

DIARY

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January 1 - 8, 1940

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GROUP MEETING

January 2, 1940.
9:30 a.m.

1

Present: Mr. Bell
Mr. Haas
Mr. Cochran
Mr. Schwarz
Mr. Cotton
Mr. Gaston
Mr. Sullivan
Mr. Glasser
Mr. Thompson
Mr. Foley
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: I don't believe I have anything new.

H.M.Jr: Ed?

Foley: Here is the memorandum you asked for Saturday morning about the movie cases. I have given a copy to Sullivan.

H.M.Jr: Some time this morning I will go over this with you. I don't know when, but I will.

Will you (Cochran) see that the cables which used to go to Hanes, go to Bell?

Cochran: Yes.

H.M.Jr: Sullivan?

Sullivan: Nothing.

H.M.Jr: Any snow up in your country?

Sullivan: Yes, sir, just right.

H.M.Jr: I wanted you and Gaston to stay behind. There is something I want to go over with you.

Glasser? What is this that happened Sunday at the State Department on the Argentine Trade Treaty?

Glasser: They had a trade agreement meeting. It was a meeting of the Trade Agreement Committee on the Argentine and they there took up a cable which the Argentines had sent up

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practically refusing all of the requests of the United States in the negotiations. So far as it refers to the Treasury, they turned down the exchange control article --

H.M.Jr: Who did?

Glasser: Argentine, turned down the exchange control article that the State Department has been trying to get them to accept, which we objected to as well. Negotiations were evidently in a very bad state and the Trade Agreement Committee felt they had to make another concession, additional concessions to Argentine, in order to - if they were to have an agreement at all. Then they proceeded to draw up a revision of the exchange control article that would much more nearly meet the Treasury's position and that was cabled down to Argentina.

H.M.Jr: Well and you (Thompson), in the administrative procedure here, I write to Mr. Welles and tell him that - very politely that this thing of dumping this Cuban thing on my desk and my not having time, he turns it over to Grady and Grady writes a letter in which he says, "You had ample time. You have had since September. You were represented on the trade thing," and so forth and so on and if we didn't like it, why didn't we say so and he throws it right back into our lap, and I don't know what the answer is, but you see here we have got White on the trade agreement - he represents the Treasury. Cotton is on South America and debt settlements, Basil Harris and Herbert Gaston on neutrality, Merle Cochran doing - clearing all cables, and then for some unknown reason I get a message - a memorandum from Ed Foley giving me the latest word on the Argentinian thing and the exchange. Well, it is ridiculous. I can't work that way. I mean, I get a memo. Saturday night from Ed. I speak to Harry and he tells me this fellow was over Sunday on the trade agreement thing. Joe Cotton is on the thing. Harris goes over, Gaston goes over. Now, some how or other we have got to have one person to whom everything will flow that has to do with

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the State Department and from that person to me. I can't do it any more this way. I just can't function that way. Some one person will have to be - everything from the State Department will have to flow through that person and when they can't decide, then they can come to me with the problem, but I am not going to have six people reporting to me on contacts with the State Department and then when something like the Cuban Trade Treaty or this matter with foxes in Canada and Mr. Hull has to call me up and say, "Why hasn't it come to me - " this is a matter of just a question of procedure and I think that Bell and you fellows ought to get together and work a way out and decide on one person who should know everything that goes on between the Treasury and State Department and let's pin it on one person, but the way it is now it is just impossible. We get all excited and this man says he doesn't know this - I can't work like that any more. It is very bad procedure, so will the two of you go in and do it fairly quickly, because I do the best I can for I know like this afternoon I am going to see Sumner Welles on Colombia. Cotton and I function all right because I let him know pretty well what I am doing and he lets me know what he is doing but this trade agreement thing, some of these other - this business about the foxes in Canada, I signed it completely blind. I haven't the slightest idea what I signed. I don't know yet what the Cuban Trade Agreement cost the Treasury. I know it cost us something. So see if you can't - there is a good job for a couple of these Civil Service boys, see how good you are.

Bell: We will tackle it today.

H.M.Jr: Because whoever the person is, when they are stuck they can come to me, but unless they are stuck I don't want them to come to me, but the final straw was when the General Counsel writes me a memorandum on the foreign exchange thing. I know who wrote it, and it was all right, but there were about six people

in on it. Bernie was right on this whole thing. Bernie saved the show against the economists this time.

Glasser: That is correct, he caught it.

H.M.Jr: And incidentally, you fellows have got to clean up that Ecuador business now.

Glasser: I am afraid I shocked the whole Inter-Governmental Committees by indicating that we wanted to move quickly on Ecuador.

H.M.Jr: It is too much on me and too much confusion. Well, some time within a reasonable time these men will go to work and give me something on that. And then when I say I don't want to read all these cables and all this junk that comes in from Nicholson and all the rest of the stuff, I want to make sure that somebody does read it.

Cotton: Do you want to bring up the status of this Pan American Bank idea in White's absence? Is he going to be here?

Glasser: The status is that we are to prepare a provisional draft of organization and control and functions of the proposed bank and that this is to be discussed on Wednesday with the informal committee consisting of the Federal Reserve people and people in the Treasury and I think the time schedule is on Thursday it is to be given to Berle for discussion at his committee.

Cotton: The significance of it is that Berle is asking - virtually asking the Treasury to do the whole thing now. Was that your intention?

H.M.Jr: I don't know. I heard - I guess you told me, didn't you, that you had worked on this thing? I think that is important enough so that I ought to have a peak at it before it goes over and on things like this where you know they are coming, you ought to ask for an appointment a day in advance so that I can give it plenty of time.

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Cotton: Well, that would be —

Glasser: We did.

Cotton: Some time tomorrow.

Glasser: I should think after the informal committee had its discussion, we could show it to you some time late in the afternoon.

H.M.Jr: Some time in the morning, Cotton, I want to talk to you about this thing with Welles.

Cotton: What time is he coming over?

H.M.Jr: Not until this afternoon. But if you will be around this morning, I will see Foley first and then Cotton.

Incidentally, on this thing that you (Glasser) are working for me on, if we use '24 to '29 inclusive, then in order to make the story you have got to show how the thing went down from January 1, '30, to December 31, '33. Then start in on July 1, '34, and go as far as you can and as far as we have statistics.

Glasser: That is right.

H.M.Jr: You have got to have three periods. I have set 3:00 for tomorrow afternoon — I am very serious about this thing. This is number one.

Glasser: Yes, sir.

H.M.Jr: It is this speech that they have been working on for a month and I have decided I am going to give it some time in January, on capitalism.

Bell: Sounds like Eccles.

H.M.Jr: I happen to be for it.

Bell: Oh, you are for it. That is O.K., then.

H.M.Jr: If I can prove what we are trying to prove, I think it will be a real contribution. I don't know whether we can prove it. Think we can prove it?

Glasser: Some things might be used for proof. I am afraid it is a very clouded statistical picture.

H.M.Jr: I sketched it to Mrs. Roosevelt the other night and she said, "If you can prove it on the thesis that you are going, it would be marvelous," so let's see. Maybe we will have to do a little high flying and a little ground strafing, both. I got a call from Lowell Mellett. I think there is an old order around somewhere that you might look up that anybody who goes on the air should clear through Lowell Mellett. I don't think anybody lived up to it, but at least I am going to start with it. In talking it over with the boys at home about where I should give it and so on, Henry said, "After all, Daddy, if you do give it to an audience with only two or three hundred people to see you, why not give it at your desk, because after all you are not running for anything." So I think that if we could give it right here at some meeting we have when we have the air it is just as good as trying to give it before the audience.

Schwarz: You promised the Press Club.

H.M.Jr: Yes, but I can't get the air, can I?

Schwarz: It would be better to give it here in the evening.

Gaston: It has been done, a broadcast of a speech from the Press Club. Hull did one last year and delivered his speech to the Press Club and it was broadcast.

Schwarz: It is not as good as an audience. If it was noon time --

Gaston: That is true. It should be about 1:00 o'clock.

Schwarz: If you gave it from your desk in the evening --

H.M.Jr: The kind of speech I am going to give, I don't think I will get a very good press on it and I would like to get the air.

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Foley: How about the forum of the air that the Star runs?

Gaston: They have a standing request.

H.M.Jr: But for some reason or other all the newspapers kill it then, don't they?

Schwarz: It depends on what is said. If it is newsworthy, they use it.

H.M.Jr: They give it to one newspaper then, don't they?

Gaston: Not exactly. The Star doesn't cover it until the following day.

Schwarz: The other papers in town here don't play it up much because the Star runs the whole text, but around the country if it has good meat in it it will be used.

H.M.Jr: What time of night is it?

Schwarz: Currently they are running at 10:00 p.m., 10:00 p.m. Monday.

Foley: It is a half hour.

H.M.Jr: I need a half hour.

Schwarz: That makes your talk run about twenty-two minutes.

H.M.Jr: What about the other eight minutes?

Schwarz: They have music.

H.M.Jr: I thought I would get Lowell over and ask him first. But maybe it would be better in order to keep faith, say to the Press Club that I am going to give a talk but that I want the air.

Klotz: Don't you want to do it in the middle of the day?

Schwarz: If it is to go to the people, it ought to be in the evening.

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Gaston: The request from the Star antedates any request from the Press Club and this is not a speech before an audience.

Schwarz: You could go right up to the studio in the Trans-Lux Building.

H.M.Jr: I have never asked the broadcasting stations for a national hookup.

Schwarz: They would give you one direct, right from here. Your own fireside.

H.M.Jr: Well, think about it. We have been fussing with this talk for over a month.

Glasser: More than a month.

Cotton: Wouldn't it make it more weighty to give it before one of these learned societies?

Foley: It doesn't need that, Joe.

Cotton: It depends on what sort of a thing it is.

H.M.Jr: It is going to be a distinctly New Deal speech and I have got an invitation to go up before the School of Social Research in New York any time on their form. As Henry says, what is the use in going to all of that trouble if I'm not trying to sell myself. It is the idea I want to get across.

Cotton: Yes, it is a question of what portion of the population it will reach.

H.M.Jr: If we go up to some learned society, there might be two hundred people.

Gaston: We had long ago a very insistent request from Chicago, I think the Association of Commerce, that wanted you to come out there most any time and deliver a speech under their auspices.

H.M.Jr: They have got an over-all association in Chicago?

Schwarz: That is right.

Gaston: They would arrange a radio hookup for you.

H.M.Jr: But that is in the middle of the day.

Gaston: They can arrange an evening event for you.

Schwarz: That would be ideal to go out in that territory.

Bell: It would be swell from the standpoint of time, too. You would gain an hour.

H.M.Jr: Pardon?

Bell: It would be swell from the standpoint of time.

Gaston: It has some other advantages, going out in the Middle West.

H.M.Jr: I want to go to Chicago in two weeks anyway to see Henry.

Gaston: I think that would be fine.

Schwarz: They would arrange an evening dinner.

H.M.Jr: It is an over-all association, a joint thing in Chicago?

Schwarz: Chicago Association of Commerce. It is all business in Chicago.

Gaston: I think that is the best thing.

Schwarz: Right in the Chicago Tribune, the only morning paper.

H.M.Jr: Do you like that?

Bell: I think it is a pretty good suggestion, yes.

Gaston: Arrange a little entertainment out at the University.

Schwarz: It won't be in Washington.

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H.M.Jr: That is all. If this goes well, we will have more - well, think about it.

Dan?

Bell: I have a number of things here. Would you like me to wait and give me ten minutes?

H.M.Jr: Yes. Well, you can listen to what I am going to say right after this meeting and then you can talk.

Bell: All right.

H.M.Jr: Then you stay when I see Gaston and Sullivan.

Have you (Mr. Thompson) heard anything about Mr. Kieley?

Thompson: He says the doctor is coming out tomorrow and he thinks everything is all right and he will decide definitely whether he is coming back some time this week.

STRICTLY CONFIDENTIAL

11

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

With reference to my memorandum dated December 29 on this subject, I told Mr. Enoke by telephone this morning that it would be satisfactory to the Secretary that the transcripts of the special accounts of the Bank of England and of the Bank of France with the Federal Reserve Bank cover the week ended with Tuesday evening. I also told Mr. Enoke to substitute for the written letter requiring his signature a memorandum of transmission, merely indicating the period covered by the attached transcript. I told him that we at this end would adopt a brief form of memorandum of acknowledgment, not requiring the Secretary's signature.



TREASURY DEPARTMENT

12

INTER OFFICE COMMUNICATION

DATE December 29, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned this afternoon. He asked if I could not devise some mimeographed or printed form to accompany and to acknowledge the weekly transcript of the special account of the Bank of England which the Federal Reserve Bank is now providing confidentially for the Secretary. Knoke also explained to me that the British Purchasing Commission requires the Federal Reserve Bank to provide a full transcript of its account each Tuesday night so that this may be cabled to the Bank of England in time for the latter's closing on Wednesday. Mr. Knoke inquired as to whether it would be agreeable to the Secretary if the transcript provided him also cover a week ending with Tuesday, instead of Wednesday, as I had originally suggested to Mr. Knoke. The Federal is quite prepared to make the statement as of any day the Secretary requests, but simply points out that if Tuesday evening would be agreeable, this would obviate the necessity of the bank preparing two separate statements each week. I told Mr. Knoke that I would consult the Secretary on the two points herein covered.

B. M. R.

*Cochran Tuesday
P. M. O.K. for me
1/24/40*

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

13

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 11:40 a.m. Saturday, December 30, Mr. Cameron telephoned me that the following cablegram had just been received by the Federal Reserve Bank of New York:

"Paris, December 30, #1293

Please transfer from our T Account to Bank of France Special Account to be opened upon your books \$6,000,000 value January 2. Kindly advise Rousseau. (Signed) Cariguel"

Mr. Cameron informed me that he had notified Mr. Rousseau of this message. In answer to my inquiry, Mr. Cameron said that no instructions had been received from the Bank of France authorizing the Federal Reserve Bank to give Secretary Morgenthau personal and confidential access to this special account. I told him that I would take this matter up with Mr. Leroy-Beaulieu and would call him back early on Tuesday morning. I spoke to the Secretary after talking with Mr. Cameron and he agreed that I should talk directly with the French Financial Counselor.

I was not able to reach Mr. Leroy-Beaulieu by telephone until 3:45 Saturday afternoon. He knew of the above quoted cablegram. He read to me cables exchanged between himself and his Government in which he had properly set forth Mr. Morgenthau's desire for "personal and confidential access", but wherein the French authorities had provided that Mr. Rousseau should be responsible for making the details of the account available to the Secretary of the Treasury. Mr. Leroy-Beaulieu had sent a further cablegram to the French insisting that this matter be straightened out through a direct cablegram of instruction from the Bank of France to the Federal Reserve Bank of New York. He assured me that he would have the necessary authority in the hands of the Federal Reserve Bank before his departure, which has now been delayed from January 2 to January 5.

When I telephoned Mr. Knoke at 10 o'clock this morning I immediately brought up the above subject. Knoke was familiar with all of the details and added new information. He stated that Rousseau had been in the Bank this morning and was quite disappointed because the account was to be opened for only \$6,000,000, while he expected \$25,000,000, and has important payments to make today. The Federal was prepared to open the account upon the above quoted authority, provided the Treasury would not insist upon it being held up pending the receipt of the agreement being carried out with respect to giving Secretary Morgenthau confidential and personal access to the account. I told Knoke to go ahead with the opening of the account, and that we would depend upon Leroy-Beaulieu straightening out the authority. Knoke informed me that the Bank has not yet received suitable authority

- 2 -

for checks to be drawn on the new account by Rousseau. The latter presented an unsigned copy of a letter from Governor Fournier to Governor Harrison when he arrived some days ago, setting forth this authority, but the signed original, presumably delayed in airmail, has not yet arrived. Consequently, urgent efforts are being made to have a cablegram setting forth this authority come from the Bank of France to the Federal Reserve Bank of New York today.

At 12:30 Knoke telephoned me that Rousseau had spoken by long distance with the Bank of France and had insisted upon receiving by 3 p.m. this afternoon: (1) instructions in regard to opening the special account; (2) advice to the Federal Reserve Bank that he may draw on this account; and (3) definite authority for the Secretary of the Treasury to have confidential and personal access to the account. Mr. Knoke and I agreed that Messrs. Leroy-Beaulieu and Rousseau were doing everything they could from their side, but we doubted whether the officials in the French Ministry of Finance and in the Bank of France would be back on the job in sufficient force and form to get out the necessary instructions today.



January 2, 1940

STRICTLY CONFIDENTIAL

Dear Mr. President:

On Saturday morning, December 30, Messrs. Purvis, Pléven and Collins, whom you had been good enough to permit me to present at the White House on Friday, came to the Treasury and we studied further the question of essential war materials.

Mr. Purvis provided me with memoranda upon this question, and a copy of a cablegram received by him on December 23 from Mr. Monnet, from which I quote:

"Telegrams 894, 895 and 902 from His Majesty's Ambassador at Washington regarding molybdenum etc., have been referred by British and French Governments to Anglo-French Coordinating Committee on behalf of whom I have been requested to send you following reply.

British and French Governments very much welcome approach which Mr. Morgenthau has made to you and warmly appreciate spirit in which President is considering question. It would be of greatest service to Democratic Powers if United States Government would establish control over export or re-export of essential alloys and we hope that this might lead to similar war materials such as oil, copper and carbon black. Policy which Secretary for the Treasury has adumbrated, with the Allied co-operation it would certainly receive, might well shorten war considerably without in any way adding to sufferings of German people. We therefore attach utmost importance to any steps which United States Administration can take to prevent these alloys reaching dangerous destinations".

Mr. Monnet also indicated his readiness to send experts to this country to assist in technical discussions. In this connection, the following paragraph is quoted from Ambassador Bullitt's cablegram No. 3047 of December 28, 1939:

"Monnet tells me that in view of the great complication in the whole question of economic warfare that on his suggestion Daladier has approved sending Rist to the United States in the near future in order to explain the objectives of the Allies in economic warfare and the mechanism which it is proposed to use in attaining them. Rist would also be able to get the French a clearer picture of our position. Monnet has also been authorized by Daladier to take up with Chamberlain next week the matter of having a qualified British subject sent with a similar mission".

- 2 -

Captain Collins and other members of my staff are continuing their survey of the problems involved, particularly in the light of the memorandum received from Mr. Purvis, in order that the possibilities for effective action on our part may be weighed carefully prior to the contemplated arrival of the Allied experts.

Yours sincerely,

The President,

The White House.

[Handwritten signature]
ENC/228

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market continued the quiet trend of the past few days, with the volume of sterling transactions less than normal. Sterling opened at 3.95-1/2 and remained at that quotation all day.

Sales of spot sterling by the four reporting banks totaled £274,000 from the following sources:

By commercial concerns.....	£ 100,000
By foreign banks (Europe).....	£ 174,000
Total....	£ 274,000

Purchases of spot sterling amounted to £219,000, as indicated below:

By commercial concerns.....	£ 192,000
By foreign banks (Europe).....	£ 27,000
Total....	£ 219,000

The other important currencies closed as follows:

French francs	.0224-1/4
Guilders	.5324-1/2
Swiss francs	.2243
Belgas	.1686
Canadian dollars	11-1/4% discount

The rates for the Cuban and Mexican pesos were unchanged at 11-5/8% discount and .1695, respectively.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$20,000,000 from the Bank of France
2,500,000 from the National Bank of Argentina
<u>\$22,500,000 Total</u>

With reference to the purchase from the National Bank of Argentina, that Bank has been a consistent purchaser of gold from us and this transaction represents the first reverse operation since July 1939. In an endeavor to ascertain the reason for this sale of gold, we communicated with the Federal Reserve Bank of New York and were informed that up to the present time Argentina had not given it instructions as to the disposal of the funds representing the proceeds of the gold.

CONFIDENTIAL

- 2 -

The London fixing prices for silver were lower on small Eastern selling and an absence of buying orders. The spot price was fixed at 22d, off 1/2d, and the forward price was 22-3/16d, also off 1/2d. The U. S. equivalents were 39.13¢ and 39.16¢, respectively. Silver in Bombay, less the import tax, was slightly higher at 43.20¢.

Both Handy and Harman and the Treasury maintained their buying prices for foreign silver at 34-3/4¢ and 35¢, respectively.

We made five purchases of silver totaling 350,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented inventory silver and the remaining 250,000 ounces was newly produced silver from foreign countries, purchased for forward delivery.

CONFIDENTIAL

January 2, 1945

My dear Mr. President:

I am inclosing herewith George
Hess' weekly report on the business sit-
uation. He does not paint too good a
picture.

One of the trends that I do not
like at present is the way our index of
new orders is falling off. This is in-
dicated at the bottom of Chart No. 2.

Yours sincerely,

The President,

The White House.

January 2, 1949

My dear Mr. President:

I am including herewith George
Hoop's weekly report on the business sit-
uation. It does not paint too good a
picture.

One of the trends that I do not
like at present is the way our index of
new orders is falling off. This is in-
dicated at the bottom of Chart No. 2.

Yours sincerely,

The President,
The White House.

January 2, 1948

My dear Mr. President:

I am inclosing herewith George Hagg's weekly report on the business situation. He does not paint too good a picture.

One of the trends that I do not like at present is the way our index of new orders is falling off. This is indicated at the bottom of Chart No. 2.

Yours sincerely,

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 2, 1940

TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: The Business Situation,
Week ending December 30, 1939.

Conclusions

(1) The business trend has flattened out, apparently foreshadowing some decline in industrial production during the early part of next year.

(2) The prospect of a downturn in business activity is indicated by our basic business indices for November, which show that the underlying demand at present is sufficient to support an FRS index level of about 115, as compared with a November production index of 124. An increase in the ratio of durable to nondurable production to approximately the level reached in the summers of 1929 and 1937 also suggests caution, particularly in appraising the immediate outlook for the heavy industries. The present large backlog of unfilled orders, however, may continue for some time to sustain production above the level of demand.

(3) The recent improvement in prices of certain commodities has brought an appreciable upturn in the FLS all-commodities index during the week ended December 23, but the price rise so far has not been extensive enough to bring a material increase in new orders, nor to improve our index of confidence. Seasonal influences, however, may bring an increase in new orders during January.

- - - - -

The general situation

Business activity has stopped improving, and in recent weeks the trend has flattened out. The New York Times index (shown in Chart 1) has remained for six weeks below the peak reached early in November. The unadjusted weekly business index of the New York Journal of Commerce shows that a seasonal downturn in actual business activity has been under way since the middle of October.

Secretary Morgenthau - 2

The rate of gain in the FRB index likewise slackened during November, the composite index of 124 for that month representing an increase of 4 points over the previous month, as compared with 9-point and 8-point gains, respectively, in October and September. The FRB adjusted index of nondurable goods production actually declined 1 point in November. This downturn, coupled with a further gain in the production of durable goods, has further increased the disproportionate share of the latter in the current volume of industrial production. The ratio of durable to nondurable production in November rose nearly to the previous peaks reached in the summers of 1937 and 1929. While this ratio under present conditions may have lost some of its earlier significance, nevertheless its current high level suggests the need of caution in appraising the immediate outlook for the heavy industries.

Basic indices less optimistic

Our usual monthly calculations of basic business indices likewise show evidence that business activity is making a temporary top. (See Chart 2).

The composite index of basic demand turned down 3 points to 118 in November, chiefly due to an indicated reduction in the demand for steel, following exceptionally sharp increases for three successive months. The composite index of sales, representing the offtake of manufactured goods, rose 3 points in November, but the figure of 113 is still substantially below the production level. These two indices suggest that the underlying demand at present is strong enough to support industrial production around an index level of about 115, as compared with an actual index of 124 in November. The volume of unfilled orders appears sufficiently large, however, to hold production for some time longer above the level of demand.

Our index of new orders (lower section of chart) shows a sharp decline for the month of November, bearing out indications previously given by our less-inclusive weekly index. This latter index (see Chart 3) has improved somewhat during the past two weeks, owing to an upturn in new orders for textiles, and more recently for steel products.

All-commodities price index higher

The recent rise in prices of certain commodities, principally agricultural products, has been extensive enough to cause an appreciable upturn in the ELS all-commodities index

Secretary Morgenthau - 3

during the week ended December 23. (See Chart 4) The upturn, so far, has affected chiefly the raw materials component of the index (lower section of chart) carrying it to a new high since March 1938.

Eventually, if the price improvement continues, it will tend to strengthen business confidence and to stimulate new ordering. So far, however, it has had little influence in that direction, perhaps because the price rise has not yet extended to most of the important industrial materials, and because it has come at a time when interest in placing new orders has been restricted by inventory taking and holiday influences. The volume of industrial buying, as measured by our composite index of new orders, normally shows a 10 per cent increase in January over December.

No increase in business confidence has so far been registered by our "index of confidence", based on the ratio between prices of second grade bonds and of high grade bonds. (See Chart 5) Buying apparently has continued to be directed into high grade bonds (for safety) rather than into securities which would benefit more directly by an improved business outlook. A sharp upturn in prices of second grade railroad bonds during the last three trading days of the old year, however, may indicate some revival of speculative confidence.

The National Association of Purchasing Agents says that buying policies of its members have been revised recently from a procedure of liberal coverage ahead to that of keeping purchases only one to three months ahead of manufacturing requirements for most materials.

The consensus of business views of the members of this association, according to the report, "seems to be that industrial turnover in the United States and Canada should continue on a sound and satisfactory basis well into the spring period, and while there is no definite indication of any serious let-down beyond that time, the possibilities in the situation suggest a careful and conservative attitude in buying circles while further developments are taking form."

Secretary Morgenthau - 4

Steel activity shows holiday influences

A drop of 16.3 points last week in the rate of steel ingot production to 73.7 per cent of capacity, due to the Christmas holiday, was partly regained this week when production, according to reports from various districts, was stepped up to near its pre-holiday rate.

Demand for steel is apparently holding up better than had been expected in the trade for this time of year. Orders reported last week by the U. S. Steel Corporation increased to the equivalent of 62 per cent of capacity, as compared with a low of 51 per cent reported in the previous week. The Iron Age mentions that while orders have tapered off during the past few weeks, they are still at a level that holds considerable promise for the first quarter, and that buying on a larger scale is expected by mid-January.

Steel scrap prices, which are closely watched in the steel trade, have not yet provided favorable indications for next quarter. Scrap prices have turned weaker in several markets, and the Iron Age composite price has declined for the eighth consecutive week.

Of interest in the steel outlook has been a continued rise in new orders for machine tools during November. According to an index compiled by the Machine Tool Builders' Association, machine tool orders increased to 91.2 per cent of capacity during November, which compares with 84.9 per cent in October, 74.6 per cent in September, and an average around 65 per cent during April through July.

The export outlook

While export orders for certain types of goods have increased since the outbreak of war, it has recently become more evident that the efforts of Great Britain and France to maintain their export markets, and to limit imports from outside countries are contributing toward a less optimistic picture of export possibilities for the United States than had previously been expected by many.

Secretary Morgenthau - 5

British imports increased sharply during November to above the August volume, doubtless reflecting increased imports of foodstuffs and other war supplies after organization of the convoy system. (See Chart 6) Of perhaps greater interest to us is the fact that British exports during November made a better showing than might have been expected under war conditions. (Shown at left of chart) While increased prices, and the holding back of shipments during September and October, have doubtless tended to raise the November total, the figures provide some indication of Great Britain's success in maintaining her export volume.

Evidence is becoming more clear that under the dictatorship economy permitted by the war emergency, Great Britain and France are planning to take advantage of the export markets in South America and other parts of the world, at the expense of Germany and perhaps of the United States. In the issue of November 27, the London Financial Times says, "As Latin America was probably Germany's chief export market...the opportunity for Britain to recapture South American markets is therefore unique; but, as business nowadays is essentially reciprocal, it is to be hoped that our export drive will be accompanied by efforts to purchase large quantities of raw products formerly taken by Germany."

As an example of the carrying out of this policy, the Financial Times of December 7 states that "In order to save using up dollars or incurring dollar credits, the Government is proposing to purchase considerable quantities of cotton from Brazil. In order to pay for these purchases in the cheapest possible way, the Government is hoping to mobilize all the milreis balances belonging to British and Canadian owned companies in Brazil. These balances are blocked at the present time."

The large volume of foreign inquiries for steel and other products received by manufacturers in this country during September and October, and which they were unable to accept because of the pressure of domestic business, now appears to have been activated partly by a speculative desire to accumulate stocks at that time rather than by actual needs. To what extent these orders will be placed with our manufacturers later remains problematical.

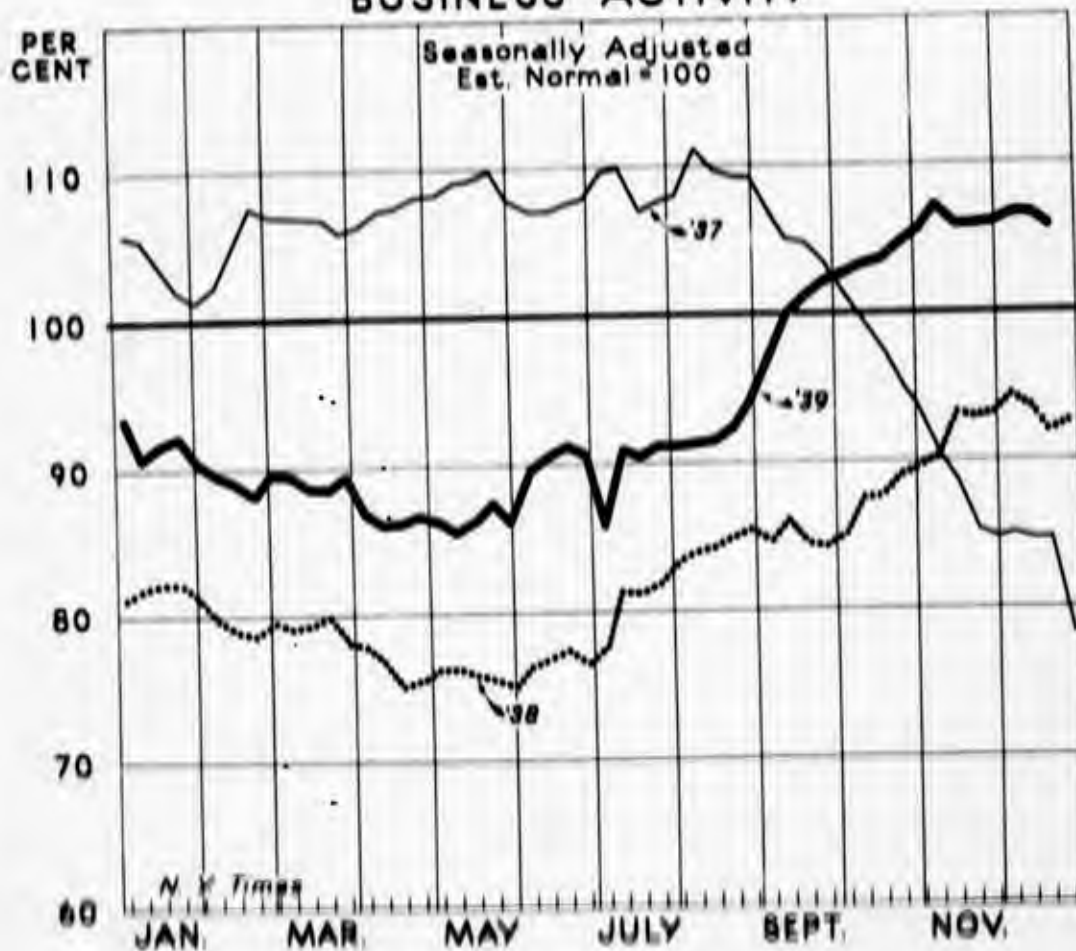
Secretary Morgenthau - 6

In the textile markets, however, inquiry for cotton goods for export is reviving, according to trade reports, and some observers look for substantial foreign orders in the next few weeks. Great Britain and France are said to be in the market for heavy cotton goods for war purposes, and increased inquiries from South America, South Africa, and the Scandinavian countries have been noted.

New York Times index lower

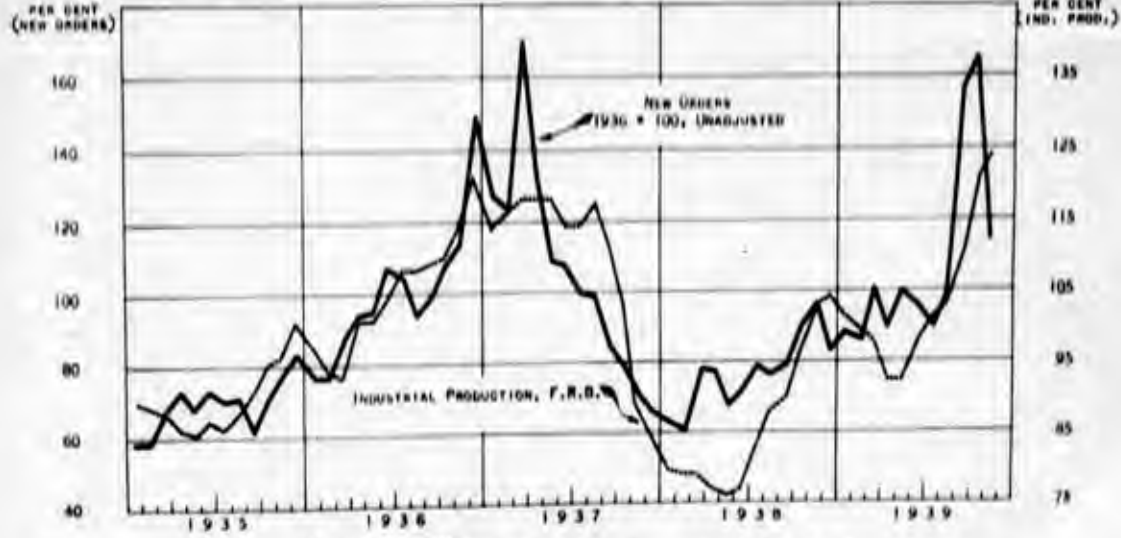
The decline of 0.9 point in the New York Times index to 105.7 for the week ended December 23 (refer to Chart 1) was largely due to rather important downturns in the adjusted indices for steel production, lumber production, and miscellaneous carloadings, which were offset in part by a substantial increase in the index of automobile production. Other components showed minor changes. For the week ended December 30, the adjusted indices for both steel production and automobile production will be somewhat higher.

BUSINESS ACTIVITY



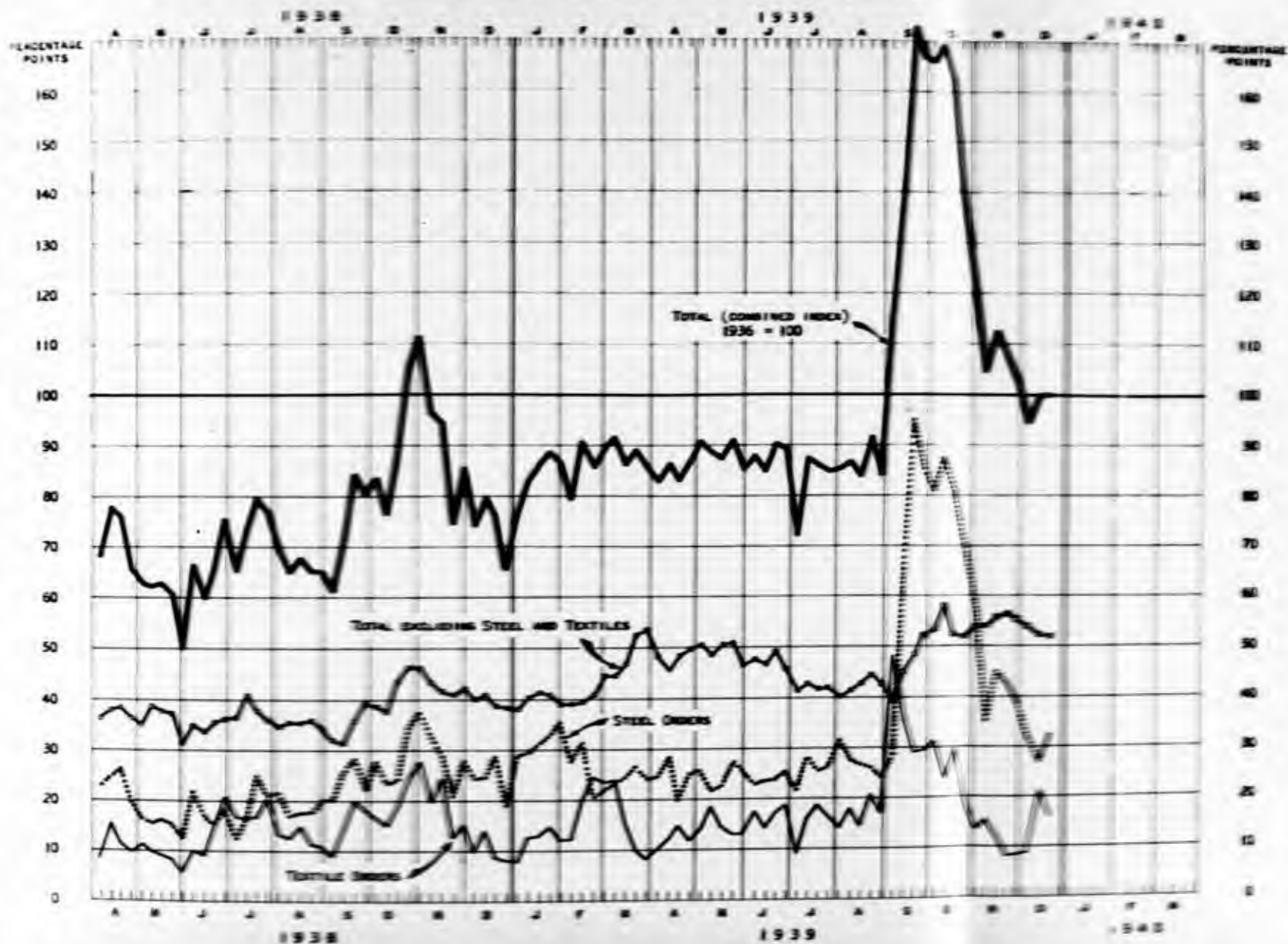
INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 = 125 = 100, SEASONALLY ADJUSTED*



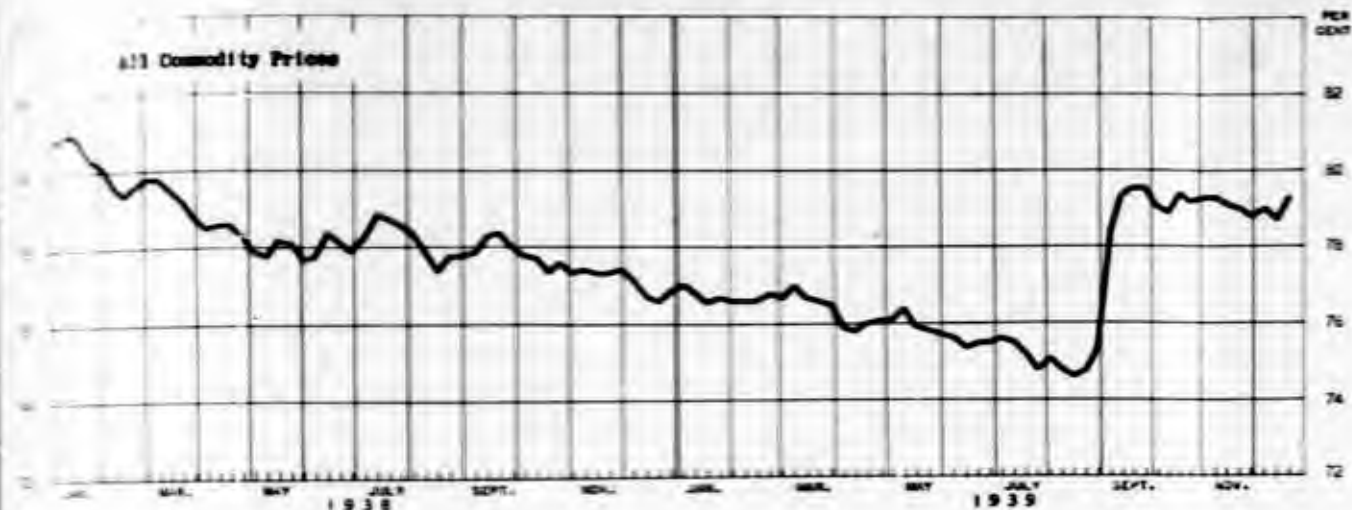
*EXCEPT NEW ORDERS
*REPRESENTS "OFFTAGE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

INDICES OF NEW ORDERS **Combined Index of New Orders and Selected Components**

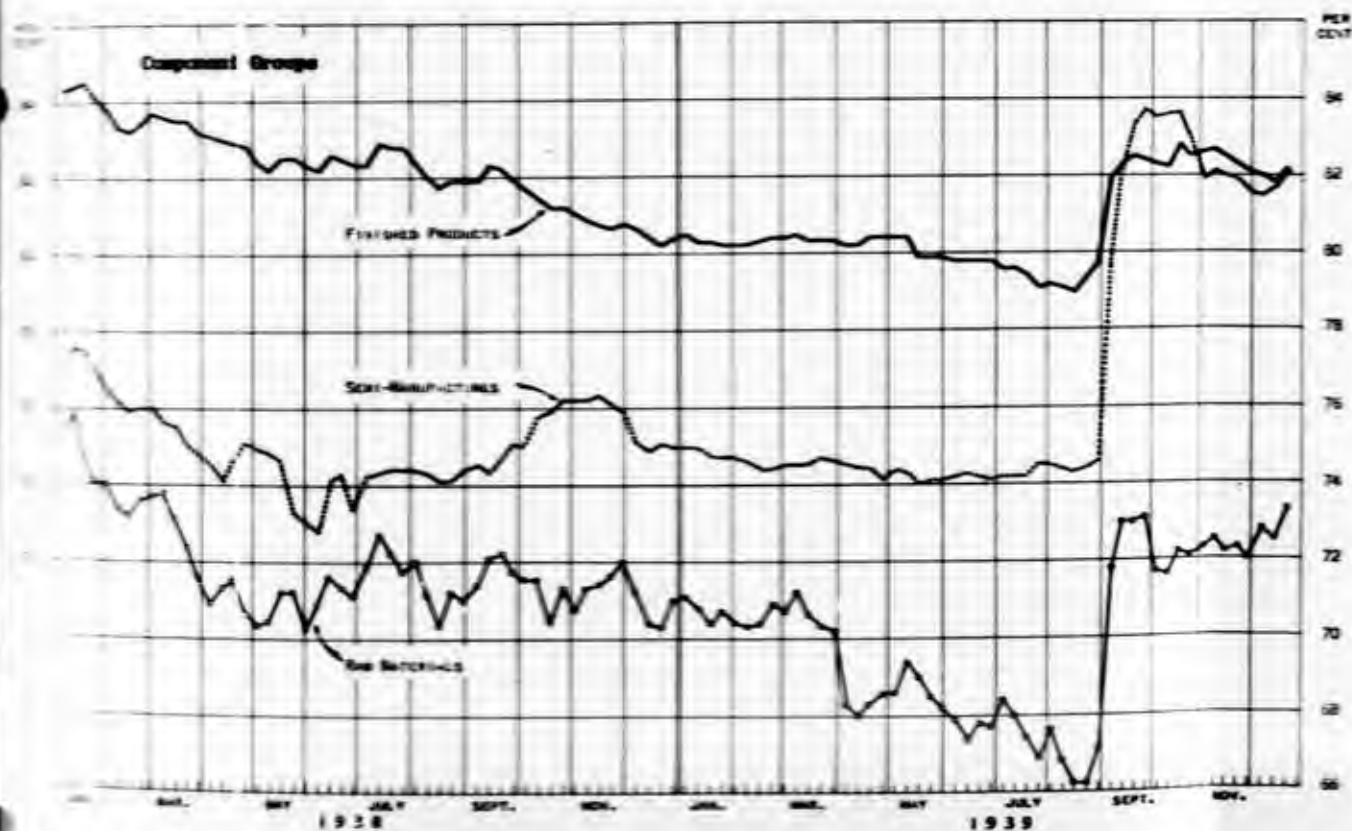


B.L.S. ALL COMMODITY PRICE INDEX AND COMPONENT GROUPS 1914 = 100

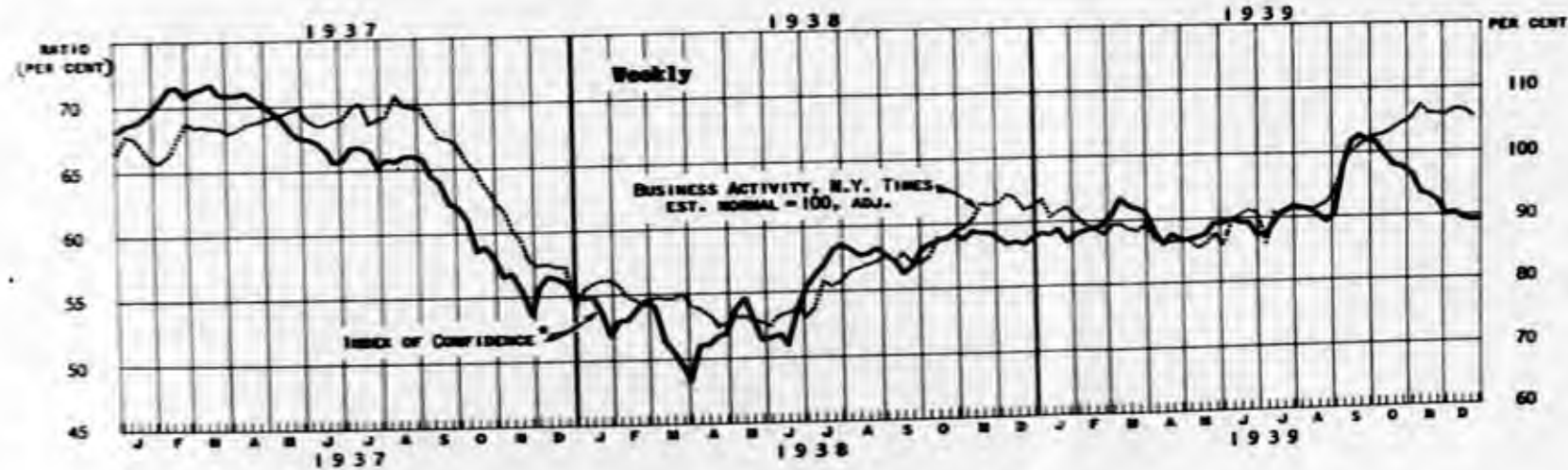
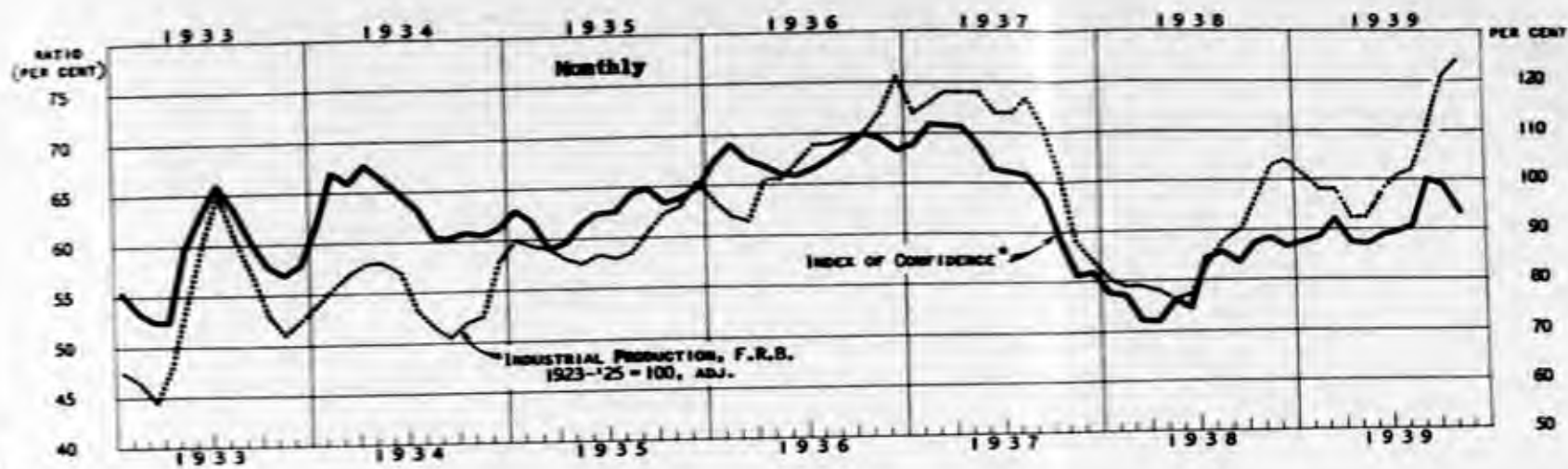
All Commodity Prices



Component Groups

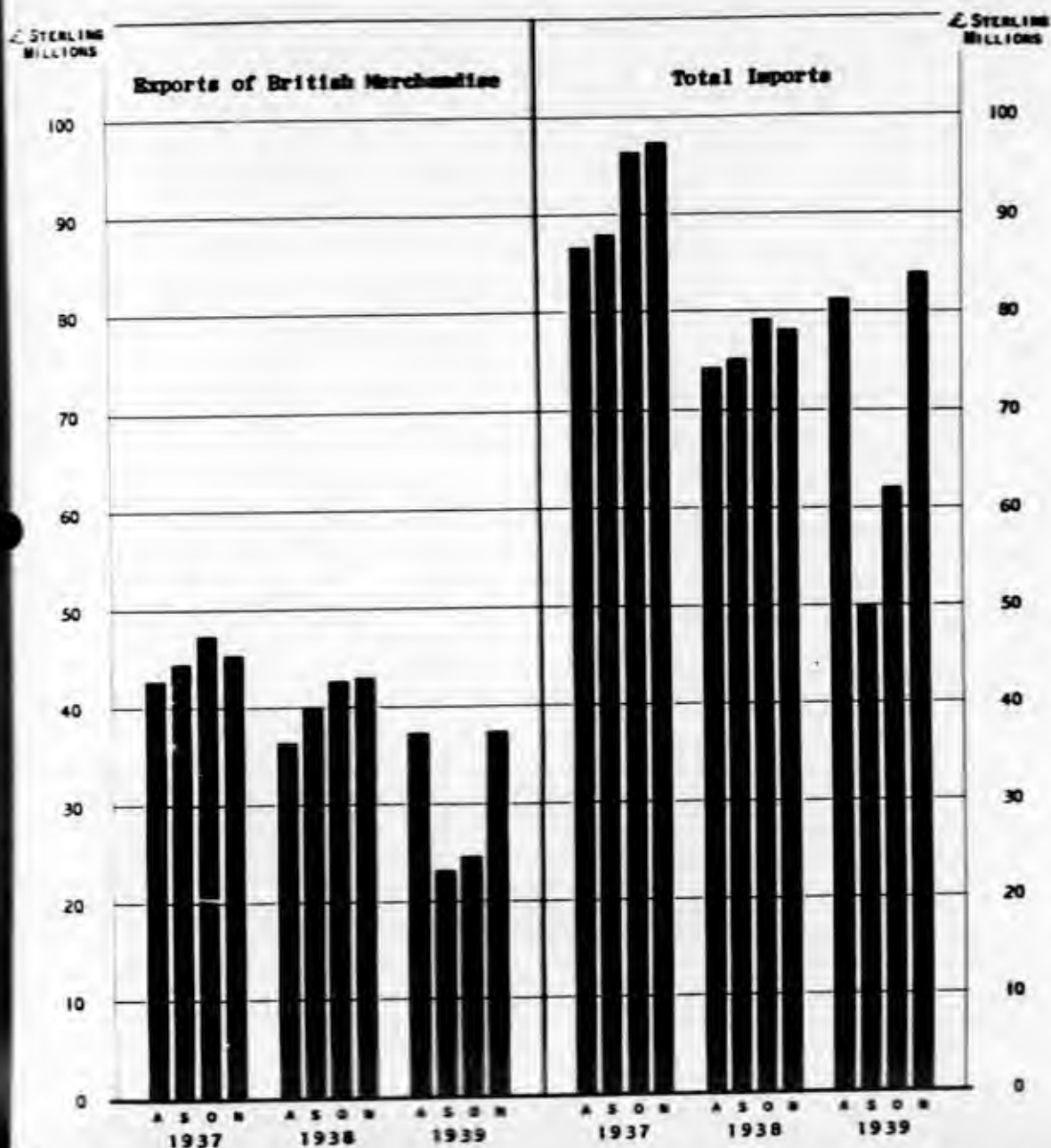


INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

EXPORTS AND IMPORTS OF THE UNITED KINGDOM
For the Months of August, September, October, and November; 1937 to 1939



W. F. Speed
1/31/40

January 2, 1940

9:30 Group Meeting.

Talked to Foley about "movie" cases.

Glasser reported on Trade Agreement with Argentine.

Discussed with the group the fact that there ought to be one channel of communication between Treasury and State Departments, because White represents Treasury on trade agreements, Cotton on South America and debt settlements, Basil Harris and Herbert Gaston on neutrality and Merle Cochran clearing all the cables, and now Ed Foley reports on the Argentine Trade Agreement.

Arrangements made that all contacts with the State Department should clear through one person and from that person to the Secretary, to avoid having six people reporting to me on contacts with the State Department.

Discussion with Glasser on Ecuador.

Discussion of Pan-American Bank idea.

Tells the group that he is working on a speech.

Cochran furnished the Secretary with various memoranda, as follows:

Discussion on the British Purchasing Mission

Opening of Bank of France Account with Federal Reserve Bank of New York

Conversations with Chinese Embassy on quantities of antimony and tungsten in Indo-China

Daily report of operations in foreign exchange

-2-

Discussion with George Haas of the latter's weekly report on the business situation.

Sent a copy of Haas' report on the business situation to the President and called attention to the way new orders are falling off.

Discussion with Haas on Wheat Export Sales and Other Market Data from the Federal Surplus Commodities Corporation.

Haas' memorandum showing increase of 21,000 persons employed by Works Progress Administration over previous week.

Wrote Magill, Myers and Viner on Wallace's "Income Certificate Plan for Agriculture."

Wrote to the Minister of Finland transmitting contributions received by the Treasury for the relief of Finland.

Communications from Purvis on molybdenum, copper, tungsten, antimony and lamp black.

Cable from Ambassador Bullitt reporting on Royal Tyler's visit to Hungary and Italy.

Cable to Roumania asking for report of current war-time trade and goods traffic between Roumania and Germany, particularly oil.

Report to the President (following the latter's conference with Purvis, Plevin, Secretary Morgenthau and Capt. Collins on December 30th) giving further report on study being made in regard to essential war materials.

Welles met with the Secretary at three o'clock. HW, Jr gave him a copy of his report to the President on essential war materials and asked Welles to inform Secretary Bull.

Phone conversations during the day:

Ben Cohen

Gardner Jackson, for suggestion of someone to collaborate on HW, Jr's proposed speech

Traphagen, on the Colombian debt settlement

Attorney General on "movie" cases.

Capt. Collins on sale of copper to Russia;
sale of P-40's; HM, Jr told Collins he had
discussed this with Welles and the President.

Preston Delano on Bank of America.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Dec. 11: Export sales of about 200,000 bushels of Canadian wheat were reported. It was also reported that 60,000 bushels of United States Pacific Coast wheat, in store at Antwerp, have been taken by foreign buyers.

Canada exported 572,810 barrels of wheat flour last month against 477,875 barrels a year ago. Flour exports in the twelve-month period ending November 30 reached 4,804,543 barrels against 3,884,479 barrels in the preceding year. In the twelve-month period ending November 30, Canada exported 144,472,664 bushels of wheat compared with 104,832,036 bushels the previous year.

Dec. 12: Winnipeg reported sales of about 250,000 bushels of Manitobas, and New York exporters sold about 100,000 bushels. Ireland took some wheat and Canadian oats for shipment from St. John. Holland was reported to have bought a cargo of corn for shipment from the Gulf.

Dec. 13: There were indications that Finland would buy some wheat next week. It was estimated that 500,000 bushels of Canadian wheat were sold to neutral countries.

Ottawa, Canada, reports that the British government has rejected an offer from Canada of 100,000,000 bushels of wheat at a fixed price between 90 and 95 cents a bushel, it was unofficially reported today. The British have decided to buy in the open market. Since the Canadian minister went to England the situation has changed considerably as far as Canada is concerned, as shipping difficulties have arisen in connection with Australian wheat and unfavorable crop reports from the United States and Argentina have strengthened their position.

Secretary Morgenthau - 2

In the last three weeks Holland has purchased six cargoes of United States corn.

- Dec. 14: Winnipeg reported sales of wheat at around 650,000 bushels.

Five hundred thousand bushels of corn were sold for export from Atlantic and Gulf ports.

- Dec. 15: Final estimates indicated that Canada had sold about 2,000,000 bushels of wheat for export, mostly to the United Kingdom.

It was thought that about 1,000,000 bushels of corn were sold to Europe today.

- Dec. 18: There is very little export business going on at this time, mostly due to recent heavy purchases of Canadian wheat.

- Dec. 19: Chicago May wheat continues to sell at a premium over July, with considerable wheat under the Government loan which will probably be liquidated at the present level of price between now and the maturity date of the loans, which is April 30.

Flour mills report the slowest trade in a long, long while, with flour jobbers short flour, and the bakers having hardly any booked ahead.

- Dec. 20: The Minneapolis market continues to show considerable weakness; much of it is because farmers are selling their loan wheat, together with fair amounts of moisture in the spring wheat area during the past two days. Minneapolis, which usually sells about 2 cents over Chicago, is now as much as 6 7/8 under Chicago.

All markets throughout the country yesterday reported rather heavy offerings of repossessed wheat by farmers who are selling the wheat at the market and paying off their loans with the Commodity Credit Corporation. Farmers throughout the country were realizing from 10 cents per bushel net over the government loan in the Minneapolis area to as much as 25 cents per bushel net in Ohio.

Secretary Morgenthau - 3

The export business has been fair up to the recent advance but foreigners absolutely refuse to follow these advances, particularly in the corn market with so much corn available at this time.

Dec. 23: So far as cash markets are concerned they are stagnant with little or no demand for either cash or export.

Dec. 26: The export business is exceptionally slow. There has not been any American corn worked for export this week. Canada is also experiencing a very dull demand for wheat because England is not buying at the moment. They have purchased enough Canadian wheat to take care of them for the month of January; however, they should be in for their February supplies of wheat within the next two weeks. Today there was a little business to Holland and the Continent, but sales did not total much more than 500,000 bushels of wheat.

Canada still has a tremendous amount of wheat to dispose of between now and the new crop and weekly shipments, which to date have only been averaging about 8 3/4 million bushels of wheat from all markets, will have to increase considerably if Canada is to dispose of good quantities of wheat, and if import countries are to use the 58 1/2,000,000 bushels estimated as import requirements at the beginning of the crop year. All indications, however, point that this figure will be revised downward in spite of the war.

Dec. 27: Export business in American flour is at a standstill due to very severe competition from Canada, with mills in that country operating day and night to fill large orders received from the United Kingdom. The import duty of 10 per cent ad valorem is still imposed on American flour entering England, while Canadian flour continues to come in duty free.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Reports of the Works Projects Administration show 2,144,000 employees for the week ended December 20, 1939, an increase of 21,000 persons over the 2,123,000 reported for the previous week.

Attachments

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending 1939	Number of Workers (In thousands)
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,052
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144

Source: Works Projects Administration.

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

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	Number of Workers (In thousands)
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	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024

Source: Works Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment

Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

January 2, 1940. 44
11:59 a.m.

H.M.Jr: Hello.

Operator: Mr. Cohen. Go ahead.

H.M.Jr: Hello.

Benjamin Cohen: Hello.

H.M.Jr: How are you?

C: All right. A Happy New Year to you.

H.M.Jr: Same to you.

C: Thanks.

H.M.Jr: I called you up to congratulate you.

C: Well, it's only about ten per cent of what I was striving for, but I suppose you don't reach your objective in a single jump.

H.M.Jr: Well I thought - I see they divided it up and made two gestures in one.

C: Yes.

H.M.Jr: What?

C: I think it's awfully good, particularly as it sort of fits in with the President's letter.

H.M.Jr: That's right. And -

C: It's a little too bad that we couldn't precede rather than follow.

H.M.Jr: Well -

C: After all I suppose we should yield first place to the first citizens.

H.M.Jr: Well I listened that night over the radio it seemed to me that you were hitting for - trying to hit three bulls eyes in one shot.

C: Well we don't like to waste our ammunition.

H.M.Jr: Well I'm glad that they at last saw the light.

C: I am too. That is I was awfully worried because I thought it was at least necessary that something be done in view of the fact that the suggestion came from the other side.

H.M.Jr: Right. Well again wishing you Happy New Year.

C: Well thank you and also to Mrs. Morgenthau.

H.M.Jr: Thank you.

C: Hope to see you soon.

H.M.Jr: Hope to see you also. Goodbye Ben.

C: Goodbye.

January 2, 1940.
2:17 p.m.

Gardner
Jackson: Happy New Year to you.

H.M.Jr: Same to you.

J: How are you?

H.M.Jr: Fine.

J: Good.

H.M.Jr: I want to ask your advice. I've got to get me some fellow to help me do a little writing, see?

J: Yes.

H.M.Jr: I'm getting bold and think I may make a speech.

J: Yes.

H.M.Jr: And a fellow that came to my mind was Jonathan Mitchell. Do you know him at all?

J: I know him very intimately.

H.M.Jr: How much can you endorse him as to principle, character, etc?

J: Oh just unequivocally.

H.M.Jr: You can.

J: Oh lord, yes. He went to Amherst and he was about - let's see two or three years behind me, I - he's lived with me out at the house two summers while my family was away. I'll tell you this, there's this one - if it is a shortcoming -

H.M.Jr: I haven't mentioned it to anybody.

J: There's this one shortcoming about him. He's gone in pretty heavily for psycho-analysis.

H.M.Jr: I see.

J: Has been psycho-analyzed himself and is now in the process of writing a book with a psycho-analyst here in Washington.

H.M.Jr: I see.

J: On a psycho-analytical approach to Government.

H.M.Jr: I see.

J: But as an - he and George Sohl are very close buddies.

H.M.Jr: Yes.

J: And he has very much of George Sohl's analytic powers.

H.M.Jr: I don't know George Sohl.
I know who he is.

J: Well he's a good one.

H.M.Jr: Yes.

J: Oh I think Jonathan is an excellent fellow.

H.M.Jr: Well I read his column.

J: Yes.

H.M.Jr: I like it. I think he packs a lot of stuff into a small space.

J: Yes he does.

H.M.Jr: And he seems to know how to use words.

J: Yes. Oh unquestionably, he's a thoroughly principled fellow.

H.M.Jr: Well, I tell - I think - I haven't the slightest idea. Gaston knows him, he was on the New York World with him, I think.

J: Yes. That's right, that's right.

H.M.Jr: And I think what I might do is to sound him out, try him out on one speech - I only do one in two years.

J: (laughs)

H.M.Jr: And before it's through I'm going to ask you to give me an hour or two and go over it with me.

J: Oh swell.

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H.M.Jr: I think you'll be interested. I'm a little bit - taking a new slant on things, and when it's - oh, so I'm satisfied I want you to go over it with me.

J: Oh well that's - I'd like to very much. You know I was going to call you today at my wife's suggestion.

H.M.Jr: Yes.

J: Partly hers, partly mine. First off to tell you how thoroughly we appreciate the other evening.

H.M.Jr: Well it was fun.

J: It was lots of fun. I only regret that the opportunity of carrying conversation with the boss was not longer.

H.M.Jr: That's right.

J: I hope it can be again.

H.M.Jr: Well I'm sure it can be.

J: Because I - before you came - across the desk there, we got into a very good conversation.

H.M.Jr: I see.

J: That seemed to click awfully well I thought. Now the other thing is I suppose you and Mrs. Morgenthau are heavily dated away ahead.

H.M.Jr: No we're not. Not when we don't want to be.

J: I'd like to call her, have Do call her and see if we could get together Friday of this week.

H.M.Jr: Well Friday she's going to be on the farm.

J: Oh she is.

H.M.Jr: She's going to be on the farm Friday and I hope to be too.

J: I see.

- 4 -

H.M.Jr: But prior - I - I'm sure - that we'd have time some time next week.

J: Yes. My more particular reason, my oldest sister who was in college at Vassar when your wife was, is going to be down here the latter part of this week.

H.M.Jr: No, Eleanor is going up to the farm either Thursday or Friday.

J: Well, would Thursday be out do you think?

H.M.Jr: Yes, because that's the reception at the White House.

J: Oh lord, that's right.

H.M.Jr: So there you are.

J: Well we're just out of luck, then.

H.M.Jr: Well it just happens, but normally we're not fixed that way.

J: And I tell you whom I want to - whom I want to get - this fellow who is - as I told you, my closest friend up on the Hill, Lou Schwellenbach.

H.M.Jr: Oh, yes.

J: Because I'd like him to know you better.

H.M.Jr: I'd like to get to know him.

J: And he's a peach.

H.M.Jr: I'd like very much to get to know him.

J: Well we'll do it next week, then.

H.M.Jr: I don't know him at all.

J: O.K.

H.M.Jr: All right.

J: Thanks a lot.

H.M.Jr: Goodbye.

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J: Oh, look.

H.M.Jr: Yes.

J: Can I send you over a copy of a letter that I sent Mrs. Roosevelt at her request regarding a successor to Silcox?

H.M.Jr: Sure.

J: We had quite a long talk about that over in our corner and she asked me to put it in writing, and I would like you to see it, if I - if that's O.K.

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

J: O.K.

H.M.Jr: Righto.

J: Thanks a lot.

H.M.Jr: Goodbye.

J: Goodbye.

January 2, 1940
3:16 p.m.

John
Traphagen: Hello Mr. Secretary.

H.M.Jr: How are you?

T: I'm fine. I hope you're well.

H.M.Jr: I'm very well. Mr. Welles and I are sitting here talking about Republican Colombia.

T: Yes.

H.M.Jr: Last week the Ambassador called on Mr. Welles and informed him that we had been misinformed about the attitude of the President of Colombia, and that the President of Colombia had not changed his position.

T: The President has not changed his position.

H.M.Jr: No. I mean - and that the information that we'd had that - or the Ambassador or whoever it was who gave us the information today had changed their offer was incorrect.

T: Yes.

H.M.Jr: Their offer stands as it was - well when they were - when you were down here.

T: Yes. That's the offer of two million dollars.

H.M.Jr: Well, some slight variations in it, but he now has got, as I understand it, powers from his Congress to do whatever he wants to do, you see?

T: Yes.

H.M.Jr: Talking in terms of paying less than that the first year, but then stepping it up in '41 or '2.

T: Yes.

H.M.Jr: Now, we think that it is again, the situation is right for you to contact the Ambassador from Colombia.

T: You feel it is all right now.

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H.M.Jr: Yes, in fact we'd like to see you do it.

T: Yes.

H.M.Jr: And the Ambassador would like very much to see you.

T: Well, does he understand our position, do you think, Mr. Morgenthau?

H.M.Jr: I think so, although I've had no communication with him.

T: Yes.

H.M.Jr: But both Mr. Welles and I think it would be advisable if the two of you got together again.

T: Right.

H.M.Jr: And this thing is from me. I don't know whether anybody talked to you about the so-called flexible formula.

T: No.

H.M.Jr: The idea that they pay a fixed amount and then ten per cent of the increase in their exports and they've gone back for the last ten years and figured out what it would be if that was done.

T: Well I think someone did mention -

H.M.Jr: Well, I tell you what I'd like to do. Strictly off the record, I'd like to send to you the memorandum Professor Riefler prepared for me, see?

T: Yes.

H.M.Jr: And let you read it.

T: I'd like to very much.

H.M.Jr: Let me send it to you, it's from Riefler.

T: Yes.

H.M.Jr: And I'll send it to you without any comments.

T: Fine.

H.M.Jr: And this is for you only, you see, for your guidance.

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T: Right.

H.M.Jr: And it might or might not be useful. Now the other thing, if I may make the suggestion, we feel here we've got a triangular arrangement which we are again hopeful of, namely you representing the bondholders, us three people representing the administration and the Ambassador of Colombia.

T: Yes.

H.M.Jr: And the thing which has been a little bit upsetting is the - to me, anyway, is the efforts of the Rublee firm, you see, on behalf of the Colombian Government.

T: Yes.

H.M.Jr: And if I might just sort of throw out the hint, if they attempt to do any negotiating on this debt matter, my own feeling is I think they'd better wait until the thing is agreed and ready for drawing up legal papers and not try to do any negotiating. I don't know whether they've contacted you or not.

T: No, no, they haven't contacted me.

H.M.Jr: Well, then you're fortunate. They've been very busy down here.

T: No - I - I didn't quite get that on the phone, there was some -

H.M.Jr: Well this young attorney, Jack Laylin -

T: Of the triangular group of the bondholders committee.

H.M.Jr: The bondholders committee.

T: And your group of three and the Colombians.

H.M.Jr: Yes, that's the three cornered triangle.

T: Yes. Well I missed what you said after that.

H.M.Jr: Well, the Colombian Government is represented by the firm of Mr. Rublee.

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T: Yes, yes I know that.

H.M.Jr: And Jack Leylin who was handling it is a very busy young fellow.

T: Yes.

H.M.Jr: He used to work for me so I know how busy he can be.

T: Yes I imagine he is.

H.M.Jr: And I just felt in a three cornered triangle there wasn't room for a fourth corner.

T: Yes.

H.M.Jr: That was all.

T: Yes, I see.

H.M.Jr: Because he hasn't - they haven't helped, it just makes it that much more difficult.

T: Yes.

H.M.Jr: And I'm just - if you don't mind throwing that out as a hint.

T: Right. Well of course as I understand it, Leylin is engaged by the Ambassador.

H.M.Jr: That's right.

T: And I presume as long as he wants Leylin around, why he's got to be around.

H.M.Jr: Well true, but Leylin isn't seeing the Treasury, I just wanted to let you know that.

T: He isn't seeing the Treasury.

H.M.Jr: No.

T: No. I see. All right sir, I understand Mr. Ambassador.

H.M.Jr: Mr. Ambassador - I've been called a lot of things.

T: If I can get down there - I'm a little afraid that I can't get down this week. I'm in a terrible jam here at the end of the year.

H.M.Jr: Yes.

T: I have a lot of committee meetings and - get in touch with the Ambassador.

H.M.Jr: Why don't you call up the Ambassador on the phone.

T: I'll do that.

H.M.Jr: And - well I'll leave it to the two of you.

T: Fine, I'll get him on the telephone and tell him I want to come down and see him.

H.M.Jr: But we think the situation is right for you to make another move.

T: Fine. First rate. Thank you very much.

H.M.Jr: Thank you.

T: Goodbye.

January 2, 1940.
3:44 p.m.

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H.M.Jr: Hello.

Operator: Attorney General. Go ahead.

H.M.Jr: Hello.

Frank
Murphy: Henry, this is Frank.

H.M.Jr: How are you?

M: Fine. How are you Henry?

H.M.Jr: I'm O.K.

M: Did you have a satisfactory talk with Sam Clarke?

H.M.Jr: Yes, I did, and Ed Foley gave me a memorandum this morning. As a result of it I'm satisfied.

M: Well I'm going to get after the - they're coming to my place tonight. I'm having Clarke and some of those others in and I want to press that Bioff thing right through immediately.

H.M.Jr: Well that's - I - that's important but I think some of the other things are even more important, but the way we have it now is -

M: Of course the Bioff thing is sort of a national scandal.

H.M.Jr: Yes.

M: It's looking bad all over the country. I won't feel right about it unless we can get some action, but I want you to be satisfied about it.

H.M.Jr: Well the way - the memorandum that I have in the Bioff case, the case against Schenck, the reorganization case, the way they've left it, why I'm satisfied. I marked it down and take it up again on January 10th.

M: Yes.

H.M.Jr: But again you people are going to move, is it on or before the 15th on the Bioff case?

M: Yes.

- 2 -

H.W.Jr: And we're to go ahead with the Schenk case.

M: That's right. If you've got any other suggestion, get in touch with me.

H.W.Jr: Right.

M: I want you satisfied about it Henry.

H.W.Jr: Well I feel much better today.

M: All right Henry.

H.W.Jr: Thank you.

January 2, 1940.
4:55 p.m.

Preston
Delano:

This is Delano, Mr. Secretary.

H.M.Jr:

Yes. How do you do?

D:

How do you do sir? We've got a communication here from the Bank of America about the distribution out there, and we want to get a reply off to it, right away, wire reply -

H.M.Jr:

The distribution.

D:

About the distribution of that letter we sent out there you know.

H.M.Jr:

Oh yes.

D:

And we wondered if Ed and Cy and I could just drop around for a minute.

H.M.Jr:

Sure.

D:

We don't like to bother you at the end of a day but we would like to have you informed on this.

H.M.Jr:

That's all right.

D:

Can we come around?

H.M.Jr:

Immediately.

D:

Thanks.

January 2, 1940

Dear Boss:

I am inclosing herewith copy of the statement prepared by the Treasury Department on the Certificate Plan, together with a supplemental memorandum on the distribution of the burden of the Certificate Tax; also, a memorandum submitted to the Fiscal and Monetary Committee by Secretary Wallace.

I should like to have your criticisms and suggestions and would appreciate hearing from you, if possible, not later than Monday, January 8th. Please feel free to show these to any of your associates at the University.

Yours sincerely,

Dr. Roswell Magill,
Columbia University,
New York, N. Y.

January 2, 1949

Dear John:

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I should like to have your criticisms and suggestions and would appreciate hearing from you, if possible, not later than Monday, January 8th. Please feel free to show these to any of your associates at the University.

Yours sincerely,

Mr. Jacob Viner,
University of Chicago,
Chicago, Illinois.

January 2, 1940

Dear Bill:

I am inclosing herewith copy of the statement prepared by the Treasury Department on the Certificate Plan, together with a supplemental memorandum on the distribution of the burden of the Certificate Tax; also, a memorandum submitted to the Fiscal and Monetary Committee by Secretary Wallace.

I should like to have your criticisms and suggestions and would appreciate hearing from you, if possible, not later than Monday, January 8th. Please feel free to show these to any of your associates at the University.

Yours sincerely,

Dr. William I. Myers,
Cornell University,
Ithaca, New York.

January 10, 1940.

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ISSUES RELATING TO THE INCOME CERTIFICATE PLAN
FOR AGRICULTURE

The choice of a policy with respect to the income certificate plan for agriculture involves the consideration of a number of issues. It is the purpose of this memorandum to clarify certain of these issues and to present some facts bearing on them.

I. CONSIDERATIONS IN SUPPORT OF THE CERTIFICATE PLAN

The considerations advanced in support of the income certificate plan fall into three parts:

- (1) More agricultural aids are necessary,
particularly for cotton and wheat farmers;
- (2) The aids should be adopted as a permanent
policy which will not have to be scrutinized
annually by Congress;
- (3) Only the income certificate plan has the
essential characteristics for achieving
this result.

(1) With respect to the point that more agricultural aids are necessary, an intelligent evaluation would require a lengthy factual and analytical discussion beyond the scope of this memorandum. The matter is an extremely important one, however, since adoption of the

income certificate plan would not only reaffirm the desirability of the present agricultural program, but would enlarge that program and seek to make it more permanent. Accordingly, certain questions may properly be raised. Some of these are:

- (a) Does "parity price" measure the kind of parity which it is in the public interest to provide agricultural producers at government and public expense?
- (b) Should agricultural subsidies go to the agricultural group as such, that is, should the subsidies go to all farmers producing a given crop, including corporations, without regard to need for family income?
- (c) Does the present distribution of parity payments and that proposed under the income certificate plan give an adequate share of assistance to tenants, sharecroppers, farm laborers and small farm units?
- (d) In view of the benefits of all kinds paid them by government, are the agricultural

groups in greater relative need for further aid to achieve "parity" than such industries as railroads and coal mining, or such groups as the unemployed?

(2) The second point, that parity payments should be adopted as a permanent policy which will not have to be reconsidered and reviewed by each succeeding session of Congress, conflicts with another consideration indicated below, namely, that sound budgetary practice requires expenditures to be scrutinized periodically.

The democratic process assumes that Congressional determination represents the nearest possible approach to the expression of the public will. This is recognized in certain parts of the Department of Agriculture's memorandum. In respect to the parity payments, however, a contrary position appears to be taken, namely, that while the present Congress represents the public will, succeeding Congresses may not represent it.

Although there is thus an apparent anomaly, those taking this position hold that agricultural aids should be adopted as a permanent policy outside the budget, because other economic and industrial groups have protective legislation of various kinds which need not be

reconsidered at each session of Congress. The tariff is the principal example mentioned.

Many agricultural commodities are protected by tariffs and, in recent years, even the tariff on wheat has been effective in raising the farm price. Aside from this consideration, however, the observation may be made that the tariff is either a policy or a disease. If it is a policy intended to achieve a certain result the measures should not be taken which would operate to nullify it. If instead the tariff is a disease, the cure would seem to be its elimination rather than to spread the disease by measures which in no respect reduce the economic loss caused by the tariff in misdirecting the use of the nation's productive resources. The tariff hits primarily consumers. This proposal would hit them again.

The type of tax pressure afforded by the tariff is very different from the payment of governmental cash benefits financed from taxes. The distribution of burdens is different, the distribution of benefits is different, and the effect on internal competition and productive efficiency is different.

A line must be drawn somewhere between the incidental effects of governmental policy on the fortunes of people and the direct payments of money forcibly collected from

the people. The latter is more susceptible to the dangers of misuse, and accordingly requires more careful scrutiny to achieve an allocation of governmental burdens and benefits in accordance with the public interest. Although similar scrutiny should no doubt be accorded to tariffs, the fact that it has not been given does not warrant extending the lack of scrutiny to direct governmental payments.

(3) The third point raised in favor of the income certificate plan is that only that plan has the essential characteristics necessary to achieve larger and more permanent parity payments. It is probably true that agricultural aids would be larger and more permanent with than without the income certificate plan. However, there is also the possibility that the existence of these special taxes falling on the masses of the population would present a constant target for political action which might lead to a reaction against both the tax and the benefits.

With reference to the above points raised in favor of the income certificate plan, the possibility must always be kept in mind that some other method may afford results sufficiently approximating those expected of the certificate plan but without its inherent disadvantages as to be on balance preferable.

II. FISCAL CONSIDERATIONS AGAINST THE CERTIFICATE PLAN

The fiscal considerations against the income certificate plan as a method of financing agricultural parity payments are mainly the following:

- (1) Any plan for the payment of agricultural benefits would be less subject to abuse and would be more likely to promote the public interest over the long run if the tax collections and benefits were included in the budget and handled in the same manner as other taxes and appropriations.
 - (2) The processing taxes constitute so highly regressive a method of financing benefits as to be less desirable than other sources of revenue.
 - (3) Even if processing taxes were to be used for financing benefits, the income certificate tax would be inferior to the type of processing taxes which were in operation from 1933 to 1936.
- (1) There is need for a better general comprehension rather than a concealment or confusion of the detailed receipts and expenditures of the Federal Government.

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The adoption of the income certificate plan would make it more difficult to determine the amount of actual public expenditures and the actual tax burden of the various groups of taxpayers. Only by the inclusion of all public expenditures in the budget and by the submission of all public expenditures to periodic executive and legislative review can there be any assurance that the proper allocation of public funds among the many public uses is approximated. Furthermore, the elimination of such an important item as this from the budget would limit the effective use of fiscal policy as an instrument of economic control.

In the memorandum submitted by the Department of Agriculture the view is expressed that "It is more appropriate to compare the Certificate Program with tariff legislation or minimum wage and collective bargaining legislation than with expenditures under the Budget. The issue is primarily one of agricultural policy rather than fiscal policy, except as it may affect other appropriations."

In point of fact, however, the certificate plan involves many aspects of fiscal policy. Under its provisions taxes would be collected and revenues would be distributed by an agency of the government. The operation of the plan would not differ materially from the processing taxes and benefit payments provided under the Agricultural Adjustment Act of 1933. The fact that in this instance

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some of the actual operations would be conducted by a special revolving fund and not the general fund does not alter the fact that the fiscal aspects of agricultural benefit payments are substantially similar to those of other governmental services or expenditures.

Furthermore, the parity payments provided the producers of the 3 or 4 commodities covered by the certificate plan would not differ significantly (excepting perhaps in amounts) from the parity payments which are now provided through the budget and from the general fund to the growers of agricultural commodities and would no doubt be continued for the commodities not covered by the plan.

In the Department of Agriculture's memorandum the view is expressed that "under existing circumstances," an increase in direct governmental payments "is neither practical nor desirable." It is urged that since Congress is not likely to continue to make direct appropriations for the benefit of a particular group, an indirect subsidy should be provided; that such indirect subsidy is already being provided industry. In addition to what has already been said on this point, it should be noted that the pursuit of the proposed policy would logically involve the granting of indirect subsidies to numerous additional groups.

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In the interest of fiscal planning and sound fiscal management parity payments to farmers should be made within the budget.

(2) In regard to the second point bearing upon the merits of processing taxes, it should be noted that the certificate plan would place the burden of parity payments on the consumers of the products affected. Underlying this method of financing is the assumption that the existence of low agricultural prices bestows an unfair advantage on consumers, and that such an advantage might properly be recaptured for the benefit of agricultural producers. It presupposes that the rewards accorded by the market place to the producers of certain commodities are not just and require supplementation to raise them to some specified but variable levels.

Although it may be agreed that "the farmer is entitled to a fair price," that does not dispose of the question as to what is the fair price. Even defining it as a price which will give the producer a fair income leaves undetermined the essential question of what is fair. Furthermore, a price that will give a fair income to the producer is not necessarily a fair price to the consumer. The consumer ought not be required to pay more than the price resulting under a sound organization

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of agriculture. A sound organization of agriculture giving fair returns to those engaged in farming would almost certainly afford lower prices to consumers than "parity" as now computed. To impose on the consumers through a processing tax the burden of giving the farmer a fair price -- whatever that may be found to be -- may thus result in serious unfairness to consumers.

Such concepts as parity price and parity income cannot be accepted without reservation. While Congress has on several occasions endorsed parity income and parity price as a legislative objective, these endorsements have been qualified. The 1933 Agricultural Adjustment Act, for example, instructed the Secretary of Agriculture to assist farmers to obtain parity prices and parity incomes "insofar as practicable" at the same time that it instructed him to assist "consumers to obtain an adequate and steady supply of such commodities at fair prices." Actual parity payments to the farmers are to be made only when, as, and if, and to the extent that, appropriations are made for that purpose. Even if the present concept of parity price and income be accepted, the fiscal methods of providing them are subject to further consideration. The question immediately at hand is whether a tax on the consumer of certain agricultural

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commodities is the desirable method of financing parity payments to the growers of these commodities.

The certificate plan would impose a tax on certain necessities. It would tax the consumption of wheat, cotton and rice. Experience with the processing taxes under the Agricultural Adjustment Act of 1933, invalidated in 1936, indicates that the burden of taxes on these commodities would fall, in large part, on consumers. Inasmuch as the consumer expenditures for the products of these agricultural commodities account for a much greater proportion of the total expenditures of individuals and families with small incomes than of the total expenditures of those with larger incomes, the burden of the tax would be regressive. It would bear more heavily on those with small incomes than on those with larger incomes.

The tax would be unusually regressive for it would be imposed on physical units of an agricultural commodity, without regard to the price of the product consumed. Unlike a sales tax which is imposed on the basis of price, the certificate tax would be imposed on the basis of weight or volume. Low income consumers purchasing low-priced cotton articles would pay a higher tax with each dollar spent than higher income consumers purchasing high-priced cotton articles.

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It may be that in some cases processors would find it necessary and practical to transfer some of the tax burden from their low-priced to their high-priced products. Under the invalidated processing taxes cigarettes, for instance, appear to have borne more than their share of the tobacco taxes. This type of adjustment, however, is very uncertain and cannot be predicted as a likely occurrence in the case of other products.

The rate of taxation contemplated by the proposed certificate plan would be far heavier than the rates which in the past usually have been applied to necessities in the United States. The general sales taxes imposed by states in no instance exceed 3 percent of the amount of the transaction, and moreover, in many cases, exempt farm products from taxation.

The rate of the tax under the proposed certificate plan would be equal to the difference between estimated parity prices and the average farm prices of the particular agricultural commodities affected. In some instances, the rates of these taxes would be even higher than those imposed under the invalidated processing taxes. Even on the basis of United States average farm prices prevailing on December 15, 1939, the difference between parity prices

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and farm prices amounts to 30.5 cents per bushel of wheat, 6.2 cents per pound of cotton and 31.5 cents per bushel of rough rice. A 6-cent tax on 10-cent cotton, for instance, would be equal to 60 percent of the farmers' selling price. The imposition of indirect taxes of this magnitude, superimposed on an already regressive Federal-state-local tax system, would severely affect the already limited purchasing power of the low-income families.

The effects of the certificate plan would be especially burdensome to those who, just like wheat, cotton and rice farmers, are receiving less than "parity" incomes. There are large numbers of other persons on farms and in the cities who have incomes and standards of living as low as the growers of wheat, cotton and rice. The whole body of the unemployed and the under-employed laborers in all industries have less than "parity" incomes and would be subjected to a heavy burden on account of the tax.

In the Department of Agriculture it is recognized that the certificate plan would constitute, in effect, a tax on consumption. It has been maintained, however, that the regressive effects of the tax would be offset by the "progressive" effects of the expenditures and that

the net result would be "progressive." Underlying this position is the assumption that the plan would benefit a low-income farm group largely at the expense of a higher-income non-farm group.

At the outset, it should be noted that this distinction between farm and non-farm population is not wholly relevant to the issue. The certificate plan has been designed for the benefit of wheat, cotton and rice (and possibly some tobacco) growers only. It probably cannot be employed successfully, and it is not proposed, for the benefit of the growers of the many other farm commodities. In consequence, the plan does not propose to benefit the entire farm population at the expense of the entire non-farm population. It proposes, rather, to benefit wheat, cotton and rice growers as distinct from all other farm groups as well as all the non-farm groups.

There are at present in the United States approximately 7 million farm families. About 3 million of these are engaged, to a small or large extent, in the growing of wheat, cotton and rice. Thus, even if all wheat, cotton and rice growers cooperated in the AAA production and soil conservation programs and were eligible for parity payments, the certificate plan would benefit not more than 3 million farm families, at the expense of another group consisting

- 15 -

of 4 million farm families, more than 22 million non-farm families, and several million single individuals.

Moreover, the plan, if adopted, may not be of much help to some wheat and cotton growers. That likelihood is indicated by the fact that a portion of the wheat and cotton growers produce these commodities in such small quantities that the benefits they would receive from their share of the certificates, if they complied with the farm program, would be offset largely by their share of the tax burden as purchasers of wheat, cotton and rice products.

The certificate plan is said to have "progressive" effects because the average income of the farm population which would be benefited is lower than the average income of the non-farm population which would be taxed. However, a comparison between farm and non-farm population on the basis of per capita incomes is subject to misinterpretation. The incomes of the two groups are not comparable. A dollar of income in a rural area is something entirely different from a dollar of income in an industrial area. Its purchasing power is different because the cost of living generally is lower in rural than in urban areas. For those on farms, food, housing and clothing, three important elements in the budget of the low-income groups, require a smaller expenditure than for those in the cities.

In comparing the income of the farm and the non-farm population it is emphasized that a larger proportion of the farm population falls in the low-income group than is the case in the non-farm population. It is pointed out, for instance, that a considerably larger percentage of the families on cotton farms have low annual incomes than is the case with an industrial population. Such use of percentages, however, does not bring out some of the important aspects of the low-income problem. The percentages relate to entirely different magnitudes. The adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than \$750, for the benefit of wheat, cotton and rice growers, only part of whom have such low

- 17 -

incomes. In addition, there were 4,500,000 relief families, of whom 600,000 were farm families. ^{1/} In other words, it is not evident that the net effect of the plan would be a distribution of income from higher to low income groups.

Moreover, we are here dealing with families whose incomes range from minus quantities upward. Therefore, even if, on the average, the families taxed had a higher income than those which received the benefits, the families taxed would still include a number whose incomes would be lower than the incomes of many receiving the benefits.

^{1/} In 1935-36, one-third of American families are estimated to have had incomes of less than \$780. No information is available on the income distribution among wheat, cotton and rice farmers specifically. However, in that year, 37.6 percent of all non-relief farm families were estimated to have had annual incomes under \$750. For all non-relief families, the corresponding proportion was only 23.5 percent. However, in actual numbers, over 6 million non-relief families had incomes less than \$780. Non-relief farm families accounted for a little over 2 million of the six. However, families of wage earners also accounted for over 2 million. Even if the percentage of wheat, cotton and rice growers falling in this low income group were much larger than that reported for all farm families, the adoption of the certificate plan would result in the taxation of at least 5 million non-relief families with incomes of less than \$780, for the benefit of wheat, cotton and rice growers, only part of whom have such low incomes. In addition, there were 4,500,000 relief families, of whom 600,000 were farm families. In other words, it is not evident that the net effect of the plan would be a distribution of income from higher to low income groups.

- 18 -

In other words, despite the fact that on the average farm families have lower incomes than urban families, the plan would tax some consumers with little or no income for the benefit of some farmers with relatively larger incomes. To this extent the effect of the plan would be the converse of "progressiveness."

Finally, it should be noted that, aside from limitations on maximum payments to individual farmers, the benefits under the certificate plan would be distributed among farmers approximately in proportion to the present distribution of incomes. Wheat, cotton and rice growers would benefit in proportion to their normal production. Therefore, in general, farmers with large farms, producing large amounts of wheat, cotton or rice would receive more money from the plan than small farmers producing smaller amounts.

These considerations indicate that (1) the cost of the plan would be distributed inversely to tax-paying ability, (2) the benefits of the plan for these commodities would be apportioned roughly according to the present distribution of incomes among the growers, and (3) some purchasing power would be transferred from low income families to higher income families.

- 15 -

At all events, even if it could be agreed that the certificate plan tax on consumers for the benefit of producers might have "progressive" effects, it would still be true that the degree of such "progressiveness" would be less than would be achieved under practically any other method of taxation.

(3) The third consideration against the certificate plan is that even in the event that it is deemed desirable to finance parity payments from taxes falling largely on the consumers of the commodities concerned, processing taxes of the type employed from 1933 to 1936 would be preferable administratively to the certificate plan taxes.

A processing tax can be administered readily by the regular tax-collecting agency of the government. It can be more carefully integrated in technical details (with respect to definitions of tax base, and exemptions, deductions and refunding provisions) than is the case with the certificate plan.

The effective application of processing taxes requires the imposition of compensatory taxes. Floor stock taxes are a case in point. Under the invalidated processing taxes provision was made for compensatory floor stock taxes on any article that on the date the processing tax became effective was held for sale or other disposition.

Such compensatory taxes are essential to prevent undue profiteering. The need for such taxes is especially present when rate changes are likely to occur from time to time. Moreover, in those instances where on occasions reductions in tax rates are likely, provision should also be made for refunds on floor stocks. In the absence of such provisions, processors and distributors are exposed to heavy losses merely because of a change in the tax rate.

Under the processing tax, the Secretary of Agriculture was instructed to ascertain whether "the payment of the processing tax upon any basic agricultural commodity is causing or will cause to the processors thereof disadvantages in competition with competing commodities by reason of excessive shifts in consumption between such commodities or products thereof." If he so found, he was to proclaim a tax at a rate "necessary to prevent such disadvantages in competition" on the first domestic processing of the competing commodity. The need for this type of compensatory levy is particularly important in a commodity, such as cotton, for which important competitive substitutes are available, such as paper, jute and rayon. This problem may be more serious in the case of the industrial uses of cotton.

Conceivably, a certificate plan of the type proposed could be supplemented by compensatory taxes within the internal revenue system. Whether such compensatory taxes are in fact contemplated by the proponents of the plan has not yet been indicated. It would appear that the imposition and administration of compensatory taxes as well as the disposition of the revenues raised would be less cumbersome as an integral part of processing taxes than as adjuncts of the certificate plan. To these should be added the previously discussed considerations: that if processing taxes were employed they would be included in the budget, that they would be less hidden from the public, and that they are more likely to be currently scrutinized than the taxes inherent in the certificate plan.

JAN 2 - 1940

My dear Mr. Minister:

You will recall that upon occasion of your call at the Treasury on December 15, 1939, to deliver a check in payment of the semi-annual installment of the Finnish indebtedness to the United States, I told you that a number of contributions had been received from persons wishing to help your Government repay its debt to the United States, and that since I have no authority to receive such contributions, arrangements were being made with the consent of the donors, for them to be turned over to you.

The Treasury received directly, or through the White House and the Department of State, more than fifty contributions. In nearly every case, in which authorizations have been received, the donors have asked that their contributions be turned over to you, as representative of your Government, and in the few exceptions to this procedure, the donors have requested that their contributions be turned over to the Committee in New York City with which Honorable Herbert Hoover is identified and which is accepting contributions for the relief of the Finnish people.

Accordingly, as requested by the donors, I am enclosing letters and the accompanying contributions from the following donors whose names are included in the attached list. In the cases listed as "anonymous" the donors did not reveal their names.

There are about ten to fifteen additional cases where the donors have not yet authorized the Treasury to dispose of their contributions, and as soon as the necessary authorizations are received in such cases, I shall forward these items to you.

Very truly yours

Signed: H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. Ejalmar J. Procope,
Envoy Extraordinary and Minister Plenipotentiary,
2146 Wyoming Avenue, N. W.
Washington, D. C.

Enclosure
WTH:vf
December 28, 1939

List of donors who have authorized the Secretary of the Treasury to turn over to Hjalmar J. Froese, Finnish Minister, their contributions which were forwarded to the Treasury for the benefit of Finland.

	<u>Amount</u>
Edward E. Babcock, Jr., Check in favor of Henry Morgenthau, Jr., Tompkins County Trust Co., Trumansburg Branch Trumansburg, New York.	\$ 5.00
E. L. Oann, Check in favor of Henry Morgenthau, Jr., State Bank of Kenmore, Kenmore, New York.	2.00
E. L. Cornell, Check in favor of Henry Morgenthau, Jr., Marine Trust Company, Buffalo, New York.	1.00
Glenn E. Crawford, Check in favor of Henry Morgenthau, Jr., Niagara County National Bank & Trust Co., Lackport, New York.	10.00
Mrs. Florio Walker Cortney	1.00
Sam Kishman Cortney	1.00

Gust. E. Karlsson Check in favor of Henry Morgenthau, Jr. N Y F Trust Company, Riverside Branch, Buffalo, New York.	1.00 \$1.00
A. B. Kane, Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	2.00
G. J. Schmitt Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	1.00
D. V. Kariide Check in favor of Henry Morgenthau, Jr. Germanstein Trust Company, Philadelphia, Pennsylvania.	2.00
Kennedy Macdonald, Check in favor of Henry Morgenthau, Jr. The Chase National Bank, Klavan Broad Street Branch, New York, New York.	2.00
H. L. Fogel, Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	2.00
Harlan J. Buchanan, Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	2.00
Kerry B. Sander, Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	1.00
Abelle Placita Currency	1.00
L. B. Salama, Check in favor of Henry Morgenthau, Jr. Karlson Trust Company, Buffalo, New York.	1.00

- 3 -

	<u>Amount</u>
M. MacDonald, Currency	\$ 1.00
E. F. Van Valkenburgh, Check in favor of Henry Morgenthau, Jr., Marine Trust Company, Buffalo, New York.	2.00
Plain Dealing Lions Club, George S. Astor, President, United States Postal Money Order in favor of the U. S. Treasury Department	20.00
Gordon T. Fish, Check in favor of the Treasurer of the United States Howard Bank and Trust Company, Fort Lauderdale, Florida.	1.00
R. H. Burns, Jr., Check in favor of U. S. Treasury Department, Wassenaar Bank and Trust Company, Whiteville, N. C.	1.00
C. B. Addison, Currency.	1.00
Mrs. F. J. Hardman, Check in favor of Franklin D. Roosevelt, The Third National Bank & Trust Co., Dayton, Ohio.	5.00
Donald E. Gilpin, Check in favor of Treasurer of the United States, Depositors Trust Company, Bathway Harbor, Maine.	5.00
J. H. Mainer, Currency.	1.00
Churchill Williams, Check in favor of United States Government, The Pennsylvania Company, Philadelphia, Pennsylvania.	5.00

F. J. Walsh, Currency.	Amount \$ 2.00
Granville M. Brushbaugh, Check in favor of Secretary of Treasury, Central Hanover Bank and Trust Company, New York, New York.	5.00
Harry Garrobb, Currency.	1.00
W. L. Smart, United States Postal Money Order in favor of the Secretary of the Treasury.	7.00
R. S. Oakes, Check in favor of the Treasurer of the United States, National Bank of Commerce of Portland, Portland, Maine.	1.00
Anonymous (An American Citizen) Currency.	1.00
Anonymous (Mailed from Summerville, Georgia) Currency.	1.00
Anonymous (Mr. and Mrs.) Currency.	2.00
Anonymous (An admirer of "Little Finland") Currency.	1.00
Anonymous (An American Russian) Currency.	5.00
Hollandville Rotary Club, Western Union Money Order in favor of Henry Mergenthau, Jr.	25.00
Anna L. Crown, Check in favor of Henry Mergenthau, Jr., Marine Trust Company, Buffalo, New York.	1.00

JAN 2 - 1940

07

My Dear Mr. Minister

You will recall that upon occasion of your call at the Treasury on December 15, 1939, to deliver a check in payment of the semi-annual installment of the Finnish indebtedness to the United States, I told you that a number of contributions had been received from persons wishing to help your Government repay its debt to the United States, and that since I have no authority to receive such contributions, arrangements were being made with the consent of the Senate, for them to be turned over to you.

The Treasury received directly, or through the White House and the Department of State, more than fifty contributions. In nearly every case, in which contributions have been received, the Senate have acted that their contributions be turned over to you, as representative of your Government, and in the few exceptions to this procedure, the Senate have requested that their contributions be turned over to the Committee in New York City with which Honorable Herbert Hoover is identified and which is accepting contributions for the relief of the Finnish people.

Accordingly, as requested by the Senate, I am enclosing letters and the accompanying contributions from the following donors whose names are included in the attached list. In the cases listed as "anonymous" the Senate did not reveal their names.

There are about ten to fifteen additional cases where the Senate have not yet authorized the Treasury to dispose of their contributions, and as soon as the necessary authorizations are received in such cases, I shall forward these items to you.

Very truly yours

ROBERT E. HOOVER

Secretary of the Treasury.

Mr. Mikael J. Pyyry,
Army Extraordinary and Minister Plenipotentiary,
2146 Spring Avenue, N. W.,
Washington, D. C.

Enclosure

THIRD
December 28, 1939

List of donors who have authorized the Secretary of the Treasury to turn over to Hjalmar J. Procopé, Finnish Minister, their contributions which were forwarded to the Treasury for the benefit of Finland.

	<u>Amount</u>
Howard E. Babcock, Jr., Check in favor of Henry Morgenthau, Jr., Tompkins County Trust Co., Trumansburg Branch Trumansburg, New York.	\$ 5.00
R. I. Owen, Check in favor of Henry Morgenthau, Jr., State Bank of Kenmore, Kenmore, New York.	2.00
H. L. Cornell, Check in favor of Henry Morgenthau, Jr., Marine Trust Company, Buffalo, New York.	1.00
Glenn H. Crawford, Check in favor of Henry Morgenthau, Jr., Niagara County National Bank & Trust Co., Lockport, New York.	10.00
Mrs. Vinnie Walker Currency	1.00
Sam Kleiman Currency	1.00

- 2 -

	<u>Amount</u>
Gust. H. Karlsteen Check in favor of Henry Mergenthan, Jr. M & T Trust Company, Riverside Branch, Buffalo, New York.	\$1.00
A. B. Howe, Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York	2.00
G. F. Schmitt Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York.	1.00
D. V. Herrick Check in favor of Henry Mergenthan, Jr., Germantown Trust Company, Philadelphia, Pennsylvania.	2.00
Kennedy Hassenstahl, Check in favor of Henry Mergenthan, Jr., The Chase National Bank, Eleven Broad Street Branch, New York, New York.	2.00
H. E. Fegal, Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York.	2.00
Maurice J. Buchman, Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York.	2.00
Harry D. Sanders, Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York.	1.00
Adele Fianca Currency	1.00
R. B. Beldan, Check in favor of Henry Mergenthan, Jr., Marine Trust Company, Buffalo, New York.	1.00

- 3 -

K. Macdonald, Currency	Amount \$ 1.00
E. F. Van Valkenburgh, Check in favor of Henry Morgenthau, Jr., Marine Trust Company, Buffalo, New York.	2.00
Plain Dealing Lions Club, George S. Aston, President, United States Postal Money Order in favor of the U. S. Treasury Department	20.00
Gordon T. Fish, Check in favor of the Treasurer of the United States Brownard Bank and Trust Company, Fort Lauderdale, Florida.	1.00
R. E. Burns, Jr., Check in favor of U. S. Treasury Department, Waco Bank and Trust Company, Whitewillo, N. C.	1.00
C. B. Adams, Currency.	1.00
Mrs. F. J. Hardman, Check in favor of Franklin D. Roosevelt, The Third National Bank & Trust Co., Dayton, Ohio.	5.00
Donald E. Gilson, Check in favor of Treasurer of the United States, Depositors Trust Company, Bathway Harbor, Maine.	5.00
J. M. Maines, Currency.	1.00
Churchill Williams, Check in favor of United States Government, The Pennsylvania Company, Philadelphia, Pennsylvania.	5.00

- 4 -

F. J. Walsh, Currency.	Amount \$ 2.00
Gerrville M. Brumhugh, Check in favor of Secretary of Treasury, Central Hanover Bank and Trust Company, New York, New York.	5.00
Harry Gerscho, Currency.	1.00
M. L. Smart, United States Postal Money Order in favor of the Secretary of the Treasury.	7.00
L. S. Cakes, Check in favor of the Treasurer of the United States, National Bank of Commerce of Portland, Portland, Maine.	1.00
Anonymous (An American Citizen) Currency.	1.00
Anonymous (Mailed from Summerville, Georgia) Currency.	1.00
Anonymous (Mr. and Mrs.) Currency.	2.00
Anonymous (An admirer of "Little Finland") Currency.	1.00
Anonymous (An American Russian) Currency.	5.00
Norfolk Rotary Club, Western Union Money Order in favor of Henry Hargenhan, Jr.	25.00
Anna L. Covert, Check in favor of Henry Hargenhan, Jr., Marine Trust Company, Buffalo, New York.	1.00

- 5 -

	<u>Amount</u>
N. L. Cornell, Check in favor of Henry Morgenthau, Jr., Marine Trust Company, Buffalo, New York.	\$ 1.00
Glenn H. Crawford, Check in favor of Henry Morgenthau, Jr., Niagara County National Bank & Trust Co., Lockport, New York.	10.00

Very truly yours,

Secretary of the Treasury.

Mr. Kjalmar J. Froese,
Envoy Extraordinary and Minister Plenipotentiary,
2146 Wyoming Avenue, N. W.,
Washington, D. C.

VTH:yz
December 27, 1939.



TREASURY DEPARTMENT

WASHINGTON

January 2, 1940

Supplemental Memorandum on Lampblack

Additional information on uses: (Obtained from the Department of Commerce).

Lampblack is used as an ingredient in the manufacture of rayon, varnishes, paint and varnish removers, rubber solvent, cold vulcanizing agent, rubber cements, gutta-percha solvent, preservative and insecticide, refrigerant, degreasing wool, resin and wax solvent, extracting medium for resins and waxes, essential oils from flowers, fats and oils from oilseeds, germicides, soil disinfectant, cyanides and carbon tetrachloride, synthetic hydrocarbons, ammonium sulfocyanide, matches, general solvent, laboratory reagent, motor fuels, moth exterminator, vermin killer, solvent of alkaloids, and extracting aromatic substances and pharmaceutical products from seeds, root, etc., purifying paraffin, spectroscopy and blue flame for photography.

No statistical information is available on distribution of relative amounts for the lampblack consumed in each of the above uses. It is safe, however, to estimate that the use of lampblack in paints and cheap inks is its most extensive application.

U. S. Production: (Bureau of the Census).

	<u>1931</u>	<u>1933</u>	<u>1935</u>	<u>1937</u>
No. of plants	4	-	-	-
Pounds	3,424,048	3,012,226	3,902,076	5,309,376
Value (\$)	320,989	210,054	385,541	472,533

Aside from its higher quality one of the reasons that carbon black has so drastically competed with lampblack in this country can be traced to the fact that this country possesses large reserves of natural gas from which carbon black is produced.

H. J. Wollner
H. J. Wollner,
Consulting Chemist.

January 2, 1940

Dr. Feis

Mr. Cochran

It is requested that a cablegram in the following sense be sent to

'AMERICAN LEGATION STOCKHOLM

The Secretary of the Treasury would appreciate the cooperation of Mr. Greene, who was so helpful to the Secretary last summer in establishing contacts with Swedish officials including Governor Roeth of the Sveriges Riksbank, if Greene would see Roeth and ask the latter to be good enough to provide him, for confidential transmission to Secretary Morgenthau, a summary of his views on the present economic situation in Sweden, Finland and Norway. The report should be called at Treasury expense*.

(Init.) E. E. G.

DEC/rmm

[Handwritten signature]



Confidential
TREASURY DEPARTMENT

95

PROCUREMENT DIVISION

WASHINGTON

January 2, 1940

MEMORANDUM FOR THE SECRETARY

The French contract with the Curtiss-Wright Corporation is for 100 P-40s, to be delivered through the following schedule:

1940 -	July -	9
	August -	9
	September -	11
	October -	18
	November -	23
	December -	30

The Army has a contract for 524 of these planes, deliveries of which will be made under the following schedule:

1940 -	March -	3
	April -	12
	May -	27
	June -	40
	July -	46
	August -	44
	September -	42
	October -	46
	November -	45
	December -	49
1941 -	January -	50
	February -	44
	March -	45
	April -	51

At present tests are continuing on the production model, and inquiry today elicited the information that so far the Army is very well pleased with this ship and that all of the tests have proven more than satisfactory.

H. Folmer
Director of Procurement

January 2, 1940.
3:50 p.m.

H.M.Jr: Hello.

Operator: Captain Collins calling you.

H.M.Jr: All right.

C: Go ahead.

H.M.Jr: Hello.

Captain Collins: Good afternoon, sir.

H.M.Jr: Good afternoon.

C: Mr. Secretary.

H.M.Jr: Yes.

C: Purvis phoned me a moment ago, and in the course of conversation stated that he had received a cable this morning from Hunsat.

H.M.Jr: Yes.

C: Who said that he had from very authoritative sources the information that sixty thousand tons of copper had been sold to Russia.

H.M.Jr: Yes.

C: That they were fearful that some of that might filter to Germany.

H.M.Jr: Yes.

C: He asked me to pass that word on to you, and asked me also if I could check it. Well of course I have no means of checking it. He said he's sending you this dispatch in a letter tonight.

H.M.Jr: Well I'll wait until I make a look at it.

C: Yes, sir.

H.M.Jr: I don't think we can do anything about copper. I just had a talk with Sumner Welles. He just left here, and he doesn't see how we can do anything on those things, on copper or oil. And I wrote a memorandum to the President - I mean I'm bringing him up to date on what we did last week.

Q: Yes, sir.

H.M.Jr: So I want to - I'm on thin ice on this stuff and I want to make sure that I don't go through.

Q: Yes, sir.

H.M.Jr: But Welles says I'm all right as far as I've gone.

Q: Well that's fine.

H.M.Jr: So he said - and I gave him a copy of this memorandum, which he said he'd show to Mr. Hull and I said if Mr. Hull or he had any doubt at the present status of things let me know and I'd come over there.

Q: Yes, sir.

H.M.Jr: So I don't expect any trouble from that angle.

Q: That's fine Mr. Secretary.

H.M.Jr: So - where are you on planes?

Q: Well I'm coming along. I have the - I have those deliveries on the P-40's.

H.M.Jr: You have the what?

Q: I have the delivery schedule on P-40's.

H.M.Jr: Oh yes, what's that?

Q: Well that's the one we were discussing Saturday.

H.M.Jr: Yes, I know but I mean what's the situation?

Q: Well the Army's total order is five hundred and twenty-four.

H.M.Jr: How many?

Q: Five hundred and twenty-four.

H.M.Jr: Yes.

Q: And in March 3, and in April 12 -

- 3 -

H.M.Jr: Wait a minute. Wait a minute, let me - in March how many?

C: Three.

H.M.Jr: My God.

C: April twelve. It goes up rapidly.

H.M.Jr: Yes.

C: May twenty-seven.

H.M.Jr: Yes.

C: June forty.

H.M.Jr: June -

C: Forty -

H.M.Jr: Yes. Well that's far enough.

C: And then it goes through, January, February, March, April of forty-one.

H.M.Jr: Yes.

C: Now -

H.M.Jr: That's for the Army.

C: That's right sir. Well those are the - they're the big buyers on that boat.

H.M.Jr: Yes.

C: Now on the - I talked quite at length this morning with some of the air corps mob and they say this that they do not share the fears at all apparently that are expressed by

H.M.Jr: Yes.

C: That their test, the production model that they've had out there, they've been giving it the works and it's just performed beautifully to date.

H.M.Jr: Yes.

- 4 -

C: So I don't know. Maybe he worries about the maneuverability of it in combat. That may be what's bothering him most.

H.M.Jr: Well I don't blame him.

C: No I don't either.

H.M.Jr: But on this schedule basis - to get twenty-five out of that - just let's see what you've got here. Three - twelve -

C: You couldn't do it till the end of May.

H.M.Jr: Ninety-two. Yes.

C: End of June. If you're going to split it every other one, it'd be the end of June.

H.M.Jr: Yes. Well when would the French begin. They've got a hundred of these orders haven't they?

C: That's right.

H.M.Jr: Well when are they going to get theirs?

C: Well their orders start in this Spring too. I've got that figure in the other room. Do you want to hold a minute?

H.M.Jr: No. What you might do. You might send it over or when you're ready bring it over tomorrow sometime.

C: Yes, sir. Well I'm giving you a complete dope sheet that's right up to the minute on all this stuff. I think you should have it only - not only the French but the British as well.

H.M.Jr: Right.

C: Just one second sir. On the - let me see if I can get my figure on that P-40. No I haven't any here of Paris.

H.M.Jr: Well that's all right.

C: I thought I did, but I - it is included. It will be included in the statement
No I haven't it, but I'll have it tomorrow.

- 5 -

H.M.Jr: All right.
C: Anything else new sir?
H.M.Jr: No, I have nothing else.
C: All right sir.
H.M.Jr: Good night.
C: Thank you sir. Good night.



BRITISH PURCHASING COMMISSION

January 2, 1940

Dear Mr. Secretary:

MOLYBDENUM

I have ascertained the following information in regard to the Cananea Mine in Mexico:

The Greene Cananea Copper Company (Minn) recovers Molybdenite as a by-product of its copper operations. Production for 1938 amounted to approximately 500 tons of Molybdenum in the form of high grade concentrates, comparing with 575 tons in 1937. This slight decrease is probably due to curtailed copper output.

Apparently England is under the impression that the Greene Cananea Copper Company (which is a subsidiary of Anaconda) has a sales arrangement with the Climax Molybdenum Corporation. It is possible therefore that this company's operations are covered by the discussions you have already had with Climax.

Personnel is given as follows:

President.....	William D. Thornton
Vice Presidents.	William Kraith
	Louis D. Ricketts
Directors.....	As above, and
	Joseph B. Cotton
	Robert E. Dwyer
	Cornelius F. Kelley

Yours sincerely,

Secretary of the Treasury
Washington, D. C.



BRITISH PURCHASING COMMISSION

January 2, 1940

Dear Mr. Secretary:

TUNGSTEN

Since I saw you on Saturday morning, I have received cable advice in regard to the message I sent after our talk of December 28 which had a particular bearing on the Tungsten situation. This cable seems to amplify somewhat the information which you advised me on Saturday that you had received from Paris.

First as regards the stock of 7,000 tons of Tungsten and Antimony, the situation as it was available to M. Monnet as at December 6 is that -

3500 tons of Tungsten
700 " " Antimony

were stopped at Haiphong and subsequently bought for importation into France by French groups acting under authority for the French Government.

Furthermore, the following stores which on December 6 were lying at Dongiang Station at the Indo-China frontier -

2200 tons of Tungsten
2200 " " Antimony

have been since that date bought under the same conditions.

I am advised that the above will be supplemented by more up-to-date information at the earliest possible moment.

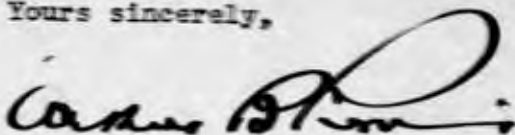
I understand these alloys have been stopped by the French to take care of French requirements and to prevent their reaching Russia and probably also Germany via

- 2 -

Russia. The French Government will be prepared, in agreement with the British Government, and in order to co-operate fully with the United States administration, to consider the possibility of supplying America with part of the alloys bought from China if so desired - that is after Allied requirements have been met. They would wish to make a proviso that any alloys so provided are reserved for internal consumption in the United States.

M. Monnet expressed further appreciation of the useful action which you have been taking in your contacts with the Chinese in connection with Tungsten.

Yours sincerely,



Secretary of the Treasury
Washington, D. C.



BRITISH PURCHASING COMMISSION

January 2, 1940

Dear Mr. Secretary:

COPPER

I have been in touch with Captain Collins today in regard to a report which M. Monnet states has been received in London from a source usually reliable. It is that various United States producers have recently sold 60,000 tons of copper to Russia, and it is felt that some at least of this may reach Germany.

Would you be willing to make inquiries with a view to ascertaining whether this report is true?

Yours sincerely,

Secretary of the Treasury
Washington, D. C.

PAP

TELEGRAM SENT

GRAY

January 2, 1940

7 p.m.

AMERICAN LEGATION

BUCHAREST (RUMANIA)

One.

At the request of the Secretary of the Treasury you are instructed to cable at Treasury expense a review and summary of current wartime trade and goods traffic between Rumania and Germany, with particular regard to oil. The Treasury ventures to suggest that Mr. Edson would be interested in preparing such a report and states that his cooperation would be much appreciated.

HULL
(GSM)

EA:HF:LWW EU

73413070

STRICTLY CONFIDENTIAL

106

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the Secretary's pencilled instructions on my memorandum of December 20, I telephoned the Chinese Embassy this morning. The Ambassador was absent and not expected back in town for two days. Consequently, I spoke with his private secretary, Mr. Yu.

I explained to Mr. Yu that the Secretary desired further information with respect to the 7,000 tons of Chinese antimony and tungsten ore mentioned in the telegram from the Chinese Ministry of Foreign Affairs which accompanied the Ambassador's letter of December 15 to Secretary Morgenthau. The three points on which supplemental information is desired are: (1) What part of the 7,000 tons is tungsten and what part is antimony; (2) Where is the ore situated and (3) Have the French moved any part of it. Mr. Yu thought it would be necessary to cable China for the desired facts. He promised to telephone me as soon as an answer could be given.

At 11:15 this morning the First Secretary of the Chinese Embassy called me back in regard to the message which I had given to the Ambassador's private secretary. The First Secretary stated that he had talked with the Ambassador by telephone, but that the Embassy had no information in the premises further than that already given Secretary Morgenthau. It had been learned from Mr. Chen, however, that two or three thousand tons of the ore in question is tungsten and the remainder antimony. All is now in Indo-China where it had been stored for shipment. The secretary gave us this preliminary information and will cable China for information to cover fully the three points desired by the Secretary.

JWC

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

107

INTER OFFICE COMMUNICATION

DATE December 20, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

At the Secretary's request, I telephoned the Chinese Ambassador at 10:15 this morning. I referred to the Ambassador's letter of December 19, with which there was enclosed a translation of a telegram from the Chinese Ministry of Foreign Affairs. I told the Ambassador that Secretary Morgenthau asked that the cablegram in question be placed in the hands of Ambassador Bullitt in Paris through the Chinese Ambassador in that city; furthermore, that Mr. Bullitt be informed that this has been done at Secretary Morgenthau's instance, and that the Secretary will telephone Mr. Bullitt in regard thereto. The Chinese Ambassador said that he would act immediately upon this suggestion.

A.M.S.

Cochran please ask
Chinese Amb. what part
of 7000 Tons is tungsten
and what part is antimony
and where it is located
and have French mined
any of it yet. M.J.

CHINESE EMBASSY
WASHINGTON, D. C.

December 19, 1939

My dear Mr. Secretary:

I am sending you a translation of a telegram which I have received from the Ministry of Foreign Affairs, which reports that the French Indo-China Government has recently been instructed by the Paris Government to claim the right of preemption of all the Chinese antimony and tungsten which are awaiting shipment in Indo-China. I have talked over this matter with Mr. T. F. Chen on the telephone. Both he and I are anxious to bring this matter to your kind attention. I am bringing the same to the attention of the State Department. Any effort which the American Government can make on China's behalf in this matter, I am sure, will be gratefully appreciated.

I am, my dear Mr. Secretary,

Very sincerely yours,



Hu Shih

Enclosure

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

Translation of Telegram from Ministry of
Foreign Affairs.

December 17.

- - - - -

The French Indo-China Government has recently received instruction from the Paris Government to claim the right to buy up all the Chinese antimony and tungsten (over 7000 tons altogether) which are in Indo-China awaiting shipment. These commodities are among the important exports to England, the United States, France and Soviet Russia with which China discharges her obligation under barter agreements and with which to secure foreign exchange. A part of this has been contracted to sell to Britain. The French are proposing to preempt all this. That would incapacitate our ability to carry out contractual obligations, lower our commercial credit abroad, and decrease our power of resistance. We are making a strong presentation to the French Government, and hope you will request the American Government to use its influence so that the French Government may cancel its preemption proposal and continue to give us the right of way to ship same abroad.

Translation of Telegram from Ministry of
Foreign Affairs.

December 17.

- - - - -

The French Indo-China Government has recently received instruction from the Paris Government to claim the right to buy up all the Chinese antimony and tungsten (over 7000 tons altogether) which are in Indo-China awaiting shipment. These commodities are among the important exports to England, the United States, France and Soviet Russia with which China discharges her obligation under barter agreements and with which to secure foreign exchange. A part of this has been contracted to sell to Britain. The French are proposing to preempt all this. That would incapacitate our ability to carry out contractual obligations, lower our commercial credit abroad, and decrease our power of resistance. We are making a strong presentation to the French Government, and hope you will request the American Government to use its influence so that the French Government may cancel its preemption proposal and continue to give us the right of way to ship same abroad.

RECORDED 18 MAR 15 1916

DEPARTMENT OF STATE
RECEIVED

January 2, 1940

3:30 pm

(Dictated by HM, Jr, Mr. Cochran present, after Mr. Welles had left from his 3:00 appointment with the Secretary.)

I let Mr. Welles read the letter which I wrote the President in regard to strategic war materials (see letter dated 1/2/40) and suggested that he let Mr. Hull read it and Welles gave me his word of honor that after that he would burn it himself.

He said that he felt, so far, everything was all right, but that when we got into talking about oil and copper and carbon black, that that would be an un-neutral act.

I said that I wanted Hull and Welles to know everything I was doing at the President's request and that I realized anything like oil or copper was out of the question unless Congress would want to do it itself. He agreed.

I particularly emphasized the fact that I did not want anybody but Hull and Welles to see it and that I did not want Feis to see it. He said O. K. As he left he said, "I will burn it".

I assured him that I was not going to do anything along these lines unless I was directed to do it by the President and first discussing it with Mr. Hull and any time Mr. Hull had any doubts as to what I was doing along these lines, if he would give me a telephone call I would be glad to come over and talk to him.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 2, 1940, 6 p.m.

NO.: 3

FROM MATTHEWS FOR THE TREASURY DEPARTMENT.

This morning Mr. Royal L. Tyler came in to see me. He had been on a trip to Hungary and Italy, and had just come back to Paris. He had found that Teleki is stronger than ever there, and expressed delight with the "improvement" regarding the attitude of Hungary toward Germany which has taken place since he was there in May; he believed this was due partly to the "contradictory promises" which had been given to the Hungarians and Rumanians by the Nazis - they would hold out the "fait" of Transylvania to the Magyars on the one hand, while almost simultaneously they were intimating a readiness to the Rumanians to "guarantee" frontiers which exist at present.

END SECTION ONE.

BULLITT.

PARAPHRASE, SECTIONS TWO TO FIVE, INCLUSIVE
NO. 3 OF JANUARY 2, 1940, FROM AMERICAN EMBASSY, PARIS

The Hungarian public he said is surprisingly well informed of this "Nazi double dealing". He said that today "at least four out of five Hungarians desire an Allied victory", their opinion having been changed because of the action of the Nazis and in view of the Russo-German "alliance", the traditional Hungarian friendship for their Finnish cousins, and the failure of the Germans to score an early victory on the western front. He went on to say that the finances of the Hungarian Government are in a deplorable state, in view of military expenditures being greatly increased. Hungarians did not have any trouble in the early stages of the war in traveling through Austria and Germany. However, every possible obstacle and delay are being put in their way now, it being necessary for them to indicate the names of the people they wish to see, giving their exact times of travel and itineraries. The Hungarian people are on the other hand being flooded with thousands of letters each day from relatives or friends, living in Germany, who beg for gifts of foods, and other things. Mr. Tyler himself has seen some of these letters; since the latter obviously are passed by the German censor, it is presumed that the Nazis believe the material return in gifts outweighs the adverse propaganda effect of the picture of shortages in Germany. At one time six tons of food

- 2 -

food were being shipped to Germany each day as a result of the letters; however, this has been cut down to the present rate of three tons daily through action of the Hungarian financial authorities.

Reference: my telegram No. 3056 of December 29.

Mr. Tyler definitely is not of the same opinion as Pennachio with regard to improved economic conditions in Italy. Mr. Tyler says that not much prosperity has been brought to Italy because of the war, despite a certain number of important French contracts. He said that the standard of living is constantly decreasing, on the contrary, and there are material rises in prices. Bank of Italy officials have told him confidentially that Italian expenditures are running at the rate of a hundred billion lire a year; this would be roughly half of the expenditures of a France at war, he said, and must be regarded as somewhat staggering considering the poverty of Italy. He said that material concessions have been given to Hungary by the Italians, for political reasons; airplanes and arms are being furnished, and Italy is accepting payment under clearing agreements in existence. Italians are furthermore permitting payment in lire for freight on all exports from and imports into Hungary through Italy. He said that even when contracts are held by Italian shipping companies calling for payment

in

- 3 -

in devisen, a way is found by the Government to arrange for returning such foreign exchange to Hungary. Substantial quantities of foodstuffs and oils are being acquired by Germany through Italy, Germany using coal for payment for the most part.

Incidentally, he remarked that it was his opinion that the British and the French were indulging in a lot of wishful thinking regarding the attitude of Italy towards the war. Mr. Tyler is inclined to share the belief of others that an early peace move may be made by Mussolini, the latter not desiring a German defeat. Fantastic as the story may seem, he said that he knew the Italians are bringing some pressure on Hungary looking toward the establishment of the Duke of Aosta as king of some sort of Danubian monarchy - apparently to include at least parts of Slovenia and Croatia; of course, he said, the Hungarians do not take kindly to the thought that an Italian head might bear the ancient crown of St. Stephen!

BULLITT.

EA:LW

NC

GRAY

PARIS

Dated January 2, 1940

Rec'd 4:35 p.m.

Secretary of State

Washington

3, January 2, 6 p.m. (SECTION SIX)

Parliament unanimously voted the 1940 (?) budget in the early morning hours of December 31 with expenditures totaling 79,889,000,000 francs and revenue 79,961,000,000 thus leaving an ostensible surplus of 72,000,000. In the course of the progress of the bill Parliament added 894,000,000 francs to the original estimate of approvals and 930,000,000 to the original estimate of revenue. These increases were due chiefly to a last minute decision to make the provisions of the so called "family code" applicable immediately (Embassy's despatches Numbers 4835 of August and 5464 of December 19). The family code is designed to offer financial inducements to increase the country's birth rate.

BULLITT

EMB
RL

PAP

GRAY

PARIS

Dated January 2, 1940

Rec'd 6:45 p.m.

Secretary of State

Washington

3, January 2, 6 p.m. (SECTION SEVEN).

As usual ^{under} the finance law for 1940, the Finance Minister is authorized to fix by decree conditions for renewal or funding operations equal to the total of the floating debt of the Treasury and of the autonomous National Defense Board as well as maturing loans of the Treasury and of the Credit National. The Minister is likewise authorized to cover other Treasury charges through the issue of ordinary Treasury bills up to a limit of 10,000,000,000 francs (the limitation does not of course apply to armament bonds - my telegram No. 2625, October 31, 7 p.m.)

The finance law likewise provides a strong tax of 20 centimes per liter on gasoline and abrogates the decree law of September 1, 1939 which instituted a solidarity fund to assist mobilized soldiers or their families (Embassy's despatch No. 4959, September 6, 1939). Parliament apparently felt the creation of the fund contrary to the administration of public finances but the Ministry of Public Health budget contains,

PAP -2- 3, January 2, 6 p.m. (SECTION SEVEN) from Paris
contains, as you are aware, appropriations of approximately
14,000,000,000 francs to cover the same purpose.

BULLITT

CFW

PAP

GRAY

PARIS

Dated January 2, 1939

Rec'd 7 p.m.

Secretary of State

Washington

3, January 2, 8 p.m. (SECTION EIGHT).

After approval of the budget Parliament adjourned until January 9.

The Franco-Yugoslav commercial and payment agreements were published in the Journal Officiel of December 31 (my telegram No. 3065, December 30, 8 p.m.).

The Paris securities market was strong and active today and gains were registered throughout the list. Rentes rose fractionally with the exception of the 1937 dollar exchange guaranty issue which gained a full three francs. The carry over rate for the month end settlement was $2\frac{1}{4}\%$ compared with $1\frac{1}{2}\%$ at the middle of December and $1\frac{1}{2}\%$ at the end of November. The outside market rate was fixed at $5\frac{1}{2}\%$ as against $5\frac{1}{8}\%$ at the end of November.

(END OF MESSAGE).

WORLD MAIL

BULLIET

CFW

1939
JAN 3 1939
RECEIVED

January 2, 1940

Dr. Feis

Mr. Cochran

The Secretary of the Treasury would appreciate a message somewhat along the following lines being cabled to

"AMERICAN LEGATION BUCHAREST

At the request of the Secretary of the Treasury you are instructed to cable at Treasury expense a review and summary of current wartime trade and goods traffic between Rumania and Germany, with particular regard to oil. The Treasury ventures to suggest that Mr. Mison would be interested in preparing such a report and states that his cooperation would be much appreciated."

(Init.) E. W. C.

REC-100
[Handwritten signature]

PLAIN

Stockholm

Dated January 2, 1940

Rec'd 9:35 p.m.

Secretary of State

Washington

One, 2nd.

Effective January 2, 1940, minimum rates for securities quoted on Stockholm Stock Exchange abolished. Same date no foreign selling orders for Swedish Stock Exchange securities will be executed. Proclamation published requiring all physical and legal persons resident Sweden report to Riksbank data covering holdings of gold, gold coin and foreign valuables and debts to foreign countries in excess of 500 kronor or equivalent in foreign currency as of December 31, 1939. Declarations must be made before February 15, 1940.

Inform Commerce.

STOKHOLM

LMS

EMB

January 2, 1940

3:40 pm

(Dictated while Cochran and Cotton were present.)

Mr. Welles told me of his talk with the Ambassador. The President of Colombia was ready to go ahead; that there had been a complete misunderstanding; that they had never changed their position; they thought they could pay 3% the first year plus \$400,000 or \$500,000 amortization, or a total of \$1,700,000; by 1941 or 1942 they could pay \$2,200,000 or \$2,300,000, and that the Ambassador is now waiting to hear from Mr. Traphagen.

I called up Traphagen. He said he was too busy now.

Mr. Welles, at my suggestion, said that he would be glad to take the Colombian Ambassador out for lunch and tell him that he felt that with three corners to the present triangle -- Traphagen, the Administration and the Ambassador -- we did not need a fourth angle in the form of an attorney.

Mr. Welles insists that Colombia was misrepresented through a misunderstanding when they said they wanted to modify their former offer.

Mr. Welles said that he was upset to learn for the first time, from Mr. Aranha I gathered, that the Bondholders Protective Committee had withdrawn their representative from Brazil and that Aranha felt if he had stayed down there they might have gotten somewhere and the minute this Colombian matter is through, Mr. Welles would like us to take up the Brazilian debt.

He hopes that Mr. Jones will not contact the Colombians. I told him I could make no promises.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 3, 1940, 7 p.m.

NO.: 7

The following is personal and strictly confidential.

For the Secretary of State and the Secretary of the Treasury.

Reference is made to telegram No. 3059 of December 30 from the Embassy.

Had lunch privately today with the Minister of Blockade, Pernot, his Chef de Cabinet Dayras, and Rist. He was shown the one-page telegram of December 31 from Purvis to Monnet; in this Purvis reported his interviews with Secretary Morgenthau on December 27 and December 30, and his reception by the President (~~ad-Hoc~~) on December 29. The atmosphere was described by Purvis as having been very cordial, and said that in the matter of ferro-alloys he found a desire to extend all possible cooperation; he also found a willingness to consider an extension of our list of "war reserves" or the list of arms and materials of war for which export licenses are required. However, he did not omit to emphasize the delicate nature of the problem. Purvis said that he found enthusiasm for the idea of sending over several allied experts, provided this were done quite unofficially and privately. He had been told, he said, that Rist would be decidedly persona grata; Pernot said that in a few days Rist would be sent via clipper along with the British rep-

- E -

representative, Ashton Smith. On Friday Rist will leave for London, and a telegram to that effect has been sent to Butterworth by Matthews.

Only one brief reference to nickel was made by Purvis; he mentioned that Canada should be consulted, and that we were agreeable to sending a representative from Canada for the purpose of discussing the matter. NOTE: Do you see the telegrams from Purvis before they are transmitted - if you do, we shall of course refrain from cabling the substance of these cables to you.

The suggestion was made by Matthews that probably you would be much interested in an outline of the policy of the Allies regarding economic warfare as concerns the neutrals of Europe and of negotiations with them in this regard. An attempt was made by him to explain the importance from the American point of view of having a complete picture of the situation. Then the Minister of Blockade turned to Rist and said that since they had last talked he had changed his mind; that he thought a full résumé of their position towards the neutrals should be given by Mr. Rist to the President, Secretary Hull and Secretary Morgenthau, and said he could get such a résumé from the confidential exposé he (Pernot) had made before the Foreign Affairs Committee of the Chamber a few days ago. The Minister went on to say that the Allies were fully prepared to give to the neutrals

- 3 -

everything they needed for their own use provided sufficient guarantees against reexportation were provided. These guarantees in some cases took the form of governmental assurance, and that of important industrial syndicates in others. The Allies, he said, have their "little system of surveillance" within the neutral countries, with "a somewhat larger system" in the case of Italy. For the most part he said that the neutrals were reluctant to sign agreements for fear there would be reaction from Germany, or in the face of threats from Germany.

He declared, likewise, that when, for example, in the case of Switzerland, the individual negotiators did not always take "the broader point of view" - that is, a realization of the allies' insurance of the continued independent existence of the country concerned - it is not necessary to go over the head of the negotiators. According to Dayras, the only difficulty they were having with any neutral was with the Netherlands, though he said there was a general tendency for the neutrals to think only with longing of the boom prosperity of the days before the blockade during the last war - which he said had really continued until the United States entered. Hope was expressed by the Blockade Minister that repudiations similar to the Franco-Belgian one signed several weeks ago would be entered into by other neutrals, but he feared that Germany was

- 4 -

a powerful deterrent. As for the Scandinavian countries, the French are leaving the negotiating to the British.

Reference was also made by Pernot to the differences regarding questions of blockade within the French Government itself. Included in the Blockade Committee are representatives of the Ministry of Blockade, of the Navy, Foreign Affairs, Colonies, et cetera; within the Committee it is usually possible to reach agreement, but subsequently the separate ministries frequently make attempts to overrule the decision, and the "final authority" has not been (omission) as yet. The Minister said that of course the Navy wants to seize everything, saying that they didn't realize you couldn't upset a whole diplomatic game for a few bags of coffee.

The Minister confirmed the freedom with which coal exports are being made to Italy from Germany by sea - partly because of the lack of allied or neutral transport facilities - but he expressed the hope that such freedom would not last long. In a report they received from Rome this morning, from Ambassador Francois-Poncet, the Ambassador had indicated that particular efforts were being made by Germany to get fats and oils in Italy; he also said that recently there were resumed shipments of soya beans from Manchukuo for Germany via Italy.

There were expressions of general annoyance at the attitude of the French press (center of information) in

- 5 -

in playing up alleged shortages and dissensions in Germany and in publishing fantastic figures in the newspapers. The Minister said it was "nonsense" to believe what was written in an article in the Paris SOIR today, by its Zurich correspondent, to the effect that Germany has sufficient petroleum to last only three months; he said he was quite opposed to giving the public such continually misleading ideas with regard to the weakness of the Germans.

A talk was had by Matthews with Kott ^{2 (RST?)} with regard to the desirability that his visit to the United States be handled with the utmost discretion and the minimum of publicity; Kott [?] seemed to be in full accord with this idea. Before he leaves for Lisbon he will call at the Embassy.

A reply had been received by Dayras to his cable to the French authorities in Indo-China, indicating that there are actually in French Indo-China now 4500 tons of tungsten and 4200 tons of antimony. Dayras said that he cabled again asking for a list of the consignees on these materials. However, it seemed he felt more confident that as regards shipments to the United States there would be no difficulty. He indicated that for the most part the fears that one or more brokers in New York would reexport to Siberia came from the British, and they would leave it to the British to clear up the matter.

END OF MESSAGE.

BULLITT.

EA:LWV

PERSONNEL DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

Date

1/4/40

TO:

The Secretary

From

*Corrections have
been asked on the
groups indicated
in pencil*

H. M. G.

From: MR. CHICHESTER



DEPARTMENT OF STATE
WASHINGTON

129

January 4, 1949.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information one copy of paraphrase of telegram No. 7 of January 3 from the American Embassy, Paris.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 3, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto a copy of memorandum forwarded to the President, via Mr. McSeymonds, concerning meeting of the Liaison Committee, held on Tuesday, January 2, 1940

Director of Procurement

January 3, 1940

MEMORANDUM FOR THE PRESIDENT

Via Mr. McKeen

At a meeting of the Liaison Committee on Tuesday, January 2, 1940, the following action was taken:

- A. The Chairman read a memorandum addressed to him by General Edwin Watson, Secretary to the President, in which the President directed, when matters dealing with implements of war are brought before the Committee by a duly accredited representative of a foreign government, that a representative of the Army and Navy Munitions Board be designated to sit in on the Board while the matters are being discussed and worked out.

Colonel E. F. Mac Morland, U.S.A. was designated by the Board to attend today's meeting.

- B. The statement submitted by Mr. Arthur Purvis, Chairman of the Franco-British Purchasing Committee, indicating the quantities of Duralumin required by the French Government, was discussed.

No action was taken on this matter because a similar statement as to the requirements of the British Government was expected in the near future.

- C. A letter from the Adjutant General, concerning a request made of the War Department by the Rumanian Minister for the delivery of fabricated aluminum was read at the meeting. The letter stated that the War Department had no objection to the export of aluminum to Rumania for construction of airplanes, provided there is no interference with present or future orders of aluminum for the United States Government.

It was indicated, however, that a preferential or priority treatment for Rumania is a diplomatic matter which should be decided by the State Department in conference with representatives of the Aluminum Company of America.

Action on this matter was deferred pending receipt of full requirements of France and Great Britain, which are to be balanced against the requirements of the United States Government.

- I. The Chairman submitted a copy of a letter addressed to the Clearance Committee of the Army and Navy Munitions Board, from the Acting Secretary of the Navy, concerning a list of possible manufacturers of submarine material to be furnished to the Russian Government.

Action on the request was withheld pending further information from the Army and Navy Munitions Board.

- J. The Chairman read the letter from Major E. Jacobson, of the Swedish Control Commission, concerning the delivery of engines.

It was determined that the question raised concerned the delivery between the Duplelle Aviation Corporation and Pratt and Whitney and was not one upon which action could be taken by this Committee.

- K. As a matter of information, a copy of letter from the Assistant Director of Naval Intelligence to the French Naval Attache, concerning sources of supply of submarine mines, was read.

- L. A letter from the French Naval Attache was given to the Paymaster General of the Navy, for check with the Chief of Ordnance, relative to torpedoes and flasks for which the French Government had a contract with the J. V. Elise Company.

- I. A letter was directed to the Minister of Finland, relative to aids to procurement of munitions. Copy of this letter was transmitted to the State Department.

- J. A letter was forwarded to the Minister of Finland, concerning sources of manufacture of French Morlar Sights. Copy of this letter was also forwarded to the Department of State.

- K. Forwarded a letter to the Minister of Finland concerning the securing of specifications for aircraft materials. A copy of the letter was sent to the State Department.

- L. Advised the Minister of Portugal by letter, information concerning ballistic data on swivel guns. Copy of letter was transmitted to the State Department.

E. E. Collins
Director of Procurement

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Stockholm, Sweden

DATE: January 3, 1940, noon

NO.: 1

It would be appreciated by the Secretary of the Treasury if Mr. Greene, (who helped the Secretary so much last summer in making contacts with officials in Sweden including the Governor of the Sveriges Riksbank, Rooth,) would see Governor Rooth and ask him to be good enough to give a summary of his views on the present economic situation in Finland, Norway and Sweden, for transmitting confidentially to the Secretary of the Treasury.

The Treasury will pay for the expense of cabling the report.

HULL
(GSM)

EA-LWW



DEPARTMENT OF STATE
WASHINGTON

January 4, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a copy of telegram No. 1 of January 3, 1940 to the American Legation, Stockholm.

RECEIVED

U.S. MAIL

FEDERAL RESERVE BANK
OF NEW YORK

ICE CORRESPONDENCE

DATE January 3, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. HoakeBANK OF FRANCE

I called Mr. Cariguel at 11:45 a.m. with reference to our cable No. 6 of this morning dispatched in reply to Governor Fournier's cable No. 10 of last night. Governor Fournier's message, I said, spoke of detailed stipulations concerning the Banque de France special account and Mr. Rousseau's authority to operate it which would follow in Mr. Fournier's letters of December 8 and 28. Mr. Rousseau had handed us copy of the letter of December 8 but the original had not come to hand nor had we received the letter of December 28. Could he confirm to me over the telephone that the instructions given in Mr. Fournier's letter of December 28 were the same as those contained in his letter of December 8. We had asked this question by urgent cable this morning and requested urgent cable reply but it would help me if he could give me this assurance over the telephone. Mr. Cariguel, evidently after communicating with Governor Fournier's office, replied that "the letter of December 28 merely encloses a copy of that of the 8th." He added that he could definitely confirm to me that Mr. Rousseau had full power to run the special account. It was for that purpose that he was kept in New York as a special representative of the Banque de France. Mr. Cariguel repeated this statement later on and added "in the meantime you should act upon Rousseau's instructions."

LW:KB



THE SECRETARY OF THE INTERIOR
WASHINGTON

January 3, 1940.

My dear Henry:

You may be interested in the enclosures.

Sincerely yours,

Harold Z. Gehl

Secretary of the Interior.

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

Encs.

THE SECRETARY OF THE INTERIOR
WASHINGTON

January 3, 1940.

My dear Mr. Hall:

My attention has been called to an Associated Press story published in the Washington Star on December 26, under the heading, "Five in Cabinet Face Roosevelt Re-election or Political Oblivion". Under this heading, which appeared prominently on page 3, was a sub-head, "They of Necessity Will Go Out When President Does".

To my surprise I found that the heading was not, as is usually the case, an exaggeration of the news story, but a fair reflection of unsupported statements and conclusions of an editorial character made in the news item itself under the logotype "By the Associated Press".

The story starts off, "A group of cabinet officers find themselves impelled by background motives to whistle for a third term even if the question of loyalty to their chief were not involved." This is not credited to any source other than the Associated Press, and it is a conclusion which is most unfair to the five members of the cabinet named below. The choice of language can by no stretch of the imagination be regarded as objective news reporting.

The editorial (there is no other word for it) also shows a queer use of the word "political". The five Cabinet members singled out by the AP are described as individuals who were "lifted out of non-political settings." This is not a factual statement. It is erroneous since at least four of the five named have political backgrounds and experience. Secretary Wargentzen, for example, formerly served as Conservation Commissioner of the State of New York and as Chairman of Governor Roosevelt's Agricultural Advisory Commission. Secretary Hopkins had held at least half a dozen administrative positions, including that of Chairman of the New York State Temporary Emergency Relief Administration, before being appointed to his Cabinet by President Roosevelt. The same is true of Secretary Perkins, who had been active in public life for more than two decades when the President appointed her Secretary of Labor. All this can hardly be described as "non-political".

As for myself, I have been engaged in municipal, state and national politics since 1897. If, until I became a member of President Roosevelt's Cabinet I never held a political job that paid me a

salary and demanded all of my time, it was because I did not choose to do. And yet, in a very real sense, politics has been my chief interest all of my life. Without going into unnecessary detail, I remind you that I was a delegate-at-large to the Progressive National Convention in 1916 and a delegate-at-large to the Republican National Convention in 1920. He man can be said to be "lifted out of (a) non-political setting(s)" who has been a delegate-at-large to two national conventions, even if this constituted the sum of his political activities, which it was far from doing in my case.

The AP release also smugly assumed that no other President would do these five members of the Cabinet the honor of appointing them to office. Apart from the gratuitous assumption -- in a supposed news story! --, how does your writer know that any of us would want to stay in the Cabinet longer than the present term?

Going on with the quotation, "Then he goes, they go out of necessity." I submit that this is a flagrant example of a conclusion drawn by a writer and unsupported by anything except his own opinion. It is not the type of reporting which I understand the Associated Press seeks to adhere to.

The next sentence reads, "None of them has the political backing needed to push them within reach of any important plum from a new democratic administration." Here again is an opinion set forth as news, and it may or may not be erroneous.

But in the next paragraph, the editorial continues, "This fact might be expected not only to cause them to rest for a third term, but to pre-dispose them against any other democratic candidate - Vice-President Garner, Paul V. McNutt, or any one of the ambitious Senators and Governors." Here at the beginning of this sentence apparently all of the opinion cited in the first two paragraphs is referred to as "fact". I believe that this is partisan and unfair reporting.

The writer sought to impeach the motives of five members of the Cabinet without even going to the trouble of planting the story or of weaving it about some obviously partisan individual.

Speaking for myself only, I want to point out to you that your staff editorial writer has ignored the probable course of action I would take if I wished to continue in office. If that were my desire, I would play safe by not going out on a limb for a single candidate. I would not hitch my wagon to one star. On the contrary, I would do lip service to all possible candidates, pretending to be deeply and personally interested in the success of each. I would be ever alert

to see the approaching hangman in order to be among the first to leap ahead it to proclaim my loyalty and my personal sacrifices for the "cause".

The AP editorial-story, moreover, seeks to convey the impression that, while those who support President Roosevelt are actuated by selfish motives, those who oppose his re-nomination are motivated by the purest patriotism. It is clear that the release intended to deliver a blow at the President himself, but it was disguised in the form of an attack on the motives of his supporters.

We are now entering a campaign period in this country, and if an important press association is going to disseminate partisan editorials under protection of its respected by-line in this fashion, I do not feel that the almost general respect it has commanded on past performances can endure. Nor do I believe that citizens of this country will have such opportunity to make intelligent judgments if they have to be formed on such "facts" as these.

This story has troubled me. It seems to me that it is not a healthy sign when a great news gathering agency lends itself to partisan and unfair propaganda.

Very truly yours,

(Sgd.) Harold L. Ickes

Secretary of the Interior.

Mr. Brian Bell,
Chief of Bureau, Associated Press,
Evening Star Building,
Washington, D.C.

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its defined character is indicated by a suitable symbol above or preceding the address.

R. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
VICE PRESIDENT

1931

SYMBOLS

DL = Day Letter
NL = Night Letter
LC = Deferred Cable
NLT = Cable Transfer Letter
Star = Radiogram

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FHA7 74 NT 4 EXTRA=NORFOLK VIR 26

HON HAROLD ICKES=

SECRETARY OF INTERIOR WASHDC=

TERIOR
RECE

DEC 27 1939

TERIOR
RECE

I HAVE LOBBIED CONGRESS TWENTY YEARS THINK TODAYS AP STORY ABOUT SECRETARIES ICKES, MORGENTHAU, WALLACE, HOPKINS, PERKINS IS LOW JOURNALISM. INFORMED GENERAL WATSON WHAT TO EXPECT. SUGGEST YOU CALL CONFERENCE WITH SECRETARIES MENTIONED ALSO WATSON, EARLY AND ELMER THOMAS START RADIO BARRAGE TO COUNTERACT LOW JOURNALISM AND GARNER SABOTAGE. REPUBLICANS WILL NOMINATE HANFORD MACNIDER. ROOSEVELT WILL CARRY EVERYTHING EXCEPT FEW REACTIONARY NEWENGLAND AND SOUTHERN STATES IF NOMINATED. AT YOUR COMMAND=

W B SHAFER ORIGINATOR OF SOLDIER BONUS.

TELEGRAM NO.

Five in Cabinet Face Roosevelt Re-election Or Political Oblivion

They of Necessity
Will Go Out When
President Does

By the time the president-elect is inaugurated in January, five members of the Roosevelt cabinet will be in a position to go out when the president goes out. They are the secretary of the interior, the secretary of the navy, the secretary of the treasury, the secretary of the war, and the secretary of the commerce.

Their tenure of office is not for life, as is the case with the members of the Supreme Court. They are appointed by the president and may be removed at any time. Their positions are not as secure as those of the members of the Supreme Court, and they are not as powerful as the members of the Supreme Court.

John Henry Hall, Secretary of the Interior

Mr. Hall was appointed in 1933. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

Walter C. Anderson, Secretary of the Navy

Mr. Anderson was appointed in 1933. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

Walter Dill Scott, Secretary of the Treasury

Mr. Scott was appointed in 1933. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years. He was a member of the cabinet for four years.

CONFIDENTIAL!

To be held in **STRICT CONFIDENCE** and no portion, synopsis, or intimation to be published or given out until the **READING** of the President's Budget Message has been begun in the Senate or House of Representatives. While the Message and the Budget of the United States are dated **JANUARY 3, 1940**, some contingency may arise to prevent its delivery to the Houses of Congress on that date, and extreme care must therefore be exercised to avoid premature publication.

CAUTION: This Budget Message must not be confused with the President's Annual Message. A separate release is necessary.

STEPHEN EARLY,
Secretary to the President.

MESSAGE TRANSMITTING THE BUDGET FOR 1941

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1941. Estimated expenditures at \$8,424,000,000 are down \$675,000,000 from the fiscal year 1940. Estimated normal receipts at \$5,548,000,000 are up \$382,000,000 from the fiscal year 1940. Recovery of excess capital funds from Government corporations is estimated at \$700,000,000. The net deficit is estimated at \$2,176,000,000 as compared with an estimated \$3,933,000,000 in the fiscal year 1940. If the tax recommendations totaling \$460,000,000 herein made are adopted, the deficit will be further decreased to \$1,716,000,000. Appropriations, excluding those for debt retirement, as distinguished from actual expenditures, are estimated at \$8,101,000,000, as contrasted with \$8,889,000,000 in the fiscal year 1940.

REVIEW OF FISCAL POLICY

The Budget of the United States Government is a statement that reflects in money terms what the Government does for the people and what the people contribute to the Government.

In these figures over a course of years are mirrored the changing attitudes of the people toward the growing needs which they expect their Government to meet. The relatively low and constant level of expenditures throughout the nineteen-twenties accurately reflected the relatively minor role played by the Government in those years. The substantial increase in the past decade is a reflection of the degree to which the country, in response to changing economic and international conditions and changing attitudes, has turned to the Government to meet social needs recognized by our citizenship. Nowhere are our democratic processes so faithfully depicted.

In the early thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in the face of shrinking national income. Persistence in this attempt came near to bankrupting both our people and our Government.

Following 1933 the fiscal policy of the Government was more realistically adapted to the needs of the people. All about were idle men, idle factories, and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire. The Government deliberately set itself to correct these conditions by borrowing idle funds to put idle men and idle factories to work.

The deliberate use of Government funds and of Government credit to energize private enterprise—to put purchasing power in the hands of those who urgently needed it and to create a demand for the products of factory and farm—had a profound effect both on Government and on private incomes. The national income in four years rose 69 percent, from 42 billion dollars in 1933 to 72 billion dollars in 1937, the largest absolute rise for any four-year period in our history, not even excepting the rise during the World War. Tax revenues rose from 2 billion dollars in the fiscal year 1933 to over 5 billion dollars in the fiscal year 1937, primarily because the people had more income out of which to pay taxes. The people paid 3 billion dollars more in taxes but they had nearly 10 times more than that, or 30 billion dollars, to spend on other things. This statement deserves a headline.

Rapid progress was made toward a balanced budget. By the calendar year 1937 excess of Government *cash* outgo over Government *cash* income had dropped to 331 million dollars.

Unfortunately, just at the time when it seemed that the Federal Government would be able safely to balance its budget on the basis of a national income of approximately 75 billion dollars, maladjustments in the economic system began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led the Government to curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumers' purchasing power to keep pace. A large volume of unsold goods piled up.

If the recession were not to feed on itself and become another depression, the buying power of the people, which constitutes the market for the products of industry and agriculture, had to be maintained. To this end, in the spring of 1938, I recommended a further use of Government credit and the Congress acted on my recommendation.

The soundness of this realistic approach to a fiscal policy related to economic need was again strikingly demonstrated. In place of the 42-billion-dollar decline in national income that occurred from 1929 to 1932, the decline from 1937 to 1938 scarcely exceeded 8 billion dollars. In place of a four-year period of liquidation and deflation,

MESSAGE TRANSMITTING THE BUDGET

productive activity turned up within nine months. By 1939, in terms of dollars, the national income closely approached, and, in terms of real production and consumption, making allowance for the lower level of prices, was equal to that of 1937.

The experience of 1938-1939 should remove any doubt as to the effectiveness of a fiscal policy related to economic need. The wise exercise of such a fiscal policy imposes grave responsibility on the Government. Government must have the wisdom to use its credit to sustain economic activity in periods of economic recession and the courage to withhold it and retire debt in periods of economic prosperity. And let us not forget that the withholding of Government credits in time of need for political advantage is no less reprehensible than its profligate use at any time.

In approaching the Budget for the fiscal year 1941 I have sought, as in the past, to relate fiscal policy to probable economic necessities. As the Budget is being prepared we are achieving the highest levels of production and consumption in our history. The extent to which recovery has progressed, and the degree to which speculation and price increases have, on the whole, been kept in check, have made it possible for us to consider a substantial lessening of Government expenditures on activities not immediately essential for national defense.

On the other hand employment still lags considerably below the levels of 1929. Many of our younger workers have not found employment, and many others have been displaced by the machine. We must not only guard the gains we have made but we must press on to attain full employment for those who have been displaced by machines as well as for the 5,000,000 net addition to the labor force since 1929. We must, therefore, avoid the danger of too drastic or too sudden a curtailment of Government support.

Against this background of aims substantially but not fully attained, I propose in the field of fiscal policy that we adopt the following course: We should count upon a natural increase in receipts from current taxes and a decrease in emergency expenditures, and we should try to offset the unavoidable increase in expenditures for national defense by special tax receipts, and thus hope to secure, for the over-all picture, a gradual tapering off, rather than an abrupt cessation, of the deficit.

In the proposed Budget I have tried to interpret the wishes of our people. They want to strengthen our national defenses and are prepared to pay additional taxes for this purpose. They wish to attain, if possible, an over-all decrease in expenditures. They would like to

THE BUDGET, 1941

see a reduction in the deficit but not of a magnitude that would imperil the program of recovery.

EXPENDITURES

To translate the consideration of the Budget from forensics to national needs, I submit a summary for the fiscal year 1941 of approximate expenditures required to meet these needs:

National defense.....	\$1, 800, 000, 000
Work relief programs.....	1, 300, 000, 000
Agricultural programs.....	900, 000, 000
Public works and investments.....	1, 100, 000, 000
Pensions, retirements, and assistance..	1, 200, 000, 000
Interest on the public debt.....	1, 100, 000, 000
Regular operating.....	1, 000, 000, 000
Total.....	8, 400, 000, 000

This table presents in a simple form which any layman can understand, the principal divisions into which Government expenditures fall. I constantly marvel at the glib generalities to the effect that if one has but the will to do so anybody can reduce Government expenditures by vast sums sufficient immediately to "balance the Budget." It is easy enough to make such statements and they can be decorated to fit into the applause of many audiences.

But it is the old, old story of the man who loves to utter generalities and changes the subject abruptly when he is pinned down to hard facts.

In these headings, for example, I do not believe that the majority of the people in this country want to reduce the budgeted estimate of \$1,800,000,000 for national defense. This is an increase, of course, over the current year, but it is far less than many experts on national defense think should be spent, though it is in my judgment a sufficient amount for the coming year.

I do not believe that the majority of people in this country want to see the work relief programs for the coming year reduced below \$1,300,000,000. This sum, in itself, covering the activities of the Work Projects Administration, the National Youth Administration, the Civilian Conservation Corps, and grants of the Farm Security Administration represents a large—perhaps too large—reduction of current expenditures.

I do not believe that the majority of people feel that the agricultural programs should be reduced below the figure of \$900,000,000 because this figure, in itself a large reduction below the current year,

MESSAGE TRANSMITTING THE BUDGET

will be barely sufficient to carry out soil preservation and surplus removal operations.

I do not believe that the majority of people think the item for public works and investments of \$1,300,000,000 can be further reduced because this amount contains practically no money for new projects in any part of the country.

I do not believe that the majority of people feel that the Government can possibly reduce, by any substantial sum, the figure of \$1,200,000,000 for pensions, investments, and assistance of many kinds, including public-health work, and for dependent children and the blind, and veterans' benefits.

The item of \$1,100,000,000 for interest on the public debt cannot, of course, be reduced at all and we should remember that the rate of interest paid by the Government is today one-third lower than it was in 1929.

All of these items amount to estimated expenditures of \$7,400,000,000 and there remains only one other item of \$1,000,000,000—12 percent of the total—for the operating costs of the regular departments of the Government. These are direct to the budget of the activities and functions ordered by the Congress. If further savings are to be made in these operating costs, the Congress will have to direct by statute the elimination of many functions. And even if they should do so, the amount saved in this Budget could only be a small percentage of the total.

Therefore, those who call for further cuts should have the courage and the honesty to specify where they should be made.

National defense.—These estimates represent expenditures needed to develop and maintain our normal defense preparations. They also include, in view of the current world situation, the emergency expenditures required for the War and Navy Departments, the Coast Guard, Department of Justice, and the Panama Canal.

In order that these emergency requirements may be clearly shown I have segregated them for both the fiscal years 1940 and 1941. They call for supplemental appropriations of \$272,000,000 in the fiscal year 1940, and appropriations of \$302,000,000 in the fiscal year 1941. Expenditures are estimated at \$160,000,000 and \$300,000,000 in these two years. This segregation will, I hope, help to focus attention on our emergency defense expenditures, and the problem of financing them. It will also facilitate the return to a normal defense program when the current emergency has passed.

Work-relief programs.—For the purpose of this summary I have included the activities of the Work Projects Administration, the National Youth Administration, the Civilian Conservation Corps, and the grants of the Farm Security Administration.

In submitting estimates for these agencies I have taken into consideration the current improvement in business conditions. The first effects of increased business activity have not resulted in a proportionate reduction in relief needs. This is because the increase in employment has affected principally those who have had casual or part-time work. But there is reason to hope that a continued expansion of business would diminish relief requirements substantially.

While the estimates are appreciably less than those for the current year, I am hopeful that they will prove adequate. The Work Projects Administration will be able to provide employment for an average of 1,350,000 persons. The National Youth Administration can employ an average of nearly 600,000 American youths, and the Civilian Conservation Corps will operate 1,277 camps and provide for a monthly average of 230,000 enrollees. The Farm Security Administration will operate on about 80 percent of its 1940 level. Relief expenditures should be closely geared to actual needs. If conditions fail to meet our hopes additional funds may be necessary. I may, therefore, submit revised estimates later in the session.

Agricultural programs.—Under the broad heading of agricultural programs I have included agricultural adjustment benefits, the surplus removal program and parity payments arising from 1940 appropriations.

Despite a gratifying general increase in farm income, agriculture is still not receiving its proper share of the national income. I am, therefore, proposing to continue substantially undiminished the various agricultural programs.

I have not, however, included estimates for new appropriations for parity payments in 1941. I am influenced by the hope that next year's crops can be sold by their producers for at least 75 percent of parity. I do not suggest in any way abandonment of the policy of parity payments heretofore adopted, and future events may call for some appropriation to this end. I note, however, in passing, that the Congress has failed to make any provision for the financing of these payments already made or obligated for 1938 and 1939 crops.

Public works and investments.—This broad class of expenditure represents the use of Federal capital for investment in useful public works, for ship construction, and for loans largely for aid to agriculture.

MESSAGE TRANSMITTING THE BUDGET

While the expenditures for these purposes in 1941 remain large, a substantial portion of them arises from existing appropriations or takes the form of reimbursable loans.

The estimated expenditure for the general public works program is \$641,000,000, but the proposed new appropriation for this item to carry on already authorized projects is only \$498,000,000. To obtain this relatively low figure the starting of important new projects has had to be postponed and the purchase of additional land has had rigidly to be limited. This action brings the public-works program down to the minimum goal of \$500,000,000 a year suggested by me on several previous occasions, and conserves the reservoir of public projects for a time when private construction declines.

Last year, in the interests of more accurate and intelligible statements of the financial operations of the Government, I invited the attention of the Congress to the desirability of capitalizing certain capital expenditures of the Government that have proved to be self-liquidating. I renew that recommendation at this time. As before, I would confine this principle to projects that are definitely capable of yielding revenues sufficient to defray, with interest, their cost of construction. In accordance with this principle, I propose that the requirements for new self-liquidating loans of the Rural Electrification Administration be met through funds advanced by the Reconstruction Finance Corporation instead of by direct appropriation.

Pensions, retirement, and assistance.—This category includes grants to the States under the Social Security Act for old-age assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, as well as veterans' benefits, railroad retirement benefits, and contributions to Federal employer retirement funds. It does not include insurance benefits paid out of the old-age and unemployment trust funds. This general category affects the individual security and health of millions of citizens. Its growth reflects mainly the beginning of a comprehensive social-security program.

Interest on the public debt.—Obviously no reduction in this item can be made in the next year. The average interest rate paid on the public debt for the fiscal year 1929 was 3.9 percent. The present computed rate is 2.6 percent.

Regular operating expenses.—This item represents the basic financial requirements of the Government. Blue pencil inroads are not easy to make. In the face of large and appealing requests for increases I have

held appropriations and estimates of expenditures generally to the 1940 level or below. Where legislation has added new activities I have offset the cost by reductions in old activities.

I have carefully checked the individual estimates under these broad categories and I am satisfied that no lower figures can be attained except at the expense of impairing the efficiency with which laws are administered or of working undue hardship on individuals and economic groups. I refuse to accept the responsibility of adopting either alternative.

THE OTHER SIDE OF THE BUDGET

Revenue estimates.—Total tax revenues are estimated at \$8,151,000,000. Tax revenues, after deducting appropriations to the old-age security fund, are estimated at \$5,548,000,000. Although net revenue collections for the fiscal year 1941 are estimated to exceed by \$382,000,000 the estimated collections for the fiscal year 1940, the increase is not as large as some might have expected. This is owing partly to the inevitable lag of tax collections behind increasing incomes, and also partly, it is feared, to an impairment of the productivity of the tax base arising from the revisions in 1938 and 1939 of corporate and individual income and capital-gains taxes.

Return of surplus funds from Government corporations.—At various times in the past as emergencies have arisen, the Federal Government has established credit corporations and has invested substantial amounts in their capital structures. Although these expenditures were nonrecurring and extraordinary costs, they were reflected in the annual Budgets as charges against current receipts and increased the deficits of prior years. With the lessening need for loans in some cases and the growing surpluses in other cases, it appears that some of these corporations will have excess capital funds. Currently, in response to Senate Resolution 150, Seventy-sixth Congress, a comprehensive survey and appraisal of assets of Government corporations is being carried out. On the basis of preliminary studies, I estimate that it will prove feasible to reduce the capital funds of some of these corporations by an aggregate figure of \$700,000,000, without in any way impeding their operations.

In the case of certain lending agencies, any funds received from the retirement of stock will be credited to revolving funds in the Treasury

MESSAGE TRANSMITTING THE BUDGET

and will be available for new subscriptions to stock when, as, and if needed. In these cases payments to the Treasury will appear as credits under certain expenditure items. In other cases, payments will be reflected in miscellaneous receipts.

National defense taxes.—I am convinced that specific tax legislation should be enacted to finance the emergency national defense expenditures. Although these expenditures appear unavoidable, they will not increase the permanent wealth-producing capacity of our citizens. I believe that it is the general sense of the country that this type of emergency expenditure be met by a special tax or taxes. Moreover, this course will make for greater assurance that such expenditures will cease when the emergency has passed.

I strongly recommend to the Congress, therefore, that additional taxes be imposed to yield in the fiscal year 1941 at least enough to cover the emergency national defense expenditures in the fiscal years 1940 and 1941. In seeking additional sources of revenue, I hope that the Congress will follow the accepted principle of good taxation of taxing according to ability to pay and will avoid taxes which decrease consumer buying power.

The deficit.—The deficit for the fiscal year 1941 is estimated at \$2,176,000,000, as contrasted with \$3,933,000,000 for the fiscal year 1940. It is expected that these deficits will be met in normal course partly by additional tax collections, partly by carrying lower balances, and partly by borrowing. If the Congress adopts my recommendations with reference to taxes the deficit for 1941 will be reduced to \$1,716,000,000.

Financing the maintenance cost of certain services.—I have always believed that many facilities made available to our citizens by the Government should be paid for, at least in part, by those who use them. For example, I believe that in the case of parks, national forests, historic monuments, and so forth, small fees, as low as 5 or 10 cents per person, should be charged to those who enjoy them. A start on this policy has been made. In such a way a substantial part of the annual cost of maintenance of roads, trails, and grounds in forests and parks will come back to the Treasury and reduce the annual cost of government. Another example is the \$50,000,000 the Government spends annually in the maintenance of dredged channels, boojys, lighthouses, lifesaving stations, and so forth. It would seem reasonable that some portion of these annual expenditures should come back in the form of small fees from the users of our lakes, channels, harbors, and coasts. If the Congress would make a

THE BUDGET, 1941

Special study of the further possibilities along these lines I will be glad to make available for such a study material from various departments.

FEDERAL ADMINISTRATION

Effective operation of the Federal program for the fiscal year 1941 and the prospect of economies to be reflected in the estimates for future years is directly related to the quality of Federal administration. The economies reflected in the 1941 estimates are the result of the cooperative effort of the entire administrative service.

Generally, we are prepared to move forward on national maxima. In several management agencies I have recognized a condition of definite undermanning. I have, for example, provided increases for the Bureau of the Budget and the Civil Service Commission. I believe in each we will be making a modest investment which will in future years pay large dividends. Furthermore, as I have suggested in my annual message, it is important for good administration that large numbers of positions now empty should be placed under the management of the civil service.

Reorganization has proceeded in accordance with Plans I and II. As a result, \$21,000,000 of savings already have been implemented this year and deducted from the estimate base for 1941. With further and permanent in the machinery and business practices of the Government, additional savings will be realized. Reorganization has also brought the Bureau of the Budget into the Executive Office. With the additional appropriation for this Bureau, our budgetary procedure can be greatly strengthened. We are beginning to get more effective reviews of estimates. With the help of Congress we can make further progress in improving our accounting and appropriation procedures. This is a necessary prelude to better budgetary control. The Bureau of the Budget is preparing itself to be increasingly helpful in the supplying of information to the appropriation committees of the Congress.

THE PUBLIC DEBT

There has been so much discussion about the public debt that I find that some conflicting observations therein would be very appropriate at this time.

There is no subject on which there is more conscious or unconscious deception than the public debt. People who would never dream of assessing their own position solely in terms of their liabilities do so automatically in discussing the Government's position.

Those who state boldly that the Government's debt is 42 billion dollars—and stop there—are stating a deceptive half-truth calculated to make our people apprehensive. For one thing, it would clarify the public mind if it were pointed out that of the 42-billion-dollar figure the amount incurred between June 30, 1933, and December 31, 1939, is just over 19 billion dollars. For another thing, it would be more honest and more honorable for them to say that while one line in the national budget shows a national debt of 42 billion dollars, other lines indicate that the Government has 7 billion dollars of cash, gold, times interest that the Government has 7 billion dollars of cash, gold, available for debt redemption, and proprietary interest in Government corporations, which reduces the net debt to 35 billion dollars.

In addition, of course, there are the billions of dollars' worth of durable, tangible assets constructed or purchased by the Government that are a real offset to the debt, though never listed as such.

During the period between June 30, 1933, and June 30, 1940, nearly 14 billion dollars of Federal funds will have gone into recoverable loans and investments and durable improvements.

Furthermore, during the same period, the burden of the combined total of public and private debts has decreased. The interest on the public debt alone in the calendar year 1939 constituted only 1.45 percent of the national income as contrasted with a corresponding percentage of 1.62 percent for the year 1933. The increase in the national income over 1933 for the year 1939 alone is far in excess of the total increase in the debt for the whole period since 1933. The credit of the Federal Government has never been higher.

The debt accumulated since 1933 represents a far more prudent and judicious use of our people's savings than much of the enormous private debts piled up in the twenties. The billions that were borrowed for speculation, for foreign loans, for second and third mortgages on overproduced commercial construction, hardly represented the most prudent use of our people's savings.

It is true that isolated debts can be deflected without great harm to the general economy. But this is not true when, as in 1933, a large part of our private debt was in danger of default, and the savings of the whole community, as well as the general credit of industry and agriculture, were imperiled.

A part of the existing public debt and of agency loans is in fact guaranteed far by the necessary assumption by the Government—through the familiar "backing out" process of private debts on the verge of default.

In considering the growth of the Federal debt, it must finally be borne in mind that in recent years the Federal Government has had

to take over some of the burdens which had therefore fallen upon our States and municipalities. By 1933 the strain of the depression upon the finances of local governments had become unbearable. From June 1929 to June 1933, States and municipalities had to increase their net debt by over 4 billion dollars and their credit in many cases had approached the breaking point. By 1933 there was an insistent demand that the National Government come to the financial aid of local governments.

Consequently, between June 1933 and June 1940, the Federal Government will have made available for local relief, work relief, and local public works the sum of 17 billion dollars. In addition, during this same period, the Federal Government increased its grants for public roads by 1 billion dollars over the preceding seven years.

By reason of these Federal expenditures it became possible for the States and municipalities during this period to rehabilitate their credit, and even to reduce slightly their aggregate indebtedness. If they had continued to discharge the responsibilities that were formerly theirs to a degree commensurate with the Federal Government's effort, the aggregate indebtedness of our States and municipalities would have been increased by not less than 18 billion dollars and their taxes would have been enormously increased.

Debt, whether individual, corporate, or governmental, cannot be judged in a vacuum; it must be considered in light of earnings, assets, and credit standing. When the increase in the national debt is viewed against the background of what was accomplished by the growth of useful physical assets, and of effective national earning power, and by the strengthening of the Nation's credit and morale, there is no economic ground for anxiety, so far as the national debt is concerned, as to the Nation's future. And if our citizens understand the capacity of the Nation to produce increased national income and act thereon with all possible faith and practical energy, they will be in a position to anticipate balanced budgets without curtailing essential social programs.

JANUARY 3, 1940.

FRANKLIN D. ROOSEVELT.

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12:20 pm
1/3/40

White House message:

General Watson asked that Secretary Morgenthau be notified to be at the White House executive offices at 3:30 pm today for a Budget conference along with Lauch Currie and Danny Bell.

n.m.c.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 3, 1940.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Dr. Goldenweiser informs me that their latest estimate of the F.R.B. Index of Industrial Production for December is 126. This compares with their revised figure of 124 for November.

January 3, 1949

John C. Trepelagen, Esq.,
President,
Bank of New York,
43 Wall Street,
New York, New York.

Dear Mr. Trepelagen:

Mr. Morgenthau has asked me to send to you for your personal information the Fleiter memorandum about which he wishes to give you the telephone yesterday, a copy of which is enclosed, and to give you for your own use something more of the background of the Colombian debt situation as we see it.

As the Secretary told you, the situation is now considered favorable and it is hoped that you, personally, will receive negotiations with the Colombian Ambassador. By way of background, the sequence of events here was as follows:

Last month after you came to Washington to tell Mr. Morgenthau the position which the Council was disposed to take, he asked you to "sit tight" in view of information we received as to the Colombian side of the picture. We were led to believe the Colombian Ambassador had received instructions from President Santos which would undercut the \$2 millions offer made to you and which would render a settlement impossible. On the basis of Mr. Velasco's talk with the Ambassador last week, it is now felt that there was a misunderstanding and that President Santos has not changed his position and that there is a real disposition on the Colombian side to go forward in the hope of reaching a settlement with the Council. So far as the facts of the Colombian position are now known to us, it appears that Colombia has already indicated for 1949 the sum of \$1,750,000 for service of the external funded debt of the republic. This sum includes service of the standing as well as of the dollar debt, but only in the first year — 1949. Thereafter, during the life of any settlement which might be agreed to, the \$1,750,000, which would be stepped up in 1941 or 1942 to \$2 millions or more, would apply exclusively to the service of the dollar debt. An additional reason for

- 2 -

the desire of the Colombians to reach the \$200 million figure for service of the dollar debt in the early years arises from their fear of repercussions of the war on their economy. He figures, roughly, that the recent drop in coffee prices will cost Colombia about \$100 million in foreign exchange.

Under the circumstances, we hope that you can reach negotiations with Turkey with the feeling that at this stage it would be wiser for the Council to take a rigid position or commitments to the Colombians anything in the nature of an ultimatum. Presently, there seem to be several important matters which have been insufficiently explored in talks and which should be explored before any definite position is taken with the Colombians.

I.

Position of the guaranteed mortgage bond debt in addition to the direct debt.

As you told the Secretary and myself, you have taken this matter up with the Colombians. As a matter of fact history, however, as I understand it, this matter has never been directly involved in the negotiations between the Council and the Colombians. It is a fact that Turkey's present instructions do not cover the guaranteed debt, but it is practically certain that he would be willing to seek instructions if pressed further in this matter. As you know, we are in full agreement with you as to the importance of trying to have the guaranteed debt included in any settlement so that it could be said that a clean job was done in clearing up the credit of the Colombian Government. In the wake of studies recently made here, within the Government, it is believed that a major portion of the \$10,000,000 original face amount of these guaranteed bonds has been repatriated, leaving less than the half by the mortgage holders in settlement of their obligations, leaving only some \$4 million principal face amount outstanding in the hands of the public in the United States. If this be true, the inclusion of these bonds in any settlement would only increase the principal amount of the debt under consideration from \$45 to \$49 million.

II.

Interest arrears.

As I understood it Turkey was interpreting its instructions to permit him to agree to a settlement of the position of interest arrears on the basis of the so-called "Baylar" formula which, as I remember, you indicated the Council might be prepared to accept. The information is that on the

- 3 -

about dollar debt the amount would be \$115 million. To give you the full picture, however, I may say that Mr. Jones attaches considerable importance to this question and has somewhat different ideas. He feels that this question is more important than that of trying to graduate the interest rate from an initial 3% to 4%, but feels that just the interest should be fixed at 3%, which would add about \$7 million to the principal amount of the debt. If a finding of the interest service should be impossible, he would be disposed to favor a long run settlement of, say, \$7 million to be paid off over a period of years but which would not, should, bear interest.

In this connection you will note the suggestion contained along these lines in the Haller memorandum with my recommendation.

2.

Availability of Holdings: Possible
provision to increase oilseed service dur-
ing periods of prosperity.

This matter is gone into at length in the Haller memorandum en-
closed, along with the Secretary's reply to you.

I trust that some of the above may be of some help to you. If I
can be of any use, please do not hesitate to call on.

Sincerely yours,

Joseph F. Cotton, Jr.
Assistant to the Secretary.

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TREASURY DEPARTMENT
UNITED STATES GOVERNMENT

DATE January 3, 1940

TO Secretary Department
FROM Mr. Coddens

In a quiet foreign exchange market, the rate for sterling moved within a narrow range. Shortly after the opening quotation of 3.95-1/4, the Federal Reserve Bank received an order from the Bank for International Settlements to purchase \$150,000. At that time some small Continental selling was in evidence and by delaying its acceptance in the market for a few minutes, the Federal Reserve Bank was able to execute part of the order at the low for the day of 3.94-1/8 and the balance at 1/16 higher. The closing quotation for sterling was 3.95.

Sales of spot sterling by the four reporting banks totaled \$355,000 from the following sources:

By commercial concerns.....	\$ 140,000
By foreign banks (Europe and South America).....	\$ 195,000
Total.....	\$ 335,000

Purchases of spot sterling by the four reporting banks and the Federal Reserve Bank of New York amounted to \$425,000 as indicated below:

By commercial concerns.....	\$ 140,000
By foreign banks (Near East, Far East and Europe).....	\$ 135,000
By Federal Reserve Bank of New York (for S.I.S.).....	\$ 150,000
Total.....	\$ 425,000

Cotton bills totaling \$42,000 were sold to the British Control at the official rate by the following banks: National City Bank (\$28,000), Guaranty Trust Company (\$10,000) and the Bank of the Manhattan (\$4,000).

In the report of December 29 last, mention was made of a Dow Jones ticker dispatch from London citing a new Swedish restriction on the transfer of capital abroad. A London dispatch appearing on today's Dow Jones ticker reported the issuance of a proclamation in Stockholm yesterday providing that all individuals and firms in Sweden must make a declaration to the Bank of Sweden of all their holdings of gold and gold coin, foreign currency and foreign securities. They must also state their obligations towards foreign countries.

The quotation for the Cuban peso improved to 11-1/2¢ discount. The rate for the Mexican peso dropped to 15/72, marking the low for the current downward movement.

The other important currencies closed as follows:

French francs	.0224
Belgiums	.5327
Swiss francs	.2845
Belgians	.1585-1/2
Canadian dollars	11-1/2¢ discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported to us the following shipments of gold:

\$3,204,000 from the Netherlands, shipped by the Netherlands Bank to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
 1,000,000 from India, shipped by the National City Bank, Bombay, to the National City Bank, San Francisco, for sale to the U. S. Mint there.
 564,000 from India, representing two shipments by the Netherlands Trading Society to the Chase National Bank, San Francisco, for sale to the U. S. Mint there.
 36,000 from India, shipped by the Netherlands Trading Society to the Chase National Bank, New York for sale to the U. S. Assay Office.
\$4,804,000 Total

The State Department forwarded to us cables from the American Consulate General in Calcutta stating that the following gold shipments would be made from Bombay:

\$1,971,000 representing four shipments consigned to the Chase National Bank, San Francisco.
 1,049,000 representing two shipments consigned to the American Trust Company, San Francisco.
 181,000 shipped by the Mercantile Bank of India to the Swiss Bank Corporation, San Francisco.
 124,000 shipped by an Australian Bank to the Bank of California, San Francisco.
 384,000 shipped by the National City Bank to the National City Bank, New York.
 140,000 shipped by the National Bank of India to the Swiss Bank Corporation, New York.
\$3,849,000 Total

The first four items listed above will be sold to the U. S. Mint at San Francisco and the last two shipments will be sold to the U. S. Assay Office at New York.

On the report of December 27 received from the Federal Reserve Bank of New York, giving the foreign exchange position of banks and bankers in its district, the total position of all currencies was short the equivalent of \$16,945,000, an increase of \$772,000 in the short position. The net changes in positions are as follows:

COUNTRY	SHORT POSITION DECEMBER 20	SHORT POSITION DECEMBER 27	INCREASE IN SHORT POSITION
England	\$ 5,745,000	\$ 6,405,000	\$ 660,000
Europe	7,068,000	7,322,000	254,000
Canada	4,000	93,000	89,000
Latin America	287,000	231,000	56,000 (Decrease)
Far East	3,044,000	2,859,000	185,000 (Decrease)
All Others	25,000	32,000	7,000
Total	<u>\$16,173,000</u>	<u>\$16,945,000</u>	<u>\$ 772,000</u>

CONFIDENTIAL

The London fixing price for spot silver further declined today to 21-5/8d (off 3/8d) and the forward price dropped to 21-3/4d (off 7/16d). The U. S. equivalents were 38.46¢ and 38.37¢, respectively. Two New York banks attribute the current downward movement in London silver prices (both spot and forward quotations have fallen about 3¢ since December 22) to liquidation by Indian operators of silver stocks held in London. These New York banks believe that Indian traders no longer expect an uncontrolled silver boom in India and are consequently liquidating long positions built up in London.

The silver quotation in Bombay, less the import tax, worked out to 43.26¢.

Both Handy and Harman and the Treasury continued to quote 34-3/4¢ and 35¢, respectively, as buying prices for foreign silver.

We made seven purchases of silver totaling 525,000 ounces under the Silver Purchase Act, of which 100,000 ounces represented inventory silver. The remaining 425,000 ounces was newly produced silver from foreign countries, purchased for forward delivery.

B. M. S.

CONFIDENTIAL

Present: Mr. Bell
Mr. Cotton
Mr. Thompson
Mr. Glasser
Mr. Harris
Mr. Schwarz
Mr. Foley
Mr. Sullivan
Mr. Haas
Mr. Gaston
Mr. Cochran
Mrs. Klotz

E.H.Jr: Norman, do you have anything?

Thompson: No, I have nothing.

E.H.Jr: Bell?

Bell: I have a letter from the State Department enclosing a note from the Finnish Minister asking for a sixty million dollar credit. Who should handle it., Cochran?

E.H.Jr: You.

Bell: All right. Who should it go to first?

E.H.Jr: You. Just handle it.

Bell: All right.

On that matter of coordination, Mr. Thompson and I suggest that any one who is scheduled to attend the conference in the State Department on these various matters will first get in touch with Mr. Gaston and clear with him and he should decide whether the matter is important enough for him to go also and then when they come back if he doesn't go they will write him a memorandum giving full information concerning the conference and whether or not there is anything Treasury would have to do later on and then he will keep the various people in the Department advised as to what is going on and whether they should be gathering information on the subject. That would include also the 3 E's.

E.H.Jr: I think it is important enough that we ought to have a little memorandum, Mr. Thompson.

Bell: If that suggestion is all right.

H.M.Jr: I will take it if Mr. Gaston will.

Bell: We consulted him before. He is already, you see, on the neutrality question.

H.M.Jr: Herbert is willing?

Bell: Yes.

Gaston: I am willing to try it.

H.M.Jr: I think I ought to have something to write to Mr. Hull.

Bell: All right.

H.M.Jr: That is service. What else?

Bell: That is all I have.

H.M.Jr: I thought this publicity on the so-called simplified tax form was very good. I don't know if you had anything to do with it.

Schwarz: We asked the Commissioner for it and turned it out. Mr. Sullivan helped us on it.

H.M.Jr: I thought it was good. Whenever we get publicity on taxes which is favorable, it is good. Anything else?

Schwarz: The salary list question has to come up pretty soon, but I don't know whether you would prefer to have it discussed outside the meeting.

H.M.Jr: No, just the way we always do.

Schwarz: This year for the first time the Treasury has to make it public. We use the same method that the Committee used.

Gaston: Seventy-five thousand, isn't it?

Schwarz: That is right. There are only seven hundred fifty names this year.

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H.M.Jr: Who are getting seventy-five thousand?

Schwarz: Yes.

Gaston: I think we should consider seriously whether we ought to mimeograph that thing, because we get many requests and it will be very inconvenient for the newspaper men to have to consult one copy. We will have to supply them, because it is our job.

H.M.Jr: All right.

Basil?

Harris: No.

H.M.Jr: George? I sent your business report to the President yesterday.

Haas: Thank you. I hope it will cheer him up.

H.M.Jr: You had better wait.

Haas: Here is this thing. I made a draft here of a suggested reply (handing paper to Secretary).

H.M.Jr: I had better take this and read it. It sounds like a good letter but I think I had better read that at home.

Somebody at the head of the Consumers Division in Agriculture writes the President --

Haas: That is right.

H.M.Jr: And the President wants me to tell him whether it is good or not. What is the plan, George?

Haas: Oh, he has also testified over at the Monopoly Committee. It is this whole question of the distributors having a monopoly on distribution and his point is that it creates an inflexible price situation so that it prevents milk from going into consumption. He had a

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proposal for trying to eliminate that structural defect in the industry and he wants to take the District as an experimental place to try out his plan. I think the objectives are good. Whether the details of how he proposes to handle it - I don't know.

H.M.Jr:

Fortune Magazine along in November, somewhere, had two articles on milk, one on this very question of flexible price and they show where the labor unions permitted them to go in and drop the price. For some reason or other, the labor unions are opposed to the tremendous increase in the consumption. I will take a look at it. Sounds all right to me.

Haas:

You may not like the method. You know a good deal more about that.

H.M.Jr:

I don't know whether I do or not.

George, Ed Noble gets a weekly business review which is terribly good. If I asked him for his, he would want mine. Would you have any objection to his having it?

Haas:

No, but you would want to take out those - you have a relationship with those people that send you those orders. You promised them you would keep them absolutely confidential. Many times that is the heart of your --

H.M.Jr:

Well, if you take it out, you would have to rewrite the whole thing.

Haas:

Well, a piece of it, at least.

H.M.Jr:

I tell you what you do, Dan. Call up Ed Noble and say that he did give me once a review of his business thing, that if he has a weekly review which is prepared for him, would he care to let me have it, because I was impressed with it. He goes into this whole foreign situation every week. It is awfully good.

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Ask him if he would let us use it. He may not ask for this other thing in return. Will you?

Bell: All right.

H.M.Jr: It is terribly good. I think you would like it yourself.

After you (Glasser) see what the people in Noble's shop do for him, I think White's division ought to do on the foreign thing what Haas does on the domestic class.

Glasser: Yes, sir. May I see the copy when it comes in?

H.M.Jr: What, what Commerce has?

Glasser: Yes.

H.M.Jr: But you see Haas' every week, don't you?

Glasser: Yes, we do.

H.M.Jr: Weren't you writing a letter for me?

Cotton: Yes, I am going to produce it.

H.M.Jr: Where is it?

Cotton: It isn't done.

H.M.Jr: Where were you yesterday afternoon?

Cotton: Doing something else.

H.M.Jr: I just wanted to make sure it wasn't in my office. I think that ought to go down today.

Cotton: I want to get a transcript of your talk, too.

H.M.Jr: All right.

Glasser? You will be ready for me at 3:00?

Glasser: I am trying my best.

H.M.Jr: You had better. I am holding it at 3:00 o'clock. What else have you got?

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Glasser: I am just working on that.

H.M.Jr: How does it look?

Glasser: The figures don't look very good from our point of view, but I think we can show pretty well that we have found the solutions to these problems and that is the path to continue, even though we have done, perhaps, no more than to reverse the trends that have been present before.

H.M.Jr: Would you stay behind? I want to talk to you a minute.

When are you leaving?

Sullivan: Mr. Gaston and I have been going through that report. I think we were unduly alarmed. It is a very well done factual report of the opinions and recommendations that were offered by this particular group. The opinion isn't sufficiently unanimous to carry very much weight, I don't believe. In some points they have as many as seventeen different recommendations and it goes all the way from abolishing the vote on the return to suggesting a national lottery, so I think we were unduly concerned yesterday.

H.M.Jr: Could you and Mr. Gaston come over at 4:30 and let's settle it?

Sullivan: Yes.

H.M.Jr: At 4:30. Let's settle it at 4:30.

Gaston: Yes. I have a preliminary draft of a letter which Roy Blough made some suggestions on and Mr. Sullivan hasn't yet seen. I think it is about along those lines.

H.M.Jr: Will you bring Blough and Tarleau along with you?

Then Chick, will you be here?

Schwarz: Yes, sir.

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H.M.Jr: Anything else? Do you know what is going on in Indiana?

Sullivan: Yes, sir.

H.M.Jr: You are up on that?

Sullivan: Yes.

H.M.Jr: What's of interest in that?

Sullivan: Yes, sir.

Oh, did Mr. Tarleau talk with you yesterday about Congressman Boehne's request to make public that Hanes letter?

H.M.Jr: Yes. Chick, what is the answer?

Schwartz: He has the letter and if he doesn't make it public soon, he will - or else.

Gaston: Isn't there an accompanying letter from Mr. Hanes that said we had no objections to making it public?

Schwartz: There was a personal accompanying letter telling him that this was a democracy and everything he sent in he could make public.

H.M.Jr: The letter only went up last night.

Schwartz: It was sent up last night and we weren't sure whether he was in his office to receive it, but he certainly will see it.

Sullivan: Mr. Tarleau called me and I understood him to say that Congressman Boehne phoned him and wanted to know if he was free to publish it.

H.M.Jr: Tarleau is all mixed up. He came in here and we had Rademacher in here and Tarleau for some reason or other was confused. They straightened it out. Tarleau for some reason or other was mixed up. I don't know why. Mr. Rademacher took care of it and I asked him to talk to Mr. Hanes and find out if it was agreeable to Mr. Hanes

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to let us know and about 5:00 o'clock he said everything was all right.

Schwartz: That is right.

H.M.Jr: I said to clear it with Mr. Hanes. But for some reason or other Tarleau was all confused.

Schwartz: I have copies of both letters, the formal and the informal one.

H.M.Jr: There was no telephone call, was there?

Schwartz: Mr. Hanes' office called the Congressman's office to find out if he would be there to receive it and that is where the confusion arose.

H.M.Jr: But there is no confusion in Hanes' office, because I talked to Rademacher myself and explained it to him and said, "Now, please get in touch with Mr. Hanes, but I want Hanes to know and I want Hanes satisfied." At 5:00 o'clock he told me that everything was all right.

Schwartz: That is right.

Sullivan: Then the letter is going to be published?

H.M.Jr: Yes.

Sullivan: We will have the number of stockholders and all of the information on those thirteen cases for you tomorrow.

H.M.Jr: Good.

Sullivan: I think they would be interesting.

H.M.Jr: Those are the ones under --

Sullivan: Thirteen out of thirty-two thousand six hundred ninety where the provisions of section 102 were held to apply.

H.M.Jr: What is the matter, Chick?

Schwartz: I am trying to figure percentages.

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H.M.Jr: I thought you were looking at a birdie.

Cochran: We were speaking of Sweden yesterday. Here is something that came in over the ticker this morning.

H.M.Jr: I've forgotten, Merle, about you yesterday. I am sorry.

Cochran: That is all right.

H.M.Jr: O.K. Anything else?

Ed?

Foley: I had a petition from Indiana this morning with some questions, if you want to go over it. I want to talk to you about it later in the day.

H.M.Jr: Who is petitioning?

Foley: Mr. Sullivan.

H.M.Jr: Is there more than one Sullivan?

Foley: Yes, sir.

Sullivan: Yes and no.

Foley: This is the Indiana branch.

Sullivan: I had a letter from a gentleman named John Torio thanking me for my having helped him with his '36 and '37 income tax returns and if I happened to be out Leavenworth way to drop in, because he is having trouble with his '36 one.

H.M.Jr: This is Torio who wrote you?

Sullivan: Yes.

H.M.Jr: The famous Torio?

Sullivan: Yes.

Schwarz: There is even a town in Indianapolis named Sullivan.

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Sullivan: What do you mean, even?

H.M.Jr: What is this?

Foley: Well, this is the petition to be filed with the judge asking for an order to compel Elder to testify.

H.M.Jr: It is the Internal Revenue Agency?

Foley: Yes.

H.M.Jr: Do I have to go into that?

Foley: No.

H.M.Jr: Why can't you handle that?

Foley: I can.

H.M.Jr: Why can't you and John Sullivan handle it?

Foley: Sure.

H.M.Jr: What else?

Foley: Cy Upham said Everard called him when he got home last night, the Secretary of the Board of Directors, and wanted to know why he hadn't heard, because he was terribly anxious to know how to dispose of the communications. Cy told him the substance of the telegram which he hadn't received at the time.

H.M.Jr: That is all right. Anything else?

Herbert?

Gaston: No, I haven't anything. You have my letter about —

H.M.Jr: Yes. I don't like any of those suggestions. I will talk to you about it later on.

Gaston: Right.

H.M.Jr: If you would stay, Glasser, I would like to talk to you.

ESM

PLAIN

London

Dated January 3, 1940

Rec'd 2:04 p. m.

Secretary of State,
Washington.

16, January 3.

FOR TREASURY FROM BUTTERWORTH.

The National Exchequer returns for the nine months ending December 31 indicate that tax yields are better than estimated while the rate of expenditure thus far is such as to allow for an acceleration to cover payments for some of the heavy new supply orders maturing before the end of the fiscal year.

Revenue increased by £54 million as compared with the corresponding nine months of the year before and reached £544.5 million which represents only £13.8 million less than the expansion for the full financial year anticipated in the war budget of September. The increase in revenue is due largely to customs receipts which have already increased by more than twice the estimated increase for the full fiscal year: excise receipts were also up while W.D.C. which was estimated to yield £3 million more than last year in the full year, has already increased by £6 million in the nine months.

Expenditure

Mem -G- No. 15, January 3, from London

Expenditure for the nine months was £1,185 million of which £326 million was "borrowed for defence". Expenditure has naturally increased very heavily since the beginning of the war, the weekly figures varying considerably but tending generally to rise. The average weekly expenditure for the 18 weeks of war was £38.6 million and for the last quarter of 1939, £41.2 million. If the September war budget figure of £1,933 million for expenditure is reached, (and that figure was stated to be not the maximum) the average weekly rate of expenditure for the remainder of the fiscal year would be £57 million.

Receipts from the new savings securities to the end of December amounting to £45 million and an increase in the floating debt of about £370 million since the outbreak of war have covered the mounting deficit. The tender issue of Treasury bills has risen by £260 million and the tap issue by £91 million since September 2, the total floating debt standing on the 31st of December at £1,535 million as compared with £1,167 million on September 2, and £1,057 million on December 31, 1938.

The deficit, which is always high at the year-end before the bulk of income and surtax is collected, stood at £504.5 million as compared with £266.4 million a year ago. Simon's estimate of £938 million as the amount

which

hsm -3- No. 16, January 3, from London

which would have to be borrowed in the year may not be reached if the yield from the direct taxes still largely to be collected should prove as good as that already coming in from the indirect taxes, and/or if the nature of the war continues to prove less costly in terms of destruction than was evidently expected at the outset. It seems probable, however, that the direct taxes may not prove as resilient as the indirect taxes, which must have been swollen by a certain amount of customs receipts from goods being stored against future shortages.

These figures cannot, in the circumstances, give much indication of the longer-term outlook--they merely indicate the prolongation of the Indian summer of British war finance.

JOHNSON

ELP

Dow Jones
Jan. 3, 1940
8:30 a.m.

Swedes Must Declare Exchange Assets

LONDON - According to an announcement over the Stockholm Radio, a proclamation was issued in Stockholm yesterday providing that all individuals and firms in Sweden must make a declaration to the Bank of Sweden of all their holdings of gold and gold coin, foreign currency and foreign securities. They must also state their obligations towards foreign countries.

Dow Jones
Jan. 3, 1940
8:30 a.m.

Special Session for Swedish Parliament

LONDON - An extraordinary session of the Swedish Riksdag will be held January 8 and will last for two days. According to the Swedish Radio, on January 10, the Riksdag will resume its ordinary session.

AIR MAIL

No. 35

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina, January 3, 1940.

SUBJECT: Cargo transported to China
during December, 1939.THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to my despatch no. 24 of December 2, 1939, in regard to the quantity of cargo transported to China via Indochina during the month of November, 1939, and to submit the following preliminary report in regard to the quantity of cargo transported during the month of December, 1939. More detailed information will be available in or about the 15th of this month.

The total traffic of the Indochina-Yunnan Railway amounted to approximately 15 thousand tons. Of this, approximately 15 thousand tons represent cargo transmitted to China from Haiphong, and the balance represents material transported for the needs of the railway and cargo from intermediate stations. On this estimated basis, the railway transported about 2 thousand tons more cargo for Chinese needs than during the previous month. Because of the Japanese activities in Kwangsi, no cargo was transported to China via the Dong Dang-Kanning road. As a matter of fact, cargo previously transported to China via this road continued to return to Indochina, chiefly gasoline and petroleum products from and near Lungchow. It is reported, but this information is not confirmed, that a very small amount of cargo entered China via the Caochang road.

Perhaps a higher percentage of the cargo transported to China is destined for the Chinese National Government or for semi-governmental agencies than during previous months. The percentage may run as high as 90 per cent. All shippers of gasoline and petroleum products are understood to have increased their shipments very considerably over the previous month.

Conditions

- 2 -

Conditions at Haiphong remained approximately as in the past months, although arrivals of cargo fell short of shipments to China. There may have been a net gain of from 2 to 3 thousand tons. This, however, is insignificant in relation to the accumulation at Haiphong of cargo awaiting shipment to China. Weather conditions were unusually favorable, thus preventing further deterioration of cargo.

Respectfully yours,

For the Consul at Saigon,

(Signed) Charles S. Reed II

Charles S. Reed II,
American Consul.

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peiping
Copies to Consulates, Kuning and Saigon
Copy to Consulate General, Hongkong

815.k

CSE:cer

(COPY;FE:HES)

AIR MAIL

No. 36

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina.
January 4, 1940.

SUBJECT: Number of Automobiles and
Trucks at Haiphong.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to previous reports in which mention is made of the number of automobiles and trucks at Haiphong awaiting shipment to China and to submit, as of possible interest to the Department, the following information in regard to this matter.

On the first of this year, the number of automobiles and trucks at Haiphong was approximately 3000, both in cases and assembled, purchased under the Universal Trading Company loan and independently of that loan. In other words, insofar as I have been able to ascertain, the number of automobiles and trucks at Haiphong on the first of the year was roughly the same as on the first of December, 1939.

Of this number, 1568 automobiles and trucks represent purchases under the Universal Trading Company loan - 572 in cases and 996 assembled.

I have been informed in confidence that the Foo Shing Trading Company is negotiating, or is planning to negotiate, transshipment to Rangoon of at least a large number of these automobiles and trucks. This action appears to indicate little optimism in the immediate future of both the Dong Dang-Haiphong and Gaobang roads. In this connection, reference is made to my despatch no. 28 of December 19, 1939.

- 2 -

Present Japanese bombing activities along the Indochina-Yunnan Railway, which are aimed to cut this last remaining means of transportation with Indochina, are reportedly stimulating greater interest in the possibilities of transshipment to Saigon.

Respectfully yours,

For the Consul at Saigon,

(Signed) Charles S. Reed II

Charles S. Reed II,
American Consul.

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peking
Copies to Consulates, Hanoi and Saigon
Copy to Consulate General, Hongkong

SI5.6/SI5.4

CSH:car

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 4, 1940.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. E. Knake

BANK OF FRANCE.

Mr. Cariguel called at 11 o'clock to inquire whether we had received Governor Fournier's two cables of today addressed to Mr. Harrison; if not they should come to hand at any moment. I replied that so far I had not seen anything. Mr. Cariguel explained that the cables dealt with the special account; that the Governor confirmed that Mr. Rousseau had full power to draw upon this special account. Altogether it was a full reply to our cable No. 6 of January 3.

LML:EN

DEB

PLAIN

London

Dated January 4, 1940

Rec'd 2:30 p. m.

Secretary of State,
Washington.

28, January 4.

FOR TREASURY FROM BUTTERWORTH.

Interest in the city is largely taken up at the moment with the gilt-edged market which is enjoying quite a boomlet, war loan, for example, closed today at 94 5/8 as compared with a level around 92 before Christmas and 93 1/2 on the last working day of the year. (The minimum price fixed for this stock was 88 1/2 above which level it did not move until October 12). Banks, investment trusts and insurance companies, et cetera, are now buying government securities and some special buying by the government brokers is also reported.

Meanwhile the obvious measures taken to ease the year-end credit situation made it unnecessary for the market to borrow from the bank. There is a growing criticism of the banks for not reducing their call money rate to the discount market from 1 percent to 1/2 percent. The level at which it stood during the cheap money era between 1932 and

the

REB -#25, From London, Jan. 4.

the last week of August 1939, especially since the Treasury bill rate would be immediately affected and the cost of the growing floating debt would be materially reduced. Some in the city are even wondering if there is any possibility of a reduction in bank rate to 1 1/2 percent. (It has NEVER BEEN below 2 percent). Such a move would in effect force the banks to reduce their call money rate. The idea that this move might be taken to coincide with and give a fillip to the launching of the first war loan has been talked of for some time. However, with the tender Treasury bill issue still under £770 million, heavy tax collections now coming in and savings certificates and baby bonds selling well, there is no immediate need for a long-term war loan, the timing of which will doubtless depend upon the Treasury's assessment of the most favorable moment.

This week's bank return, showing a further shift from public to bankers' deposits and a small increase in government securities in the banking department at a time when notes are returning from circulation indicates no move by the authorities to tighten credit after the special needs of the year-end.

JOHNSON

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 4, 1940, 6 p.m.

NO.: 14

FROM MATTHEWS.

FOR THE TREASURY DEPARTMENT.

Today the Bank of Italy representative, Pennachio, had lunch with me at my house. He said that a number of minor exchange matters had kept him busy lately. For example, he said, the Foreign Exchange Office in Paris is anxious to reduce the amount of French bank notes which leave the country to a minimum; therefore the Office does not want travelers going to Italy to carry but very small amounts, while on the other hand Italy will not permit anyone to bring into that country more than 300 lire. For another thing, Rueff had told Pennachio that in the future the French would maintain a stricter control over the importation of French banknotes into France, although up to the present such importation had not been greatly restricted - reference: the second paragraph of telegram No. 2801 of November 21 from the Embassy. Therefore Pennachio had advised his principals against purchasing quantities of French banknotes as had been done freely before, for remission to Paris periodically. In general, he was not critical of the French administration of exchange control. As I reported in a previous telegram (No. 3056 of December 29) Pennachio is frankly impressed with the

success

- 2 -

success of French efforts so far in keeping prices down. He did not express surprise that the French authorities had not fully realized the importance of the loophole which the original exchange control measures provided through the omission of restrictions on deposits of francs to foreigners' accounts, and that blocking the loophole (reference: telegram No. 2882 of December 1 from the Embassy) had been delayed so long. He did not foresee that there would be any difficulty during the next few months for the French or British to keep the franc and sterling at their present rates. It is his inclination to share the view of Douve de Murville and others here that before pressure hits the franc it will hit sterling - reference, telegram No. 2485 of October 16 from the Embassy.

Pennachis appeared to hedge somewhat on the optimism he had expressed to me previously as to the prosperity of his country to be derived from the war. He made reference to the loss of tourist revenue which was serious, saying annually each year it had amounted to about 3,000,000,000 lire. Substantial orders are received from the French, but such orders have not yet reached more than about one-half of the five billion lire mark which was provided for in the clearing agreement which the two countries signed recently. Moreover, he remarked that his country would prefer to get markets giving them some assurance of permanence -
with

- 3 -

with particular reference to the Balkans and the recent trade negotiations Italy has had with Portugal - rather than to concentrate on orders which are wholly temporary because of the war.

END SECTIONS ONE, TWO AND THREE.

BULLITT.

EA:LW

JT

GRAY

PARIS

Dated January 4, 1940

Rec'd 5:57 p.m.

Secretary of State,
Washington.

14, January 4, 6 p.m. (SECTION FOUR)

I have mentioned in previous telegrams the complete lack of statistics in France since the outbreak of the war and the general complaints in this respect of those whose job it is to take the pulse of France economically. The crumbs of information therefore that Minister of Commerce Gentin let fall in the course of the recent budget debates may be of some interest. In October he said, French exports reached the lowest point since the outbreak of the war but in November an improvement took place, raising the proportion of exports in relation to imports to 74% which brought the difference between imports and exports to about the same level as for the first seven months of 1939⁹.

BULLITT

EWS

JT

GRAY

PARIS

Dated January 4, 1940

Rec'd 4:54 p.m.

Secretary of State,
Washington.

14, January 4, 6 p.m. (SECTION FIVE)

The known results for December were, he said, "encouraging". November exports, however, in value represent but some 61% of the exports for November, 1938 (which latter amounted to 3,069,000,000) owing in part to the embargo on the export of certain raw materials. Agricultural exports in 1939 were almost equal to the previous year, he said, and those of manufactured goods were "more than 75% of the 1938 figure". He talked optimistically (probably too much so) of the future of French exports of manufactured products on the basis of lower French prices on foreign markets and the disappearance of "certain enemy competition".

BULLITT

END

JT

GRAY

PARIS

Dated January 4, 1940

Rec'd 6:45 p.m.

Secretary of State,
Washington.

14, January 4, 6 p.m. (SECTION SIX)

The Parliament probably having in mind the futility of similar expenditures in the past few years rejected Gentin's request, however, for a 5,250,000 franc additional credit to make "certain reforms" in the Ministry of Commerce with a view to rendering more effective aid to French exports.

The Paris securities market was weak yesterday and price changes today were insignificant most rentes declining fractionally with the exception of the 1937 dollar exchange guaranty issue which gained 1.70 francs. The AGENCE ECONOMIQUE ET FINANCIERE index (end of December, 1930, equals 100) shows French rentes at 83.4 on December 29 and 85.4 on January 2 as against 79.7 on September 4, 1939.

BULLITT

END

JT

GRAY

PARIS

Dated January 4, 1940

Rec'd 7:44 p.m.

Secretary of State,
Washington.

14, January 4, 6 p.m. (SECTION SEVEN)

The figures for exchange guaranty issues are 151.1 on December 29, 152.3 on January 2 and 114.2 on September 4. The corresponding figures of the general index are 114.2 on December 29, 116.5 on January 2 as against 89.6 on September 4. These substantial rises since the outbreak of the war are indicative in part of the employment of repatriated capital.

The Bank of France statement for the week ending December 28 shows that the Treasury, partly for year-end needs, drew a further 2,400,000,000 francs on its advance account, thus raising total withdrawals to 14,200,000,000. Note circulation was up approximately 2,000,000,000 francs to 151,300,000,000 and gold coverage down from 59.02 to 57.90.

The price of gas in Paris has been increased by 13 per cent.

(END OF MESSAGE)

BULLITT

LMS:SKS

178

Address on
Capitalism
never given

January 4, 1940.
3:15 p.m.

RE: ADDRESS ON CAPITALISM

Present: Mr. White
Mrs. Elots

White: Have you an idea specifically as to the time?

E.W.Jr: I feel that if I go eighteen hundred words, which is fifteen minutes, that is all I have to have. Whatever it is going to be, it is going to be over the radio. We decided we wouldn't look for an audience until I had a speech and got it by the President. In other words, I don't want to set a definite time and then have to change my plans. Last night I was thoroughly decided I would not make any speech.

White: I think your general principle is right; the shorter speech the better.

E.W.Jr: These speeches usually go up to eighteen hundred words.

Mrs. Elots: Yes, I think so.

White: Eighteen hundred words in fifteen minutes?

E.W.Jr: Yes, I go a hundred and twenty. Then you will find they always have to take out time for announcements and so on. You go about thirteen minutes on a fifteen minute program.

Mrs. Elots: Yes, one hundred fifty times twelve is eighteen hundred.

White: This forces upon you the necessity of cutting out the nonessentials. The cutting down insures that what you have is apt to have more meat.

E.W.Jr: That is why I have got this planned. I have got a man to work with me and he is coming to see me Saturday afternoon. I don't want you to work Saturday, but if you could do this tomorrow morning - I don't want you to do any more today. This fellow's name is John Mitchell. I think you know him. He packs everything into it.

White: He is good.

- 2 -

H.M.Jr: What?

White: He would be good. Then you should also get that publicity man's approval.

H.M.Jr: Lowell Mellett?

White: Yes.

H.M.Jr: He is coming tomorrow morning. I want to talk to him.

White: Yes.

H.M.Jr: I thought --

White: His comment will be good.

H.M.Jr: But I don't want you to work tonight. I am responsible for all of this material at the top of page 5, the hierarchy of guilds and so forth.

White: Yes, you told me about that and I think that is pretty good. I like this note, particularly, "Capitalism exists in a purer form in the United States than any other country in the world."

H.M.Jr: Mrs. Morgenthau said, "What about Sweden?"

White: No, capitalism doesn't exist in nearly as pure a form in Sweden.

H.M.Jr: I see.

White: And of course you might say that Sweden is more democratic than the United States, although I think neither one would be better than the other, but I mean that, I take it, brings out one of the thoughts that is in your mind. It ties the two up together which, I gather, is --

H.M.Jr: The thing I wanted to express in this speech is, everybody else - there have been hundreds of speeches on democracy. What I want to talk about --

White: This tie-up --

H.M.Jr: What I want to talk about is capitalism.

White: Unless you pursue some such thread as tying up capitalism with democracy --

H.M.Jr: I do.

White: The interpretation may be different than what you want to give it and I think the strength and the novelty - novelty is too pretty a word, but I mean the worthwhileness of a speech of this kind lies in the identification of those two, which paves the way - which is what you want to do - which shows that the New Deal is attempting to revivify capitalism, is giving it real life and by so doing is perpetuating democracy. I think that is not all and I don't think that idea has been sounded.

H.M.Jr: If you don't mind, I am not thinking in terms of the New Deal revivifying capitalism.

White: I thought you gave it that term twice. I didn't think that was the original intent.

H.M.Jr: I will tell you, Harry, what I was trying to do.

White: It begins to be a little bit pro-New Deal.

- 4 -

E.M.Jr:

One of the things that I want to bring out is the cause of the attacks on the New Deal. One of the focal points of the constant attack on the New Deal is that it discourages the profit maker, it discourages private enterprise, discourages savings.

White:

More Government interference in business.

E.M.Jr:

More Government interference in business. Now, instead of saying, "We don't discourage this, this, or this," what I am trying to say is that from 1929 to 1934, as everybody knows, this country took a terrific setback and we have gradually come out of this terrific four year depression and during this process people have been encouraged to own their own homes, they have been encouraged to buy their own farms, they have been encouraged to go ahead and make money. Now, it is perfectly true that we haven't gone very far and the reason, I feel, that we haven't gone so far is because we were so far down. We have had such a long way to come, you see, and while it is perfectly true we have only come part way, it is all the more necessary that this little start that we have made be continued without any setback, because the plant is so young that it can't stand much of a setback. Therefore, the kind of things which the Government has fostered to encourage private enterprise and so forth and so on must continue. That is the whole thesis that I have in mind. I am talking about capitalism, am I not?

White:

Very definitely.

E.M.Jr:

In America we are doing everything that we can to encourage capitalism under this kind of Government, which is called democracy, while all the rest of the world are moving in the opposite direction due to one reason or another. When I asked Glasser to make these checks, he found how little we have really come up the ladder and therefore he became frightened and pulled away from it, you see.

- 5 -

I am perfectly willing to say, too, that the tendency must be away from monopolies and more toward the individual.

White: More toward competition.

H.M.Jr: Yes. I said to him last night, "Didn't it sort of scare you how little we have done," and he said, "Yes," but I think that when one finds we have come so short a distance up the ladder above the surface, he should consider how far below the surface we were due to an accumulation of malpractices under our present system.

Now, there is nothing in the speech that scares me about all the things which you saw about the reforms of the New Deal. I am willing to say every one of them and say every one of them must continue, but I think we have got too many thoughts in there, too many Latin words.

White: I can understand what you mean.

H.M.Jr: And too --

White: Too few Anglo-Saxon words.

H.M.Jr: And too few word pictures and too few examples. The thing is much too high-brow. Now that you and I know what the premises are, what are thesis is, what we are trying to prove, it seems to me so easy to prove and I don't think that we have to be very apologetic about it.

White: No, I don't think we should be apologetic.

I do agree that there are too many ideas for a fifteen minute talk. I agree also that it must be put in a language which is not so academic, which is another way of saying more Anglo-Saxon terms, more effective. It is not true that the longer and more academic the word is, the better; in fact, the contrary is true. I think it is an inevitable condition in a draft, however, because those of us who have done most of this writing, which is Adler, Glasser and

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myself, are inclined to think in those terms, but it is a question that is a very different thing from saying that that is the most effective or ineffective style. That has to be worked over. I think a number of ideas have to be cut out. I think it is always excellent if you can get good illustrations. It is difficult, but I think some of those that are used here that I read through this, I think are good. I think it should be possible to get more. It may not be as possible to get in quantity the terms, the kind of measurements which would indicate the kind of progress which we are making about many things, because it doesn't lend itself to that and we haven't the figures or it isn't possible to get that type of figure, but there are a good many more illustrations that could be used and after all, one good illustration is worth a half a dozen poor ones. I mean, if you could get a few good illustrative points, it is more effective.

I do think, however - I am not sure whether you feel this way and that is why I am repeating it - that there must be an unquestioned tieup of the strength of capitalism and the strength of democracy, because unless that is done it would be the speech of a conservative, which I take it is not what you want. You want, rather, to indicate that liberalism demands - liberalism in a democracy, which affects our way of living more than the way we make our living, demands a strengthening and a going forward of these capitalistic essentials, private enterprise, competition and so on, that if, in other words, one of the driving strong reasons why we want to strengthen these capitalism institutions is because we want to go forward under democracy, then I think it gives it just that difference which stamps it as the difference between a liberal and a conservative speech.

- 7 -

H.M.Jr: Well, what I am trying to do through this speech is to explain to the people in this country in all walks of life that there has been a pattern for the last five or six years, as far as the profit motive goes.

White: That in itself is a good thought, that it hasn't been a haphazard hit and miss proposition but that there has been a basic pattern along which the moves are taken. The pattern is not always obvious.

H.M.Jr: And not always coordinated.

White: But show them that they have followed a general --

H.M.Jr: Pattern. Now, just as you said somewhere here in the talk, in Europe they have taken the unemployed youths and put them in the Army; in this country we devise other means of taking care of our unemployed youths. I think that whole thing could be expanded, that the rearmament program of this country is twelve percent or whatever it is, in averages, as compared to fifty or sixty or seventy percent in other countries.

The thing I tried to explain the other day to John Boettiger, who went after me for two hours on this thing to find out where I stood is this: The reason, in the first place, for the speech is to encourage people to think that there is a pattern and that this administration is so tired of putting reassurances on the record. The President has never coordinated his own thinking along those lines.

The reason I think it is so important is this:

Some day one or two things are going to happen in the next couple of years, either we are going to have a complete chaos and complete disruption of all forms of government in the world and you are going to have the people in the world saying what they are in Spain, that they won't till the fields or anything because they are so stunned from continuous bombing that they haven't got over it, or this country will have to continue doing what it has done in a more orderly fashion and in greater quantity in order that we can isolate ourselves against the terrific disruption of government which is going on all over the world.

After I had finished my talk with Boettiger he said, "What is your suggestion," and I said, "The only suggestion I have is a suggestion which I have made to your father-in-law, that we have never had in this country a committee for the study of the conservation of the human resources of this country. There is nothing in this government or no group which is doing that, because the National Resources Committee does the soil and the minerals and so forth. We have to have a group which will study the conservation of the human resources under our present form of government so that this will continue.

Now, there are just the two alternatives and the way the thing is going in the rest of the world, that chaos is gaining steadily and as it gains and the pressure on us to rearm and do all of the things necessary to hold our own increase, it is going to be more and more difficult for us to keep this country on a healthy basis. I told them what we needed is a study which would show at the end of some period every able-bodied man or woman who wanted a job, as having one. That is the thing to aim for and that is what encouraged him so greatly. There isn't anything like that going on in this government. It just doesn't exist.

White:

Why wouldn't that be a good thesis to end on, some three or four or five paragraphs developing just that idea, the conservation of human resources, and around that you can build several of these ideas.

H.M.Jr: You see, he is an awfully smart fellow. He thought I was just a conservative and he sort of stuck pins in me, you see. He is greatly disturbed because at this period the President is so interested in foreign affairs that for the time being he has lost interest in unemployment, which Boettiger and I think are the most important things in the country. He has been after the President for the last week to forget the trade treaties and all the rest of that and concentrate on the unemployment problem. At this time I have a really great opportunity, in that I may be able to change the President's thinking.

White: Directing him against the fundamental problems --

H.M.Jr: Not against, towards.

White: Yes, among other things because it is so intimately a consequence and result of anything that will happen in the international affair. The best method of deflection of international conditions, as he said a year ago, is to eliminate unemployment in this country, put your house in order here.

H.M.Jr: We didn't have a stenographer there the other night. I put it to the man like that as an able person, so that he and his wife went away very happy. What they are so afraid of, and I am too, you see, is that the next four years are so very important that if you get in the middle of the row by the end of those four years we most likely will fall by the wayside.

Now, the most difficult thing to say is that we never have put our teeth in the unemployment problem and you and I know that where you and I have had our principal difficulties is that every time it looks as though we are going to balance the budget, at that time business begins to get bad again, everybody gets frightened, and we spend a couple of billion dollars more with no plan and then we go along for twelve or fifteen or eighteen months following this spending and we are right back again, because nothing has been thought out. Now, you and I agree on that.

White: Yes.

H.W.Jr:

The extra spending by England and France will continue for perhaps a year or so and when their gold is exhausted or their securities are exhausted we will be back in the position where we are with no plan to take care of the unemployment. It is like a person who is sick, if you have three or four relapses, everytime you have another relapse it is that much more difficult to get well. I think it is much more important at this particular junction where everybody is floating and nobody really sees clearly to say what I said to these people the other night, namely, that the important thing is to try to sit down and think this out.

I think there should be a three-way committee, one-third administrative, one-third from Congress, and one-third from the outside world, three groups, you see, and let this committee sit down - I told him how I asked the President to give three afternoons a week until he solved this thing. You will remember those memoranda I sent. I would like to say that it is far more important to solve our unemployment problems for a long period and conserve our human resources than it is to have me bothering - more important than it is to get the French some planes.

Mrs. Elton: That isn't what the President said to Congress.

H.W.Jr: And that is what bothers Roettiger so.

Mrs. Elton: You see, he just took the opposite view.

White: Something is happening. He has become internationally minded at a peculiar scale. It isn't as though he became internationally minded in addition but he is ignoring the fundamental problems at home, partly I used to think, in the hope that he thought that the world would take us out of our immediate problems and he wouldn't have to solve them, but I am a little bit afraid now that the thing looks to me as though he is getting a little bit too much of a complex that he is going to save the world by some kind of a peace settlement or something like that, play a major part or role in the world situation.

H.W.Jr: That is a Messiah complex.

White: I am afraid that the indications are --

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E.S.Jr:

Well, that is why - I can say this to you and I didn't want to say it in front of Glasser, because you have my confidence and these two people are certainly no more sincere people than Boettiger and his wife. The thing that they are afraid of is just the thing we are talking about. Mrs. Morgenthau heard me when I talked to them. Boettiger said, "Can't we do something to get the President to think about our domestic situation rather than to get ourselves ready?" He said, "Out West we are not interested in anything but the unemployment problem. That is all we are interested in and we are interested in the young people and so forth." Then he tested me. He said, "How far are you willing to go?" I said, "How far am I willing to go?" For instance, if they recommend that the only way out is to consolidate all the railroads and the government take them over, O. K." He said, "Are you willing to do that on public utilities?" I said, "Yes, anything." I said, "Suppose we have to take the railroads, the public utilities, and something else, then the rest of the enterprises should remain for private business." He said, "That will be one, to try to define what the government would do and what is to be left for private enterprise so that the people aren't afraid all of the time and they won't put their money into this and that venture for fear at the next step the government is going to take it over, and a lot of people are afraid of that."

But it doesn't frighten me that if eighty percent of the railroads in this country are over-capitalized and bankrupted and the only way to do is to consolidate them and the government to take them over. There is nothing frightening in that. France owns all its railroads. The British Government controls all its utility systems. There is nothing frightening in that.

White:

You have given this thing a little different twist. I think, myself, it is a little unimportant twist. I also think that --

E.S.Jr:

I think it is more important - I will just say one word - on account of the President's own thinking. Because he is the President doesn't mean he is right.

Mrs. Elatz: You didn't know what he was going to say in his message to Congress, did you?

H.M.Jr:

All I know was that it was largely foreign affairs. Did you mean that if I had seen it I would have made this speech before? I had no idea. I just knew that it was concentrated on foreign affairs. I didn't see it.

White:

I think you have got a very important thing. I think it is even a much more important duty that you have in this matter. Some people may not feel this way or haven't the courage or can't afford to say so for political reasons, all of which makes it more important for you to do so. I think the ideas that you have outlined in general are more than called for and are too numerous to be adequately and effectively handled in one speech. I think that probably a series of three in which you build up or develop or take a different aspect of the situation would be desirable, but I think the first thought is the thought that you want to sound in directing the attention to the major problem at home, which is partly handled here but it is also with other ideas. Whether you can do that at the same time, including some of the other ideas that you stressed, I don't know. I am a little bit skeptical, but you might try it.

H.M.Jr:

Fortunately, I started out with the original ideas that I wasn't going to have any date-line to talk to and Mrs. Klotz reminded me again the other day not to make a date.

White:

Since we are not on this thing, let's keep at it.

Mrs. Klotz:

But not pin it down and say, "I will speak on the 22nd."

H.M.Jr:

No, I am not on this thing and I am seeing this fellow Saturday afternoon and I think what I will do is, I won't show the way - I will just talk to him like this and see what he can put down, you see. No question about his liberality.

White:

No, that is a good idea.

H.M.Jr:

You see, I am going to do one or two things. Either I continue on and not get bogged down over a fight with Henry Wallace over the certificate plan - well, that is in the making. I mean the boys have got it and so forth and let somebody cut it out and not get bogged down on so many of these pygmy things.

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White: You are a hundred percent right.

E.W.Jr: See, and --

White: Those other things will be long forgotten after the major issues are made, just the same as these were the major issues two and three and four years ago.

Mrs. Elotz: More important than all, I think, is that at this time the public should know where you stand, what your views are. They don't know and if they are opposite to the President, the President won't stand in your way. You really should let the world know.

E.W.Jr: Boettiger was amazed, because he has been to see every liberal group in this Administration, trying to find out where they stand. He is one of the smartest reporters I know in the country. He has made a success of his own paper out there, irrespective of that. I will never forget the day he and Ernest Lindley went after me when I was in Sam Cheadle. John Boettiger is just nobody in Washington today to put the pressure on you to get a story, because he is a terror. Do you remember that time?

Mrs. Elotz: I remember it very definitely. I can't remember for the moment what that story was.

E.W.Jr: It was on that grain cooperative. He thought the thing was crooked and we finally gave him all our records to go over.

Mrs. Elotz: I remember.

E.W.Jr: He prodded me on and the thing circulated in my mind and --

Mrs. Elotz: I was going to ask you, why were you so enthusiastic about draft No. 1 and not about draft No. 2. Are they so different?

E.W.Jr: No, I am.

Mrs. Elotz: That is what I wanted to know. Your thinking has changed?

White: The objective has changed.

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- H.M.Jr: The prime motives haven't changed, but they are gradually taking form.
- Mrs. Klotz: I didn't remember either of them, but I heard you speaking about it.
- H.M.Jr: Now, Hull could only think as far as this trade treaty. Wallace has got something else. Everyone of those people have an ax to grind.
- White: There is no question about it.
- H.M.Jr: With the possible exception of Ickes.
- White: You are in the fortunate position of not having a host of speeches behind you. It isn't as though you make one every Monday and Wednesday, so that I should be inclined to prefer not a radio speech but to make it to some more appropriate group and I believe it would be more effective.

H.M.Jr: But look at the dribble that comes out of Commerce two or three times a week.

Flots: That is right.

H.M.Jr: As to the audience, it is easy to get an audience.

White: I think that what you have got there is two, anyway, and possibly three speeches, but they are worth spending as much time as is necessary on to make them as powerful, as meaty, as possible and to really say something, and I think that you will find that there will be a lot of important people that will rally around that thesis if you can get it over and even if you can't, the mere fighting it out with the President in itself is very worthwhile, so that I am a hundred percent for it. I think you ought to stick with this thing as much as you possibly can until you get one speech out.

H.M.Jr: I do too, but I think the thing that we have talked about here, our own domestic situation and the preparedness against social unrest at home due to continuance of unemployment and so forth and so on, is far more important than trying to defend ourselves from attack from outside.

White: Well, let's just think what it would mean to the rest of the world, as far as the road in which they want to travel and will be able to travel if they were able to point to the United States as a country maintaining democratic processes and maintaining capitalism is concerned. That in itself would be the most powerful point.

Flots: It is the best reason.

White: It would be a directive towards shaping the way for the other Governments of the world.

H.M.Jr: And again you have a rallying point for what I call "forward looking people."

White: Yes. The note has not been sounded. There is no question about that. The clarion call has not been sounded, no question about that. The President has not sounded it. He is very obviously struggling, struggling --

H.M.Jr: He is groping. Certainly he isn't going to rally the Democrats plus the Liberals which would be necessary to elect a Democrat over the Trade Treaty Program.

White: And I would go further. Even if it is not a question of election, it is important that there must be shaping in his own mind as well as in the public mind what the real problems are before they hit it.

Elots: Has he pushed the Trade Treaties and talked about them as much as he did last time?

H.M.Jr: I think he got the thing mixed up. There was this article by Kintner also, but they got the wrong signature and said J. Franklin in last night's Star. We got the one on Hull last night and signed by J. Franklin, but unquestionably written by Kintner explaining what he is doing and using Hull as a stalking horse. Did you read it last night?

White: No.

H.M.Jr: They got just as near as I got and Ernest Lindley came out Sunday with a terrific blast on this Trade Treaty, said this is a battle with blank shots over the Trade Treaties.

Elots: That is what I carried away with me, I mean after listening to the President, just why, what is back of it.

H.M.Jr: How can he get excited over a thing like that? Did you read the article by this fellow on the treaty with the Argentine?

White: One of the boys called my attention to it, saying that in Argentine they wanted to throw it over.

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H.M.Jr:

They not only want to throw it over but ridicule us just as nobody's business and say they haven't got time to fuss with us. They are sending a commission tomorrow to Japan to get a good treaty. That is all the more reason that I have no ax to grind other than that of my country, and here is a grand chance.

White:

It must be done.

H.M.Jr:

All right. Now, I won't expect anything from you until Monday but I would like something Monday.

January 4, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Harris
Mr. Haas
Mr. Cotton
Mr. Thompson
Mr. Sullivan
Mr. Bell
Mr. Gaston
Mr. Cochran
Mr. White
Mr. Schwarz
Mr. Poley
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: Admiral Maesche said that matter you spoke to me about would be all right. Just let him know whenever you want the arrangements made.

H.M.Jr: Let's start him in this morning and then he can sit there with the young lady for a couple of days. Let him start with Mrs. Klotz, see. Let him get his affairs arranged today and then come over tomorrow.

Gaston: John Mitchell will probably be in town Sunday and call me up. Would you want to see him Sunday or wait until Monday?

H.M.Jr: I tell you what I would like to do. I would like him to call me. I thought I might see him up there.

Gaston: Are you going up there?

H.M.Jr: Yes, either Friday night or Saturday morning.

Gaston: He could probably go over there Saturday or Sunday. It isn't far from Groton.

H.M.Jr: It is only an hour.

Gaston: I will tell him this morning.

H.M.Jr: Ask him to call me up at 12:45 Saturday and I might want to meet him Saturday afternoon or Sunday morning.

Gaston: Right. I will do that.

H.M.Jr: Quarter of one Saturday.

Gaston: He had planned to be down here Sunday, but I will tell him that and I think he can arrange it and I will let you know.

H.M.Jr: Anything else?

Gaston: Nothing else.

Foley: John and I decided that that petition should not be filed.

H.M.Jr: John?

Foley: Sullivan and I. We decided that the petition to compel Elder to testify should not be filed because they weren't ready.

H.M.Jr: O. K.

Foley: You might want to consider bringing the bankers and the lawyers in for a conference on the Bank of America.

H.M.Jr: For next Monday. Don't you think we ought to be ready for them by Monday? Why not have them on notice, you see, so that --

Bell: Who do you mean, Tom Smith and --

H.M.Jr: And Ottley and Spencer and then the three attorneys.

Bell: That is all right.

H.M.Jr: It is quite a job. This one will have this and this one will have that, so I think we had better start in with them.

Bell: While you are on it, counsel for the bank has sent quite a long letter to the Board of Governors in the Federal Reserve System citing all of these various letters, exchange of letters between Delano and Giannini and he winds up by asking the Board of Governors to make an examination of the bank on its own responsibility. They have sent a copy of that letter to you.

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Q. J. J. J.

Who has?

A. J. J.

Or to Delano. The Secretary of the Federal Reserve Board. They don't ask you to do anything and as far as I can see at the moment there isn't anything we need to do about it. They have a right to examine the bank.

Also you have had some correspondence, I believe, with Eccles about the members of the Board getting in on this.

Q. J. J. J.

Yes.

A. J. J.

He called Delano yesterday evening and said that he didn't believe that the members ought to get in on it at this time but he would like to have the technicians get together and have the chief examiner and Gus Folger get together and go over the material and Delano said he had no objection to that but he would like to have a lawyer present.

Q. J. J. J.

Well, now, look. I don't like that at all. Either the Board of Directors are going to do what they said they wanted to do in writing or - now they have changed the plan. They said - we wrote them reminding them that the Board of Directors said they shouldn't be in because they would be contaminated. They came back and said, "What is all right, we want to get in, we are going to send somebody over." Now, either they want to do that or they don't. They get a copy of a letter - they get copies of all the reports of the banks. Either the Board does or doesn't, and I am not going to let them be smart with us, see. They told me that Mr. - the fellow that comes from Ohio or Pennsylvania, what is his name?

A. J. J.

Eccles.

Q. J. J. J.

Eccles was going to get in on this thing.

A. J. J.

Eccles, I suppose, is in charge of the Bank Examination Division.

Q. J. J. J.

Either they do or they don't. This letter came over and said they do, that they were going to telephone and send someone over.

Bell: Maybe Delano has got it wrong and maybe they are sending somebody, but that somebody is the chief examiner. As I understood your last letter, you warned them that --

E.H.Jr: That is right.

Bell: That they were liable to get this --

E.H.Jr: And they said, "We want to do it."

Bell: Oh, they did?

E.H.Jr: Oh yes. Now, I don't want to - I certainly would talk it over with Foley and my own feeling is that I would say, "All right, you said you would send a man over. We are waiting for this man to come over," but I wouldn't let them use any back-door method. Either they do want to get in, and they said they did -- now here is the history. Booles comes over and says, "I want to come in," and gives me a blank piece of paper. I said, "No good, I want it in writing from the Board." It comes back and the Board says, "We want to get in." We sent a letter back and pointed out, "Have you changed your position?"

"No, we want to get in." If they want to get in, let a Board member come in, but, you see, I am not going to let them say, "Well, no Board member knows this but we do it this other way." Now they have got everything.

Bell: All right. I think Ed and I had better go down to Delano's office right after this meeting.

E.H.Jr: I certainly would and I certainly would either insist on a Board member getting in or else. You see what they are doing.

Foley: Yes.

E.H.Jr: I am not satisfied in my own mind that when the two Gianninis sat down with five members of the Board, they discussed the question of the bank examination. Two Gianninis sat down with five Board members and I am not satisfied that at that time they weren't encouraged to do just this. Then they sit down and say, "We have never done anything, but our staff does," and then the staff reports to them. It is too important

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to let them trick us. I hated to use the word. If a Board member wants to sit down with Delano, yes, openly. But no back-door stuff.

Bell: All right. I think we had better have a conference right afterward.

H.M.Jr: I don't know whether you feel that way or not, but that is the way I feel. I am tired of all this slick business and all of this kind of trying to out-jockey us. It has been going on too long, Dan.

Bell: We will fix it.

H.M.Jr: Mr. McKee can walk over here as a representative of the Board of Directors and sit down with the Treasury people, yes, but nothing less than that. I would hold them to that.

Bell: O. K.

H.M.Jr: That is the way I feel. You fellows - if you are not satisfied after thinking it over, come in and we will talk it over.

Bell: I didn't think that last letter was answered. You say it is answered in the affirmative?

H.M.Jr: Am I right?

Foley: Yes.

H.M.Jr: You pointed out the Section 32 thing and they came back and said --

Foley: That they would like to be advised anyway.

Bell: When they ought to take it as a matter of responsibility of the Board.

H.M.Jr: That is the thing. And not sit back and say, "Oh, the Board has never seen it." The chief examiner has. Well, the chief examiner has got the report now.

Bell: All right.

H.M.Jr: In other words, they have suddenly now seen that they are wrong. Let them be men enough to say so, if they can. What I would do - why don't you go

ahead with the three bankers and let him (Foley) get the three lawyers, so as to divide the responsibility, because you will have a terrible time as it is. I mean, getting those six fellows down here.

Bell: Who is the other fellow?

H.M.Jr: Charley Spencer, First National, Boston. And when you call Ottley, he will ask you for an increased deposit.

Bell: Is that all he is going to get? He had better produce results on what he has.

H.M.Jr: I am thoroughly fed up on this Federal Reserve. It is bad enough having a difficult thing like the Bank of America without having the Federal Reserve trying to maneuver us.

Bell: All right.

Sullivan: Here is the report on those tax cases.

H.M.Jr: This is the introduction?

Sullivan: You wanted that to show what changes had been made and what we haven't made.

H.M.Jr: Thank you. Well, I am seeing Hanes at 10:00 and you be here at 10:25.

Sullivan: Yes, sir.

H.M.Jr: Please.

Sullivan: I don't know whether Mr. Thompson discussed with you the Philadelphia municipal income tax situation. They are requesting under the law, the employer retains out of all salaries the amount of the tax and pays it direct to the city. They had made such a demand upon the Federal offices there and of course it puts us in a rather embarrassing position, because we employ the same technique in the collection of several types of our taxes.

H.M.Jr: I am not familiar with it.

Foley: I have it, Mr. Secretary, and one of our lawyers --

H.M.Jr: Did I get in on it?

Poley: No.

H.M.Jr: Thank you. That is enough.

Poley: We are taking care of it. One of our lawyers is calling on the city attorney this morning.

H.M.Jr: If you get stuck, let me know.

Anything else, John?

Sullivan: No sir.

Cochran: Leroy-Bessillion telephoned me last night. I think I told you he had planned to fly on the 27th of December and the plane didn't come in and he changed to the 2nd of January. Now they tell him the 10th, unless they can get passage for him on the 7th. He wanted us to help him, so I am going to telephone up to Mr. Cooper of the Pan-American.

H.M.Jr: Before he goes, what I told him, the message I told him to carry to Bullitt, the whole thing has changed.

Cochran: He is coming down here on Friday.

H.M.Jr: You had better see me, because the whole picture has changed.

Cochran: Then should I telephone the air people?

H.M.Jr: Good heavens, can't the Frenchmen do that themselves?

Cochran: He said he hadn't gotten it so far. It is only three days difference. I don't like to interfere very much.

H.M.Jr: I don't think I would. I should think the French line ought to have some influence with Pan-American.

Cochran: Do you want to give him an hour for Friday?

H.M.Jr: 10:15. Tell him to start early enough to get here in time.

Anything else?

Cochran: No sir.

E.H.Jr: I will see you (Cotton) - your letter came out too late last night. I couldn't clear it last night. It came at twenty minutes of six.

Cotton: I sent the ~~Madler~~ memorandum, just a note, anyway.

E.H.Jr: Then there is no hurry to see me?

Cotton: No, unless you think he ought to have something.

E.H.Jr: I tell you what let's do, a quarter of three.

Chick?

George?

Bass: I have nothing this morning.

E.H.Jr: Basil?

Harris: No.

E.H.Jr: Harry, if you are up to it, could you come around about three o'clock?

White: Certainly. What is it?

E.H.Jr: Speech. Couldn't you rest before then? Why don't you go home for lunch or something.

White: When I came here I came ready for work.

E.H.Jr: Well, save a little energy for me.

White: I will. I will be here.

E.H.Jr: You are sure?

White: Quite.

E.H.Jr: I told your office if they had anything for Berle to let me know, and I haven't heard anything so I take it they haven't got anything.

White: I fixed up some this morning. The legal staff had been preparing something and I told them that before we would do anything beyond the Treasury, I mean - we had reached the stage at which it would have to clear through you, so that the preliminary step was to get agreement within the Treasury, among the technicians and then when it reaches the stage where there is agreement, then we'd present it to you and I understand that that is going forward.

In the interim, we asked a couple of men from the Federal Reserve Board to sit in more in an advisory capacity and so on so that we can get as much agreement as possible with them, too, and yet they would have no responsibility for what is being prepared here. It would be a Treasury product. After that point, how you would want to handle it remains to be seen.

Cotton: In your absence yesterday, Harry, I told Berle that nothing could be produced for him this morning.

White: No, that is right. I take it at this stage of the game we will need at least a week to get agreement on the fundamentals and to present it to you.

H.H.Jr: Dan?

Bell: I have nothing.

Thompson: I have the State Department coordination letter.

H.H.Jr: "To Staff Members Concerned:

"The following plan will be made effective at once for the coordination of information and actions on matters dealt with jointly by the State and Treasury Departments relating to trade agreements, neutrality enforcement, commercial policy, cooperation with American republics, reciprocity information, foreign debts and similar subjects.

"1. Any staff member prior to attending any meeting or conference with State Department officials will notify Mr. Gaston in order that he may determine whether he or any other members of the staff also will attend such conference.

"2. Immediately upon completion of a conference or meeting with State Department officials, staff members will prepare and transmit to Mr. Gaston a memorandum outlining the subjects which have been discussed and decisions, if any, which may have been reached. Mr. Gaston will see that such information is distributed to all staff members concerned.

"3. Mr. Gaston will in his judgment keep the Secretary informed on matters covered by this order, dealt with by staff members.

"4. Cable messages received by Mr. Cochran will be distributed directly by him to the Secretary, Mr. Bell, and other staff members concerned."

In other words, that still leaves the cables with Cochran.

White: Are you making an announcement or will we hear more about this?

H.M.Jr: Everybody heard about it except when Glasser was here and you were out.

White: Are you now giving instructions, because there were some things said in there that I take it were not clear and probably arise from a misunderstanding.

H.M.Jr: Will you talk with Norman Thompson or Bell? They have handled it.

White: All right.

H.M.Jr: The reason for this, Harry, is this: I wrote a letter to Mr. Welles saying why wouldn't they give me the Cuban thing in time and there was a long letter back which has been referred to you and Harris in which Grady puts it right back on you.

White: The Cuban thing?

H.M.Jr: Yes.

White: I don't know what you have reference to.

H.M.Jr: Right back on you.

Harris: I think we can knock that answer over, Mr. Secretary. White hasn't seen that yet.

H.M.Jr: A case came up of six people contacting the State Department and I am getting it from six different sources.

White: I think it is an excellent idea to handle it that way. My only thought was there are a very large number of small subcommittee meetings and meetings, etc.

H.M.Jr: Will you talk with Mr. Bell, Mr. Thompson and Mr. Gaston? We are not trying to railroad anything through.

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White: I think it is a good idea.

H.M.Jr: Will you talk to those three men?

White: I will do that.

H.M.Jr: And see whether you can come in under it.

White: Yes. You see there were some thirty sub-committees of the trade agreements alone.

H.M.Jr: Will you talk to those three men?

White: I will do that.

H.M.Jr: This is to Mr. Hull.

"I enclose for your information a memorandum order which has been issued today to staff members for the purpose of establishing a coordinating control of matters dealt with by the State and Treasury Departments and which are handled largely through conferences. This centralized control in the hands of Assistant Secretary Gaston will I believe give Treasury officials concerned the best possible opportunity to keep currently advised in matters between our two Departments."

White: I think it is an excellent idea.

H.M.Jr: I just say, there was a case where there were six different people on the same thing and I don't know whether the Grady memorandum is right or wrong, but I am looking to you and Harris to answer it for me. But you have got plenty of time. We are still all friends.

January 4, 1940.
11:07 a.m.

207

H.M.Jr: Hello

Operator: Judge Lehmann.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello. Hello.

Judge
Lehmann: Hello Henry.

H.M.Jr: How are you?

L: Fine thank. How are you and your family?

H.M.Jr: Fine. We're all so pleased at your new high office.

L: Thank you. I've had a very good time so far Henry.

H.M.Jr: Fine.

L: I think I'm going to enjoy it, and I'm going to enjoy very much having Bobby work with me.

H.M.Jr: Well that's -

L: He's a grand boy.

H.M.Jr: He is a nice -

L: I don't know where he gets it from Henry.

H.M.Jr: Well he gets it all from his Mother.

L: (laughs) I tell you I don't quite know what kind of a case you were discussing. I mean - is it a case in which you - want somebody to oppose a banking custom - I mean in other words that the man recommended has no banking connections.

H.M.Jr: Well now - I'll tell you what it is.

L: Yes.

H.M.Jr: It's the office of the Comptroller of the Currency.

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L: Yes.

E.W.Jr: Trying to enforce his laws, rules and regulations on the Bank of America.

L: Yes.

E.W.Jr: And we expect to have a show cause order in which we will have a trial examiner and a lawyer who'll present the case as to why we shouldn't publish their statements you see, and then subsequently it leads into a question of removal of the officers of the Bank of America. Now, what we need is a trial lawyer who is competent in the financial field.

L: Well what I - meant was - practically every trial lawyer that I have come in contact with, who is really outstanding, has some banking connection.

E.W.Jr: Oh he can have banking connection.

L: Have some banking connection. Now would that be objectionable?

E.W.Jr: No.

L: Well Henry, the best man that I know of, the younger men are all going - are connected with the office where Robert Benjamin is a partner, Parker and Dayyea.

E.W.Jr: I didn't quite get that Irving. What is the firm?

L: Parker and Dayyea.

E.W.Jr: Parker.

L: P-a-r-k-e-r.

E.W.Jr: Yes.

L: And Dayyea. D-a-y-y-e-a.

E.W.Jr: Yes.

L: But I want to tell you. It used to be the firm of Parker, Finley and Benjamin.

E.W.Jr: Yes.

L: Parker is a son-in-law of the President of the City Bank. Henry is a son of Dr. Finley. Lloyd Garrison used to be a member of that firm at one time.

H.M.Jr: Well Lloyd Garrison is advising us on this matter now.

L: Well ask him whether he doesn't think that that firm has three or four men who would be fine.

H.M.Jr: That firm.

L: Yes. It was his own firm at one time, so he would probably give you the same names.

H.M.Jr: Well is there any particular person in that firm that you know of?

L: No, I'd rather put it generally. I mean I know I would prefer Robert Benjamin to anybody else.

H.M.Jr: Yes.

L: But the difficulty is that Robert Benjamin is doing some work for Herbert.

H.M.Jr: I see.

L: In connection with administrative court.

H.M.Jr: Yes.

L: He's acting as Commissioner.

H.M.Jr: Yes.

L: And I think that's taking up all his time.

H.M.Jr: I see.

L: Practically all. And that's the same firm you know from which Cleveland's Senator.

H.M.Jr: Yes.

L: Is taking for Herbert's investigation.

H.M.Jr: Over in Brooklyn.

L: Over in Brooklyn. Yes.

H.M.Jr: Amon.

L: It's a grand firm.

H.M.Jr: I see. Amon was with that firm.

L: Oh yes, Amon is with - Amon is still a partner there.

H.M.Jr: I see.

L: And now, Henry, if that firm doesn't - if you don't think that that firm will do, ask Garrison what he would think of Whitney Seymour.

H.M.Jr: Whitney Seymour.

L: Yes. We found the objection of Whitney Seymour is this. That he's - he is in you know used to be Solicitor General.

H.M.Jr: Yes.

L: He was an assistant of in the Solicitor General's office.

H.M.Jr: I see.

L: I don't know whether that's a disadvantage. Otherwise he's a grand man.

H.M.Jr: Whitney Seymour.

L: Yes. He's a liberal.

H.M.Jr: Yes.

L: He's very much a liberal, and he's done some very fine court work.

H.M.Jr: I see.

L: - Whitney Seymour is an outstanding man. Is a coming man.

H.M.Jr: He is.

L: There's no doubt about that. I'm booming him for Dean of the Yale Law School.

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H.M.Jr: You did - you did what?

L: I say I am booming him for Dean of the Yale Law School.

H.M.Jr: I see.

L: I - just to show how much I think of him.

H.M.Jr: Right.

L: I - he's a great friend of the Liberal group. I know him through his friendship with Judge

H.M.Jr: Oh yes.

L: That's how I know him.

H.M.Jr: I see.

L: And then Henry, there is also in

H.M.Jr: Yes.

L: A man named Henry Friendly.

H.M.Jr: Henry Friendly.

L: Who is an extraordinary man.

H.M.Jr: He is.

L: He's a young Jew. He's married to a daughter of Judge Stern of the Supreme Court of Pennsylvania, and he made the best record at the Harvard Law School in fifty years.

H.M.Jr: Oh -

L: And he's now a partner in the

H.M.Jr: I see.

L: And those men - I think you'll find one of them good and I know Garrison would know all of them.

H.M.Jr: I see. Well I'm ever so much obliged.

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L: All right Henry.
H.M.Jr: And I hope to see you -
L: Good luck to you.
H.M.Jr: Thank you.
L: Goodbye.
H.M.Jr: Goodbye.

January 4, 1940.
12:47 p.m.

213

Senator
King: Good morning my dear friend.

H.M.Jr: How are you?

K: Oh, bully.

H.M.Jr: Senator, do you remember we were talking to each other about a week ago.

K: Yes, sir.

H.M.Jr: And you said you wanted to talk some time about taxes.

K: That I did my dear brother. I have such - I'm sorry to say - I'm glad you - I rely upon you absolutely.

H.M.Jr: Well - I hope I -

K: If you should say anything I'd believe it, I don't need any corroborative evidence.

H.M.Jr: Well here's the thing. As the matter stands right now. I mean we're sort of marking time.

K: Yes.

H.M.Jr: To see what Congress is going to do, but if you have something special on mind I'd be delighted to get together with you at your convenience.

K: Well I shall - I've had several interviews with Stamm and I'm going to have another, you know.

H.M.Jr: Yes.

K: Our expert.

H.M.Jr: Yes.

K: And I want to talk with him again tomorrow or next day and the latter part of the week or early next week I'm going to claim the privilege of calling you up.

H.M.Jr: I would enjoy that very much.

K: I don't want to increase taxes but we've got to,

- 2 -

it seems to me, and I didn't like the President's suggestion yesterday that we'd sort of label the war relief taxes separately and levy them separately, I don't believe in that. The moment that you begin to segregate, say we'll be so much for this and so much for that, and so much for the other, everybody in a given category will try to get all that he can, when you add up all the categories, it's a great deal more than if you had just one general fund from which state.

H.M.Jr: Well, whenever you're ready, I'm at your service.

K: Thank you a thousand times. Good luck to you.

H.M.Jr: Goodbye.

January 4, 1940.
3:05 p.m.

H.M.Jr:
Senator
Harrison:

Hello.

Hello Henry.

H.M.Jr:

I hear you were in this morning.

H:

Yes, I dropped by. I'd been over with Cordell Hull most of the morning.

H.M.Jr:

Oh yes.

H:

And I dropped in just to speak to you and Johnny, and Danny Bell, but you weren't in your office. When I got through I had to come back to the Senate.

H.M.Jr:

Oh! How'd you like -

H:

It was nothing important, merely I wanted to talk to you some time.

H.M.Jr:

How'd you like to come and have lunch with me next week?

H:

Well Henry, just don't fix any day certain because I've got a lot of things here on my hands that I'm trying to particularly now on these trade agreements.

H.M.Jr:

Right.

H:

And for a few days I'm going to be awfully tied in.

H.M.Jr:

Well -

H:

I'm just now trying to read this budget. I haven't gotten into it all yet.

H.M.Jr:

Well, when you've got a little time, will you give me a ring?

H:

Yes.

H.M.Jr:

What?

H:

Yes.

H.M.Jr:

Supposing you do that.

H:

I think you did a great job on the appointment of Danny Bell.

- 2 -

H.M.Jr: Yes, he's a good fellow.

H: Oh yes. Well good luck to you Henry.

H.M.Jr: Thank you.

217
January 4, 1940.
3:09 p.m.

H.M.Jr: Hello Bill?
Wm. R.
Myers: Hello Henry.

H.M.Jr: How are you?

M: Fine. Sorry to bother you, but I wanted to be more sure just what you wanted. Did you want comments primarily on Blough's memorandum or did you want any criticisms or comments on the whole certificate plan?

H.M.Jr: Well I think on the whole plan. Blough's memorandum is just - well is just a guidance, that's all.

M: Yes, I see.

H.M.Jr: See?

M: It's an awfully good statement. I think that his statement is excellent.

H.M.Jr: Yes.

M: I'm - got to be out of town tomorrow.

H.M.Jr: Yes.

M: Are you going to be in Washington over Sunday?

H.M.Jr: No, no.

M: You're going home.

H.M.Jr: Yes.

M: Then I've either got to get it to you Saturday.

H.M.Jr: No, Friday will be time enough.

M: Monday?

H.M.Jr: Yes.

M: All right. I'll have it there Monday.

H.M.Jr: Thank you so much.

M: I may not be much good, but we're doing our best on it.

- 2 -

H.M.Jr: Thank you so much.
M: Is there any hope?
H.M.Jr: Of what?
M: Killing it.
H.M.Jr: Oh yes, good hope.
M: Well, I do my best.
H.M.Jr: Yes. All right then.
M: Thank you Henry.
H.M.Jr: Thank you.
M: Goodbye.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 4, 1942

TO Secretary Navigation

FROM Mr. Cochran

The Chinese Embassy telephoned at 11 o'clock this morning to let us know that a cablegram had been received from China giving the information which the Secretary of the Treasury had requested. Of the 7,000 tons of tungsten and antimony seized by the French in Indo-China, 4,000 tons are tungsten and 3,000 are antimony. All of this is stored at Haiphong. To date the French authorities have not removed any part of it.

H.M.C.

*Cochran please
check this against
information given
us by allies and
let me know results*

[Signature]

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- Receipt acknowledged and copy of material sent to Blough 1/8/40.

Columbia University
in the City of New York
SCHOOL OF LAW

January 4, 1940

Dear Henry:

I have read through carefully the three memoranda enclosed with your letter of January 2nd and have also discussed them somewhat with two of my colleagues. My reactions to the proposed income certificate plan are briefly as follows:

1. It is not possible to pass upon the legality or constitutionality of the proposed plan without an examination of the actual bills themselves. Nevertheless, it is likely that the legislation could be so drawn as to be valid within the principles which the Supreme Court laid down in Mulford v. Smith, 307 U.S. 38 (1939).
2. Without passing upon the desirability of the payment of a subsidy to some but not all farmers, the proposed plan, in my opinion, is an undesirable method of providing the funds necessary for the desired payments. The persons who will be called upon to bear the charge, in general, the consumers of the products brought under the plan, are by no means an ideal group upon which to impose additional taxes. The charge in question would bear no relation whatever to the consumer's ability to pay and many, indeed most, of the persons who would be called upon to bear it are persons who should not be subjected to additional taxes at this time.
3. The proposed charges are very heavy with respect to the market prices of the commodities involved and the charge is severely regressive in that it does not take into account the sales price of the product, but merely the quantity of raw material going into it. In this respect the proposed charges are less desirable as a form of taxation than a general sales tax.
4. The fact that those farmers who come under the plan would be considerably benefitted and might obtain a larger share of the national income does not make the charge into a "progressive" tax. There is no assurance whatever that additional expenditures by the benefitted farmers would serve to increase the incomes of the under-privileged persons who are being heavily taxed to pay the benefits.

Hon. Henry Morgenthau, Jr.

page 2.

Jan. 4, 1940

5. Finally there is strong objection to the operation of a plan of this sort outside of the budget. We need a better general comprehension of the detailed receipts and expenditures of the Federal government rather than concealment or confusion regarding Federal fiscal affairs. The institution of this plan would make it much more difficult to determine what the actual tax burdens of our various citizens are and what our actual expenditures are.

As you know, I was strongly opposed to a reenactment of the old processing tax with reasons akin to those stated above. The income certificate plan is an ingenious idea but in its taxing features is subject to all of the objections that were made against processing taxes.

I have tried to summarize in short form the principal objections to the new plan as I see them, since the memoranda prepared in the Treasury are excellent statements of the various other objections.

Sincerely yours,

Roswell Maguire

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

CONFIDENTIAL
TREASURY DEPARTMENT

223

INTER OFFICE COMMUNICATION

DATE January 4, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was fairly quiet today with the volume of sterling transactions greater than that of yesterday. In Amsterdam, sterling opened at 3.94-7/8 and by the time of the opening of the New York market it had receded to 3.94. It was reported that this downward movement reflected selling in Amsterdam for Continental account. In New York the first transaction went through at 3.93-3/4 and during the morning it moved off further to a low for the day of 3.92-3/4. In the course of this decline some offering of sterling grain bills appeared in the New York market. During the afternoon sterling moved within a narrow range and closed at 3.92-3/4.

Sales of spot sterling by the four reporting banks totaled \$515,000, from the following sources:

By commercial concerns.....	\$ 281,000
By foreign banks (Europe and Far East).....	\$ 237,000
Total.....	\$ 518,000

Purchases of spot sterling amounted to \$420,000, as indicated below:

By commercial concerns.....	\$ 279,000
By foreign banks (Europe, Far East and South America).....	\$ 141,000
Total.....	\$ 420,000

The following reporting banks sold cotton bills totaling \$38,000 to the British Control at the official rate of 4.022:

\$ 26,000 by the Guaranty Trust Co.
10,000 by the Chase National Bank
2,000 by the National City Bank
\$ 38,000 Total

The rate for the Cuban peso further improved to 10-13/16% discount. The Mexican peso remained at its current low level of .1672.

The other important currencies closed as follows:

French francs	100FF-3/4
Guilders	.5574
Swiss francs	.2245
Belgas	.1560
Canadian dollars	12-3/16% discount

CONFIDENTIAL

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There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported to us the following shipments of gold:

\$2,500,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
\$50,000 from India, representing two shipments to the Chase National Bank, New Amsterdam, for sale to the U. S. Mint there.
\$2,550,000 Total

The State Department forwarded to us a cable from the American Consulate General in Hongkong informing us of the following gold shipments from Hongkong:

\$42,000 shipped by the Chartered Bank of India, Australia and China, Hongkong, to the Bank of California F. A., San Francisco.
\$40,000 shipped by the Banque Belge pour l'Etranger, Hongkong, to the Bank of America F.R. & S.A., San Francisco.
\$74,000 shipped by the National City Bank, Hongkong, to the American Trust Company, San Francisco.
\$156,000 Total

The above shipments will be sold to the U. S. Mint at San Francisco.

The Department of Commerce statement of Daily Silver Imports and Exports for January 3 showed that the Chase National Bank in New York shipped about 575,000 ounces of silver to an unnamed consignee in Lisbon, Portugal. The National Reserve Bank, in consultation with the Chase National Bank, learned that the latter had purchased this silver in accordance with instructions of the Bank of Portugal. Although not certain as to the motive for the purchase, the Chase National Bank believed that the silver was to be used for coinage purposes.

Spot silver was fixed in London at 21-5/16d (off 5/16d) and the forward price was fixed at 22-1/2d (off 1/4d). For both spot and forward silver the U. S. equivalent worked out to 57.81d. Reports from London received by New York banks noted that the volume of dealings in the London silver market was extremely small.

Both Bondy and Barnet and the Treasury maintained their buying prices for foreign silver at 34-3/4d and 35d respectively.

We made three purchases of silver totaling 225,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries and was purchased for forward delivery.

B. H. R.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 4, 1940

TO Secretary Buchanan

FROM Mr. Nathan

Mr. Jerry-Buchanan, Financial Controller of the French Embassy, telephoned me last night at 9:40 p.m. He stated that since all of the required instructions in regard to spending the special account at the Federal Reserve Bank of New York had not been received yesterday morning, he had telephoned directly to the President of Federal Reserve Bank of New York directly at Finance. He had been informed that all of the papers were to be carried through in complete agreement with the understanding that he had reached with me, but the delay was entirely an unavoidable one resulting from the fact that Minister of Finance had not on vacation and that the Bank of France, particularly in the brief absence of Governor Flandin, could not make the desired instructions to the Federal Reserve Bank of New York, lacking a signed authorization from Minister beyond. There were certain payments in New York which the French Government was supposed to make yesterday, but Jerry-Buchanan held them up. He stated that he had promised that all payments beginning in 1940 would be made under the new arrangement, and he will not revert to the old system of payments. He prefers to wait the completion of the new account, which he expects soon-ly.

Jerry-Buchanan mentioned that he would report by cipher plane on Saturday, January 5. If he can get space, or otherwise on January 10. There has been considerable delay because of planes being held up by weather both in the Azores and Bermuda. In any event, Jerry-Buchanan planned to be in Washington on Friday, January 5.

At 11 o'clock this morning, I spoke with Jerry-Buchanan by telephone and told him that if he planned to come to Washington anyway, the Secretary would be glad to receive him at 10:15 tomorrow morning, especially since the picture had changed since the Secretary had given Jerry-Buchanan no oral message for consultation to Ambassador Bullitt. Jerry-Buchanan accepted this appointment. He had also decided to accept passage on the plane for January 10, so he did not speak with me this morning except that I interview with the French-American Airways through Vice President Cooper (Henry Hill 6-7306) to get for him a reservation on the ship.

In connection with Mr. Jerry-Buchanan's explanation in regard to the account, there should be read the confidential report by Mr. Nathan of his telephone conversation on January 3 with Mr. Deligne of the Bank of France, which conversation Mr. Nathan told me about when we spoke by telephone late yesterday evening.

J. H. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me that the Royal Bank of Canada branch in New York had informed him that the Royal Bank of Canada branch in Havana had inquired whether the Treasury Department might be interested in bearing the expense of bringing to this country \$500,000 of U. S. gold certificates now in the deposit of a "valued client" of the institution in Cuba. It is understood that the certificates are in denomination from \$10 to \$100.

After reading the order of the Secretary of the Treasury of December 28, 1933, requiring the delivery of gold coin, gold bullion, and gold certificates to the Treasurer of the United States, and after talking with Mr. Daniel Bell, I informed Mr. Knoke that we interpreted this order as applying only to gold certificates within the jurisdiction of the United States and that reimbursement for expenses incurred in transporting certificates from without the jurisdiction of the United States should not be borne by the Treasury. I suggested to Mr. Knoke that this present transaction might arise from the necessity of some British subject being obliged under present British regulations to declare his foreign exchange holdings, and that we might be faced with a number of such propositions, if we undertook to pay the expenses in the present instance. I am not aware whether the Secret Service would have any interest in such a case.

B. M. T.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 4, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoks telephoned me this afternoon that a cablegram had just been received from Governor Fournier of the Bank of France to President Harrison of the Federal Reserve Bank in New York, reading as follows:

"In agreement with French Government I authorize you to communicate to the Secretary of the Treasury of the United States Mr. Morgenthau personally and confidentially the special account opened on your books for the Bank of France in accordance with letter of December 5 of which Rousseau has shown you copy. Kind remembrances. Signed P. Fournier."

Mr. Knoks added that another cablegram had been received by Harrison from Fournier today confirming the letter of December 5, the original whereof has not yet been received, that Rousseau has full powers to draw on the Bank of France Special Account.

It appears, therefore, that all of the conditions have been met and the technical arrangements consummated for the Special Account of the Bank of France with the Federal Reserve Bank of New York. Mr. Knoks has promised to send a transcript of this account as of the close of business of each Tuesday.



January 4, 1935.

Dear Mr. Chairman:

I am transmitting herewith for the information of your Committee a report which summarizes the recommendations made by a large number of taxpayers and officers of taxpayers' organizations to Under Secretary Kanes and other officers of the Treasury Department.

This summary is based on letters received and a series of conferences held in the Treasury Department in recent months following expression by members of your committee of the belief that it would be desirable to obtain from taxpayers generally their views as to changes that should be made in the tax structure. The report is submitted pursuant to your request and that of Mr. James Cooper, Chairman of the Subcommittee on Internal Revenue Legislation, made to Under Secretary Kanes at the meeting of the Subcommittee, November 7, 1934.

It should be understood that this summary does not purport to represent the views of the Treasury Department on any of the subjects discussed.

Further, it should be emphasized that while the report is based on numerous written statements and on interviews with a very considerable number of taxpayers it cannot be assumed to represent a cross-section of the views of all taxpayers, and no attempt has been made to determine to what extent the views expressed are held by taxpayers who did not submit statements and who were not represented at the conference.

The expressions before the Treasury representatives and representatives of written statements were voluntary and at the expense of individuals and organizations wishing to present their views, and consequently it is believed that only those with an active interest responded to the Department's widespread invitation. These taxpayers of relatively large incomes and important business groups are most nearly conscious of tax problems. It is quite natural that the greater number of suggestions for changes in the revenue system should come from them. However, the experience of this group with the administration and application of the revenue laws is, of course, wider than that of other segments of the taxpayer public. Whether in any sense impacting the value of the experience and the clarity of these taxpayers' representatives, allowances, in my opinion, should be made for these facts in appraising the report.

- 2 -

In spite of this limitation the report will, I believe, be found to contain material of real interest which should be helpful to the Committee, and I am sure that the Committee will find gratified, as I do, to all those who generously responded to the Treasury's invitation to assist it in studies of the tax structure.

Sincerely,

(Agd) *H. Margathau*

Secretary of the Treasury.

The Honorable
Robert L. Houghton,
Chairman, Joint Committee on Internal
Revenue Taxation.

By messenger 2:40 pm 1/2/40

JAN 4 1940

Dear Mr. Secretary:

I enclose for your information a memorandum order which has been issued today to staff members for the purpose of establishing a coordinating control of matters dealt with by the State and Treasury Departments and which are handled largely through conferences. This centralized control in the hands of Assistant Secretary Nathan will I believe give Treasury officials command the best possible opportunity to keep currently advised in matters between our two Departments.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State,

Original of this letter
sent by Sp. Messenger
1-4-40.

K. B. [Signature]

JAN 4 1940

To Staff Section Comments

The following plan will be made effective at once for the coordination of information and action on matters dealt with jointly by the State and Treasury Departments relating to trade agreements, monetary enforcement, commercial policy, cooperation with American legislation, reciprocity information, foreign debts and similar subjects.

1. Any staff member prior to attending any meeting or conference with State Department officials will notify Mr. Easton in order that he may determine whether he or any other members of the staff also will attend such conference.

2. Immediately upon completion of a conference or meeting with State Department officials, staff members will prepare and transmit to Mr. Easton a memorandum outlining the subjects which have been discussed and decisions, if any, which may have been reached. Mr. Easton will see that such information is distributed to all staff members concerned.

3. Mr. Easton will in his judgment keep the Secretary informed on matters covered by this order, dealt with by staff members.

4. Cable messages received by Mr. Easton will be distributed directly by him to the Secretary, Mr. Hall, and other staff members concerned.

(Signed) H. Wrogonthan, Jr.

Secretary of the Treasury.

1-4-40

50 copies made and delivered to Mr. Thompson's office.

Copies distributed to the following:

Hall, D. W.

Gesta

Harris

White

Foley

Kane

{ These distributed personally by WFF

Gairns

Dunn

Johnson

Schwartz

Anslinger

Cotton

Viner

Riefler

Stewart

Cochran

{ Sent to Abbott

Letter to Secy. of State with copy of mimeograph sent by Ed. Ross. 1-4-40

THE SECRETARY OF THE TREASURY

Washington

January 4, 1940

To Staff Members Concerned:

The following plan will be made effective at once for the coordination of information and actions on matters dealt with jointly by the State and Treasury Departments relating to trade agreements, neutrality enforcement, commercial policy, cooperation with American republics, reciprocity information, foreign debts and similar subjects.

1. Any staff member prior to attending any meeting or conference with State Department officials will notify Mr. Gaston in order that he may determine whether he or any other members of the staff also will attend such conference.

2. Immediately upon completion of a conference or meeting with State Department officials, staff members will prepare and transmit to Mr. Gaston a memorandum outlining the subjects which have been discussed and decisions, if any, which may have been reached. Mr. Gaston will see that such information is distributed to all staff members concerned.

3. Mr. Gaston will in his judgment keep the Secretary informed on matters covered by this order, dealt with by staff members.

4. Cable messages received by Mr. Cochran will be distributed directly by him to the Secretary, Mr. Bell, and other staff members concerned.

H. MORGENTHAU, JR.
Secretary of the Treasury.

PARAPHRASE

A confidential telegram (no. 10) of January 4, 1940, from the American Embassy at Chungking reads substantially as follows:

According to information received by the Embassy, strenuous efforts are being made by the Chinese Government to relieve the congestion at Haiphong of shipments destined for the Chinese Government. On January 3 there was adopted a proposed method, a brief summary of which follows: Civil government needs shipped from Kuning will be handled by the China Transport Corporation and military needs will be handled by the Southwest Transportation Company. There will be no movement of other freight. The French Yunnan Railway will receive under lease for the exclusive use of the Chinese Government all of the rolling stock owned by that Government. About seven and one-half miles (near Kinning) of built track of the Yunnan-Szechuan Railway is to be turned over to the French Railway so that loading stations for outward and inward cargo may be distributed with a view to safety and speed. In order to make the greatest possible use of the French Railway for the shipment of vital materials, there will be no shipments of railway materials. With a view to rapid transfer to trucks at Kunning civil and military freight is to be set apart at Haiphong. No further freight for the Chinese Government will be imported at Haiphong; Rangoon will be used instead. For its guidance in receiving and shipping, a list of essential shipments in order of urgency will be given to the Southwest Transportation Company which will have sole authority at Haiphong including re-shipment to Burma of freight which has arrived already. The gasoline supply will be given strict attention and all gasoline at Kunning will be allocated by the Liquid Fuel Control Commission.

January 4, 1940

Collins came in at 9:15 this morning and told me that it will take around \$400,000,000 for plant expansion, etc., to get England and France the 20,000 motors that they want, but that we could not begin delivery before September, so I agreed to his suggestion that he ask the French and English how much money they have got to spend and then let's see what we could give them for their money.

The General Motors man, in charge of Allison motors, says that he thinks it would be a great mistake to try to use the automotive industry to build airplane engines; that they, in the Allison Motors, have tried to get help from Cadillac and have been unable to do so.

COMMENT: It seems very discouraging. Another bottleneck will be the manufacturing of the tools and dies, as he said that Allison Motors find that they have to wait now for six months for new tools. The American industry will not be able to give the Allies what they want, namely, 20,000 airplanes in the calendar year 1940. It just cannot be done.

January 4, 1940.
2:50 p.m.

Sumner
Welles: The Colombian told me yesterday, Dr. Jaramillo.

H.M.Jr: Yes.

W: That Traphagan had called up and made arrangements to see him at the Colombian Embassy on Saturday.

H.M.Jr: Fine.

W: And they were going to suggest to him that they continue sitting around the table until the matter was settled.

H.M.Jr: Wonderful.

W: And that they'd keep me posted as to what happened, and I've no doubt that Traphagen will keep you posted.

H.M.Jr: Fine.

W: Would it be possible for you to have a meeting with Jesse Jones and myself early next week?

H.M.Jr: Surely. We could set it for three o'clock for Monday.

W: Three o'clock Monday afternoon.

H.M.Jr: Yes.

W: Well that'll be grand.

H.M.Jr: I'll get in touch with Jesse.

W: I think it might be helpful. We haven't met for some time.

H.M.Jr: Fine.

W: All right, thank you Henry.

H.M.Jr: Thank you.

W: Goodbye.

H.M.Jr: Goodbye.

January 4, 1940

If Hull had made a fight on the question of the Argentine Trade Agreement, then this would have been presented to the President. The Secretary asked to have this put on file, and if a fight should develop then the Secretary will ask for this memorandum with the idea of presenting it to the President, but in the meantime it is to be filed.



THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

The State Department wishes to include in a proposed Argentine trade agreement a provision with respect to exchange controls somewhat along the following lines:

If the Government of either country establishes or maintains any form of control of the means of international payment, it shall impose no prohibition or restriction on the transfer of payments for articles the growth, produce or manufacture of the other country or of payments necessary or incidental to the importation of such articles, etc.

It is my understanding that Argentina prefers that the exchange control provision simply involve a guarantee of most-favored nation treatment (which appears generally in our trade agreements), but that State Department believes that the American exporter will receive greater protection against discrimination if Argentina will agree to place no restrictions upon the granting of foreign exchange for goods imported into Argentina from the United States.

If the above provision is included in the Argentine trade agreement, and if, by reason of the "most-favored nation" clause, it is generalized to all countries with whom we have agreements, then the power now possessed by the President and the Secretary of the Treasury to employ exchange control for the purpose of controlling imports is seriously curtailed.

In view of what I believe to be your instructions to maintain a free hand to move on a twenty-four hour basis with respect to foreign exchange control, I am reluctant to approve the inclusion of the above provision in the Argentine trade agreement without taking this opportunity of calling your attention specifically to this matter and obtaining your express approval to this restriction of our foreign exchange powers. We can not be certain at this time that the occasion may not arise necessitating foreign exchange control here sought to be limited by the Argentine agreement.

- 2 -

The Ecuador trade agreement signed in August, 1938, contains a limitation on foreign exchange control similar to that proposed to be included in the Argentine agreement. However, if you agree with the views which I have expressed in this memorandum, it would seem desirable for the State Department to take appropriate action to modify the pertinent provision in the Ecuador agreement and in any other agreement where it may appear.

In the case of Ecuador
we were not consulted(?)

MEMORANDUM FOR THE PRESIDENT:

The State Department wishes to include in a proposed Argentine trade agreement a provision with respect to exchange controls somewhat along the following lines:

If the Government of either country establishes or maintains any form of control of the means of international payment, it shall impose no prohibition or restriction on the transfer of payments for articles the growth, produce or manufacture of the other country or of payments necessary or incidental to the importation of such articles, etc.

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- 2 -

The Ecuador trade agreement signed in August, 1934, contains a limitation on foreign exchange control similar to that proposed to be included in the Argentine agreement. However, if you agree with the views which I have expressed in this memorandum, it would seem desirable for the State Department to take appropriate action to modify the pertinent provision in the Ecuador agreement and in any other agreement where it may appear.

Dictated January 5, 1940

At 9 o'clock last night, at the Judiciary Reception at the White House, I told Secretary Hull that I had sent word to Purvis and asked him to get word to Monnet to postpone the coming to this country of Professor Rist and Mr. Gwatkin.

Mr. Hull said, "Well, what are they coming over for?" I said, "They were coming over to talk to us about embargo in connection with copper and oil."

"Oh," he said, "For Heaven's sake don't let them come over here to discuss anything of that nature."

So I said, "Well, that's the way I felt, but I am sure you will hear more about it," meaning that he would most likely hear from Bullitt.