

MEMORANDUM

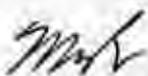
April 27th, 1936.

To: The Secretary
From: Mr. McReynolds

I called on the Comptroller General this morning at eleven o'clock, at his invitation, to discuss the Treasury's proposal to designate depository banks as fiscal agents of the Treasury to sell Baby Bonds. General McCarl stated that he was in entire agreement with the opinion written by the Treasury's General Counsel on this question, with the understanding that any fees allowed the banks would be on the transaction basis rather than the denomination of the bonds disposed of. In other words, he pointed out what we already recognized, that is, we would not be in a position to pay commissions for the sale of these bonds, although it is entirely proper to allow a fee in lieu of expenses of the fiscal agents, incurred in connection with the sales.

After disposing of this matter the Comptroller inquired particularly about your health. His inquiry was made in a rather unique way. He said he had had reports that you had been ill, that he felt very solicitous for your health and hoped you would not permanently impair it by over-work, but that he would be very much more worried if you had not actually been ill. His explanation of this attitude was that he felt the results of your advice to the President had been lacking in recent weeks, and that if you were not actually physically incapacitated the fact that such advice had not been given and heeded was an indication that the President was accepting advice from less reliable sources.

The General said he would like to have an opportunity sometime to tell you in how high esteem he held your administration of the Treasury Department. He asked me to tell you for him that he considered your administration of this Department the outstanding accomplishment of the present Administration; that in his opinion the administrative and financing jobs of this Department had been handled with a maximum of skill and effectiveness; and that he felt the most unfortunate thing that could possibly happen to the President would be to fail to follow your advice on general policy matters.



TREASURY DEPARTMENT

192

INTER OFFICE COMMUNICATION

DATE

4-27-37

TO Secretary Morgenthau
FROM Herman Oliphant

The following is a chronological memorandum of telephone conversations and correspondence between yourself or members of your staff and Senator Bulkley in connection with the proceedings taken against C. E. Moore, Collector of Internal Revenue at Cleveland.

On September 12, 1935, you wrote to Mr. Moore informing him that you had arrived at a decision; that he should sever his connection with the Treasury Department unless he and all members of his immediate family immediately give up all associations with the companies concerned, including their financial interest, and unless he forthwith made satisfactory arrangements to pay into the Treasury the full amount of all such monies received by him or any members of his immediate family of such companies.

On September 19, 1935, Mr. Moore replied, but his answer was not responsive.

On September 24, 1935, Acting Secretary Coolidge saw the President and Charles West and the President informed him that he felt that the men should give up the money they had made.

On September 27, 1935, Acting Secretary Coolidge saw Senator Bulkley and the Senator informed him that he had no fault to find with your conclusions as to what was right and fair and that he would try to work it out with Mr. Moore.

On October 1, 1935, Acting Secretary Coolidge wrote to Mr. Moore, informing him that his reply was not satisfactory and that he would hold it for your action upon your return from Europe.

On November 19, 1935, a letter was prepared and approved by you to Mr. Moore. This was shown to Senator Bulkley who, in a huff, picked up his hat and started to leave. I was present when this happened and suggested to the Senator that he dictate his own letter as to what his understanding of the agreement with the Secretary was. Charles West was also present at this conference and the letter as dictated was agreed upon by all present except that part of it which provides that restitution should be made only from date of notice.

On November 20, 1935, you dictated a letter to Moore demanding that

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the monies received by him be turned over to the Treasury. This letter was identical as the letter dictated by Senator Bulkley except that it demanded the return of all the monies so received. On the same date you called Senator Bulkley and told him that this was your decision and Senator Bulkley replied to you, suggesting that the letter be sent to him and he would see that it reached Moore and if there was any trouble getting the money from Moore he would telephone you.

On November 25, 1935, Moore replied to your letter, offering to comply with your request contained in your letter of November 20, providing a general regulation was promulgated concerning similar actions of other persons in the same position, and that the regulation should have a retro-active effect.

On November 29, 1935, you wrote Moore to the effect that the matter of a general regulation could not be considered in connection with his case but would be taken up in due course on its own merit. A further request was made for a reply to the letter of November 20.

On December 3, 1935, you spoke to Senator Bulkley over the telephone and told him that you could not go along with Moore's request concerning the general regulation contained in his letter of November 25, because you could not allow Moore to stipulate conditions in connection with the administration of the Treasury Department.

On December 6, 1935, Senator Bulkley wrote you and informed you that he had "secured the consent of all concerned to the following set-up; without further insistence upon a general regulation, Moore will divest himself of all profits by returning them to the company and the company will accept them only with the condition that they be turned over to public charity as fast as received." He further states in this letter: "I can assure you if you will give me your approval of the settlement herein suggested, the letters from Moore and the company, which would be necessary to consummate it, will be worded in a friendly and respectful manner."

On December 13, 1935, you called Senator Bulkley and told him that you had decided to accept the offer made in his letter of December 6, 1935, and Senator Bulkley in replying said that he was glad the matter was all set and stated that he would arrange to have Moore write a letter which would be pleasing to the Secretary.

On December 17, 1935, at a conference of yourself, Senator Bulkley and myself, Senator Bulkley delivered Moore's letter dated September 16, 1935, stating that he proposed "to return to the company such profits as I realized from this transaction when and as I am able to do so." At this time, you expressed to Senator Bulkley your doubt as to the sufficiency of

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this assurance and I advised you that the legal effect of this language was an obligation to pay within a time which would be reasonable under the circumstances. Senator Bulkley agreed with this interpretation and you also expressed yourself as being satisfied with it. It was then agreed that the syndicate was to write you a letter designating either the Cleveland Community Chest or the American Red Cross as the ultimate recipient of the profits. You stated that you would require the same arrangement with Pollack and Harper and would thereafter submit to Senator Bulkley your proposed publicity statement.

On December 20, 1935, Mr. Gardner Abbot, President of the Famous Brands Ohio, Inc., wrote you, stating that he would pay to the Cleveland Community Fund any monies returned by Collector Moore and any other Treasury employees involved.

On January 2, 1936, you wrote Collector Moore, in which you informed him that you took his letter of December 16, 1935, to be an understanding on his part, and his family, to dispose forthwith of all interest in Famous Brands Ohio, Inc., and to turn over to it all dividends, payments, and profits. A copy of the letter addressed to Famous Brands Ohio, Inc. was enclosed with this letter.

On January 7, 1936, Collector Moore acknowledged your letter of January 2 and gave assurance that he would comply with the demands outlined in his letter of December 16, 1935.

On January 13, 1936, Senator Bulkley called you and discussed with you the proposed press release which had been shown to him by Mr. Gaston. The Senator said that while the release was inoffensive, he would have preferred having the details omitted therefrom. After some discussion, he said he was satisfied with it and would accept your judgment.

Herman Oliphant.

Trip of the President to Biloxi, Gulfport, Miss.,
New Orleans, La., Galveston, College Station,
and Fort Worth, Texas, to Washington, D. C.
April 28-May 13, 1937.

WEDNESDAY, April 28.

Lv. Washington (Southern Ry.)..... 1:00 a.m.
Ar. Atlanta, Ga..... 9:30 p.m. CT.
Lv. Atlanta (A. and W. P. R.R.)..... 9:40 p.m.

THURSDAY, April 29.

Ar. Montgomery, Ala..... 2:40 a.m.
Lv. Montgomery (L and N. R.R.)..... 2:50 a.m.
Ar. Biloxi, Miss..... 9:00 a.m.

Motor to Gulfport (about 12 miles);
entrain for New Orleans.

While party is motoring, train equip-
ment will be moved to Gulfport.

Lv. Gulfport..... 10:30 a.m.
Ar. New Orleans, La..... 12:30 p.m.

4:00 p.m. the President and his
immediate party go aboard USS
POTOMAC.

MONDAY, May 10.

Lv. Galveston, Texas (Southern Pac. R.R.) 10:00 a.m.
Ar. Houston..... 11:40 a.m.
Lv. Houston..... 11:50 a.m.
Ar. College Station..... 2:00 p.m.
Visit A. and M. College.
Lv. College Station..... 3:30 p.m.
Ar. Fort Worth..... 9:00 p.m.

TUESDAY, May 11.

Lv. Fort Worth (M. K. and T. R.R.)..... 6:15 p.m.
and Frisco.

WEDNESDAY, May 12.

Ar. St. Louis, Mo..... 11:55 a.m.
Lv. St. Louis (Pennsylvania R.R.)..... 12:05 p.m.

THURSDAY, May 13.

Ar. Washington, D. C..... 10:15 a.m.

Senator Pat Harrison

and

Commissioner George E. Allen

will accompany the President to
Gulfport, Mississippi.

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Telegraph Representatives:

Mr. C. S. Linkins

Western Union.

Mr. A. E. Arnold,

Western Union.

Mr. G. M. Lawrence, D.P.A.,
Southern Bell

Regraded Unclassified

Members of the party:

THE PRESIDENT.

Hon. M. H. McIntyre,
Ass't. Secretary to the President.

Captain Paul Bastedo, U. S. N.

Col. E. M. Watson, U. S. A.

Dr. Ross T. McIntire.

Mr. H. M. Kannee.

Mr. E. W. Smithers.

Mr. W. J. Hopkins.

Mr. Geo. A. Fox.

Mr. Chas. K. Claunch.

Secret Service Agents.

Mr. Herbert G. Theurer,
Post Office Inspector.

Newspaper men:

Mr. Walter Trohan,	Chicago Tribune.
Mr. Geo. E. Durno,	International News Service.
Mr. D. Harold Oliver,	Associated Press.
Mr. Richard L. Harkness,	United Press.
Mr. Philip Pearl,	Universal Service.
Mr. Robert P. Post,	New York Times.
Mr. John C. O'Brien,	New York Herald Tribune.
Mr. Claude A. Mahoney,	Wall Street Journal.
Miss Doris Fleesson,	New York Daily News.

Picture men:

Mr. George Skadding,	Associated Press Service.
Mr. Jos. Jamieson,	Times Wide World.
Mr. James Lyons,	Universal Newsreel.
Mr. James Buchanan,	Paramount News.
Mr. John S. Thompson,	Acme Newspictures, Inc.,
Mr. F. I. Thompson,	International News Photos.

Telegraph Representatives:

Mr. C. S. Linkins	Western Union.
Mr. A. E. Arnold,	Western Union.

Mr. G. M. Lawrence, D.P.A.,
Southern Railway,
In charge of Transportation.

KLP

GRAY

London

Dated April 28, 1937.

Rec'd. 10 a.m.

Secretary of State,
Washington.

RUSH

249, April 28, 2 p.m.

FOR TREASURY FROM BUTTER FORTH

The Chancellor of the Exchequer made in the House of Commons last night a reassuring statement in an attempt to remove misapprehension about the scope and incidence of the national contribution tax. While he claimed that his proposals had been exaggerated and their possible effects greatly magnified he indicated that he would be prepared to consider carefully the advice he had invited from leaders and organizations representative of trade and industry and that he was willing to accept modifications of what were in effect tentative proposals intended to be no more than an outline. In particular he stated that he would not insist upon the datum line for circulation of profits being the average of the years 1933, 1934 and 1935 and that he was prepared to vary the rate of interest which is to be the basis

#249 from London - April 28, 2 p.m.

basis of the capital standard.

Chamberlain emphasized that he regarded the tax as mild and moderate and reiterated that it was expected to yield only two million pounds during the current fiscal year and not more than twenty-five million pounds next year which could not be regarded by industry as an intolerable burden.

This announcement has not the desired effect of restoring a measure of confidence but the position will remain uncertain until the finance bill is considered in the House of Commons some time after the Coronation. Despite the possibility of coal and transport strike the London stock exchange opened firm. However, no decided advance in prices is expected for the reason that advantage will be taken of any strengthening of the market to liquidate tenuous positions.

Mr. Chamberlain's statement has interesting political aspects and in this connection, the comments of the liberal MANCHESTER GUARDIAN are pertinent and representative. Its political correspondent takes the view that "if this was not Mr. Chamberlain in retreat and for the first time in his political life, at least it was Mr. Chamberlain more chastened than one has ever seen". On the other hand, its parliamentary correspondent describing the scene in the House of Commons states "on the whole the impression was given
that

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#249 from London - April 28, 2 p.m.

that the Chancellor is playing a very difficult hand very skillfully. He has to finance the rearmament program and he has to satisfy labor that profiteering will be made unprofitable and he has to satisfy industry that profits will not be made impossible. It is an awkward troika to drive."

BINGHAM

CSB

RECEIVED
APR 29 1941
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

200

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 28, 1937, noon

NO.: 542

FROM COCHRAN.

There are four principal causes of the present uneasiness on the exchange security and commodity markets in Europe; i.e., the American gold scare, the French situation, remarks by President Roosevelt on commodity prices, taxation by Great Britain and borrowing for rearmament.

With reference to the American gold scare, in my telegram of April 2, 4 p.m, I reported that the rumor was current in banking circles that there might be a reduction in the net price paid for gold by the Federal Reserve Banks acting for the Treasury. The scare became widespread when later it was made public that New York banks had instructed their European branches to abstain from arbitrage gold dealings for the above reason. Fewer dollars became available on European markets with the cessation of gold arbitrage, which caused a weakening of European currencies, particularly the French. Washington's repeated denials that no change in gold policy is contemplated has not been entirely successful in allaying fears that something to change the American gold price may yet be done.

The rumors were partly intensified by the remarks of

PARAPHRASE OF SECTIONS TWO TO FIVE INCLUSIVE OF NO. 542
of April 28, 1937, from Paris.

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of Professor Sprague at the American Club in Paris, as I reported in telegram No. 465 dated April 8, 4 p.m. The London FINANCIAL NEWS and certain other financial papers have been prone to attribute the commencement of the rumor to statements alleged to have been made by Sprague to bankers on his visit to London. It is likely that Sprague will be present at Basel when the central bankers meet this week for their annual gathering and the FINANCIAL NEWS warns against Sprague's opinions on the gold question being taken there as official.

Various writers contend that under war time and subsequent legislation the Secretary of the Treasury and the President have authority to alter the price paid for gold shipped from abroad without requiring further legislation and some insist that the statements issued from Washington have not closed the door definitely to a change in the gold price. I have not seen any official denial of this from the American side.

Several reasons are given for increasing the probability of some American action being taken to change the price of gold: (1) Washington experts have been unable to find a means for checking the inflow of foreign capital into the country; (2) sterilization of gold has apparently been ineffective toward this end; (3) the Treasury has had an additional burden imposed upon it in having to issue paper to pay for sterilized gold just at a time when

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to support the government bond carrying Federal agencies have had to intervene on the open market; (4) due to some apprehension that tax returns will fall below estimates, the American budget will have to be revised.

The factors cited in the preceding paragraph have contributed to the persistence of the rumors concerning a change in the American price for gold, even though many observers have been convinced that this would not be done for several reasons - recovery has not gone sufficiently far in the United States to relieve unemployment extensively, prices have not yet risen to the scale originally envisaged by the Government, and a reduction of the gold price would most likely cause a collapse of the New York stock market as well as of world commodity prices. These rumors may of course be due to some speculative investigation.

The effectiveness of the remarks which President Roosevelt made upon commodity markets, metals in particular, has caused a profound influence; in Europe it had not been generally believed that United States recovery had gone far enough to warrant checking commodity prices. It has been realized nevertheless by banking and market circles that the situation had become dangerously top-heavy, with intense speculation in materials and much overstocking. Johannesburg was quick to begin selling when the gold scare started. A sharp dumping of other commodities was begun due to the position taken by the

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President.

South African gold shares, it should be remembered, constitute one of the most generally traded group of securities in Europe. The repercussions were widespread when selling thereof began. A recession in other metal and raw commodity prices quickly followed. It would be remembered that European investors hold American shares extensively, in addition to the securities and supplies of metals involved. When the gold scare and commodity depression developed, they disposed of important blocks of these. Since the rejuvenation of the Supreme Court was suggested and since labor difficulties with resort to sit down strikes had grown, European investors had already begun to believe that political and social affairs had not been going so well in the United States. There is evident a disappointment that the progress of recent years made in economic recovery has not been more sound and that world conditions are still so unstable that a quick and unexpected upset therein can take place.

As for Great Britain. The strength of many securities and commodities ~~market~~ is due to world rearmament at the present time; but great uneasiness in British trade circles and a decline in British gilt edge securities have been caused by the fact that the new British budget will
involve

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involve heavy taxing of industry, and enormous borrowing will be required. Sterling has so many currencies tied to it that naturally there is concern lest there will be a disturbing effect throughout the world because of a program of expenditure in England that might cause a weakening of the currency.

I have currently portrayed in my telegrams the vulnerability of the French situation because of the Blum Government's failure to inspire sufficient confidence for dehoarding of capital and repatriation of it. Following the change of policy in the first ten days of March, the outlook was somewhat brighter. But the French have not yet overcome important difficulties. If there is no important crisis, the French stabilization fund, with the funds it has retained and repatriated, can maintain effective control for some time. The funds obtained through the recent loan with its exceptional guarantees will not last the Government beyond June, if they ~~exist~~ are not exhausted before then. A loan of 900,000,000 francs is already asked for by the City of Paris. According to a preliminary announcement of yesterday, the pensions office will shortly float an issue for as much of two billion two hundred and twenty-eight million francs as can be obtained on one year bonds at four percent. The proceeds of the new issue of the City of Paris will be taken by the Treasury as soon as they are received. Such funds, it is anticipated,

along

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along with any other funds borrowed by other bodies, will be applied to rearmament and public works destined to relieve unemployment, and to quiet the labor element of the Left.

END SECTIONS TWO TO FIVE INCLUSIVE.

BULLITT.

RECEIVED
APR 25 1931
TREASURY DEPARTMENT
DIVISION OF FINANCE
UNITED STATES DEPARTMENT OF THE TREASURY

EA:LWW

Section Six

Through pressing for a new loan of 10,000,000,000 francs for public works, this faction has been seriously embarrassing the Government and has otherwise upset confidence through nationalization of credit, suggesting forced levies, etc.

While the Government is expected to come successfully through the debate on general policies which has been postponed from Friday until May 7 and while the questioning of Vincent Auriol today and tomorrow by the Finance Committees of the Chamber and Senate may not lead to any disclosures that will prove too embarrassing, there will undoubtedly remain the impression that the Government must resort to various and devious means to keep itself supplied with funds. When the announcement was made early in March of the French change in policy, I obtained the views thereon of the main central bankers of Europe at the March meeting of the B.I.S. You will recall that these bankers were practically unanimous in believing that the Blum Government could not sufficiently overcome the difficulties which it faced to guarantee the stability of the franc. There is a general fear that it may be necessary for the franc to be devalued further with the franc now depreciated to the lowest limit permitted by the monetary law of October first, with the stabilization fund losing over the past three weeks rather than gaining foreign exchange, with the Government applying the social, particularly the forty hour, legislation in a manner which

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burdens industry and trade excessively at this period of recovery, with prices rising so importantly that French export trade is seriously hampered, with labor persistent in its demands, and with the Treasury faced with constant and recurring financial difficulties. In turn this gives rise to conjecture as to whether the tripartite agreement could survive having the franc lowered. Should the franc drop further, would it necessitate a cut in the pound sterling which might lead to all kinds of currency upsets?

The disappointment of the world over the failure of trade barriers to be lowered following the tripartite monetary agreement of last autumn may be added to the factors enumerated hereinabove. ^{by most observers} It is admitted/that the United States is about the only country to have made some progress in the desired line through its reciprocal trade arrangements. The achievement of better trade relations is the manifest desire of the Oslo countries. However, considering the British imperial preference policy, France's uncertain financial and social outlook, German autarchy and its political phases, et cetera, there is much skepticism as to whether Van Zeeland may be able to find any common ground on which important trading countries can now advance.

Cariguel and I talked about the American gold policy this morning. Cariguel does not believe that we anticipate any change in our gold price at this time. However, he realizes

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realizes the cost that may be imposed upon our Treasury if the present tendency of gold to flow to the United States may continue or be increased as the Soviets dump their holdings and as others may be inclined to hasten to sell their gold to the United States market lest there be a subsequent change in the price of gold. He feels that our Treasury would be seriously handicapped by the sterilization of gold. With a deficit in the budget, the Treasury must borrow from the market at increased rates. Member banks of the Federal Reserve system have billions of idle money deposited with the Federal Reserve banks as legal reserves, while the Treasury is borrowing dollars from the market. Cariguel is aware that under our legislation gold cannot be sold without a license. He believes that conditions are changing so rapidly throughout the world that governments must keep up with them in modifying their policies. In view of the present circumstances he conceives and suggests entirely unofficially and only with the spirit of helpfulness the idea that ^{the Treasury sell its gold to member banks,} instead of borrowing funds from the market to pay for the gold which it sterilizes.

Cariguel's idea would be for the Treasury to make an arrangement with two, three or more of the important private banks such as National City, Morgan, and Chase to sell them gold at thirty-five dollars an ounce. There would

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would be no need for handling gold other than perhaps to change the label on it so that the Treasury could logically eliminate any handling charges; it would be held with the Federal Reserve Bank of the district concerned. The gold could not be disposed of except by resale to the Treasury and could not be sold to individuals. A provision would be made in the agreement either for the repurchase by the Treasury of the gold at a specified time or preferably would provide that the Treasury could call back the gold when it might have need of it. The bank, on the other hand would have the privilege of selling the gold to the Treasury whenever its internal situation made this desirable. However, it would be stipulated that the price at which the gold was to be repurchased would be exactly the same price as that originally paid for it.

I have been strictly confidentially informed that when the French Bank was flooded with gold in 1931-32, it made such an arrangement as that above pictured with the Caisse des Depots and with the Credit Lyonnais. Therefore these organizations actually developed gold bullion accounts with the French Bank. The Bank of France bought back the gold when the market turned.

The following are two merits of the above plan:

- (1) the fact that the Treasury would be willing to undertake to redeem the gold from the Bank at the price which the Bank had

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had purchased it would constitute a very strong assurance to the market and the world in general that no change was probable in the Government's gold price; (2) that there would be available to the Treasury the several billion dollars of member bank reserve funds against which it could swap gold without any interest or handling charges, knowing that it could get the metal back when it wanted it.

END OF MESSAGE

RECEIVED
APR 25 1951
TREASURY DEPARTMENT
WASHINGTON, D. C.

EA: DJW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 28, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM D. J. CameronBANK OF ENGLAND

Mr. Sproul telephoned Mr. Siepmann of the Bank of England at about 12:50 P.M. today and inquired how things were going. Mr. Siepmann said the London markets had been very much upset by cables received from this side, since the opening, repeating rumors that several London houses would have to be helped over the next settlement date to the extent of twenty million pounds, (the next fortnightly settlement is May 6, but I understand arrangements must be made on May 3 to carry accounts over to the following settlement). He also said there have been rumors for two days running to the effect that the United States would impose a five dollar per ounce import tax on all gold imports without any advance notice, and that action would be taken shortly. Mr. Siepmann said that the rumors about their market had been denied but that, at present, anything one said had little effect as the public is confused and frightened. He also said the rumors might gain some substance if there were a few more bad days as conditions in the street are not too good. Mr. Sproul stated that we had also denied rumors on this side, about changes in the price of gold or similar actions, but that the rumors still persist.

Mr. Sproul then inquired about Paris, and Mr. Siepmann said there was little new in the French situation. Their political and fiscal difficulties are still pressing he said, but the postponement of the general Parliamentary debate for another week (from Friday) has had a somewhat quieting effect. He said that the French got in

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 28, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM D. J. CameronBANK OF ENGLAND

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a little sterling today and that they needed it badly.

Reverting to the situation in the London market, Mr. Siepmann remarked that if dollars should be wanted, due to the gold rumors, he would be pleased to see us jump in and take some sterling. Mr. Sproul suggested that the shoe is on the other foot at the moment, and asked if it wouldn't be appropriate for the Bank of England to assume some of the "white man's burden" and buy some gold. Mr. Siepmann replied that they had bought gold yesterday and today in the amount of about ten million dollars. He also said they do not give us any gold against our order at \$34.77 per ounce unless it becomes absolutely necessary. Mr. Sproul said that sterling was, at present, quite strong at \$4.94 5/16. Mr. Seipmann gave his opinion that sterling would go on toward \$5.00 during the next month or so.

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MAY 16 1937
FEDERAL RESERVE BANK
OF NEW YORK
RECEIVED

TREASURY DEPARTMENT

213

INTER OFFICE COMMUNICATION

DATE April 28, 1937

TO The Secretary
FROM Mr. Taylor

George Harrison called shortly after two o'clock, after having tried to reach you, and told us that the New York Federal Reserve Bank had received a cable from the U.S.S.R. State Bank indicating their desire to open an account. George told me that he would answer them along the lines of looking with favor on meeting this request but stating that there were certain formalities which must be complied with before positive ~~X~~ affirmative action could be taken. He also said that in order to expedite matters he would forward immediately the necessary papers from this end in which the method of handling the account, the privileges of the owner of the account, etc., were outlined. He was quite curious as to what we had in mind with the Russians and stated that before any final action was taken that it would be useful to know just what we had in mind as it would then enable them to handle the account properly. I said something along the lines of cooperating in the gold field and he appeared alarmed that they might be taken into the Tri-partite agreement. I did not do anything further to appease his curiosity but he appeared somewhat shocked.

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TREASURY DEPARTMENT

214

INTER OFFICE COMMUNICATION

DATE April 27, 1937

To Secretary Morgenthau

FROM Mr. Taylor

Savings Bonds (sales by post offices)..\$1,146,673.55..Total..\$725,502,672.17

Savings Bonds (deposited Fed.Res.Bks).. 126,543.75..Total.. 53,954,062.50

\$1,273,217.30



MG

PLAIN

London

Dated April 28, 1937.

Rec'd 2:20 p.m.

Secretary of State,
Washington.

Rush 250, April 28, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The trend of the London Stock Exchange reported in my telegram of this forenoon was decidedly reversed in the afternoon, the initial downward impetus is said to have come from heavy sales from Paris of oil and gold mining shares due to the approaching end of a Paris Stock Exchange settlement account. Prices fell away quickly as each series of sales uncovered a new strata of vulnerable positions necessitating further sales. As was the case on Monday there has been considerable selling of American stocks by British holders who are either in need of immediate cash or fear that "the rot will spread across the Atlantic."

Rumors have also played a not inconsiderable part in creating a panicky mental atmosphere. As mentioned yesterday there is a recurrence of the rumor that some action may be taken in the United States to affect the price of gold and such is the state of nerves that even those who do not credit

NG

Page 2,
#250 from London

credit such rumors will not act in the face of them and therefore at times today it was virtually impossible to deal in gold mining shares. It is also rumored that at least one of the unit fixed trusts is in difficulties and that many stock exchange firms are shaky. As far as can be ascertained it seems to be the case that definitely three or four firms are in difficulties. It is also said that if the present situation continues the stock exchange may have to be closed for a few days; at the moment such a suggestion seems entirely premature but the next few days may be difficult inasmuch as selling must be concluded by Friday for the account which terminates on May 6.

I had a word with the British Treasury which frankly admits that they were surprised by today's events and are "now waiting to see how the cat jumps".

BINGHAM

CSB

RECEIVED
APR 23 1934
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 28, 1937

9:30 group meeting;

Present: Mr. Magill
Mr. Oliphant
Mr. Taylor
Mr. Gaston
Mr. Gibbons
Miss Roche
Mr. Lochhead

Mr. Gibbons: Mr. Wolfe is all completed.

HM,Jr: What do I do with it? Fire the present Collector and refer it to the U. S. District Attorney? Did Landy pay Wolfe the money?

Mr. Gibbons: Oh, yes. We have cancellation checks and Wolfe put nine-tenths of it in his personal account and deposited a few of them in the Committee's account.

HM,Jr: What do I do now?

Mr. Gibbons: Of course, that's a presidential appointment and I guess you have to talk to the President.

HM,Jr: Mac, draw up a recommendation for me to recommend to the President the dismissal of Landy and then take the necessary steps to turn over the rest of the stuff to the Department of Justice.

Taylor, whatever happened to the letter to Elmer Thomas?

Mr. Taylor: Harry White is working on it.

HM,Jr: You got anything, Mac?

Mr. McReynolds: Mrs. Klotz said you want to change the form of letterhead we use -- didn't want -- there are two letterheads used by the Secretary, one used by you in your own personal office, Secretary of the Treasury; nobody else uses that. The other is Office of the Secretary for all mail that is prepared for your signature or signature of Acting Secretary, but that same letterhead, Office of the

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Secretary is used on all letters that I sign, Herbert signs, George Haas signs, prepared throughout the Bureaus.

HM, Jr: What's the matter with just having Treasury Department?

Mr. McReynolds: We can.

HM, Jr: Or having Treasury Department and, in your case, up in the corner Administrative Assistant?

Mr. McReynolds: I have no objection either way.

HM, Jr: Why should George Haas sign letters on Office of the Secretary?

Mr. McReynolds: Well, because George

HM, Jr: If you don't mind, it's entirely my own idea, I would like to have it. No objection to having Treasury Department and up in the corner, Mr. McReynolds, Administrative Assistant to the Secretary.

Mr. McReynolds: I have no objections.

HM, Jr: Or Mr. Gaston, Treasury Department, and up in the corner, Assistant to the Secretary. But I don't want any more letters Office of the Secretary or Secretary of the Treasury except that go out under my signature.

Mr. McReynolds: Or Acting Secretary.

HM, Jr: The Acting Secretary would be under the Under-Secretary or Assistant Secretary -- go out on his stationery. Oliphant has it on as Office of General Counsel. He's got it -- Office of the General Counsel.

Mr. McReynolds: I want to settle this. It's all settled but one thing. You say nothing but your signature. The greatbulk of mail prepared for your signature, which is signed by either Taylor or Magill not as Undersecretary or Assistant Secretary but as Acting Secretary, that ought to be on Secretary's paper. Nobody knows, half the time, whether you are to sign it or the other

HM, Jr: All right, we will make one exception. When it's Acting Secretary of the Treasury, that person will use Office

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of the Secretary.

Mr. McReynolds: And no more.

HM, Jr: And no more.

Mr. McReynolds: Settled!

HM, Jr: It's just a matter of

Mr. McReynolds: No objections to it.

HM, Jr: I think it's a very reasonable request. Everybody else has his own stationery, but when the person signing is Acting Secretary then he can use

Mr. McReynolds: Office of the Secretary.

HM, Jr: Then I think he would use my own stationery.

Mr. McReynolds: No. You mean eliminate Office of the Secretary entirely? You have got now Secretary of the Treasury and Office of the Secretary with special seal which is used in your office only. Bulk of paper prepared for Secretary's signature is prepared in the Bureau. They have none of that paper and should not have, but Office of the Secretary they should have.

HM, Jr: If a man is signing a letter for my signature as Acting Secretary, he can use Secretary of the Treasury's paper. Let's have only one kind, Secretary of the Treasury, and then the different people

Mr. McReynolds: Cut out Office of the Secretary entirely.

Mr. Oliphant: There has been some abuse of your signature by forgers.

HM, Jr: Let's have only one kind of paper.

Mr. McReynolds: From now on we will use only one letter-head for Secretary of the Treasury and we will limit that.

HM, Jr: (To Mrs. Klotz) You sign private secretary, acting for me, you use that paper. But there are hundreds of letters going out on Office of the Secretary. It's an Act of God that something serious has not happened. One man told me once he never had a visiting card because, he said, I never want to

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have the chance of somebody stealing it and using it. It's just a precaution, a hunch, with me. Mrs. Klotz can have Office of the Secretary. She will use it at her discretion and anybody signing as Acting Secretary will write it on Office of the Secretary. Let's leave it that way. Any other correspondence, anybody can have his own stationery or ...

Mr. McReynolds: Or just Treasury Department.

HM, Jr: Does anybody see that it's unreasonable?

Mr. Gaston: I have no special stationery. I think Treasury Department is sufficient.

HM, Jr: You (Lochhead) never write any letters.

Mr. Lochhead: I only talk.

HM, Jr: Miss Roche?

Miss Roche: We have regular Assistant Secretary letterhead.

HM, Jr: Gibbons?

Mr. Gibbons: Treasury Department and I sign Assistant Secretary.

This is not just a whim. You never come in and spring something just out of the air.

HM, Jr: Anything else important like that?

Miss Roche: I have a memorandum on the 40hour week for additional nurses for re-submission to the Budget Bureau to take care of that situation.

HM, Jr: How many hours do they work?

Miss Roche: Fifty-six and some seventy-two; the average is fifty-six. We want 148 more nurses.

HM, Jr: You go as far as you can and if you can't get anywhere, let me know.

Mr. McReynolds: I insisted on referring it to the Budget

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and Budget turned it down.

HM,Jr: Let's try once more and if between now and Friday noon you are not successful, let me know. Report at 9:30 Friday and if you can't do it, let me know and I will talk to Bell at that time.

Miss Roche: Thank you, Sir.

HM,Jr: Would you between now and 2:30, Miss Roche, and Mac and Berlew go over to this thing at the old Post Office and let Berlew take a look at it. I thought I could do it today -- the dispensary.

Mrs. Klotz: It isn't fir for animals.

Mr. McReynolds: If you are going to call anybody, I would call Ickes.

HM,Jr: Is 2:30 a good time?

Miss Roche: I think so. People go in around the noon hour and it's horrible; just horrible.

(At this point, HM,Jr talked to Mr. Ickes and asked him to lend someone. Mr. Ickes suggested Demarey and HM,Jr said that anybody Ickes suggested would be O. K. HM,Jr. explained that this was the first time he had appealed to Ickes on space.

HM,Jr: We will go over there at 2:30 tomorrow.

MacReynolds: Do you still want to go?

HM,Jr: Sure! Who is Demarey?

Mr. McReynolds: Demarey is Assistant Director of the Park Service.

HM,Jr: I asked Ickes and let's go over. I thought Harold might say he would go himself, but we will go over anyway. The next time -- if it does not work this time, we will take a flock of newspaper men with us.

Mr. Gibbons: Nothing else.

HM,Jr: We were on again with Bulkley this morning.

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Mr. Gibbons: On Moore? What's the status? They have never done anything.

HM, Jr.: Never turned over a nickel.

Mr. Gibbons: Over a year now, isn't it?

Mr. Oliphant: Never turned over anything and has been taking more.

Mr. Gibbons: How about the Customs men?

HM, Jr.: All the same, but we are concentrating on Moore. They took three more checks afterwards.

Mr. McReynolds: And didn't even turn them in.

Mr. Gibbons: Incidentally, the young man came in from John Garner's that you told Kieley to send down to me. He is not related to Garner. I talked to Garner.

HM, Jr.: I did, too. I didn't tell Kieley to send him to you. I didn't say anything. He's a faker.

Mr. Gibbons: I think the boy is a little bit crazy. He's coming in to see me again and I am going to have Joe Murphy get his application. He has made one out. To see where he lives.

HM, Jr.: All right.

Mr. Gibbons: But he has letters from the whole North Carolina delegation, showing that you can get letters from any Senator or Congressman.

HM, Jr.: Have you broke the news to Jim about

Mr. Gibbons:about those fellows? Oh, I told him they will be lucky if they are not indicted.

HM, Jr.: What do you mean! I thought you were turning it over to the Department of Justice.

Mr. Gibbons: I told Jim that they are not only out as far as we are concerned, but they are luck if they are not indicted. That's not our field. That's up to the Department of Justice. But he knows that. He has known that for two weeks.

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Mr. Gaston: I am willing to write an insurance policy they won't be indicted.

HM, Jr: Why should we not send the President a summary of Joe Wolfe?

Mr. Gibbons: Yes. As I say, it's an appointive position.

HM, Jr: The President asked me why don't I send him a history of what Joe Wolfe has done.

Mr. McReynolds: That's what started this. He said he wanted Joe Wolfe put back in.

HM, Jr: Why don't we turn it all over to the President and let the President refer it to the Department of Justice?

Mr. Gibbons: Do you want to turn the whole file over to him or prepare a resume?

HM, Jr: This is the information it is based on and then it is up to the President to make what disposition he wants of it. Why should I send it to the Department of Justice. The President asked me how about Joe Wolfe? Now I am asking him and I say, fire the Collector and here's the facts about Joe Wolfe.

Mr. Gibbons: I don't say you should, but I suggest it be referred to Department of Justice.

HM, Jr: It will be. Word came from the President that we should make this appointment and I am turning it back and showing why we can't make it and that we should fire the Collector of Customs and it goes to the President and the President will, of course, turn it over to the Department of Justice for prosecution.

Mr. Gibbons: You have a letter from Molly Dawson protesting the displacement of some woman to make a place for Landy. I told her we did not make that kind of political choice in making a woman a pawn.

HM, Jr: Anything else, Herbert?

Mr. Gaston: No.

Mr. Taylor: Nothing.

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HM, Jr: You look tough today. What nails have you been chewing?

Mr. Taylor: Just listening.

HM, Jr: I see.

Mr. Oliphant: According to the newspapers, the House and Senate agreed on the Neutrality Bill, but we never heard from the State Department about the questions we raised.

Mr. Taylor: I thought you did.

Mr. Oliphant: No; they never responded to that letter.

HM, Jr: What happened?

Mr. Taylor: The last I got was that it was being given very active consideration, but they didn't have the answer to it.

HM, Jr: Would you mind writing a letter, for my signature, something like this: My dear Mr. Hull: Would you mind doing me the courtesy of giving me an answer to such and such a letter? I will sign it tomorrow morning and shoot it over. Please.

Mr. Taylor: Yes.

HM, Jr: You might also include about the English note something like this: Possibly you would like to tell the English that there will be no answer from the Treasury Department, but if any answer is made it will come from the State Department.

Mr. Taylor: They have already been told that. The British have already been told that.

HM, Jr: But let's put it in writing. Let's tell Hull we are going to do it. Think it over. You have until tomorrow morning.

Herbert, incidentally, I asked you to get the article in the New Republic -- the one Mr. Hull is sputtering about. I got this week's -- something about the Federal Reserve and the Treasury.

Mr. Gaston: I will get that today. Yes, that's right; you did ask me to get it.

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HM, Jr: Hull was sputtering about some article in New Republic, but this fellow evidently wrote something a couple of weeks ago that annoyed Mr. Hull. I guess he has never heard of a paper called The Masses.

You all right, Herman (Oliphant)?

Mr. Oliphant: Yes. Mr. Alley was in to see me yesterday. He's representing the Independent Cooper Fabricators.

Mr. Magill: Which Alley?

HM, Jr: Has he got an office in New York.

Mr. Oliphant: General Cable Company. He was in on the copper tax and pointed out there is very great controversy in copper.

HM, Jr: Do you mind getting the name of this Alley to Ireys? Because there is another Alley that I am interested in. Send him a little memo that this man was in and what he represents.

Mr. Oliphant: Yes, sir.

HM, Jr: In the office I have to tell you a terribly funny story. Senator Ashurst comes in and says: I want to get this thing straight. He said, I went in to see the President four the four-cent tariff -- this is very much in the room -- on copper and he says, When I left, the President said -- oh, it was the other one, Hayden; Carl Hayden -- the President said, I just want you to know there is nothing doing; just forget about it. We are going to extend all these miscellaneous taxes. Just forget about it, Carl. So he says, As I went out of the office, you and Bell went in. Well, next day, Congressman so-and-so was down to see the President about this copper thing and the President said, Well, I don't know. Morgenthau and Bell have been kind of protesting about this tax on copper. Now, Carl says, I want to know which statement is right. So I said, Senator, you are not asking me to repeat a conversation between the President, Mr. Bell and myself, are you? Oh, no! no! no! So he said, I wouldn't think of doing that, but I just wondered which statement was correct. So I said, Well, I will tell you, Senator. I will tell you this: I told the President if you want these taxes extended, the only way to do it is en masse; not separate them. I said, If there is any change or idea of dropping it, I will give you my word I will let you know. Yesterday he came in and

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I warn you, unless you want to have another White House-Pat Harrison incident, be terribly careful not to make any commitments. What our instructions were, were if we could do it without a rumpus, was to drop it. Those were our instructions. And I would take it that a rumpus being in the offing, we will not drop it.

Mr. Taylor: I gather that the Independents would welcome that.

HM, Jr: So I just had better watch my p's and q's and think we had better get re-instructed.

Mr. Oliphant: The man who is very much interested is John McCarthy because of his interest in the monopoly price situation.

HM, Jr: The other man is General Hugh Johnson. He's perfectly open about it. He's here to get the four cents dropped. He's retained by American Smelting.

Mr. Oliphant: They have lots of foreign properties.

HM, Jr: I am not going to get in on it. But certainly between the Hill and the Treasury, our word is the most important thing. If there are going to be any monkey-shines about it, I don't want to have anything to do with it.

Mr. Oliphant: Alley would bear watching because he said Johnson had seen me and I immediately had him come over with Johnson. He said he had not seen me, but Hugh Johnson had written a letter to Doughton quoting me and I asked to see that letter.

HM, Jr: It's one of these things. We had better keep out, all of us.

Mr. Oliphant: He told my man Johnson in Customs that he had seen me and I approved it.

HM, Jr: Carl Hayden goes in one day and he gets one impression and the next day two congressmen go in and the President says Morgenthau and Bell want this thing dropped. We never mentioned it. Never discussed it. Only thing was, a couple of months ago we were told if we could drop it without any fuss, let it drop, but if there was any fuss, not to do anything with it.

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Mr. Oliphant: He once asked if it could be done with trade agreements and we found it could not.

The only thing worse would be to get into the sugarthing. Most terribly funny thing -- at Cabinet, Henry Wallace, talking about sugar: Now the State Department doesn't like it; War and Navy don't like it; Interior does not like it, etc. finally, I don't know how many other Departments he mentioned, but finally Henry said, I have not had a chance to talk with the Treasury about. The President said, The Treasury has no objections. I just howled! Now, I said, Wait a minute. Do I understand this is money coming in or money going out. "Money coming in." All right. He was so fed up that he said, Treasury has no objections. He was a scream!

Mr. Magill: I went over to the State Department this morning to talk to Secretary Hull about Canadian tax treaty. The Secretary is in very much of a dilemma about it because in connection with British trade agreements, his argument with Great Britain is we don't give preferences to anybody else; we put everybody on the same basis. On the other hand, he also has to have the good will of Canada. What he really wants to know from us was whether or not we would be willing to offer to the nations of the world similar concessions on the same basis; that is, 5% withholding rate for other non-resident aliens if those countries will give our nationals a 5% rate and if the countries will also agree to give us all this information and help us enforce our taxes, which Canada agrees to do. I reminded him of Mr. Eccles and Jim Landis on the subject of the flow of foreign gold and the desire to increase the holding rate rather than reduce it, and that's about where it was left. Apparently, the chances are that if we offered such an arrangement to other countries there would be very few would want to accept it. I think very likely the Netherlands would.

HM, Jr: You haven't made up your mind?

Mr. Magill: No. I want to think about it a couple of days. It seems to me that as far as I can see at the moment, it is purely the State Department's problem. They are in a dilemma. They got themselves in it. All right, get out. We are perfectly contented.

HM, Jr: Well, I will see you all tomorrow.

April 28, 1937.
11:08 a.m.

H.M.Jr: Hello

Operator: Mr. Sultzberger

H.M.Jr: Hello

S: Hello Henry.

H.M.Jr: How are you?

S: I'm fine. How is yourself?

H.M.Jr: I'm very well.

S: Good.

H.M.Jr: I got great pleasure in reading your leading editorial to-day.

S: Well I'm very glad you did because it certainly is very deserved.

H.M.Jr: And I thought I'd call up and say, "Thank you".

S: Well that's very nice of you. I'm anxious to see you. We got in just a week ago.

H.M.Jr: Yes.

S: And I've been pretty well snowed under since then as you can imagine.

H.M.Jr: I should think so.

S: But I'm gradually poking my head out. Are you going to be up this way at all?

H.M.Jr: Well we're going to be at the farm next week - all week.

S: Ah-ha.

H.M.Jr: Ah - if you have any inclination to run up there some evening I'd loved to have you.

S: Well that might be lots of - very nice to do.

H.M.Jr: Ah -

S: Ah - you're going up over the week-end.

H.M.Jr: Yes we're going to go up - be up there Saturday and I'm going to stay there a full week.

S: I see. Well I'll talk with Ephie about that.

H.M.Jr: Supposing you do and if you - if you could - would care to come up with Ephigeme and spending an evening and night with us we'd love it.

S: All right, well that's fine because I'd very much like to talk with you.

H.M.Jr: Fine. I - I hear that you and Roger don't agree on Palestine.

S: No I don't think we do. I must say that it drove me very far afield but I don't know that Roger was so very much taken in by it.

H.M.Jr: Ah-ha.

S: But I certainly wasn't.

H.M.Jr: Well -

S: I had a long talk with your father about it the other day.

H.M.Jr: Did you?

S: Yes.

H.M.Jr: I didn't know that.

S: He was in for luncheon.

H.M.Jr: Well - ah - our number up there is Beacon 211.

S: Right.

H.M.Jr: And if - if you - ah - can - will you give me a ring?

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H.M.Jr: And we'll see if we can arrange it.

S: Fine.

H.M.Jr: All right, Arthur.

S: All right, Henry, many thanks for the call. Give my love to Ellie.

H.M.Jr: Thank you.

S: Goodbye.

April 28, 1937.
11:11 a.m.

Outside

Operator: Hello - hello

H.M.Jr: Yes.

O.O: Secretary Morgan?

H.M.Jr; Yes.

O; Hello Dr. Anderson. Oh she must have disconnected.

O.O; Hello - ah - put your.....

(long pause)

H.M.Jr: Hello

O: Dr. Anderson's on the line. He says he can talk to Mrs. Klotz.

H.M.Jr: He can.

O: Yes. It isn't necessary to talk to you.

H.M.Jr: Allright.

Klotz: Hello

O: Go ahead

K: Hello

Dr.
Anderson: Hello - Mr. Morgenthau's - Secretary Morgenthau's Secretary?

K: Yes.

A: This is Dr. B. M. Anderson of the Chase National Bank in New York.

K: Yes Dr. Anderson.

A: I'm going with Mr. Aldrich to Europe on the Breman sailing - sailing late Thursday night, May 4th.....

K: Yes.

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A: And I want to have a talk with Secretary Morgenthau and also with Secretary Hull before I go.

K: I see.

A: Now Secretary Hull gives me either Thursday afternoon or Monday afternoon.

K: Of next week?

A: Monday of next week or Thursday of this week - tomorrow or Monday.

K: I see.

A: And could you arrange for me to see Secretary Morgenthau either on Monday or on tomorrow?

K: Well I - I'll have to call you back Dr. Anderson. Look up my schedule and see what appointments I have for tomorrow and for Monday.....

A: Yes.

K:and I'll let you know.

A: Now then will you be good enough to use our private wire in the Washington Loan and Trust?

K: Washington Loan and Trust.

A: If you call them.....

K: Yes.

A: ... they will put you through to me.

K: Oh I - I - I'll call you directly. I don't mind.

A: Will you also switch me back to Mr. McBride in Secretary Hull's office?

K: I'll be glad to give you the operator.

A: Thank you.

O; Hello

A: Hello.

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K: Dr. Anderson wants to talk to you.

O: All right.

April 28, 1937

3:15 p. m.

Present:

Mrs. Klotz
Mr. Oliphant
Mr. McReynolds
Mr. Manning
Mr. Helvering

HM, Jr.: Mac, have you got the letters -- the exchange of letters between Moore and myself? Have you got those?

Mr. McReynolds: Isn't that in that file of yours? (Mr. McReynolds examined the file.) Here's a letter from Moore of January 7: "I have your letter of the 2nd inst. and assure you that I will comply with the terms of my letter to you of December 16, 1935," and the one to Moore, of January 2nd, is here and the one from Moore of December 16th, and one to Moore of October 1.

Mr. Manning: And the letter from Abbott to the Secretary of December 20th.

Mr. McReynolds: One from Moore of September 19th and one to Moore of September 12th. There are four letters from and to Moore.

HM, Jr.: What I want is, can I have the last letter that I wrote to Moore? What's the date of it?

Mr. Manning: January 2, I would say, 1936. "I have your letter of December 16, 1935, in reply to mine of November 29, which I take to be an undertaking on your part and in behalf of your family to dispose forthwith of all interest in Famous Brands Ohio, Inc., and to turn over to it all dividends, payments and profits which are the result of your respective connections with that company or its predecessor syndicate. Upon that assumption, I have written to Famous Brands Ohio, Inc., a letter, copy of which I enclose." Here's an answer to this, on January 7, saying he will undertake to comply.

HM, Jr.: Where is the one of the 16th?

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Mr. McReynolds: And there is another letter from you to him and another from him to you.

HM, Jr: All right. December 16th is the cut-off line. When was that subsequent order issued to Treasury officials telling them they could not deal in stocks?

Mr. Oliphant: February 15, 1936.

HM, Jr: What does it say? Roughly, what did it say?

Mr. Oliphant: "No officer or employee of the Department shall directly or indirectly have any interest -- I am skipping -- in any business, the whole or any substantial part of which consists of the production, sale or distribution commercially of distilled spirits, wine or fermented malt liquor."

HM, Jr: Anything about his family?

Mr. Oliphant: "directly or indirectly".

HM, Jr: You see, what I am doing, I spoke to Oliphant last night. We have been through this Bulkley business. I don't want to get into an argument with him, but when I call his attention to Moore's letter "when and as I am able to do so", then immediately Bulkley will say he has not been able to do so. If I can get it away from that and say that after February 15th this boy continued to accept it, then he has broken the rule of February 15th and everything else is overboard.

Mr. Manning: Of course, that means new charges, Mr. Secretary.

HM, Jr: True. But I think I am on much safer ground, because Bulkley will argue, all right.

Mr. Manning: Mr. Secretary, pardon me, he agreed to a "reasonable time".

Mr. McReynolds: And I have a record that none of the three made any effort whatever for a full year, although they sold the stock.

HM, Jr: I am just asking. I am wondering which is the

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better case to put it on.

Mr. McReynolds: They got additional dividends and they sold their stock and got money for it and they did not turn any of that in. All of that happened after they agreed to make restitution. I think that's the strongest case.

HM, Jr: Dr. Wells is Mrs. Moore's father, isn't he?

Mr. McReynolds: Yes.

HM, Jr: And he received dividends April 30th, June 29th, September 28th and November 30th -- all subsequent to February 15th.

Mr. McReynolds: Checks were turned over to her and deposited in her account.

HM, Jr: So subsequent to the order of February 15th, his wife accepted four checks, so even if everything else -- that's the point I am trying to get. So let me just review this thing.

We asked him to do this. He said he would "within a reasonable time". A reasonable time is from December -- use January, 1936 -- to now is certainly a reasonable time.

He did not comply with that and on top of that they took four dividend checks which were deposited in his wife's account, all subsequent to February 15th.

Now, what I say is anybody that does that after all that we have gone through, if he can't give an explanation this is what I am going to say. Then when the President returns I am going to ask him to dismiss him. This is the way I will put it.

To refresh my memory, just what did Bulkley say he would do in helping me?

Mr. Oliphant: This is what he said: On December 6, 1935 Senator Bulkley wrote you that he had secured the consent of all concerned to the following set-up: (I have that letter here) "Without further insistence upon a general regulation, Moore will divest himself of all profits by returning them to the Company and the Company will accept them only with the condition that they be turned over to public charity as fast as received."

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He further states in his letter: "I can assure you that if you will give me your approval of the settlement herein suggested the letters from Moore and the Company, which would be necessary to consummate it, will be worded in a friendly and respectful manner."

Then, when you got that letter, you asked him to come down to see you on December 13, 1935. That was by telephone. You called Senator Bulkley and told him that you had decided to accept the offer made in his letter of December 6th. Senator Bulkley, in replying, said he was glad the matter was all set and told you he would be glad to have Moore write a letter which would be pleasing to the Secretary.

HM, Jr.: Isn't the thing for me to do to take the attitude: I am sure, Senator, you will be just as much shocked as I am to find out that the Collector never has made any effort to do this? I am sure you will be just as shocked. I can start that way. You and I did everything we could to get this fellow to do it. Not only has he let you down and he has let me down. What can I do under the circumstances? That's the way I am going to approach it. 'I am sure you will be just as shocked as I am that this man has let you down and let me down and let his country down.'

Mr. Oliphant: Has let you down in your dealings with me.

HM, Jr.: Yes.

Mr. McReynolds: The strength of any argument he might have that he was not able to make restitution falls when you find him accepting additional checks and not turning them over eve, although they all got \$72,000 additional after this thing came up.

(Mr. Helvering came in at this point.)

HM, Jr.: Guy, I am just going to school on your Collector Moore. And Senator Bulkley is coming in. And this is what we have found. In going over the correspondence I find that he wrote me -- an interchange of letters in December 1935 and January 1936 -- that he would give us back this money. Now he has not given us back any of the money. Senator Bulkley wrote me letters saying he would assist me to see that this thing was carried out. On February 15th you got out an order (in 1936) telling them that nobody working for you could do

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this. Notwithstanding that, Moore's wife transferred her stock to her father, after February 15th

Mr. Oliphant who was living in the house with her ...

HM, Jr: This fellow, Dr. Wells, receives four checks from this company, which he endorses to Mrs. Moore and deposits in her account after your February 15th letter.

What I thought I would do, when Bulkley comes in, I will say, 'Now, Senator, I am sure you are going to be just as much shocked as I am that Collector Moore has let you down in your dealings with me, because he not only did not live up to the agreement, but he subsequently -- subsequently his wife accepted four dividend checks from Famous Brands Company. What are you going to do about it?'

Mr. Helvering: As I understood, he agreed to talk to Moore for the purpose of getting this thing adjusted. I did not know -- but as I recall, wasn't he to pay that into some organization?

Mr. McReynolds: Pay into Famous Brands. And we had them check last February, after Famous Brands had been dissolved -- last December; a year later not one cent, by any of the three of them, was turned into Famous Brands during that time, but instead of that, they accepted three additional dividend checks, all of them, which they did not even turn in.

HM, Jr: Now isn't that the right way to approach it? The reason I want you here, Guy, first, I am taking the responsibility, but on reading the law when it comes to suspending a man or taking any action, you have to do it. You take the action and recommend to me if he is dismissed by the President, but in looking up the law the original action, I think, you have to take. The thing has to clear from you to me to the President, but you have to act. I am seeing him, but I don't want to go all through the thing and then they try to have Bulkley play you against me or vice versa, but I think the whole thing, when you get down to a summary, you have to recommend to me that he be dismissed.

Mr. Helvering: I did not know that I had authority to suspend a Presidential appointee.

HM, Jr: You do if you charge him with fraud and you recommend to me that he be suspended.

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Mr. Helvering: In order not to get into a hole, Senator Bulkley saw me at the inception of this and wanted to talk to me about it and I told him that I was going to recommend that Moore had to get rid of all that stock, etc., etc., and that we were going to severely reprimand him. I told him that would be my recommendation. Now you went further than that and Bulkley knows about that. My recommendation that came over was after we had the talk with Mr. Opper and I just want you to read this, so you will understand this was all before we had the hearings and when it first came up.

HM, Jr.: This is September 11, 1935. "Recommendations have heretofore been made to you for the separation from the service of Bert C. Brown, Secret Service; C. W. Pollock, Customs; and E. W. Barber, Customs. In these recommendations I agree.

"In the cases of William G. Harper, Secret Service, and C. E. Moore, Collector of Internal Revenue, it would seem that a dismissal from the service would result in punishment disproportionate to the offense charged for the following reason: ****

"I recommend that these employees be required to dispose of any and all interest they may hold either directly or indirectly in Famous Brands, Inc., and that they be severely reprimanded for their indiscretion."

That's all right.

Mr. Helvering: I did not want Bulkley to turn to me and say, 'You never agreed to this'.

HM, Jr.: I am glad to have it. Then I write this letter and Bulkley writes me saying that he will see that this fellow carries this out -- that he dispose of his stock -- which he has not done. That's breach number one. Breach number two: you issue the order of February 15th, the new order which Bulkley saw and approved.

Mr. Oliphant: No record of that. He recommended that we get one out.

HM, Jr.: As I remember, he saw the order of February 15th. Well, anyway, let's wash up everything and just let's get what happened after February 15th. If I take nothing, if

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everything else is off, we can start from the time that Moore says to me in a letter that he will dispose of his stock, his interest, and that he will give the money back. Then from there on we are together.

Mr. Helvering: We were together after the meeting over here.

HM, Jr: He does not do that. That's breach number one. Well, he might argue that he said he would do it when he has time. All right. Well, throw that out, but, on February 15th, you send a strict letter and subsequent to that his wife receives his dividends. She goes through a phony transaction of giving this stock to her father and then he receives four dividend checks, which the fellow redeposits in

Mr. Helvering: He just endorses and gives them to Mrs. Moore.

HM, Jr: Sure. The kind of fellow that will do that is he any good to catch an income tax evader? I will tell you how I feel, Guy, on this thing. I am in this particular state and frame of mind that I am not going to argue very much with anybody these days. This fellow, in my opinion, is not fit to be a Collector of Internal Revenue. The President asked me to first talk to Bulkley. I am going to be very calm and say that these are the facts. I am simply going to say, 'Unless, Senator, there is something that I don't know, I am simply going to tell the President when he comes back that this man, if he does not resign between now and the 15th of May, I am going to recommend -- I may say that Mr. Helvering and I recommend that the President discharge him.' All right?

Mr. Helvering: Yes.

HM, Jr: If Mr. Moore does not resign before the President returns, Mr. Helvering and I will recommend to the President that the President discharge him. Tell me if you have any doubts.

Mr. Helvering: I just don't see where I get into a Presidential appointee.

HM, Jr: You have to recommend it, under the law.

Mr. Helvering: I suspend them; yes. I always send

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over recommendations on suspensions.

HM, Jr: Maybe my language is not correctly legal.

Mr. Helvering: What I would like for you to say is, here is a man who had a fair agreement, both with the Commissioner and you. He has not done it and neither of us think he should stay in the service.

HM, Jr: I will put it another way: in view of these facts, if these facts are correct, what do you recommend to me to do to Moore?

Mr. Helvering: I would join in a recommendation -- I would say that he has not carried out the agreement he absolutely made and the fellow who would not carry out his agreement with the Government he is working for, I don't think ought to be in office.

HM, Jr: That's the way you feel?

Mr. Helvering: Yes.

HM, Jr: Technically, as to who is to tell him, I am not going to argue with you. If it is up to me to recommend his dismissal, I will. But, under the circumstances, let's say it's your obligation to say whether he's to be suspended or not. In view of this thing, what would you do?

Mr. Helvering: I would recommend dismissal because he has not carried out his agreement.

HM, Jr: You will recommend dismissal unless something new is disclosed?

Mr. Helvering: Yes. This fellow, by subterfuge, tried to avoid doing what he decided to do.

HM, Jr: When you suspend, what happens?

Mr. Helvering: The cause of suspension is further investigation.

Mr. Oliphant: In case of suspension of a collector, under the power conferred in this section, The Commissioner shall as soon thereafter as practicable report the case to the President through the Secretary for such action as he may deem proper.

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HM,Jr: The first step is suspension?

Mr. Helvering: Yes.

HM,Jr: That has to come from you?

Mr. Helvering: Yes.

HM,Jr: What I say to you now, in this room, in view of what we have here, do you feel that the case is sufficiently serious that the man should be suspended?

Mr. Helvering: Yes, sir. I don't think there is any question about that.

HM,Jr: All right. Then should we give this fellow a chance or should we just go ahead and recommend his suspension?

Mr. Helvering: Well, we have had subsequent investigation and found all these new facts. The purpose of suspension is to investigate the matter further.

HM,Jr: What do you think I should say to Bulkley, because I don't want to trade with him. Should I tell him we are going to suspend him?

Mr. Helvering: Of course, that will just continue the fight -- the argument -- because the purpose of suspension is to have a hearing, an investigation on it.

HM,Jr: Well, in view of that, what would you say?

Mr. Helvering: I don't know, but what we had better say, straight out, what you said a while ago.

HM,Jr: That was my feeling. We would simply say this man has not kept faith with you, with the Commissioner or with me or his country. Now, unless there is something which we don't know about, on the return of the President I am going to recommend to the President that the President dismiss him ...

Mr. Oliphant: ..unless he resigns.

HM,Jr: ... unless he resigns. But the deadline is the 10th of May, so we will make it before the President comes back. If I don't have his resignation before the President returns, then on the President's return I am going to recommend his dismissal.

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Mr. Oliphant: Of course, you may not need to say that at all when you say, 'He has let you down in your dealings with me'.

HM, Jr: I will bet you one dollar to a quarter that he doesn't.

Mr. Helvering: I think Bulkley will fight to keep him in.

Mr. Manning: He was ready to quit towards the end of this. Bulkley was ready to throw up his sponge, as indicated in his telephone conversation with you.

Mr. Oliphant: He indicated he was through. I would give him plenty of chance this morning. He got pretty tired of Moore.

HM, Jr: How many people ought to be here with Bulkley? Mac, were you in on those conferences with me?

Mr. McReynolds: I was in once when Bulkley was here. I think it would be better if just you and Helvering and Oliphant were here.

HM, Jr: I think so.

Mr. McReynolds: He doesn't want the whole staff.

HM, Jr: I am not going to take any notes? Don't you think so?

Mr. Helvering: Yes.

HM, Jr: Are you and I together?

Mr. Helvering: Absolutely.

HM, Jr: Am I being fair?

Mr. Helvering: I think you are giving this fellow every opportunity to do what he can.

HM, Jr: As a matter of fact, I don't know when I have given him as much opportunity.

Mr. Oliphant: Why don't you and the Commissioner see him? And then call me in if you need me.

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HM, Jr.: I think that would be better.

Mr. Oliphant: A better chance for Bulkley to come through with just you and the Commission than with any of the rest of us here.

HM, Jr.: I have all the letters here? Where is the order of February 15th?

Mr. Oliphant: I think the other important thing is Bulkley's letter to you where he makes the proposal to you which you decide to accept.

Mr. Helvering: That's the proposal where he says he will pay it to charitable institutions.

Mr. Oliphant: Yes.

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April 28, 1937

Present: Mr. Oliphant
Mr. Helvering
Mr. McReynolds

HM, Jr.: Mr. Helvering and I saw Senator Bulkley, presented the facts to him, told him that we were sure that he would be just as much shocked as we were and he said, But Moore has assured me that he has given money to charity! So I said, I don't know anything about that, but we have a statement from Mr. Abbott that he has not given any money to the Famous Brands company, which was part of the agreement suggested by the Senator. The Senator said that he had no recollection of that; that he inquired of Moore if he was paying back the money and Moore assured him he had given a portion of the amount to charity. I read Senator Bulkley his own letter in which he stated that the money should be given back to Famous Brands and he said that that had entirely slipped his memory. I then went over the various letters showing him that Moore had agreed to give it back to Famous Brands and the statement from Famous Brands that they had not received any of this money.

Then went into the second phase: that after our instructions of February 15, 1936, that Mrs. Moore's father received four checks, three of which were deposited to her account, which was in violation of our orders of February 15th. Senator Bulkley said that this phase of the transaction was just unbelievable to him.

I then started twice to say to him what I would do if there was not some kind of an explanation and Senator Bulkley begged me not to say what I would do until he had a chance to inquire. Inasmuch as his whole attitude was that of a man who was stunned by the information, I saw no reason to change my attitude, which was, namely: that I also was shocked and I said, two or three times, "Senator, Moore has let you down."

During the course of the conversation, Mr. Helvering backed me up.

The Senator asked Mr. Helvering if he had examined the 1936 returns of either Mr. or Mrs. Moore and he said he had not and the Senator suggested that he do so; that

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there might be some explanation in the returns. Mr. Helvering said he would, but he did not think he would find anything because the checks had been deposited to the account of Mrs. Moore. I suggested he also examine the 1934 and 1935 returns for both Mr. and Mrs. Moore and Mrs. Moore's father. Helvering said "It is nothing but a wash sale."

I then asked the Senator if he would give me some answer within a reasonable time, emphasizing the word "reasonable", and he assured me he would.

He gave me the impression of sincerity and that he really seemed quite stunned and upset over the second phase.

Note: After the Secretary dictated the above statement, the following general discussion took place:

Mr. Helvering: The only thought is, you will be away over next week. That runs us up to May 10th.

HM, Jr: Well, if he calls up, do you want to see him?

Mr. Helvering: No.

HM, Jr: I will talk to him when I get back Monday a week. And if I see him Monday week that is still before the President gets back. He won't call me anyhow.

Mr. McReynolds: I hate to let the other cases go indefinitely, but I am still of the opinion that

HM, Jr: I don't think, Mac, I would move on the other thing because I can't fire a Secret Service man without firing Moore.

Mr. McReynolds: No, I don't think so.

HM, Jr: As long as he takes such a quiet attitude about it, I can take the same. Now, if he fights me, I told him a couple of times -- I said, I can't go into this thing again. Bulkley said, well, he had given the thing much more time than it deserved. I said, 'I just can't go into it again.' There may be some explanation, but I can't imagine what possible explanation there may be. And I am not going to get excited about it the way I did last time. And if he argues with me

-3-

I don't know what he can say. The man did not return the money to the Company as they agreed to, and then the wife subsequently -- now, they may try to say that the father really owed the daughter.

Mr. Helvering: The daughter owed the father, and as a result she transferred this stock to her father to pay that indebtedness and he further claims that endorsing dividends to her is further advancement to her after she had paid it back. The father's statement in the report was that when he endorsed checks over to her it was further advancement to her, as he had been making before.

HM, Jr.: He helped her buy the house. He would have to show some record that she bought the house and he advanced the money. Why not beat the gun and send someone out there and ask them to show evidence that he advanced money to her. How much money does she still owe him?

Mr. Helvering: He states he advanced, one time, \$3,000; another, \$1,000; and another, \$450.00, and he took this stock for those advancements and then when the investigator asked him why he endorsed the dividends, he stated it was further advancement along the same lines.

HM, Jr.: Why not have Irey telephone and have someone on the spot quick and make the father produce the evidence that he loaned this money to the daughter?

Mr. Oliphant: Or, better still, find out what disposition the daughter made of the money -- whether or not it was for the house. That might be a matter of public record.

Mr. Helvering: My reaction was that if the Senator found out that this was true, he wasn't going to have much more patience.

HM, Jr.: I am sorry, Guy, I don't agree with you. But will you take a suggestion from me? You go back to your office and you have Irey get a man to Cleveland just as fast as he can and make the father and the wife show evidence, first, of purchase of the house and what money the father did advance to her, whether in check or cash, through the whole transaction, because you will find they will try to build a case there. And get a man out there as fast as you can.

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Mr. Helvering: You are convinced that Bulkley is going stay with him anyhow?

HM, Jr.: Absolutely!

Mr. Helvering: That was my impression before we went into this meeting.

HM, Jr.: He's quiet now because he thinks he's licked, but if he thinks he has a peg to hang it on he will get very determined about it. But if you don't mind, go back and get Irey to send somebody immediately and go into the transaction of the purchase of the house and the question of the affidavits to show that the father loaned the daughter the money. In whose name is the title to the house?

Mr. Oliphant: Yes; I would like him to start there. Stay away from the father. Find out who owns the house. Who owns the mortgage. And then in the process of investigating their returns, go to the bank and get a list of her payments against the purchase of the house, before you go to him.

HM, Jr.: But go back to the date of the purchase of the house and see who bought it. I think we could go to the bank and see all of her checks and all of her father's checks and his checks.

Mr. Oliphant: ... if their income tax returns are under investigation.

HM, Jr.: I would go back as far as necessary. Take my word for it: if he can get something to prove he did lend the money, he will begin to fight, but if he thinks he is licked, he will continue to act as he did.

Mr. Oliphant: And it will make a lot of difference if they find that this Federal agent is in the bank.

HM, Jr.: And I would take it up just as soon as you get back to your office.

Mr. Helvering: I will.

HM, Jr.: It would be amusing if we found that Moore bought the house and paid for it!

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 794.00/118

April 28, 1937

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and referring to a communication dated March 12, 1937, and to subsequent communications to the Secretary of the Treasury in regard to recent statements made in the Japanese Diet by the Japanese Minister for Foreign Affairs encloses for the information of the Secretary of the Treasury a copy of despatch No. 2340 of April 1, 1937, from the American Ambassador at Tokyo which contains information in regard to the same subject.

Enclosure:
From Embassy Tokyo No. 2340,
April 1, 1937.

Department of State

BUREAU
DIVISION

FE

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

Treasury

RECEIVED
MAY 12 1937
DIPLOMATIQUE DE BRUXELLES

250

No. E340.

Tokyo, April 1, 1937

SUBJECT: FOREIGN POLICIES OF MR. MATSUKATA GATO, MINISTER
FOR FOREIGN AFFAIRS.

The Honorable
The Secretary of State,
Washington.

Sir:

1/ With reference to the Embassy's despatch No. E312, dated March 19, 1937, and to the Embassy's telegram No. 95, March 24, 2 p.m., in regard to the foreign policies of Mr. Matsukata Gato, recently appointed Minister for Foreign Affairs in the Hayashi Cabinet, I have the honor to enclose herewith a clipping from the JAPAN ADVERTISER of March 24, 1937, containing the interpellations and replies which formed the basis of the telegram under reference. The Embassy has been unable to obtain the stenographic record of the interpellations

and

and Mr. Sato's replies thereto because the interpellations were made at a session of the Budget Committee of the Lower House and stenographic records of such committee sessions are not published. The Embassy, however, has compared the ADVERTISER translation (apparently made from the House report of the interpellations) with the Japanese version as published in several of the vernacular newspapers, and has found that the ADVERTISER translation conveys the sense of the Japanese version of the interpellations and the replies reasonably correctly. There being no authoritative Japanese text, the Embassy has been unable to prepare an exact translation.

A large part of the interpellations were concerned with the question of Sino-Japanese relations. In reply to the various interpellations Mr. Sato indicated that the policy of the present Cabinet in this regard aims at economic and cultural cooperation before political negotiations are undertaken. Mr. Sato added that this policy is gradually being understood by China and that it need not be feared that China will take advantage of this policy to injure Japan. In reply to an interpellation concerning the Cabinet's intentions touching negotiations regarding North, Central and South China, Mr. Sato said that as there are special and peculiar circumstances in North China, special measures are required in dealing with that region, and that as the circumstances naturally differ in Central

- 3 -

and South China, it will be necessary to take different steps in regard to those regions (Embassy's translation). Mr. Sato also said that it is the desire of Japan to give as much aid as possible in connection with China's five-year economic plan, and that the industrialization of China is an important concern of Japan. He also said that the Foreign Office would welcome capital investments in North China, and that he would discuss the amount of such investments and the industries in which the money would be invested with the Finance Ministry. Questioned in regard to the so-called "special trade" in North China, Mr. Sato said that the matter is being carefully considered, as it has important bearing on Japanese trade with China. Later, in reply to another interpellation, Mr. Sato said that the "special trade" is a matter that concerns the East Hopei régime and is not one that should be taken up with Japan, although Japan will give attention to it in connection with the problem of Chinese tariff. The Record states that Mr. Horinouchi, the Vice-Minister for Foreign Affairs, explained the so-called "special trade" in detail, but Mr. Horinouchi's explanation was not published in any of the newspapers. Questioned in regard to the attitude of the Government toward the East Hopei Autonomous régime and the Hopei-Chahar administration, Mr. Sato said that these administrations came into existence from peculiar circumstances obtaining in North China, and therefore

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they do not constitute a subject for discussion with Japan, although they might be discussed with China when Sino-Japanese negotiations are resumed in the future. Questioned in regard to his former statement to the effect that it was his intention if possible to renew diplomatic negotiations with China on a basis of equality, Mr. Sato said that he meant that Japan should deal with China with patience only in following the normal course of international negotiations. He added that he believed that intelligent Chinese were reflecting on the fundamental causes of the Manchurian incident, and that Japan should face China with firm confidence in its own position.

In connection with the discussion of Sino-Japanese relations, Mr. Sato at one point stated that there appeared to be some apprehension that he was reviving the so-called "Shidehara diplomacy", but stated that this was not the case and that he would not hesitate to take a positive step if necessary (Embassy translation).

In regard to Soviet-Japanese relations Mr. Sato said that the Government considers the border question as the most urgent issue at the moment; this being the case Japan is negotiating with Soviet Russia on the question, but the Foreign Office does not intend immediately to conclude a non-aggression pact with the Soviet Union.

An interpellator referred to the discussion in Japan in regard to the question of the revival of the Anglo-Japanese Alliance and Mr. Sato replied that there was

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also opinion in Great Britain favoring this revival, but that while Great Britain is a member of the League of Nations it would be difficult for that country to conclude an alliance with Japan. He added that he wished to reserve his opinion as to the attitude which Japan should take on the question.

In reply to an interpellation on relations with the United States, Mr. Sato said that the question of Japanese immigration into the United States is now being discussed in the United States and that the Japanese Government would endeavor to obtain a settlement advantageous to Japan.

Later the interpellators questioned the Premier and the War Minister in regard to their views on Mr. Sato's speech of March 11, in which Mr. Sato had denied that a "crisis" existed except in the minds of the people, and that it could be averted at any time that Japan so desired. The Premier replied that he had had objections to the phraseology used by the Foreign Minister but that he had requested Mr. Sato's explanations, and had eventually decided that his speech should stand as given. The Minister for War, General Sugiyama, said that there were parts of Mr. Sato's speech which he could not understand but when he later questioned him regarding the points in question he had learned that Mr. Sato's views were the same as his. These replies indicated to the satisfaction of the public that some working agreement had been reached between the Minister for Foreign Affairs and the military element in the Cabinet, and that therefore

Mr.

Mr. Sato would probably remain in office during the life of the Hayashi Cabinet.

It will be observed that, in outlining his more concrete policies vis-a-vis other countries, Mr. Sato indicated his intention of following the general policies of conciliation and peaceful negotiation to which he had given expression in his earlier speeches. It is somewhat of a disappointment, however, to find a seasoned diplomatic officer such as Mr. Sato willing to bring up again such contentious subjects as the exclusion clause of the American Immigration Act of 1924, and to hear him denying the Japanese connection with the East Hopeni Autonomous régime and the Hopeni-Chahar administration. Moreover, his assertion that the smuggling in North China is the concern only of the East Hopeni régime and is not a subject for discussion with Japan, will not enhance his reputation in those countries whose trade is suffering from the smuggling and which had hoped that under the administration of Mr. Sato the Foreign Office would endeavor to take steps to eliminate the Japanese connection with the smuggling. However, it may be assumed with reasonable safety that the replies to the interpellations in regard to North China did not represent the opinions of Mr. Sato but were indicative of the opinions of the military and were forced on Mr. Sato.

It would be interesting to learn more of the policies and opinions of Mr. Sato, but the Lower House of the Diet has now been dissolved and the House of Peers suspended,

and

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and consequently there will be no more interpellations and replies until the Diet meets again, probably in May or June. In the meantime, the only index to Mr. Sato's policies will derive from his diplomatic activities.

Respectfully yours,

Joseph C. Grew.

Enclosure: Clipping from the JAPAN ADVERTISER,
March 24, 1937.

710.

MRD:R

Copy to Embassy, Peiping.
" " " " , Moscow.

A true copy of
the signed original. ←

The Japan Advertiser.

Tokyo, Wednesday, March 24, 1937.

Dr. Seiko Ota, Seiyukai, began the interpellation by asking about the education of Japanese living in Manchuria and was told by the Foreign Minister that they are educated "in accordance with the wishes set forth in the Imperial Rescript on Education, with consideration given to local conditions." He then inquired about the Japanese economic mission to China.

"Because of the desirability of better acquaintance among influential businessmen of the two countries and deeper understanding by them of conditions in each other's countries, I think the mission has been significant," the Foreign Minister replied. "I believe it is necessary for members of the mission to observe with prudence the actual conditions in China. The policy toward China of the present Cabinet, aiming at economic and cultural co-operation before political negotiations, is gradually being understood by China, and there need be no fear, I think, that advantage will be taken of this by that country."

Would Divide Consideration

"I think that North China, Central China and South China should be considered separately," the Foreign Minister responded. "My so-called smoothness of the ground seems to be suspected of meaning revival of the Shidehara diplomacy. What I have in mind is the present situation."

Dr. Ota asked if Japan cannot help in China's five-year industrial program and inquired about the possibility of compliance by the Yokohama Specie Bank with the Chinese request for surrender of its silver holdings in China.

"It is the desire of our country, of course, to give as much aid as possible in connection with China's five-year

economic plan," replied the Foreign Minister. "As the Finance Minister has stated the question of disposal of silver is left to the discretion of the Yokohama Specie Bank."

Dr. Ota said that in connection with Sino-Japanese economic co-operation there must be discussion of China's tariffs.

"The industrialization of China is naturally an important matter for this country," the Foreign Minister told him. "To encourage exports to China of machinery and other Japanese goods, reform of the Export Guarantee Law should be considered. As there is expected to be extensive demand for material in connections with railway construction and other enterprises, I think the tariff question must also be considered, and endeavor will be made in that direction."

The interpellator advocated a positive policy in North China and pointed to the connection between investments there and the exchange control regulations.

Investments Desired

"The Foreign Ministry would welcome capital investments in North China, and I wish to discuss with the Finance Ministry authorities the possible amount that can be invested and the most suitable industries," stated the Minister. "Though Japan is not directly concerned with the so-called special trade there, the matter is being carefully considered, for it has an important bearing on Japanese trade with China."

Douglas says that Foreign Vice-Minister Kenzuke Horinouchi gave an explanation of the so-called special trade, comprising goods entering China through East Hopei with payment of duties much smaller than those levied by the Chinese Maritime Customs, but it gives no details.

Mr. Gersen Sumi, Minseito, ascertained from the Communications Minister that the Hirota Cabinet's plan for State management of the electric power industry is being re-examined and that something will be presented to the Diet in the next session. No decision has yet been reached on the basic policy for the system, to be enforced shortly, of requiring Government permission for electric power rates, but the rates in Tokyo will be lowered to some extent. The Minister asked to be excused from commenting on the reported movement for merging the five major power companies.

Mr. Sumi asked that the Premier thought of the reference made to the Soviet Union as a model by an unnamed official under him in advocating reorganization of the economic system.

"The promotion of certain enterprises must be accelerated to some extent from the standpoint of perfection of national defense," Premier Hayashi said, "and that is where control becomes necessary. Citation of the Soviet Union as an example, however, does not conform with conditions in our country. I am of the opinion that extreme control, as advocated by some, will never do for us."

The interpellator assailed bureaucracy and expressed a desire for creation of a commission composed of officials and civilians to study control of the electric power industry. The Communications Minister indicated that he approved of the idea and at this point the committee recessed for lunch.

In the afternoon, Mr. Kaji Nakamura, Seiyukai, raised the question of Japanese fishing in Alaskan waters.

"As long as it is done outside territorial waters," responded the Minister of Agriculture and Forestry. "I see no objection. We must, however, also consider international relations."

Mr. Nakamura urged special educa-

tional facilities for fuller development of individual talents, objected to the present emphasis on the Chinese classics in the schools and advocated more private institutions of learning.

Mr. Taira Tatsukawa, Seiyukai, suggested that the scrapping of old ships under the law for encouragement of the construction of better vessels be suspended because of the shortage of bottoms and was told that such is the Government's intention from the next fiscal year. The Communications Minister also said that consideration is being given to abolition of the restrictions on the purchase of foreign ships.

Mr. Kiriko Oguchi, Seiyukai, called attention to the increasing financial commitments of the Government outside the budget, such as the capital investment in the Imperial Fuel Development Company, and feared that they will burden the nation for many years.

More Revenue Expected

"I think revenue will increase with the development of enterprises," Premier Hayashi replied, "and that power to absorb bonds will likewise increase."

I shall reply after consulting the Finance Minister."

Mr. Oguchi advocated that the shrine bureau of the Home Office be more active in the training of priests and provide better administration for shrines.

Asked what he thought about painting, sculpture, music and other art forms, the Premier said he believed that "art must be the true manifestation of the Japanese spirit." He regretted recent thefts of and hazards to national treasures and promised greater vigilance.

Commerce and Industry Minister Gondo stated that taxi fares and other automobile problems are being studied. The tax on gasoline will be increased during the next eight years, but the increase scheduled for the coming fiscal year will be the last for at least three years.

Mr. Fusa-jiro Ichinomiya, Minister, declared that full understanding of the characteristics of the Chinese is necessary before Japan can frame its national policy.

"When I said that we should deal with China with patience," Foreign Minister Sato told him. "I meant that we should do so only in following the normal course of international relations. I think that among the Chinese there are intelligent persons who are reflecting deeply on the causes of the Manchurian incident. Japan should face China, I believe, with deep confidence in its own position."

Hopel Trade Mentioned

The prerequisite for a Sino-Japanese entente, in Mr. Ichinomiya's opinion, is co-operation with China in suppressing the so-called special trade in North China, which at the same time would contribute to better understanding of Japan's attitude among foreign Powers.

"I am entirely in accord with the interpellator's views on Sino-Japanese economic co-operation," said Mr. Sato, "but economic co-operation must be considered in conjunction with political co-operation. As for the special trade in North China, it is a matter that concerns the East Hopei regime and not one that should be taken up with Japan. Japan will give attention to it, however, in conjunction with the problem of Chinese tariffs. * * * Improvement of economic relations between Japan and China is the prerequisite for establishment of credit. I have consulted the Ministries concerned regarding details. Investment in China of the profits of Japanese enterprises in China is worth consideration."

Mr. Kaji Nakamura asked a number of questions about foreign relations to which the Foreign Minister replied as follows:

"The Government considers the (Soviet-Manchukuo) border question the most urgent issue of the moment. With that attitude, Japan is negotiating with the Soviet Union, and the Foreign Office has no intention of concluding immediately a non-aggression pact.

"The immigration question is debated in the United States, too, and we shall try to obtain a settlement advantageous to us.

"I am told that there is opinion in Britain favorable for revival of the Anglo-Japanese alliance, but as long as Britain is a member of the League of Nations it would be quite a problem for it to conclude an alliance with Japan similar to that of the past. I wish to reserve my opinion regarding what attitude we should take on the matter."

He also asked to be excused from speaking about the Japanese-Netherlands trade negotiations, calling them a delicate matter.

After a brief recess for dinner, the session was resumed with further question of Mr. Sato regarding the China question.

Re-examination Needed

"The aims and principles that have been applied in relations with China in the past and the conditions that have been insisted on have continuity," Mr. Sato stated. "It goes without saying that there is need to re-examine these principles and conditions with the lapse of time."

Mr. Chuken Ikemaki, Second Lobby, asked about the East Hopei and Hopel-Chahar regimes.

"Those regimes came into existence under special circumstances," the Minister replied, "and thus there is no thought on Japan's part of what to do about them. They will be discussed as a matter of course in the diplomatic negotiations to be resumed with China. * * * I do not think that my Diet speeches will affect the North China regimes. As for the five-Minister council, the reports alleging to give my intentions are not accurate. I consider the matter one for the Cabinet as a whole to decide, not three Ministers or five Ministers. According to circumstances, however, there may be meetings from time to time of three Ministers or five Ministers."

"The army authorities," the War Minister stated, "are concerned about matters relative to military administration in North China. At no time have they interfered with foreign policy, and it is their intention to maintain the same attitude in the future."

The Navy Minister expressed agreement with this statement.

Finance Minister Toyotaro Yuji said that at the moment he is not considering credits for China but that it will be necessary to consider them if Sino-Japanese enterprises are under-

taken. He denied that the exchange control law is causing difficulties.

Will Maintain Yen

"What I wish," he continued, "is to maintain the value of the yen in terms of foreign currency. For this, it is necessary to promote exports, shipping and fisheries. I mean to do everything possible to prevent the fall of the yen in terms of foreign currencies, though there may be a temporary increase in indebtedness."

The Home Minister said he could not say whether the Government will introduce a labor union bill in the past session without studying the matter.

Mr. Tomiido Izu, Kokumin Dantai, asked if the Government will call an extraordinary session. The Premier

admitted the need for such a session to realize administrative reforms but called attention to the possibility of an earlier opening of the next regular session and said that no decision has been reached. He said he had no intention of setting up a committee to study the bill for revision of the Commercial Code while the Diet is not sitting and refused to say whether he plans to form a new political party or name party men as Education and Overseas Ministers.

Asked about prolongation of the current session, which normally should end tomorrow, the Premier pointed out that prolongation is a prerogative of the Throne and that every circumstance is required in deciding where to appeal for it.

Mr. Yoshiharu Yutani, Tohoku, charged that Mr. Sato's diplomacy represents a reversal to the Shidehara diplomacy and asked the War Minister if Mr. Sato's views on the current situation are shared by him.

Vague Points Clarified

"When I heard Mr. Sato speak in the Diet on March 11," General Sugiyama replied, "I thought his speech left something to be desired. By that, I mean that I found something in it that I could not understand. Subsequently I questioned him regarding the points I could not understand and learned that his view was the same as mine."

Premier Hayashi had the same to say. "As I stated in this committee some time ago," the Foreign Minister contributed, "I did not amend my speech. Nor did I explain the speech after its delivery. What I did was to clarify the meaning of what I said in the speech. My first speech in the Diet still stands."

Mr. Yutani was not satisfied.

"I explained those points in my speech of March 11 about which the Premier and the War Minister had doubts and did so to their entire satisfaction," Mr. Sato added.

Mr. Yutani turned to the Premier, who told him:

"As for the Foreign Minister's first speech, I had objections to the phraseology at the time it was made. I later asked his explanation and decided that his speech should stand."

The War Minister agreed with this.

Mr. Yutani insisted that the Premier's remark about the situation being such that it might explode at a touch cannot be reconciled with Mr. Sato's speech, which he said embodied a deflationary policy.

"As I said in my replies to questions about the speech of March 11 in the House of Peers and this committee," Mr. Sato stated, "I want to have it considered in the light of my supplementary speeches. * * * Mr. Yutani seems to have come to the conclusion that I regretted my supplementary speech. I am sure that that is his own conclusion. As for the reaction to my speech abroad, I have said that it was generally favorable. Of course, I am not satisfied with that."

With Mr. Yutani still voicing dissatisfaction, the committee adjourned late night.

MEMORANDUM

April 28, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond market was quiet today with a fairly good tone. Prices showed little variation during the day but most issues closed higher than yesterday: the long bonds were unchanged to $4/32$ better, with the exception of the $3-1/8$ s of 1949/52 off $2/32$; the remainder of the list was generally unchanged to $2/32$ better. At the close quotations were at their best levels for the day. Treasury bond turnover on the board was \$901,000. H.C.L.C.'s were up $4/32$ to $5/32$; F.F.M.C.'s were up $1/32$ to $9/32$.

Treasury note market quiet with a firmer tendency. The $1-3/8$ s of 1941 closed up $3/32$ and the new $1-1/4$ s up $4/32$; remainder of the middle and long maturities were up $1/32$ to $2/32$.

Domestic bonds were dull and prices generally tended to be easier. In the second grade group, utilities were off fractionally to 1 point; industrials and rails were mixed. On the high grade market recent refunding rail issues were off small fractions; industrials and seasoned issues generally were steady.

Foreigns were mostly steady and quiet, with few price changes. Purchased for Treasury today \$1,000,000 miscellaneous Treasury bonds for account Government Life Insurance Fund.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 28, 1937.

TO The Secretary
FROM Mr. Taylor

During the next few days I am going to give you various thoughts that have occurred to me in connection with several of our problems, with a view to your having them before you during your "reading period" next week.

Yesterday after lunch I had a long talk with Marriner Eccles on the questions of financing, gold, etc. In connection with the financing, I reverted to one of our earlier discussions in which I had asked him to give some thought to the idea of the gross amount of Bills which the banking system could properly handle, the proper maturities, the maximum amount which should mature on quarterly dates, etc. He welcomed this discussion and is having his men do some work on it. I likewise talked to Larry Seltzer about the problem this morning and he is investigating the subject.

What I have particularly in mind is that given a debt structure of 35 billion dollars, estimated annual receipts of approximately 7 billion dollars, and estimated quarterly receipts from income taxes of say 700 million dollars we can probably think in terms of not only a larger total amount of Bills, but also in terms of larger amounts falling due on the quarterly dates. With higher general receipts as a new factor and the Social Security taxes also present, it is my impression that we can think in terms of, say 3 billion Bills, without running the risk of having too

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large a floating debt, or putting it another way, we can compare our position to that of an industrial concern which has expanded its business and therefore its cash receipts to an extent that where as in an earlier period current indebtedness of \$1,000,000 would have been unsound, today current indebtedness of twice that amount would be entirely conservative.

WJ.

MEMORANDUM

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April 29, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bond prices rose today in quiet trading. Quotations on the board advanced steadily and closed at the highs of the day, with the long maturities 10/32 to 15/32 up from yesterday and the rest of the list generally 3/32 to 11/32 up. Treasury bond turnover on the board was \$905,000, about the same as yesterday. In the guaranteed group the H.O.L.C.'s were 5/32 to 16/32 better than yesterday and the F.F.M.C.'s were 9/32 to 13/32 better. There was a little activity in Treasury notes and the market was firm. Closing quotations on notes were at the highs of the day with the 1937 to 1941 maturities generally 3/32 to 4/32 better than yesterday. The 1 3/8s of 1941 and the new 1 1/4s were up 5/32 and 7/32 respectively. The rest of the list was unchanged to 1/32 better.

Domestic bonds were fairly active in the first two hours and prices firmed fractionally. Prices eased off slightly in dull trading during the rest of the day and at the close both high and second grade bonds were small fractions up from yesterday.

Foreigns were generally steady and quiet. Brazilian Government bonds were weak on unfavorable cable advices, and the 6½s were off more than 2 points.

Purchased today \$479,000 2-7/8½ Treasury bonds of 1955-60 for account Government Life Insurance Fund.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 29, 1937

TO The Secretary
FROM Mr. Taylor

Our luncheon with Gumansky involved a very general discussion of capitalism, business cycles, the orthodox Bolshevik approach, emphasizing a fully employed population and their ability to avoid the cycles prevalent in the capitalistic world, etc. He advanced the information that the ~~the~~ Soviet ~~and~~ economic staff had come to the conclusion that no fundamental changes had been made in the capitalistic system and that therefore another depression would appear in the not too distant future, probably between 1939 and 1941, and that owing to the severity of the last one, that the capitalistic world would not be in very good position to meet the next one. He went into this situation at some length and emphasized the fact that economic disasters of this character inevitably led to political disasters and that political and economic disasters often produced wars; that his country was far from fatalistic about the situation and that it was in the spirit of cooperating with other nations, who had equally peaceful motives, that he felt that the message which he had conveyed to you should be interpreted.

He also discussed at some length the great market for certain types of American products in his country, in particular mass production machinery, that if the desire on both sides were present, a great deal of business could be done between the two countries, but that, naturally, there were only three methods of payment - goods, gold and credits. He then asked the

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direct question as to whether the United States wished to increase its business with the Soviets, to which I replied that I assumed that we did.

He referred again to the significance and possible historical importance of the message which he had delivered to you as a great potential force for world economic stability and peace.

The only other direct question which he asked was a hypothetical one, as to the effect of ~~the~~ lowering the price of gold on our agricultural products which we exported. I replied that I thought that the question answered itself and that the question of the gold price was being debated in the newspapers - on the one hand by professional economists and on the other hand by others who might have a rather direct speculative interest.

On the whole, Oumansky was very expansive and was apparently going out of his way to give us the Soviet program, as he covered practically everything in the known world, including national defense - which he said was in excellent shape. As you might gather, Archie and I did not have too much opportunity to interrupt and confined our remarks pretty much to questions and comments on the similarity of the problems, no matter what system you happen to operate under, and the fact that a great many changes had been made in various control mechanisms which might materially alter the standard cyclical pattern, but that we were more or less in the position of having designed an automobile which had not been tested at full speed and that it would be difficult to say that any of the particular controls would be completely effective until they had been given a more complete test.

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I touched briefly on some of the lessons which we thought we had learned as a result of the postwar period, both in domestic and foreign financing. I ^{commented} ~~touched~~ briefly on the slight alteration in the pattern for foreign financing which was appearing through the instrumentalities of organizations like the Export-Import Bank and the British Overseas Credit, etc. This reference to the Export-Import Bank caused him to say that his country was barred by the Johnson Act, but that of course he felt that their situation was entirely different from the countries which had defaulted on their war obligations. I said that this was a question with which he was entirely familiar and that it would be useless for us to touch on it at this time but that it would be extremely desirable to clear up the misunderstanding which existed.

As we left he referred to the possibility of additional conversations with you. I assumed this to mean that he is awaiting further instructions from his Government following the opening of the account with the Federal.

The description I have given above covers what I consider the most important questions and statements which he raised. There was a certain amount of additional conversation which I can give you if you would care to have it, but I do not think that any of it was particularly significant.

well

April 29, 1937.
9:12 a. m.

H.M.Jr: Hello.

Operator: Chairman Eccles - go ahead.

H.M.Jr: Hello.

Marriner

Eccles: Hello.

H.M.Jr: Marriner.

E: Ah - good morning.

H.M.Jr: How are you?

E: Fine this morning.

H.M.Jr: Two things. First place unless you know some good reason why we shouldn't we're going to go ahead with our nine months stuff next week.

E: No I don't know of any good reason. I think I would advise sticking to it for another week and see how it goes after the increase goes into effect.

H.M.Jr: All right - that's that. Now the other thing - I don't know whether Taylor's had a chance to tell you but the Fed in New York got a cable from the Russian State Bank asking - that they'd like to make a deposit, see?

E: I talked to George Harrison last night.....

H.M.Jr: Yes.

E:, and he's sending down this morning a copy of the cable and a copy of his suggested reply.

H.M.Jr: Right.

E: And I'm going to get the Board to approve of it this morning.

H.M.Jr: Fine. And then would you mind sort of just taking a little personal interest in it because - ah - ah I gather from Wayne that we may go up against a little resistance in New York, see?

E: Yes .

H.M.Jr: See?

E: Well - ah - well I'll follow it through then. I didn't get that from George. The cable that he read to me over the 'phone was in substance - ah - ah - right along the line of the memorandum.....

H.M.Jr: Yes.

E: that he sent down which you saw, of course, about a week ago.

H.M.Jr: Yes.

E: Ah - and I told him that if he'd send the cable down we would send him up a copy - a statement to the effect that we had advised the Treasury, see?

H.M.Jr: Yes.

E: That we would approve of an application.....

H.M.Jr: Yes.

E: when it was submitted by the Federal Reserve Bank of New York.

H.M.Jr: Yes.

E: So that I'll - I'll check - ah - I'll check.....

H.M.Jr: Well I - I just - maybe I'm a little over-suspicious but - ah - I don't want anything on this because I've given my word, see?

E: Yes.

H.M.Jr: And I'm anxious that it go through in a perfectly orderly manner. That's all that I wanted.

E: Yes.

H.M.Jr: And if there's any questions raised I'd appreciate it if you'd let either Wayne or me know.

E: Well all right, I'll

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- H.M.Jr: Now there may - maybe I'm all wrong and maybe it will go through in a perfectly normal manner.
- E: Well I think it will if the - if the Central Bank of Russia, of course, will submit the statement in the usual - make the usual application.....
- H.M.Jr: Well that
- E: and I, of course, I assume they will because Wayne - Wayne told me that he had talked to them and they - they raised no objection to the requirement as covered by the Harrison memorandum.
- H.M.Jr: Well that's all to the good and if - and if nothing else came out of this if we got the Russian Bank to make their first public statement I'd consider that a great accomplishment.
- E: So would I - I'd like to see it.
- H.M.Jr: Sure - so would the rest of the world.
- E: Well we'll know whether they will or not pretty soon.
- H.M.Jr: Well I - in - in - you - you - you see I asked - we - we've given you what's in the back of our minds.
- E: Yes.
- H.M.Jr: We haven't told it to George.
- E: Yes.
- H.M.Jr: And he's just dying of curiosity.
- E: I see. (Laughs)
- H.M.Jr: See?
- E: I see.
- H.M.Jr: And we simply say this is what we like and we haven't given any reasons.
- E: Ah-ha.

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H.M.Jr: And he wants reasons and we haven't given him any.

E: I see.

H.M.Jr: So - ah - if you just give it a little - just kind of watch it, see?

E: Well I - I

H.M.Jr: It may go through perfectly all right and then again it may not.

E: Well I - I - that's right. Well I'll watch it and - and - ah - George hasn't replied - hasn't sent the cable - he read it to me on the 'phone.....

H.M.Jr: Yes.

E: and - and I didn't particularly like - well the - the - the - I asked him to submit it.....

H.M.Jr: Yes.

E: and told him.....

H.M.Jr: Yes.

E: that the cable - ah - should be worded in two ways - at least the last part - one was it would indicate that he knew the Board of Governors would approve of it and the other was that he didn't know anything about any previous discussion of this thing, see?

H.M.Jr: Yes.

E: And I felt that the cable - that a cable should more or less indicate that he was somewhat familiar with some previous discussion.

H.M.Jr: Well why not?

E: What is it?

H.M.Jr: Why not? He - he.....

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E: Well I think that - I - well he said that he would be perfectly willing to do that.....

H.M.Jr: Yes.

E: ah - if he could get something from the Board, see?

H.M.Jr: I see.

E: to the effect that he could indicate that.

H.M.Jr: I get you.

E: You see? So I told him if he'd send it down this morning that I would get it cleared and I'll - by noon and he could send his cable off I thought along the line that would indicate - at least that he wasn't entirely unfamiliar with the fact that the matter had been discussed.

H.M.Jr: Ah-ha.

E: See?

H.M.Jr: Fine.

E: So that's where it stands now.

H.M.Jr: Thank you very much.

E: All right, goodbye.

April 29, 1937

9:30 group meeting.

Present: Mr. Magill
Mr. Oliphant
Mr. Taylor
Mr. Gaston
Mr. Haas
Mr. Gibbons
Mr. Lochhead
Mr. McReynolds
Mrs. Klotz

HM, Jr: Did anybody tell you (Haas) what Lionel Edie wanted?

Mr. Haas: Yes. Seltzer told me that he came in and my secretary told me that he called me yesterday morning, I guess. Did you see him?

HM, Jr: No. Are you strong enough to digest Dr. Anderson, of Chase?

Mr. Lochhead: Did you read Edie's speech?

HM, Jr: No.

Mr. Lochhead: We are going to lower the price of gold. That's all there is to it. He made a speech at the Chamber of Commerce.

HM, Jr: Herbert (Gaston) I was kind of thinking I would talk either for record or for background today. I have satisfied myself what this selling in the market is and all that. It's definitely in England. I have spent hours and lots of money on it and I am thoroughly satisfied what it is. I wanted to either ask some newspaper to make an independent investigation, giving a pretty broad hint of what they would find, or give it to these boys for background.

Mr. Gaston: I think so. I think you could talk for background to them.

HM, Jr: What do you think, George (Haas)?

Mr. Haas: I think it's very dangerous to slip out information which you think is the cause. I think there is a

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rather fundamental situation which has a result of stock market decline. For one thing, the first quarter earnings statements definitely do not show the increase which was expected in terms of volume of production. I have a statement here on that. You also had previously the anticipated expansion due to further price rise, all washed out. It's just adjustment taking place.

HM, Jr.: I don't agree with you at all.

Mr. Haas: I would like to have a chance to talk to you about it.

HM, Jr.: It's another pepper situation in London and there is a desperate situation on it. I have spent an awfully lot of time on it.

Mr. Haas: I don't say that's not there, but all these other reasons are there.

HM, Jr.: True. But there is an acute situation in London right now.

Mr. Haas: That may be, and that's one of the factors in it, but you may have a domestic situation which would lead to stock market decline.

HM, Jr.: But not a four or five point drop.

Mr. Haas: I don't think that's so important.

HM, Jr.: I don't see where you get this earning stuff anyway unless you have a list of how many corporations have you got quarterly earnings, first quarter, for?

Mr. Haas: We have Standard Statistics index of 161 or something like that.

HM, Jr.: They follow 700 or 800 corporations. What is it for the first quarter. Standard Statistics is a good index.

Mr. Haas: Those are not all in yet.

HM, Jr.: How many are in?

Mr. Haas: I don't know how many of that group are in, but they have an index which has 161 corporations in it --

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identical corporations. That's in, I think.

HM, Jr: Do you know?

Mr. Haas: I haven't had a chance to talk to Daggit, but in a statement he sent out to the house I assumed they were identical corporations that he was carrying from one quarter to the next.

(At this point, HM, Jr. telephoned Mr. Daggit to come to his office.)

HM, Jr: I would like to know about Standard Statistics. If that's true, than that's a new one for me. Let's pass it until he comes.

Mr. Haas: I have a statement here which I think you should take time out to read on the whole business of prices and stock market.

HM, Jr: Let me read it. I have time to do it before 10:30.

Mr. Haas: The summary is not as good as the rest of it. It's difficult to summarize.

HM, Jr: If you stop behind I would like to talk to you about it, because I still think I am right. My only interest in it is I don't want it to go so far that it will hurt business. There is no indication that business is slowing up. All you need to do is look at Sears-Roebuck sales. Simply tremendous!

Mr. Haas: I wish you would give me a chance to talk to you about it. I have discussed it rather thoroughly with Daggit.

HM, Jr: Is it all in here?

Mr. Haas: Practically.

Mr. McReynolds: Nothing.

Mr. Lochhead: Bond market is opening up quite well. Stock market -- nothing developing on that, but bond market looks right good.

(Mr. Daggit came in at this point.)

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HM, Jr: (to Mr. Daggit) Have you got figures from Standard Statistics as to first quarter earnings?

Mr. Daggit: We have them -- preliminary. Do you want me to get it?

HM, Jr: Get it and be back at 10 o'clock. Have you got any other figures on first quarter earnings?

Mr. Daggit: I don't believe we have. I will see.

HM, Jr: See what you have. Anything that Dow-Jones or anybody -- and can you be back at 10 o'clock or as near that as possible?

Mr. Daggit: Yes. I will do that.

Mr. Gibbons: Strike called -- sit-down strike -- at the Parke-Davis plant up in Detroit. May be serious. They have over \$1,000,000 worth of narcotics in there and the plant served notice that they are no longer in charge. Yesterday's paper reported that the narcotic agent they threw out was going to prosecute them. Of course the local United States District Attorney probably gave that out, but it looks as though the situation is serious. Here's \$1,000,000 worth of narcotics and these people serve notice on us that they are no longer in control and these fellows get in and right in the room where there is \$1,000,000 worth of narcotics.

HM, Jr: If you are sure of that, do just what Waesche did. A plant asked for guards, but he sent a couple of extra inspectors just to be sure they would be on the ground. All you have to do is send a couple of narcotic agents to see that the stuff is not stolen.

Mr. Gibbons: They would not let them in; turned the hose on them.

Mr. Gaston: Harold Graves has some pretty full information on that and he has a recommendation that he wants to go over with you.

HM, Jr: Is he ready?

Mr. Gaston: I think so?

Mr. McReynolds: He told me about it and I told him to take it through Guy Helvering.

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HM, Jr.: But that might take too long. There is nothing on my desk. Let's designate somebody.

Mr. Gibbons: It's a serious thing that might develop.

HM, Jr.: Let's have somebody to handle these things. I can't handle it myself. Waesche mentioned it and he's handling it in a very sensible manner.

Mr. McReynolds: Waesche talked to me about this and Gibbons had the same thing up in Boston.

Mr. Oliphant: Mac handled the Boston situation beautifully.

Mr. McReynolds: I can do it.

HM, Jr.: Will you do it?

Mr. McReynolds: I will.

HM, Jr.: And if you need something, walk in and tell me.

Mr. McReynolds: I think we will have to, with respect to both alcohol and narcotics, because there you have a situation....

HM, Jr.: Let's understand each other. If there is something, you walk in; otherwise, if I don't hear from it, you are handling it.

Mr. McReynolds: If we get to a point where I can't get agreement to keep out of bounds, I am coming in.

HM, Jr.: You just walk in. But I don't want it to come through Helvering and Harold Graves has a memorandum and somebody else. The strike thing is something that has to be handled on the split second and if you can't get an agreement, walk in.

Mr. McReynolds: O. K. We will do it that way.

HM, Jr.: Satisfactory to you (Gibbons)?

Mr. Gibbons: O. k. Did you get fixed up last night?

HM, Jr.: Mrs. Roosevelt, as I expected, knew nothing about what Hall Roosevelt was talking about. After he got over there he got very excited all over again and she very definitely did not want to use a Government plane. Hall Roosevelt was all

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cock-eyed. He insisted that a plane was leaving New York at 9 o'clock and that Mrs. Roosevelt could leave Baltimore at 10:30 and catch that plane. I said, I don't agree with what you say. That can't be done. Because New York and Baltimore are practically the same distance from Cleveland and a plane leaving New York at 9, Mrs. Roosevelt can't catch it leaving Baltimore at 10:30. ^{So} ^{while} we were all arguing back and forth and he was all mixed up, I got hold of Burke and told him to get ready; told him to get gassed up and be ready to go to Baltimore to meet Mrs. Roosevelt and I would let him know. Between the time -- this was all through supper -- I kept saying to Hall, What are the facts? And he said, I won't know until 8:30. And he did not even know what plane she was taking. He was all mixed up. So I told Burke to find out what time the plane left, etc., etc., -- this was all through supper -- and I said to be ready. Then he found that she was planning to take the plane that left Newark at 11 and get to Cleveland at 2. So Hall finally said he was satisfied that conditions were such that she could fly and he so recommended. As long as he took that attitude and knowing that Mrs. Roosevelt said the President was opposed to her using a Government plane and it was a tremendous responsibility to put her on a plane at 11 o'clock at night and send her to Cleveland -- terrific responsibility -- so I said, Now, Hall, what do you want us to do? And he said, She can go on this plane. It was a plane of the Pennsylvania Air Lines; they have not had an accident in three years; never a single passenger injured; regular plane; regular pilot; knew she was going; said it was all right. I said to Burke it would be a great experience for us to see if we could get out in half an hour and we were ready. That was his attitude. But Hall Roosevelt is just crazy. And he wanted us to come down here in the river and bring her up. Nice evening! But to take Mrs. Roosevelt from Baltimore at night and fly her to Cleveland-- I did not want to do it. But Burke handled himself extremely well, the way he always does.

Mr. Gaston: John Mitchell said he would bring those clippings in today -- the New Republic things.

Mr. Gibbons: Won't anything break in the papers about the St. Paul situation?

HM, Jr: It can only break if there is a leak in the Treasury.

Mr. McReynolds: It has not gone any place except from me to Elmer Irey.

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HM, Jr: As a matter of fact, I was thinking if the stuff is ready, why bother the President while he is on vacation? Have it ready and I will send it over and I would give it to Forster and simply say, 'You use your judgment. If you want to send it down to the President, all right, but there is no hurry.'

Mr. McReynolds: After you sign it, I will take it over.

HM, Jr: I will sign it and you hand it to Forster.

Mr. Gibbons: I understand you are not interested in selling any tables at the dinner you are going to address Sunday night.

HM, Jr: Can you hold that a minute? Who sent a bill up having to do with antiques coming in to New York?

Mr. Gibbons: It's the General Omnibus Bill.

Mr. Oliphant: That's our general Customs Bill. We went over the whole line of legislation.

HM, Jr: Remember, I reserved the right to say that I did not remember. Was it in that?

Mr. Oliphant: Yes.

HM, Jr: Because somebody called up Mrs. Klotz -- he was the head antiquer -- and wanted to see me and I said, Why should I see him. And there was a big article in the New York Times that Steve Gibbons said that 75% of antiques that came in are fake.

Gaston: Who is the antique expert we can refer the New York Sun to?

HM, Jr: Steve Gibbons and Herman Oliphant. You know, All sooner or later these things always come to the surface. All that Herbert Gaston wants to know is who to refer the antique editor of the New York Sun to. You got it now, Herbert?

Mr. Gaston: I have got it now.

HM, Jr: What about tables for Sunday night dinner?

Mr. Gaston: Bernie Kilgore called me and said that Hoguet had called him up and said a man who had represented himself to

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be your secretary had gone to Hoguet and tried to sell him a ticket to a dinner Sunday night at which you were going to speak and when Hoguet said he could not be in New York that night he urged him to take a table on behalf of the firm; said it would please the Secretary very much. So I told him the Secretary never encouraged anybody to sell tickets to any sort of a dinner.

HM, Jr: Have you been able to run it down?

Mr. Gaston: Hugh McQuillan is working on it.

HM, Jr: Do you (Gibbons) know of any dinner the Democrats are giving?

Mr. Gibbons: They are giving a dinner and Gene Buck is to preside and Herbert Hoover is going to attend. It's not for the Jews; it's for the Catholic Guild Actors.

HM, Jr: Who said anything about the Jews? Why bring that up?

Mr. Gibbons: This big dinner is for the Catholic Guild actors and Hoover is one of the speakers.

HM, Jr: When did he join your church. He must be beginning to think of running again in 1940.

Mr. Gaston: I have another letter where you are in fine company; wanting some testimonials Six prominent ex-Navy men have been invited to write testimonials for the publication Our Navy and the six people are Walter Winchell, Phil Baker, Jack Benny, Paul Whiteman and Freeman F. Gosden, so you see you rate with Amos and Andy.

HM, Jr: Swell! I am coming up! That's the best thing that has happened since they pulled off that publicity stuff with Mae West.

I think you (Gaston) let me down when you did not let me kiss Jean Harlow when she was down here.

Mr. Gaston: I did not have a chance. I don't get in on this testimonial stuff.

HM, Jr: Did you know L. W. Robert, Jr., was Chairman of the Axton Tobacco Company?

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Mr. Magill: Chanler Tobacco Co., which owns all the stock.

HM, Jr.: So the head of the Reynolds Tobacco Co. takes it perfectly for granted that we are going to knock the tax on cigarette.

Mr. Haas: On the cheap cigarettes.

HM, Jr.: He sees the handwriting on the wall, but it's the wrong wall.

HM, Jr.: Mac, I will go directly from Procurement to the 2:30 appointment. I am just doing this because I take it for granted they asked you to do it and you fell down.

Mr. McReynolds: I haven't any jurisdiction over space.

HM, Jr.: Did they ask you about it?

Mr. McReynolds: Oh, yes! We have been on Interior's neck for a month. I will see that we have Miss Roche and Demaray there at 2:30.

HM, Jr.: Let's make it at 2:15, but I'm relying on you.

Mr. McReynolds: I will have Miss Roche and Demaray there at 2:15.

Mr. Taylor: I would like to tell you about a scene at the Washington Hotel with Mrs. Garner there. Some friends of mine who were staying at the Washington -- it has to do with this boy you are having trouble with -- coming into their room and the fellow is out in the corridor with one foot in the door, saying 'But Mrs. Garner, my future depends on it.' She said, 'But you misrepresented to the Treasury.' This goes on for fifteen minutes and then the house detective and somebody comes along and leads him away. Apparently something wrong with him.

HM, Jr.: On which side of Mrs. Garner's door were you?

Mr. Taylor: I wasn't there. It was a friend of mine. I am just a reliable reporter. One of my scouts reported this.

HM, Jr.: This is the best meeting we have had for along time.

Mr. Taylor: Like some British news?

HM, Jr.: Sure.

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Mr. Taylor: Mr. Bingham and Mr. Davis are having a series of very polite conversations at the minute on the other side with Mr. Chamberlin, the Chancellor, and pending the outcome of those conversations we won't have any news that means anything.

HM, Jr: Are we still being humorous?

Mr. Taylor: No.

HM, Jr: Who told you this?

Mr. Taylor: Feis.

HM, Jr: What are they discussing?

Mr. Taylor: The world -- with specific relation to our relations with the British?

HM, Jr: Our relations?

Mr. Taylor: United States.

HM, Jr: But not Treasury?

Mr. Taylor: No.

HM, Jr: May I make a little prophecy? Out of that three-cornered conference will come no news.

Mr. Taylor: I am not betting against you.

HM, Jr: That was all in the Hearst paper and Jack Garner went clear up to the ceiling and, believe me, Mr. Hull had a very unpleasant situation at Cabinet and he said, pounding the table, "I want to know what are those fellows talking about. If it has anything to do with debt settlement or lending money, I want to know."

Mr. Taylor: I gathered that they don't know here.

HM, Jr: This was at 2:30 and I was at Mr. Garner's office that morning. It's all right. The President assured him that they were not talking about anything that anybody could not know about. I told you last night about the dinner that took place

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last night in Paris?

Mr. Taylor: Yes.

Mr. Oliphant: Nothing, except I located the report we were looking for. Harold gave it to Alexander.

HM,Jr: How come?

Mr. Oliphant: I don't know. You probably sent it to Mac and Mac automatically sent it to Harold.

HM,Jr: How come? It don't sound like Harold.

Mr. McReynolds: I haven't talked to him about it.

HM,Jr: You and Harold come in here together at 10:15. It doesn't sound like Harold.

(To Mrs. Klotz) It wasn't in our stuff?

Mrs. Klotz: It never was. We never had the thing in our office. I am quite positive.

HM,Jr: The point is it went from Mac to Harold. You say you never had it?

Mrs. Klotz: Never had it. I was anxious to look at it and that's why I remember so definitely that we never had it.

Mr. Oliphant: Harold will know where he got it.

Mr. McReynolds: I have no recollection.

HM,Jr: Well, find out. If Mrs. Klotz says we did not have it, we did not have it.

Mr. Lochhead: About two years ago we had a big book. We kept it in our safe because there was no room to hold it.

HM,Jr: It's interesting, but it won't shake the foundations of the world.

Mr. Oliphant: No. "God's still in the Heaven and all's right with the world."

HM,Jr. (To Magill): Are we going to have a meeting at 3:30?

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Mr. Magill: Right! I have been after them already this morning on the investigation they are making in the field, which does not seem to be going very well. Unfortunately, Guy Helvering is having some teeth out.

HM, Jr: Won't he be here?

Mr. Magill: He said he would try to be.

HM, Jr: If he is not, I don't want the meeting unless he's here. Just so you know my plans, we are going up to New York tomorrow afternoon and I will be back here Monday a week. I will be at the Farm. We are going up on the 3 o'clock train, Standard Time.

All right, George, let's you and I see Daggit.

oOo-oOo

Yellowley

L CHICAGO--E. C. YELLOWLEY, CHIEF OF THE ALCOHOL TAX UNIT, AND HIS CHIEF ASSISTANT, LEVI Z. BAKER, TODAY WERE ORDERED CITED FOR CONTEMPT OF COURT BECAUSE OF CONVERSATIONS YELLOWLEY IS ALLEGED TO HAVE HAD WITH A FEDERAL GRAND JURY FOREMAN.

4/29--R1150A.

QADD YELLOWLEY, CHICAGO

FEDERAL JUDGE JAMES H. WILKERSON ORDERED ASSISTANT U.S. DISTRICT ATTORNEY DANIEL GLASSER TO DRAW UP THE CITATION AND ORDERED YELLOWLEY TO FILE HIS ANSWER MAY 6. HEARING DATE WAS SET AT MAY 10.

WILKERSON ORDERED CHARGES AGAINST THE ALCOHOL INVESTIGATOR AFTER RECEIPT OF A REPORT BY SIDNEY S. ECKSTROM, FOREMAN OF A GRAND JURY UNDERSTOOD TO HAVE INVESTIGATED ENFORCEMENT OF LIQUOR LAWS.

ECKSTROM REPORTED THAT ON THE NIGHT OF APRIL 21 HE RECEIVED A TELEPHONE CALL ASKING HIM TO COME TO A LOOP HOTEL. HE MET YELLOWLEY THERE, HE SAID, AND TALKED WITH HIM TWO HOURS AND A HALF.

HE SAID, HOWEVER, THAT THE ALCOHOL CHIEF MADE NO ATTEMPT TO INFLUENCE HIM AND THE REPORT OF THE JURY WAS NOT CHANGED.

4/29--R1153A

April 29, 1937.
11:05 a.m.

H.M.Jr: Hello

O: Mr. Krock.

H.M.Jr: Hello

Arthur
Krock: Yes sir.

H.M.Jr: Arthur.

K: Yes.

H.M.Jr: Henry talking. I've got an idea which may or may not appeal to you. Ah - I was just reading Ferdinand Coons' story out of London on "Stocks Fall in London".

K: Yes.

H.M.Jr: And about their commodity troubles and all that and, of course, it's the only intelligent story which is in any paper to-day on the situation.

K: I thought it was very good.

H.M.Jr: Now - what - I - I don't think the other people caught onto it - "What is the situation here", see? Ah - what about our banks and our commodity loans and our loans against stocks, see?

K: Yes.

H.M.Jr: Now the people get angry when the President keeps warning them all the time - but he has and I think if you'd have somebody write a story or you can write it yourself - due to these warnings and due to - if you don't mind my saying so - our constantly warning the people - ah - you'll find, on investigation that our banks have not made commodity loans, our brokerage houses are all in good shape and we can take this sort of thing in the - in our stride.

K: Very good point.

H.M.Jr: Now no one has pointed that out.

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K: Very good point.

H.M.Jr: And it might have a quieting effect.

K: It probably would and I shall - I'll put it in the works at once.

H.M.Jr: Do you get it?

K: Yes I think I have it.

H.M.Jr: What?

K: I'm sure I have it.

H.M.Jr: And nobody's handled it that way.

K: No, I real- - I - I'll put it in the works right away.

H.M.Jr: Thank you.

K: Thank you.

April 29, 1937.
2:47 p.m.

H.M.Jr: Hello

O: Congressman Doughton is in the building but they don't know exactly where; they'll try to reach him.

H.M.Jr: All right, leave word I called.

O: All right.

H.M.Jr: And let me talk to - ah - to - ah - Mr. Oliphant.

O: Right. Go ahead.

Oliphant: Hello

H.M.Jr: Herman

O: Yes.

H.M.Jr: Not to hold you up - you couldn't clear what you have on your mind over the 'phone?

O: Well I think I could.

H.M.Jr: Try it.

O: Ah - I think from the stand- - from our standpoint that that Chicago thing is pretty serious.

H.M.Jr: Yes.

O: He didn't know how it might turn out but there's been no technical violation under the law because what happened is our official representative there - ah - makes a secret contact through a third person to meet the Foreman of the Grand Jury in a hotel room;.....

H.M.Jr: Yes.

O:not in his office and not at the man's house.....

H.M.Jr: Yes.

O:to discuss something or that he tried to get from him something that the Foreman wouldn't give him in the Grand Jury room.

H.M.Jr: Yes.

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- O: And I don't know - ah - looks to me like an apology is going to be called for.
- H.M.Jr: Well by God I'm not going (laughs) to make it.
- O: What?
- H.M.Jr: I won't make it. I'll tell you what my reaction was when Graves was in here.
- O: Ah-ha.
- H.M.Jr: Ah - he wanted - he suggested my calling up the Attorney General to call it off. I said, "No." I said, "If this man has done it or hasn't done it make him go through with it," see?
- O: Ah-ha.
- H.M.Jr: I'm not going to call up the Attorney General.
- O: Well I think this action of Yellowley's is unbelievably stupid.
- H.M.Jr: Well all I would suggest, in sending somebody out there, would be to - ah - just so he isn't left cold, that's all.
- O: Yes.
- H.M.Jr: But make him take his medicine.
- O: Yes - yes.
- H.M.Jr: What do you think?
- O: Well I - ah - that's the way I'd like to do it. I'd like to - I'm sending a very good man - Mr. Forrest who's had a lot of experience in the court room - Assistant District Attorney in Baltimore - I want to go over it carefully with him before he goes.....
- H.M.Jr: Yes.
- O:and - fortunately now a date has been set.....
- H.M.Jr: Good.

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- O:and the hearing doesn't come off until the 10th.
- H.M.Jr: Yes.
- O: But I'd like for him to go out now in the meantime and look the situation over and find a little more about what actually happened and then - ah -
- H.M.Jr: Well I - I feel this way - without knowing the law that if - I wasn't going - without - going to call up the Attorney General and ask him to excuse him from something which he - which may or may not been wrong.
- O: Oh quite the contrary - if you were calling the Attorney General at all you'd be calling him to apologize.
- H.M.Jr: Well I'm not going to apologize; I'm through apologizing.
- O: Well I know what - you know what I mean. The thing - the thing is on the reverse.
- H.M.Jr: Well then if it isn't until the 10th, let your man go out, get the first hand attention, confer - if you can't make up your mind I'd be glad to talk to you about it from the farm.
- O: Fine.
- H.M.Jr: Now does that leave your mind.....
- O: Perfect.
- H.M.Jr: Thank you very much.

April 29, 1937

HM, Jr called in Sloan and Bryan and said he wanted a pep up the sale of baby bonds between now and July 1.

He suggested advertising in the newspapers. He asked the boys to prepare a plan suggesting what newspapers to advertise in without getting into trouble for advertising in some papers and not in others. He told them he did not want any criticism because of it and wanted them to work out a plan in such a way that they will be able to give a good excuse for omitting certain papers.

May 7, 1937

Mr. Taylor

Division of Savings Bonds (Mr. Sloan & Mr. Bryan)

Subject: Report of Conferences.

We have had extended joint conferences during the last several days with several representatives of both of our advertising agencies, and have thoroughly canvassed the methods and possibilities of immediately and materially increasing the sale of United States Savings Bonds.

In these discussions we have placed the following requirements:

- (a) Special campaign and expense limited to present fiscal year, ending June 30, 1937.
- (b) Quota of increased sales from these special activities to be not less than \$100,000,000.
- (c) Maximum newspaper and radio publicity.
- (d) Protection against criticisms from competitive media.

The time element eliminates all media except radio and newspaper.

RADIO

We recommend talks over local radio by postmasters. Usually time is cheerfully allotted to postmasters and as we will be using, perhaps, extensive newspaper space, the radio stations controlled by newspapers will be all the more likely to cooperate. We recommend a dialog form of radio presentation.

NEWSPAPER ADVERTISING

In order to approximate an increased sale of \$100,000,000 or more within the next several months extraordinary effort is required. Our greatest reliance is on newspaper publicity. To

secure the maximum publicity and eliminate all possible criticism from competitive media, we are recommending nothing short of paid advertising in every English language daily newspaper in the United States. This will cost for the program we are outlining between \$215,000 and \$265,000 depending upon the insertions in smaller papers. Our recommendation is for a 300-line advertisement (8 1/2 x 7) to run three times in the smaller dailies which number approximately 1,809.

Candidly, we do not expect this size advertisement in these lesser dailies to assist greatly in the sales, but we are counting on the sustaining publicity. We expect our selling job to be accomplished by 700-line copy in all of the leading dailies. This copy to appear six times in each of these papers.

The division of cost is -- for the metropolitan dailies (approximately 150 papers) six insertions each.....	\$190,928.40
For the lesser dailies (1,809 papers) three insertions each.....	\$ 72,474.00
Total.....	\$263,402.40

PUBLICITY

We recommend decentralizing our publicity, and, if practical, permitting the postmaster to place the advertising in their respective local papers. We would furnish to postmasters a minimum of three releases per week during this campaign, and there would be no question but we would receive tremendous publicity.

NEW ISSUE

In our several conferences, everyone attending was unanimous in the belief that, if the "Investment Bonds" which you have outlined would be offered as a limited issue at this time, several hundreds of millions of dollars could be very quickly placed through the advertising campaign above suggested for Savings Bonds. Every suggestion you have made with reference to these bonds has been enthusiastically endorsed with the exception of the investment bonds being sold in the lower brackets. We feel that, in order to stay away from confusion and actual competition with Savings Bonds, \$1,000 should be the minimum denomination of the investment bonds, and that the maximum purchase in any calendar year should be \$25,000. We see no difficulty in effectively combining our advertising of Savings Bonds with "Investment Bonds".

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CONTESTS

We are all agreed that a contest offering awards or additional compensation to letter-carriers would sell a great volume of Savings Bonds within a very limited period. Likewise, contests with the public at large could be planned.

But we are agreed that the time at our disposal to launch any contest is insufficient. Nevertheless, we will present to you in the near future the details of these suggested contests.

T Prepared by Mr. Daggit
Division of Research and Statistics
IN

DATE April 29, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business and Price Situation

Summary

Business activity during April, as indicated by weekly data, has maintained the high level of March, and shows some rising tendency. It still remains a few points lower than the December peak, when allowance is made for seasonal trends, though actual production is higher than in December.

Certain elements of weakness in the business outlook have appeared. A decline in first quarter corporate earnings in relation to output may indicate a slowing up in business. The downturn in commodity prices during the past few weeks tends to remove any speculative basis for the recent business expansion, and to that extent may have an unfavorable reaction on business activity. A decline in stock prices to the lowest levels since last September also may affect business unfavorably, since the stock market influences business sentiment. A sharp falling off in new business in the textile industry may indicate a greater than seasonal decline in textile activity during the summer.

On the other hand, the level of business activity during the coming months will be supported by the improvement in factory payrolls, by a continued strong retail demand for automobiles, by an increasing demand for railroad equipment, by well-sustained activity in the steel industry, and by the more peaceful labor situation. Any setback in industrial activity during 1937 seems likely to be temporary, in view of the fact that no characteristics of an important top in business activity have yet appeared; that agriculture has yet to contribute its normal share to business prosperity; and that a revival of building activity has yet to play its part in business recovery.

The decline in security prices during March and April was apparently initiated by previous weakness in bond prices, and was later influenced by declining commodity prices, unfavorable earnings statements, and increased foreign selling. No extended decline appears in prospect, however, in view of the favorable long-term business outlook, the lack of any large speculative interest (aside from foreign holdings), and the fact that present prices already discount a considerable setback in business activity. The fact that the bond market is beginning to show evidence of increased buying interest appears favorable for stock prices.

The recent decline in commodity prices, brought on largely by weakness in foreign markets, may be prolonged by further liquidation, by increasing production in response to high price levels, by the possibility of a halt in the rearmament race, and by any tendency toward a recession in business. The longer term outlook appears in favor of a rising trend.

The Business Situation

Business activity during April (seasonally adjusted) has maintained the high level of March, but remains somewhat below the peak established last December. The weekly indexes of the Department of Commerce show a gradual upward tendency during the month. Steel production has risen slightly to a new high level, after holding for six weeks within a narrow range. Automobile production has expanded sharply in recent weeks, after previously being depressed because of strikes, and both electric power production and petroleum production have increased. These have been partly counteracted by a large decline in bituminous coal production. The recent trend of business activity on a weekly basis, in comparison with previous monthly figures, is shown in Chart 1.

For the month of March, industrial production (seasonally adjusted) increased its gains over the previous two months, but did not reach the high level established in December. A comparison of the March figures with the December figures, by industries, is shown in Table 1, attached. The Federal Reserve Board index of production for March, estimated at 118, compares with 116 in February, 114 in January, and 121 last December. The average for the year 1929 was 119.

A greater than seasonal gain was recorded in a number of important business series. The production of cotton goods during March reached the highest level on record, 779,000 bales of cotton being consumed, as compared with the previous high of 696,000 bales in June 1933. Steel ingot production reached a volume exceeded only during the early months of 1929. Lumber production expanded more than seasonally, as did the output of bituminous coal, and the volume of freight car loadings. Electric power production remained unchanged, when a decline was normally to be expected. Automobile production, held back by strikes, showed no increase during March.

In terms of actual production, not adjusted for seasonal variation, the March index of production was substantially higher than last December, averaging 122 as compared with a December figure of 114. This has been reflected in increased employment and payrolls, and the position of factory workers has shown a noticeable improvement. The increase in payrolls has been greater than the increase in employment, while living costs have gone up but slightly. Thus a definite betterment in real wages has occurred. As compared with an average for the period 1923-25, represented by 100, real factory wages during March stood at 117.1. In comparison, the average for the year 1929 was 110.9. Comparative figures for the past four months are shown in the table below.

	(1923-25 = 100)			
	<u>March</u>	<u>February</u>	<u>January</u>	<u>December</u>
1/ FRB Industrial Production	3/ 118	116	114	121
1/ FRB Employment	3/ 100.8	99.7	98.8	98.6
BLS Payrolls	3/ 101.2	96.8	90.8	95.1
NICE Cost of Living	86.4	85.7	85.4	84.7
2/ Real Wages	3/ 117.1	111.8	106.1	112.3
1/ Adjusted for seasonal variation				3/ Preliminary.
2/ Payrolls divided by cost of living.				

The Business Outlook

Certain elements of weakness in the business outlook have recently appeared. Of important significance is a decline in corporate earnings in the face of increased industrial production. The earnings of 161 corporations (industrial, rail, and utility) during the first quarter of this year, according to a preliminary estimate of Standard Statistics, show a reduction of 26.5 percent from the earnings during the last quarter of 1936. Yet industrial production in this period showed a rise of 3.5 percent. The estimated corporation earnings for this quarter were only 1.8 percent above the earnings during the third quarter of 1936, whereas industrial production was 10.4 percent higher. A slight upward revision will be made in the preliminary earnings estimate on the basis of recent corporation reports, which will not change our conclusions.

While a slight reduction in earnings could have been expected on the basis of seasonal factors, and on a reduction in inter-corporate dividends as compared with the December quarter, a decline of this extent during a period when output was increasing apparently indicates a tendency for production to run ahead of consumer demand, since corporations have evidently been unable to pass on all of their recently increased labor and material costs to consumers. On the basis of past experience, this would suggest a tendency toward a slowing up in business. In Chart 3 we show a comparison of industrial production with corporate earnings over the past several years.

A second element of weakness is the recent decline in commodity prices, which has removed part of the foundation on which the winter and spring improvement in business was built. There seems no doubt that the sharp upward movement in commodity prices during the past two quarters, which created a widespread belief that inflation was under way, brought into the market a considerable volume of anticipatory buying that would normally have been deferred until later in the year. While the filling of outstanding orders will maintain factory production for a time, the change in the public attitude toward inflation brought about by the collapse in prices is likely to discourage new orders, and eventually affect industrial production.

The decline in stock prices must also be considered an unfavorable factor in the business outlook. A considerable section of the business community depends in some degree upon the stock market as indicating the trend of business. The decline in the Dow-Jones industrial index from 195 early in March to this week's low level of 171 is likely to have an unfavorable effect upon business sentiment, and influence future plans accordingly.

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Conditions in the cotton textile industry appear to be growing less favorable. Although the domestic consumption of cotton during March established an all-time record, textile sales during March and April have been less satisfactory than expected. Department stores, having bought too heavily when prices were rising, are in many cases said to be requesting deferment of deliveries until May, when a broadening of consumer interest is hoped for. Buyers generally have anticipated their summer and fall needs in large volume. The recent declines in cotton prices have made buyers cautious and sharply reduced the volume of new business. Unless the retail demand for finished goods improves shortly, a greater than seasonal decline in cotton textile activity seems likely during the summer months. The volume of unfilled orders on the books of mills at present, however, is believed to be large enough to maintain activity at high levels during the second quarter.

The favorable factors in the immediate outlook appear to have less weight than the unfavorable factors, but are sufficiently important to be a strong supporting influence for business during the coming months. These may be listed as follows:

- (1) The recent improvement in real wages of factory workers, which has hardly had time, as yet, to show its effect in consumer demand.
- (2) A continued strong retail demand for automobiles, which may be further strengthened during the spring by the improvement in factory wages mentioned above. Dealers are reported to be selling cars as rapidly as they can obtain them from the factory, with consumer demand far from satisfied. This should help maintain production in the steel industry.
- (3) An increasing demand for railroad equipment. This demand appears sufficiently urgent not to be affected by business uncertainties, but may, on the contrary, be stimulated by declining materials prices. This also will tend to maintain the rate of output in the steel industry.
- (4) A well-maintained demand in the steel industry. The rate of steel activity has recently been holding up at a time when a seasonal decline could be expected. The posting of unchanged finished steel prices for the third quarter, however, has removed the fear of further price increases, which had been one of the reasons for heavy advance bookings.
- (5) A more peaceful labor situation. For the first time in months no serious strike threatens any industry.

We can see nothing in the situation at this time to suggest more than a temporary setback in industrial activity. Aside from the probability that business has advanced too rapidly during the past two quarters, under the influence of a semi-inflation boom, and that a little time may be necessary to enable consumption once more to get into step with production, nothing so far has occurred, in our estimation, to change the fundamental factors pointing toward a further recovery.

It is true that the volume of industrial production at present is back to the 1929 level, from which the severe recession began eight years ago, and that the rate of activity in some important industries exceeds that of 1929. Changed conditions, however, warrant the belief that the present level of industrial production is not directly comparable with that of 1929. In the first place, the population in this country and doubtless in the world has increased over the intervening years. Our population as now estimated is 6 percent larger than it was in 1929, which would justify a corresponding increase in the normal level of industrial production. Secondly, owing to the unusual severity and duration of this depression, the replacement demand for durable goods, and even for many types of consumers' goods, is probably greater than ever before. This apparently explains in part the new records being made in the textile industry and in the steel industry. In the third place, an appreciable part of the present volume of industrial production represents Government-financed orders for materials used in various emergency projects, which cannot properly be considered a part of the normal business demand. Finally, a continued trend toward industrialization, toward factory production in place of home and small shop production, and a continued increase in the number and variety of factory products demanded by the consuming public, should tend to establish a progressively higher normal level of industrial production. A single argument on the other side is the fact that restrictions on our export trade have reduced our production for export, notably in automobiles. Yet our imports have also been reduced to nearly a corresponding degree, thus increasing our demand for domestic products.

After each previous depression in our history the level of business activity in this country has risen to new high levels. In Great Britain, Japan, and a number of other countries, new high levels have already been reached after the recent depression. On these facts alone one would be justified in expecting a further rise from the present level as being more probable than a decline. This belief is strongly supported by the following facts:

(1) No characteristics of a major top in business activity have yet appeared. Interest rates remain near their lowest levels, which suggests a rising long-term trend of business. No speculative boom, such as usually characterizes a major top in business activity, has taken place. The recent boom in commodity prices now appears to have been largely of foreign origin, and confined in its speculative effects mainly to foreign countries. Perhaps it marks an important top in the British business cycle. In this country there has been no speculative boom in the stock market, no material increase in brokers' loans, and no boom in land values.

(2) Agriculture has, as yet, scarcely contributed its normal share to business prosperity. With production seriously curtailed by three successive years of drought, the farming industry has not yet shown its potential influence in promoting recovery. This, in turn, is an important reason for the lagging trend of railroad earnings and railroad equipment purchasing. The powerful influence of heavy agricultural production upon industrial activity and corporation incomes is seen in the fact that recovery from nearly all previous depressions occurred in bumper-crop years. The prospect of increased agricultural purchasing power next fall, as well as an increased volume of crops to be moved by the railroads and processed by manufacturing concerns, will prove a strong support to business during the final quarter of the year. Assuming normal yields, an increase of approximately 5 percent in the volume of crop and live-stock production can be expected during the 1937 calendar year, with crop production probably exceeding last year by around 10 percent. Because stocks of agricultural commodities have been greatly reduced, and prices have risen since last fall, the increased crops will have relatively little effect in depressing prices as compared with those prevailing when last year's crop was marketed. An agricultural income this year 10 to 12 percent larger than last year seems a reasonable expectation.

(3) A revival of building activity has yet to play its part in the business recovery. That this eventually will become an important factor is indicated by the huge deficit in both residential and heavy construction that has accumulated since the decline began in 1928. In England, where recovery began nearly two years earlier than in this country, a building boom occurred during the fourth and fifth years of recovery, and was largely instrumental in raising industrial activity in 1935 to levels exceeding those of 1929. In the United States, building construction has revived gradually since the low in 1933, but is still below normal. The index of residential construction contracts awarded during the first quarter of this year, as computed by the Federal Reserve Board, was only 42 percent of the 1923-25 average, as compared with 126 percent during the peak year 1928. Non-residential contracts awarded during the first quarter, excluding those for public works and public utilities, were 63 percent of the 1923-25 average, which compares with 142 percent in both 1928 and 1929.

The present low level of construction seems to be due in large measure to high material costs, together with the fact that individual and corporation incomes have only recently risen much above what might be termed "subsistence levels." A construction boom requires not only an urgent need for new construction, which exists at present, but in addition it requires both the ability and the willingness to pay for new houses, new factories, etc. The ability to pay has developed largely during the past year, but the willingness to pay seems still to be held back by the high cost of materials. This, in particular, discourages speculative building, which has been an important factor in previous building booms. If the recent decline in commodity prices should bring a reduction in prices of building materials, it is entirely possible that construction activity may support business on any recession, and may even, as in Great Britain, lead the next upturn.

With these major factors still pointing toward higher levels of industrial activity over the longer term, it is difficult to foresee more than a temporary setback in business during 1937. Increased agricultural incomes, an increased volume of agricultural production, and a heavy volume of residential and factory construction would in themselves tend to support most other branches of industry, particularly in railroad equipment, automobiles, construction materials, and steel.

Security Prices

Stock prices have shown a declining trend since the peak was reached early in March. Measured by the Dow-Jones averages, industrial stocks have declined from a top of 195 to a low last Monday of 171, representing a loss of about 13 percent, which cancels all gains made since last September.

Various factors are responsible for the decline in the stock market. The movement appears to have been initiated by the drop in bond prices, which occurred just before stocks reached their peak. The weakness in bonds apparently had a certain effect in disturbing confidence of investors in the outlook for securities, bringing precautionary liquidation of stocks on the part of important investors. Declining commodity prices later had an unfavorable reaction on the stock market, leading to the belief that inflation might be losing its effect as a business and speculative influence. Disappointing earnings reports for the first quarter were also a factor in the market, indicating that many stocks had over-discounted earnings prospects. This was particularly true of the utilities and food companies, a number of which reported earnings lower than the first quarter of last year. While earnings generally showed good gains as compared with the corresponding quarter of 1936, they made an unfavorable comparison with the last quarter earnings of that

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year. This led to the feeling in some quarters that increased labor and material costs were cutting into corporation profits, justifying a lower level of stock prices.

More recently, a persistent selling movement by foreign holders of American stocks has weighed heavily against the market and was an important factor on last week's decline. Previously, during the past year or more, such selling has been of short duration, and foreign traders have turned actively to the buying side when the stock market rallied. This time the selling has continued on rallies and followed the market down on ensuing declines.

Our reasoning suggests that this may mark the beginning of a movement away from American securities, and may continue as a depressing factor in the stock market. The original buying of our securities appears to have been done largely for two purposes: to provide a safer investment for capital than was available in Europe under its continual threat of war, and to take advantage of rising price trends and improving business in this country. The avoidance of taxes has also apparently been a factor of some importance. Within the past two weeks a decided change has appeared in European war sentiment. The possibility now appears that the important European powers may agree to an international conference looking toward the settlement of economic difficulties and the halting of the re-armament race. If successful, this would minimize or remove one of the important factors responsible for foreign buying of American securities. In the second place, the recent collapse in commodity prices, the decline in corporate earnings, and the unfavorable action of the stock market itself, have all tended to discourage investments based on the theory of rising profits in American industry. These are strong arguments for a belief that a movement of foreign funds out of American securities may have begun.

An analysis of the movement of foreign transactions over the past two years in relation to the trend of the stock market shows that foreign selling tends to be heaviest during periods of market weakness, which suggests that the foreign holdings are partly speculative in nature. To the extent that this is true, they may continue to be liquidated on a declining market, like other speculative accounts, and tend to prolong the recent market decline.

No extended decline in stock prices, however, seems in prospect. While the effect of foreign selling remains an uncertain factor, the lack of any large speculative interest in the stock market in this country, together with the favorable long-term business outlook, the low level of interest rates and the volume of funds seeking investment, suggest that any decline in stock prices over the next few

months is likely to be of moderate proportions. None of the symptoms which in the past have usually preceded an extended market decline, such as a high volume of brokers' loans, high call money rates, and a heavy volume of stock transactions, have yet appeared. Stocks seem generally not over-valued in relation to earnings, particularly when the prevailing low level of interest rates is taken into account. In their decline over the past month and a half, they have already discounted, at least in part, an expected setback in business. As a matter of fact, at Monday's low the Dow-Jones industrial index had declined to the lowest levels of October, 1936, during which month the Federal Reserve Board production index stood at 110. Through their tendency to anticipate changes in business some time in advance, stock prices may be expected to meet support and begin an upward trend some time before business actually starts to improve.

The bond market is beginning to show evidence of support, both for Governments and corporates, which usually precedes a turn toward a rising market trend. The decline in bonds began earlier than the declines in either stocks or commodities. Among the various quoted price series, the Annalist average of 10 high grade rail bonds reached a peak as early as mid-December, and started to decline sharply just after the middle of January. Bonds of this class reached a low point at the middle of March and have strongly held their ground since that time, despite weakness in other divisions of the bond market as well as in railroad common stocks. The Dow-Jones index of corporate bonds, which is evenly divided between high grade rails, second grade rails, industrials and utilities, started to decline sharply during the latter part of February. This group has also shown evidence of increased buying, and on the recent break in the stock market it failed to reach its previous low.

The trend of prices for British consols is conspicuous as an example of support followed by a movement toward higher levels. The decline in these bonds started considerably earlier than in U. S. Government bonds, during the latter part of November, and became stabilized during March when our bonds suffered their greatest decline. Since then the trend has been slowly upward, with last week showing a sharper rise in the face of a decline in British stock prices. The market for U. S. Government bonds has been stabilized during April, and the price trend has much the same appearance as the trend of British consols during March. Our experience leads us to believe that bonds will be first to strengthen after the recent declines in the security and commodity markets. The increased buying interest which has provided support for all types of bonds during the past several weeks in the face of weakness in other markets may be preliminary to the beginning of another upward movement in bond prices.

Commodity Price Situation

During the past six months we have seen a rather typical rise and fall of a speculative cycle in commodity prices, though we have yet to pass through the final stage of that cycle, which is normally represented by a prolonged period during which the speculative holdings acquired at higher levels are gradually liquidated, as increased production stimulated by the price boom brings progressively lower prices. The trend of commodity prices in the United States by weeks since last August is shown in Chart 2, which compares the BLS spot price index of 50 sensitive commodities with the Dow-Jones index of futures prices for 11 commodities.

The rise conformed in most respects with the usual pattern for a speculative rise. Starting in an orderly manner during October and November, it gained momentum as more and more buyers were attracted into the commodity markets by widespread inflation and rearmament publicity. Commodity speculation apparently was centered in London, with Europe as a whole taking a much more important part in the market than this country. The rises in practically all speculative commodities, according to trade reports, were initiated by foreign buying. A foreign dispatch to the Wall Street Journal recently mentioned that speculation in armament and gold shares as well as commodities in London had been rampant for months, and had interested all classes of the trading public. In certain respects the speculation in commodities abroad appears to have been comparable with our stock speculation of 1929. An aftermath of this situation was the most severe commodity decline in the London market that had been recorded for any one day since Reuter's commodity price index was started in 1931, together with numerous reports of financial difficulties among commodity traders. While the volume of commodity speculation in this country showed a large increase, judging from the published figures on trading volume, it apparently was much less extensive than abroad, and its after-effects are likely to be much less serious.

The trend of commodity prices over the past several months, as shown in Chart 2, indicates that a typical "double top" has been formed, which often precedes a rather extended decline. This is particularly evident in the index of futures prices. Following the top reached in early January, a reaction occurred lasting nearly two months. During March a second upturn carried the index slightly above its previous top, but the gains could not be held, and during April a very sharp decline has occurred. Prices are now back to the level at which they received support during February.

There are several reasons for believing that the trend of commodity prices from this level may be downward. (1) An over-bought situation created by a speculative boom is practically never corrected

by a short reaction, however sharp, but a period of several months is usually required for the liquidation of weak speculative holdings. In 1933, for example, the first sharp reaction in late July was followed by a general decline lasting until December. (2) The increased production that is being brought out by the present high prices is likely to be a more evident market factor next fall than it is now. In most futures markets, particularly for agricultural products, the fall months are quoted at substantial discounts from present spot prices. In the case of the metals and certain other non-agricultural commodities, present price levels are believed to be considerably above production costs, a situation which in the past has usually been soon corrected. (3) The possibility of a halt in the European rearmament race, which has brought a collapse in the prices of armament stocks on European exchanges, removes one of the bases for the speculative boom in metals and certain other commodities. (4) Any recession in business this summer would tend to reduce the demand for commodities, particularly in view of increased inventories that have been built up in some industries.

The longer term trend apparently continues in favor of rising commodity prices through the effect of expanding industrial demand, increasing labor costs, an expansion in bank credit, and increased world gold reserves.

Table I
Federal Reserve Board Index of Industrial Production,
December 1936 compared with March 1937, by leading industries
Adjusted for normal seasonal variation

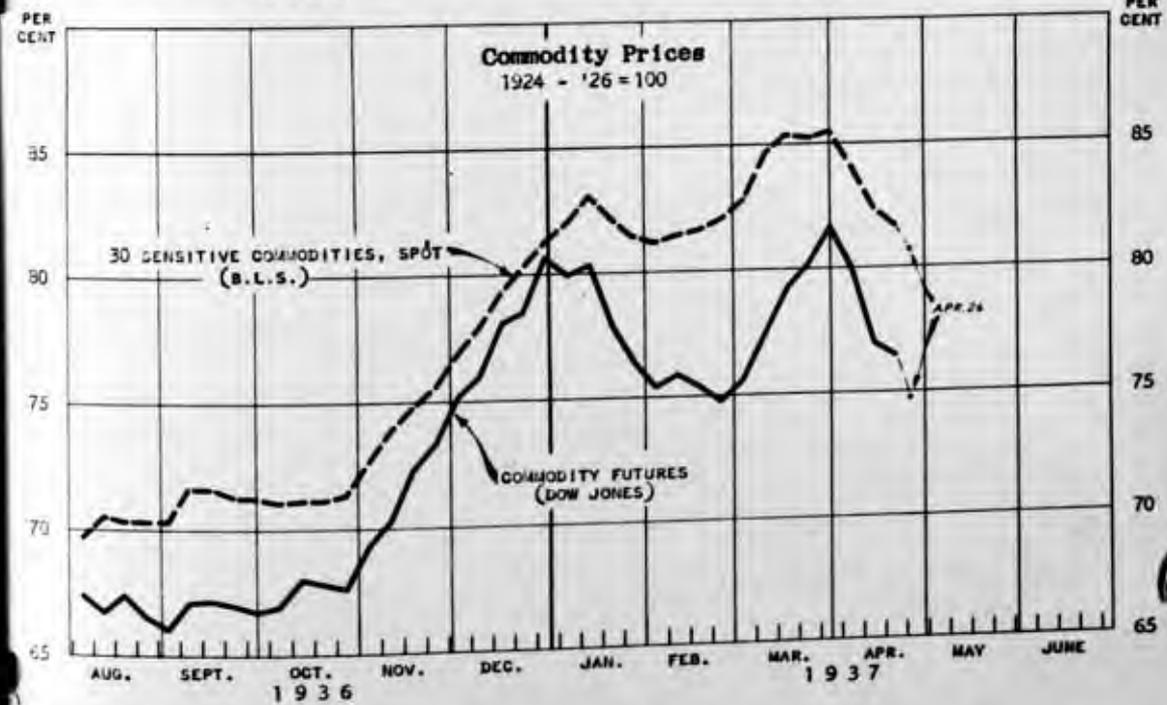
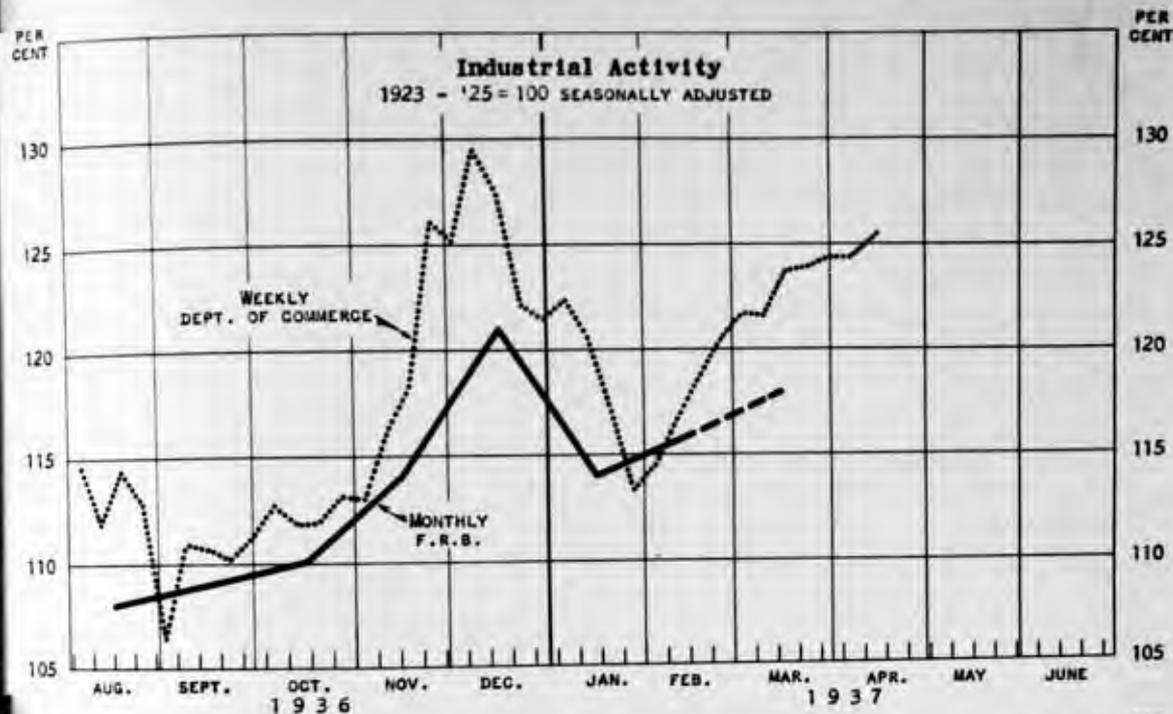
Industry	: Production index :		: Decline :	: Rise :	: Effective ^{2/} change in total :			
	: (1923-25 = 100) :					: (points) :	: (points) :	: (points) :
	: Dec. :	: March :						
	: 1936 :	: 1937 :						
Iron and Steel	143	127	- 16		- 3.2			
Pig Iron	104	108		+ 4				
Steel Ingots	147	129	- 18					
Textiles	139	p. 128	- 11		- 1.9			
Cotton Consumption	144	136	- 8					
Wool	141	p. 138	- 3					
Silk Deliveries	134	114	- 20					
Food Products	99	92	- 7		- 0.6			
Meatpacking	100	89	- 11					
Wheat flour	87	89		+ 2				
Sugar meltings	115	108	- 7					
Newsprint Production	64	64	0		.0			
Automobiles	122	121	- 1		.0			
Leather	134	p. 132	- 2		- 0.1			
Cement	91	<u>1/</u> 85	- 6		.0			
Glass, Plate	89	229		+140	+ 1.8			
Tin Deliveries	105	144		+ 39	+ 0.2			
Zinc	98	107		+ 9	+ 0.1			
Lead	80	75	- 5		.0			
Petroleum, Crude	161	p. 173		+ 12	+ 0.6			
Petroleum Refining	191	<u>1/</u> 194		+ 3	+ 0.1			
Tobacco Products	183	153	- 30		- 0.3			
Bituminous Coal	97	p. 110		+ 15	+ 0.8			
Anthracite	73	p. 81		+ 8	+ 0.2			
Industrial Production	121	p. 118	- 3					
Manufacturing Production	121	p. 117	- 4					
Mineral Production	117	p. 127		+ 10				

^{1/} February figures

p = Preliminary.

^{2/} Points change in total index of industrial production resulting from indicated rise or decline in each industry.

INDUSTRIAL ACTIVITY AND COMMODITY PRICES



INDUSTRIAL PRODUCTION AND CORPORATION PROFITS

1933 = 100 UNADJUSTED



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 29, 1937.

to Secretary Morgenthau

FROM

Mr. White *H DW*

Subject: Conversation with Dr. Otto Jeidels, April 26, 1937.

Dr. Jeidels is one of the owners of the largest wholly privately owned bank in Germany, the Berliner Handelsgesellschaft, which is the smallest of the big five commercial banks. A consular report of June 26, 1936, reported that in November 1931 a large block of the bank's stock was purchased by American banking interests. Its assets are reported to be about 275 billion marks. A summary of his views on numerous topics, offered in response to a few direct questions during the conversation, follows:

(The following are Dr. Jeidels' views described from memory; observations in parentheses are mine.)

1. The German budget situation.

Dr. Jeidels states the estimates made in numerous quarters that the "hidden" floating debt of the German Government is from 40 to 50 billion marks are much too high. He estimates that the Government issued from 3 to 4 billion of these (Arbeitsbeschaffungs wechsel) short-term bills during 1936, making a total outstanding of 12 to 15 billion. He claims that the estimates made by some reliable economists,

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though carefully arrived at, are an error resulting from the fact that the notes are renewable every three months and payment to industry is made by giving them several notes dated ahead to replace the one falling due inasmuch as they do not mature until at least a year. He, therefore, thinks that the various economists have added up these notes cumulatively and thereby introduced a large error in their estimates. (Careful studies which avoid the error he refers to have been made and point to a figure closer to 25 billion than to 15.)

One of the strong features of the German budget, he emphasized in my conversation with him even more than he did at the earlier conference, was the fact that only 1 billion out of the total 13 billion reported expenditures is used to pay for interest and outstanding federal debt. This he compared with interest and amortization burden of 18 billion francs out of a total budget expenditure of 40 billion in the case of France.

(He overstated the proportion of the French budget going to payment of interest and amortization by not including the "extraordinary" expenditures which are part of France's annual budget. Moreover, the existence of a large proportion of the total budget required for servicing debt does not of itself constitute a sign of actual weakness, nor the absence a sign of financial strength. The interest charge e.g. on the British Government debt is over 25 percent. The grave weakness in the German Government finances are (a) her inability to service her

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foreign debt, thus making it impossible for her to obtain badly needed foreign loans, and (b) the rapid rate at which her "hidden" debt is growing. The bills which make up this debt are not in fact rediscountable, and maturities are frequently met with renewals.)

Dr. Jeidels felt that the German Government finances are not bad, and that there was no danger of serious budgetary difficulties. (On this point I suspected his optimism was dictated more by political caution and expediency rather than his evaluation of the situation as an able banker.)

Expenditure on armaments in 1936.

Using the published budget figures, and adding the amount of bills which he estimates were issued in 1936, he arrives at an estimate of about 9 billions spent on armaments in 1936. This estimate is 3 billion more than the one issued by the Foreign Policy Association, but 3 billion less than the one thought to be reasonably correct by Captain Puleston.

(Judging from his likely underestimate of the total of short-term bills, his estimate of the 1936 issue is probably also low, and therefore his estimate of German expenditure on armaments which was partly based on that estimate would likewise be low.)

2. Devaluation of the mark.

Dr. Jeidels expressed the opinion that Germany had very little to gain by a revaluation of the mark at this time. The economic advantages

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that would accrue from such a move were, he believed, slight in view of the large proportion of her exports that are sold under clearing agreements or special marks. Inasmuch as the clearing agreements have some time to run and because numerous foreign countries have built up large blocked balances in Germany as a result of those agreements, which they can reduce only by buying German goods at the nominal market rate, Germany still has an advantage with respect to that trade which she would lose if devaluation took place. (This advantage obtained from her clearing agreements is rapidly growing less owing to the fact that clearing agreements with Germany are becoming less popular. Germany is resorting more and more to subsidizing her exports in order to obtain foreign business.)

He admitted that devaluation would very much simplify their exchange control and would stimulate their exports somewhat, but stated that the chief reason why it was felt in Germany that devaluation would be unwise at this time was the danger of a resultant rise in prices in Germany and the political consequences of such a rise. The German Government is making every effort to keep prices down. He claims that the cost of living has risen only 15 percent since Hitler came into office, and that though wage rates have not risen as much the number of working hours and working days per year have increased so greatly that the annual earnings of the average German has increased enough to offset the rise in the cost of living. Therefore he concludes there

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is no fall in the standard of living. However, any sharp rise in prices now would stir up discontent and a demand for wage increases. The German Government is for obvious reasons anxious to avoid stimulating any popular discontent.

3. Foreign exchange problem.

Germany's foreign exchange problem is more acute than ever notwithstanding the fact that her exports have increased substantially (her export surplus is reported to be about 100 million marks greater for the first quarter of 1937 than it was for the first quarter of 1936). As stated above, the advantage which she formerly possessed through the clearing agreements is disappearing. The market has changed from a buyer's market to a seller's market and Germany is no longer in a position to exact advantageous terms in her clearing agreements as she was last year and the year before. Likewise the rise in the price of raw materials which Germany must have both for domestic needs and exports is leaving a small margin of benefit to her exports and, lastly, more and more of her imported raw materials are being used either for war stores or war material.

Trade with the United States with special marks.

Dr. Jeidels is not very hopeful that the Treasury regulation (December 23, 1936) relating to trade with the United States with special marks will make it possible for Germany to export much more to the United States than she is doing now. The "Continental Trading

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Company", organized a few months ago in the United States to secure trade under the new regulation, has not accomplished much yet. He stated that the organization is a "quasi-official" one.

4. Germany's foreign credit.

He feels that Germany ought not to expect to receive long-term foreign loans because it does not appear that she will have any success in getting them. Moreover long-term loans would not be in Germany's best interest. What she needs are 6 and 9-month credits with which to finance raw material inventories she greatly needs. If only Germany could get the credit with which to get the raw materials she would have no difficulty whatsoever in meeting all kinds of competition for manufactured goods. The only chance for Germany to get these foreign credits is to first pay off a portion of her long-term foreign debt (three-fourths of this foreign debt is completely in default and one-fourth partly) and then adjust the remainder on some basis of Germany's ability to meet the payments. The loans following the adjustment would have to be made with a "sympathetic understanding" of Germany's problem because on the basis of cold economic facts Germany would have a difficult time of obtaining any credits even if her long-term debt were adjusted.

5. Germany's future.

He feels certain that Germany will be able to pull through. (even if he felt otherwise I don't see how he could afford to say so here, since after all he is not an unimportant personage in Germany, and,

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incidentally, appears to be quite friendly with Schacht).

Germany's Government financial situation will not be a source of trouble at least for a long time to come. Unemployment is at a very low level; strikes have been virtually eliminated; the "Four-year" plan will have some success, and after its completion and the improvement of the world situation Germany will be economically better off than ever.

It is not Germany's economic future, but her political and cultural future that makes him uneasy. Germany's strength and weakness both lie in what he likes to call her "Spartan" nature. Germans love discipline; they have an amazing ability to take and execute orders. "My own clerks", he said, "tell me they love to put on a uniform and take orders. They are very happy doing things in mass. Germans love to take orders."

It is true that they are tiring of the speeches of Hitler and his colleagues and that the authorities are finding it harder to give them something new to keep them emotionally stirred up, but the years of ceaseless, high powered propaganda has had its effect. They have already forgotten what it ever was to have free speech, free criticism, or complete freedom of action. They don't even seem to miss it. This means that Germany is a marvellous machine, geared, to be sure, largely on a war basis. Germany's weakness is her lack of intellectual freedom. The darkest spot in Germany's future is the fact that intellectual freedom is being crushed and the splendid development of German science

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which has marked Germany's progress in the past will disappear because pure and fruitful research is not promoted by the current way of life in Germany. The young men have had their high school period shortened, they spend $1\frac{1}{2}$ to $2\frac{1}{2}$ years in the army or labor camps and their college courses are taken up in substantial part by political activities. Besides, a great many of the leaders in science have become exiled and are thereby developing no students to carry on.

Little is known in Germany of what is really happening in Spain or elsewhere in the world. The news is more standardized than ever, no foreign paper printed in German is permitted in the country, and foreign newspapers are expensive. Thus very few persons have access to news from outside of Germany, and what is disturbing is that the public doesn't seem to mind the strict censorship very much.

(I think that his fears with respect to scientific progress in Germany are somewhat exaggerated. Germany can hardly contribute nearly so much in the future as she has in the past in the field of scientific research both pure and applied. On the other hand, the fruits of research in all foreign countries are available in the scientific journals and the results of such research useful to industry would be readily adapted by the kind of technical men which Germany is now training. Germany and the world will suffer a loss in science, of course, but that loss will in no sense cripple Germany or cause her to fall in the scale of efficient producers. While I believe he exaggerated the adverse effect on Germany's industrial development.

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caused by the death of intellectual freedom, he appeared to underestimate the loss to the German people in terms of spiritual and cultural values. However, when he was speaking on that aspect of the subject I had the definite feeling that he was having a hard time restraining himself from speaking his mind freely.)

April 29, 1937
3:35 pm

Present:

Mr. Magill
Mr. Oliphant
Mr. Helvering
Mr. McReynolds
Mrs. Klotz

HM, Jr.: Come on, Mr. Magill. Now we will have something that is good. I am trying to do everything that is difficult before I leave tomorrow afternoon.

Mr. Magill: Well, the situation is this: as we all know, the final step in the determination of tax liability, when the Bureau has finally made up its mind that an additional amount is due of what has been recorded, the Commissioner sends out what is called a deficiency letter or a 90-day letter which gives the tax-payer right of appeal to the Board of Tax Appeals within that time. He files a petition. The period was made 90 days rather than 80 in order to give the tax-payer an opportunity of coming in and discussing with the Commissioner the possibility of settling the case, and a good many cases are settled that way. There are, however, many more cases appealed to the Board than the Board in its present mechanism can possibly hear, so that it has been essential, practically all the time during the life of the Board, to have some machinery for settling these cases which have been appealed but which, if not settled, simply back up on the Board's docket.

In that connection, I think the Board now has some \$550,000,000 deficiency unheard and although their backlog is a million or less (I think it is not quite as low as it was some years ago), they still have untried about 8,500 cases and they can try on the average about 1500 a year, and there are appealed to them running around 4500 cases a year. So it is essential that there should be some kind of settlement machinery if the Treasury is going to get its money in any reasonable length of time.

Now, way back in Mr. Mellon's day there was created what was then called a Special Advisory Committee with a view to doing this job of disposing of these cases, so that the Board would not bog down in its work and we would get our money, and

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that body has continued in various forms. Today it is called the Technical Staff and performs the same function. The Technical Staff, in other words, is a body which is designated by the Commissioner (is in his office) whose duties are to advise him with respect to the disposition of these controversies. To wind up that part of it, the Commissioner has determined deficiency in the case of this taxpayer in such and such an amount. As it stands now, and has been for some time, the Technical Staff will engage in negotiations with the taxpayer and his lawyer; the Technical Staff may recommend whereas the deficiency determined was \$1,000,000 that it is to the interest of the Government to settle on a basis of \$500,000 or \$700,000, and they make that recommendation to the Commissioner and the Commissioner proceeds to sign a settlement agreement with them on that basis.

Now, you notice that these cases so settled in this way are in large part cases which have been taken to the Board by petition and to which the General Counsel's Office has then filed an answer, as a rule generally denying these facts, so that in that sense they have been in the General Counsel's Office and the question then arises

HM, Jr.: May I interrupt? When you get through, if there is any conflict, if the procedure was different before we set up the General Counsel's Office, will you describe that?

Mr. Magill: Yes. As a matter of fact, I don't think it was.

HM, Jr.: I mean, is it different since we have set up the General Counsel's Office in the Treasury or did the General Counsel of Internal Revenue have that same authority before the position of Mr. Oliphant was created? In other words, is this set-up practically the same as it was when there was a General Counsel of Internal Revenue?

Mr. Magill: I put it this way: I think -- in fact, it is, so far as the factual machinery. What machinery exists, in fact, I think it is just the same. Now as to whether the legal situation has changed by viture of the creation of the General Counsel's

HM, Jr.: No; that does not particularly interest me. It's just whether the machinery is the same today of handling these cases as when there was a General Counsel in Internal Revenue?

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Mr. Magill: So far as I know, it is. Isn't that true? There has always been, practically since the Board was established -- this Technical Advisory Committee came into existence about 1926 when the Board first started to function?

Mr. Helvering: Uh-huh.

Mr. Magill: And has been in continuous existence under different names since that time and there have been periodically -- my observation has been that group freezes up and is not performing its functions properly and the Commissioner has shaken it up and given it a new name and some personnel, but essentially the machinery has been the same all the time. Isn't that true?

Mr. Oliphant: I think so.

HM, Jr.: Mac, this thing, if I am right, is something we have been talking about for two years.

Mr. McReynolds: Yes.

HM, Jr.: At different times I have brought it up and it has always been what I have called a three-cornered affair, with McReynolds sort of representing me in odd moments trying to keep this thing straight, and due to give and take it has been kept straight. But it seems to me, from what I have listened and observed on this thing, there should be a cut-off point of responsibility where one group's responsibility ends and another's begins because at different times cases have been brought to my attention -- we are only human -- that each group ~~is~~ trying to make a record tries to ask the taxpayer for a little bit more and, therefore, you have the conflict as between the two. Now, in approaching this thing, the thing we want to do, I think we always ought to do, is to approach it from the standpoint of what is fair to the taxpayer. After all, we are hired in the long run to work for him and give him fair treatment and prompt treatment and this thing, which has grown up long before any of us here were here, it seems to me there is always a point of overlapping. What I am trying to do is see if we can't decide where your (Helvering's) group carries to a point and then your responsibility ceases and Mr. Oliphant's begins, and as near as I can make out now, no one can define where that cut-off point is, and that's the whole question. At times, as I have listened to the discussion, it was even suggested that we do away with

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your (Helvering's) technical group entirely. That suggestion has been made. I sort of absorbed this over the last two years. Got a little here and a little there.

I realize it is a very difficult thing and like all these things, I think we want to sink our own personalities in the thing and decide what can we do which will make these cases settle more promptly and without having this natural competition which would grow up, whether the two groups are in the Treasury or whether there is a group here and in the Department of Justice. It's the same competitive thing here. It's between ourselves and Justice. Now I would rather not go into the question of what are your legal responsibilities, Guy, as Commissioner or what are yours (Oliphant). I think if we get into that, it would be very difficult because I am not a lawyer. But can't we -- I think Mac was supposed to draw this thing up and now with Magill here, it is to help all of us; he ought to be neutral. He is neutral. Can't we draw up a document which would be agreeable to everybody involved and it really gets down into Helvering and you (Oliphant)

Mr. Oliphant: Guy and I have never had a chance to discuss it. We have worked together and got along well on problems and we mostly work together.

HM, Jr.: What I have been asking for, for two years and haven't got, was to have this on a piece of paper. I have asked to have it put on a piece of paper and the nearest we ever came was to have a luncheon and I asked -- I don't say I asked you (Oliphant), but Mac or somebody.

Mr. Oliphant: I want to make it very clear you never asked me.

HM, Jr.: Was it you, Mac? Were you at the luncheon?

Mr. McReynolds: I was instructed, a week ago, to put it on paper.

HM, Jr.: You will admit both of you were at that luncheon where we discussed this thing a couple of years ago.

Mr. Helvering: I remember.

HM, Jr.: Oliphant says he and Guy have not had a chance to discuss this thing. I would really like to get the thing settled. Could the four of you meet next week as often as

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necessary to come to an agreement so that when I come back, a week from Monday, the thing will be agreed to on paper?

Mr. Oliphant: I don't want to be here next week. I want to be away quite a little bit, but I can get it started.

HM, Jr.: It is not much use if you are going to be away.

Mr. McReynolds: Moore is knee deep in this. We have got a lot of light on it.

HM, Jr.: I don't want to push anybody if you are tired.

Mr. Oliphant: I am, and would like to have a little time.

HM, Jr.: Well, there is no use doing it if you are going to be away and let's just drop it and start the day you get back.

Mr. Oliphant: I wish you would. I have been a little pressed and I feel it.

HM, Jr.: There is no occasion at this stage of recovery to press anybody. Well, let's start it the day you get back and what I would do, Ros, you hold meetings in your office every afternoon until you get it settled. Is that agreeable to you?

Mr. Magill: Fine.

Mr. Oliphant and Mr. Helvering: Yes.

Mr. Magill: I would like to emphasize one thing you said that is very good. For my part, while I am unfortunately a lawyer, I have the same feeling that you have: that it would be better not to discuss the thing strictly on a legal basis. We could spend a great deal of time discussing what the legal rights and privileges of the two parties are, but I think when you get down to it you really haven't gotten anywhere because it is essentially a problem of administration.

HM, Jr.: Unfortunately all four of you are lawyers, so when you get it down so I can understand it -- I have heard enough about it to know that no one is going to approach it from the spirit that they want to hedge in on Mr. Helvering or Mr. Oliphant. That's the last thing. So you don't have to look up what are your legal responsibilities.

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Mr. McReynolds: I think you can ignore it entirely.

Mr. Oliphant: You can to this extent: This out-off ought to correspond to administrative reality before that can be done and still the whole thing put in such form that the validity of the action taken can never be questioned, and that's my responsibility -- that the validity of it will never be drawn into question. The two things are not in conflict.

HM, Jr.: We had lunch today with Mr. Parker and somebody else, the two chief editorial writers of the Scripps-Howard, just to do a job because they came out with an editorial against the President's budget message. It was one of the hardest things to keep him on the subject. What he wanted to talk about was Wallace.

Mr. Oliphant: May I finish?

HM, Jr.: If you please.

Mr. Oliphant: I want to be sure there is no misunderstanding. I heartily agree that when it comes to drawing this line or making any other administrative settlement, the line ought to be drawn or the line should be what corresponds to administrative reality, administrative necessities. You have to bear in mind that the action taken be not inconsistent and goes into such form that the resulting action is invalid.

I want to give you this further light. We took up the matter, as far as settlements were being handled, in our office and I had a table made on the basis of the amounts involved. I found large numbers of cases involving only trifling amounts that were just taking almost as long to get through the shop as large and important cases, so on the basis of distribution we cut off a big piece of these small cases and shortened the method by which we handled them, eliminating a lot of intermediate initials, and you have seen those initials.

HM, Jr.: May I interrupt you? If we are not going to go into this until next week, because you are going to rest and need a rest, let's let the whole thing drop and when you get back let's start having meetings, but I would like to get this thing settled. It has been hanging fire for two years and I would like to get it settled. If Mr. Oliphant gets back a week from Monday and Mr. Helvering is feeling well, I would go to it and if you get to a certain point I would like to join

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the conference, but I have said right along this is the sort of thing I brought Magill along to assist me. Mac carried it as far as he could with his other responsibilities, but there are other things. And this is one that Magill is particularly down here to do for me and there are a lot of things which we have had to let go by the boards because we just didn't have manpower enough to do it. And this is one of the things, and there are other things like it.

Mr. Helvering: Could I indulge in just a little history on this thing and end up with one statement I would like to make about it? When I first came into the Bureau of Internal Revenue, for the first two or three months cases came in from what was called the Advisory Committee. I found that a man handling the case would make a report to the whole Committee. Then they had what I designated as a "town meeting". The other 15 men on the Advisory Committee would meet in there and listen to what this man said and then take a vote. Many, many cases came to me with a vote of 9 to 8, or 8 to 7 or 5 to 10 -- things like that, but on a great many cases there was unanimity of opinion. That looked to me like a very poor way of handling that, so I appointed a Committee of Wright Mathews, Mr. Parker on the Hill, Mr. Joe Cullen, an outside man recommended to me by Roper as an outside man who worked under him when he was Commissioner. As a result, I took this unified power away from the Committee and delegated it to individual members. In other words, I called these technical advisors and told them they need not go to any other advisor on the case. What I wanted, with proper accountants and conferees and themselves, to bring me a case ready for my signature and I wanted them to be ready to do it and I didn't want any alibis about it. If there was a question that could not be decided, then take it up with the head of the staff and the two of them come in and talk it over. We disposed of the old advisory committee that put this responsibility on the 15 men.

Many, many cases come in which they recommend for defense; many for settlement. The part I am trying to get at is when this Settlement Committee, now in the various units of the Technical Staff headed by one man whom we picked out as being particularly efficient in that line, come in and recommend for a defense or settlement, if the taxpayer or his representative -- there generally is a representative in those cases -- has any

idea that there is a future settlement policy or future policy committee that he can go to, we never do get a settlement as it should be made because they withhold certain information. When we send a case to defense they will waive certain things we have stood for before the Technical Staff and sometimes bring in new evidence. The thing I want to get clearly understood is I am absolutely opposed to a second settlement agency.

HM, Jr.: Now, you see, Guy, both you and Herman have tried to argue it now and you say we don't want to settle it this afternoon. You tell me you have improved your thing and I am not opposed or for anything. Do you get me?

Mr. Helvering: What I wanted to get at before we go into conference is to take into consideration the broad question -- the taxpayer comes in and presents so much stuff and then if he has another Committee to present his material to

HM, Jr.: Who suggested any such Committee?

Mr. Helvering: I am talking about if a case was recommended for defense.

HM, Jr.: Nobody has said anything about that this afternoon. Listen, old man, Herman says he's tired. When Herman says he's tired, he's tired. I am tired. I thought we could do it next week. Herman says politely and gently, Give me a week to build up my strength. It's a fair request. I cheerfully comply with that request. Both of you -- Herman wants to say within the last two months you have improved.

Mr. Oliphant: Terms of reference are broad enough. I don't want you to make it so narrow that it does not include ...

HM, Jr.: What we are trying to do is speed up the whole thing and it may be more than the mere question of drawing this line.

Mr. Magill: Oh, absolutely!

HM, Jr.: Let's understand what Magill is down here for. Magill is down here to see that the machinery that has to do with the taxpayer is re-examined, to see that everything about it is as efficient as possible. That is his broad part. You

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men in here know that personally I have been able to give less time to the question of taxation than anything else. My job has been what the President said: to keep this nation solvent and he has been kind enough to say that I have. The thing is so big -- Internal Revenue is the biggest administrative job in the Government. Guy has done a swell job, but I still feel that there is a great deal to be done and Magill's particular function is to help all of us.

Mr. Oliphant: That's right, and we have needed it and he has done a grand job.

HM, Jr: Each of you has done more than your own job waiting for Magill to come.

Mr. Oliphant: And doing his own job.

HM, Jr: Now he's here and his field is the field of taxation. I can't make it any broader than that, so let's go in and you fellows bring up anything you have in your mind which you think will improve this thing and when you are ready or as you decide any issue and you want to put it up to me, let me know and I will set aside a couple of afternoons. Now are you all satisfied?

Mr. Oliphant: Perfectly! Sure!

Mr. Helvering: Maybe I overstated, but

HM, Jr: No, no. I

Mr. Helvering: I feel so strongly about protecting the revenue, I may not be perhaps logical.

Mr. McReynolds: I want to say for Guy's benefit that the thing Magill and I have been fussing around about for quite some time goes to the very question that you are putting your finger on; that is, reducing the number of places that a fellow can go every time a tax determination is made before the case is finally disposed of. Now he can spend three or four years in merely going from pillar to post, in definite process of delay, and when he finally gets up "before the gun" they either take judgment by default or withdraw their objection and agree. Surprising number of large cases are just that. What we have been trying to do, Magill and I, and I am sure Oliphant appreciates it as much

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as we do, is to reduce the number of places there are for a fellow to go; improve the quality of the work. You know what Charley Russell and Ros and I have been working on. From the very first time that a case comes up for consideration and it is stated he owes more tax, have the maximum of assurance that you can stand on what you are putting up to him and then reduce the number of places he can go. There ought not to be more than two before he has to go to the Board of Tax Appeals.

Mr. Magill: Of course, that was the only reason for your (Oliphant's) elimination of reviews.

Mr. McReynolds: I am merely trying to relieve Guy's mind.

Mr. Magill: What you say is perfectly correct. If there is anything we want to do it is to fix the responsibility at a given time for settling the case and at that time they can settle and it's only one crowd.

Mr. McReynolds: Then there will be no place for him to go, except into Court.

Mr. Oliphant: I don't want you to have any feeling that there has been any division of opinion between Guy and ourselves -- we are not far apart.

HM, Jr: The only one I blame is myself and I simply say I have not had time to sit down and spend hours on this. I have said it openly and that's why I asked Magill to come down here.

Mr. Oliphant: His coming has taken a lot off of everybody.

HM, Jr: I thank you.

oOo-oOo

LMS

GRAY

London

Dated April 29, 1937

Rec'd 3:40 p. m.

Secretary of State,
Washington.

252, April 29, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

In a luncheon conversation, Clay, economic adviser to the Bank of England, emphasized that the decline in the London stock exchange prices had reached panic proportions and that during this morning there virtually ceased to be a market since the jobbers would not buy but were merely willing to match sales and purchases - and there were very few purchases. Clay definitely fears that if the present movement is not quickly brought to a close a feeling of uncertainty will displace the previous feeling of confidence which in turn will lead to a general slowdown in economic activity. In this connection he mentioned that after all the present upward movement in the trade cycle had lasted well over four years, that similar previous movements in this country had been limited in duration between two to four years, that no doubt the fact that the gold standard had been abandoned and that an armament program had been undertaken

LMS 2-10. 252, April 29, 8 p. m., from London.

undertaken in the later stages of the recovery movement meant that it could be prolonged longer but only if confidence was not undermined. On the other hand almost all the economic evidences were favorable and if the reaction could be immediately brought to a close the position would no doubt be a very healthy one; prices would have been more than adjusted to the advent of dearer money and the speculators chastened. However while he personally "never believed in attempting to raise commodity prices to the 1927 level in six months' time" he did hope that they would go higher than they were today, otherwise the weight of the debt structure would be extraordinarily heavy in the years to come.

Clay again reverted to the dangers of inducing a feeling of uncertainty in the future; the absence of such a feeling had played a very important part in British recovery and he attributed much of Europe's difficulties to the fact that European Governments kept alive among their own people a feeling of impending action.

Clay said that ironically enough Chamberlain was scheduled to be the guest of honor at the annual dinner of the bar association this evening and he awaited his remarks with interest. He felt sure that no one was more surprised than Chamberlain by recent events and that in framing his

national

LMS 3-No. 252, April 29, 8 p. m., from London.

national contributions tax proposals the Chancellor had only one firm intention, namely, to propitiate labor; "the trouble with conservatives was that they always think they can take the wind out of the Socialist sails by adopting pseudo Socialistic measures which are in many cases administratively impractical, whereas, the Socialists when they are in power are subconsciously aware of the impracticability of their own concepts and are sufficiently cautious so that they behave like proper conservatives. Chamberlain besides conceding the whole moral case of capitalism had forgotten that the capitalist is like the bee in that you can take away from him almost all of his honey but you must at the same time handle him carefully".

The London stock exchange steadied and strengthened during the afternoon as limits diminished. The position is still difficult because of the uncertainties which overhang the market. After tomorrow a preliminary estimate of the situation can be taken for the selling for the account ending May 6th must be concluded by tomorrow. A dozen different names are bandied about as being in difficulties and as far as can be ascertained three or four are in difficulties and attempts are being made to help them. Another uncertainty is that there is a large block of shares enroute to Johannesburg for which it is not sure payment will be forthcoming.

The

LMS 4-No. 252, April 29, 8 p. m., from London.

The gold market continues somewhat nervous and in India gold touched 137 shillings today presumably on news of the tabling of the Fish Gold Buying Bill.

The franc was strong on repatriation of funds acquired through yesterday's sales of English stocks and similarly the dollar was offered on repatriation of British funds from New York.

BINGHAM

CSB

RECEIVED

APR 30 1942

THE SECRETARY OF THE TREASURY
WASHINGTON, D. C.

April 29, 1937.
3:56 p.m.

H.M.Jr: Hello

Doughton: Yes.

H.M.Jr: How are you?

D: All right, Mr. Secretary, how are you?

H.M.Jr: Oh I'm taking nourishment three times a day.

D: How's that?

H.M.Jr: I'm taking nourishment three times a day.

D: Well that's necessary; take it some time in the day anyhow or some time in the week.

H.M.Jr: They said you called me?

D: Yes, what I called - wanted to speak to you about - did you read this morning's Washington Post pretty carefully?

H.M.Jr: No I don't think I read it at all. I - I - I look at some other funny paper.

D: You're supposed to read on column 5 under the head of "Boom Feared Behind New Fiscal Policy" - account of Secretary Wallace's speech - a chapter which it claims was never - ah - published - on April 3d - University of Agriculture was not made clear till last night. I wish you'd read that and tell me what you think of it.

H.M.Jr: What State was that delivered in?

D: Chapel Hill - University of North Carolina.

H.M.Jr: Oh.

D: Yes, it goes on here, "Boom Feared Behind New Fiscal Policy" by Mr. Wallace last night to combat the boom trend, it was indicated, the Administration expects to extend governmental control of industry and regulate taxation and spending so as to avoid excessive corporate and individual savings".

H.M.Jr: Yes, well now after I've read it what will I do then?

D: How's that?

H.M.Jr: After I've read it what will I do then?

D: Well you'll tell me whether or not you approve it. Whether he's speaking for the Administration or for himself. You're supposed to be close administrator on fiscal policies for the President.

H.M.Jr: Well I can tell you right now, without reading it, that when it comes to fiscal policies and tax policies Mr. Wallace is not talking for the Administration.

D: Well I certainly felt that way. Our people over here - a lot of them - some of them members from our own delegation came to me about it very much upset and excited.....

H.M.Jr: Yes.

D: - temperature way high and I told them to just be cool; I didn't think there was anything to it.

H.M.Jr: Well -

D: That as far as the policy of the President was concerned if there was anybody - any Cabinet officer or any department spoke for the President about fiscal matters it is the Secretary of the Treasury.

H.M.Jr: Well that's what I think as long as I sit in this chair.

D: Yes.

H.M.Jr: And I'm still sitting. ,

D: Now things like that are very damaging; I wish you'd read it and then you can.....

H.M.Jr: I wish, yes, but now may I make a request of you?

D: Yes.

H.M.Jr. As long as you feel that way tell somebody that at the White House, see?

- 3 -

- D: Well I'll certainly do that.
- H.M.Jr: Because that will have more effect than telling me because my policy is here. My backyard is big enough and I stay in it, see?
- D: Well I'll tell you what we've got now and you'll realize the same as I do. We've got plenty of trouble for the President- for the present.
- H.M.Jr: Yes.
- D: We've got plenty - plenty of load to carry now and everyone of these new monkey wrenches thrown in the machinery complicates the - ah - difficulty that much more.
- H.M.Jr: Well you remember a man by the name of Tugwell made a speech, about balancing the budget, in Los Angeles?
- D: Yes, I knew he did.
- H.M.Jr: Yes - well.....
- D: You read that and you and I'll talk it over and then later we can talk to somebody higher up than you or me.
- H.M.Jr: Good enough.
- Yes.
- H.M.Jr: Thank you very much.
- D: You're welcome. You'll find it on the first page of the Post to-day under the head of "Boom Fears Behind New Deal Fiscal Policy". All right.
- H.M.Jr: Hoodbye.

RB

GRAY

Paris

Dated April 29, 1937

Rec'd 5:01 p. m.

Secretary of State
Washington.

545, April 29, 4 p. m.

FROM COCHRAN.

Minister of Finance bitterly complained before the Chamber Finance Committee yesterday against the circulation of stories of imminent peril in the financial situation and suggested that the campaign was the work of political enemies.

The following is a summary of the information regarding the Treasury situation up to April 1 and provisions from that date to December 31 provided by the Minister:

January 1 to April 1, 1937: Requirements of the Treasury for 1937 were estimated at the beginning of the year at 36,127,000,000 (estimated deficit of ordinary budget 4,600,000,000; special budget 17,715,000,000; advances to departments and communes 12,272,000,000). During the first quarter Treasury put out 10,117,000,000. Apparently the Treasury would need to find 26,000,000,000 francs during the remaining nine months.

Treasury

RB

-2-#545, April 29, 4 p. m. from
Paris (SECTION ONE)

Treasury requirements April 1 to December 31, 1937:

Requirements of state proper should not exceed 12,300,000,000 francs it is claimed. In arriving at this figure it is considered that the deficit of the ordinary budget should not exceed 1,400,000,000 francs for the remaining nine months of 1937 and 7,900,000,000 is included as representing the balance required for the special budget and 2,500,000,000 for the postal administration, the pension fund, and for Poland.

Advances to the departments and communes for next nine months 7,830,000,000 francs. Therefore

END OF SECTION ONE.

BULLITT

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RB

GRAY

Paris

Dated April 29, 1937

Rec'd 5:32 p. m.

Secretary of State
Washington.

545, April 29, 4 p. m. (SECTION TWO).
the total of requirements up to the end of the year according to the Minister's statement amount to 20,130,000,000 francs. The difference between this amount and the 26,000,000,000 francs referred to above is explained by the announced intention of the Government to make economies to this extent.

The Minister held that actually these requirements were partially covered by the Treasury account at the Bank of France of 3,300,000,000, authority to borrow a further 2,500,000,000 under the recent national defense loan authorization 800,000,000 to be reimbursed by the City of Paris, and 2,200,000,000 still available in the advance account at the Bank of France, a total of 8,800,000,000.

Turning to the question of the credit of the Government, the Minister deplored the hesitation of the public to invest in Treasury bills. While he said it should normally

RB

-2-#545, April 29, 4 p. m. from
Paris (SECTION TWO)

normally be possible to maintain a constant issue of about 12,000,000,000 francs, only 4,900,000 were in circulation. The Government, he stated, particularly regretted this situation as it leaned toward "open market" operations.

The Minister insisted that the Government would not be called upon to issue a forced loan which he thought would be doomed to failure under present circumstances. Only the balance of the national defense loan would be issued. Subscriptions to the two issues made in March had been undertaken with enthusiasm. It was not true that these issues had

BULLITT

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GRAY

Paris

Dated April 29, 1937

Rec'd 5:40 p. m.

Secretary of State
Washington.

545, April 29, 4 p. m. (SECTION THREE).
been covered by foreign subscriptions. 164,000,000 came from foreign subscribers 1,406,000,000 from the Bank of France, 5,807,000,000 from banks and Treasury agencies and 624,000,000 from other offices of the Treasury.

In conclusion, the Minister referred to the tripartite monetary arrangement to which he insisted the Government would remain faithful. He attributed the recent weakness of the franc to technical circumstances such as to the unfavorable commercial balance (4,922,000 for the first quarter of 1937) re-constitution of stocks of raw material, et cetera. He insisted the exchange fund possessed necessary resources to combat speculation.

As indicated above, during the remainder of the year the Government seems to expect that the Treasury will be called upon to find only about 20,000,000,000 francs over and above budgetary revenue. However, nothing was said about the repayment in October next of the British credit

of

RB

-2-#545, April 29, 4 p. m. from
Paris SECTION THREE

of 40,000,000 pounds or requirements for the railways, not to mention the possible necessity to reimburse the so-called Germain-Martin loan four and one half percent 1934 of which 9,000,000,000 francs are outstanding. It also remains to be seen whether the deficit of the ordinary budget will be absolved to the extent hoped for by the Government and whether the 6,000,000,000 of economies in the special budget will finally be realized.

There has so far been little press comment on the statements of the Minister. The view is put forward that it is difficult to prove the figures presented and that in any case it is only normal that M. Auriol should (*) as bright a picture as possible of the situation. Opposition papers are skeptical regarding the estimates and statistics presented

BULLITT

(*) Apparent omission

SMS

EMB

LMS

GRAY

Paris

Dated April 29, 1937

Rec'd 3:17 p. m.

Secretary of State,
Washington.

545, April 29, 4 p. m. (SECTION FOUR)

Paris exchange market has been very nervous today with rates varying widely. No evidence of intervention by French control. Paris impressed by fact that New York started selling dollars when American market opened. French rentes were not helped by statement of Finance Minister before Chamber Committee yesterday and market observers expect Senate Committee to question him rather roughly today on some of the figures which he gave yesterday. Bank of France statement as of April 23 showed no important change except a large increase in deposits which reduced coverage from 55.64 to 55.19. French share market was very bad with curb issues losing between 15 and 20%. Paris brokerage concern headed by American Albert Cudebec must be liquidated.

Today's erratic exchange trading and stock market break are attributed principally to American factors. European press carries report of "die's statement to Chamber of Commerce that financial experts do not consider as permanent the \$35 per ounce gold buying price in the United States and

of

LMS 2-No. 545, April 29, 4 p. m., Sec. 4, from Paris.

of resolution introduced by Hamilton Fish to prevent Treasury from paying more than \$25 per ounce for foreign gold. On top of this President Roosevelt's further attack upon speculation is said to have encouraged European liquidation of American shares.

(END MESSAGE)

BULLITT

KLP:CSB

RECEIVED
APR 30 1937
TREASURY DEPARTMENT
DEPT. OF THE TREASURY
WASHINGTON, D. C.

Thursday afternoon, April 29

I called up Hull and asked him whether there was anything going on in England that affected the United States Treasury and he said, Absolutely not. He said that he had not heard anything for weeks.

April 30, 1937.
9:07 a.m.

H.M.Jr: Hello.

Operator: Mr. Aldrich.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello

A: Oh good morning Mr. Morgenthau.

H.M.Jr: How are you?

A: I'm very well, thanks.

H.M.Jr: Mr. Aldrich I'm calling you because I think I had a rather unfortunate interview with Dr. Anderson yesterday - ah -

A: Very unfortunate what?

H.M.Jr: Interview.

A: Oh yes.

H.M.Jr: And he - ah - I don't know not many people do it but he seemed to have the faculty to just about rub me the wrong way more so than any person I've seen in a long time.

A: (Laughs)

H.M.Jr: And I'm afraid in the interview I lost my temper.

A: No, (laughs) I hadn't heard anything about it.

H.M.Jr: Well, amongst other things, I mean, for your own information, I had Mr. Haas here - he twice said, "I'm taking Mr. Aldrich to Europe with me" and which, knowing you, sort of amused me.

A: (Laughs)

H.M.Jr: And - but he did say that twice.

- A: Ah - he must be - ah - losing his mind I should think.
- H.M.Jr: Well at - he was going at - he sat here for 15 minutes and told me what he was going to tell the - ah - heads of the various finances - financial people in the country what he was going to tell them and then.....
- A: What he was going to tell them?
- H.M.Jr: Yes. Then when he got through he said, "Now I suppose that's all right". So I said, "Well Mr. Anderson you told me what you're going to tell them. You haven't given me a chance to say what I think and, of course, you can't speak for me".
- A: Well I had no idea he got to see you.
- H.M.Jr: Well he did and he was going - I'm - I'm quoting word for word - he was going abroad and he was taking you with him.
- A: (Laughs)
- H.M.Jr: And then he sat here for 15 minutes and, of course, told me - going back - everything - contrary to what the Administration believed in and I got so excited to think that he might go abroad and possible be interpreting what the United States Treasury thought when we thought just 100% opposite. Now the point.....
- A: Well I'm glad you called me up.
- H.M.Jr: Now the point that I wanted to make - if you're going abroad and if there's anything that you want to know and if I can be of any assistance to you personally why don't hesitate to call on me.
- A: Well, of course, that's.....
- H.M.Jr: But frankly.....
- A: I can't understand how - how he could have said anything such thing.
- H.M.Jr: But frankly.....
- A: If he has any such ideas in his mind he must be losing his mind.

- H.M.Jr: Now when he left I said, "Now my relations with Mr. Stern and the Foreign Exchange of the Chase - we've had - transactions going into millions of dollars and the Chase has represented the Treasury and during the past three years I've never had any criticism. In fact the Chase has always given us good execution but the whole thing I mean - well I frankly lost my temper.
- A: Well what in the world was he talking about? What was - what did he have in mind?
- H.M.Jr: Well he - he went over the whole monetary thing and just sat here for 15 minutes and, as the boys say, "he told me".
- A: Yes.
- H.M.Jr: And then, after he finished up, he said - never giving me a chance to get in a word - "Now I'm going abroad and tell them this is the American policy". Well you.....
- A: He must have - he must have lost his mind if he talked that way.
- H.M.Jr: Well I asked - I had somebody present and we talked - it over after he left and it - it was - it was a performance and I - I - I felt it was sufficiently important that I should call you and also tell you if you are going and there is anything you want to know - ah - we'll be up on my farm all next week and if it's of enough importance to you why I'm available.
- A: Well what I can't understand is why there should have been any conversation about the thing at all.
- H.M.Jr: Well I don't - he called up from the bank and said he wanted to see - ah - first he asked for me personally.....
- A: Well you know as a matter of actual fact - let me tell you something.
- H.M.Jr: Yes.
- A: Ah - he was going over later on in the year.....
- H.M.Jr: Yes.

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- A:and I didn't like the idea of his going by himself.
- H.M.Jr: Yes.
- A: I'm going over - ah - sailing on the 5th and going to the Coronation; take my two children there.....
- H.M.Jr: Yes.
- A:and I told him that I wanted him to come with me at the time I left.
- H.M.Jr: Yes. Well I think I'm a truthful person and, as I say, I didn't want to see him alone and he distinctly twice said he was taking you with him to Europe.
- A: Well it's - ah - it's simply unbelievable - I mean.....
- H.M.Jr: Yes.
- A:what - what was the theory of it? Ah....
- H.M.Jr: Well they're going over there to see these - he's going over there to see these various important people - the head of the various.....
- A: I couldn't hear that.
- H.M.Jr: He's going over to see the various heads of the financial - ah - the head financial people of the different governments.
- A: To tell them what they ought to do?
- H.M.Jr: Well that's the impression that I got.
- A: Why that's simply fantastic.
- H.M.Jr: And then - what - that he sketched me his monetary theories which, of course, are just entirely different than what we 're trying to do here and, after making this statement for 15 minutes, he said, "Now I suppose it's all right for me to tell these people abroad this". And I said, "Of course, it isn't".
- A: (Laughs)

- A: What's he trying to do - commit you to what he had in mind?
- H.M.Jr: Yes, that's the point.
- A: Well I don't think you need worry about it at all.
(Laughs)
- H.M.Jr: Well I - he - he.....
- A: To tell you the truth. I think it's rather laughable.
- H.M.Jr: Well it was except I'm pretty tired and I've been thru six very difficult weeks as you know.
- A: I know.
- H.M.Jr: And we're just beginning to see daylight and then to have Anderson drop in on top of me.....
- A: (Laughs)
- H.M.Jr:I'm afraid I lost my sense of humor.
- A: (Hearty laughter) Well (laughs) I think you ought to keep your sense of humor.
- H.M.Jr: Well that's why I'm going up on the farm for a week.
- A: Well you don't have to give it another thought.
- H.M.Jr: But I - well I wanted to tell you because - ah - ah - ah.....
- A: Well I'm glad you did. I'm glad to hear the - ah - the - ah - the basis on which he thinks he's going.
(Laughs)
- H.M.Jr: Well now also he seeing Mr. Hull or did see him because he called up and said he wanted to see Mr. Hull and myself before he went to Europe.
- A: Well now that I don't know anything about at all.
- H.M.Jr: Well I don't know what happened over.....
- A: I don't know what he said to Hull.

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- H.M.Jr: Well I don't know either and it's none of my concern but I wanted to tell you personally what happened.
- A: Well obviously it's silly.
- H.M.Jr: Yes, well I - I feel better now.
- A: Ah - well I don't feel so well. (Laughs)
- H.M.Jr: Well it's - it's all right and.....
- A: Well (laughs) I mean I don't like that - ah - that attitude of.....
- H.M.Jr: Well frankly....
- A: As far as I'm concerned it's rather - rather - (laughs).....
- H.M.Jr: Well he - you.....
- A:rather disconcerting.
- H.M.Jr: I've always told people when the banking legislation was on.....
- A: What?
- H.M.Jr:I've always cited you that when you wanted something you came down here and you told us what you wanted; what your position was and there never was any question and you never sent anybody to represent you.
- A: Well that's right.
- H.M.Jr: And that's always been so since I've been here.
- A: That
- H.M.Jr: And when you wanted something you came personally.
- A: Well naturally - I - I'd do just as you would on that.
- H.M.Jr: Yes - and but this-this is the first time and I took it perfectly for granted when Anderson came - he came here for you.

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- A: Well can't you see the - you can see the implication of the whole thing, can't you? I mean it's perfectly obvious.
- H.M.Jr: No I - I - I - I - I don't get it.
- A: Well it - it comes from a state of mind which is indicative of the trot that you just quoted to me.
- H.M.Jr: Yes, well the man seemed highly nervous. His hands tremble all the time he talks.....
- A: Yes.
- H.M.Jr:and he seems to be a highly nervous piece of machinery.
- A: Emotional about it.
- H.M.Jr: Ah - yes and - ah - ah - well he isn't a very good representative, Mr. Aldrich, that's all I want to tell you.
- A: (Laughs) Well (laughs) he doesn't - he certainly doesn't represent me in that (laughs) connection.
- H.M.Jr: Well I'm awfully glad of it and, as I say, if - if he came down here and talked the way he talked to me to other heads of agencies here, frankly, he'll do you a lot of harm.
- A: Who else is he seeing?
- H.M.Jr: All I know is Mr. Hull.
- A: Well now that's a very peculiar thing. I don't understand the thing myself to tell you the truth.
- H.M.Jr: Well -
- A: Ah - however, I'll - I'll have a talk with him. I don't think you need worry about it at all.
- H.M.Jr: Oh I'm not worrying. All I wanted was that - ah - ah - the few times I've seen you our relations.....

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- A: I think it's just a question of a - of an enlarged cranium myself.
- H.M.Jr: I think so.
- A: But that's always easy controlled when you.....
- H.M.Jr: Well I - I - I felt it was awfully nice of him to be willing to let you go along with him.
- A: (Laughs) Well I'm glad to say that doesn't impress me in any way except humor. (Laughs)
- H.M.Jr: Well I can imagine that. Well I'm glad I called you and - and - and, as far as I'm concerned, it's a closed incident.
- A: I'll be very much interested to hear what he has to say (Laughs).
- H.M.Jr: Well you'll hear plenty.....
- A: What?
- H.M.Jr:because I got good and mad.
- A: Well that's all right. (Laughs) I probably did you good. (Laughs).
- H.M.Jr: All right.
- A: But I don't think you need take him very serious.
- H.M.Jr: I don't.
- A: All right.
- H.M.Jr: Thank you.
- A: Goodbye.

April 30, 1937.
9:27 a.m.

H.M.Jr: Hello

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello Marriner.

Eccles: Yes.

H.M.Jr: I've got a - I'm smiling this morning because your announcement comes out that you bought 39 odd million dollars - or whatever it was - of bonds.....

E: Yes.

H.M.Jr:and the government bond market goes up. A week ago to-day the announcement came out that you didn't buy anything and the government bond market went down so some of our fellows in New York don't know it all.

E: Well - ah - you and I agree on that.

H.M.Jr: Yes, they don't know it all.

E: (Laughs) There's a lot they don't know.

H.M.Jr: They've consistently told us that if you announced that you'd bought a lot of bonds it was - it was bearish, you know?

E: Yes, they said if you buy bonds it indicates that the money - the market is artificial.

H.M.Jr: Yes, well.....

E: Of course, as a matter of fact really what it does - if you don't buy it gives the propagandist - the fellow that wants 3 or 4% interest a chance to - ah - put out his propaganda and force the market down - ah - whereas if somebody else is interfering - such as the Federal Reserve System buying bonds it upsets his apple cart.

H.M.Jr: Well - now you take the 2-7/8's. They opened up 6/32d's - very nice.

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E: Well they had - ah - the whole market, of course, yesterday was in fine shape and I - I feel perfectly - I feel perfectly certain that - ah - the trouble is over with.

H.M.Jr: Well it's been - it's been since the 10th of March that we've been sweating here.

E: I think that you'll find that they realize now - ah - I noticed most of the comment yesterday that - ah - they're going to have - ah - there's going to be plenty of money and they still haven't got any places to put it.

H.M.Jr: Yes. I think the worst is over.

E: And I think that you'll find that after the first of May that your bill market is going to go down. I think the bill rates will go down. I don't think they'll even stay - they're not going to stay where they've been.

H.M.Jr: Yes.

E: And I think your note - your note market will - your one to five year rates are going to go down and - ah - that - that your bonds are going to go up. Now I'm - I'm - I think you'll see that - that this whole thing has indicated that there was no justification for this other. It was just merely one of those sieges that - ah - that - ah developed and that our market operation - the thing that pleases me about it is that I - the - the thing that I wanted to do all the time - ah - I had a devil of a time getting it over; had almost entire opposition to commence with and then finally got it over after a two day session, has really worked out like I tried to persuade the group that it would work out.

H.M.Jr: Well you really started that - ah - let's see it was last Saturday or was it a week ago Saturday - no last Saturday only.

E: What?

H.M.Jr: That they really started buying.

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- E: Well no we started - ah.....
- H.M.Jr: But I mean after all the things they went through - it was really last Saturday.
- E: Last Saturday they - they bought pretty heavily.....
- H.M.Jr: Yes.
- E:and they bought again on Monday and a little less on Tuesday. There was two days of pretty heavy buying.
- H.M.Jr: Yes.
- E: Now up to that time we had bought about sixty million.
- H.M.Jr: Yes.
- E: In the three weeks before - the two - the first two weeks.....
- H.M.Jr: Yes.
- E:we bought about - we bought about sixty - I think we had about sixty million - no but.....
- H.M.Jr: If you remember - ah - a week ago to-day we had an awfully bad day.
- E: Yes.
- H.M.Jr: Then Saturday you got sore and you made them step in.
- E: That's right.
- H.M.Jr: Well ever since then it's gone better.
- E: Well the week - that's right because - your - your week before was the week that they didn't want to show any - they didn't show any - ah.....
- H.M.Jr: That's right. You crossed the bridge, in my opinion, last Saturday.
- E: Well it's - it's working out anyway and I feel a lot better about it.

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H.M.Jr: So do I.

E: And I think the - the - I think bills - it would be my judgment that bills from now on as well as notes - I don't think you're going to have a bit of trouble on your June financing and a note issue under very favorable terms and I think the bill market - I - is - ah - is - ah - going to be easier if anything.

H.M.Jr: Well Wayne will be here and I can be gotten on the 'phone at the farm but I'm not going to call up every day, see?

E: Ah-ha.

H.M.Jr: "ut if you want me I can be gotten very easily. Make a note - it's Beacon, New York, 211.

E: Beacon, New York.....

H.M.Jr: Yes.

E:211.

H.M.Jr: Yes.

E: Well I hope I don't have to bother you and I hope you have a good rest.

H.M.Jr: All right, Marriner, and I think you've done a swell job.

E: Well (laughs) thank you.

H.M.Jr: I think you've done a swe.....

E: Thank - thank you for the help.

H.M.Jr: Well I think you've done a swell job and, as I say, I - I think you licked them last Saturday.

E: Well now I think we licked them that day.....

H.M.Jr: That Friday night at my house.

E: That Friday night - ah -.....

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H.M.Jr: Yes, but the trouble was they didn't stay licked.

E: No (laughs) that is, they didn't know they were licked.

H.M.Jr: No, we licked them Friday night at our house. You - you put it - they didn't know they were licked.

E: That's right.

H.M.Jr: Well it's all right between us - we can hold up our head.

E: Yes (laughs) all right, then.

H.M.Jr: Atta boy.

E: Thank you.

H.M.Jr: Goodbye.

E: Goodbye.

GROUP MEETING

April 30, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. Oliphant
Mr. Taylor
Mr. Gaston
Mr. Gibbons
Miss Roche
Mr. Haas
Mr. Lochhead
Mr. McReynolds

H.M.Jr: (Following a phone conversation with Mr. Eccles)
You see, the interesting thing was that Friday a week ago it came out in the papers that the Federal Reserve hadn't bought anything, George Harrison saying, "That's the way to show - if we don't buy anything, that's a sign of strength," and then we had the worst day we had. Then Eccles got sore and the boys stepped in and just bought their heads off, didn't they? Today we come out and show this heavy buying and the bond market - the 2-7/8's opened up six 32d's.

Oliphant: This morning?

H.M.Jr: This morning. Get this thing. Last week, Friday, they come out that they didn't buy anything, and the bond market just goes to hell. Then Eccles completely gets mad and he just tells them what to do; Saturday they go in and buy their heads off. Today they show that they bought 39 million and the bond market opens up six 32d's.

Gaston: That shows something about the natural forces that are at work in the market, doesn't it?

H.M.Jr: But - no, but it shows this. As Marriner said on the phone, we licked them Friday night a month ago at my house, but they didn't say - as he put it, they didn't know they were licked.

Gaston: What I mean about the natural forces, though, is that apparently a limited group of men - if we think they can force it down, they can do it.

H.M.Jr: I thought you meant unnatural forces.

Gaston: Speaking about their description of letting the market

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find a natural level.

H.M.Jr: While I think about it, I'd like to have the 9:30 have lunch with me today; I'm leaving. Don't break any important engagements, but anybody who hasn't got an engagement, why, at one o'clock I'd be glad to have you.

Gaston: You weren't going over to Ned Bruce's art party?

H.M.Jr: No.

Gaston: I had planned to go over to it.

H.M.Jr: Well, that's all right. Anybody - no, I'm not going to it, but anybody who has an engagement - I mean this is purely informal - if you will just let Mrs. Klotz know who will or won't come. You (Oliphant) going in that group?

Oliphant: I'd thought about it.

H.M.Jr: That's all right, that's all right. Both Mrs. Morgenthau and I were all set yesterday to go and there was some mix-up.

Oliphant: You mean to go yesterday?

H.M.Jr: We were ready to go yesterday and accepted for yesterday.

Oliphant: Oh. That's too bad.

H.M.Jr: See, we accepted for yesterday.

Oliphant: Hope you get to see those 600 pictures.

H.M.Jr: Put it this way. You two going to Ned Bruce's?

Gaston: I'd planned, yes.

H.M.Jr: Well, go ahead, it's all right. I mean if I felt.....
What you (McR) glumping your head about?

McR: I got a neuralgia headache this morning.

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H.M.Jr: Better go to Dr. Swope. That's where I went yesterday.

When Steve Gibbons - how you - God, how you like to fire! I never saw anything like it.

Gibbons: What's the matter?

H.M.Jr: Fire two people, have them prosecuted, sent to jail, and - Miss Roche, being a National Democratic Committeeman means nothing to Steve Gibbons - I mean just as leave see them in jail as not. I never saw a man like him.

Mrs Klotz: He doesn't know whether you're kidding him or not.

H.M.Jr: I suppose that's the way you go in training to be the head of Tammany Hall in New York.

(Hearty laughter)

Well, the day may come when Tammany Hall may want that kind of fellow.

Gibbons: You know, they spoke to me about it and I said I'd do it if they paid a salary. They thought that was stupid. I said, "The head of Tammany Hall should be paid a salary, give all his time to it."

H.M.Jr: George, this kind of thing, "Business and Price Situation" - in the future, send a copy directly to Mr. Taylor, will you? That kind of thing.

Haas: Fine.

H.M.Jr: And this chart here - first quarter, showing production and profits; just as soon as you get another revised figure, will you let me have it?

Haas: Yes.

H.M.Jr: I don't want anything up on the farm, but if you get that chart - I mean if they come in any more than that, see?

Haas: O.K.

H.M.Jr: That kind of stuff Taylor would like to have.

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Haas: Fine.

H.M.Jr: Because I - sometimes I read them in one week, but..... I think it's very good. My only comment is this. I think he's a little bearish on America and not bearish enough on Europe. I don't think he takes Europe seriously enough and I think he takes our condition a little too seriously. But out of it all I still - I'm 80 percent in agreement with him.

Gibbons: What did those standard statistics - records show yesterday?

H.M.Jr: Well, they show that of the profits - these fellows evaluate them and take a slide rule to them and take the seasonal out and the drouth and the flood and rain and storm - that they are not quite up to expectations. But I mean by the time they get through.... But you compare them with the first quarter of '36 and they still go....

Haas:oh, way up.

H.M.Jr: But see, they take out the factors of the flood and the rain. I mean they do an awful lot of what they call evaluating.

Gibbons: Yes.

H.M.Jr: It's all right.

Now, you (McR) have got some stuff for me to sign?

McR: No, I don't.

H.M.Jr: Yes, you have; you told me last night you had a Secret Service order for me to sign.

McR: Well - ah - Frank Wilson is back this morning, presumably, and Joe and Frank have that order.

H.M.Jr: Well, don't fall over backwards - I'll give you an appointment which I won't cancel: 11 o'clock.

McR: Swell.

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H.M.Jr: O.K.?

McR: Yes, sir.

H.M.Jr: I'd forgotten I gave Puleston an order at ten - a meeting at ten. Did you (Oliphant) - or did you forget that I was going to see you at ten?

Oliphant: No, I hadn't forgotten it. What time will you see me? It won't take me five minutes.

H.M.Jr: Well, we'll be through here - supposing I tell Clarence to come right before ten. (On phone) Tell Clarence Oppen to be here at five minutes of ten, please.

You're all right, aren't you (Lochhead)?

Lochhead: (Nods yes)

Bank of England said quite a lot of dishoarded gold came out.

H.M.Jr: What's that?

Lochhead: Bank of England said quite a lot of dishoarded gold came out on the market there.

H.M.Jr: Why is it, Archie, that you always pick the government of countries - I mean the ones who eat the most?

Lochhead: Well, just a natural inclination, that's all.

Taylor: He didn't spare us either.

H.M.Jr: What?

Lochhead: As I say, something is expected of us, so I did my best.

H.M.Jr: All right. If you see Archie going into a ten course Chinese dinner - believe me...

Lochhead: Well, at least, I'm right up the next morning.

H.M.Jr: That's more than I can say. I dropped on the wayside.

Do you know that they've got four new attachés at the Chinese Embassy just sitting there twiddling their

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thumbs and who will be assigned to the new man, and they just don't give them anything to do - did you know that? - including a Counsellor of the Embassy. There's four of them just waiting for this new boy to come.

Haas: I talked to Professor Merriam. You asked me to call him.

H.M.Jr: Yes

Haas: He said he was very busy this week until the end of the week, and he was going to come over to see me. Do you want to see him before you go about that?

H.M.Jr: I don't know. If you get something and can rough it out, what you'd like to do, on one sheet.....

Haas: All right.

H.M.Jr: Now, what he wants, what he'd like us to do - he told me sort of walking out - is to give the Treasury viewpoint on the whole thing, whole economic picture, where it hits the Treasury - spending, and all that business, and everything else.

Now, Oliphant is very much interested, of course, in tariffs and where the tariffs hit monopolies. I don't know whether that would go into that kind of a memorandum or not. I don't know. Maybe....

Haas: Well, maybe I better talk to him and then after that....

H.M.Jr: I think you better talk to him.

Haas: What bothered me about it - I wondered when you expected something on it. If there's no particular hurry.....

H.M.Jr: Well, two or three weeks.

Haas: Oh - and it's flexible; I mean you can set your date later.

H.M.Jr: My guess is that if we're going to do this thing - I take this angle, the angle of spending: where

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spending will do us good and where it's doing us no good. And how about approaching it from that angle,.....

Haas: (Nods yes)

H.M.Jr:which is more or less the thing that we did - "Selective Spending" - but just bringing it up-to-date; that is, the President had that.

Take, for example: why did the housing thing collapse this spring, what do we need yet in the way of recovery? Railroads? Incidentally, I read that whole memorandum. We need - I mean we need a big agricultural crop to bring up the railroads, the freight; we need the housing to bring up the freight. What can we yet get out of this lemon that hasn't been squeezed out of it, and where should we stop squeezing?

Haas: O.K., I'll go over the whole thing.

H.M.Jr: How's that for an approach?

Haas: I think that's all right.

H.M.Jr: What?

Haas: I think that's all right.

H.M.Jr: What do you think, Wayne?

Taylor: (Nods approval)

Haas: I thought yet you might want something more specific.

H.M.Jr: All right, but I'm just throwing out something; you can play with it. My mind is thoroughly squeezed out. Now, Miss Roche....

Haas: My only concern was I thought you might want it by the time you got back.

H.M.Jr: No, I don't want it by the time I get back - except some smiles.

Miss Roche?

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Roche: I have a letter you may want to sign, I think, before you go. It's to the Pressmen's. I think it's been initialed.

H.M.Jr: Pressmen?

Roche: Pressmen's Union, on that change of the procedure in buying. The report's attached.

H.M.Jr: There are only six initials. There are usually twelve.

McR: She turned them down very nicely.

Roche: Thank you, Mr. McReynolds. Witness, I do sometimes turn them down.

H.M.Jr: O.K. (signs letter)

Now, you or Mac ready to report on space for that....

McR: Well, they're willing to give us a lot more space down there, but it would cost a lot to put it in shape. And the way Miss Roche felt was that we'd better do only temporary improvement there if we could get authority to complete the Public Health Administration Building down here. I'm talking to Peoples this morning about the possibility of getting the completion of that building authorized in this program, and also having Procurement engineers make an estimate of what it would cost to improve that situation down there, to make it livable during the time that the other.... That is, if we can get the combination, the authorization for the completion of the Administration Building, where that stuff could be moved, plus temporary improvement in your quarters down there so that it would do while that's going on, I thought that would probably be the best thing to do. Doesn't seem to be anything else available.

H.M.Jr: Well, there's nothing that I can put my teeth into in what you're talking about.

McR: I don't think there is anything you can do, except when we get in the fight over whether he's going to spend any money to complete that building, you can help.

Roche: That would be very helpful.

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H.M.Jr: Well, I'm willing to take some Congressmen down there whenever the committee is. I'm willing to take them. I'd like to take them right after lunch; they'd lose it.

McR: I think that's where I got that neuralgia headache. I was down there yesterday.

H.M.Jr: Well, Mac, will you give it your personal interest?

McR: Yes

H.M.Jr: The thing that impressed me the most - the first impression that a new employee gets of the United States Government is that place - that's what that doctor says - and believe me, that's some impression.

Roche: Well, you ought to see it; it's really crowded. Hundred or two hundred people come in there on a hot day - well....

H.M.Jr: Try to have something when I come back, will you?

McR: Yes, sir.

H.M.Jr: Okey-doke.

Anything else, Miss Roche?

Roche: I think that's all, sir. Thank you very much.

Gibbons: I talked to Mac yesterday about the practicability of my going over with Miss Roche and talking to John Lewis about these strikes and telling them our situation, where we have liquor, and see if he controls it.

H.M.Jr: And what did Miss Roche say?

Gibbons: I didn't talk to her. I say to have either she or I....

H.M.Jr: No, if you - do you mind my being very frank?

Gibbons: Yes.

H.M.Jr: Will you keep out of it?

Gibbons: The only thing I thought was that I....

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H.M.Jr: Now listen, I gave this fellow (McR) the responsibility.....

Gibbons: Well, we talked it over afterward, and there is a possibility of this thing breaking out every day all over the country, see?

H.M.Jr: Well now, just....

Gibbons: I just thought that we might....

H.M.Jr: No, no. You don't mind my being as blunt as that, do you?

Gibbons: Oh no.

H.M.Jr: But if you remember, they had that same idea on the Coast of Coast Guard doing something on the Pacific strike.

Gibbons: Uh-huh. All right, it was just a thought.

H.M.Jr: Of course, if Miss Roche thinks I'm wrong and wants to take you over there....

Roche: I don't know the situation there.

H.M.Jr: No, if you don't mind, let this fellow handle it.

Gibbons: She knows Lewis and I know Lewis and I know McGrady, and.....

H.M.Jr: If you just - if you don't mind, old man, I'd keep out of it. I'm being impolite, but that's what you want.

Gibbons: I just wanted to get your reaction.

H.M.Jr: Well, you know my reaction; I gave it to you.

Gibbons: I wanted a perfectly frank reaction. I didn't want to do it unless it would be something that would be of some service.

H.M.Jr: I wouldn't.

Gibbons: No.

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H.M.Jr: Anything else?

Gibbons: O.K., nothing else.

H.M.Jr: O.K.

Gaston: I have a little release prepared. Peoples is going to send out notices to these employees whom he's going to release on the 15th - some 290 or something like that. I have a little release prepared; I thought I'd give it out at about the time that he sends his notices out to the employees.

McR: That will be in their Handbook about the first of May.

Gaston: Tomorrow. And I thought I'd give it out tomorrow. Just a short release.

H.M.Jr: Yes. Incidentally, I want to compliment you, or whoever handled it, on the way that story was handled about those four women that were laid off. Whoever handled that story - the way it read and everything else - I was more than pleased the way it was handled.

Gaston: The boys found out about that, from what source I don't know, and we appealed to them to go a little easy.

H.M.Jr: I thought it was beautifully handled, both from the standpoint of the Treasury and the four women. It could have been an awful mess.

Gaston: Yes, yes.

McR: We turned over everything to Gaston on that.

H.M.Jr: It was beautifully handled. Do you (Gaston) know that one of those women is the wife of a Captain of Police here?

Gaston: Yes, and one of the boys found that out. I had a little argument, very friendly, with a fellow on the Times. He had found the name of the woman, and I told him he was taking a lot of chances if he printed it, that I wouldn't confirm or deny it.

H.M.Jr: Joan was trying to tell me at supper that the Washington Herald changed hands, and she couldn't

- 12 -

quite get it straight. She read something about Mrs. Patterson - I mean leased it or something. Did you see it?

Gaston: I didn't know about that.

McR: Yes, she leased it. She is in entire control of it now.

H.M.Jr: She bought the contract, Joan said. She didn't have it quite straight - "You know, I read it two weeks ago, Dad, and I can't always remember those details." But she had that much anyway.

McR: Mrs. Patterson gave a party here at one of the movie places day before yesterday, at which there were several hundred women that she invited there, and she announced to them that she was running the paper without any strings now, and asked their suggestions as to what kind of a paper they wanted, and all that sort of thing. She's making quite a play of it.

H.M.Jr: Well, did she buy the paper or just buy the lease?

McR: Just bought the lease.

Gaston: More "Hearst hooley."

Gibbons: What Joan probably saw was what I started to read. It was on the editorial page - about this Patterson woman and Hearst, about her connection with him, and about how marvelous he'd been to her and all that. I didn't finish it. Just propoganda.

H.M.Jr: Herbert, anything else?

Gaston: No.

H.M.Jr: Wayne?

Taylor: After reading that editorial, that Times thing, I read a couple of other things, both of which I thought were very interesting. One was Krock's column. My guess on that is that that's Baruch.

H.M.Jr: Uh-huh.

- 13 -

Oliphant: That was my guess.

H.M.'r: I see.

Taylor: Very close connection there.

Oliphant: Didn't parallel Anderson at all.

H.M.Jr: Oh yes.

Taylor: And the other one is Chamberlain's speech yesterday - is well worth everybody's reading.

H.M.Jr: I read it.

Taylor: Yes

H.M.Jr: Incidentally, I called up Mr. Aldrich this morning and told him about Anderson and he said, you know, that that was the funniest thing that had happened to him. Yes, he just howled over the telephone; he thought it was terrible, and was very appreciative that I called him.

I said, "You know, Mr. Aldrich, I've often said that whenever you want anything done in Washington, you're the one bank president who comes down himself; you never send somebody else. You always come down. You've followed that procedure for three years, and if I may be so bold as to suggest that you continue to follow that policy... You send Mr. Anderson down here many more times and you'll lose all the friends you've got down here."

He said, "I can't take it seriously. I think it's the funniest thing that's happened yet. I didn't know Anderson was coming down." He said, "Anderson wanted to go to Europe. To keep him out of mischief, I'll take him along."

Mrs Klotz: Didn't want him to go along.

H.M.Jr: "I'm taking my wife and two children across to the Coronation and I'm taking Anderson along to keep him out of mischief." But he was so - he just howled over the phone. He said, "Funniest thing I ever heard."

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I told him what - didn't Anderson say, "I'm taking Mr. Aldrich with me"?

Haas: "This is the talk." He talked like he owned the bank.

H.M.Jr: So I told him - I felt better about it - I told him I'd lost my temper and "so would you."
"No," he said, "I just think it's funny."

Mrs Klotz: He (Anderson) must be losing his mind.

H.M.Jr: That's what he said - got to have his cranium examined. Must be - gotten a little large. He just howled - said, "It's the funniest thing I ever heard." So it's much better to have it that way. He didn't even know that he was down here. He would never let him come down. He said, "It's news to me."

Oliphant: Well, what do they keep him for?

H.M.Jr: I don't know. Maybe he's got a contract.

Haas: He's a new business man.

Oliphant: Just a college professor gone wrong, George.

Roche: Consumer counsel.

Oliphant: This bill involving our paying out \$25,000 - checking through the question of whether or not the President had vetoed it....

H.M.Jr: Yes, I read it. Isn't that interesting?

Oliphant: His veto message had to get down there within ten days and there's no record either at the White House or at the Capitol as to when that veto message had gone down.

H.M.Jr: Well, what I would do - I would give that to Mac and let him go over and see Forster.

Oliphant: See Forster, yes.

H.M.Jr: Let him work it out. I wouldn't want to send a

- 15 -

memorandum. I'd let Mac go over and let him bring it to Forster's attention, see? And he's going over there anyway on something else.

Oliphant: It's all here in that memorandum.

H.M.Jr: I'd give it to Mac, see?

McR: I'm going over to see Rudolph today.

H.M.Jr: Well, tell Rudolph you've got something on him.

Oliphant: Well, he can work it out with the people down on the Hill, then. It's something that's really up to Rudolph.

H.M.Jr: That's right.

I'll see Clarence and you right now.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 30, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: A Digest of two Articles on Russian Foreign Trade
 (These articles, which were forwarded by
 Mr. Oumansky of the Russian Embassy, appeared
 in the Moscow Daily News of July and November,
 1936, and were both written by A. Rosenholz,
 People's Commissar for Foreign Trade)

Tsarist Russia was dependent on abroad for almost all its machinery and for a considerable portion of its essential industrial raw materials. The Soviet Union, by its program of industrialization, has now freed itself from technical and economic dependence on other countries.

Russian Foreign Trade
 (In millions of gold rubles)

Year	Total Foreign Trade	Imports
1913	2,895	1,374
1930	2,095	1,058.3
1931	1,916.2	1,105
1935	608.7	216
1936 (first 11 months)	599.7	277.9 (a)

(a) Includes payment on account for the Chinese Eastern Railway

Russian foreign trade policy was subordinated in the past to the industrialization of the country.

The principal tasks of foreign trade now are:

1. The accumulation of foreign exchange reserves
2. Continuing past policy of importing only essential materials and equipment
3. Aiding the technical reconstruction of the Soviet economy
4. The utilization of long-term credits to hasten the achievement of the second and later the third five-year plan
5. Fostering the peace policy of the Soviet Union

Secretary Morgenthau - 2

(1) Accumulation of foreign exchange reserves

In the past it was a question of reducing indebtedness; now the task is the positive one of accumulating reserves.

The reasons for this policy are:

- (a) With the growth of the war danger and of preparations for defence the significance of a "war chest" of gold and foreign exchange increases considerably.
- (b) Russia deliberately restricts her imports to a minimum in order to encourage self-sufficiency. The result is that the surplus of exports over imports must result in the accumulation of foreign exchange.

In 1933-1935 the favorable balance was 400 million dollars, apart from another 80 million of gold and silver exported.

The reasons why it is able to execute this policy are:

- (a) In the future receipts from exports will no longer be needed to liquidate indebtedness, which fell from \$1,220 million in 1931 to \$75 million in 1935.
- (b) Some of its imports will be on long-term credit.
- (c) Receipts from the sale of the Chinese Eastern Railway are still due.
- (d) Noticeable surpluses in the domestic production of certain commodities have recently emerged.
- (e) Most important of all, gold production in the U. S. S. R. has greatly increased.

(2) Maintenance of the policy of importing only essentials

In spite of the improvement in the foreign exchange position, the policy of importing only essentials must be continued because

- (a) The accumulation of foreign exchange reserves is needed.
- (b) Restriction of imports is the best lever for revealing internal industrial resources.

From 1918 to 1928 imports were 4,000 million rubles. During the first five-year plan they were about the same, but in the second they will be not more than 35-40 percent of that sum.

Secretary Morgenthau - 3

The third five-year plan may well be accomplished almost without any imports, the exceptions being tin and a few other raw materials. Naturally this does not exclude importing technical innovations or remedying any hitch which may appear in any branch of the economy, or on the basis of long-term credits, such as were concluded with Germany and Czechoslovakia in 1935, and with the United Kingdom in 1936.

(3) Technical Reconstruction

Foreign trade should actively assist Soviet economy in the sphere of its further technical reconstruction. Where Soviet technique lags behind that of other countries, it must catch up as rapidly as possible.

(4) Financial Credits

It has always been Soviet policy to extend imports on the basis of long-term credits in order to accelerate construction. But the following new considerations now enter:

- (a) An essential condition for using these credits is access to significant technical innovations. Therefore financial credits are desirable only from countries from which articles of great technical importance can be obtained.
- (b) The cost of the credits must be reduced. Six percent is too high.
- (c) The terms of the credits must be for more than five years.
- (d) The aim is not to receive big or unlimited credits. In some cases it has been necessary to insist on a reduction in the amount of credit offered.
- (e) Credits from manufacturers are rejected. A cash basis is preferred.

Long-term credits at excessive rates have been rejected, and old loans at high rates have been repaid before they were due. The Soviet Union refused to carry on credit negotiations with England connected with British claims concerning pre-1917 debts. A credit agreement with England on a different basis is now being negotiated. A few years ago the maximum rate paid for credits was 8 percent, then 6.5 percent, and in 1935 it was 6 percent. Even this is now regarded as too high.

Secretary Morgenthau - 4

(5) Peace Policy

Foreign trade can be actively used to assist the Soviet peace policy. Hitherto foreign trade was dominated by considerations of foreign exchange. Now there are greater possibilities for maneuvering and for increasing trade and economic cooperation with neighboring countries.

Trade Relations with Different Countries

United States: - Trade is developing satisfactorily on the basis of the Soviet-American trade agreement of July 11, 1935 in which the United States granted most-favored-nation treatment and the Soviet Union promised to purchase 30 million dollars worth of United States goods. Actually, they purchased 36 million.

Great Britain: - The trade agreement of February 16, 1934 is based on the principle of gradual equalization of the balance of payments. British imports from Russia between September 1934 and September 1936 totalled £ 51 million, exports to Soviet Russia £ 27.8 million. But Russia also purchases shipping services, bill brokerage, etc. from Great Britain so that by January 1, 1936 excess of payments in Britain over payments arising from the agreement was 8 million pounds. The new trade agreement should foster mutual trade relations.

Germany: - There has been an almost complete liquidation of commercial indebtedness to Germany. The peak of bill of exchange indebtedness to Germany was reached on October 1, 1932 when it amounted to 1,100 million German marks. It is now only 52 million (apart from the 200 million five-year credit of 1935). In the last two years trade with Germany has declined. In 1936 Soviet exports to Germany will amount to only 65-70 million marks as against 209.7 million in 1934.

Liquidation of past indebtedness, payment in cash for orders from the United States and France, and the new agreement with the United Kingdom strikingly reflect the strengthening foreign trade of the U. S. S. R. in which the foreign trade monopoly will, as hitherto, remain one of the firm foundations of the State.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 30, 1937.

TO Secretary Morgenthau

FROM Mr. Haas *MH*

Subject: Meeting in the Secretary's Office, 3 P. M., April 29, 1937.

Present: Secretary Morgenthau; Dr. Benjamin Anderson,
Economist of the Chase National Bank; Mr. Haas.

Dr. Anderson opened the discussion by saying that very shortly he and Mr. Aldrich, President of the Chase National Bank, are going to Europe, and will contact important people in the financial field as well as in the governments. He thought that the present was a very opportune time to make some real progress in the monetary field. He pointed out that he had good information which lead him to believe that the German and Italian governments were now in a much more receptive mood, largely because they realized the futility of not treading along peaceful lines, particularly in view of the large rearmament program of Great Britain.

Dr. Anderson said what the world needs in a monetary way is a three-fold program:

(1) The important countries of the world should become established on a fixed gold basis. It is not so important just what the basis is, but it must be fixed. He pointed out that this would instill confidence in countries in Continental Europe. Gold would return to these countries and this would automatically take care of our gold problem. With the resultant increase in confidence, he said Gresham's Law would cease to operate.

(2) Along with this program should go increased efforts to carry out Secretary Hull's program of freedom of trade so that goods could move.

(3) The gold content of currencies of the world is too low and results in too great an output of gold. This should be limited by increasing the gold content of currencies or, in other words, reducing the price of gold in terms of currencies.

Dr. Anderson said the above is in brief what he and Mr. Aldrich are going to say to the important people they meet in Europe. He asked the Secretary if it would be all right if he said that he had discussed these matters with the Secretary of the Treasury before he left for Europe.

Secretary Morgenthau

-2-

The Secretary replied that Dr. Anderson had not even asked him as yet what his opinions were with regard to these subjects; and as to Dr. Anderson indicating in any way that he represented the Secretary of the Treasury, the Secretary said emphatically no. He said he did not need anybody to represent him there, and if he did, Dr. Anderson would be the last man he would select. The Secretary pointed out that since this Administration came into office Dr. Anderson in his writings had consistently opposed everything the Treasury had done; and now that the job is done, and with a balanced budget in sight, he would not under any circumstances allow Dr. Anderson in any way to represent the Treasury Department. The Secretary stated that this was a free country, and Dr. Anderson could make any statements he wanted to make, but that if there was the slightest impression created that he was representing or expressing the views of the Secretary of the Treasury that he would immediately inform the embassies abroad to the contrary. The Secretary pointed out that after three years he has finally developed a means whereby he can establish immediate contact with the Chancellor of the Exchequer, the Minister of Finance in France, Belgium, etc., and they have confidence in him and he has confidence in them.

Dr. Anderson said that the Secretary had misunderstood him. He did not intend to infer that he was asking to represent the Secretary abroad. The Secretary asked him what he came here for if it was not to lay out what he was going to tell the people abroad. Dr. Anderson then attempted to cite instances in which he did agree with the Administration's policy. He stated that he agreed with Secretary Hull's reciprocal trade agreements and with the Federal Reserve Board's action in increasing reserve requirements. The Secretary stated that he was referring to the activities of the United States Treasury. Then Dr. Anderson pointed out an instance, in 1934 or 1935, when he appeared before some Senate committee, and Senator Thomas without success made every effort to get him to state that he questioned the soundness of the Government credit.

The Secretary reminded Dr. Anderson that he had never attempted to see him when the situation was really difficult. Dr. Anderson replied that he had attempted to see the Secretary before. The Secretary said he could not recall a single instance. Dr. Anderson then said that at the request of Mr. Morgenthau's father he wrote a memorandum on employment which was sent to the Secretary. The Secretary said he never received such a memorandum, and stated further that his father is very careful not in any way to represent the Secretary.

Dr. Anderson attempted to assure the Secretary that there was nothing personal in any of his writings, and that he was expressing his honest opinions. The Secretary said that the personal part of it was immaterial, that he was not important but the United States Treasury was. Dr. Anderson further stated that Mr. Stern and Mr. Funk of the Chase Bank have cooperated with the Treasury. The Secretary said he knew that and was not making any reference to them, but that his remarks were directed entirely to Dr. Anderson, the Economist of the bank.

-COPY-

EMBASSY OF THE UNITED STATES OF AMERICA
OFFICE OF THE TREASURY ATTACHE
CUSTOMS

2 Avenue Gabriel
Paris, France.

April 30, 1937.

MEMORANDUM FOR THE SECRETARY:

Subject: Narcotic Smuggling - Europe.

Since my last memorandum, we have our noses to the trail as before. We have been getting a few breaks as regards informers, with the result that we have lined up several who look as if they may turn out to be more high-powered than the average of our former ones. We were glad to receive word to-day of some success with regard to the seizure on the PRESIDENT HARDING. We have several things on the fire which look pretty good, but it is too early to say anything about them as yet. It would appear that the cargo-smuggling angle (concealing the narcotics in freight) is our largest and toughest problem. We are devoting our attention to that as much as we consistently can with keeping the other angle (personal carriers) covered.

Mr. Wait is back from his cure and looks much better. Now that he has returned, and while awaiting Anslinger's arrival, I am going to make a quick trip to Turkey and Greece to see if I can get Christides into the proper groove to produce results. He is willing but inexperienced, and I hope to encourage and develop him.

Best regards as always,

Respectfully,

THOMPSON.

April 30, 1937

Mr. Oliphant's office reported today that the letter of April 26 (filed herein under date date) had been turned over to Mr. McKeynolds who will handle it personally with Mr. Forster at the White House.

This has to do with a time record for veto messages of the President.

FROM: MR. McREYNOLDS' OFFICE

376

TO:

The original of this
memo + the file
delivered by mail to
Ineta at White House

WBL

30 Apr 37

MEMORANDUM FOR THE PRESIDENT:

You recently suggested consideration be given the re-appointment of Joseph Wolf as Collector of Internal Revenue at St. Paul, Minnesota, and accordingly I have had the usual investigation made.

Wolf was appointed originally as Collector on August 1, 1933, and served both in that capacity and as Democratic National Committeeman until September 30, 1934, when he resigned as Collector to devote his entire time to the duties of Committeeman. He continued in this position until June, 1935. James R. Landy was appointed Collector on June 15, 1935, to succeed Wolf, who endorsed him for the position.

The investigation has disclosed there was an understanding between Wolf and Landy that at some certain time in the future when Wolf desired reappointment as Collector, Landy would resign and make way for such reappointment. A meeting was held at the home of Mr. Adolph Bremer of St. Paul in March, 1935, at which Wolf and Landy, with others, were present. It was at this meeting that the arrangement between Wolf and Landy was discussed and the agreement entered into. According to the statement of Landy, after Wolf and the others had left the room, Mr. Adolph Bremer indicated to Landy that, in view of Wolf's lack of funds and his considerable office expenses, something should be done for him. He states it was agreed between Mr. Bremer and himself that Landy would pay Wolf \$75.00 a month. Following his appointment he did make such payments for a period of one year beginning July 1, 1935. Photostatic copies of the checks in question are in the files and Wolf admits that he received them. He maintains, however, that these sums represented payments to the Democratic campaign fund. However, nine of the checks were deposited in his personal bank account, and, so far as could be ascertained, all of the expenses of the State democratic office were paid from the special account of Baths, the treasurer.

In June, 1936, Landy and Wolf, with others, again met at the home of Mr. Adolph Bremer and there discussed the question of Landy resigning in favor of Wolf. Landy insisted his understanding had been that he would be permitted to remain as Collector for two years. As he had been in office only about one year, he refused

- 2 -

to resign. Landy and Wolf both state that the latter offered to return the \$900.00 received from Landy, but this offer was declined. Landy testifies further that at a later date certain influential and wealthy citizens of Minnesota offered to pay him the sum of \$2,500, which represented the amount of money he would have earned as Collector from that time to the end of the two-year period, and to return to him the \$900.00 which he had paid Wolf. Landy states that he also refused this offer.

The investigation also developed evidence that Wolf had received various sums of money from applicants whom he endorsed for postmasterships during the year 1933. Wolf asserts that all of these contributions were made voluntarily and maintains that the payments were used for political purposes and were not income to him personally. He states that records and receipts were not always kept and admits that some of the funds were deposited in his personal bank account, but maintains that most of them were deposited in the bank account of Mr. Batha as treasurer and were used to pay expenses of Wolf's political office. With one exception, these alleged offenses occurred more than three years ago, and are, therefore, barred by the Statute of Limitations in so far as the application of law is concerned.

However, it is definitely determined that Wolf did recommend Landy for appointment as Collector; that at that time there was an understanding between them that Landy would relinquish the office to Wolf at sometime in the future; and further that Landy did pay to Wolf the sum of \$75.00 per month for a period of one year. These offenses are in direct violation of Sections 149 and 150 of the United States Criminal Code, which sections prohibit the payment or receipt of any moneys in connection with the recommendation for or appointment to a Federal office. The sections noted are set out in full on the attached sheet.

Obviously Wolf cannot be considered for appointment as Collector; furthermore, Landy should be immediately removed from the position which he holds. It is my recommendation that this be done and that all of the facts in this case be submitted to the Attorney General.

(Signed) Henry Morganthau, Jr.

Secretary of the Treasury.

Apr 30, 1937

TS 4/29
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 msk
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Section 149:

"Payments made for influence exerted in procuring appointive public office prohibited. It shall be unlawful to pay or offer or promise to pay any sum of money, or any other thing of value, to any person, firm, or corporation in consideration of the use or promise to use any influence, whatsoever, to procure any appointive office under the Government of the United States for any reason whatsoever. (Dec. 11, 1926, c. 3, Section 1, 44 Stat. 918.)"

Section 150:

"Payments received for influence exerted in obtaining appointive public office prohibited. It shall be unlawful to solicit or receive from anyone whatsoever, either as a political contribution, or for personal emolument, any sum of money or thing of value, whatsoever, in consideration of the promise of support, or use of influence, or for the support or influence of the payee, in behalf of the person paying the money, or any other person, in obtaining any appointive office under the Government of the United States. (Dec. 11, 1926, c. 3, Section 2, 44 Stat. 918.)"

JUSTICE TRAPS U.S. DEALERS IN SHANGHAI DOPE

Taybank Case Gang and Others Sentenced

LONG GAOL TERMS

Further Seizures Here and in Hongkong

Special to the "Standard"

"You can't get away with it" is the grim warning sounded by the American Government to those who traffic in Chinese narcotics across the broad sweep of the Pacific. And in recent months Uncle Sam has dealt ruthless justice to many of the loaders on his own side of the ocean—men and women who have all been dealing in dope that has passed through Shanghai.

The campaign goes on, under the personal supervision of the Secretary of the Treasury, Mr. Henry Morgenthau, Jun., who is determined to break the back of the insidious traffic. It is already well known what the Federal forces have accomplished in the Wendt-Brandstatter case and now may be added what has happened in America in recent weeks to men and women who have helped distribute Shanghai opium, morphine and heroin consignments in that country. Some of the most vital facts are as follows.—

While the navy Taybank, which is now back in this port, was in New York harbour on March 6, Federal agents went on board and seized 600 five-tael tins of prepared smoking-opium secreted below decks. Four members of the crew were arrested: Ah Nan, Chinese, stowaway; Kechel Ben Hassan, Malayan, boatswain; Omar Ben Ganj, Malayan, second boatswain; and Sahee Ben Rasej, Malayan, storekeeper. Arrested also were one Willie Bonanz, contact man between the crew and the New York consignees of the opium, and two river boat-men, Dominic and Tito Buda, brothers, who were running narcotics between ships and the shore. Bonanz has now been convicted and sentenced to ten years in prison and a fine of U.S. \$3,000, while Omar Ben Ganj was given a term of four years; the Chinese three and a half years, and the boatswain and storekeeper shorter terms. The Buda brothers will be sentenced on May 3.

A Lifetime in Gaol

Dealing in Shanghai morphine and heroin has further brought a sentence of fifty years in the penitentiary on the head of one Louis Ginsberg, a notorious wholesale operator in southwestern United States, while six of his lieutenants have been given terms aggregating ninety years. Two other members of this gang have been convicted but not yet sentenced, while a further two are awaiting trial. It took the jury only fifteen minutes to reach a verdict in the case of the seven principals.

The work of rounding up the Ginsberg gang was done by Federal agents who in the course of their activities bought from members of the gang eleven packets of morphine and heroin aggregating more than four pounds of vicious narcotics. All the contraband seized was traced to sources in China.

Nearly all the persons arrested (including one woman) actually sold morphine or heroin to Government agents and those who did not sell were positively implicated in the traffic. The delicate and dangerous work of buying the evidence from the various dealers occupied the agents for a period of six months, from July to December, 1936. When a first attempt to arrest one of the traffickers, one Johnnie Walker, was made he was in the act of delivering a quantity of heroin to another man. He drew a pistol, seriously wounded one of the agents and escaped after running another down with his motor-car. He was later apprehended and it was his good fortune that the agent he shot lived to testify against him.

Schatz Gang Caught

The determination of the American authorities to treat narcotic smugglers with the utmost severity was manifested last December already when the Federal Court in New York sentenced two transatlantic smugglers to forty and 25 years respectively and imposed fines of U.S. \$40,000 and U.S. \$45,000 on them. The men were Morris Schatz and Serafino Mancuso and with them were arrested nine of their assistants, all of whom were likewise sentenced.

The narcotic seizures on the basis of which the Schatz band was captured all were made in New York harbour, as in the Taybank case. On October 13, last, more than fifty pounds of crude opium were found in the ss. New York and later, that month 37 pounds in the Ile de France. The largest haul was made on board the ss. Manhattan on November 2, 106 pounds of crude opium being confiscated, and a week later 22 ounces of heroin were discovered in the ss. Normandie. The Far East agent was described as the plant of origin.

Serafino Mancuso, one of the 100 principals in the Schatz gang, is a brother of Salvatore Mancuso, who in 1935 was sentenced at New York to four years imprisonment on a narcotic charge and forty years for kidnapping and torturing a French seaman who had sold for his own account certain drugs consigned to Salvatore Mancuso.

Hongkong, Shanghai Basis

An important seizure made during recent weeks which has not yet come to trial in the American Court was that of 500 five-tael tins of smoking-opium seized at Hongkong on March 15 on the Blue Funnel steamer Ixau, plying between China ports and the United States and Canada. On January 8, at New Westminster, British Columbia, 550 five-tael tins of smoking-opium had been recovered from the water off a dock accidentally occupied by the Ixau.

The latest important seizure was made at Shanghai on March 17 on board the American freighter Middle City. This haul consisted of 300 five-tael tins of refined opium destined for American shores.

Successfully Referred To
Consultants of Charleston
(Investigative Only)
Mr. P. Nicholson
1111 Broadway, New York

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 30, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM D. J. CameronDE NEDERLANDSCHE BANK

(Copy for Mr. Lochhead)

I telephoned Mr. De Jong of the Netherlands Bank and was connected at 11:53 a.m. The connection was extremely poor. I told Mr. De Jong that we had a news report that the Dutch Equalization Fund announced that it had again cut its purchasing price for the dollar to 1.82 1/4 guilders (54.8696¢ per guilder) due to the large offerings of dollars and the firm tone of sterling. I said I was calling because in view of this report we hesitated to operate against his order to sell guilders here at 54.84[¢], possibly contrary to his purpose. Mr. De Jong thanked me for calling and apologized for not cabling us. He said he did not wish us to sell guilders in our market unless we could do so at 54.88 cents per guilder or better (54.871 net to him). He said that he would cable us immediately. Mr. De Jong seemed to have difficulty understanding, but I made it clear that I understood his instructions.

In closing he repeated his instructions with respect to selling guilders for his account here.

RECEIVED

TODAY & YESTERDAY

TELETYPE UNIT

FEDERAL RESERVE BANK
OF NEW YORK

RB

GRAY

Paris

Dated April 30, 1937

Rec'd 3:48 p. m.

Secretary of State
Washington.

554, April 30, 3 p. m. (SECTION ONE)
FROM COCHRAN.

The communique issued following the appearance of the Minister of Finance yesterday before the Senate Finance Committee indicates that the information given to this body by the Minister was similar to that submitted on the previous day to the Chamber Finance Committee. The statement is made that the Senate Committee maintained its previous position relating to the 1937 budget. (The views of the Committee in this respect were reported on pages 8 and 9 of the Embassy's despatch 256 of January 7th notably that revenue was overestimated by at least 200 billion francs, that expenditures were underestimated by one billion, that pension fund would call for an additional two billions and furthermore that important requirements had been overlooked by the Government as concerned extra budgetary outlays.) It is maintained that the position has been still more aggravated by additional burdens laid on public

RB

-2-#554, April 30, 3 p. m. from Paris
SECTION ONE

public finances since the beginning of the year. The Minister once more repeated that no further project of law of a nature to add to deficit would be considered and again declared that he had never envisaged any sort of a forced loan. He was he said anxious to reestablish progressively budgetary balance. President of the Committee Caillaux emphasized the necessity for the Government, if the economic situation was to be restored, to adapt its actions to its declarations and to maintain public order.

While the exact situation of the Treasury and

BULLITT

GSE

EDA

GRAY

PARIS

Dated April 30, 1937

Received 4 p.m.

Secretary of State

Washington

554, April 30, 3 p.m. (SECTION TWO).

requirements are of course only known to the officials directly concerned the approximate position at present seems to be that indicated in my telegram of yesterday. According to the Ministry's own figures twenty billion francs will be required between now and end of the year over and above budgetary revenue and in this calculation it appears certain that repayment in October of the British credit of forty million pounds has not been included nor has mention been made of loans to the railways. It is also possible that the amount of three billion francs established as sufficient to meet demands in October next for reimbursement of the four one half per cent 1934 Treasury bonds will prove to be insufficient. It may be explained that about nine billion francs of these bonds are outstanding. They are repayable at par in October 1937 at 103 per cent in October 1940 and 108 per cent in October 1944. The Government appears to have calculated that approximately one third (three billion francs) will be presented for reimbursement

in

EDA - 2 - #554, April 30, 3 p.m. Section two from Paris in October as indicated above.

An official denial is published in today's press of report that the Government intended to reorganize the railways with a view to taking an active part in their administration. It has been claimed that the Government planned to transform into shares its credit on the railways of 25,000,000,000 francs. As the capital of the railways represents about 7,000,000,000 francs the state under the circumstances would immediately become holder of the majority of the shares (about 30%).

Paris exchange market today rather (*) but jumpy with no important (*). Dollar recovering as Soviet sales thereof let up. Pessimistic news received from London on official disappointment over initial reception given defense loan and in regard to difficulties of brokerage houses. French rentes and shares are, nevertheless, a little up from yesterday.

BULLITT

CSB

(*) Omissions

RECEIVED

APR 30 1945

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 30, 1927, 6 p.m.

NO.: 558

FROM COCHRAN.

Last night at the Embassy dinner I had the privilege of talking with Auriol, Rist and Rueff. Auriol told me that Caillaux had been quite tired, and at the session of the Senate Finance Committee he had not subjected him to any severe examination. There will be no further devaluation of the franc, Auriol said. However, he did make a remark which hinted that France may seek consultations with Great Britain and the United States with a view to widening the fluctuation limits of the French franc. If I interpret his meaning correctly, this naturally arouses suspicion as to his own confidence in France's ability to avoid franc depreciation below the lower limit fixed October 1 by the monetary law.

I was told by Auriol that he had informed the Committee members that it is out of the question to stabilize the franc now in view of the wide fluctuations at present on the world's exchange markets. The three officials mentioned above gave the impression that they were in harmony on the operations of the exchange stabilization fund of France.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 558 of April 30, 1937, from Paris.

It also appeared that there was no truth in the rumors of prospective resignations from the Committee.

Very little new information was added by Rist to what I have already passed on to you from time to time. Most of all he is concerned lest there may be such a sharp check in world prices that a setback will actually be suffered by recovery. Rist is in favor of higher world prices, considering the important gold stocks and production. He insists that the only worry to France would be in the event that her prices are ahead of world prices.

Rist expressed the hope that there may be a lowering of trade barriers so that countries which do not have important monetary reserves may accumulate foreign exchange from profitable commerce, and convert this foreign exchange into gold, thus effecting a better distribution of world stocks of gold. I was questioned by Rist as to whether our country and Great Britain had reached an agreement on a campaign for lowering prices; I insisted that there had been no such agreement.

The Ambassador was told by Auriol and Spinasse that they were entirely certain that in the long run France could not hold out under the financial burden which the new social laws and military budget imposed on it. There would in the long run be internal collapse if an accord were not reached

- 2 -

reached on limitation of armaments. They felt confident, the told the Ambassador, that the Government could surmount its financial difficulties until June or July, and they believed that the Government could hold out until Fall of this year.

END MESSAGE.

BULLITT.

EA:LWW

MJD

GRAY

Paris

Dated April 30, 1937.

Rec'd. 9:45 p. m.

Secretary of State,
Washington.

559, April 30, 7 p. m.

FROM COCHRAN.

Reference Department's 191, April 29, 3 p. m. Leaving Paris Saturday night for Basel where B. I. S. has monthly annual meetings on Saturday and Monday. Shall proceed from Basel directly to Geneva Tuesday 4th.

I am cabling summary of B. I. S. annual report from Paris tomorrow. An account of the B. I. S. meetings will be mailed from Basel or Geneva for coding to Paris.

CSB

BULLITT

MG

GRAY

London

Dated April 30, 1937.

Rec'd 12:50 p.m.

Secretary of State,
Washington.

254, April 30, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

London stock market has continued to absorb satisfactorily the inevitable selling and the strength with which Wall Street opened did much to preserve confidence that the worst was passed. At the same time institutional buying became very noticeable this afternoon. There is a general feeling of relief that the week is closing in this manner.

BINGHAM

KLP

RECEIVED
MAY 1 1937
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

lw

GRAY

Bombay

Dated May 1, 1937

Rec'd 6:23 a.m.

Secretary of State

Washington

May 1, 11 a.m.

FOR THE SECRETARY OF THE TREASURY.

Silver market has not been affected by the crisis in other markets and ruled steady during the week. Ready opened at rupees 52-15 per 100 tolas and declined to 52-11 at the close. Stocks on hand about 33,000 bars and offtake has improved to about 140 bars daily. Imports during the week 29 bars and shipment reported from London valued at 6,000 pounds.

During the early part gold market was easy in sympathy with dollar but became weak on news of bill presented to Congress to limit price of foreign gold to \$25. The price of ready declined to as low as rupees 34-3-6 per tola though closing at 34-9-6.

WATERMAN

CSB