities voluntarily agreeing to an adjustment in the sterling dollar rate at a level of 4.60 or less, as has been suggested."

KENNEDY

RR

CSB

See Page 3 233

LMS

PLAIN

Paris

Dated November 12, 1938

Rec'd 9:05 p. m.

Secretary of State  
Washington.

1908, November 12, 9 p. m.

FROM COCHRAN.

At 8:15 this evening Minister of Finance Reynaud gave a stirring and eloquent forty minute address over the radio from which I have taken down the following notes in summary but against which no text is yet available to check.

"At this solemn moment I address all Frenchmen. In spite of deceptions and disappointments of recent years, I am sure you have not lost faith in France. You must know the truth. I bring it to you as I promised would be done when I accepted this post to work with my friend and chief Daladier. I worked five days on a balance sheet of France at the Rue de Rivoli having always in mind the laborers, peasants, and other elements which make up our nation. From this study I have to report the bad news that your situation is serious and the good

news

LMS 2-No. 1908, November 12, 9 p. m., from Paris.

news that we will pull out of it. Finance, like military strategy, is simply a question of good sense. The financial situation of the country can be explained simply. The state has become a giant drawing too much substance out of the country. The evil is not merely financial but exists in the entire economy of the country. France has experienced eight years of crisis. French steel production has gone down while that of Germany has remarkably increased. Unemployment has grown, investors have lost heavily, construction is fifty percent under normal and contrasts sadly with that of Great Britain and Germany. French commercial fleet deteriorating, 25 billion francs needed for rearmament which he <sup>(we?)</sup> cannot refuse Daladier. With so much factory and other work devoted to this economically unproductive task, but nevertheless vital, other people in France must work all the harder. Deficits throughout the country are increasing and the burden falls inevitably on the state treasury. The state keeps on borrowing more expensively each time. French business cannot obtain money in view of the exorbitant rate which the government creates through its borrowings. Resort has  
been



LMS 3-No. 1908, November 12, 9 p. m., from Paris.

been had to borrowing from the Bank of France. This has brought depreciation of the currency. So much for the past, now for the future. Our destiny will be tragic if we do not act. I put aside all preconceived ideas when I came into the treasury. I consulted one expert after another; they all told me how much would have to be borrowed for the state itself, railways, colonies, wheat office, et cetera, bringing a total of more than 60 billion francs. If we continue this road of borrowing the franc will soon be 250 and then 500 francs to the pound. This would mean misery for all of France just as Germany suffered when her currency crumbled a few years ago. We will not have this. Our decisions are made with pride in France and determination for liberty. We have a capitalist regime. Whatever faults therein it is unwise to change horses in midstream. We must go ahead with this regime which requires opportunity for profit, free economy and a free market. We are bound to two great democracies by the tripartite agreement which guarantees liberty of exchange and promises freeing of trade. There have been some who spoke of exchange control but the leaders in countries where this is practiced have confidentially said not to follow their example. Would exchange control

LMS 4-No. 1908, November 12, 9 p. m., from Paris.

control be successful in France? No, it would involve big rise in prices drop in purchasing power and decline in standard of living. We have made our choice which is in the direction of freedom. Our immediate acts deal with prices, credit, and work. Producers must have more credit to encourage this. The state must set an example of keeping its own word, therefore, suspension of amortization is rejected. We must reduce public expenditures and increase receipts. We must make severe economies. Recruiting of civil servants, and railway employees will be diminished and some taken from the railways and placed in munitions' factories. War veterans will be called upon to make sacrifices. While arming we cannot have the luxury of extensive public works. Taxes will be increased with the rich bearing their proportionate share of the burden, new industries will be favored. We must work vigorously to increase production, deficits will be cut down on all sides including railways, motor-buses, et cetera. Economies already determined upon reduce such anticipated deficits by 20 billion francs. Borrowing consequently will only remain necessary for armaments. The program is severe, the idea is to save

the

LMS 5-No. 1908, November 12, 9 p. m., from Paris.

the country, not to punish it. Poincare found a somewhat similar situation and had to wait three months for repatriation of capital after his program was established. We will not be beaten by threats, we shall proceed with a large expansion of credit. The Bank of France statement for next Thursday will show many entries changed or missing particularly where the 50 billion advances to the state are concerned. The gold reserves will be revalued at their real value and the entire profit devoted to amortization of the debt. The deficit which remains will be well secured, we do not want to come on the market to borrow within the next six months. Recent loans have raised interest rates too high, French rentes and shares are ridiculously low, foreigners are beginning show an interest in them and will snap up these bargains if the French themselves do not soon take advantage of them. Labor. If France wants to win out our production must increase thirty or forty percent. Putting back unemployed into activity would only increase such production by 8 percent. We can't rest two days per week and arm and produce. We are giving you facts. The week of  
of

LMS 6-No. 1908, November 12, 9 p. m., from Paris.

of two Sundays is over. Wages for extra work will be paid but not at exorbitant rates. We are all French and are taking no party or doctrinal decisions but are striving to recreate a strong and prosperous country. We cannot cure in eight days a country suffering for eight years. Our plan covers three years. What is three years in a nation's life?

WILSON

NPL

GRAY

Paris

Dated November 13, 1938

Recd. 2:25 p m.

Secretary of State,  
Washington.

1911, November 13, 1 p m.

The three year recovery program outlined by Reynaud in his speech last night, which is to be put into effect by 32 decree laws to be published in today's Journal Official (actual publication is not expected until sometime tomorrow) marks the setting of a new course in economic, financial and social policy free from Left wing tenets and, therefore, constitutes the first integrated program of the past two and one-half years which is not a compromise between the more traditional views of the Radical Socialist Party and the ideology of the definitely Left Party.

Under the plan capital and labor are to be put to work again by the application of a policy of "liberal prices, credits and work"; that is to say, freedom of commerce, eased credits and flexible working regulations.

The government's objective is a 30 to 40 % increase in production so that France may resume her position as a first class power and meet the need of 25,000,000,000 francs for next year's national defense. Capital must support heavier taxation and labor must work longer hours and accept compul-

sory

Regraded Unclassified

p 2 Paris #1911

sory arbitration of disputes. Sanctions will be imposed against labor agitators. "Two Sundays a week" are at an end but labor will receive increased wages for the additional hours of work and capital must turn over to the government 10 % of the profit accruing from this increased working time. The government is to make its contribution through economies and by "paying its way as it goes".

The political significance of the plan is noteworthy. Blum characterizes it this morning in POPULAIRE as "a plan of social reaction calculated to obtain the confidence of capital". HUMANITE says: " 'Recovery' on the shoulders of the people".

In the absence of the text of the decrees laws this morning" press contains no detailed evaluation of the plan. However, except for the Left press the newspapers pay tribute to Reynaud's courage and exhort Frenchman of all classes to give him the support necessary to a fair test of "this last effort toward recovery by democratic methods". Considerable apprehension is expressed with respect to the tax burden but in general this is looked upon as a necessary evil flowing from the faults of past governments. It is the general view that only a future can weigh the merits or demerits of the plan; that in the meantime all Frenchmen should do their utmost to make it a success. Radical Socialist OEUVRE suggests that parliamentary circles are far from pleased with all aspects of the program and that its provisions with the 40 hour week were not accepted in the Cabinet without a struggle.

p 3 Paris 1911

La Roc's PETIT JOURNAL is worried about the implications of Reynaud's description of his program as "a three year plan".

Speaking at a banquet for the French war veterans both Daladier and President Lebrun made a strong appeal for support of the government at this critical moment. Judging from the tremendous applause given both speakers and from the acclaim rendered Daladier it would appear that the veterans' organizations are anxious to lend the government their full backing in the present effort to put the country to work again. At moments during the speeches enthusiasm of the audience made it appear almost as if the demonstration on the part of the veterans in behalf of a "government of public safety" which POPULAIRES "feared" so much earlier in the week was actually taking place under government leadership.

WILSON

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SEP 1 1911

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## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: November 13, 1938, 7 p.m.

NO.: 701

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

It is suggested that before you make your visit to the United States you see Phillips and talk with him with a view of getting his impressions of the present situation, and indirectly ascertaining whether there is any message he might want you to bring back with you.

HULL.

EA:LWW



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 14, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLANDFROM L. W. Knoks

Mr. Bolton called me at 10:30 a.m. They were having a rousing time in London, as usual. They had decided to let the rate fall a little bit as they couldn't stand up under the assault very much longer. The French fund as a result of a favorable reception of Reynaud's program had been able to accumulate this morning \$8,000,000 (which the French would, of course, convert into gold). In the London market he, Bolton, had sold \$8,000,000 so that the British fund's gold and dollar losses totaled so far this morning about \$35,000,000. He didn't know where things were going. The continent on the whole had evidently decided that sterling was far too high and bound to depreciate. One of the reasons for this belief was, of course, the Jewish program in Germany. There were now a great number of people on the Continent as well as in England who believed that the British Government's policy towards Germany was bound to fail. To some extent the British Government was losing ground in the country. There were going to be six by-elections in the next two or three weeks and a great number of persons were beginning to think that these would result in heavy Government losses. Everybody was convinced that Chamberlain had done everything for the best but he was simply not dealing with "normal people." The war fears were beginning to return to Europe to some extent. Foreign money was leaving London and on top of that there was the development of a large speculative account built up primarily by Lesard and the Banque

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 14, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.FROM L. W. Knoke

2

de L'Indo Chine. Having lost a very large part of its resources the fund had decided to try and conserve them a little as it couldn't afford to lose \$40,000,000 to \$50,000,000 every day. They could, therefore, not expect to keep the market as quiet and as orderly as they had in the past.

It was all very, very disappointing, Bolton continued. Although they had shipped about \$150,000,000 gold to us, sterling was apparently still on the down-grade. They would do everything they could to prevent the rate from depreciating. Today at any rate they would hold it above 4.70. He wanted to tell me all this first before they did anything, Bolton added. Meanwhile they were supporting at various levels between 4.71 3/8 and 4.71 7/8. He would send me a full and complete cable tonight.

I asked whether it was their intention that we should continue to operate here against his order and he requested that we do so.

LEK:KW

JR

GRAY

Paris

Dated November 14, 1938

Rec'd 1:51 p.m.

Secretary of State,  
Washington.

1913, November 14, 3 p.m.

The following are the essential features of the financial decrees published today:

Revaluation of the gold reserves: under conventions dated November 12 between the Minister of Finance and the Bank of France the gold reserves of the Bank of France and of the Colonial Banks of issue are revalued. The profits arising from the operation as concerns the Colonial Banks are retroceded to the territories upon which such banks of issue exercise their privilege.

Bank of France reserves are revalued upon the basis of 27.50 milligrams of gold which corresponds to a pound rate of approximately 170. (note: it will be recalled that the basis of revaluation of July 1937 was 43 milligrams.) The profits estimated at about 31 billion francs will be applied to the definitive reimbursement of the provisional advances authorized since 1936. Later on, presumably when the franc is stabilized de jure, the proceeds of the liquidation of the exchange stabilization fund and the

balance

-2- #1913, November 14, 3 p.m., from Paris.

balance in cash of the rentes fund and profits from further revaluation notably will be applied towards reimbursement of advances remaining uncovered.

The permanent advance to the Treasury of 3200 million francs under the monetary law of 1928 is increased to 10 billion francs and the total of the new advance of 6800 million francs will be immediately credited to the current account of the Treasury.

(END SECTION ONE).

WILSON

CSB

REB

GRAY

Paris

Dated November 14, 1938

Rec'd 3:10 p. m.

Secretary of State,  
Washington.

1913, November 14, 3 p. m. (SECTION TWO)

It is of interest to note that operations described above will make available to the Treasury not only the 6800 millions under the new permanent advance but it seems Treasury will also draw balance of provisional advance account of 3950 millions. Thus adding amount available in current deposit account of Treasury at bank a total of nearly twelve billion francs will be available to meet early future requirements.

Treasury issues and issues guaranteed by the state: in the future the issue price of such securities cannot be more than ten per cent below the nominal value of the securities. They may carry a redemption premium in excess of five percent of their nominal value. Furthermore, they may not be accompanied by a gold clause, neither may they be issued abroad nor issued in foreign currency. On the other hand exception is made as concerns the credit operations carried out under the decree published in the Journal

Official

REB

2-#1913, From Paris, Nov. 14, 3p.m.  
(Sec. Two)

Official of August 30, 1937, described on page 21 of the Embassy's despatch No. 1007, September 4, 1937.

Fiscal measures: notably the relevant decree provides for a special national contribution, readjustment of the rate of the income tax and of the tax on revenue from securities and registration duties. The rates of specific indirect taxes are increased and adjustments made in production taxes.

WILSON

CSB

JR

GRAY

Paris

Dated November 14, 1938

Rec'd 3 p.m.

Secretary of State,  
Washington.

1913, November 14, 3 p.m. (SECTION THREE).

The special tax will be applied to income from professions and to global revenue. The rate is 2%. During the year 1939 a distinct and additional tax equal to 30. will be payable by those whose general income reaches a certain figure.

The rate on income from French securities and on foreign securities paying French stamp duties et cetera ("abonnees" regime) is increased from 26% to 27% as concerns bearer shares and from 16.20% to 18% as concerns registered shares. The rate on income from foreign shares not registered for French stamp duties et cetera ("non-abonnees") is fixed at 36%.

(Begin underlining) holdings abroad (end underlining); penalties are strengthened by fines and servitude. Those who have omitted to declare revenue received from abroad or holdings abroad are given to December 18 next to correct errors or oversights. Failure to declare will expose tax payer to penalties provided under Article 366 of the penal code

-2- #1913, November 14, 3 p.m. (SECTION THREE) from Paris.

code in addition to fiscal penalties already in force.

Soliciting of orders for sale or purchase of gold in any form, or for sale or exchange of foreign bank notes is forbidden.

WILSON

WNC:CSB



REB

GRAY

Paris

Dated November 14, 1938

Rec'd 3:49 p. m.

Secretary of State,  
Washington.

1913, November 14, 3 p. m. (SECTION FOUR)

Limitation of deposits in savings banks: in order to put an end to practice prevalent of depositing working funds, et cetera, in savings banks, in addition to savings strictly speaking, total deposits by any depositor during the year may not exceed 20,000 francs.

National lottery: in view of feeble return of lottery and moral dangers accompanying practice system will be discontinued after January 1, 1940.

Balance sheet: the general report to the President of the Republic accompanying decrees embodies a detailed inventory of French economy and finances and analyzes the plan of Reynaud. The ordinary budget for 1939 is given as approximately 64,500,000,000 francs. The cost of the public debt, pensions and civil personnel represent about 60% of this total. Military expenditures account for 22%. The special budget for 1939 will total nearly 30 billion francs. Of this amount 25 billions will be expended for armament.

Total

REB

2-#1913, From Paris, Nov. 14, 3p.m.  
(Sec. Four)

Total general initial budget of the state as calculated in Reynaud's survey is given as 137 billions, namely, ordinary budget 64,500 millions, special budget 29,500 millions amortization fund 7,500 millions local budget 24,000 millions, railway deficit 6,000 millions, public works 5,500 millions.

Total revenue for 1939 is given as 85,500 millions leaving a deficit of 51,500 to be covered by borrowing. It is indicated below that this deficit has been substantially reduced.

WILSON

CSB

JR

GRAY

Paris

Dated November 14, 1938

Rec'd 2:38 p.m.

Secretary of State,  
Washington.

1913, November 14, 3 p.m. (SECTION FIVE).

It is explained in the general report that the Government proposes to reestablish progressively financial and economic equilibrium in three years by (a) doing all that can be done rapidly and without excessive upheaval to obtain budgetary balance, (b) freeing trade and commerce from restraints, (c) provoking through cheap money a starting up of activities which should continue as a result of returning confidence and a reawakening of the spirit of enterprise, (d) the setting in motion of a more comprehensive reform program.

Turning to the monetary situation confidence is expressed that the necessary conditions for a profound amelioration of the money market now exist. No question of the value of the franc can possibly arise with respect to the parity of French prices with world prices it is stated. It is expected that the money market will be normally supplied by the progressive repatriation of holdings abroad and it is indicated that the Government

intends

-2- #1913, November 14, (SECTION FIVE) from Paris.

intends to follow a liberal monetary policy.

Finally the report rejects "everything condemned by orthodoxy". In this respect for instance attention is invited to the restriction placed on foreign loans (described above) and the partial reimbursement of the different provisional advance accounts at the Bank of France through the revaluation of the gold reserves.

WILSON

CSB

REB

GRAY

Paris

Dated November 14, 1933

Rec'd 4:47 p. m.

Secretary of State,  
Washington.

1913, November 14, 3 p. m. (SECTION SIX)

It is explained that the bank will open a new advance account in which will be entered the remainder of the provisional advances that will not be covered by the profit from the revaluation of the gold reserve and that this new advance account will be secured by the proceeds of the liquidation of the exchange and rentes funds.

In view of this new advance and "other considerable" sums available confidence is expressed that the Treasury will be sheltered for many months to come.

In conclusion the statement is made that of the 54 or 55,000,000,000 initial deficit about 15,000,000,000 have been provided for under the new plan and that as revenue is expected to exceed estimates by 5 to 6,000,000,000 it will only be necessary to borrow about 25,000,000,000 which corresponds to armament expenditures.

In

REB

2-1913, From Paris, Nov. 14, 3p.m.  
(Sec. Six)

In any case it is stated the Government does not propose to come on the market with a long term loan issue for at least six months.

(END OF MESSAGE)

WILSON

NPL

EMB

REB

PLAIN

London

Dated November 14, 1938

Rec'd 3:45 p. m.

Secretary of State,  
Washington.

1312, November 14, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The initial impression in the city of Reynaud's decrees is that they are sound and constructive and are the remedies which should have been applied a couple of years ago. But for this very reason the city is hoping for rather than definitely hopeful of their success. However there is great reluctance to criticize on the score that it may do harm.

Both the TIMES and DAILY TELEGRAPH give Reynaud's appeal and measures a good sendoff and throughout their editorials runs the thought of the desirability of France as a military and political ally being made strong. "The whole future of France now depends on the response that is made to M. Reynaud's appeal and his call for work, sacrifice and enterprise".

Incidentally the TIMES emphasizes that if Reynaud's measures fail "the inevitable result if complete collapse

is

REB

2-#1312, From London, Nov. 14, 6p.m.

is to be averted will be the resort to controlled exchanges and their necessary complement a directed economy". Significant in this connection is the following unusually strongly worded statement from the Paris correspondent of the TIMES.

"M. Blum the Socialist leader has nothing more constructive to offer than indignation and suspicion -- sentiments which will certainly do nothing to provoke the hasty return of expatriated capital. M. Blum can rest assured that this is probably the last opportunity of solving the economic problems of France on a liberal basis. If it fails the turn of regimentation is almost certain to come and it is not so certain that M. Blum and his supporters will be those who impose it."

The only non-laudatory editorial appeared in the FINANCIAL NEWS which concludes:

"The reaction of the French public to his measures is incalculable and it is conceivable that the favourable psychological effects of the balancing of the ordinary budget and of the modification of the 40-hour week may wipe out the unfavourable material effects of the untimely deflationary measures. It is just possible that M. Reynaud's  
moving



REB

3-#1312, From London, Nov. 14, 6p.m.

moving appeal for an all-round national effort for the sake of saving the franc will initiate the much-needed and long-overdue national regeneration. But pending the evidence of a really satisfactory response we cannot help feeling that it would have been better if M. Reynaud had followed his original intention of raising the national income by means of a sweeping reflationary campaign instead of jeopardising the success of his reflation by first embarking upon a ruthless deflationary drive."

2. The dollar which opened at 4.74 has been very heavily bid throughout the day due to the recurrence of rumors of a further depreciation of the pound in connection with the forthcoming Anglo-American Trade Agreement. Although there has been a considerable repatriation of French funds today the weakness of the pound has been primarily a dollar-sterling matter and with sufficient force behind it to be unaffected by any French sales of dollars that may have occurred. The British authorities have been supplying dollars at varying rates throughout the day and the dollar is closing here at 4.70 3/8. It may be that these depreciation rumors will continue to be operative until authoritatively quashed but certainly if the pressure is not resisted

REB

4-#1312, From London, Nov. 14, 6p.m.

resisted more firmly it will gain momentum, particularly as events during the weekend in Germany have again revived fears that Munich was not a peace but a truce.

Of the 414 bars sold at fixing almost 400 were supplied by the British fund which however gave little gold thereafter despite offerings of over 1 shilling above the fixing price.

KENNEDY

HPD

REB

GRAY

London

Dated November 14, 1938

Rec'd 5 p. m.

Secretary of State,  
Washington.

1313, November 14, 9 p. m.

FOR TREASURY FROM BUTTERWORTH.

Ambassador approves. Sailing MANHATTAN November 18th.

KENNEDY

NPL

EMB

November 14, 1938.  
9:05 a.m.

WMJr: Hello.

Operator: Mr. Johnson..

WMJr: Hello.

O: Go ahead.

WMJr: Hello.

Louis Johnston: Good morning, Mr. Secretary.

WMJr: Good morning. I would like Oliphant to get in touch with whoever your man is who is working on that procurement law so he can do his home work before two o'clock.

J: Where - yes - all right.

WMJr: Who is this man in the Army,

J: I'd like him to talk, not to lawyers in the Army -

WMJr: Yes.

J: - but to talk to Colonel Burns.

WMJr: Who?

J: Colonel Burns.

WMJr: Colonel?

J: Yes. Colonel J. H. Burns.

WMJr: J. H. Burns.

J: Yes, sir. And General Arnold.

WMJr: Does he want him to go that high?

J: I think so. I want Oliphant to get off on the right track.

WMJr: Well now, - could you arrange that he could see -

J: They're both - they're both sitting here right now, so, you set the time and they'll see him, why not - why not ten o'clock?

WMJr: Ten o'clock?

- 2 -

J: Ten o'clock.

HMJr: General Arnold?

J: General Arnold and Colonel Burns.

HMJr: Where do they - what - well - where are they - where's their office?

J: Why don't they come by Cliphant's office, they're not in the same building. Colonel Burns is up here and General Arnold is down at the Munitions Building.

HMJr: Well that's - well, we'll do anything that -

J: Suppose - suppose we say ten o'clock at Mr. Cliphant's office over there?

HMJr: That'll be fine.

J: He's in the Treasury Building, isn't he?

HMJr: Yes.

J: They'll give him just a little background.

HMJr: Fine.

J: All right.

HMJr: Thank you very much.

J: Thank you, Mr. Secretary. Goodbye.

## GROUP MEETING

November 14, 1938.  
9:30 a.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. Oliphant  
Mr. Gibbons  
Mr. Bell  
Mr. Haas  
Mr. White  
Mr. Lochhead  
Mr. McReynolds  
Mr. Gaston  
Mr. Duffield  
Miss Chauncey

H.M.Jr: Mac, I wish you'd go over and see - what's the Chief Clerk over there? - ....

McR: Forster.

H.M.Jr: ... to see if they want those answered (handing certain letters to McReynolds).

McR: Yes, sir.

H.M.Jr: McIntyre called me, said did I want to answer them? Said the President kept shooting them over to him. We're not supposed to answer those. Huh?

McR: All right.

H.M.Jr: You got anything?

McR: No.

H.M.Jr: Dan, could you get me out a preliminary on - on - on, financing?

Bell: Yes, sir. When would you like to have it?

H.M.Jr: Tuesday.

Bell: Couple days.

H.M.Jr: Maybe Wednesday.

Bell: Fine.

H.M.Jr: Just now to the 30th of June.

-2-

Bell: Yes, sir.

H.M.Jr: What have you got?

Bell: I have nothing.

H.M.Jr: You'll be here 10:15, won't you?

Bell: Yes, sir.

Lochhead: Seems to be a considerable amount of covering going on in French francs this morning. We have no figures as to how much they've gained, but apparently pretty heavily, from London. Sterling has weakened off against the franc and the dollar this morning, going below 4.73 again. The French are not letting the rate go up at all, holding the rate at 178.75.

H.M.Jr: Harry?

White: We'll have that material ready this afternoon, whenever you wish it, and ....

H.M.Jr: What material?

White: On Bewley's - on the possible conference.

H.M.Jr: Oh.

White: And ....

H.M.Jr: Well, I've thought it over. I'll take it, but I'm not going to talk to Bewley until the trade treaty is signed, because I don't see that there is any use in doing it.

White: Well, we'll have it ready when you go home tonight.

H.M.Jr: Yes. Well, any - you can - you better keep it, and I'll see you ....

White: It will be ready whenever you want it. And I'd like to see you a couple minutes before that 10:15 meeting.

Duffield: Tom Smith sent in to Cy the Wilcox letters and I've been through them. I don't - I think that injury to Mr. Giannini is more imagined than real. But

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we've got them here if you want them. We've got to send them back.

H.M.Jr: Well, let's wait until we get around to the banking thing. I mean you might - you've got this last letter of Giannini.

Duffield: Yes.

H.M.Jr: And just to give a thought - I mean if I was going to answer him myself, I'd simply answer this way: "My dear Mr. Giannini: I'm glad to learn that your first and last interest is the interest of the depositors. So is mine. And if we would stick to that basis, maybe we can do something constructive for your bank." Something like that, huh?

Duffield: There are quite a few things that are kind of stalled for the banking group to take care of. I mean there's the answer to the directors and that answer and some others.

H.M.Jr: Well, we understood the last time we met with them that Upham was going to say when he wanted a meeting.

Duffield: He has circulated a proposed reply, or partially anyway.

H.M.Jr: Well, it's up to Mr. Hanes. I mean if Upham has asked for a meeting - has he asked for a meeting?

Duffield: I don't know, but I talked to him this morning and he said he was ready to go ahead as fast as we want to go.

H.M.Jr: Well, you want to ask him?

Duffield: Uh-huh.

Hanes: Proposed reply needs a lot of attention. Not a very good reply.

H.M.Jr: The way I left it, John, was that you people would go over it, predigest it, and when you came to some kind of an agreement, why, we'd talk.

Duffield: That's all I have.



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- Hanes: I've glanced at those letters. I don't see anything in there to justify Giannini's telegram. The only thing that I see - he's picked out words just at random which might apply to him, but you didn't refer to him at all. There's only one place in there I've been able to find where you referred directly to that West Coast situation, to the Bank of America situation.
- H.M.Jr: What about his status as to coming into the press conference?
- Gaston: I haven't seen those letters yet, but I think that I'll have to have a talk with him, and I don't think that anybody that puts out what purports to be a confidential letter has any right to attend any press conference. I'd like to see particularly whether there is anything there where he's disclosed any off-the-record information.
- Duffield: On that point, I could add that as far as I recognize, although I still have a little checking to do, he hasn't used any off-the-record remarks.
- H.M.Jr: He has not?
- Duffield: He has not; although I'd want to check it against the transcript in a couple places.
- Hanes: The letters are just gossip - just gossipy letters, aren't vicious at all, by any means.
- H.M.Jr: Well, it's up to you, Herbert. Do whatever you think is right.
- Gaston: Yes. I'd hate - well, I need to see those letters.
- Hanes: I haven't anything else.
- H.M.Jr: Wayne?
- Taylor: (Nods nothing)
- Haas: Here is your regular Monday morning material. Murphy is back. He's made the survey, you know, of Pope's chart. Give you a report on that. We have

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his October figures, you know - have Danny's, put up in charts - you know, the public charts. You want to see those this morning?

- H.M.Jr: Yes, I do, right after this meeting. I mean if you'll go back and get them, then bring them up, I'd like to see them, see whether I want to show them to the others.
- Haas: Fine.
- Gibbons: This is today's New York Times - a copy of a telegram sent to the Treasury Department, President, State Department, on this Czechoslovak-Sudeten goods, you know - that are being marked. Said they're coming today, want a conference.
- Oliphant: Did Cairns talk to you?
- Boston: Cairns talked to me.
- Oliphant: He's seeing them at two o'clock.
- H.M.Jr: What?
- Oliphant: He's seeing them at two o'clock.
- H.M.Jr: He's seeing them at two o'clock.
- Gibbons: American - Council of American Employers, Incorporated.
- H.M.Jr: That's the Matthew Woll ..... ?
- Gibbons: No, this is a group that the Board of Trade have up there - have an organization in the Woolworth Building.
- H.M.Jr: Have they telegraphed you?
- Gibbons: Nobody - we haven't located the telegram yet this morning. It was sent some time Saturday after the close of business. I'm trying to locate it now.
- H.M.Jr: Oh, I think that the meeting better take place in Gibbons' office. In Gibbons' office.
- Gibbons: Talk to Cairns - probably let them see me.

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- H.M.Jr: Let the meeting take place in your office. Let Cairns be there.
- Gibbons: Oh yes, I'll let Cairns be there.
- Gaston: Harold Brayman sent me a copy of his letter to you inviting you to be a guest at the Press Club there Saturday night. Have you seen it?
- H.M.Jr: No.
- Gaston: He sent me a copy. I got in touch with him yesterday and found he had already sent you a letter inviting you.
- H.M.Jr: Are you - am I a member of the Press Club?
- Gaston: I think you are. It doesn't matter. You're invited as a member of the Cabinet to be a guest anyway. That letter should be here somewhere. That's a copy.
- H.M.Jr: Would you call up and ....
- Gaston: Shall I let him know that you will?
- H.M.Jr: Yes.
- Gaston: Fine. And we have another invitation from Elliott Bell, President of the New York Financial Writers Association. They're going to give an imitation Gridiron dinner Friday in New York - Friday, December 16 - and they invite you to it. There will be just two official guests of the Association; they will be Bill Douglas and Martin. And Elliott Bell, the President, asks you to come as his guest.
- H.M.Jr: You mean be two guests, or three guests? You say only two.
- Gaston: There are two guests of the Association, the two men who are to be put on the pan, I suppose. That's Douglas and Martin, the President of the Stock Exchange. Then the members individually invite guests, just the same as the Gridiron Club here, and the President asks you to be his guest. That's Friday, December 16, at the Waldorf - no, at the Astor.
- H.M.Jr: What do you think?

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Gaston: I think it would be nice to go. Be a dinner similar to the Gridiron here.

H.M.Jr: Let me talk to you about it during the day. Will you hang on to it?

Gaston: Yes, I will. The letter came to Cy from Bell.

Did you want to set any date on this, to see you, or should they just see me? - Dr. Ford and President Beury - want them to talk to me?

H.M.Jr: Would you mind?

Gaston: Take care of it myself.

H.M.Jr: Please.

What else?

Gaston: And this dedication for the new building on Friday. I thought that we might get Peoples to act as chairman of the day, introduce you.

H.M.Jr: Would you?

Gaston: Be a good idea to have Hall speak also.

H.M.Jr: Sure.

Gaston: I thought we might have Peoples, then you, and then Hall just talk a few minutes after you, if that's all right; invite people to inspect the building.

H.M.Jr: All right.

Gaston: That's all I have.

Oliphant: David Stern called on me Saturday. The thing he saw me about was the Fox tax case.

H.M.Jr: What's he want?

Oliphant: He said that Fox is a friend of his, a fine man. Wanted us to withdraw our objections to the proposal for settling our claim at \$500,000 in the bankruptcy proceedings and waiving prosecution. Our tax claim against him is now at the point of collection in the bankruptcy proceedings.

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H.M.Jr: What's David Stern's business in it?

Oliphant: None. Said he was just a life-long friend of his.

H.M.Jr: Well, the part that interested me was, here the Treasury recommended prosecution and Justice turns it down. I mean that's why - that's why - that's what surprised me.

Oliphant: Well, that happens, of course, in some cases.

H.M.Jr: Who is Fox's lawyer?

Oliphant: I'd have to look that up.

H.M.Jr: Well now, where does it go from here, having turned down prosecution?

Oliphant: Well, we'll just go ahead with the collection of the tax on the civil side.

H.M.Jr: I see. Do you think this was a flagrant case? I mean ....

Oliphant: No, I don't.

H.M.Jr: I mean on the criminal side.

Oliphant: No, I don't.

H.M.Jr: What?

Oliphant: No, I don't.

H.M.Jr: It isn't something to take up with the President?

Oliphant: No. And that man wasn't involved anyway. He wasn't involved.

H.M.Jr: All right.

Oliphant: I'd like to see you a moment before I see those people at 10 o'clock.

H.M.Jr: Now, were you (Gaston) through?

Gaston: I'm through, yes.

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H.M.Jr: Mac, what's the status now of this investigation over at Procurement?

McR: I've got Irey and a couple of his men in this morning for a report of the present status. They've checked all the files, all their incoming cases and out-. These people are supposed to be favored. The agents are coming in - they're going in this morning, or during the day, whenever we can get around to it, going ahead with checking Procurement records of these boys and deliveries. It so happens that in the case of all the purchases made of this particular textile concern inspection is made at the factory before shipment.

H.M.Jr: By whom?

McR: By Army inspectors who are detailed to work for WPA.

H.M.Jr: I see.

McR: and the complaint has been one on color at these various places rather than any other point.

H.M.Jr: What use do they put them to? How much does the color mean?

McR: Most of them have been used. There is one case only of a considerable consignment where they said the color was so much off they couldn't use it. That's being held and Procurement has instructions to return it to the manufacturer. He said that's the only complaint... The complaint that's come to Procurement from the sewing rooms where this stuff has been used has been just a sort of desultory complaint about color after they've used the material. In this one case where they complained, the material had been delivered and because of the colors they couldn't use it, and the instructors would have sent it back to the factory, which they'd have done in any case had they complained before they used it.

We're getting a complete record of every action, of every item in connection with the handling of that stuff. But this happens - there's plenty of trouble about delivery of contract - of material on Procurement contract to various Government departments who don't

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adequately inspect their material and then complain later that it was under - it was below standard, sub-standard. But in this particular case it so happens that they have these Army inspectors.

H.M.Jr: But, Mac, ...

McR: They are on the job in the plant and make an inspection and pass on it in every case before they send it.

H.M.Jr: But I mean why did they divide responsibility? If we buy, why don't we also inspect ourselves? Why divide the responsibility? It seems such a peculiar procedure.

McR: Well, these fellows were detailed. The responsibility is Procurement's, although they were Army inspectors.

H.M.Jr: But to whom are they responsible?

McR: As I understand it, so far, they're responsible to Procurement.

H.M.Jr: Seems like a funny procedure.

(On White House phone) Hello. - Yes. - Hello. - Hello. - Good morning. - Yes. - This is the White House phone. - Well, you call me.

Wallace calls me, then he hangs off.

(On White House phone) Oh. - All right.

(On regular phone) Hello. - Will it be - is that what he said? - Well, yes. - Yes. - Well, you shouldn't; you should object. Congratulations. - Yes. Yes. - Any time, if you give me 24 hours' notice. - It's all right with me. - If you could make it between 10:30 and 11:30 that would be the best time for me. I mean between those hours. But I could make it earlier if necessary. - Wait a minute, I got - yes, any time between 10:30 and 11:30 would suit me, or .. - Well, I can do it from three o'clock on in the afternoon. - I'd make the offer to meet there and see what he says. - Hello? - I mean if I was doing it, I'd say I'd come

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over to his office. You can skip my office as far as I'm concerned, but I mean I'll be glad to go to his or yours. - Yes. - Of course, Henry, talking perfectly frankly, I'm delighted to sit in on this thing; I don't know how much help I'll be; but when it gets all through and done - I mean the President ought to give it a couple afternoons. I mean it's all right to sit - it's all right to say that he told you and me to do it fifty times, but this is so big and it hits so many places. I mean supposing we do get something; then will he give us a couple afternoons, evenings, to sit down? - Well, I'm willing, but... - It would be a unique experience. - Well, I'm at your service any time you want me. I'm at your service any time you want me. - All right. Thank you. (Hangs up)

That's a proposed meeting on wheat, agricultural products - Wallace, Hull and myself.

Confidentially, the President said that he told Wallace and me fifty times to go ahead and do it, and we get along all right, but that Mr. Hull always blocks this. Now, I don't know but - I wouldn't say it to Wallace - he's calling in the wrong people. I mean he ought to call in some of the people mentioned in here and get a program.

White: Did you see Argentine's reaction to the proposal to sell .....

H.M.Jr: Wayne, I think inasmuch as Henry's going to do this tomorrow, you might wait on that thing I spoke to you about this morning.

Taylor: (Nods yes)

H.M.Jr: I mean just wait 24 hours.

"here were we?"

McH: well, I was talking about that - I'm having those people in.

H.M.Jr: All right.

McH: I think the biggest thing we can do first is straighten out that inspection business. It's - there's not adequate inspection.



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- H.M.Jr: Well, Mac, I've been around here long enough - whether it's business or anything else, if I buy I ought to be responsible for the buying and the inspection and delivery of the goods. And say it's the responsibility of Procurement; by bringing in Army inspectors - and who are they detailed to, are they detailed to me? I'm - Secretary of War has never detailed any Army inspectors to me.
- McR: They're not administratively responsible to you.
- H.M.Jr: It sounds nuts to me.
- McR: The whole inspection program is not good.
- H.M.Jr: I mean it doesn't sound right; either I'm responsible for the buying or not. I don't see how I can be responsible if another department inspects for a third department.
- McR: You're not responsible for the buying as the set-up is, and you either ought to be or ought not to be.
- H.M.Jr: Let's get it that way.
- McR: Yes, sir, we're on our way to getting it.
- H.M.Jr: And make it up on the list fairly ...
- Let's see, Oliphant wants to see me, White wants to see me; I want to see Gaston.

November 14, 1939.  
10:09 a.m.

HMJr: Hello.

Operator: Dr. Feis. Go ahead.

HMJr: Hello.

Herbert  
Feis: Good morning.

HMJr: Hello, Herbert?

F: Yes, sir.

HMJr: What's your worry today?

F: I wanted to tell you that we had two meetings on that stuff you gave me.

HMJr: On the Chinese?

F: That's right.

HMJr: Yes.

F: And the Secretary is drawing up now, a written presentation of pros and cons.

HMJr: Yes.

F: Which I gather he may be planning to give direct to the President. I just don't know on that point, Henry.

HMJr: Well, when do you think I'll get an answer?

F: I know he was aiming to try and get that thing done to meet your wish, but whether he'll succeed or not I don't think he knows.

HMJr: I see.

F: He's being pushed by that - and he's doing that himself.

HMJr: I see.

F: He's doing the pros and cons himself.

HMJr: I see.

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F: I needn't tell you, probably, on thinking it all over he still thinks disadvantages exceed advantages.

WJr: Well, he gets down to questioning the President's word, that's all. I - I can't do anything more than -

F: Well I think that's why he's putting it in this form.

WJr: I see.

F: But I thought I'd let - I thought you'd want me to let you know.

WJr: Right.

F: How the matter was being handled, and as I say, while I know he was trying to meet your wish I just don't know whether he'll get that stuff together in time.

WJr: Did he ask you to call me?

F: I'm going down in twenty minutes on another subject and before it starts, I'd say - shall I put it this way that you'd appreciate if you'd know before lunch time how the matter was going to be handled?

WJr: I'd appreciate it very much.

F: Is that about right?

WJr: Very much, yes.

F: All right.

WJr: Please.

F: Now, I got that cable off to London.

WJr: Thank you.

F: That you wanted.

WJr: Thank you.

F: Right.

WJr: Thank you.

F: Right, sir. Goodbye.

November 14, 1938.  
11:27 a.m.

HMJr: Hello.

Operator: Mr. Oliphant calling.

HMJr: Who?

O: Mr. Oliphant.

HMJr: All right.

O: Go ahead.

Herman  
Oliphant: Hello.

HMJr: Yes.

O: We've reached a point in this discussion with  
General Arnold, where it's desirable to get two  
technicians, further down, under him. Is that  
all right with you?

HMJr: From the Army?

O: Yes.

HMJr: Army people?

O: aside (They're Army people you're talking about,  
these two men you think we ought to work with?)  
Yes. He says - General Arnold says.

HMJr: He vouches for them, it's all right.

O: O.K.

HMJr: But he's got to vouch for them.

O: He vouches for them.

HMJr: O.K.

O: I'll tell him.

MEETING OF FISCAL AND MONETARY ADVISORY BOARD (previous meetings of same group entitled "RE FISCAL ASPECTS OF NATIONAL RESOURCES POLICY")

November 14, 1938.  
10:15 a.m.

Present: Mr. Frederic Delano  
Mr. Eccles  
Mr. Bell  
Mr. Hanes  
Mr. Ruml  
Mr. Currie  
Mr. Haas  
Mr. Taylor  
Mr. McReynolds  
Mr. White

H.M.Jr: Mr. Ruml has handed me an agenda. Let's see what's on it. Don't see any ham and eggs on it, anyway.

"1. Relation of national income to balanced budget."

Who will speak to that subject?

Ruml: I might explain, Mr. Secretary, the first seven items listed there are the seven that were on our previous agenda and in a sense these are just reports of progress; on a couple of items I know that there will be no report of progress, but I thought even that kind of a report is better than none. Mr. Haas has the first item on the chart.

H.M.Jr: All right, George.

Haas: On that item number one, as I mentioned the last time, it's a tremendous job, and we're well into it. We're somewhat handicapped at the moment because we've got the regular budget job on top of it at the same time. But that's a very lengthy computation.

H.M.Jr: When do you think you'd have something?

Haas: Oh, I hate to commit myself, because I don't think I will - oh, in the very immediate future, because it's equivalent to about twenty budget calculations.

H.M.Jr: I thought you'd do just one, the present one.

Haas: Well, the number one item involves that much work.

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- H.M.Jr: I thought we'd just take the present budget.
- Haas: Well, the number one, Mr. Secretary, involves this. At different levels of national income, at different price levels, what would be the revenue receipts of the present tax structure? And that involves a tremendous calculation, when you assume those various combinations; involves somewhat over twenty complete calculations equivalent to the budget calculation. Unless we can find some short-cut method, be some time in January before it's physically possible.
- Ruml: Mr. Secretary, I suggest we only take one price level.
- Haas: Well, we've got that done.
- Ruml: Well, that's the information we need, because we - what we want to do is make a logical case and not a precise mathematical one.
- H.M.Jr: Is that a short-cut, George?
- Haas: Oh, one we could do very quickly; in fact, we have it practically done.
- H.M.Jr: Why not let's take a look at it in a reasonable time?
- Haas: I'll give you one next week.
- Ruml: I think it's worth discussing what price level should we take.
- Haas: That's right. On the one we've got computed now, we assume the price level would increase gradually from its present level, around 80, to, over a 10-year period, up to 100. That's a very arbitrary assumption, and that's already computed. But that involves what you'd call practically no inflation at all; it's a very gradual rise in the prices.
- H.M.Jr: Well, Mr. Ruml, why don't we - if Haas has one and he says the other thing is going to take until January, let's take a look at least at what he's got; and then I take it that that will be available to the people during the week to take a look at for discussion, huh? Why not, if he's got one and the other will take until January, let's take a look at the one, and anybody that wants to come in and discuss it with you, it's available; how's that?

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Ruml: Fine.

H.M.Jr: Huh? Shall we go on then, leave that there?

Haas: I would think so.

H.M.Jr: What?

Haas: I would think so.

H.M.Jr: Eccles, want to say anything?

Eccles: Yes, that's all right with me.

H.M.Jr: What?

Eccles: All right with me.

H.M.Jr: That all right? Haas, as I take it, has done one, and if anybody will drop in to see it, he's available this week to show it. Huh?

Haas: That's right.

H.M.Jr: All right.

"2. Relation of national income to price level."

Ruml: Well, I think I ought to leave here the chart that I flashed on you last time, which you didn't see, which is the preliminary chart made by the Resources Committee showing, at different levels of unemployment, different levels of national income, and at different price levels. Now, the only problem left here is to establish the margin of error in these estimates. I am reasonably confident that the margin of error is not sufficiently great to affect the logic of the case, but we want to explore that a little more. And now what I'd like to do is to leave this with - with the secretary (reporter) perhaps, so it's available to the members of the committee.

H.M.Jr: Well, is that - does that take care of two?

Ruml: That takes care of two for the time being. We're studying questions of amount of probable error, but it's our opinion that an error of five percent will not affect the logic. Wouldn't you agree to that, Currie?

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- Currie: Yes.
- H.M.Jr: Sorry - will you repeat that please?
- Ruml: I said simply that an error as large as five percent would not affect the logic of the case.
- H.M.Jr: Well then, can we go on to three?
- Ruml: On number three, the Resources Committee, due to ....
- H.M.Jr: Do you mind if I read the title - "Bottlenecks at Different Levels of National Income."
- Ruml: That topic was originally assigned to the Resources Committee, and with the pressure of the reports that we're trying to get out before the end of January it has been impossible for us to assign personnel there; and Mr. Eccles has very kindly agreed to take that over in the Federal Reserve Board.
- H.M.Jr: Well, is Mr. Eccles ready to report today, or does he need time?
- Eccles: Well, I think that is an integral part of the question of method and timing, too - the part that was already assigned. I think it's part of the whole problem. And I don't know whether we're expected to report on the question of method and timing, and if so I think that could be brought in in connection with it. Don't you think so, Currie?
- Currie: Yes.
- H.M.Jr: Well, that's number seven on the program here. Do you want to wait until we get to seven?
- Eccles: Yes, I think it should come in in connection with that.
- Currie: I may say, in connection with that, we're doing some work on that in specific cases. We have estimated, for instance, what the railroad requirements for equipment would be with comparatively full employment, which indicates a rather serious possibility of a bottleneck there. About 600,000 freight cars fewer than in 1929.



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H.M.Jr: But - total, you mean - but Mr. Eccles wants to let that go until down to seven, is that it?

Eccles: Yes. I don't think there's very much we can say on it except in a very general way, and that is to - it requires some studying and some very close watching. For instance, in the spring of '37 we reached some bottlenecks in certain fields and it was responsible for some of the rapid price advances, and particularly was that true in the construction field. Even with a very large number of unemployed people and a budgetary deficit, you can run into these bottlenecks and get price increases and upset your whole program. It's a question in the construction field of seeing that enough men are trained fast enough to take over the work. It's a question of avoiding excessive inventory buying again, because those activities can create the price rises which stop production and stop employment and upset an orderly recovery even while you have a lot of unemployed people.

That's just a general statement of the subject, and as Currie mentions in the case of the railroad field, you could avoid bottlenecks there if before the railroads actually need all that equipment - if they would buy now in anticipation of a later need, while the equipment companies have manpower and capacity; in other words, buy their equipment over a period of two or three years instead of waiting until they begin to be pressed for it and then try to buy in one year what they should be purchasing over a period of several years. There's a case where private activity could contribute to recovery and at the same time would tend to avoid the excess that would develop in a certain part of the heavy goods field if they delay to a later date.

It's a question of what can we do to stimulate what we know will likely develop into a bottleneck? The suggestion has been made that a very easy credit arrangement through the R.F.C. be made at low interest rate, that to be financed by the R.F.C. going directly to the market instead of coming to the Treasury. That was one of the things I think you mentioned before: the importance of getting the financing outside of the Treasury, so that it doesn't show up in the budget.

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Now, there's a case; there is an important one. And I think that we're continuing the studies in each of the fields of production with the idea of anticipating where bottlenecks are likely to develop. As certain activities are approaching capacity, or as they begin to - as it begins to appear that there are going to be shortages of capacity or shortages of skilled labor, we shouldn't wait until they happen, we should anticipate them; and see what, if anything, this committee could do by way of a public statement or by way of getting in touch with those people who are interested, such as labor people. It's just a question of knowing what the problem is and what - or anticipating the problem. And I think only in that manner is it possible to avoid some of these bottlenecks.

Ruml: Mr. Secretary, ...

H.A.Jr: Go ahead.

Ruml: ... although it is true that the timing and bottleneck problem are very closely related, I hope very much that we can retain number three on the list so that we'll have it in our minds; because, as I pointed out last week, one, two, and three are very closely associated together. The balancing of the budget on a national income that is less than the potential income is always conditioned upon being able to eliminate the bottlenecks that will make the potential income possible if eliminated. So I think it is quite important to have these things concretely before us as part of the logical structure; as an included study, but nevertheless separately noted as being logically very important.

H.A.Jr: All right, Murriner?

Eccles: It's all right.

H.A.Jr: "4. Effects of Various Budget Items on National Income."

Ruml: Following my talk with you, Mr. Secretary, in which you suggested it would be desirable to make somewhat more concrete the abstract discussion that we had last week, I called Mr. Haas and Mr. Currie and

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asked them to make quite independently and without consultation some classifications of the budget items, not trying to come to any quantitative determination yet, but to see whether independent people looking at it would come to about the same qualitative analysis. And my suggestion was that these items be thrown into five general classes, in different degrees of effect on national income and purchasing power. In addition I asked one of the men in the Federal Reserve Bank of New York, in the Research Department, to simply take up that problem and see what he could do with it. And so we shall have three independent estimates, not of the quantities, you see, but to see whether three different minds coming at it would come to much the same or different results..

Well, now - I haven't compared them at all - I have the one here that I can give to Mr. Bell from the New York Bank. Now, I also asked these people in the Bank to indicate all the difficulties they found in trying to do it, because I thought that might be interesting too; and it is quite interesting. Shall I give one to Mr. Bell and one to the secretary (reporter) ?

H.A.Jr: Yes. What are we going to do with it?

Ruml: I thought, Mr. Secretary, we'd do this. If Mr. Bell, or someone in his office, could take these three separate reports and compare them and see the points at which there is agreement and the points at which there is difference, it would be very illuminating.

H.A.Jr: Could you do that, Dan?

Bell: Yes, I guess so.

H.M.Jr: Take a look at it here in the Treasury by Wednesday?

Bell: Well, are the other two ready?

Haas: I didn't get that ... As it was left at the meeting last time, I was to - the Treasury was to work out numbers which would fit the actual situation to the theoretical chart which Mr. Ruml had. We're working on that. I didn't get this - understand this thing clearly from Mr. Ruml. He talked to me over the phone.

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We're working on that, but we're just getting nowhere fast - I mean on putting any quantitative numbers on it.

H.M.Jr: Well, there's no use - I've been with the President so long - there's no use going to the President talking A, B, C, X, Y, Z. He'd say, "Give me five examples on the revenue side and five examples on the expenditure side." There's no use going to him until we've got some examples. There isn't - I mean I'm not until I've got something he can put his teeth in - I mean he's simply going to say, "And so what?"

But if I can say, "Well, this is the kind of thing that generates wealth and this is the sort of thing that contracts wealth," then give him some examples....

Haas: Well, you can do that. But to give ....

H.M.Jr: Well, that's what I'm waiting for.

Haas: Well, I had that in the last .....

H.M.Jr: I mean I wouldn't go to the President and talk this thing until I had a chance to be convinced; then, if I was convinced - then I can say, "Well, Mr. President, this looks good." But I'm not going to him with a lot of algebraic symbols.

Haas: Well, that part of it, Mr. Secretary, was done - I had done the last time; I made the classifications.

H.M.Jr: Well, can we see that, plus this, and sit down and look at it, because it seems to me that I'd almost put that ahead of anything else. George?

Haas: Yes, that's right.

H.M.Jr: Well, when?

Haas: Oh, I've got it done now. Got it done last time.

H.M.Jr: Haven't got it in this group.

Haas: This group has copies.

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- H.M.Jr: Well, I mean no one sort of put my nose in it, which is necessary these days.
- Haas: It's a crude classification, but it brings out that idea.
- H.M.Jr: Let's put it this way. I want to keep this thing moving. Who can get this together for me and say, "Now, here, Morgenthau, here it is; take a look at it." That's what I want.
- Haas: I can get it, or Denny.
- Bell: If I'm going to compare it, I think I ought to have a copy. And now about the Federal Reserve Board's, is that ready?
- Currie: We've made a list of all the items of expenditures and receipts, classified by what we think are the most - expenditures most stimulating and receipts most depressing.
- Haas: You haven't what George refers to - you haven't this that George refers to.
- Currie: Yes, it's the same thing.
- Bell: It's the same thing. I saw that list last night. The reason I asked for the three independent ones: this is such a crucial point in the whole discussion, I wanted to see if there were gross disparities we had to argue out. I think your list is perfectly good, and if you'll give this to Mr. Bell he can compare it with the ones ....
- H.M.Jr: I wonder whether you've (Bell) got time to do this.
- Bell: I'll see what the problem is, see how much time I've got. Of course, we're getting in a terrible bottleneck so far as the budget document is concerned; forty-five days to put out a ten hundred page book.
- H.M.Jr: I want somebody to take this and ruminate on it, then bring it in and say, "here it is." Now, it hasn't been brought that way to me yet. You've worked with me long enough to know that's the way I work. Currie's got something, George has got something, Ruml has got

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something; let's get it together, present it to this group.

Ruml: I'd be very glad to take a crack at it, Mr. Secretary, bring it together, if your people have got it now.

H.M.Jr: Would you (Bell) have half an hour right after this meeting?

Bell: Yes.

H.M.Jr: How would that be?

Ruml: Fine.

H.M.Jr: How would that be?

Ruml: Fine.

H.M.Jr: Huh?

Bell: All right with me.

H.M.Jr: Supposing right after this meeting you go right up to Dan Bell's office, while these fellows are here. Would that be all right?

Bell: All right.

Eccles: What's the purpose of this? Is it to take to the President?

H.M.Jr: The purpose of this is, first, I'd like to be convinced myself as to how practical a suggestion this is, see? We're working in symbols; now, I'd like to work in facts. Then, if I'm convinced, I'd like to have - I'd like to show it to the President.

Eccles: Yes.

H.M.Jr: I mean not only myself, but you and Mr. Delano; we all must be convinced. I mean before I took it I'd like to have a chance to have all look at it, see? In other words, what I want to do, Marriner, is to go from the symbol stage to the factual stage.

Eccles: Well, symbols - hypothetical cases don't mean

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anything if you haven't got any practical cases that fit the hypothetical.

H.M.Jr: That's the stage I'd like to move into; and before I take anything, I certainly want everybody here to have plenty of chance and say, "Well, we're together" or "We're not together." Does that answer your question?

Eccles: Yes, that answers it.

H.M.Jr: Huh?

Eccles: Yes, that answers it. I'm satisfied myself that that - I know enough, I think, practical cases where I'm convinced of the theory of it. But I see no reason why we can't actually put them down and have everybody satisfied as to them, and then take them to the President, because I know, as you do, that he won't talk in symbols.

H.M.Jr: Well, you and I - the theory intrigues me; now, I'd like to get beyond the theory stage and see what it looks like.

Are we together on that, John?

Hanes: Yes, sir.

H.M.Jr: Mr. Delano?

Delano: Absolutely.

H.M.Jr: All right.

Now, where were we?

Ruml: Number five. We finished four.

H.M.Jr: Items outside the budget.

Ruml: That, Mr. Secretary, is extremely difficult, and it probably cannot be handled by any agency except the Budget. With the amount of investigation, confidential information that is necessary to secure there, I would suggest postponing any further consideration of that until after we either have some

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status or the Budget is ready to take it up.

H.M.Jr: Dan?

Ruml: See, we'd have to go to the R.F.C., F.H.A., have to go to Commodity Credit; and the Resources Committee simply cannot do that.

H.M.Jr: What?

Bell: Well, that is quite a problem. I suppose it should be postponed for the time being.

H.M.Jr: Well, we've got a case in point now, and that's the question of the marketing of the Straus bonds, and we're right up against the President's memorandum on more tax-exempts, and - I mean that's as big an item as is before the house, isn't it?

Bell: Yes.

H.M.Jr: What?

Bell: Yes.

H.M. Jr: And we're simply sitting tight on the President's tax-exempt memorandum, and Straus tells us we have no authority to stop him, except the President. But we haven't got anywhere, I mean, but I do think that this group might some place or other generate some ideas, some new ones, as to the sort of things which could be done.

Ruml: It's so important to find out what the effect of the present operations is before we go too far into the new ones.

H.M.Jr: You want to postpone it.

Ruml: I want to postpone it until we have the type of set-up so we can really go and get the information. We haven't got that. Wouldn't you (Bell) agree?

Bell: No, I don't think we have it classified. I wouldn't say we couldn't get it. I think the Budget could get it, but it would take us a little time.



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- H.M.Jr: Well, I still think that somebody's got to have originality on this thing and create the kind of projects which could be done, and I - I thought you were going to do that, Currie.
- Currie: Yes, Mr. Ruml, I think, asked us; that was originally assigned to National Resources, wasn't it? So I have a man who is working on that now, on that specific problem; I haven't got a report from it yet.
- H.M.Jr: I don't agree entirely with Ruml - the postponement. I think that thing ought to go along at the same time.
- Eccles: It seems to me this is all part of the whole picture. I don't know - you're talking about putting a - getting the budget in there for 1940, and that involves the entire - the entire subject, the whole question here; and it seems to me that when that budget goes in, if it's going to be - if it's going to be supported on a basis of this theory of its being compensatory, that there isn't any part of this subject that we can overlook.
- H.M.Jr: I agree with you, and that's why I say that these so-called - what I - toll highways and toll bridges financed by local authorities, that sort of thing - I think that that thing ought to be - I mean it ought to be explored to the limit.
- White: Some progress has already been made in that direction.
- H.M.Jr: Because if you knew - I mean you get sent for Saturday afternoon, we work Sunday night here - spent two hours Saturday at the White House - I mean these things all come to a head about the last - usually we close the books by Christmas. That's what we've done here - usually about Christmas - so we haven't got a hell of a lot of time. So I wouldn't - I wouldn't let anything slide; I wouldn't postpone anything.
- Ruml: Well, I - there's nothing inconsistent with that and the thing I had in mind; I didn't use my words very well. I think that as far as Currie and the other people are working on it, they can get somewhere; but I'm just trying to indicate it's going to be

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terribly difficult to do a round-up job on all those agencies.

H.M.Jr: But it isn't fair to ask Bell to take that field; he's got too much to do. Somebody else will have to do it. I mean you (Bell) just haven't got the time to do that.

Bell: I'll be glad to give a little time to it. I don't know how much I can do.

McR: You can help them get the information, Dan.

Bell: We're going to change a lot of budget tables and a lot of budget indexes that have to do or deal with these credit agencies. We haven't got a month and a half. This material has got to begin to flow to the printer about the 25th of November. And when we once throw it into the pages, it's very difficult to change it. By the middle of December we'll have our book pretty well completed so far as the tables are concerned. In other words.....

H.M.Jr: Excuse me. What I'm doing is, I'm doing everything I can to explain to you gentlemen how it works, so that you won't say on the first of December, "Why didn't you tell us it was too late?" See? Because I want to give this thing a fair chance and I don't want to say - have you say, "Well, you should have told us on the 14th of November we only had two weeks."

"6. Flexibility in budget items."

H.M.Jr: Well, on the expenditure side the Resources Committee, with Colonel Wait, has been studying very carefully various types of alternative public works that would lend themselves to flexibility if we were trying to get flexibility, which we never really have tried to do in a serious way.

On the income side, I don't know what's being done. I think that Mr. Haas has that.

Haas: We have put some thought on it. There was a brief discussion of that in the report which you also - I mean it's in that batch which you also haven't seen, probably. On the receipt side it's very

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difficult - the question of getting legislation that would give the President power to reduce taxes and so on seems to me to be rather remote.

Then you've got the other difficulties, selecting - I mean certain taxes, which are the ability-to-pay taxes, have considerable lag; other taxes are levied and the tax liability incurred at the time collection is made. All those are problems; we're doing some more work on them. But I want to indicate that we're not very hopeful on that angle. The flexibility, it seems to me, will have to largely come from the expenditure side. Of course, you get an over-all flexibility by the fact that you can borrow rather than have tax receipts come in, on the receipt side.

- Eccles: You mean you can borrow if you've got the authority to expand.
- Haas: Takes flexibility.
- Eccles: Got to have flexibility on the expenditure side.
- Haas: And on the receipt side. You've got part of your receipts coming in as loans.
- Eccles: I know, but I was speaking of the effect on the national activity.
- Haas: Probably get more effect from that source rather than from a tax source. Depends on where you borrow from.
- Ruml: Mr. Haas, one point that I'd like to be very clear about, because it seems to me to be prior to all others, is the constitutional question as to whether Congress would have the power to delegate to the President reductions in a certain percentage of various excise taxes.
- Bell: Does it on the tariff.
- Ruml: That's exactly the analogy I was thinking of, Mr. Bell. And as far as I know, if he hasn't got the power there's no use talking about it; but if he has, it's worth exploring some excise taxes to see just exactly how the thing can be done.

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Haas: I'll see Oliphant on that.

H.M.Jr: Anybody else want to talk on six?

"7. Timing."

Muml: Mr. Eccles.

Eccles: We have been doing some preliminary studying on this whole subject, and it involves, of course, estimating what the Government receipts are likely to be over a given period, both the gross and the net, as well as what we can expect in the field of private activity.

Now, we can best - we've got the record of the past, which seems to me to be very important as a basis for making some estimates of the future. We know the - we know the influence of private expenditure upon the - public expenditure on the national income, what it has been. We know how the reduction of it has tended to influence the national income.

I don't believe there is anything as important - this whole thesis, of course, would fall if it isn't timed with some degree of accuracy. If there is an excessive public contribution - by excessive I mean in relation to what private activity may be at a given time - you get an inflationary development; and conversely, if the public contribution drops too rapidly or goes down at the wrong time, you can get a cyclical deflation. The experience of the past seems to me to indicate quite clearly that can happen.

And so we are making studies of what has happened and of what we can now anticipate, based upon such information as we now have available, with reference to the estimated gross expenditure of the Government and the net expenditure of the Government, and the contemplation of private activity over a certain period.

Now, Mr. Currie and his division over there have been working on that for the last two or three weeks. I had to go out of town last Thursday before this - a lot of this was finished, and I didn't have a chance to go over it, except last

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evening; I worked on it for two or three hours late last evening after I got back. And if you want to take the time, I would like to have him present two or three charts, to see if we can indicate to you just what we are working to and what is involved in this whole problem of timing. I don't know as you want to go into too much detail, Lauch.

H.M.Jr: How much time you want for this?

Eccles: How much you want to give us. We can use a lot of time.

H.M.Jr: How much do you need?

Currie: I think I could cover the gist of the story in probably 10 or 15 minutes.

H.M.Jr: Make it 10. Go ahead, we'll be very attentive; it's a good idea to get it over in five minutes.

Currie: It's a pretty big problem, Mr. Secretary.

Eccles: Get those charts.

H.M.Jr: That's it - see the pictures.

Currie: I may first state some tentative conclusion arrived at before I go on to the basis of them, and give you something to shoot at then.

First tentative conclusion I arrived at is that the net contribution of the Government to buying power, national buying power, in 1939 probably may be in the neighborhood - magnitude of three and a half billion dollars. I'd hate to tell you the amount of estimating that goes into that. And I do not think that will be excessive.

The next conclusion ....

H.M.Jr: May I interrupt you? What do you mean by: you don't think that will be excessive?

Currie: There I tried to arrive at an estimate of how far up we go in our national income before we begin to press on our productive capacities. So I divide the index of production, Federal Reserve index of

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production in the past, by the estimates of the stock of durable goods of all kinds, - factory, plants, machinery, everything. Well, we have - runs up to about 160 billion dollars now, we estimated. Then I get what I call a curve of utilization, production in relation to our plant capacity. And I arbitrarily let 1923, the peak there, be 100, because you obviously were pushing at that time on your productive capacity; all through the 20's you had a pretty close relationship, around 90 percent utilization of our plant capacity. Then, of course, we went way down in the depression and we shot up in '37; for a month there we were getting close to the last 20's in the degree of utilization. Now, we slipped way off from it again around here, now.

Now, I put a dot up here that when the index of production - Federal Reserve index of production gets up around between 120 and 130, you'll probably get back to the same relative utilization of our plant capacity, which is durable goods, as we had in the 20's, around 90 percent, which is a very comfortable relationship.

Now, that production of between 120 and 130 in our index would, I think, correspond with a national income of over 80 billion dollars, and I don't think there is the slightest chance of our approaching that next year. Therefore, I said that I don't think that the contribution, the expenditures in excess of receipts, for the next calendar year can be regarded as excessive.

- Eccles: In other words, it won't make for inflation, except the bottlenecks, as far as capacity is concerned.
- Currie: This is the over-all picture. That's quite consistent with individual bottlenecks occurring right in here: railroads, utility plants.
- Humi: I should say the reverse of that: you have to get to that point before you get any private investment.
- Eccles: Yes, nearly to capacity.
- Currie: I haven't brought that chart here, but it's very interesting that only when you get up to 80, 90

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percent of plant capacity do you get any net addition to your stock of durable production goods.

Eccles: But you do get a substantial expenditure in maintenance; but you mean actual new ....

Ruml: Real private investment.

Eccles: New expansion. Well, of course, you've got the housing and other fields.

Ruml: Oh yes. I mean industrial.

Eccles: Does that answer your (H.M.'s) question on it?

H.M.Jr: Yes, I'm going to get you, when I have a little time - if you'll let Currie come over when I've got another hour or two and go over it once more; I mean it's new and I haven't got it, and I don't - I never say I have something until I have it.

Currie: Well, the next step was to estimate what we can probably expect in the national income next year. You see how tenuous all this gets. And one of my people who has specialized, worked this last year, two years, on durable goods production, has made estimates of it for next year, to which I have added what I think will be the net contribution - took a wild stab at increase in inventories, half a billion to a billion, somewhere in that range, because they increase buying power - that will increase - then building, residential construction, all those various items. I came out with a figure of 13 billion of income-generating type of expenditures, as the net contribution of the Government plus private capital expenditures of all kinds, which is less than in '37.

Then, how much that would generate, how much national income that type of expenditure will generate, of course, is another question. And there I turned to the past again to see if I could get any guidance, and I found that that is the rough relationship between this income-generating type of expenditures, capital formation, plus net contribution, and movement of the national income right from 1919 right on; and, you see, this is a - the two movements here represent

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the same percentage changes, as you see when they go together; they're the same percentage changes.

So the question is, if this figure in 1939 is 13 billion, what will the national income be, you see; what ratio should you apply there? And then I expressed that as percentages, your capital formation plus net Government contribution as percent of the national total income. All through here it ranged from 17 percent to a maximum of 22 percent - 18 to 19 percent; in other words, a multiplier of about five. You see there that a dollar of this type of expenditure generated about five dollars in national income. So I took the highest ratio that prevailed all through here for any - in the prosperous period, a multiplier of six there, and applied it to this 13 billion, and came out with a gross national income of 78 (?) billion, or a net national income of about 68½ billion for next year, which, if it went on steadily up, might mean at the end of 1939 we'd be running at 72 or 73 billion, which is still far short of our capacities.

Eccles: That's allowing this three and a half billion Government contribution.

Currie: Allowing three and a half billion Government contribution.

Eccles: And allowing for all other capital expenditures that you can possibly estimate in housing and other fields.

Currie: We put down two billion for housing, for instance. Pretty generous estimates right through.

Bell: Is there any direct relationship between those two lines on that chart you just put down?

Currie: I think so.

Bell: I notice that they go in opposite directions about '37.

Currie: That's the ratio chart. It's a six; multiplying your gross capital formation, net contribution, will give you a national income here. This gives you the ratio, about six - tween five and six - all through your



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prosperous period, which shoots way up in the depression because of saving drying up then; practically all the money spent then is invested - is spent, people are living in excess of incomes, they're borrowing, everything else; so consumption rises and savings diminish in the depression. But the interesting thing is, as we came back to prosperity again, recovery, we got back to the same relationship that prevailed in the 20's; it doesn't look as if we modified at all the savings and consumption habits of the community.

- Eccles: As soon as you get back up in '37, as we did in '37, ....
- Currie: As we go up, every dollar of contribution and capital expenditure generates less income - increase in income.
- Haas: So in '29 that ratio would be quite different than it would be in '32, for example.
- Currie: Yes. Now the next thing you might be interested in ....
- Haas: Might even be negative.
- Currie: ... is the conclusion that there's a danger of a too abrupt decline in the contribution in 1940. I'm getting way ahead now.
- H.M.Jr: Don't worry about that.
- Eccles: You've got to estimate it for next year's budget.
- H.M.Jr: Well, don't worry about that.
- Currie: For the first six months of 1940 ...
- H.M.Jr: Well, first six months it is set.
- Currie: Well, I mean that's what you have to decide.
- H.M.Jr: You talking calendar or fiscal?
- Currie: Calendar. Second half of fiscal year 1940.
- Bell: January to June.

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H.M.Jr: I wouldn't worry. But go ahead.

Currie: Well, I think there's ground for worry, Mr. Secretary.

H.M.Jr: You mean Congress isn't going to vote enough?

Currie: Yes. And receipts are going to increase.

H.M.Jr: What?

Currie: And that receipts will increase very rapidly.

The top line is the gross expenditures - our estimate of the gross expenditures of the Government, and the dotted line is the receipts - tax receipts, largely - and the bottom line is the difference between the two. We've reached the peak, we think, in these estimates, of the gross expenditures now; they will run along just about where they are. This is a smooth basis, Mr. Bell. I'd be very glad to let you see them some time. We did quite a lot of violence to some of your figures.

Bell: I expect you did.

Currie: Run to a peak, then we'll step down the second half of the year and run along in the beginning of 1940 about 100 million less than we are now. That's on the gross - the net, I mean. The receipts will decline up to the second quarter of next year, next calendar year, because of the lower income taxes; after that, they will begin to pick up again, step up very rapidly the first half of 1940, the income tax yield particularly. So that your net will fall from around 300 million... Around 350 million a month will be the peak in the second half of next year - second quarter of 1939 will be the peak, about 350 million a month, and that will fall to about a hundred million a month in the first half of '40 - a very sharp reduction, 250 millions.

That's allowing for great liberalization of the Social Security Act, of the granting and paying of benefits, beginning of 1940 - almost all the things they're proposing. Without that the picture will be much worse, 25 million dollars or so much less, because it's also allowing for the fact that the

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taxes will be increased in the Social Security account from two to three percent.

H.M.Jr: That's just Government contribution?

Currie: That's Government contribution.

H.M.Jr: You haven't got private contribution.

Currie: No. But if there's a contraction in 1940 of three billion in the Government contribution and an expansion of four billion in the private contribution, the private expenditures, of capital expenditures, which will be 40 to 45 percent, that would still not give us enough to continue the rise in income, if there is any increase in savings at all from the present level.

So there is a real danger, it seems to me, along in 1940 of the same thing happening, if we're not careful, that happened in '37, of this consumption line flattening out. That's an absolute prerequisite for progressive economy - that this line must always rise - consumption; the moment the consumption flattens out, you get your piling up of inventories, you remove the incentive to make addition to plant capacity, all the rest of it. The thing we have to keep our eye on is that consumption chart, keep that thing going steadily up.

And there's a very close correspondence - I'd like to draw your attention, Mr. Secretary, to the fact how close the correspondence is between this consumption index and the incomes of wage-earners, salaries, small business men and farmers. That's what this dotted line is.

Delano: Is that about parallel to the population curve, or on a steeper angle?

Currie: I haven't tried that, Mr. Delano.

I think that completes my story. If I have a minute or two left, I might say we have gone on beyond 1940. Terborg (?) has made estimates in each durable goods field he's studied of what would be the maximum expenditures in those fields under

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conditions of full employment, and I've added them all together and I come out with the figure of 15 billion, which is not sufficient to get this line up to 100 billion; in other words, a net national income of 90 billion with the same relationships that prevailed through the 20's all through here, would require 19 billion capital investment along in the early 40's, which would indicate - this is very tentative, of course, but it indicates the possibility of a serious deficiency and gap there.

Haas: Does that, Lauch, include items like residential construction?

Currie: Yes.

I think that completes the story, Mr. Secretary.

H.M.Jr: Well, I'm going to ask you to come over some time when I have ....

Currie: It was awful concentrated.

H.M.Jr: Well, I want an hour or two with you some time, so I could go into it much more fully. I couldn't get - it's too important to take it in 15 minutes. I don't know whether the others have seen it or not. What?

Haas: I haven't seen it. I rather anticipate it.

H.M.Jr: But I'll give you all the time that you'll give me...

Currie: Fine.

H.M.Jr: ... to go into it much more fully. And when I do it, anybody in the Treasury that wants to sit in - I'll give them notice; then you come on over. I'll give you - I'll set aside a couple hours.

Well now, before we go on, does anybody want to say anything?

Haas: On the question of transition, it seems to me there is a whole question of factors which tend to open up or close the expansion of private expenditures, question of credit and so on. I thought you might

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discuss that. You discussed one aspect in it; that's the budgetary.

H.M., Jr: Well, George - excuse me - if you don't mind, I'd like to go into this thing in greater detail. I can't do it today. I don't know how the others are fixed. I guess Currie's available. I want to do it when I'm relaxed and have lots of time; and if there's anybody in the Treasury wants to sit in, I'll invite them to sit in, see? We'll give Currie a couple hours.

Now, the next thing you've got is this question of the statement.

Huml: Well, the next question - I just wanted to report very briefly on the suggestion made at the last meeting about an investigation of state and local taxes. We have discussed that in Resources Committee and I've given a good deal of thought to it personally; I think it is certainly a very feasible approach. As to whether it is the best approach or not, a number of considerations have to be taken into account. And let me just drop it at that point, because I don't think that this committee would want to take up that investigation until this committee exists. And since the committee does not really exist, we have another certainly two or three weeks to give thought to the best manner of pursuing the investigation. But that it's an important investigation, from that point of view there can be no doubt.

H.M., Jr: well, I consider it highly important and I hope somebody connected with the Administration will do it. I think this is the committee that should do it. We've ducked it for six years now.

Eccles: Somebody's got to do it, that's a certainty.

Huml: I could take thirty seconds to indicate what some of the things that have to be explored are. There has been a great deal of agitation in the past for a general investigation of the relation of Federal, state, and local taxes. And the thing that has to be explored is how to handle it from this particular point of view without, in the first place, disappointing other people or making them feel that the real investigation is being side-tracked, and so forth

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and so forth. There are a lot of questions of a prudential character that will have to be studied before we make a commitment that this is the best way to do it.

H.M.Jr: Well, what you're saying - you consider it highly important, but we've got enough right now for the moment.

Rumi: And we couldn't do this tomorrow even if we wanted to.

H.M.Jr: Anybody want to comment on it?

Well then, the next thing would - is this statement. Wouldn't it?

Rumi: There are two questions there: the question as to the statement, the question as to the set-up.

H.M.Jr: Well, the statement would come first, wouldn't it?

Rumi: Except that the set-up ought to be known before the statement is made.

H.M.Jr: Well, all right, what about the set-up?

Rumi: Well, I - following my talk with you, I called Mr. McReynolds on the telephone and asked him to be thinking about it. You suggested to me that I should get in touch with him, which I did by phone and suggested to him that probably there were many different ways that a thing like this could be done and that probably some were better than others for our purposes, and I didn't know anything about it.

H.M.Jr: Well, do you mind if I read this? I haven't read it yet. Supposing I read it out loud.

"I am appointing a Fiscal and Monetary Advisory Board.." - this is for the President - "I am appointing a Fiscal and Monetary Advisory Board whose duties will consist of canvassing systematically broader problems of fiscal and monetary policies in relation to national production and national income.

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"This Board is to consist of the Secretary of the Treasury as Chairman, and with him as members the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Budget, and the Chairman of the Advisory Committee of the National Resources Committee. Each member of this Board may name an alternate from his agency to serve with him and in his place in his absence. The Board will have no powers and no authority." I think that that's kind of - well, anyway, I mean ....

"The Board will study the whole range of problems associated with the relation of fiscal and monetary policy to the requirements of a sound and orderly recovery and the conditions essential to an enduring prosperity. On the basis of studies relating to these problems instituted by itself and by their agencies, the Board will from time to time report to me its findings and recommendations."

I certainly would leave out the sentence "The Board will have no powers and no authority."

McCles: I think that's understood when you say it's an advisory - the fact it's an advisory committee. They can have no power that Congress doesn't give them anyway.

Sumi: Mr. Secretary, will you wait just a minute before you strike it out, until after I have spoken, because I think you will strike it out; but the point of that statement is to make perfectly clear that this is not a move for further centralization and to take from independent agencies functions that belong to them. Now then, if you don't think it's necessary to make an explicit declaration of that, cross out the sentence - if you don't think it's necessary, either that or some other sentence.

H.M.Jr: Well, I think if we carry out the President's wishes we'll say, "I am appointing an informal Fiscal and Monetary Advisory Board." That's the word he used.

McCles: He'd be the best judge to say whether he wanted to strike that out or not, wouldn't he?

H.M.Jr: Well, except that when I take something over I like

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to offer it in the form that I say - well, we try here our best to give him a thing letter-perfect before it goes over. Often it isn't, but at least we try to. I just think that it's ...

- Ruml: I think I'm thinking of it from a public point of view. I'm not objecting to having the thing struck out at all. But I think that the word "informal" is in a sense a great deal more weakening than the other, and it's a bit misleading. It seems to me a bit incredible to the average Republican newspapers that a committee consisting of these four gentlemen and their associates, dealing with the stated problems, should be a very informal committee. And it may be informal in the sense that it isn't authorized by Congress, but it is a large thing anyway.
- H.M.Jr: What do you think, John?
- Hanes: I think the statement weakens it, makes the committee look sort of silly, if you say they have no power and no authority; I would be inclined to leave it out.
- Coelès: It's a good point on the "informal" end of it, though, that Ruml makes.
- H.M.Jr: What do you (Taylor) say? Express yourself, Wayne.
- Taylor: No, I think leave out the sentence that you've been talking about leaving out, but don't insert "informal."
- H.M.Jr: Well, that was his language.
- Taylor: But in this order which goes out, wny, I don't think you can use that.
- H.M.Jr: But you agree about "The Board will have no powers and no authority."
- Taylor: That should be out.
- Delano: Say "The Board will act in an advisory capacity."
- Taylor: If you want to emphasize again the advisory capacity, which I think is already sufficiently emphasized - if you want to stick in another word there to make



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it double, why, O.K., but ...

Delano: "Purely advisory."

H.M.Jr: You say "the Board will from time to time report to me its findings and recommendations." All we're going to do is get findings and recommendations; not going to issue any orders.

Ruml: That's true.

H.M.Jr: My inclination would be just to put a bracket around it, not strike it out. Then he could decide himself. How would that be? Just bracket that sentence "The Board will have no powers and no authority." What?

Ruml: Well, I think you might in addition indicate to him when it goes to him that the concensus of this group is that it would be better to leave it out.

H.M.Jr: Why not leave it out?

McR: I'd leave it out. I don't like the psychology of it.

Eccles: Looks like you're going out of your way ...

McR: Perfectly obvious what its authority is.

H.M.Jr: Aren't you repeating in the last paragraph? You say in the first paragraph "will consist of canvassing systematically broader problems of fiscal and monetary policies in relation to national production and national income." Then you come down to the third thing and say "The Board will study the whole range of problems associated with the relation of fiscal and monetary policy to the requirements of a sound and orderly recovery and the conditions essential to an enduring prosperity." No, that's - no, that's a good sentence. It's all right as far as I'm concerned, if he wants to do it.

The thing that Dr. Ruml and I talked about up at the house was this: that if the President is going to incorporate this philosophy into his budget message, then it is very important that he announce five or six weeks in advance that this group are studying it, so when he pops this thing out - I mean "What did

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ne do, just pull it out of the thin air?"

Ickes: Right - another pulling something out of the hat.

H.W.Jr: But if this is announced, they say, "That's the result of that committee's work." I haven't changed my opinion as to that.

Ruml: Well, I think in addition, Mr. Secretary, regardless of whether this point of view is adopted or not - I don't think this committee's activities are contingent on the adoption of any particular policy; this doesn't commit him to any policy.

Ickes: But any policy that is followed - at least it could be felt that before deciding upon that policy there has been some thought and study with reference to the subject.

Ruml: Sure. That's all.

Belmont: I have a personal objection that I want to put up that my colleague doesn't entirely agree with; but the Resources Committee is a committee of five Cabinet officers, Harry Hopkins, and four advisory members. The advisory members are in a sub-committee of which I am Chairman, and Vice-Chairman of the whole committee, and all matters of - all reports we make I have to clear through the Chairman, Secretary Ickes, and get the O.A. on all reports from all of the members. Now, we have been thinking - our advisory committee has been thinking about this thing for more than two years. It began with an informal dinner meeting at my apartment, at which the Secretary of Agriculture and the Secretary of Commerce were present, and some other gentlemen in this room were present, and we talked over the importance of realizing what was going on in industry and commerce. And we set up at that time an Industrial Committee; if I remember rightly, Mr. Currie, Mr. White, of your department, and others set on that committee. And the more we studied the more impressed we were with the implications of it.

In our report for '30, which I have in my hand, we made the definite recommendation in a printed report which was cleared by the Cabinet officers, that we thought that the Secretary of the Treasury ought to

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be given the benefit of these studies. We said, "A Fiscal Advisory Committee" - among our recommendations for a reorganization of agencies to implement this policy we had been discussing a Fiscal Advisory Committee appointed by the President - "This Committee would advise as to the manner in which public funds shall be provided in a particular phase of the economic cycle, and correlate the timing of public works with other fiscal policy." That's commented on in three long paragraphs in this report.

Well now, we come to a - to more recent times. In the spring of - in the spring of '37 we thought the thing was really serious, that it was - that no attention was being paid to this recommendation, and continued our work all that summer, and did have one or two talks with the President - very informal. The whole thing was pretty confidential. And we said, "This has not been cleared with the general Committee, with the Secretary of Interior and so forth."

Finally in the fall of '37 we again wrote and sent copies to you ...

Ruml: '38.

Delano: '37, I think - well, I guess it was ....

Ruml: Spring of '38.

Delano: .. in the spring of '38, that was it. In the spring of '38, on account of what had happened in the fall of '37, we again wrote direct to the President about it and went to see him; our whole Committee went to see him, and it was at that time that your attention was called to it and I came over and had a conference with you.

Now, since then things have moved fairly rapidly, but in the last three weeks, due to your action, things have moved much more rapidly than ever before.

Now, what I am up against is, personally I am in a bad position with the Secretary of the Interior, and

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I've got to be - he's my chief and I've got to watch my step on that; I don't want to get in bad so that it will injure future reports. And the thing that I don't like in that recommendation to the President is that I be named. What we recommended in our most recent report on this, when we gave a review of the whole situation - matter, and you have a copy of it, dated August 10 - the report was dated August 10 and it was presented in a letter of transmittal to the President August 12; the Secretary of the Interior was out of the country - I began by saying this: "This has not been cleared with the Secretary of the Interior; this is all very confidential."

Now, I think in a report that's made public, considering the fact that our Advisory Committee is not an executive, has no executive authority, it ought to say, "Representation from the Advisory Committee" rather than "The Chairman" of it. While I have followed along on this thing for over two years and been very much interested in the implications of it, the men that are far more expert than I am, Dr. Ruml and Henry Dennison, have followed it very closely. And Charles Merriam has looked at it from a different angle; he's an economist and expert on Government and all that, and he has given a great many valuable suggestions.

But it's really in our advisory capacity, it seems to me, that we're important; not any one individual.

Then, without appearing to be over-modest, I don't want it to hurt the President by having it said, "Well, here he's sticking his uncle in another job," when it's really the Committee that he's putting in it.

H.M.Jr: And increasing his pay by 100 percent.

Delano: Well, I really think that, and I think it's important.

H.M.Jr: Now, may I be a little facetious?

Delano: No, I don't want you to be facetious; I want you to be serious.

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H.M.Jr: You won't - I don't want to be serious - you won't let me be facetious.

Delano: I mean every word of what I say.

H.M.Jr: I know you do. If you don't mind, I wouldn't want to go along on the basis that you suggested, because I don't know who I'm going to get. I wouldn't go along on that basis, because this is - we've got a nice little family arrangement here and I can work; but if Mr. Ickes is going to sit here, why, we might just as well quit.

Delano: Well, you just tell the President about this, that this may make trouble. Once before we had ....

H.M.Jr: (On phone) Hello. - Who? - All right.

Just a second. (Holds phone conversation)

No, Mr. Delano, this - all of these things - you can set up the most beautiful committees in the world, and some of them function and some of them don't. I don't know how many committees I've been appointed in in the last six years, and one out of ten functioned, because it happens to be a group that clicks. Well now, we've made headway, and I have no - I'll report what you said, but I will also say to the President that if I have to do it your way I don't want to play. Now, are you willing that I say that?

Delano: Yes, so that he appreciates the importance of the point.

H.M.Jr: I'll say what you said, but if you've got to do it, leaving it open for somebody else to be put in here, I don't want to play.

Delano: I don't know whether you know what happened in the fall of '34 when he had appointed and he had given out to the newspapers that he was going to appoint a planning board, and he named the board that had been working informally through that summer; it was Charles Merriam and Wesley Mitchell and myself; and he spilled that to the newspapers up at Hyde Park and then there was an uproar from the Cabinet, and that's when the bigger Committee was set up of five

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Cabinet officers, and ....

H.M.Jr: Well, I never protested that the Secretary of the Treasury wasn't a member.

Delano: I know you didn't, but perhaps it would have been better if you had been a member, or else not have this cumbersome thing that we have. Now, a great many ....

H.M.Jr: Well, I'd rather have no formal announcement at all, just continue to meet and go ahead with this, if that would be less embarrassing.

Delano: Well, another way is, he says, "I will appoint a committee." I don't care how you fix it, but I want - of course, I'll do anything I'm told to do, but I want you to know, I want this committee to know, what I said.

H.M.Jr: All right, we're getting somewhere, and you leave it open and I get somebody else, and then I - I just ...

Delano: You'll get just the committee you've got.

White: Mr. Ickes is not on the Advisory Committee.

H.M.Jr: But he wants to leave it open.

Eccles: But isn't it a fact that it's an Advisory Committee really outside what is selected for a very definite specific purpose here. They were not interested in expenditures personally, have no personal interest, weren't a body that had to do with the spending of money.

Delano: That's what we thought was really very important.

Eccles: It seems to me the President has a perfect right to appoint whom he pleases and it would be perfectly logical for him to appoint a Chairman of the Advisory Committee. He can say that this committee is composed entirely of those who have no charge or have nothing to do with the expenditure of the appropriations. In other words, it seems to me that it is a committee that have no - have an entirely different interest than a Cabinet member such as Mr. Ickes would have, or such

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as any other Cabinet member would have.

Delano: We didn't suggest that. We suggested the Advisory Committee - representation from the Advisory Committee; that's our report of August 12.

H.M.Jr: Well, Mr. Delano, I understand, and if you'll trust me to present it to the President and then to do it the way it's written here, why - I mean I understand what you mean, but I think it's very important that you represent this Advisory Committee, and I'd like to personally recommend that to the President.

McR: It authorizes an alternate, so Rum1 can do the work for you.

H.M.Jr: O.K.?

Eccles: When you going to meet again?

Rum1: Mr. Secretary, ..

H.M.Jr: Yes.

Rum1: .. in connection with the announcement, this point must be determined: whether the alternates will be known at the time that the press wants a statement. You can handle it either way, but we ought to agree, that's all.

H.M.Jr: Well, in connection with the Monopoly Committee they did announce the alternates, so I can have it now, and then ... - Mr. Delano, who will be your alternate?

Delano: Well, certainly I would suggest Dr. Rum1.

H.M.Jr: All right.

McR: Of course, authority is there given to the Committee member to suggest his own alternate, and I would think he would designate anybody who was available at the particular time.

Delano: I should think it would be better not to mention it; give you a freer hand.

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- H.M.Jr: In our case we'd be changing, all depending on who was here. How about you?
- Ruml: Well, Mr. Secretary, I might say that does raise the point as to how you want to handle it. Either is possible. If you do change alternates from time to time, you then do not have a situation where you have some one person who is to serve in your absence. Now the other method is, of course, perfectly feasible. And I would suggest that if we cannot determine at this time which way we want to handle the alternates, it would probably be better not to mention it. On the other hand, if you want to set it up as a group of eight, if you please, you would name them.
- H.M.Jr: You see, this thing is all titles, and I personally would be inclined to leave it that way. Doesn't mention any names. No names.
- Ruml: Then it's not necessary to mention it.
- H.M.Jr: No names here at all. We have the Secretary of the Treasury, Chairman of Board of Governors of the Federal Reserve, Director of the Budget, Chairman of Advisory Committee. I mean it's the title - it's the position and not the individual.
- Ruml: Exactly.
- H.M.Jr: Not the individual.
- Ruml: Then it's agreed that if there is any question as to who the alternates are, no statement will be made by any ...
- H.M.Jr: Won't be as far as I'm concerned. You all right, Marriner, on this?
- Eccles: That's all right with me. Of course it is going to be necessary, whether you want to announce it or not, to at times have an alternate, because it may be impossible for us all to be present at every meeting. And it seems to me we should have somebody working along with us, in touch with the thing, so that ....



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- Delano: I think that's the most important thing. Let that just be the same man.
- Eccles: Ought to have continuity. For instance, I should select some member of the Board that would spend as much time at this as possibly I would, to be available so that we get continuity in the thing.
- H.M.Jr: Well, I'm going to do like they do at conventions: give Hanes and Taylor each half a vote. So - I mean we go along so that they know - they both know what's going on. I just - listen, Ruml, don't let's make it too damned tight and formal; give us a little leeway. The main thing is - I don't know how you gentlemen feel - I think we've got even further in three weeks than any other group I've ever worked with. And give us a little elasticity. Let's continue; I think the main thing is to hit the ball, never mind how many clubs we've got in the bag.

# Agenda:

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## Reports of Progress:

1. Relation of national income to balanced budget
2. Relation of national income to price level.
3. Bottle necks at different levels of national income
4. Effect of various budget items on national income
5. Items outside the budget
6. Flexibility in budget items
7. Timing

## Tax Investigation

Announcement of Committee

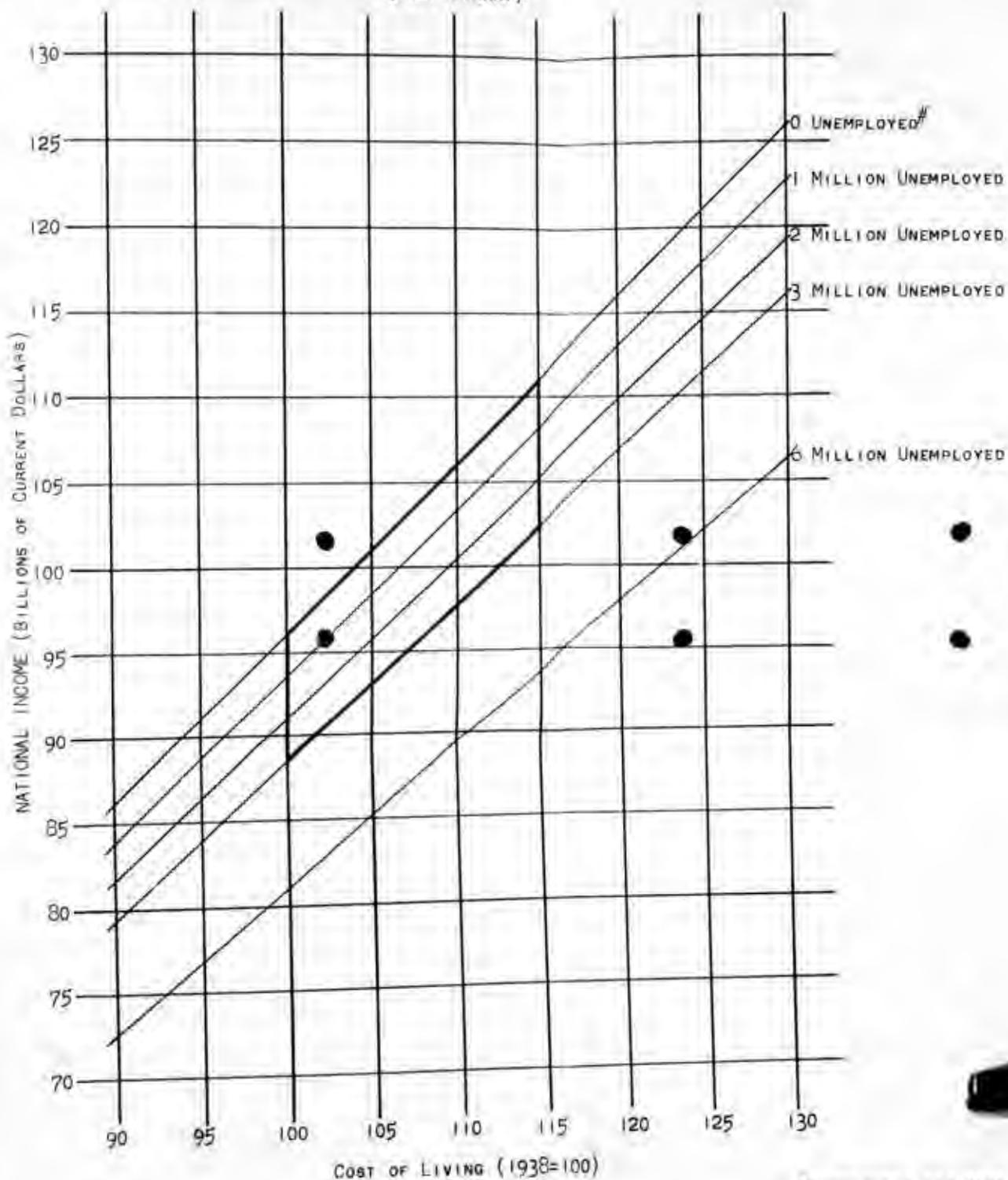
Statement

Set up.

1940

NATIONAL INCOME\* AT DIFFERENT LEVELS OF ASSUMED PRICES AND FOR SPECIFIED LEVELS OF UNEMPLOYMENT

(PRELIMINARY)



\* REPRESENTS NATIONAL INCOME PRODUCED  
 # ASSUMING A LABOR FORCE OF 55.7 MILLIONS

TREASURY EXPENDITURES AND RECEIPTS  
CLASSIFIED IN ORDER OF INCOME-GENERATING EFFICIENCY

Expenditures: (ranked from most efficient to least efficient)

- I- Payments to needy persons and low-income groups
  - 1. Works Progress Administration
  - 2. Farm Security Administration
  - 3. Social Security
    - a. grants for needy aged, blind, dependent children
    - b. old-age annuities and other insurance benefits<sup>1/</sup>
    - c. unemployment compensation payments<sup>1/</sup>
  - 4. Railroad retirement, old-age annuities and other insurance benefits<sup>1/</sup>
  - 5. Civilian Conservation Corps
  - 6. Agricultural adjustment payments
- II- Salaries of regular government employees, office supplies, rents, etc.
  - 1. General legislative, judicial, executive, departmental expenditures
  - 2. Administrative expenses of new agencies (WPA, PWA, Conservation Corps, etc.) and expenses of old agencies connected with new programs
  - 3. Wages and salaries of the armed forces
  - 4. Veterans Administration expenditures
- III- Public works and military construction
  - 1. Public highways
  - 2. River and harbor work
  - 3. Reclamation service
  - 4. Various departmental public works
  - 5. Public buildings
  - 6. United States Housing Authority loans<sup>2/</sup>
  - 7. Tennessee Valley Authority
  - 8. Rural electrification
  - 9. Maritime Commission ship construction
  - 10. PWA loans and grants to public bodies
  - 11. RFC loans for self-liquidating public work projects<sup>1/</sup>
  - 12. Aircraft, ordnance, and coast defense expenditures of the Army
  - 13. Aircraft, ship construction and repair, ordnance, yards and docks expenditures of the Navy

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<sup>1/</sup> These payments are not budgetary expenditures under present Treasury accounting procedure.

<sup>2/</sup> These payments are only partially budgetary expenditures under present Treasury accounting procedure.

## TREASURY EXPENDITURES AND RECEIPTS

2

## Expenditures (continued)

- IV- Interest on public debt (Helps to pay operating expenses of banks, insurance companies, and other financial institutions. These institutions usually make large annual additions to surplus and reserves, however.)
- V- Refinancing private obligations and providing capital for financial institutions
1. Refinancing operations of the Home Loan System<sup>1/</sup>
  2. Refinancing operations of the Federal Land Banks and Land Bank Commissioner<sup>1/</sup>
  3. Capital investment in building and loan associations by the Home Loan System and directly by the Treasury<sup>1/</sup>
  4. RFC loans to and capital investments in banks, insurance companies, building and loan associations, mortgage companies, etc.<sup>1/</sup>
- VI- Non-cash expenditures, purchases of own securities, and expenditures of uncertain effect
1. Refunds of taxes
  2. Transfers to trust accounts
  3. Debt retirement

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<sup>1/</sup> These payments are not budgetary expenditures under present Treasury accounting procedure.

## TREASURY EXPENDITURES AND RECEIPTS

3

Receipts: (ranked from most depressing to least depressing)

## I- Taxes on low-income groups or directly on consumption

1. Income tax on employees (Title VIII, Social Security Act) and employees' share of Railroad Employment Compensation taxes
2. Individual income tax on net incomes below \$5,000
3. Liquor and tobacco taxes
4. Manufacturers' excise taxes
5. Miscellaneous taxes
6. Customs<sup>1/</sup>

## II- Taxes on business units levied as a direct cost of doing business

1. Tax with respect to employment (Title VIII, Social Security Act) and employers' share of Railroad Employment Compensation taxes
2. Tax on employers of eight or more (Title IX, Social Security Act)
3. Contributions to state unemployment reserves<sup>2/</sup>
4. Documentary, etc., stamp taxes

## III- Taxes on business net income

1. Corporation income tax
2. Excess profits and capital stock tax

## IV- Repayments of loans

1. RFC loans to financial institutions belong to category V below
2. Home loan system loans to building and loan associations belong to category V below
3. Repayments of HOLC and Farm Credit mortgages belong to category I above
4. PWA and RFC loans to public bodies have been liquidated for the most part by sale in the open market and hence belong in category V below.

## V- Taxes on higher-income groups

1. Individual income tax on net incomes over \$5,000
2. Estate and gift taxes

## VI- Miscellaneous receipts

1. Interest, fees, sales of services, rents, etc.
2. Repayments of investments and sales of lands and other Government property

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<sup>1/</sup> The total cost of imports is a withdrawal from the flow of domestic purchasing power. The part of the cost represented by customs goes to the Government, the remainder to foreigners.

<sup>2/</sup> These receipts are not budgetary receipts under present Treasury accounting procedure.

## Draft A

I am appointing a Fiscal and Monetary Advisory Board whose duties will consist of canvassing systematically broader problems of fiscal and monetary policies in relation to national production and national income.

This Board is to consist of the Secretary of the Treasury as Chairman, and with him as members the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Budget, and the Chairman of the Advisory Committee of the National Resources Committee. Each member of this Board may name an alternate from his agency to serve with him and in his place in his absence. The Board will have no powers and no authority.

The Board will study the whole range of problems associated with the relation of fiscal and monetary policy to the requirements of a sound and orderly recovery and the conditions essential to an enduring prosperity. On the basis of studies relating to these problems instituted by itself and by their agencies, the Board will from time to time report to me its findings and recommendations.

This should be 322  
attached to meeting  
of Fiscal Adv  
Com held on  
11/14/78.



## Effect on National Income of Principal Budget Classifications

### I. General Approach

From the standpoint of the effects upon the national income of the various classes of governmental receipts and expenditures, the most useful immediate approach is to apply the touchstone: Does this class of receipts tend to reduce current consumption or does it tend to reduce pecuniary capital accumulation; and does this class of expenditure represent a true cost of government or does it represent merely a transfer of income from one class to another; and, in the latter case, does this transfer stimulate consumption or pecuniary capital accumulation?

By "pecuniary capital accumulation", as the term is used in this memorandum, is meant the amount by which the money expenditures of any individual or corporation fall short of his or its money income. The amount so saved from current consumption may be invested by the individual or corporation in physical capital goods, or it may be allowed to accumulate in money or bank deposits, or invested in securities. In the latter case, it may or may not find final investment in physical capital goods, depending upon the actions of the banks, of the parties from whom the securities are purchased, and of others more remote.

In times of full employment, most or all pecuniary capital accumulation results in investment in real capital goods. In times of widespread unemployment, a large portion of it may "run to waste" and so further aggravate the existing depression. The individual or corporation accumulating pecuniary capital can never know and is not directly concerned with the final social results of his or its accumulation. The Government, however, is vitally concerned with these results, and for this reason an analysis of the effects of different categories of receipts and expenditures in stimulating or repressing consumption and pecuniary capital accumulation, respectively, is of vital importance in the adoption of appropriate and flexible fiscal and general economic policies for the treatment of booms and depressions.

The question of whether a dollar of deficit-financed Federal expenditure creates more than a dollar's worth of National income when expended in all or in certain channels -- i.e., the question of the "multiplier" so-called -- has been reserved for further study and is not treated in this memorandum.

In the following outline and discussion, convenience dictates the use of straight declarative sentences, when in many cases the statements should be regarded as contentions to be established, and preferably measured quantitatively, or disproved, rather than as pure affirmations.

## II. Tax Receipts

From our present standpoint, the principal Federal taxes may be divided into two classes:

(1) Taxes that tend primarily to curtail current consumption:

- (a) Excises.
- (b) Processing taxes.
- (c) Customs duties.
- (d) Payroll taxes.

(2) Taxes that tend primarily to curtail pecuniary capital accumulation:

- (a) Death and gift transfer taxes.
- (b) Corporation income taxes.
- (c) Individual income taxes.
- (d) Undistributed profits tax.

## III. Expenditures

From our present standpoint, the principal Federal expenditures may be divided into the following classes:

(1) Regular operating expenditures, exclusive of public works and interest on and reductions in the public debt:

The ordinary costs of government, consisting principally of salaries and supplies, do not significantly affect the published figures on national income during periods of fairly full employment. This is because, under such conditions, employment with or sales to the Government may be considered as substitutionary for rather than additive to corresponding employment in or sales to private

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industry and because the published figures always take the services of government into the national income at exactly what they cost. In times of widespread unemployment, an expansion in the ordinary costs of government would increase the published figures for the national income.

It should be clearly borne in mind, however, that, to the extent that the expenses of government are expanded or fail to be contracted because of inefficiency, the real national income, in terms of consumers' satisfactions, is not accurately expressed by the computed national income, in the calculation of which it is a necessary statistical convention to consider the value of the services of government to be equal to their cost.

In general, the ordinary services of government present an unpromising field for the conscious introduction of fluctuations in current expenditures with a view to influencing the national income. It is best that the only considerations should be the necessity of the services, or their value to the public, and the costs of rendering them, and that they should be rendered in the most efficient -- i. e., low cost -- manner possible. An expansion in the cost of general government brought about during a period of depression for "pump-priming" purposes would be likely to prove an incubus during a subsequent period of prosperity. Even in the field of ordinary governmental costs, however, a certain minor degree of flexibility is possible, as has been evidenced from time to time in the Treasury's policy of bunching orders for most of a year's supplies in periods of acute weakness in business.

(2) Public works and purchases of capital goods:

Variations in the expenditures on these items to act in such fashion as to compensate in some measure for opposite fluctuations in private industry are clearly desirable. In periods of fairly full employment, expenditures by the Federal Government in these fields may fail to add one cent to the national income; whereas, in other periods, a very large fraction of the entire gross expenditure may conceivably constitute a net addition to the national income.

(3) Interest on the public debt:

This type of expenditure largely represents a transfer of income from one class to another. That part of the interest on the public debt which is paid to commercial banks may for some purposes be regarded as a cost of maintaining the banking system, and so ultimately diverted in large part to consumption through the medium of disbursements for banking expenses. The rest tends to promote pecuniary capital accumulation, whether it be paid to insurance companies, savings banks, or to wealthy individual rentiers. In general, so long as a significant fraction of the public revenues is derived from taxes on consumption, the greater the amount of interest payable on the public debt, the greater is the stimulus to pecuniary capital accumulation; for the payment of such interest tends to constitute a transfer of income from the lower income groups to the upper income groups of society.

(4) Debt retirement:

Actual net expenditures for debt retirement out of current tax receipts tend to divert national income from current consumption to capital accumulation, when any significant fraction of the Federal revenues is obtained from the taxes on consumption. Debt retirement swells the volume of funds available for private capital investment. If such additional funds are made available during periods of strain in the capital markets, the effects upon the national income are probably favorable. If, on the other hand, debt retirement takes place at times when a large volume of additional investment funds already exists, the effect is likely to be a diminution in the national income. The timing and volume of debt retirement and their relation to the national income demand the most careful study.

(5) Direct relief and work relief expenditures:

Under a balanced budget, expenditures for these purposes tend to promote current consumption, and therefore under conditions of subnormal business activity, they tend to increase the national income. In important measure, under such conditions, they represent transfers of the national income from

- 5 -

members of the upper income classes to members of the lower income classes, or the payment to the lower income classes of national income which might otherwise not have existed. They should not be considered as true costs of government.

When tax revenues are inadequate and such expenditures are financed by borrowing, their direct effects are strongly in the direction of increasing the national income. This is true even if the securities issued are sold to bona fide savers, for the latter in many cases would otherwise have merely hoarded their pecuniary savings. The effect is more pronounced when the obligations issued to finance these expenditures are purchased by commercial banks, for in this case there is a net expansion in the volume of effective currency and substantially no diminution in the volume of funds available for investment.

The indirect effects of deficit expenditures for direct relief and work relief are more debatable. It is contended by some that a deficit so occasioned exerts no net stimulating effect upon the national income because it inhibits investment expenditures of the same or even greater amount by private business.

The contrary is also contended. It is held by some that capital investments respond far more directly to immediate consumption demands than to remoter psychological influences; and that the increase in consumption which is engendered by deficit spending therefore stimulates capital investment.

Varying measures of truth no doubt reside in both contentions as applied to different parts of our economic structure; and both merit careful study.

(6) Social security expenditures:

Except for the administrative costs involved, the cash outlays for social security expenditures largely represent transfers of income from one class to another, rather than true costs of government. These cash outlays likewise tend to stimulate current consumption rather than capital accumulation.

- 6 -

The non-cash expenditures for social security -- notably appropriations to the Old-Age Reserve Account which are met by transfers to that Account of interest-bearing Government securities -- are in a different class, however. When the budget is formally unbalanced, these non-cash expenditures should be deducted from the net deficit in order to arrive at the true current cash deficit. The national economy obtains no stimulus from a non-cash deficit expenditure. In other words, so far as effects on the national income are concerned, the only social security expenditures that count are the cash expenditures.

#### IV. Borrowing

The national economy is affected not only by the sources of Federal tax receipts, the kinds and amounts of Federal expenditures, and the amounts of Federal deficits and surpluses. It is also influenced by the character of the deficit financing, and, as suggested in the preceding, by the timing and volume of debt retirements.

In the years 1933 to 1935, inclusive, the Nation's economy was suffering from a shortage of currency media because of the previous drastic reduction in the volume of bank deposits, a reduction occasioned by the great deflation of bank loans. Under such circumstances, it was highly desirable for the Federal Government, in issuing securities, whether for new money or for refunding purposes, to issue them in such form and with such maturities as would particularly attract bank investment. The purchase by commercial banks of Government securities would add to the volume of bank deposits. Under such circumstances, it was natural, therefore, that the Treasury met a large part of its needs through the offering of short-term securities -- in this case, Treasury notes and bills.

A little later, when the volume of bank deposits was restored to 1929 levels, and it was desired to tap part of the large volume of idle and frightened investment funds of institutions and private individuals, longer-term securities were offered.

## Possibilities of Increased Flexibility in Expenditures and Receipts

Greatly increased flexibility in the timing of expenditures and possibly in receipts would be highly desirable in the light of the experience of recent years.

### I

As respects expenditures:

(1) Our previous experience suggests the desirability of procuring substantially uniform enabling legislation on the part of State and local governments that would permit ready participation in national spending programs. However much or little subject to criticism on other grounds, it is generally conceded that statutory obstructions seriously impeded many public bodies in their efforts to utilize the P.W.A. program.

(2) A perpetual inventory of desirable projects, Federal, State and local, should be maintained by some Federal body and variously cross-classified as to type, cost, time necessary to complete, types of labor and materials required, distribution of total costs between direct labor and materials, etc.

(3) Analysis might well be made of the possibilities of articulating prospective State and local public works projects with prospective Federal projects into a comprehensive but flexible long-range program which would be capable of ready inauguration and susceptible to ready curtailment. This may well involve the division of nearly all projects into small units, one or more of which can be inaugurated at a time.

### II

As respects receipts, the difficulty of accurately determining income during the period in which it is being earned -- delays in the receipt of various bills, inventory adjustments, depreciation, etc. -- and the great complexity of the laws and regulations, conspire to make it difficult

- 2 -

to achieve any great range of flexibility in income taxes. Flexibility in income tax receipts there is, but it is an unsought flexibility arising out of fluctuations in taxable income.

Greater flexibility is possible in the field of excise taxes and the like, but there are important economic objections to frequent changes in such taxes: Commodities differ considerably in the elasticity of their demand schedules. The competitive relationship existing between different products is commonly disturbed by new excise taxes because of this fact and numerous and often costly readjustments are required.

Perhaps the most practicable and desirable type of flexibility with respect to tax receipts would be achieved if the proper authorities were given the power to raise or lower either the normal income tax alone or all income tax rates uniformly within a range stipulated by Congress.

It may be noted that over-all flexibility in receipts is achieved in at least one sense and in one direction by the ability of the Government to borrow.





IN REPLYING  
ADDRESS THE SURGEON GENERAL  
U. S. PUBLIC HEALTH SERVICE  
AND REFER TO

TREASURY DEPARTMENT  
PUBLIC HEALTH SERVICE  
WASHINGTON

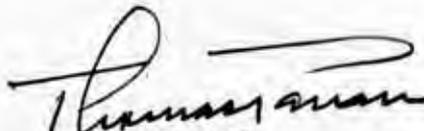
November 14, 1938

Memorandum for the Secretary:

(Through Administrative Assistant William R. McReynolds.)

Following a telephone conversation with Mr. McReynolds today, I hasten to forward for your information a copy of a communication sent to the President on November 7th in response to a memorandum from him dated November 2d.

It is regretted very much that through an inadvertence a copy of this communication was not submitted to your office. Please accept my apologies.

  
Surgeon General

November 7, 1938

My dear Mr. President:

I have your memorandum of November 2 in which you invite my attention to the problem which has arisen out of the migration of residents of Puerto Rico to New York and other centers where many of them become either public charges or subjects for medical care.

Since residents of Puerto Rico are citizens of the United States, they are not subject to the application of federal law governing immigration of aliens to the United States, nor are they subject to the federal quarantine inspection applied to persons arriving in this country on vessels from foreign ports.

The Interstate Quarantine Regulations of the United States do not prohibit the travel of diseased persons from one State or Territory to another except when the individual is infected with plague, cholera, smallpox, yellow fever or typhus fever. On the contrary these regulations specifically permit the interstate travel of diseased persons even though they may be suffering from communicable infections other than the five diseases to which reference has been made, provided that such persons observe certain rules. These rules require that a permit be obtained from the health officer at the point of departure and at the intended destination and that the traveler shall observe certain precautions while in transit.

Where prospective migrants from Puerto Rico known to be suffering from communicable diseases may be involved, the transportation companies are prohibited from accepting such persons as passengers unless the Interstate Quarantine Regulations be observed. The difficulty in the enforcement of this requirement lies in the fact that the transportation company has no way of knowing when the passenger is suffering from a communicable disease unless every person be subjected to a thorough physical examination prior to embarkation. The problem is more simple, of course, where the individual is already under quarantine in the State or Territory from which he proposes to travel, and where a release from the local health officer would be necessary before he could travel. However, many cases of communicable diseases, such as tuberculosis and syphilis, do not become known to the health authorities. Obviously the subjecting of all persons traveling from one State to another to a physical examination -- even if it were practicable -- would result in a storm of protest from the citizens of the States; and there seems to be no tenable ground for discriminating against citizens of Puerto Rico by requir-

- 2 -

ing such a physical examination at either the port of departure or the port of arrival.

The Interstate Quarantine Regulations do not place any restrictions whatever on the interstate travel of persons suffering from noncommunicable diseases.

It is my belief that the situation to which you have referred can be met most satisfactorily by strengthening the facilities for health protection in all of the States and Territories and aiding the States and Territories in providing adequate facilities for medical care and hospitalization. When all of our States and local communities shall have adequately provided such facilities I believe the tendency of the poor to migrate in search of medical care and hospitalization will be greatly lessened.

Very sincerely yours,

(Sgd) Thomas Parran

Surgeon General

The President,

The White House.

C O P Y

November 7, 1938

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Very sincerely yours,

Surgeon General

The President,

The White House.

C O P Y

COPY

THE WHITE HOUSE  
WASHINGTON

November 2, 1938

MEMORANDUM FOR DR. PARRAN:

. Will you let me have a memorandum in regard to the following problem:

Many people are coming to New York and other centers from Puerto Rico and either becoming public charges or subjects for medical treatment.

I understand you have talked with Governor Winship in regard to this and I am wondering whether you would care to make any recommendations in regard to inspection of arrivals from Puerto Rico, based on public health.

F.D.R.

November 14, 1938

Meeting at the White House, dictated by Mr. Oliphant.

Present:

Secretary Morantau  
Assistant Secretary Louis Johnson  
Harry Hopkins  
General Craig  
Mr. Oliphant  
General Arnold  
Colonel Burns  
Mr. Robert Jackson  
General Marshall  
Col. Watson  
Capt. Callahan

Report of conference with the President on November 14th, which began considerably after 2 o'clock following the Secretary's luncheon with the President.

It opened with an extended statement by the President in which he outlined briefly the aeronautic equipment of our forces and the protection capacity of our present plants.

He followed this with a statement of his best information concerning the European situation on September 28th, as follows: that France had less than 600 planes it could put in the air; that England had from 1500 to 2200 such planes; that Germany had from 5500 to 6500 first line planes and about 2000 second line planes; that Italy had 2000 first line planes and 1000 second line planes.

He checked his figures against those of the Army and there was general agreement except the Army was inclined to put the number of German planes 1000 or 2000 higher than did the President.

The President further pointed out that present production in France was very low with little signs of increase and present production in England was some but not much better.

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The President then pointed out that the recrudescence of German power at Munich had completely reoriented our own international relations; that for the first time since the Holy Alliance in 1818 the United States now faced the possibility of an attack on the Atlantic side in both the Northern and Southern Hemispheres. He said this demanded our providing immediately a huge air force so that we do not need to have a huge army to follow that air force. He considered that sending a large army abroad was undesirable and politically out of the question.

The President's next point was that in 1917 it took the United States 13 months after its declaration of war to put the first plane on the battlefield in Europe. The circumstances then prevented that delay being disastrous. Hereafter there would be no such period of grace. We must have resources, plans and equipment for putting a large number of planes into actual operation at any time on short notice.

He said there was a second reason why we had to have a large supply of planes and in this connection significantly said, so far as I can remember his exact words, "I am not sure now I am proud of what I wrote to Hitler in urging that he sit down around the table and make peace. That may have saved many, many lives now, but that may ultimately result in the loss of many times that number of lives later. When I write to foreign countries I must have something to back up my words. Had we had this summer 5000 planes and the capacity immediately to produce 10000 per year, even though I might have had to ask Congress for authority to sell or lend them to the countries in Europe, Hitler would not have dared to take the stand he did." In a similar vein he elaborated the proposition that our foreign policy needs implementation.

He then went on to point out that our only important need was anti-aircraft equipment of the mobile sort and an abundance of aeroplanes. He said there was little need of more battleships, forts, military posts and ammunitions. He pointed out that during the entire World War we fired an average of only one-half round per American gun.

With this introduction the President asked the Army and Navy men how many planes they thought we needed. Obviously they had not been thinking in terms of figures as large as the President had in mind, but the discussion



-3-

ended with agreement that we should have 10,000 with the capacity to produce 20,000 per year and, for political reasons, should ask Congress for 12,000 and 24,000 respectively. In his further discussion, the President said we needed 10,000 for the Atlantic and 2,000 for the Pacific and the Canal area. Arnold and Marshall agreed with this extension of the figures.

The President then stated that the average capacity of our large aeroplane plants was about 1200 planes per year; that if we gave them orders for 7,000 or 8,000 planes that would not be enough. There was need for Government owned and operated plants to give a capacity of 10,000 or 12,000 planes per year and that the operation of such plants should be tried out in peace times. He stated that 7 Government plants should be built, all to be equipped with the heavy machinery not likely to be antiquated within 10 or 15 years; 2 should be fully equipped and put and kept in operation. He pointed out that they could be built on Government land and everywhere except in Birmingham, Alabama, and that old funds already appropriated were available to purchase the land at Birmingham.

He then pointed out that the steel plant which we built in West Virginia to prevent the steel companies from charging the Government excessive prices on armor plate had for 15 years remained in such condition that it could go into operation in 30 days and could still be out in operation within 3 or 4 months.

There was much discussion of the probable cost of these 7 Government plants. The President started with a figure as low as \$1,000,000 and finally agreed to discuss the problem on the basis that the 7 plants would cost \$70,000,000. He pointed out that Hopkins could build these plants without cost to the Treasury because it would be work relief which otherwise would have to be provided in any case.

The President then laid great stress on the necessity for drawing a sharp line between aeroplane development and design, on the one hand, and aeroplane production, on the other hand. He insisted that when a design had been agreed upon, it should go into production for 2 years without any change during that period. He pointed out that this was the German method, but General Arnold added the significant fact that in Germany a single company makes

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all the tools and dies for all the plants, which he said would have to be done here if we were to get interchangeability of parts which is necessary for large scale production.

The President then raised the question as to how much he would be justified in doing on the program before Congress had a chance to act on it. This question went unanswered.

He then said he had asked Jackson to do some work on the legal phases of the procurement angle of the program and, at this point, the Secretary handed the President my memorandum listing 11 possible methods of preventing the run-up of prices. Before reading it the President pointed to our unfortunate experience during the War with the cost-plus percentage method and to our better experience with the cost-plus fixed-fee method, but mentioned its breakdown where a single article was subject to many turnovers during a single year with excessive profits resulting. The President then read the memorandum after I had pointed out that it focused on only one angle of the total program and its aim was to list all possible methods of control with the thought that some would be all right in some cases and others in others. I suggested that the cost-plus fixed-fee method worked well when the underlying accounting system was simple, but worked poorly when it was complex because then it got us into all the difficulties we have encountered in utility rate regulations.

Assistant Secretary Johnson then referred to the list of firms, including the Aluminum Company, which they propose to call in Monday to lay the whole program before them. It was suggested that since there was a complete monopoly of aluminum and since it figured so largely in the program, we might later have to face our attorneys in dealing with the Aluminum Company that would be embarrassed by present conversations. Jackson pointed out that the only solution for the aluminum situation was a Government-owned and operated plant, which the President said could be provided in the Tennessee Valley with a \$15,000,000 R. F. C. loan.

It was agreed that the Aluminum Company should be invited for the Monday conference, it being intimated that if they did not cooperate, a Government plant would be the necessary alternative. Assistant Secretary Johnson

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first suggested and then insisted that the Secretary attend this conference. The Secretary said he did not want to.

Johnson then raised the question whether the present Army and Navy budgets, well through the hearing stage, should be withdrawn. The President asked the Secretary for his opinion and the Secretary said he thought that the decision depended on the President's deciding what he was going to go to Congress with in the way of a tax program in January, his present thought being that the whole program should be laid before the country with all of its financial implications early in the session.

The President then designated Jackson, Burns, a man from the Navy and myself as a Committee to develop a new procurement statute. Marshall spoke to me after the meeting and said he would give me the name of the Navy representative.

The talk then turned to discussion of training the necessary skilled mechanics. The President pointed to the success of the Douglas people in recruiting and training 90% of their help from bright youngsters that fill all but the most skilled jobs, leaving only 10%, the extra-highly skilled, to be procured elsewhere and then referred to the program which Johnson is developing with the N. Y. A. for the N. Y. A. to duplicate this performance for this purpose.

The President said his final question was what he should say to the public. He asked the group to say nothing, but said he thought he would give his press conference tomorrow the very simple figures on the relative aeronautical strength of Germany and Italy, on the one hand, and England and France, on the other. He asked the Secretary what he thought of this. The Secretary said he felt very strongly that any such statement would be a grave mistake, because it would put the President in the position of giving Chamberlain, before the world, complete justification for all he had done; that if the figures were to come out, let them come out from Europe. The President then said, "I must begin to lay the matter before the country," and asked the Secretary what he would say. The Secretary responded

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that he should begin to place the matter before the country as he had in his first discussion of the problem with the Secretary, namely, by making a statement of the international and military situation which confronts the United States in the Western Hemisphere.

The President then disclosed the plans, next summer, for naval manoeuvres with Army observers, basing on Trinidad and working on the problem of keeping off an European fleet at a point well out in the Atlantic.

TREASURY DEPARTMENT

343

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE November 14, 1938

FROM M. A. Harris

A Short Review of the U. S. Government

Security Market during the Past Week

Due to the market being closed on Tuesday and Friday, the volume of trading was very light. The trend of prices has been toward somewhat lower levels and only on one day did Treasury bonds come in for investment demand. On that day, Wednesday, the day after elections, some insurance company and bank demand was noted for the longer maturities. On other days offerings, while not in large blocks, exceeded demand which was rather selective and light. Net losses for the week ranged from 1/32nd to 5/32nds, with the intermediate issues having the larger losses.

Treasury notes tended toward lower levels on each trading day, with the three longest maturities declining 6, 7 and 8 thirty-seconds. These declines can be partly accounted for by the expectation of the market that a long note will be offered for cash and exchange in December. Other maturities declined 1 to 4/32nds. The March 1939 issue is currently quoted 101.15 bid, which means a premium of about 1 3/8 points if the notes are refunded in December and 1 point if refunded at maturity, that the market is currently placing on the exchange value.

Dealers' Portfolios

From the figures given below it can be seen that dealers reduced their holdings in each group of securities, the total decrease amounting

to \$24,500,000. Decrease in holdings of Treasury bonds accounted for \$15,200,000 of this total. Dealers further increased their short position in notes maturing in 1 to 5 years, which probably accounts for some of the weakness in the longer maturities during the past week.

(in millions of dollars)

	Holdings <u>Nov. 5</u>	Holdings <u>Nov. 12</u>	<u>Change</u>
Treasury bonds	29.7	14.5	- 15.2
Treasury notes (1 year)	47.1	47.0	- 0.1
Treasury notes (1-5 yrs.)	-0.5	-4.5	- 4.0
Treasury bills	16.9	13.6	- 3.3
H. O. L. C. bonds	2.3	1.0	- 1.3
F. F. M. C. bonds	<u>5.1</u>	<u>4.5</u>	<u>- 0.6</u>
	100.6	76.1	- 24.5

#### New Security Issues

New financing last week was confined to the award of about \$10,000,000 of municipal bonds.

According to the Financial Chronicle new capital flotations in October reached a grand total of \$762,948,132 for the month as against \$238,310,402 in September. This total comprised \$337,158,754 of corporate issues, \$102,927,378 of State and Municipal securities and \$322,862,000 of issues falling under the head of Farm Loan and publicly offered governmental agency securities.

#### Corporate Bond Market

The bond market turned active and strong following Tuesday's elections with demand centered in the medium and low quality obligations. Rails showed to the best advantage, where gains ranged up to about 4 points. Moody's BAA bond price average reached a new high since September 1937 at a level 7 3/4 points above the September 27 low. Gains by best grade

corporate issues for the most part were confined to fractions but the rise of about 1/4 point in Moody's AAA bond price average last week places this average at a new high since January 1937.

The Federal Reserve System Account

The System replaced last week's Treasury bill maturity amounting to \$54,975,000 by purchases in the market of a like par amount of the new Treasury bills due February 8, 1939. There were no other transactions.

Treasury Investment Accounts

There were no purchases or sales in the market last week.

However, \$10,000,000 and \$1,600,000 were invested in 2% special 5-year Treasury notes for account of the Postal Savings System and for account of the Government Life Insurance Fund, respectively.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 14, 1938

to Secretary Morgenthau  
FROM Mr. Taylor

The Hungarian Minister and Dr. Havas called this afternoon to discuss the manner in which our Government's Debt Notification statement would be transmitted by the Treasury, through the State Department, to the Hungarian Government. Representing the Treasury Department were Messrs. Heffelfinger, Bernstein and myself.

It was decided that the method followed in May should be repeated, namely, that in our letter of transmittal to the Secretary of State we would mention receipt by our Government of an offer by the Hungarian Government and the transmission of this offer to Congress. In addition, we agreed to add a footnote on the statement itself indicating that a debt offer had been made by the Hungarian Government and transmitted to Congress, and that the payment received in June had been subsequent to the receipt of the offer in question.

Allen Sproul called me on the telephone at 4:30 and said that he would like to come down to Washington this week to learn what he could as to how he should conduct his new duties of sounding out the market. I told him that any day this week or the next was all right with me and he finally decided to come down on Friday and will be in my office at 10:00 o'clock. I think it would be a good idea if you saw him for a brief period on that day but if you are not able to fit it in he will talk with Dan, George Haas, Larry Seltzer, myself and the like.

W.C.G.



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Herman Oliphant

November 14, 1938

Pursuant to your suggestion, Cairns' and Johnson's conference with the New York people on the Sudeten matter was held in Mr. Gibbons' office.

Early in the conference, the leader raised the question of the Treasury's motives. Johnson jumped on him for this and they formally took back the implied accusation. The discussion would then have proceeded entirely on its merits but for the fact that Steve reintroduced the question of motives by saying that Hitler had been treating people like cattle, and so we some time ago reversed a ruling permitting goods to be marked with the name of the German province. In spite of this all but disastrously tactless statement, the conference proceeded to a satisfactory conclusion, the New York group agreeing that the Treasury had made a disinterested and honest attempt to interpret and apply the law fairly. When agreement to this effect had been reached, the leader of the group said he hoped we would give consideration to the point they had made. Steve volunteered that they could leave with some hope and turned to Cairns for verification. Cairns said that was not true since they had presented no new points that had not been fully considered. The effect of this statement was to renew the discussion, but it finally closed as indicated above.

The conference closed with their expression of appreciation for the hearing that they had been given.

*HO*

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# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information -

I have dictated a full statement of the White House conference today to Miss Chauncey.

I attach for your files our first rough statement of the general objectives which was worked out after our talk this morning with General Arnold and Colonel Burns. I attach for your files a copy of the statement which you gave to the President. Unless you consider it urgent, I am not sending a copy of this to Assistant Secretary Johnson at this time because I would like first to go over it with the technical men being designated by the Army and Navy to work with Jackson and me on the problem. For the further documentation of your files, I attach a statement by Cox of my office with General Arnold and Colonel Burns as well as a conference which Cox and Cairns had with the two technical men whom Arnold sent over after I telephoned you this morning - these men are Captain Holland and Colonel Bramer.

Attachments (3)

General Objectives of Program

1. To secure quantity production freed as far as possible from development, and to secure such production integrated with development as much as desirable.
2. To utilize the existing facilities of the entire industry.
3. To develop additional facilities, including Government plants operated by Government or industry for purposes of production, price control and stand-by.
4. To make it possible to utilize the ship building as well as the automobile type of building, with emphasis on the former.
5. To subsidize research.
6. To develop price control methods, including the problem of monopoly vs. competition, patents, etc.

EG/ep 11/14/38

**ADDITIONAL MEASURES FOR CONTROLLING COSTS, SOME OR ALL OF WHICH MIGHT BE USED**

**Notes:** For administering these measures, whether a Central Price Board, or other existing or new administrative agency should be used, will be the subject of a separate outline.

1. Bigger buying power and hence greater bargaining power through centralized Government purchasing of materials, parts and supplies.
2. Put a condition in Government supply contracts that the successful bidder will supply the article in question at the same price to companies involved in the airplane program.
3. The use of cost plus fixed fee contracts in proper cases.
4. Give the President <sup>broad</sup> power by proclamation to suspend the Buy America Act in particular cases.
5. Provision for lowering tariff rates on articles subject to excessive prices.
6. Develop Government plants, not merely to provide stand-by capacity, but also to serve as potential price control.
7. Power in particular cases to take over material or parts on payment of 75 per cent of their estimated worth with procedure in the court of claims to determine how much of the balance should be paid.
8. Revise present provisions for spot-check cost studies and possible publication if necessary for control.
9. Hearings by the Temporary National Economic Committee on articles subject to run-up prices, and such specific changes in the anti-monopoly law as the immediate situation may require.
10. Cheap credit and technical assistance to new and financially weak plants needed to provide competitive capacity.

-2-

11. Reexamine present provisions for awarding contracts to companies other than those submitting successful designs, with particular reference to cases where excessive prices are encountered.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE NOV 14 1938

TO Secretary Morgenthau  
 FROM Mr. Oliphant

Re: Conference with War Department Representatives.

For your information:

I.

Morning Conference

PRESENT: General H. H. Arnold, Chief of Army Air Corps, Colonel J. H. Burns, Office of Secretary of War, Army and Navy Munitions Board, Cairns, Cox and myself.

TIME: 10:11 a.m. to 11:35 a.m.

SUMMARY OF CONFERENCE: In the main, we discussed the general objectives of the program. The War Department representatives stated what their problems were in getting the necessary planes produced in quantity. I suggested that we try to develop some general objectives. After some questions and discussion we agreed on general objectives surprisingly quickly. Briefly summarised, they were as follows:

- I. To secure quantity production freed as far as possible from development, and to secure such production integrated with development as much as desirable.

In some cases and for some purposes, it is desirable to divorce development from production. However, in order to get standardized quantity production, it is desirable and necessary to freeze for a time the designs of the particular types of planes. At the same time that quantity production is going ahead, the development of new designs—quite apart from production—has to be carried on so that when it is desired to freeze new designs for future quantity production they will be available without unnecessary delay.

To stimulate and develop such new designs, it is necessary to provide direct means by which the Government can pay for them. At the present time—except by devious means and when money is available—the Army and Navy cannot and do not pay for the costs and expenses

incurred by a designer who meets the minimum specifications but is not the winner or one of the three winners in a design competition. In some cases, this uncompensated cost runs as high as \$500,000 for the plane used in the design competition. The designer cannot sell this design to a foreign government until the Government so consents. It ordinarily does not so consent until some years after the successful design has been put into production and operation. Needless to say, this procedure has a retarding effect on the development of designs.

To develop such new designs, it is also desirable to stimulate basic research and technology by grants-in-aid, cheap credit, technical assistance to institutions, corporations and individuals. From this standpoint of developing new designs, it was also considered desirable to have government plants manufacturing planes. The technicians employed there would have some of the particular experience and opportunities for developing useful designs and inventions.

## II. To utilize the existing facilities of the entire industry.

As the legislation stands today, the Army and Navy cannot—except by very devious ways—serve the double end of getting the best planes for their needs produced fast or keep the entire or a large part of the industry functioning for the production of their planes. An example will illustrate this point: The Army asks for bids for a pursuit plane. Manufacturer A responds to the request for bids and the performance specifications by a plane that has a high speed of 372 miles per hour, and in other respects is similar to Manufacturer B's plane. B's plane, however, has a high speed of 370 miles an hour. Both planes will meet the Army's needs—the difference in high speeds being too small to make any practical difference. The Army wants 500 of such planes but Manufacturer A's productive capacity is only 250 planes per year. Under existing law, the Army cannot directly split the award by giving A an order for 250 planes and B an order for 250 planes; it has to—unless it uses an indirect means—and usually makes the total award to A. In this way not only is the production slowed up, but B's productive facilities are not utilized.

## III. To develop additional facilities, including Government Plants operated by Government or industry for purposes of production, price control and standby.

On the basis of anywhere near an annual production of 10,000 planes per year for Army and Navy use, the Government plants might be necessary from two angles. One is that they would directly supplement the existing production facilities. The other is they would train the

necessary semi-skilled and skilled workmen, technicians, etc. to be available as a reservoir for private plants in the event that they expanded sufficiently or new ones were opened up to meet the situation. As matters stand now, and without such a training, the program might run into somewhat of a bottle-neck in the form of a shortage of enough qualified workmen and technicians. Furthermore, in the case of a war the Government plants would serve their utility as a standby from both the standpoint of being able directly to meet the added production needs and to train the necessary personnel for the private firms.

For the purposes of price control, Government owned plants would doubtless be an important sanction. Confronted with the loss of large orders to be filled by Government plants if their prices are collusive or out of line, the aircraft manufacturers would be inclined to lower their prices. This would seem to be so, even if at the outset the Government could not manufacture as cheaply as the private companies.

Legislation for this purpose of price control was enacted in 1926 (U.S.C. title 34, sec. 495). Under it, the Navy is required to utilize its plants, factories and facilities to construct, manufacture, and repair not less than ten per centum of its naval aircraft. In addition, the President is authorized to employ Government establishments in any case where it reasonably appears that (a) there is collusion among the private aircraft manufacturing companies to restrict open competition in letting contracts to the Government for aircraft, engines, spare parts, or equipment; or (b) any person or corporation being in a position to manufacture or furnish the Navy with the particular design of aircraft, engines, etc. names a price in excess of the cost of production plus a reasonable profit.

IV. To make it possible to utilize the ship-building as well as the automobile type of building, with emphasis on the former.

In this connection I mentioned the experience of the World War. Today the aircraft industry is carried on along substantially the same lines as the ship-building industry was during the war: production of the component parts and the assembly work are not geographically concentrated in one area as is the case, in large part, in the automobile industry; the production of the engines, bodies, instruments, etc. of the aircraft are all carried on in different parts of the country and then are assembled in one locality.

V. To develop price control methods, including the problem of monopoly vs. competition, etc.

The War Department mentioned the use of cost plus a fixed fee as such a method of control. I pointed out that (a) This whole problem is collateral to the main problem of getting standardized quantity production of the best designed planes in the shortest time; and (b) The cost



- 4 -

plus fixed fee method was only one of various controls, such as Government plants, the Vinson Act type of method, etc., which should be considered.

The conference ended on a note about democracy. General Arnold pointed out that one reason why Germany had done what it had was that one man was Boss. I pointed out that comparatively in the light of our natural resources, etc., the Germans were beggars compared to us, and that in the light of my experience in the last war we may have fumbled but we not only went into, but came out of the war a democracy. General Arnold ended by saying we could do that again.

## II.

### Afternoon Conference

PRESENT AT FIRST PART OF CONFERENCE (12:45 p.m. to 1:45 p.m.): Cairns and Cox of this office, Captain Park Holland of the Office of the Assistant Secretary of War, and Colonel M. C. Cramer of the Judge Advocate General's Office; at the latter part of the conference (1:45 p.m. to 3:10 p.m.), Cox, Manning, and the two War Department representatives.

Based in large part on the morning conference, questions were asked by the Treasury representatives about the actual operation of the existing provisions of law on war aircraft procurement and the facts about the industry. Captain Holland was familiar with the facts about the industry as well as the legal provisions.

The War Department has drafted proposed legislation to meet phases of quantity production by providing very briefly, in substance, that the Secretary of War or Navy be authorized to negotiate contracts without the necessity of competitive bidding or review by the Comptroller General. Although this would possibly accomplish part of the results insofar as the straight production phase of the question is concerned, it would probably run into serious legislative difficulties. It is conceivable that some members of Congress, particularly those who are interested in pacifism, would strongly oppose such a bill on the principal ground that it would give too much unlimited discretion to a single individual who might abuse it, and that it would be establishing a bad precedent, particularly at a time when war is not imminent.

The proposed legislation does not meet squarely the question of stimulating the development of the necessary designs which can be used for standardized production or to meet the problem of monopoly, price, patent, etc. control.

The War Department representatives felt that given more money the War and Navy Departments could accomplish many of the objectives with-

- 5 -

out new legislation. However, in order to do this, devious and tortured interpretations of the existing law will have to be made. A much more direct meeting of the issues—and a more complete one—could be done by new legislation.

The War Department representatives advised us that the Secretary of War had instructed them to be at your complete disposal at all times and to render all and any assistance that you might require.



11-14-38

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information -

I saw J. David Stern Saturday, Wenchel present. Without giving us additional facts he stressed his friendship with Fox, and insisted on Fox's dependability. He wanted us to forego any objection to the present plan of settlement of the bankruptcy action with the payment of \$500,000.00, all of which, minus expenses, would presumably go to our tax claim. I told him the matter would be considered.

When the conversation shifted to general terms I sketched the plan for Declaratory Administrative Rulings. He expressed great interest and wanted material on this plan. I gave him a copy of my American Bar Association Journal article.

*HO*

*To Secretary's Suite*

NOV 11 1938

My dear Mr. Secretary:

I have your letter of November 5 with which you enclosed a draft of a trade agreement to be concluded between the United States and the United Kingdom, together with drafts of related documents. You state that it is hoped that the agreement may be signed on November 11, and you ask that you be informed as soon as possible whether there are any Treasury objections to any part of the proposed agreement.

The Treasury Department has carefully examined the text of the draft submitted and has not found therein the possibility of any administrative difficulty which would warrant objection by us to the conclusion of the agreement.

Very sincerely yours,

*Robert H. Wood, Jr.*

Secretary of the Treasury.

The Honorable

The Secretary of State.

WJ:hl 11/7/38

*10:20 am 11/14/38  
 Laid Mr. Backs,  
 Oliphant's Office,  
 Secy wanted delivered  
 by hand. Gme.*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 14, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

Messrs. Keyserling and Krooth of the United States Housing Authority called at my office Saturday morning and discussed for more than two hours with Mr. Foley and myself the financing plan submitted by Mr. Straus to the President.

Messrs. Keyserling and Krooth accomplished little more in their discussion than an elaboration of the advantages claimed for the plan in Mr. Straus' letter of October 29 addressed to the President, which you have seen. They did not satisfactorily meet our main objection to the plan, i.e., that the bonds of the local housing authorities can not be sold to the public at less than three per cent interest unless the impression is created in the public mind that the bonds are equivalent to Government guaranteed bonds, which they obviously are not. The dangers to Federal credit and the Government bond market which might result from a sales campaign for the bonds conducted by a nation-wide syndicate were also discussed.

Not much progress was made. As a basis for further discussion, it was agreed that we would be furnished with a draft of the annual contribution contract which will be entered into by the Housing Authority in connection with the proposed plan. A further conference is to be held with Messrs. Keyserling and Krooth tomorrow morning at 11:00 a.m.

Per Foley



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 11-14-38

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

Mrs. Oliphant and I were invited to a dinner given by Mr. Joseph Alsop for Mrs. Alice Duer Miller, of current literary fame, last Saturday. Present besides were the Jacksons, the Hendersons, Mrs. Grace Eustis, and "The Corcorans".

The dinner was literary; the coffee was an election post mortem; and the balance of the evening, with the ladies, was devoted to the ensemble in folk songs and hymns with accordion accompaniment.

One item of the slightly ebullient discussion of politics still floats on the surface of my memory: namely, agreement that the house had to be cleaned of the "Ely type" of thing.

*HO*

Tuesday  
November 15, 1938  
9:10 a.m.

HMJr: Hello.

Henry

Wallace: Yes, Henry.

HMJr: Henry, could you give me any indication of what - about what lines the discussion will take this morning - should I be doing any homework?

W: Well, I thought this might be preliminary to the homework.

HMJr: Yes.

W: Ah -

HMJr: I mean -

W: Well, what - what - I thought we'd discuss both wheat and cotton.

HMJr: I see.

W: In the very broad general terms as the way in which various types of action which might have an effect on the Treasury policy and State Department policy and Agricultural policy.

HMJr: Well, who all's going to be there?

W: Why, I think Secretary Hull is bringing Herbert Feis with him.

HMJr: I see.

W: And I would have Tapp or A. G. Black normally but they're out of town and I think I'll have Leslie Wheeler.

HMJr: How would you feel...

W: I may possibly - I may possibly bring in Zeke - I don't know.

HMJr: How would you feel if I bring George Haas?

W: Why I think that would be fine - it - ah - I don't know whether you'd - I don't know how much of your

- 2 -

agricultural work you're having Taylor do - I don't know whether he'd be a help or not.

HMJr: Ah - I don't know.

W: Yeah.

HMJr: I'll ask him how he feels about it.

W: I think either - I think in some respects with regard to some of this - I think White might be as - fully as good as Haas.

HMJr: No - I - ah - I - well, ah -

W: Either one would be excellent.

HMJr: What?

W: Either one would be excellent.

HMJr: But/I wanted - you are - I didn't know whether it was just going to be you, Hull and myself or whether it'd be one or two outsiders - I mean...  
what

W: Apparently Hull wanted - you see, Hull is going away.

HMJr: I see.

W: And therefore I think he wanted to bring someone with him and I thought -

HMJr: Well.

W: - it might be just as well if we each had a - each had a man.

HMJr: Well then you don't mind if I bring somebody.

W: That'll be fine.

HMJr: Thank you.

W: Yeah. ..



November 15, 1938

My dear Mr. President:

I am enclosing herewith a review of the business situation for the week ending November 12, which I thought was particularly interesting.

Yours sincerely,

The President,  
The White House.

Enclosure. (Haas' memo dated 11/14/38)

NMC:mas

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 14, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending November 12, 1938.

Conclusions

(1)

The foundation for further business improvement has been strengthened this week by an expansion of industrial buying, particularly in textiles and steel. Accompanying this has been an increase in business optimism, generated by the rapidly rising activity in the steel and automobile industries, and further stimulated by a renewed upturn in stock prices. Weekly business indexes have registered further gains under the leadership of increased output in the steel and automobile industries. Commodity prices have been firmer, and cotton mill activity has begun to improve.

(2)

Reviewing the indications pointing toward further business improvement, we find that:

(a) Industrial production, despite its very substantial rise, is still somewhat below the level of consumer demand, as indicated by our basic demand index and by our recently-constructed index of consumer buying.

(b) The level of industrial buying, as shown by our new orders index, remains somewhat higher than the current level of industrial production.

(c) Employment is increasing; consumer purchasing power is being strengthened; and business sentiment is becoming more optimistic.

Secretary Morgenthau - 2

(3)

Weak features of the present situation, while not numerous, provide some ground for caution:

(a) An unusually large proportion of the more recent business upturn is based upon one industry. If consumer demand for automobiles should fall off, it would adversely affect a large section of industrial production, particularly steel production.

(b) The commodity price situation is not as satisfactory as could be wished, though prices of industrial materials have shown considerable improvement under the stimulus of increasing industrial demand. The weak foreign situation, reflected in a further weakening in sterling and franc exchange, continues a deflationary price influence.

(c) The agricultural section of the national economy remains in an unsatisfactory position, due to continued low levels of agricultural prices and overhanging crop surpluses, and agriculture accordingly is not contributing its full share of purchasing power.

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#### The steel industry

An expanding volume of steel buying has accompanied this week's steep upturn in ingot output to 61 per cent of capacity. Sales of fabricated structural steel for the week ending Thursday increased to 40,000 tons, the largest in about a month and a half. Sales for the year to date have been 898,000 tons, as compared with 1,114,000 tons for the corresponding period last year. New orders reported by the U. S. Steel Corporation for last week increased to the equivalent of 71 per cent of capacity. New orders for sheet steel, which have been increasing during the past week, may have to be filled in part by delivery during January owing to the congestion of orders in this product for December delivery.

Secretary Morgenthau - 3

A weak feature in the steel situation has been a low level of new orders for tin plate, and a consequent low rate of operations in the tin plate division of the steel industry (around 25 to 30 per cent of capacity). This situation is expected to be changed by a \$7 a ton reduction in tin plate prices announced this week by the U. S. Steel Corporation. Since a price reduction had long been awaited by buyers, it is expected in the trade that a considerable volume of tin plate orders will now be released, serving to strengthen steel operations during the coming months.

Steel output during November and December is likely to exceed actual consumption, according to opinion in some quarters of the trade, owing to the speeding up of operations in an attempt to complete delivery on recent sheet steel orders before the end of the year. For this reason, some expect a temporary reduction in steel operations after the present urgency is passed. The magazine Steel expects a levelling off of steel operations after the 10-point spurt of the past three weeks.

#### Automobile sales increasing

While it is too early yet to judge quantitatively the actual retail sales volume for automobiles, since new-car buying has only recently got under way, it is encouraging to note that General Motors' sales during the third period of October, as shown in the table below, improved more rapidly than last year.

October	This year	Last year
1st period	1,400	2,900
2nd period	1,400	2,700
3rd period	3,600	4,500

Ward's Reports estimate October automobile sales at 25 to 30 per cent over September, and mention that the rising sales volume is continuing in November, as indicated by reports from the field that dealer stocks are not increasing, but are in constant movement from factory through floor showing to purchasers.

Automobile production this week increased to 86,300 units, as compared with 80,000 units last week, exceeding for the first time the corresponding 1937 figure. Production last year amounted to 83,325 units for the week. As compared with the New York Times seasonal trend, however, which rises rapidly at this time, the increase in automobile output was less than seasonal. The New York Times adjusted automobile index for this week will therefore decline to 89.8, as compared with 92.2 for last week.

Ward's Reports expect production "to expand cautiously for another two weeks or so, after which it likely will be held on a fairly even plane for a few more weeks. Then field stock conditions will be the determining factor in output." Since the normal seasonal trend continues to rise rapidly until the middle of December, any tendency toward a flattening out of production, as suggested by Ward's Reports, would be likely to reduce the seasonally-adjusted indexes.

Textile outlook improving

An upward trend of textile production in the near future appears as a prospective support to business activity, replacing the declining trend which has been in evidence since August. New textile orders have improved sharply in the past two weeks. Recent cooler weather and a rising trend of raw wool prices have brought increased buying in all sections of the woolen goods market. New orders reported by the American Woolen Company this week, probably including some share of a recent large Government order, have risen to a new high for the year. During the latter part of this week cotton goods sales have increased to the highest level in several months. In three days, according to trade reports, mills sold about 35,000,000 yards of print cloths, almost double the current weekly output. The increased demand brought firmer prices for a number of mill products, and was a factor in a rise in raw cotton prices to a new high for the movement.

Cotton mill activity, seasonally adjusted, has already begun to show some improvement (See Chart 1), under the influence of increased orders received during the past several weeks. The New York Times adjusted index of mill activity for the week ended November 5 rose to 115.8, as compared with 113.3 for the previous week.

Commodity prices supported by industrial demand

The general commodity price trend continues disappointing, considering that a rapid business improvement has been under way for 5 months and that the monetary expansion program should tend strongly toward raising prices. An increasing industrial demand, however, has operated to support prices of industrial raw materials as contrasted with prices of agricultural products.

Secretary Morgenthau - 5

In Chart 2 we show weekly prices since the first of the year for industrial materials and for agricultural products, as compiled by the Bureau of Labor Statistics. While the industrial price index has been rising over the past several months in company with improving business activity, the agricultural index has remained depressed, due to a relatively weak foreign demand and continued burdensome supplies. Further declines in sterling and franc exchanges this week, reflecting continued weakness in the economic situation abroad, are discouraging to hopes of a nearby improvement in foreign demand.

The business recovery has helped prices of industrial materials both through an increased demand and by reducing available domestic supplies. The price of rubber, for example, has been improved not only by the increased buying activity of rubber manufacturers accompanying the increase in tire and tube output from an index of 65 in May to 96 in September, but also by a resulting working down of domestic stocks of rubber. Stocks of crude rubber on October 31 were reduced to 270,000 tons, as compared with 277,000 tons a month earlier, and with the year's high of 311,000 tons at the end of April. Furthermore, the price index of industrial materials includes a number of products that are important in the European rearmament program, and thereby enjoy a sustained demand independent of foreign business or financial considerations.

During the current week sensitive commodity prices have tended to improve, with strength particularly evident in Reuter's index of prices in Great Britain, which had recently been relatively weak.

#### Rise in stock prices renewed

Throughout most of October the trend of stock prices had flattened out while business continued to make further gains. On Monday of this week, with the report of a 4-point gain in steel operations and the prospect that election uncertainties would soon be removed, stock prices started a renewed rise (See Chart 3), which has carried the Dow-Jones industrial stock average to near the 160 level. Prices on foreign stock exchanges, notably on the Paris Bourse, also showed substantial gains. A considerable volume of buying has come into our markets from abroad in recent weeks, as indicated on the chart.

Secretary Morgenthau - 6

The stock price rise has been a factor in the increased volume of buying this week in various industries, since it has tended to strengthen business optimism regarding the industrial outlook. It may in some measure be taken as confirming the indications given by our index of basic demand, our index of consumer buying, and our index of new orders, which suggest that the recovery has somewhat further to go before it reaches the current levels of both consumer demand and industrial demand.

Unless the demand level continues to improve, however, the present rate of increase in industrial production may raise production to the demand level or above by the end of the year. The trend of demand over the next few months will therefore become a key factor in the business outlook.

A weak factor in the demand situation is the low level of agricultural prices, and uncertainty over prices and crop volumes for next season, which deprives business of part of its normal support from agricultural buying.

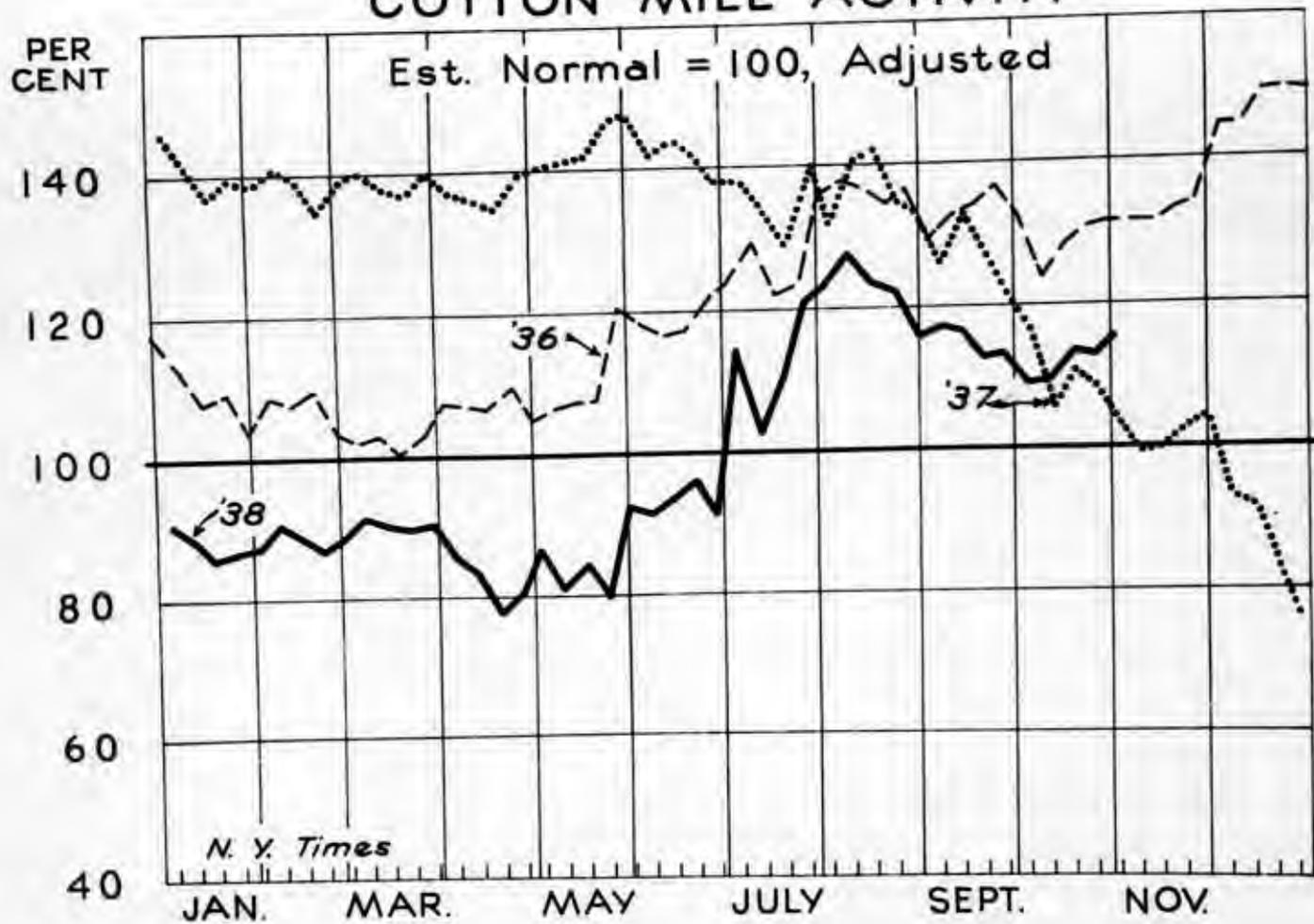
The business outlook is clouded somewhat by the unusual dependence of current industrial activity on the automobile industry and its related industries. While building and textile activity are also providing strong support to business they would probably not be sufficient to prevent a temporary business setback if the demand for automobiles (and consequently the demand for steel and other products) should prove to have been over-estimated. Automobile sales during November will provide an important measure of the level of consumer demand.

#### Current business news

Our index of new orders (See Chart 4) during the past two weeks has shown the sharpest rise of the year, reflecting substantial increases in orders for steel, textiles, and automobiles. The upturn has been sufficiently pronounced as to suggest that some backlog of orders has been built up, which will serve to support business during the remainder of the year. The heavy textile sales of the current week are not yet reflected in the index.

The New York Times adjusted index of business activity for the week ended November 5 rose .5 point to 89.5. Automobile and steel production gained sharply during the week, cotton mill activity was somewhat higher, and the other four components showed minor changes, three of them downward.

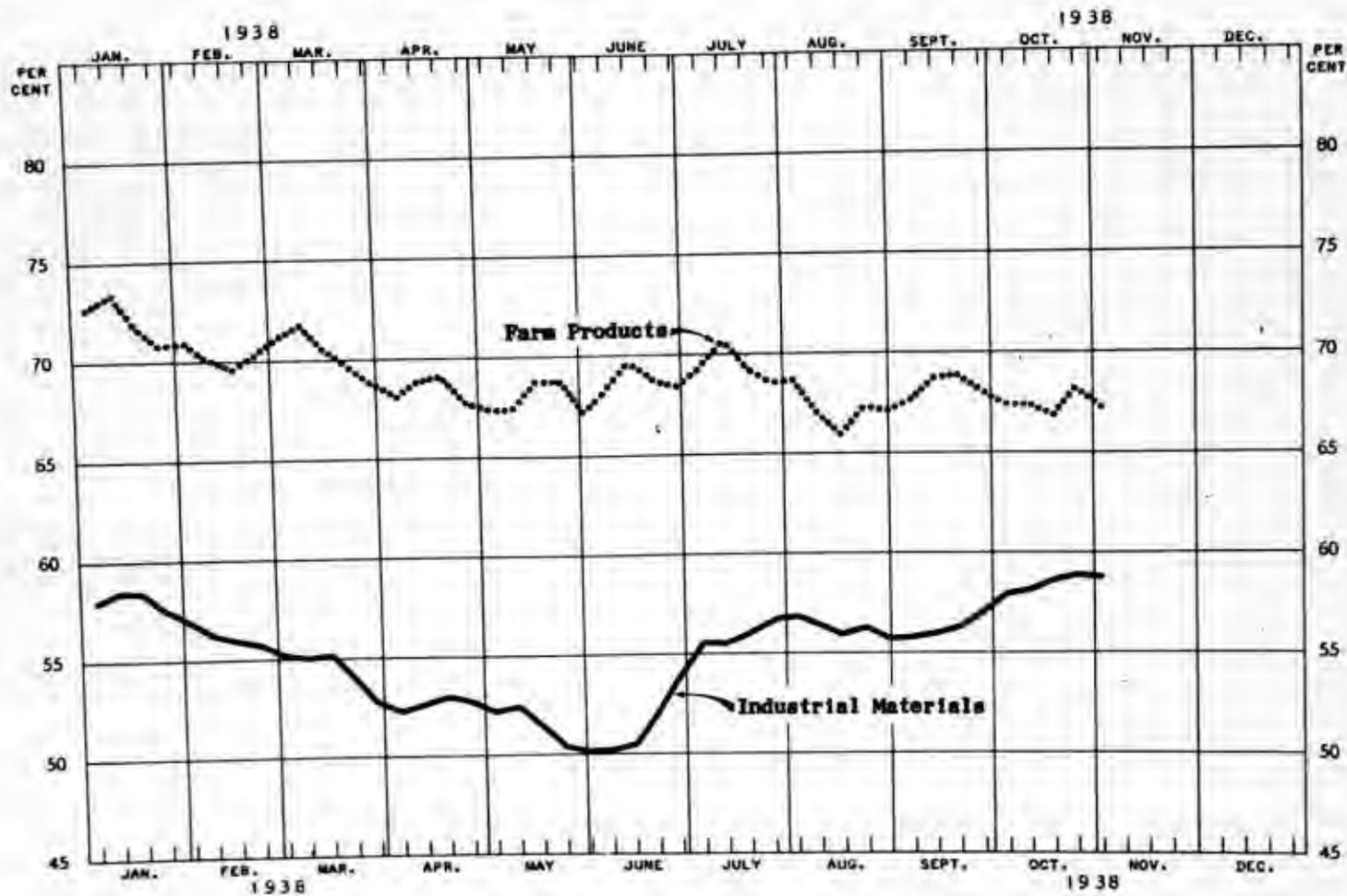
# COTTON MILL ACTIVITY



390 Chart 1



**PRICES OF INDUSTRIAL MATERIALS AND FARM PRICES**  
1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

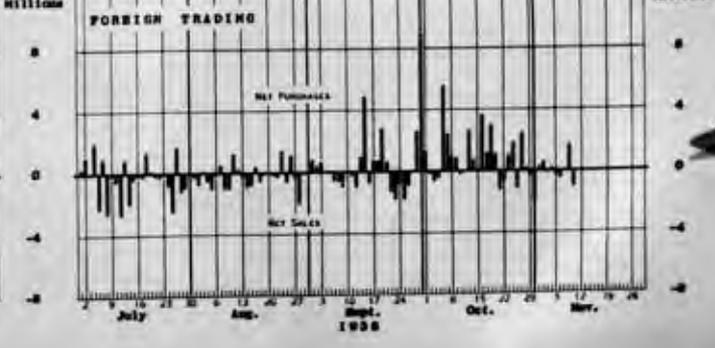
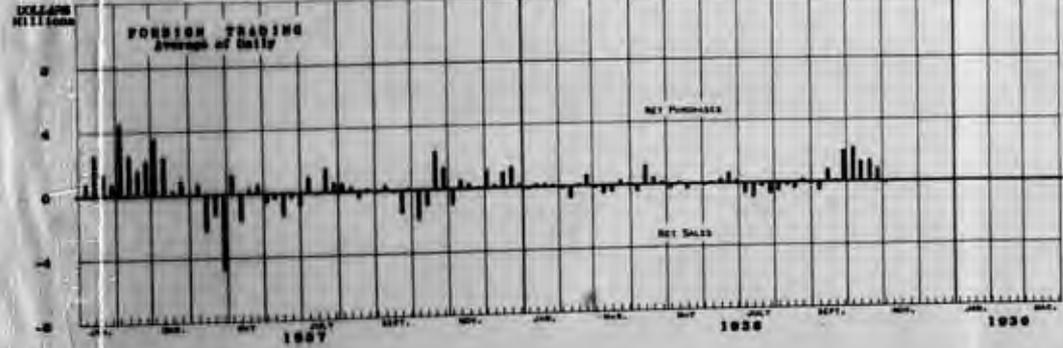
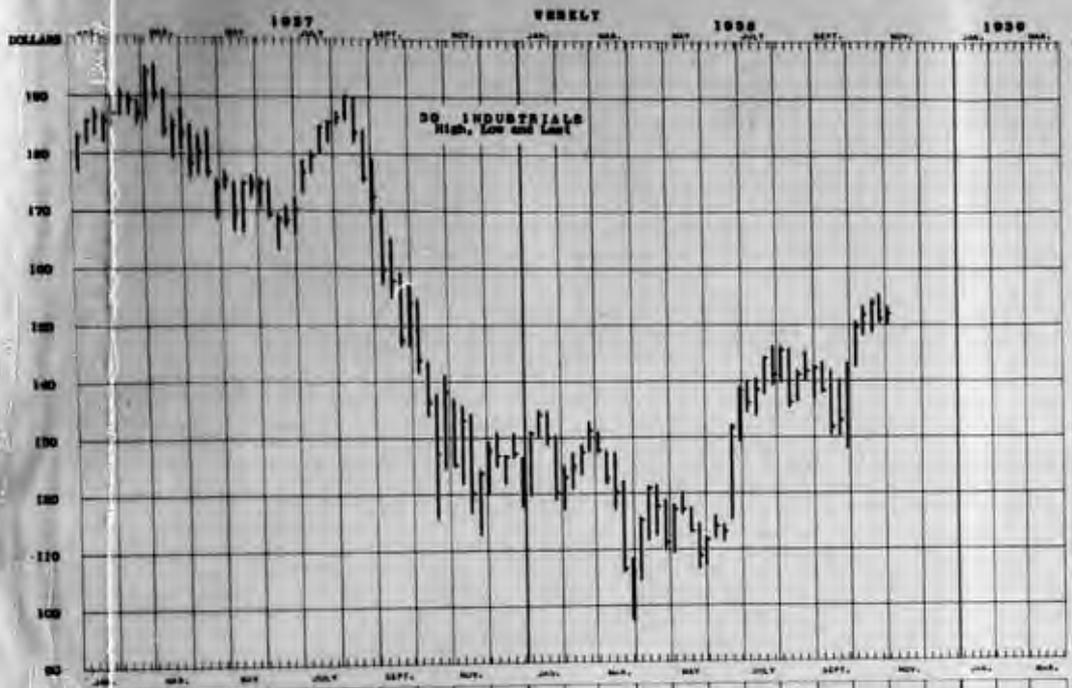
334

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CONFIDENTIAL  
Chart 3

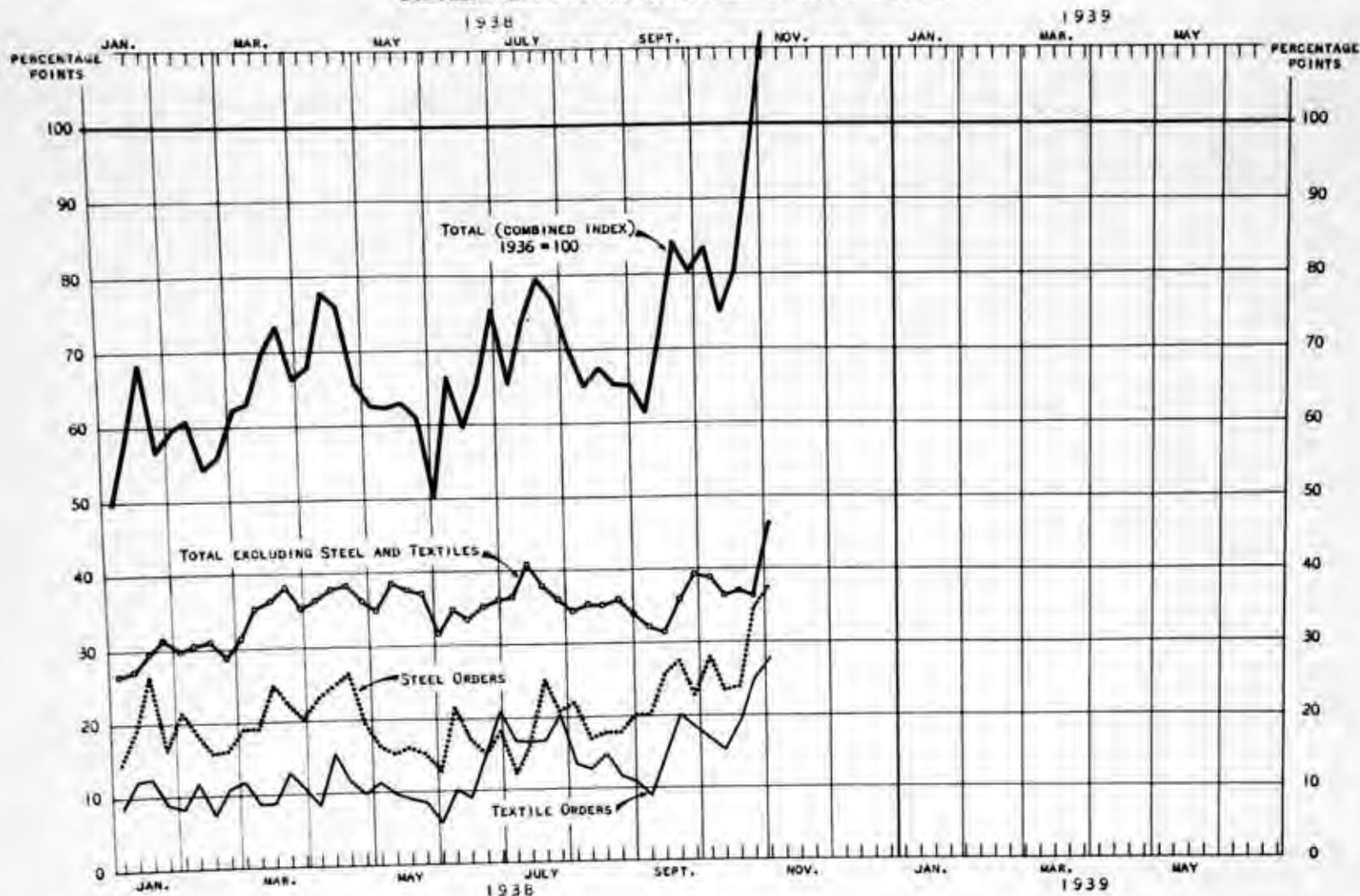
### STOCK PRICES AND FOREIGN TRADING IN DOMESTIC STOCKS

Daily Movement, Dow-Jones Industrials and Foreign Net Purchases and Sales



# INDICES OF NEW ORDERS

## Combined Index of New Orders and Selected Components



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REB

A portion of  
this telegram must be  
closely paraphrased be-  
fore being communicated  
to anyone. (br)

PARIS

Dated November 14, 1930

Rec'd 5:32 p. m.

Secretary of State,  
Washington.

1915, November 14, 6 p. m. (GRAY)

FROM COCHRAN.

FINANCIAL TIMES London today quoted Reynaud as saying  
the following to foreign press representatives:

"The tripartite agreement has never been so closely  
respected in letter and in spirit as it is by our  
present policy, which is a policy of freedom of trade  
and freedom of the exchanges. Any expansion of the  
tripartite agreement in the spirit in which it was  
drawn up and everything that will bring the three great  
democracies closer together will be warmly welcomed by  
us."

He was reported further to have said in answer to a  
question that in the event of any change in relation to  
the dollar the franc would "remain faithful to the pound."  
(END GRAY)

When

At half-past eleven this morning when I talked with the Bank of France, 4,000,000 pounds had been gained by the stabilization fund. This afternoon a feature of the market is the pressure on sterling resulting from continental sales thereof against dollars. Moderate gains made in French rentes and shares. There is a good first market reaction to the measures of Reynaud. However, opinion is still reserved until the Government makes known the rest of its program and there is chance to study it.

I had talks with three leading Paris-American bankers, who agree that Reynaud has launched a courageous and wise plan. Its success will depend on whether there will be willingness on the part of the French to make the necessary sacrifices to see it through, and whether they can avoid party strife. These bankers agree with the press - aside from the Left - that if this orthodox plan cannot be put across by Daladier and Reynaud, the result will be a system of exchange control and closed economy.

There was announcement today by the Government that it is not preparing a second series of decrees. They will submit to Parliament measures still under study rather than deal with them under the special powers.

At six o'clock this evening I talked with my friend

at

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- 3 -

at the Bank of France. He told me that the French fund had gained 6,000,000 pounds for the day. He said he was quite satisfied with this, and said that if it had not been for the remarkable strength of the dollar against sterling, the figure would have been much larger. Part of this trend he attributed to the uneasiness in London and elsewhere lest the fine upon the Jews is really a levy for the war chest of Germany.

END MESSAGE.

WILSON.

RECEIVED

NOV 12 1918

THE TREASURY DEPARTMENT  
Office of the Secretary  
Department of the Treasury

NOV 12 1918