

DIARY

Book 93

October 20 - October 31, 1937

	Book	Page
Agriculture		
Conference in HMJr's office; present: HMJr, Oliphant, Bell, Haas; Wallace, Tapp, and Tolley (Agriculture); Johnson (Commodity Credit) - 10/19/37.....	XCIII	59
a) Bell memorandum showing effect of operations of Commodity Credit Corporation upon budget and Treasury financing.....		65
FDR, HMJr, and Wallace discuss corn and cotton situations in connection with proposed corn loan; Wallace now advocates loan of 50¢ per bushel - 10/20/37.....		11
a) HMJr states \$300 million is added to next year's budget regardless of how loan is worked out		
b) Wallace wants Commodity Credit moved to Agriculture; HMJr opposed		
c) Wallace's letter to FDR, enclosing copy of letter from Jesse H. Jones to Senator Smith stating that Commodity Credit Corporation and Reconstruction Finance Corporation have ample funds.....		19
d) HMJr discusses Herald-Tribune article with Wallace; article would indicate matter is settled before Treasury and Budget have had opportunity to formulate their policy - 10/21/37.....		31
1) Further discussion of Wallace's position at 9:30 meeting.....		32
HMJr talks to Wallace before conference with FDR - 10/22/37..		96
Conference in re Commodity Credit loans; present: HMJr, Magill, Taylor, Oliphant, Bell, Haas, Riefler, and Oppen - 10/22/37.....		102
a) Bell memorandum on present commitments and program for Commodity Credit Corporation.....		121
Bell gives 9:30 group resumé of present status of Commodity Credit Corporation - 10/25/37.....		140
Conference; present: HMJr, Jones (Reconstruction Finance Corporation), Taylor, Bell, Oliphant, and Bartelt - 10/26/37.....		205
a) Problems confronting Reconstruction Finance Corporation as result of FDR's Budget Summation for 1938 discussed		
1) Various letters from Jones attached		
Further conversation between HMJr and Wallace - 10/28/37.....		183,195

Bids, Collusive or Identical
 See Purchasing, Government
Budget
 See Agriculture

	Book	Page
China		
See also Silver		
Haas memorandum on current trade with China - 10/26/37...	XCIII	167
a) Copy sent to FDR, Secretaries of State and War American Embassy, Peiping, cables concerning plans for financial future of North China - 10/30/37.....		271
Claims, Government		
Oliphant memorandum concerning utilities and railroads against which Government has claims, with view to selection of one as possible subject for model re-organization - 10/29/37.....		247
Commodity Credit Corporation		
See Agriculture		

France		
See also Stabilization		
Cochran and HMJr discuss proposed Rist visit; Cochran tells HMJr Bonnet is entirely agreeable - 10/22/37.....		128

Gold		
See Stabilization		

Housing		
HMJr asks Stewart McDonald to confer with him concerning plans for getting private capital interested in small houses - 10/26/37.....		160

Japan		
HMJr asks White for an estimate on imports and exports over preceding nine-months period - 10/21/37.....		22,24
Haas memorandum on current trade with Japan - 10/26/37....		165
a) Copy sent to FDR, Secretaries of State and War		

League of Nations		
List of members of reorganized Financial Committee.....		88

	Book	Page
Public Utilities		
See Claims, Government		
Purchasing, Government		
Oliphant draft of proposed letter to FDR stating Treasury's future intentions - 10/29/37.....	XGIII	258

Railroads		
See Claims, Government		
Reconstruction Finance Corporation		
See Agriculture		
Revenue Revision		
Conference between FDR, HMJr, and Magill at Hyde Park - 10/29/37.....		228
a) Tax recommendations discussed.....		231
Rist, Charles		
See Stabilization		

Silver		
200 million ounces of silver en route from Hong Kong to London; United States given first chance to buy - 10/20/37.....		6
a) HMJr asks Feis to ascertain State Department reaction		
b) Feis reports State Department position:		9
1) No objection if Treasury, from point of view of its own policy, plans to buy silver in whole or part		
2) If Treasury has taken into account Far Eastern situation, State Department still has no objection but suggests "going slow and taking it in bits"		
Phillips (Sir Frederick) letter to Taylor giving information available in London - 10/22/37.....		133
Stabilization		
France:		
Gold movement to France:		
a) HMJr consults Knoke concerning - 10/21/37.....		70
b) Conference; present: HMJr, Taylor, Gaston, Lochhead, Haas, and White - 10/21/37.....		74
c) Lochhead resume'		87
d) Second conference; present: HMJr, Magill, Taylor, Oliphant, Opper, Lochhead, Riefler, Bell, Haas, White, and McReynolds - 10/22/37.....		91
e) Resume' of situation following conversation between Bullitt and Bonnet - 10/25/37.....		154
Cochran authorized to report to Secretary of Treasury in Washington in immediate future - 10/26/37.....		163
Rist visit: Bonnet agreeable - 10/22/37.....		128

Taxation		
See Revenue Revision		

Mr. L. W. Knoke

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 20, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 12:42 today. The exchange market had turned against the franc this morning, he said (probably as a result of the news that salaries of government employees would be raised); however, in the afternoon he had been able to buy back most of what he had had to sell this morning in support of the franc. Since a week ago—last Saturday, he had received in sterling and dollars, mostly sterling, about \$90,000,000 worth of foreign currencies. Their position, even if it was not as yet what it might be, nevertheless, was very much better than it had been. They were not very far from the turn, he thought, if it had not already come. Barring accidents, he did not believe they would again have markets such as they had recently been through.

We discussed a number of topics. I mentioned that our stock market was very much better today, being at the moment from two to five points up from last night's closing. I also spoke of the latest rumor to the effect that we were, before long, going to raise the gold price to \$41. Cariguel had heard of it and thought that in all probability the originators of this rumor were the same as those who talked about lower gold prices back in April, May of this year. I referred to the strength of the Swiss franc which, I said, I understood had to do with the liquidation for Swiss account of securities in this and the London market. Cariguel replied that that tallied with information he had had and added that he had also heard of substantial purchases by the Swiss of gold in the London market.

LWK:ENC

October 20, 1937.
9:18 a.m.

2

H.M.Jr: Hello, Randolph
Randolph
Burgess: Hello Henry.

H.M.Jr: How are you?

B: Fine

H.M.Jr: One thing, when you see the newspapermen this
afternoon - I thought that that little thing in the
Tribune was unnecessary, uncalled for.

B: Well, so did I. I raised hell about it.

H.M.Jr: Page Mr. Morgenthau.

B: Yes

H.M.Jr: Now, I'm quite sure without even asking you that we
had our orders in.

B: Why of course we did.

H.M.Jr: And -

B: They had ordered them right from the beginning, we did
it quietly of course, we did it so that people wouldn't
observe it, that is a sign that we are successful in
hiding our hands.

H.M.Jr: Well, would it - I know they won't retract, but I
would appreciate it if you'd send for the Tribune
financial writer that covers down town.

B: All right.

H.M.Jr: And, I mean - I know they won't retract, but I'd just
like to let them know that we know what they wrote is a
lie.

B: Yes.

H.M.Jr: But you can, I mean tell them politely, but I think
it pays to call them even though I never expect -

B: Well, I was sore about that this morning too, because -
Did you see what the Times said?

H.M.Jr: No.

B: The Times said there was no sign of official support all day.

H.M.Jr: Well, there you are. But on the Trib thing I think it pays to call them politely, but just let them know that we know they're not telling the truth.

B: Yes

H.M.Jr: If you don't mind.

B: No, that one -

H.M.Jr: Now, we have, somewhere, I don't know the exact - I'll ring for Archie - somewhere a little over four million dollars we have yet to buy.

B: Yes

H.M.Jr: It must be about four million one or four million two.

B: I see

H.M.Jr: In bonds.

B: Yes

H.M.Jr: And we go fifty-fifty today. I mean I think as I understand it, we bought some eight hundred thousand. It's somewhere a little over four million.

B: Yesterday -

H.M.Jr: No, for today. You should have orders from us for a little bit over four million dollars.

B: I see.

H.M.Jr: See what I mean.

B: Yes

H.M.Jr: I just hear the boys coming - How much is the difference-
 (aside) (how much has Mr. Burgess got yet to buy, I said a little over four million)

H.M.Jr: Hello

B: Yes

H.M.Jr: The difference between five million and eight forty, whatever that is.

B: Uh-huh, I see. Now yesterday, you know we bought five million, altogether.

H.M.Jr: (aside) (How much is it) Four million one sixty. Our order today with you is good for four million one sixty.

B: Four million one sixty.

H.M.Jr: Yes.

B: I don't think we're going to have much of a difficult time today because the market was better after the close.

H.M.Jr: Good.

B: And I think for the time being this party may be nearly over, but we will be all ready to function, anyway you -

H.M.Jr: Well, you've got an order from us for four million one sixty.

B: Very good, we'll match it ourselves.

H.M.Jr: And after she opens will you give me a ring.

B: O.K.

H.M.Jr: I mean when you have the feel of it.

B: Yes.

H.M.Jr: Thank you.

B: First rate.

H.M.Jr: You will talk to the Trib.

B: I will

H.M.Jr: Thank you very much.

B: Very good.

October 20, 1937.
10:15 a.m.

Randolph
Burgess: And buying orders rather than selling, one or two of them.

H.M.Jr: Yes

B: And its steadier than last night's closing or a little better than that.

H.M.Jr: Good. Fine.

B: The Board's very quiet. Not many changes yet. The stock market - steel has opened off.

H.M.Jr: Uh-huh.

B: Three points, but the rest of the market seems to be holding.

H.M.Jr: Good.

B: didn't sell much else.

H.M.Jr: Good. Thanks Randolph.

B: All right, Henry.

H.M.Jr: Goodbye.

October 20, 1937.
10:43 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Herbert
Feis: Good morning.

H.M.Jr: Herbert.

F: Yes sir, how are you.

H.M.Jr: I'm all right. For you to think over, please.

F: I beg your pardon.

H.M.Jr: I want you to think this thing over.

F: Right sir.

H.M.Jr: What I'm telling you.

F: Right sir.

H.M.Jr: We got notice from China that they've sent two hundred million ounces of silver to - from Hong Kong to London, they want to do me the courtesy of giving me the first chance to buy it.

F: What a pleasure.

H.M.Jr: What.

F: What a pleasure.

H.M.Jr: Hello

F: Yes, I say what a pleasure.

H.M.Jr: What a pleasure.

F: Yes.

H.M.Jr: Now, just - this is what they say in summing up - In view of the vital importance of sustaining Chinese currency, the Central Bank of China earnestly hopes the Treasury is in a position to participate in this operation. Would appreciate your views as soon as convenient.

F: Who does it come from there, may I ask.

H.M.Jr: Well it comes from our man Nicholson and he doesn't mention names, but it's the Central Bank of China. He doesn't say.

F: And that silver is in -

H.M.Jr: Enroute.

F: Where is it now?

H.M.Jr: It's on the water, between Hong Kong and London.

F: Would anyone have to know that you're doing this?

H.M.Jr: Would anybody have to know it?

F: Yes.

H.M.Jr: No - I could buy - hold it there a while. Think it over.

F: Well, what I - look here, it looks to me - if you want to give them a swift answer.

H.M.Jr: Yes.

F: This is certainly important enough to talk to the Secretary about.

H.M.Jr: I don't want - I mean - what do you call swift in the State Department?

F: Well, this week.

H.M.Jr: Oh. (laughs) I'd like to have - I think we ought to send him an answer not later than Friday night so they get it Monday morning.

F: See, he's up in Canada.

H.M.Jr: Yes.

F: And I don't think anybody is going to be willing to say anything without consulting him on this.

H.M.Jr: Well, this is in your lap.

F: All right, if he - I shouldn't be surprised if
you'll find him telephoning here down from Canada.

H.M.Jr: O.K.

F: Probably tomorrow.

H.M.Jr: Righto. Thank you.

F: Right.

October 20, 1937
11:27 a.m.

Herbert
Feis:

Mr. Secretary.

H.M.Jr:

Yes

F: .

They asked me to say this to you, that if the Treasury from the point of view of its own policy is going to proceed to buy that silver in whole or part, we have no objection. If in making it's decision the Treasury is taking into account the Far Eastern situation, we again have no objection, but wonder whether consideration shouldn't be given to the idea of going slow in taking it in bits.

H.M.Jr:

Uh-huh.

F:

Is that -

H.M.Jr:

Of course, that's all right, of course -

F:

That's fairly clear.

H.M.Jr:

Moderately.

F:

Well, can I make it any clearer.

H.M.Jr:

No, you mean you more or less leave it up to us, but with a feeling that you'd just as leave we'd take it easy.

F:

Well -

H.M.Jr:

We put it this way -

F:

Certainly if you want - Yes, go ahead.

H.M.Jr:

I don't call you up when Japan offers us five million dollars worth of gold.

F:

Precisely.

H.M.Jr:

I don't even call you.

F:

Precisely.

H.M.Jr:

I just take it.

F:

Exactly.

- 2 -

H.M.Jr: But this thing is so much bigger.

F: Well I wouldn't want to get - you to get any idea that there's any objection over here at all. There certainly is not, but what we're saying is that - to the extent that you're moving with sorts of that Far Eastern situation in mind, as you say, take it easy. Take it in small steps.

H.M.Jr: That's right.

F: Now -

H.M.Jr: Before I make up my mind I'll let you know.

F: Welles also said - "Is the Secretary of the Treasury talking to the President about it", I said I don't know, I presume he will.

H.M.Jr: I will.

F: All right.

H.M.Jr: Thank you.

F: Right.

October 20, 1937

Wallace and I had luncheon today with the President.

Wallace said he simply had to make this corn loan and that he was committed to it. Talked a lot about parity and a loan of 50 cents per bushel. The President said: "Where do you get that 50 cents stuff. The last I heard it was 45 cents." Lot more talk about 12-cent cotton is as good as 60-cent corn, but the South needs it worse than the Corn Belt. Whereupon I started to laugh and Wallace said it was no laughing matter; the first thing you know the people in the Corn Belt will say that southern Democrats are in control. The President said: "That's nothing new, Henry."

I pointed out that while this might not cost the Budget or the Treasury any money in this fiscal year that beginning with the first of July, 1938, the outside figure for cotton and corn might be \$300,000,000. So Wallace said that would be simply a paper loss -- why figure it next year; you wouldn't have to figure it until you wound up Commodity Credit. So I said: Wallace, you don't run your own home that way, do you?

So the President gave Wallace a talk about the way next year's budget looked now he had to cut expenses \$300,000,000. I said: Mr. President, I want to go on record at this time that when Bell and I come over we will add \$300,000,000 to the expenses over and above what you already figure, if you make this corn loan. The President did not like it at all. I stuck by my guns. He said, Well, we will have a tax. If we don't need all the money, we will put it in escrow. I said: If you are going to raise \$300,000,000 to offset possible losses, the place to put it is in the Treasury, Commodity Credit. The President said: That's all right.

He then talked about if they made a 45-cent loan, deducting one cent from the corn grower to go into the Treasury, Commodity Credit. So I said to Wallace: On how many bushels of corn are you going to make loans? He said: Not more than 500,000,000 bushels. I said: If my arithmetic is right, that would only give us \$5,000,000. The President interrupted quickly and said: I am only talking about the principle and not dollars.

Then he talked about the consumer and Wallace said the consumer should share part of this expense because

-2-

through the ever-normal granary the price of corn, food, etc., would cost the consumer less year to year. So the President said: All right. Let's put a tax on corn flakes but, he said, don't let's tax beef or bread. I said: How about milk? Well, he said, let's add milk.

So I kept reminding him that no matter how they figured this thing, \$300,000,000 would be added to next year's budget. I said: Mr. Bell is working with a representative of Mr. Wallace and Mr. Jones to work out a procedure and I ask you, Mr. President, not to commit yourself to this loan or to the price per bushel until you have a chance to hear from Mr. Bell. And he agreed to that, and so did Wallace.

(Confidential: The President did not like my pushing him this way at all and showed some irritation.)

He talked about forming a new corporation of \$500,000,000 with a credit manager in charge directly under the President who could make loans to Home Owners Loan, Commodity Credit, or any credit agency that might need money. I said to the President: You are supposed to have a credit manager over in the Treasury now.

Wallace said: I want Commodity Credit to be moved over to Agriculture, and I said: I absolutely am opposed to that, Mr. President, because you can't have your sales manager and your credit manager in the same person. So Wallace said: I thought you agreed with me, and I said: No, I just said I would think it over and I don't think that the President is in favor of moving Commodity Credit over to Agriculture either.

Wallace kept talking about if we didn't do something we would lose the 1938 election in the Corn Belt; that you could not elect a Democratic congressman in the Corn Belt.

To sum up, the only success I met with was that I was able to hold it up until Bell could make his report and I know that we will have to make a corn loan this year, but I think we have an excellent chance to hold it down to 45 cents and if we hold it down to 45 cents I don't think we will lose much money. I am also satisfied that the President is going to insist on some kind of tax to raise \$300,000,000.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 20, 1937, 1 p.m.

NO.: 1477

FROM COCHRAN.

French control's net gain in foreign exchange from the eleventh to the nineteenth of October, inclusive, amounted to 2,798,485,000 francs or almost 94 million dollars. The French stabilization fund on the evening of October 19 contained approximately 9 billion francs foreign exchange and gold.

Proceeds in foreign exchange for the two-year loan of two hundred million Swiss francs by Swiss bankers to the French railways will start coming in on the twenty-third of October. Swiss francs will be received by the French fund, which will turn over French francs to the French treasury for the railways.

Of course, in view of the Treasury's immediate needs, it is not anticipated that all of the proceeds of the loan will go to the railways. The statement of the Bank of France which comes out on Tuesday will show no new advances to the Treasury.

At 11:30 this forenoon I was at the Bank of France, and learned that there was a complete reversal of yesterday's trend. Up to that hour the control had been obliged to yield almost 8 million dollars of foreign exchange to keep the sterling rate below 147. Important offers of francs

were

- 2 -

were coming from London where there was also pessimistic discussion about the dollar.

It was considered that the adverse influences on the franc were the decision reached at the Cabinet meeting yesterday to pay out over one billion francs to employees of the Government and pensioners at increased rates beginning the fifteenth of November, and the dissatisfaction with this arrangement expressed by the proposed beneficiaries. a contributing factor was In addition/the news of unsatisfactory results in the meeting in London yesterday of the nonintervention committee [incomplete sentence].

WILSON.

LMS

GRAY

Paris

Dated October 20, 1937

Rec'd 3:55 p. m.

Secretary of State,
Washington.

1478, October 20, 5 p. m.

FROM COCHRAN.

Pressure against franc subsided at noon. This afternoon sterling was slightly offered by the market and control acquired a little at around 146.44 but apparently not near enough to balance morning's losses. French rentes lower; shares unsatisfactory in sympathy with world markets. Sterling weaker against dollar due among other causes to foreign developments particularly with respect to Spain, Palestine and China.

French market is still nervous as evidenced by unsatisfactory rente situation and by extent to which franc recovery can be quickly altered by various factors. Carrying out of Rambouillet resolutions is awaited. Immediate treasury needs are being taken care of through Swiss credit and Credit National loan mentioned below. Still capitalists will await further

(END SECTION ONE)

WILSON

WVC:CSB

LMS

GRAY

Paris

Dated October 20, 1937

Rec'd 5:10 p. m.

Secretary of State,
Washington.

1478, October 20, 5 p. m. (SECTION TWO)

signs before repatriating funds importantly in spite of attractive returns offered here in interest rates and possibilities of securities rise. For example one client of a Paris American bank who sold \$500,000 for francs last week (and left the francs in New York) bought back the dollars yesterday.

Decree published in Journal Official of today announces the issue of a loan of 1,000,000,000 francs by the Credit National in the form of forty year, five and a half percent tax free, domestic bonds. The proceeds of this issue is intended for the Treasury in accordance with the decree law of August 31, last. Subscriptions will open on October 25 and the issue price has been fixed at 91.50.

Some writers think France should not be required to continue to hold gold security in London for British banking credit if this is renewed, especially since Swiss credit was not secured.

French

LMS 2-No. 1478, October 20, 5 p. m., Sec. 2, from Paris.

French press gives space to Italian ten percent levy on capital of joint stock companies and comments upon the financial needs of this autarchic state as well as its invitation to foreign capital.

Under City Notes LONDON TIMES today says in part:

(END SECTION TWO)

WILSON

SMS:NPL

LMS

GRAY

Paris

Dated October 20, 1937

Rec'd 5:20 p. m.

Secretary of State,
Washington.

1478, October 20, 5 p. m. (SECTION THREE)

"The ostensible reason for the fresh wave of liquidation in the American commodity and security markets was a further reduction in the operating capacity of the steel industry which together with other indices confirmed the view that trade recession was a fact and not merely a fear. Trade recession, however, is far from general, and, with every indication of a considerable increase in the spending power of the farming community, it is hard to believe that the recession can become widespread. It is necessary to look for other causes of the decline. Distrust of the President's policy and of his intentions is the principal other cause. This distrust may be exaggerated but it is profound. The tax exactions of the Government are increasing; higher wages and higher costs which are affecting corporation profits will be felt still more if trade diminishes. The business community feels unable to estimate what burdens it may be called upon to bear in the interests of the new deal."

(END OF MESSAGE)

WILSON

SMS:NPL

copy

October 20, 1937

The President

The White House

Dear Mr. President:

Referring to the matter Secretary Morgenthau and I were discussing with you at lunch Wednesday, I would suggest that you read the following statement made by Senator Smith on the floor of the Senate on August 3, copied from page 10474 of the Congressional Record:

"From the above-quoted sections of law relating to the creation of the Commodity Credit Corporation, it is evident that there is ample legislative authority for loans to be made, if the corporation decides such loans are needed, and from the present trend of prices, it appears that the loans should be made as they would have a tendency to offset precipitate price declines and bring about a stabilization of prices on the commodities upon which loans are available.

"With respect to the availability of funds to make these loans, in a letter from Mr. Jesse H. Jones, Chairman, Reconstruction Finance Corporation, under date of July 31, last Saturday, I was advised that the Commodity Credit Corporation and the Reconstruction Finance Corporation have ample funds to meet the commodity loan needs of the present crops. He says, however, in substance, that the loans will not be made unless the 'necessity for them develops.' Mr. Jones' letter is as follows:

'Reconstruction Finance Corporation
Washington, July 31, 1937

'Dear Senator Smith: In reply to your inquiry, I wish to advise that the Commodity Credit Corporation and the Reconstruction Finance Corporation have ample funds to meet the commodity loan needs of the present crops, should the necessity develop.

Sincerely yours,
Jesse H. Jones, Chairman'

"That was written on July 31.

"As the Commodity Credit Corporation already has ample legislative authority and ample funds to effectuate these loans, it is, in my opinion, not necessary to enact a new law at the present time, but we should concentrate our efforts on Mr. Jones and other officials connected with the R. F. C. and the Commodity Credit Corporation, who have ample law and ample funds to meet the situation, so that they will take the necessary steps to do what the law empowers them to do."

You will note in the foregoing a letter from Jesse Jones.

You will also be interested in knowing that on August 9, Bradford, Clerk of the Senate Committee on Agriculture, addressed a question to the Commodity Credit Corporation asking what sum of money would be available for commodity loans during 1937. An answer was prepared and sent Mr. Bradford by the following members of the RFC and CCCF Messrs. Schram, Henderson, Klossner, Taber, Ben Johnson, Mulligan, Goodloe, Costello and Claude Hamilton. That answer was as follows:

"The remaining total borrowing powers of the RFC for the ordinary activities of the Corporation is approximately one billion dollars above obligations and commitments. Since this amount must be used to take care of all ordinary demands on the Corporation, it is not possible to allocate a definite amount for commodity loans, but it is our opinion that out of this amount sufficient funds should be available to take care of commodity loans through Section 201 (d) of the Emergency Relief and Construction Act of 1932, as amended, which does not set any limits as to amounts."

I appreciate fully the difficulties in which you, Secretary Morgenthau, Jesse Jones and I find ourselves in view of the various actions that have been taken. I am delighted that Secretary Morgenthau and Director Bell are so actively at work on this problem. It is essential that a prompt answer be found, and I am sure that it will be found.

Respectfully yours,

(signed) H. A. Wallace

Secretary

October 20, 1937

HM, Jr telephoned the President about 3:30 and in a serious voice said: "I am terribly worried. I think you had better close the stock market." When the President asked why, HM, Jr laughingly said: "It's going up too fast. Eighteen points from the low of yesterday. I am worried! Isn't it terrible!!"

The President asked HM, Jr how he liked his speech on the occasion of the dedication of the Federal Reserve building this afternoon and HM, Jr said: "It was all right. For once I saw Carter Glass smile. It was a good speech."

October 21, 1937.
9:12 a.m.

H.M.Jr: Hello

Operator: Go ahead.

H.M.Jr: Hello

Harry White: Good morning.

H.M.Jr: Good morning Harry. What I want from you is this. Give me an estimate, as near as you can make it, for the nine month imports and exports for Japan.

W: Nine months imports and exports.

H.M.Jr: Yes. Into the United States.

W: From United States to Japan.

H.M.Jr: Yes. In and out.

W: In and out.

H.M.Jr: What I need is just the totals.

W: Just the totals.

H.M.Jr: And what - now I know you've got to guess at September, but you can make a guess.

W: Yes, we can.

H.M.Jr: Now you don't have to say what - in other words how much business did we do with them and the best guess that you can make on their total business.

W: On their total business for the nine months.

H.M.Jr: Yes, in and out.

W: Would you like also their business with some of their other leading countries.

H.M.Jr: Well, their total business.

W: Check them too.

H.M.Jr: I want the total imports and exports for Japan for nine months.

W: Yes.

- 2 -

H.M.Jr: Even though it's an effort -

W: Yes.

H.M.Jr: I'd like the total imports and exports that United States got from Japan.

W: Right.

H.M.Jr: Get those figures.

W: Get those.

H.M.Jr: How long will it take you to get them?

W: Oh, five minutes, if I can put them in pencil.

H.M.Jr: Well, pencil, 9:25.

W: O.K.

GROUP MEETING

October 21, 1937
9:30 a.m.

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

H.M.Jr: Mac, you work on that (memo from F.D.R., Oct. 19, re vacancies in several appointive positions).

What else you got, Mac?

McR: Nothing.

H.M.Jr: What, nothing?

McR: Nothing.

H.M.Jr: I was just doing some interesting figuring. Japan has imported in the first nine months 191 million dollars more worth of goods than she exported. I mean her unfavorable balance is 191 million. And the gold she has shipped is 171, plus what she's got on the water, which makes 211; so she's just about paying the trade deficit.

Lochhead: That would check, because they have not built up any balances.

H.M.Jr: Huh?

Lochhead: That would check up with the records that show they haven't built up any cash balances here; they have needed the money to pay.

H.M.Jr: And our favorable export balance for the first nine months with Japan is 77 million, so we don't get it all; 100 million is going somewhere else.

Lochhead: Some of the money has been transferred to London.

H.M.Jr: I thought it was interesting the way it checks almost to the dollar.

Taylor: That means they haven't been getting any credit anywhere else.

Lochhead: No, they haven't been getting any credit. They've had to pay off. The London market is practically closed to them.

H.M.Jr: I thought it would be interesting to let - I don't remember Bewley's successor's name - know there is 40 million dollars on the water.

Lochhead: I'll give you (~~Taylor~~) the exact figures.

Taylor: All right.

H.M.Jr: Dan, is this - our cash balance - running about on schedule?

Bell: Yes, sir. If this gold doesn't increase, we may pick up a little.

Lochhead: Did you plan stopping at the 40 million by the end of the month, is that right?

Bell: I thought we were going to be about 25 million ahead, but if that's coming ahead....

H.M.Jr: But leaving the gold out, aren't the spending boys about on time?

Bell: Yes, I think they are, just about. Very good.

H.M.Jr: I - the reason I was asking - here's the heading, Wall Street Journal: "New Budget Revision Reveals Obstacles in Way of Balance. Federal Revenues Shown Declining While Relief and Other Expenditures Are Mounting."

Bell: That isn't true.

H.M.Jr: That's what I thought.

Once more, will you take them to school, Mr. Gaston?

-3-

Gaston: Yes, I'll do that.

H.M.Jr: Haven't you got a new suit on?

Gaston: Yes.

H.M.Jr: Let's take a look at it.

Oliphant: Nice fit. Tie and everything.

H.M.Jr: Only one in the room. See, I show my personal interest.

Gaston: Thank you.

H.M.Jr: What else, Dan?

Bell: Well, Wallace is pressing me for a conference on the Commodity Credit. He says it's getting hot.

H.M.Jr: Be sure and read today's Tribune story.

Bell: All right.

Gaston: Processing tax is 200, 250 million.

H.M.Jr: Well now, listen, fellow, the President said three or four days yesterday.

Bell: Three or four days. Well, I'll have a conference some time today.

H.M.Jr: You're going to have one? With Wallace?

Bell: With Tapp.

H.M.Jr: On that committee?

Bell: Yes, that's right.

H.M.Jr: Now, what I was going to do - look, let me come back to you last; you just read that story. I want to have a rehearsal of what I'm going to say to the President. Do you mind - let me just go around the room. You take a couple minutes to read that. I want a rehearsal. In view of what he said, I'm seeing the President at 10:30.

-4-

Upham: There are a number of bankers all of whom would like to see you. Haven't tried because there haven't been any really

H.M.Jr: Oh, I don't think - you mean all this crowd that's down here?

Upham: (Nods yes)

H.M.Jr: Well, I don't think so. I'm doing all right.

Upham: O.K.

H.M.Jr: Did you go to the buffet at seven last night?

Upham: No.

H.M.Jr: I got a call at five o'clock to come to the buffet. Did you (Taylor) go?

Taylor: (Nods no)

H.M.Jr: I didn't. I mean they just called me to come at seven o'clock. I couldn't do it. Felt it wasn't dignified to serve cocktails in the Federal Reserve, so they all went up to Eccles.

Taylor: Well, I think they were right.

H.M.Jr: Maybe. Well, anyway, I didn't go.
Anything else?

Upham: That's all.

H.M.Jr: Wayne?

Taylor: Mr. Magill, that silver-tongued orator, has been approached by Mr. James Roosevelt - is that right? - ...

Magill: (Nods yes)

Taylor: ...to make a speech before the New England Council, which is a pretty good outfit, I understand.

H.M.Jr: Yes.

-5-

Taylor: He finds it is absolutely impossible for him to do it, and he wants me to do it.

H.M.Jr: Yes.

Taylor: I'll be the Roman sacrifice if necessary, but view it with no particular enthusiasm.

H.M.Jr: When is it?

Taylor: 18th of November.

H.M.Jr: What is the New England Council?

Taylor: Mr. Magill will give you a

Magill: (Laughs) I don't know what the New England Council is. I had the letter, as a matter of fact, from a man called Dudley Harmon. Perhaps that would wake some echoes. Then, following the letter, I had a telegram from Colonel Marvin McIntyre and a couple telephone calls from James Roosevelt.

Taylor: New England Council is all right.

Magill: I think it's a group of business men up there.

H.M.Jr: Well, if you feel like going, it's all right with me. November 18th?

Taylor: Yes. I'm not asking for it, God knows.

H.M.Jr: Pardon me?

Taylor: I'm not asking for it, but if we think it's a good thing to do.....

H.M.Jr: Well, I don't Well, that's - it's all right. I mean I think it's a matter you can decide yourself. I mean depends on how much the pressure is.

Taylor: Well, I don't get any particular pleasure out of making speeches; in fact, less than none. But I'll be glad to do it if it's for the cause.

H.M.Jr: Well, I don't know what the cause is.

-6-

- Magill: Mr. James Roosevelt says that most of the New England Council consist of business men who are not sympathetic with the Administration, but that there is a lively minority which is, and that they need bucking up.
- H.M.Jr: Well, you (Taylor) haven't spoken since the automobile show, have you?
- Taylor: Yes. I described the work of the Treasury on the air to the nation.
- H.M.Jr: Well, I think you could go up there, Wayne. I think it would be a good thing.
- Taylor: All right.
- McR: Wayne was on the air and described the work of the Treasury to the world, and didn't tell any of us ahead of time he was going to do it. All I could do was read the paper. I didn't even hear it. I was terribly disappointed.
- H.M.Jr: What else, Wayne?
- Taylor: That was the only thing that was bothering me particularly.
- H.M.Jr: All right.
- Magill: I'm glad the two brothers are not.
- Taylor: No, I'll have to commit myself in writing about the two brothers, because I feel very strongly about them.
- (Haas hands H.M.Jr memo relating to
Social Security)
- H.M.Jr: What's it mean?
- Haas: You see, they're talking about extension of those benefits - I mean you may have a problem there that is much more difficult and a larger amount than Agriculture, if they keep building up the expectation.
- H.M.Jr: Glad to get it, but you can't do anything about it.

-7-

Haas: The other thing in connection with that; the Research Director of Social Security asked if he could come over and have a meeting with me, and I have arranged it at 2:30; I don't know what about, but probably about that problem you were talking about.

H.M.Jr: Anything else?

Haas: That's all.

H.M.Jr: Now, you're down for tomorrow morning - the same people - working with me - 10:30, tomorrow. Dan, is that it?

Bell: Yes.

H.M.Jr: You're (Haas) coming, you'll be ready?

Haas: Yes, sir.

Bell: Don't know, but I'll try; I'm not ready now, but I will be by 10:30 tomorrow morning.

H.M.Jr: All right.

Herbert?

Gaston: No, I haven't anything. The conference as usual, I suppose, 10:30.

H.M.Jr: Yes.

Herman?

Oliphant: (Nods nothing)

Magill: Mr. Stanley Reed came in this morning and had a couple of items that may be of interest to the group. He has, in the first place, a series of cases before the Supreme Court involving the question of tax exemption of the income of certain officials such as court commissioners and receivers of state banks, and things of that character; and he wanted to know what we thought about making a direct attack upon the decision of Collector O'Day and subsequent cases to the effect that state officials are entitled to exemption from Federal income tax. He feels - I take it that he is not expecting to win the cases anyway, and that he consequently might just as

-8-

well go at it boldly and try to get the Court to reverse itself.

He wanted to know what we had in mind on the tax law. Well, I discussed that with him a little, and inconclusively.

Then he also wanted to know what Mr. Bell, the acting Director of the Budget, is doing with that committee which he has on the subject of tax exemptions of government property; and I said Mr. Bell had been very active on that committee, but I didn't know just what he had been doing.

Bell: Well, there ~~is~~ a draft of a report, copies of which are in the hands of the Secretary of the Treasury and the Attorney General, and I am waiting on the replies.

Magill: I wish I'd known that.

Bell: Mr. Haas, I think, has a copy of the draft, and the Attorney General has a copy of the draft.

H.M.Jr: Well, I - I'm glad - somebody will soon tell me that Mr. Aldrich is waiting for me to answer him, after he's only been around the office for three months.

(On White House phone, to Secretary Wallace) Hello?
 - - Good morning. - - Well, have you seen the one in the New York Tribune? - - Well, Danny Bell and I are just reading that. We were getting ready for our press conference. I didn't know how to handle it. - - I've got one at 10:30. - - Well, maybe if we talk a minute, because I don't know what you said, but it kind of leaves us in the air, because it looks as though there wasn't much use in Bell and I working on it. It looks as though it was all settled, if we read the Tribune. - - Yes - - Well, I'm glad to have a chance, because we were just going over it; we didn't know what to say at 10:30. What I was going to say - and see how this - I mean I never believe in getting into any controversy with my fellow Cabinet members, and what I was simply going to say was this: that the President said that until Bell and the people that he was working with could give him a report,

-9-

everything was in the air, and that we would wait until these men get together and study the situation. - - I mean - well, I - I'm asking you, see? I mean... - - Yes. - - Yes. - - Yes. - Uh-huh. - - Well, wouldn't you in any case limit that to the cooperators? - - Oh well, what's one wire from one group? I mean I'll send you a wire if you want one from Dutchess. - - Well, you figure 150 million bushels of corn? - -

(Continuing) Well, of course, I was sorry to read this 46-cent price - I mean that sort of ... - - Yes. - - Well, I always feel this way; this is the way I've acted for four years now. When a thing is controversial, it isn't settled - I never want to settle our interdepartmental troubles in the press, see? And so I think I'll simply say that Mr. Bell is making this study for the President and for you and for me, and it will take him a couple of days, and pending the results of his study, I've got no comment to make. Now, that's - well, it's the truth, and that doesn't in any way let you down or - and I should think it would be agreeable to you, wouldn't it? And Dan says he expects to see these people this afternoon. So give us a little time and we'll have something for you, if it is possible.

(Continuing) But I think what you're talking now, limiting it to the cooperators - and then if you get it down to 45 cents, why, I don't think that the chance of a loss... - - Yes, but I say keeping it - I say if you can keep it down to that, and 45 cents, why, I... Bell's sitting here and he hears me; we'll keep that in mind. We're not stalling one minute. - - Under 46. Well, we won't - well, if 46 - if you can justify that with a slide rule, O.K. by me. You can do it better. - - Yes. - - All right, Henry, I appreciate your calling me, and I'll just handle it the way I said, see? And that's entirely agreeable to you? - - All right, Henry. - - Thank you. (Through with Wallace)

Bell: That article goes a little beyond my immediate problem.

H.M.Jr: What?

-10-

Bell: The article goes a little beyond my immediate problem. It goes into the processing taxes and equalization fee, and

H.M.Jr: I woke up early this morning and had the paper at a quarter of seven. Would you like to know the speech that I made at that time?

Bell: To yourself.

H.M.Jr: I mean I could have made a - well, I made the speech and I got it out of my system. For him to say that he didn't say that stuff - well, hell, the New York Times and Tribune can't imagine those things.

Bell: He called me last night, I suppose at half past five, and said that he had been forced into a certain position here by these reporters, and then got off on the urgency of making a decision on this corn loan thing, and I think the reason he called me up was to sort of prepare me for that article.

Taylor: It was a classic - "We are always concerned with the Treasury and the Supreme Court."

(Hearty laughter)

H.M.Jr: Well, we're good comrades. Well, it's - it's funny and it's sad, but - what was "The Education of Mr. Pipp"? - wasn't that a book written?

Gaston: That was Charles Dana Gibson's series of pictures.

H.M.Jr: "The Education of Mr. Pipp." Well, this is the education of Mr. Wallace, and it's painful, but we may - we're making progress.

Now, Dan, in the room here, the thing I'd like you to do - it wouldn't take you very long. You and I know that we slipped in an extra hundred million. Now, if Wallace should see, on account of this story - I mean, to show you how fast he's traveling, he's now got it down to a corn cooperative, which he says will not be more than 150,000,000 bushels, and he's got it down to 46 cents, so that's about a 70 million dollar loan.

-11-

- Bell: Yes.
- H.M.Jr: Well, isn't that within the budget summation, because didn't we tack on a hundred million?
- Bell: All depends on what is done on cotton.
- H.M.Jr: We've got 150 for that.
- Bell: No, not in the budget. We only put in a hundred million in the budget. But they'll fall on the Treasury in 1938 for a hundred million dollars.
- H.M.Jr: But if they go to the market direct to get that money....
- Bell: ...then they won't call on that hundred million.
- H.M.Jr: But that hundred million they've got in there is an offset against possible capital loss.
- Bell: Well, either that or any other expenditure.
- H.M.Jr: But if they go to the market for money we could set that up as a reserve for impairment of capital in Commodity Credit.
- Oliphant: Is the hundred million mentioned in the budget summation as loose?
- Bell: Set out in the detailed schedule of expenditures as an estimated expenditure for '38, for Commodity Credit.
- H.M.Jr: And just before I went up, Dan said, "Should we take it out, because if you're going to go to the market, we won't need it?"
- I said, "Leave it in, because if we don't use it there, we may have to use it somewhere else." I said - I told the President - I said, "The way things are going, a hundred million dollars reserve may look damn good." Remember?
- Bell: Yes.

-12-

- H.M. Jr: But Wallace, through talking too damn much, has got himself in a hole, and now he's dropped this thing. Yesterday when I saw the President he was talking 500 million bushels; when he was over here Thursday - and somebody talked to Kiplinger next day, I don't know who it was - it was 500 million bushels. Now he's gone from 500 million bushels to 150 million; he's gone from 60 cents down to 46.
- Bell: I see O'Neill suggested a 60 cent loan.
- H.M. Jr: Well now, Wallace has got some rule of thumb by which he can justify 46 cents but he can't justify 45.
- Haas: That's by comparison with cotton on a parity basis.
- H.M. Jr: Well, what I would suggest is that - to get Mordecai Ezekiel out and make it 45; I mentioned the slide rule, but I didn't say Mordecai Ezekiel.
- Well, coming back
- Bell: You want to know how my mind is working on this Commodity Credit?
- H.M. Jr: Yes. I don't know anything more important.
- Bell: Well, I don't say it's final, but just over the night I haven't been able to concoct any better scheme than this - and I know our strong aversion to guaranteed obligations. It is to have the Commodity Credit set up as a separate entity and authorize it to sell its obligations in the market, guaranteed as to both principal and interest, for the purpose of making these commodity loans; and that each year, prior to the closing days of the session, we have an appraisal of all of its assets, based on market prices; that a representative of the Treasury be on that appraisal committee, and if there is any loss we go to Congress right then and ask for an appropriation and set up a reserve on the Commodity Credit books for those losses. And if that is 50 million dollars, it will stand right out as a congressional appropriation of 50 million dollars for nothing but grants.

-13-

Now, I've been trying to think a little further, as to where we get this 50 million. That 50 million dollar loss on commodity loans is nothing but a grant - all that it is - and I'm wondering if we could dip into the appropriation of the Agriculture Department and take it out of there.

H.M.Jr: Well, weren't you here when I dictated that memo yesterday?

Bell: Beg pardon?

H.M.Jr: Weren't you here when I dictated that memo yesterday about my conversation with the President? And he definitely - I mean that's what I had in mind - that's what Wallace wanted to fight - "Each year," I've put it, "we'll make an honest woman out of Commodity Credit, making an appraisal." And the President wants to raise that 15 million, and a hundred million dollar loss of Commodity Credit - some kind of processing tax - he told Wallace, "You've got to find me the money."

Bell: Well, was he talking about the Commodity Credit or the whole Agriculture problem?

H.M.Jr: He was talking at that time on the Commodity Credit. I insisted that each year that be done. Wallace - "Well," he said, "the loss won't take place until we sell the cotton; we couldn't sell the cotton until 1940. Why put it in the budget?"

"Well," I said, "Henry, you wouldn't run your own business that way." I said, "Take a reasonable figure, whatever the loss is, and make it show up as impairment of capital."

Bell: Set it up as a reserve. If there is any return, it comes back in the Treasury.

H.M.Jr: But what the President started the meeting with yesterday on Commodity Credit - he said, "Henry, we've got to make a corn loan, but it can't come out of the Treasury. Now, if you're going to do this, if there's any loss on this thing" - and he said the outside figure was 300 million dollars - "you've got to find some way. I won't put a tax on meat, I won't put a tax

-14-

on bread, but I'm willing to put a tax on corn flakes."

Bell: This will require legislation.

Haas: Some tax, to raise that much money, on corn flakes.

H.M.Jr: "Well," he said, "then we'll loan them 45 cents and withhold a cent," and then - let me just ask you for a minute, how is Intermediate Credit set up, how do they work?

Bell: They are separate and distinct. They get their money from the market. We put in the original capital.

Taylor: They've got an original capital. They've done a fine job.

Bell: Swell.

H.M.Jr: Now, right on this, I'd like to hear from Dr. Oliphant.

Oliphant: Well, I didn't see that memorandum.

H.M.Jr: Well, it isn't written. I just talked. You've got the gist of it.

Oliphant: Well, what I was working on was a plan to - I agree with Danny Bell's

H.M.Jr: Let's take the time right now - as good a time as any. If anybody isn't interested, just get up and walk out; but if they're interested, sit. I mean I have no feelings if anybody wants to get out. Archie?

Lochhead: I'd like to hear about this.

Oliphant: The problem has two parts.

H.M.Jr: I mean you're welcome, Archie.

Lochhead: I would like to stay.

H.M.Jr: Sit down.

-15-

Oliphant: I agree with Danny Bell's solution for the first part, the annual appraisal and the annual appropriation. And then the problem is the problem of giving that into the tax system. Now, the plan we have been working on is this: that in the new agricultural bill make a provision that the Secretary is authorized to allocate to Wallace, either for benefit payments or to Commodity Credit for taking care of its impairment of capital - both - an amount not in excess of the processing taxes collected during the previous year. Then if that will take, that will permanently give the thing into the tax picture, and permanently prevent the budget from getting out of focus.

H.M.Jr: Well, how would you operate the first year?

Oliphant: If the processing tax goes on as of the date of the enactment of the farm bill - we'll say the first of December, the first of January - there will be enough collected before the end of the fiscal year and before the first losses on your first loans, where it's cotton or corn, come in; I think that will take care of it. The essence of it is the provision authorizing the Secretary of the Treasury to allocate to Wallace, for benefit payments or impairment of the capital of Commodity Credit, an amount not in excess of the processing taxes collected during the previous year.

Taylor: That works fine for the Treasury, but it doesn't give Agriculture anything they can operate on in terms of benefit payments.

Oliphant: All depends. That depends on your processing tax.

Taylor: Well, they've got to have something concrete that they can talk to these boys about, Herman, and if we do it on this end so that it suits us, so that we get the equivalent of first crack at the processing tax, so as to take care of this stuff, why, they're just as much up in the air on their end as we are on our end under the present set-up.

Oliphant: Well, you raise the question as to the dependability of our prediction of the yield of the processing tax.

-16-

Taylor: No, I'm not raising that question at all.

Oliphant: I mean if - assuming....

Taylor: I mean assuming that you can predict the yield of the processing tax exactly, why, you've got this other intangible or unpredictable as to what amount is going to be necessary during any one year to make an honest woman out of Commodity Credit. Now, that comes out of this pool, doesn't it?

Oliphant: Well, that means that your processing taxes have got to be raised at a level - I mean put on at a level that it will give - you've got to make up your mind what your benefit payment program is going to be. That can be done, can't it? Then, over and above that, you've got to allow - it's a problem of estimating, no more difficult than a problem of estimating tax collection.

Taylor: No, you're trying to estimate the weather, and you can't do it.

Oliphant: Well, we estimate equally fortuitous things as the weather; we estimate taxes. I'll yield the floor to Haas on that.

H.M.Jr: Well - of course, you (Haas) willingly accept that.

Haas: Thank you.

H.M.Jr: I'm joking.

Oliphant: Yes. Now, I don't mean to say that you will estimate with a hundred percent accuracy, but you can - I'm perfectly sure that you can estimate the thing, so that you can say that this is an honest job of budgeting and an honest job of bookkeeping, the sort of contingency that a commercial firm would have to deal with. In fact, almost all of your budgeting is on that basis. When Danny says the Army is going to require so much, Danny is betting on the weather, because he's made up his mind what it's going to cost to feed the soldiers; well, that will depend on the weather.

Bell: Depends on prices. As bad as the weather. Has something to do with the weather.

(Mrs Klots comes in)

-17-

- H.M.Jr: Well, may I just interrupt this thing for a moment. I mean on this thing, personally, talking for myself - and I'd like to consult on it - I'd hate to see this country go back to a processing tax.
- Oliphant: So do I.
- H.M.Jr: I mean I want to say that, and I mean I don't - I never could get it through my head. Wallace
- Taylor: Just window dressing.
- H.M.Jr: It's worse than that. I think it's intellectual dishonesty.
- Haas: And it disturbs you.
- Oliphant: May I interrupt to say ...
- H.M.Jr: What you said on the processing tax - I mean....
- Gaston: I suggested we increase liquor two to two and a half. That'll give us 150 million. I hate to see a processing tax.
- Oliphant: I'd like to say this. I started with the assumption that you have two things you have to start with: that you're going to have the corn loans and that you're going to have processing tax.
- H.M.Jr: Well, the first assumption is correct; the second is not.
- Oliphant: Well, that's my guess.
- H.M.Jr: Well now, wait a minute - let's just take the time - the President - now, Wallace is slashing around; the great trouble is this: Wallace must have secretly, to the farm organizations, along in August or some time, made these promises on corn loans. Now, he didn't tell us - he didn't, when Mr. Bell called up his finance officer late in August, the first of September - said, "How much money do you need for the next quarter, 15th of September to 15th of December?" He did not tell Bell that there was any corn loan; he didn't tell me. Jesse Jones he didn't tell. But he has made these secret promises and he is thinking of

-18-

himself - I mean terribly sorry to have to say that - and his own future, and he, Henry Wallace, is on the spot, and nobody else is on the spot except Henry Wallace. Now, he sat in this room - and you heard it - I said, "The most important thing is to help the President of the United States keep his word."

And Henry Wallace said, "No, the corn loans are more important."

Now, am I exaggerating?

Bell: About right.

H.M.Jr: What? He said just that. Now, I say this. Now, the President doesn't like the processing tax, and Henry Wallace said to the President, "All right, let's have a manufacturers' tax," and the President said, "No."

And then the President, trying, because - he himself not liking the processing tax, said, "Well, don't let's put it on the processing of the corn, but let's go a step further in the law and let's say we'll put it on corn flakes," using that as the example.

Oliphant: Sales tax.

H.M.Jr: Let us, in this room, take all the fog away. As part of a permanent agricultural program, as one leg of the table - I don't know how many legs the table's got, that's my trouble - I can see that a loan on certain commodities, year in and year out, will help stabilize the price, and I think will save the Treasury money in the long run. I think it is a good thing if they put the price down low enough, make it for cooperators, and surround the certain thing; I think it is the least... I can see that over - if it is properly set up, properly financed, and properly administrated, it would be a good thing, as part of a control measure.

But let's take - I mean here we've got - here's a big program, special session. Now, the first thing they do is what they always try to do - is to stam pede

-19-

us into doing something which they haven't thought through themselves. But I can see, as part of three or four steps, permanent agricultural program to equalize the fluctuation of prices, that most likely there are certain basic commodities we are going to have to make a loan on. Now, I say, in trying to do that, don't let's be stampeded, and let's set up something which, as near as we can tell, will work as good as Intermediate Credit does, something we can set up and then forget about it.

Bell: well, you will never be able to forget about it as long as there is a grant and a loan; that's a cinch.

H.M.Jr: O.K., Dan, but I say to you that I certainly - and I don't want to talk it over here, whether the Treasury feels we want to go back to a processing tax. My own feeling is that at this stage of recovery it is not good for the country, because sooner or later the housewife is going to go on strike. Now, the butchers have already gone on; they're not buying meat. It isn't only in New York - all over. People aren't going to pay a dollar for a two pound steak; they're just not going to do it.

And I would a great deal rather set up this thing that the agricultural program - if the President says it's going to cost a billion dollars, a billion two, or whatever it is, all right; but then, let's set up what Mr. Magill and his staff say is a good form of taxation for the 130 million people and let's raise the necessary money that is necessary and take it out of the General Fund. If they need 50 to a hundred million dollars to replace their impaired capital, take it out of the general pot. But why have a special tax?

Taylor: I entirely agree with you.

H.M.Jr: That is, why - what I can't - why have a special tax

Magill: Have a processing tax, on that basis.

Oliphant: I tried to work on the problem. Now, I agree with you on general grounds that that is right. But when the crowd gets back to town, the crowd that's going to

-20-

control the votes, they're going to - well, in the first place, they want a processing tax as a permanent part of our tax system.

H.M.Jr: Well, Herman, if you don't mind, I'm - I personally have arrived at a stage that I'm not going to go along with the crowd any more, and I find that where I - up to the last month, where I've been able to think the thing through with my people here, the President has gone my way; and I have for four years had the brakes on, but have had to go along with what the so-called crowd wants. Now, I'm not going to do it any more, and I think it is time that the Treasury take some firm stand, and the one I have taken up to now, with the help of the people here, is - the President has O.K.'d.

Oliphant: Well, my thinking is of a second line trench.

H.M.Jr: Well, all right, if you don't mind my saying so, it may be a third line trench.

Now, what I want to form here is what is best for the country. Now, if the President wants to overrule me, and there were no signs of his wanting to overrule us yesterday - he started right out. He wrote me a facetious note - I mean his facetiousness often is more important than the other - about a personal matter - "Dear Henry: After all the money you took away from me while I was in bed, I want to write you about this personal matter." I was - I took this away from him while he was in bed. But it's just a straw in the wind. See what I mean?

And while it's perfectly right that you (Oliphant) and you (Magill) and your technical staffs should be ready... But with this thing working out now, I'm not going to be rushed, and if after talking it over you people say the processing tax isn't the kind of tax that we want to include in your recommendation as a result of six months' study, I'm not going to let this fellow - Jesus Christ, I mean, he talks this stuff here - for a man to - for Wallace - yesterday first he talked 60 cents, 50 cents, 46 cents, general tax, one cent off; then, when I showed him it was only five million, "All right, that's a processing tax" - corn flakes, no tax on meat, bread - all this stuff, all these balls in the air - it's just - it's just crazy.

-21-

I disagree with you, Herman. I don't think the country's going to back up that kind of stuff. Listen, you go back to Indiana and talk to the people there. Are they a conservative group of people? Do they run their business that way? The head of the American Farm Bureau, who doesn't even own a farm and gets ten, twelve thousand dollars a year down here for what he can collect out of the Government - he doesn't represent the farmers.

Gaston: Ed O'Neill.

H.M.Jr: Ed O'Neill. Mr. Wilson - what's his - not the fellow from.....

Haas: Smith.

H.M.Jr: Earl Smith has an insurance company or a bank.

Taylor: He runs the co-op at the.....

H.M.Jr: But he isn't in agriculture. He's got some private business; he isn't a co-op; he's against co-ops. He's not a co-op man.

Taylor: He runs the Illinois Farm Bureau, which....

H.M.Jr: But - yes, but he's got some private insurance business. You ask Bill Myers. When we were at Farm Credit, we always considered him an enemy of Farm Credit, wasn't he?

Haas: I think so.

H.M.Jr: Well, any - my natives, when I sit down and talk to them - my God, the one thing they talk about is government waste.

Gaston: Is your first line of defense still that agriculture is getting enough and that if Commodity Credit loans are to be made they ought to come out of an agricultural appropriation?

Bell: Well, that's the way I've been trying to approach it. But I'm not so sure that that's something we can get by with.

-22-

- Oliphant: Well, benefit payments are a necessary part of their program; that is, you can't operate a loan program unless you control production. So that you're talking about money on the order of five to six hundred million dollars.
- Bell: Including the benefit payments.
- Oliphant: What I am suggesting - this is my opinion: that this year the possibility of raising five or six hundred million out of general taxes is just out of the window.
- H.M.Jr: Well, what I am saying is, leaving off that, that this is a part of Mr. Wallace's agricultural program. It should have been thought out; it isn't. They are trying to rush us off our feet.
- Oh yes, this is the priceless remark that he made - and I want you people to know it - yesterday. He said, "The reason I didn't tell anybody about the corn loan is because I thought if I kept quiet about it, the price of corn would drop and we would have to loan less money." He said, "I did it in the interest of the Treasury." Didn't he say that?
- Haas: He said that over here.
- H.M.Jr: He said that over here and he said it - and if this fellow pushes me too much, I'm going to say that he said it. I mean it
- Magill: Gosh, that's a nice one.
- H.M.Jr: Did you hear him?
- Haas: I have it in your notes.
- H.M.Jr: What?
- Haas: I have it in your notes.
- H.M.Jr: Now - I've been trying to think - that's the thing that he said. That's why he kept it secret, to help Bell and me out.
- Haas: And he added, "Now look at the shape I'm in, trying to help out."

-23-

- H.M.Jr: Well, Danny, let's look at this thing. In the first place, how much capital has Commodity Credit now?
- Bell: 100 million, isn't that right, Wayne?
- Taylor: Yes, but this - I mean that's what they started....
- H.M.Jr: How much have they got?
- Taylor: Probably about 30 now. That's a very rough figure, because they've had a depreciation in their inventory.
- H.M.Jr: Well, how much is their capital impaired as of today?
- Taylor: Approximately 70 million bucks.
- H.M.Jr: So they're about 40 million dollars in the hole right now.
- Haas: 70.
- H.M.Jr: Oh, in other words
- Taylor: Capital of a hundred, and on the basis that we're talking about here, if you revalued here and made them whole again, it needs 70.
- H.M.Jr: Well then, what I would say is, figure out we need 70 million dollars to make it good this year, and let's say another hundred million this year, something like that?
- Now, here's an idea. I'm not saying I'm for it. Couldn't we take a little of - transfer maybe a little of that co-op money of Bill Myers, that 50 million dollars, which he isn't using and has no use for - cash, Government bonds?
- Oliphant: I think if you examine the whole picture, it runs to over a billion - your capital.
- H.M.Jr: Who, Bill?
- Oliphant: Again examine Bill's Holdings, his whole picture.
- H.M.Jr: Just throwing out an idea.

-24-

- Bell: Well, that is a possibility. That's always been in the picture. It is always a question in my mind as to whether it's better to take that now and then maybe in another emergency we'd have to put up more money to strengthen those organizations. That's exactly what we have done with Federal Intermediate Credit and Federal Land Banks.
- H.M.Jr: But, Bell, out of this morning's talk, you and I - I think we're thinking along the same lines: set up Commodity Credit as a separate corporation and give it enough capital to do business with; whatever they lose, make it a part of the regular appropriation, to make good their impaired capital. Isn't that the idea?
- Bell: That's right.
- H.M.Jr: And then how that money should be raised becomes a problem of the general tax raising program of the Administration.
- Magill: Now, is somebody going to tell me some day how much more money I'm going to have to raise?
- H.M.Jr: Yes.
- Olyphant: Is he thinking of Commodity Credit apart from benefit payments?
- H.M.Jr: It's part of the whole program. "To us, it's the agricultural globular problem." To "us": Henry Wallace.
- Bell: You're talking of 600 million, Herman. Do you mean as a whole agricultural program; do you mean you're going to raise taxes for that five or six hundred million?
- Olyphant: I say benefit payments are quite as much in the picture, just as much as Commodity Credit.
- Bell: But what I'm trying to get at is the total taxing problem here. I don't think - if you're going to have just a 600 million dollars program, I don't think you've got to raise 600 million dollars in

-25-

taxes, because I think there is already in the tax structure 500 million dollars for agriculture, in effect, because your processing taxes went out and you went to Congress and raised 500 million dollars of additional revenue. I don't think it is fair to the taxing public to say

- Oliphant: Let me put it this way. Were your benefit payments and the Commodity Credit in the budget? I've started there, trying to keep the budget summation picture from being spoiled. Are they in there?
- Bell: Yes, they are in there to the extent of 440 million for your benefit payments and 100 million for Commodity Credit.
- H.M.Jr: We stuck in a hundred million the last second.
- Magill: Well then, so far as I'm concerned, I can sleep nights.
- Bell: For a while.
- Taylor: So far.
- H.M.Jr: You could last night.
- Bell: Until Wallace comes out with this ever-normal granary and crop control program. Now, if that is pyramided on top of the present agricultural program, then certainly additional taxes are quite essential.
- Taylor: Well, aren't we at this stage? Going back to the position that I understood that you took, here's one section of it that we're practically in agreement on, that's going to be in it. Now, let's do the best we can on that. And then, after we've gotten that set up - funds come from general revenues, wherever they may come from - then you move to the next one. You know what that's going to be. Then you go - there's a whole field of benefit payments, processing tax, etc., which is entirely a thing apart from this one.
- H.M.Jr: Well, of course, what - I want to say this: I think you're right; I feel that Bell and I have won our

-26-

battle in the last 24 hours on this, because Wallace has dropped the thing from 500 million bushels to 150; he's down to 46 cents; which, if we lose the whole business, is less than 75 million. And we have taken - and you can't lose out of your loans - if you loan 75 million dollars on corn, I don't think you can lose over five or ten million dollars. I mean I think a 46 cent loan on corn today is pretty good. I don't think you - if corn went off ten cents, if it went down ten cents, that's - ten cents - 15 million dollars. Don't you (Bell) think we've done pretty well the last 24 hours?

Bell: Yes, I do. Of course, December corn is selling at 38 to 40 cents, I think, on the farm.

H.M.Jr: Well - but don't forget the moisture content is 20 percent; as the thing dries - it is now Number Three corn; as it dries it gradually becomes Number Two corn, and by next January that corn just automatically - the water evaporates - and he wasn't being honest with you when he talked about 38 cent corn, because it's wet now, it isn't worth anything.

Taylor: You called him for that the other day.

H.M.Jr: What? It's just plain wet, soggy stuff. I feel pretty good about this, Dan.

Bell: Well, this is the immediate problem. We can work this out on the lines we've been talking. But you've got an immediate problem for corn loans and apparently it's got to be decided next month. And it can't borrow money - the Commodity Credit can't, without some guarantee either by the Treasury or the R.F.C. What we are talking about requires legislation, which of course we can't get until after the 15th of November. Now, it may be that the President will want in the meantime to go ahead on an R.F.C. commitment temporarily, and then we'll get the guarantee.

H.M.Jr: Well, can't you call it a Commodity Credit debenture guaranteed by the R.F.C.?

Taylor: No, you can't set it up that way.

-27-

Bell: It in effect is a guarantee, but it doesn't say so.

Taylor: The R.F.C. gives them a commitment in the amount necessary to make that look good.

Oliphant: You're asking, is there any way to do it consistent with the statement in the budget summation?

H.M.Jr: Yes. My God, we're talking about this thing for a week now and I've asked what kind of debentures, what kind of paper, could the Commodity Credit sell? I've asked this thing for over ten days.

Taylor: They can sell their own paper.

H.M.Jr: That's what I thought - they could.

Taylor: Absolutely. But in order to make that paper salable, they have to have a commitment from R.F.C. because their assets are impaired.

H.M.Jr: All true, but that's what he wants to set up, the procedure. Now, if you're going to sell Commodity Credit paper with a letter from Mr. Jones saying, "If this doesn't make good, I'll guarantee it," then it does not go through the budget.

Bell: No, that particular thing does not affect the budget. But it might temporarily throw out that September 30th statement of commitments. Now, I think for protection on his.....

H.M.Jr: Well, aren't you studying that?

Taylor: You've got a loophole in that statement.

Bell: Yes, I think that Federal allocation was pretty loosely stated, purposely. We can get around it.

H.M.Jr: When will you be ready to talk about it again, Dan?

Bell: Well, I think I'll have this conference around 12 o'clock. When do you want to talk again, tomorrow morning?

H.M.Jr: Well, supposing tomorrow morning, 9:30 conference, we

-28-

devote to Commodity Credit. How's that?

Bell: Fine.

H.M.Jr: Now, when you think you've got it, put it on a piece of paper, shoot it down to Herman to see if he can put any holes in it.

Bell: I'll write it out - 1, 2, 3.

H.M.Jr: When it comes in at 9:30 tomorrow, I don't want anybody to say, "I didn't see it; this is wrong, that's wrong." You (Taylor) take a look at it too. But please, tomorrow morning, when it comes in at 9:30 - give everybody a chance to look at it who thinks he has a right to object, including McReynolds.

Bell: All right.

H.M.Jr: What? I think this has been a good meeting.

Bell: Well, I think everybody's got what I've got in mind here now. Unless I change between now and tomorrow morning, why, that will be the program, I think, so far as my recommendation is concerned - this committee I'm dealing with.

Taylor: You've got two programs, haven't you, Dan? One is this year's corn loan. The other one is the long range business.

Bell: No, I think my program is to try to set up Commodity Credit so it will not affect the budget any more than its losses; that's my problem. Now, whether it's one year or five years....

Taylor: Another problem, because you say you have to have legislation to be able to have Commodity Credit sell guaranteed debentures. That's where I make the differentiation. You've got one thing which is immediate; that's this year's corn loans.

Bell: Well, I'll cover the immediate program, that's right.

Taylor: I think it is important to make that distinction.

H.M.Jr: Well, if you set up Commodity Credit as an independent

-29-

agency, it doesn't necessarily mean there will be an R.F.C.

Taylor: Well, I don't think - I don't think it's terribly important, but I think you should make that differentiation. In fact, I think you ought to have two memoranda, one covering today, without legislation, the second covering 1939 - '38, whatever it is - agricultural program.

Bell: I don't think Commodity Credit ought to be under R.F.C. I think it is - it ought to be set up separately.

H.M.Jr: Well, Danny, not rushing you too much - give everybody a chance at it, and we'll devote 9:30 tomorrow to it.

Bell: Well, everybody's got the idea. If they've got any suggestions, I'd like to have them before four o'clock this afternoon.

H.M.Jr: Well, if anybody has them, Mr. Bell's asking for them.

Bell: I'm not going to go into the tax structure at all. I've just got to assume that the losses will be covered by whatever tax program is submitted later.

October 21, 1937.
10:09 a.m.

Randolph
Burgess:

Hello Henry.

H.M.Jr:

How are you?

B:

Oh, fine. I just wanted to say that the market has opened higher.

H.M.Jr:

A little higher.

B:

All the markets.

H.M.Jr:

All the markets.

B:

the General Bond market and our market.
Our market's up a thirty second or two.

H.M.Jr:

Good

B:

It was better after the close last night and there's improvement. That's the opinion this morning.

H.M.Jr:

I see.

B:

We'll stand ready and if it gets weak again to support.

H.M.Jr:

Uh-huh. All right. Well, if there's any sharp change up or down, give me a ring.

B:

Very good.

H.M.Jr:

And if and when these fellows feel a little better and they begin and talk about some new financing, I'd like to know about it.

B:

All right. Oh I talked to the financial editor of the Tribune yesterday.

H.M.Jr:

Yes

B:

And told him my mind about it.

H.M.Jr:

Yes

B:

He didn't have very much to say but I pointed out where he was inaccurate on his facts.

H.M.Jr:

Yes.

- 2 -

B: He said he'd send the bond fellow, who wrote it,
in to see me.

H.M.Jr: Good

B: He hasn't come in yet, but I expect he will.

H.M.Jr: Thank you very much.

B: Very good.

H.M.Jr: Goodbye.

October 21, 1937.
12:43 p.m.

H.M.Jr: Hello Mr. Ransom.

R: I just wanted to tell you that I was getting away tomorrow, I hope, for this vacation that is - from time to time, and to say goodbye, and to ask you if there was anything on your mind that you'd like to have on mine during the time when I might be in a position to do some thinking, I don't care to do much around here in the turmoil we seem to be living in, but perhaps in a more quiet restful atmosphere for two weeks I might be thinking. Not that it might do any good, but I'd try.

H.M.Jr: That's no way to take a vacation.

R: Uh

H.M.Jr: The only suggestion I've got is to take an oath that you won't go to the telephone.

R: Well, I'll be on a boat.

H.M.Jr: Good.

R: I'm going to California by boat. Got to go there on business. I'm going through the Canal, and for two weeks.

H.M.Jr: Uh

R: The most I can get is a radiogram and I don't have to open that.

H.M.Jr: No, have a good time and forget that you live in Marble Hall.

R: (laughs) Well the Marble Hall isn't worrying me so much as the glass house we live in.

H.M.Jr: I see. All right, that's a good one.

R: Well, I just wanted to say goodbye.

H.M.Jr: Well we got along fine while you were here, and I'll be glad to see you back.

R: Thank you very much.

H.M.Jr: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 21, 1937, noon

NO.: 1481

FROM COCHRAN.

The French control lost 50 million francs of foreign exchange yesterday, October 20, on balance. This morning it had bid approximately 2 million pounds by 11:45. My contact said he thought this morning's improvement in the franc was due to recovery on Wall Street yesterday, and to concessions made by the Italians at London.

BULLITT

EA:LWW

JR

GRAY

Paris

Dated October 21, 1937

Rec'd 3:34 p.m.

Secretary of State,

Washington.

1484, October 21, 5 p.m.

FROM COCHRAN.

Market continued favorable to franc and French control acquired sterling throughout the day bringing rates down to 146.23 at 3:30 p.m., forward discount also lowered and rentes improved. One Paris-American bank today purchased 770,000 for the French control and a second bank a smaller amount.

Bourse contact today endeavored to sell gold to Swiss National Bank through Credit Suisse but was informed it would only take gold from central banks. Same contact reports Swiss National Bank has lowered its buying price for dollars from 4.345 to 4.33. My 1427, October 12, 9 a.m., mentioned some new ideas of Bachmann on this subject.

According to market report Credit National loan described my 1478, October 20, 5 p.m., has been fully subscribed.

Rumor that Undergovernor Guiraud may shortly leave Bank of France to head National Bank for Commerce and Industry. Bizot would be most likely successor in Bank of France.

Bank

JR -2- #1484, October 21, 5 p.m., from Paris.

Bank of France statement as of October 14th shows no new advances to the state and no significant changes; coverage 51.28 versus 50.65.

BULLITT

CSB

TREASURY DEPARTMENT

59

INTER OFFICE COMMUNICATION

DATE

October 21, 1937.

TO Secretary Morgenthau

FROM Mr. Haas

Meeting in Secretary Morgenthau's office, 4 P. M.,
October 19, 1937.

Present: Secretary Morgenthau, Secretary Wallace,
Mr. Tapp (Agri.), Mr. Tolley (Agri.), Mr. Johnson
(Commodity Credit Corp.), Mr. Taylor, Mr. Oliphant,
Mr. Bell, Mr. Haas.

Secretary Wallace opened the discussion by saying he was here pursuant to a letter which Secretary Morgenthau had written to Jesse Jones. Mr. Johnson said that he had written Mr. Jones' acknowledgment of the Secretary's letter, and with this acknowledgment he included a memorandum which indicated some prior commitments of the Commodity Credit Corporation which included a \$250 thousand loan on sub-standard prunes, etc.

Secretary Morgenthau said that he was not interested in these small items. Mr. Johnson then said that the two big items were cotton and corn. Mr. Johnson indicated further that the cotton loan might cover 6 million bales and involve \$270 million, but up to today loans have been made on 600 thousand bales, practically all of which has been taken by the banks and less than \$25 thousand has come directly from the Commodity Credit Corporation. Mr. Johnson added, however, that Mr. Jones' estimate was 6 million bales of cotton, involving a loan of \$270 million. Mr. Johnson continued that the Commodity Credit Corporation had a \$150 million commitment from the R.F.C. for the cotton loan, and stated further that Mr. Jones, at the time the \$150 million commitment was made, stated that if more funds were needed the R.F.C. would supply them.

Secretary Morgenthau asked Mr. Johnson where the Commodity Credit Corporation got the \$150 million. Mr. Johnson replied that it had been obtained from the R.F.C., which, he presumed, obtained it from the Treasury.

Secretary Morgenthau then asked Mr. Bell if the Commodity Credit Corporation could go direct to the market to get its funds, and added that Messrs. Bell, Oliphant and Taylor had been working on this problem and had prepared a memorandum. The Secretary asked Mr. Bell to read the memorandum. Before reading, Mr. Bell prefaced

Secretary Morgenthau -2-

the memorandum by saying that in the past the Commodity Credit Corporation could get money from the market or from the R.F.C., and the R.F.C. could get money from the Treasury or the market. Mr. Bell then read the memorandum, copy of which is attached.

After reading the memorandum, Mr. Bell said a set-up could be arranged whereby only the Commodity Credit Corporation losses would be reflected in the budget, and this would come only when Congress made a specific appropriation to cover a specific loss.

Secretary Morgenthau said that was just what he wanted, and added that the arrangement, first, should not affect the budget and, second, that he does not want the loss buried in the R.F.C. but rather wants a Congressional appropriation to take care of the loss. Mr. Oliphant added that at the same time you can raise the question of taxes to produce revenue to cover the loss. Mr. Taylor suggested an alternative -- to go to Congress when the Commodity Credit Corporation's credit was no good in the market.

Secretary Wallace said he did not believe the Commodity Credit Corporation has over \$40 million in net assets now. Mr. Johnson doubted if the assets were over \$30 million. Secretary Morgenthau said he did not like an arrangement which would put off the day of reckoning until the Commodity Credit Corporation went into dissolution. Secretary Morgenthau added further that each year an estimate should be made of the capital impairment and Congress should be asked to appropriate an equivalent amount. Mr. Oliphant again added that a tax program should be geared into it.

Secretary Morgenthau said he would like to have another meeting, and another memorandum prepared including an estimate for 1958-1959. This memorandum, he said, should be given to the people present today in advance of the next meeting. Secretary Morgenthau again repeated that he wanted the loan loss taken up as an annual charge in the budget with a Congressional appropriation to cover it. Mr. Bell added that the Commodity Credit Corporation should go to the market for its new money. Mr. Johnson indicated that he thought this would be a satisfactory arrangement.

Secretary Morgenthau said that the President's list of commitments should include these commitments. He indicated that the recent budget summation was no more than completed when the corn loan proposition was brought to his attention. Secretary Morgenthau said what he was trying to do was to make the budget mean what it says and make an "honest woman" out of Bell, Director of the Budget.

Mr. Johnson stated that nobody can tell how much of the \$150 million cotton commitment will be called on, and he said further that the loan probably would be extended. Secretary Wallace added, at this point, that he thought it was very important that the

Secretary Morgenthau -3-

ownership and decisions as to disposal of the loan cotton be left in the hands of the producer, and said it may be necessary to offer the farmers some inducement to sell. Mr. Taylor pointed out that this guarantees extensions. Mr. Cliphant said the whole thing appears to depend upon the cotton market. Mr. Tapp said no, pointing out that the banks' decision to hold the cotton paper or not depended upon other investment opportunities which the banks may have.

Mr. Johnson added again that nobody knows how much is needed to take care of the cotton loan. Secretary Morgenthau said you can not run the U. S. Government on that basis. You must have estimates of probable expenditures. Secretary Morgenthau said that so far nothing has been said as to what the cost of the government will be, and all that Johnson is saying is that what does happen will not happen before July 1. The Secretary asked if there was not some way from keeping this thing from being open-ended?

Secretary Morgenthau said the President has made up his mind that there will be no more new commitments to R.F.C., etc. Secretary Wallace said someone must say that there is a moral commitment on the corn loan. Secretary Morgenthau said that Mr. Mulligan of the R.F.C. knew of the President's list of commitments two or three weeks ago. Secretary Wallace replied that we must face reality and we must make a corn loan and we must carry out the cotton loan.

Secretary Morgenthau said the most important thing is the word of the President of the United States that there must be no "if, ands, or buts" about that. Secretary Wallace said he would have to disagree, and added that he was sure that if the President had been informed with regard to the corn situation he would not have committed himself to that list as it now stands.

Mr. Bell asked Secretary Wallace what commitment on the corn loan Secretary Wallace had made. Secretary Wallace replied by saying that we had made a corn loan every year and anyway, he continued, that question will be settled with the President and not here.

Secretary Morgenthau said he thought it was of utmost importance that the public confidence be maintained. Secretary Wallace said he had sympathy with that view, but nevertheless we must have a corn loan because the political situation is such, etc. Secretary Morgenthau said he was not arguing whether or not a corn loan should or should not be made. He said that Mulligan of the R.F.C. had ample notice with regard to it. Mr. Taylor said you could not include a commitment that had not been made.

Secretary Morgenthau -4-

Secretary Wallace said he purposely stalled the corn loan situation in order to make the eventual loan on a sounder basis, and therefore he thought he was helping the Treasury, and now with his good intentions finds himself in a very peculiar situation.

Secretary Morgenthau asked Mr. Bell how often his office kept in touch with Agriculture. Mr. Bell said twice a week for day to day expenditures, but Mr. Tapp interjected that the Commodity Credit Corporation loans involve something different from the regular type of expenditure. Secretary Wallace said that this is the first time this problem has come to the head in this manner.

Mr. Bell said the first information he had of the corn loan was last week, and that he got it from Jesse Jones. Mr. Taylor said nobody can tell what the budget requirements of the loan will be. Mr. Bell asked how you could run the Government on that basis. Secretary Morgenthau said that Secretary Wallace had the corn loan in his mind for some time, and added further that to run the Government on this kind of basis we would need a working balance of \$1.5 billions. Secretary Morgenthau pointed out how difficult it has been to meet cash requirements with R.F.C. estimates being off 90%. He said further that the Treasury has accomplished its financing so easy that nobody pays any attention to the Treasury problems, but that this can not continue.

Secretary Wallace repeated again that he must have the corn loan, and that he must carry through with the cotton loan. Secretary Morgenthau said he had never said whether or not Secretary Wallace should or should not have a corn loan; but that he had just returned from the White House conference on the budget summation when Mr. Bell and Mr. Taylor told him that another \$250 million would be needed for a corn loan.

Secretary Morgenthau said that what we need is an outside figure. Secretary Wallace asked if the matter could be handled so as not to affect the budget for this particular year. Mr. Tapp made the suggestion that the Commodity Credit Corporation be given more capital and that they go to the market for their own funds. Mr. Taylor said that another method would be a direct guarantee of the Commodity Credit Corporation's obligations which they sell in the market. Mr. Bell pointed out that in any case eventually the Government must stand the loss.

Secretary Morgenthau asked Secretary Wallace if he would designate someone to work with Mr. Bell on this problem. Secretary Wallace designated Mr. Tapp, and Mr. Johnson said that he and Mr. Mulligan of the R.F.C. would also work with Mr. Bell and Mr. Taylor on the problem.

Secretary Morgenthau -5-

Secretary Morgenthau said he wanted two things: (1) an outside figure of the cost to the Treasury up to June 30 over and above the provision already made, and (2) for the next fiscal year an outside figure and the deficit the Commodity Credit Corporation would incur. He said he did not care how wild the estimate is, but the actual result must be under the estimate. Secretary Wallace added that the new bill, if it is passed, would include cotton, corn, wheat and rice, and these must be included to have a whole picture. Secretary Morgenthau said that he wanted the whole picture, the worst that could happen. Secretary Morgenthau said that with this information he could then tell the President that if this legislation is enacted this is what it will cost.

Secretary Morgenthau added that the best contribution he could make to agriculture is to keep the Federal Government sound. Secretary Wallace said that in agriculture there are so many rather sudden shifts that he thought Secretary Morgenthau and he should keep in closer touch so as to know what may be in the offing.

Secretary Morgenthau said that when Congress meets he is going to have a blackboard made up with all the bills involving any expenditures entered upon it, and this chart would include all the bills that are in committees, etc. With this device he planned to keep the President informed. The chart will be placed on the President's desk once each month. Secretary Morgenthau added that all the talk of tax revision was ridiculous until we know the sum which is necessary to raise.

Secretary Morgenthau said that the President told Mr. Doughton and Mr. Vinson that he would keep Congress in session until the budget was balanced. Both of them were greatly pleased with the idea, and remarked that that would mean that the Ways and Means Committee and the Appropriations Committee would have to work together.

Secretary Morgenthau indicated that balancing the budget for 1938 and 1939 was one of the toughest problems that he had ever encountered. Secretary Wallace said he was afraid the farmers would not be of much help. Secretary Morgenthau said it was a question of much better control all along the line.

Mr. Bell asked Secretary Wallace if the new program involved in the proposed farm bill was to be pyramided on top of the present farm program. Secretary Wallace answered yes. Mr. Bell said if that were true the balanced budget was out of the question. Secretary Wallace said the new program carried some tariff equalization taxes. Mr. Taylor pointed out that the ever-normal granary plan made it impossible to keep the costs on a year basis because you were betting on the weather, etc. Mr. Johnson added, that is right.

Secretary Morgenthau -5-

Secretary Wallace pointed out that cotton moves in August and corn moves in November, and that you have this seasonal pressure coming from all angles, and he thought that the smartest thing to do was to move as fast as we can and come out with a 50¢ corn loan.

Secretary Morgenthau asked Secretary Wallace if the farm program took into account the cost of living. Secretary Wallace said we do that in considering parity, adding that the same percentage of the consumers' dollar is parity. Secretary Morgenthau said that is not what he meant by the cost of living of the laboring man. Secretary Wallace said he saw now what the Secretary meant, and what he mentioned was not the same thing but the two things move together.

Secretary Morgenthau asked Mr. Bell if he agreed with all he, Secretary Morgenthau, had said. Mr. Bell said yes. Mr. Taylor gave the same answer to a similar question, but added that the bookkeeping worried him. He pointed out further that the Commodity loan is a part of an agricultural program, and that it is important what we do five years later, etc.

Secretary Morgenthau said that from the standpoint of the farmer and everybody, he considered the word of the President as of most vital importance, and that he would do everything in his power to finance an agricultural program when it is finally agreed upon, but that he wants the President to have the whole picture first.

Secretary Wallace asked where the group should hold the next meeting, and Secretary Morgenthau indicated it would be held in the office of Mr. Bell, Director of the Budget.

COMMODITY CREDIT CORPORATION

The effect which the operations of the Commodity Credit Corporation have upon the Budget and Treasury financing depends upon the manner in which the Commodity Credit Corporation raises the funds.

The Commodity Credit Corporation gets its funds from three sources:

- I. Money borrowed from the Reconstruction Finance Corporation.
- II. Money borrowed in the market.
- III. Money received as repayments of loans.

I. Money Borrowed from Reconstruction Finance Corporation

When the Commodity Credit Corporation borrows from the Reconstruction Finance Corporation it does not affect the Budget or Treasury financing, but only represents a transfer of credit. Ordinarily, the loans made by the Reconstruction Finance Corporation to the Commodity Credit Corporation are made from money derived through the sale by the Reconstruction Finance Corporation of its own obligations to the Treasury. Payment for such obligations is accomplished by giving the Reconstruction Finance Corporation a credit in its checking account on the Treasurer's books and when the Reconstruction Finance Corporation lends the money to the Commodity Credit Corporation the transaction is effected by a charge against the Reconstruction Finance Corporation account on the Treasurer's books and a corresponding credit in the check-

- 2 -

ing account of the Commodity Credit Corporation on the Treasurer's books. Neither the money borrowed by the Reconstruction Finance Corporation from the Treasury nor the lending of such money by the Reconstruction Finance Corporation to the Commodity Credit Corporation has any effect on the Budget or on Treasury financing at the time those transactions take place. Neither the Budget nor the Treasury cash is affected until the Commodity Credit Corporation actually disburses the money. At such time the disbursements appear as expenditures and, consequently, increase the Federal deficit.

II. Money Borrowed in the Market

Last July the Commodity Credit Corporation borrowed about \$60,000,000 in the market and the proceeds were deposited in the Treasury. The money thus credited to the Commodity Credit Corporation's account on the books of the Treasurer of the United States was used to repay certain loans previously made by the Reconstruction Finance Corporation to the Commodity Credit Corporation. The Reconstruction Finance Corporation in turn used this money to retire certain of its notes held by the Treasury. These transactions did not affect the Budget but the deposit with the Treasury of the money borrowed in the market did increase the Treasury's cash balance and to such extent had an effect on Treasury financing. The borrowing of money in the market by the Commodity Credit Corporation and the repayment of the money so borrowed does not affect the Budget although it does affect the cash balance in the Treasury

- 3 -

at the time the transactions occur.

III. Collections by Commodity Credit Corporation

As and when loans made by the Commodity Credit Corporation are repaid the proceeds are deposited in the Treasury and to such extent operate to increase the Treasury cash balance and reduce the Federal deficit. In other words, the Budget deficit is increased by the amount of money disbursed by the Commodity Credit Corporation for loans, administrative expenses, etc., and is reduced for collections made by the Commodity Credit Corporation in connection with the repayment of such loans. This is true under the present procedure without regard to the sources from which the Commodity Credit Corporation gets its money for financing purposes. On the other hand, the Budget deficit is not affected when the Commodity Credit Corporation borrows money in the market or when it repays that borrowed money. To illustrate, let us assume that the Commodity Credit Corporation borrows \$60,000,000 on July 1. This would increase the Treasury's cash but would not reduce the deficit. Next let us assume that the Commodity Credit Corporation lends (disburses) the \$60,000,000. At such time the cash leaves the Treasury and the deficit is increased. In this connection it should be borne in mind that under the example stated there is outstanding against the United States a contingent liability of \$60,000,000 and the money represented by it is no longer in the Treasury. Next, let us assume that when the Commodity Credit notes fall due it must apply

- 4 -

to the Reconstruction Finance Corporation for a loan, which latter organization may come to the Treasury for the money. The money is first credited to Reconstruction Finance Corporation's account by the Treasury; next it is charged against the Reconstruction Finance Corporation's account and credited to Commodity Credit Corporation account; and finally the checks issued by the Commodity Credit Corporation in payment of its notes are charged against its account with the Treasurer. This reduces the Treasury cash but does not affect the deficit, the deficit having once been increased when Commodity Credit Corporation spent the money for loans. Incidentally, the contingent liability has now been cleared from the books and presumably the Commodity Credit Corporation holds assets in an equal amount. Whether such assets are worth the full amount spent is another question.

Assuming now that the assets held by Commodity Credit Corporation are liquidated, the cash proceeds are turned into the Treasury and operate to reduce the deficit. In other words, it offsets the increase in the deficit previously referred to -- although it may be in different years.

With the credit on the Treasurer's books the Commodity Credit repays Reconstruction Finance Corporation and Reconstruction Finance Corporation repays the Treasury leaving everybody in the same position as in the beginning.

The procedure now followed can be changed so that the funds can be borrowed, paid out, and repaid without any effect on the Budget.

- 5 -

The following statement shows rough estimates of Commodity Credit Corporation for the proposed loans on cotton, corn, and miscellaneous:

Cotton - Estimated about 6 M bales @ \$45. a bale or \$270M

Corn - Estimated about 265-270M bushels @ \$.45 a bushel or \$120M

ESTIMATED NET DISBURSEMENT BY MONTHS
(In millions of dollars)

Month	Cotton	Corn	Miscellaneous	Total
October	5.	-	-	5.
November	10.	5.	3.	18.
December	10.	5.	3.	18.
January	10.	5.	2.	17.
February	5.	5.	2.	12.
March	5.	5.	-	10.
April	5.	-	-	5.
May	15.	5.	-	20.
June	65.	30.	-	95.
	130.	60.	10.	200.

SWB

October 21, 1937.
4:08 p.m.

HMJr: Hello

Operator: Mr. Knoke. Go ahead.

Knoke: Mr. Secretary.

HMJr: Hello Knoke

K: Knoke

HMJr: Lochhead and Taylor are sitting here with me, listening, do you know about this purchase of gold on the part of the French here in New York.

K: Yes

HMJr: What's your thought - how do you explain it? How do you react to it.

K: Well first of all it indicates that the French have had a very good - not a very good day today.

HMJr: Yes

K: But that bringing the total up since a week ago last Saturday to about a hundred million dollars.

HMJr: Yes

K: Now the reason that they do it here rather than in London, I should imagine, is - one of the reasons is the effort to distribute the gold holdings.

HMJr: Yes

K: In other words they feel, quite simply feel there's enough in London and they want some more here.

HMJr: Uh-huh.

K: Wherefore the willingness to pay more than it would cost them in London.

HMJr: Uh-huh. But they're paying quite a price aren't they?

- 2 -

- K: Yes, but I think the price looks today
If this gold movement, this hoarding effort continues
I don't think it'll be so - looks so very expensive
in a couple of weeks from now.
- HMJr: My God - my gosh -
- K: We changed rapidly -
- HMJr: Oh, boy, boy, boy - remember, wasn't there a month,
in March, or did we skip that this year.
- K: Well, how about April, May.
- HMJr: Well - I can't keep
- K: Yes, but all I can say, I'm at least proud of one
thing, that I'm not quite as inconsistent as those
people - as some people have been abroad.
- HMJr: Such as Well, it's - well let me
put it the other way around. Is there anything in it
from the standpoint of the United States Government
that doesn't look so good.
- K: Well, I - of course it wasn't - I should imagine what
it implies is that the rest of the world expects a
lower dollar price in terms of foreign exchanges. In
other words that the dollar will weaken in terms of
sterling and francs, etc.
- HMJr: What's that?
- K: I rather think it implies, that may imply that the
rest of the world will expect a lower dollar value in
terms of foreign exchanges. That the dollar will -
- HMJr: Well, in terms of sterling, what does that mean, in a
dollar.
- K: Well, in other words that sterling will go higher.
- HMJr: Higher.
- K: The same of francs and the other currency.
- HMJr: You mean that that dollar in terms of sterling will go
towards five dollars.

- 3 -

K: Yes. Just to put - to mention a figure, I don't know anything about five dollars.

HMJr: And the only way they can stop it is through buying gold.

K: Well, they, then you are - now you're touching upon a great problem for which I don't think the solution has been found yet, as long as the British are trying to manipulate their exchange through gold. I don't know how they'll do if the dollar weakens and at the same time the demands for gold continues.

HMJr: Well, I've given it a very quick look, and I can't see anything in it but good for us.

K: Well, a little better, it's good for the world, I think.

HMJr: Oh, yes. Oh, yes. But it's moving -

K: The only way to distribute gold.

HMJr: It's moving so fast it leaves me breathless.

K: Well, it does -

HMJr: I may be able to sell one of those extra pair of trousers I got.

K: (laughs) You mean to say you won't need it.

HMJr: Exactly.

K: Well, there's lots of people who can use it, Mr. Secretary.

HMJr: I know. Well, just a minute to see if either of the other men want to say something.

HMJr: Will you be speaking to Cariguel again tomorrow?

K: Yes. I can if you think -

HMJr: I think I would.

K: All right, sir.

- 4 -

HMJr: I think I would.

K: You know he's been - now in his last two conversations a great deal more optimistic that he has been in many months.

HMJr: Well, that's what what's his name said. Cochran.

K: Yes.

HMJr: Yes. Well, it's all to the good.

K: And what is more I think London agrees with him generally speaking.

HMJr: Yes, yes. All right. Thank you.

K: What has also happened yesterday and today, is a much better outlook in international affairs.

HMJr: All right.

K: It's the best you know.

HMJr: Thank you.

K: All right.

RE GOLD MOVEMENT TO FRANCE

October 21, 1937
4:25 p.m.

- Present: Mr. Taylor
 Mr. Gaston
 Mrs Klotz
 Mr. Lochhead
 Mr. Haas
 Mr. White

H.M.Jr: Now listen, I don't know whether you people are against me or not, but I want you to listen, and I want to sell - if I can, sell you a bill of goods. We have sold 15 million dollars worth of gold today, 7 million in London and 7 million dollars that the French bought dollars and earmarked it here, which makes over a hundred million dollars worth of gold that the French have accumulated of capital in ten days. Now, I don't - I've been arguing with Archie about trying to let the world know that this thing is happening. I mean I just talked to Sumner Welles and he says, "You can't tell - this is of tremendous significance to the world, if they could know that the French are getting back on their feet."

And incidentally, he said that he saw Bonnet the night before he left and Bonnet said that the only pleasant thing that has happened since he's been Minister of Finance is the treatment I've given him. The only pleasant thing since he's been Minister of Finance. He said if the French had been one-tenth as kind....

Taylor: The British.

H.M.Jr: The British. ...one-tenth, his life would be livable. The only....

Here's the thing: this whole question, balance of power. The French are gaining, and we sit here and keep it a secret. Now, I think we should tip our hand. We've got 75 million dollars in the "kitty" right now. Now, I

Haas: Only one

-2-

H.M.Jr: Now, you fellows tell me why I'm wrong.

White: Wouldn't they be in a better position to know what is good for them? I mean if that information was good, wouldn't their acquiescence be the decisive factor?

H.M.Jr: All I do is just to desterilize 25 million dollars.

White: And then give your reason for it?

H.M.Jr: No. Or, the reason is: gain of capital moving to France.

White: Yes, I think give it out that way.

H.M.Jr: Yes, but I first want to make up my mind whether it's good for us.

Haas: I was going to say that before this business

H.M.Jr: Listen, I can answer for Monsieur Bonnet. I am Minister of Finance Bonnet - "Oui, oui" - kiss both cheeks - "bon jour." I mean nothing but.....

Haas: I agree with you there.

White: The only one thought in my mind is, at this particular time, if you wait a week or two, it would be very desirable; that an outflow of gold, tied up with the activity of the stock market - they might draw not the same conclusion that you would draw. Instead of regarding France as the gainer, they might turn it around and think that the reason gold is going out is because of events here. If you wait a few days and if the stock market continues to improve, then I think you can squeeze the maximum amount of benefit out of it.

H.M.Jr: "But, Mr. New York Herald Tribune, your deduction is wrong, because for every day this week Europe has bought more stocks than they have sold."

White: But you won't be able to tell them that too, will you?

H.M.Jr: Why not? Is there any law against that?

-3-

White: No.

H.M.Jr: Would that answer the question?

White: Well then, you'll have to - it will be quite a paragraph.

H.M.Jr: Pardon me?

White: It will be quite a paragraph. It won't be merely that the French are accumulating gold here. It would have to be made perfectly clear that not only have foreigners had confidence in our stocks to the extent that they have been buying much more than they have been selling, but in addition to that - both together would answer the objection that I had. Although one day's recovery in the stock market I don't think is quite enough. I think it might be better to wait. The news will still be good two or three days from now.

H.M.Jr: Now, Harry, let's just hit as hard - you hit as hard as I do.

White: I usually try to hit hard.

H.W.Jr: Now, don't - let's forget this god-damn stock market. What I am thinking about is the balance of power for the democracies of the world, which is a great deal better influence on the stock market - I mean if these people really believe that France is going to pull through, then this Spanish thing is going to be settled and there is a chance of peace in this world; this whole question of this chaotic thing may be solved. That's a great deal more important and a great deal more bullish than this blankety-blankety stock market.

White: That's exactly why I want to make my point.

H.W.Jr: But why?

White: In order to squeeze the maximum amount of bullish advantage - I'm speaking now of the world effect - out of this gold movement, you want to identify it with improvement in France, not with what is happening here.

-4-

- H.M.Jr: Wait a minute, Harry, you're talking against yourself.
- White: I don't think so.
- H.M.Jr: Wait a minute. You first said if we say this thing, people will think that it has to do with our markets.
- White: That's it, and therefore they will not allocate the accumulation of gold to the thing that you want to allocate it.
- H.M.Jr: I'll simply say so. I'll simply say that France has gained, and they'll believe me where they won't believe Bonnet.
- White: Your friends will believe you.
- H.W.Jr: Wait a minute. I'll say that for the last ten days the French have averaged - they have gained ten million dollars a day of capital.
- White: Well, supposing I counted that - I say, "Sure, they've gained capital. Everybody is pulling capital out of the United States. Look what is happening in the security market." If you wait a few days and that still goes on, then this - they may say that, but even if they do it has much less force, and the reason gold is flowing back to France is because of the improvement in France. That's the idea you get across.
- H.M.Jr: That's what I want to get across.
- White: I think you have much less chance now than you will have in a few days, if the stock market expects to recover, as I think it will.
- H.M.Jr: (On phone) Tell Gaston to come in, please.
- White: Because there are two interpretations possible now. The longer you wait, there is only the one that you want to be made - it will be the only one that can reasonably be made.
- Taylor: I've got another comment to make which goes back to

-5-

your first statement, which is, after all, France is the person to start that conversation, and we could confirm it, but I don't think we ought to initiate it.

Haas: You see, if you go back, all this discussion of hot money, relating to funds coming into the stock market, with this tremendous break we had - lot of people wonder why gold hasn't moved out before, see? But now you say it's moved out and they say, "Well, that's just a natural consequence; the outlook in the United States is much poorer than it was; the trend has changed." And you might not - I think this is - there is a good chance you won't get the interpretation which is the true interpretation - that is, that France is actually improving.

Taylor: I think if it comes around as suggested here - France calls attention to the gains that she's made, you see, then you come in on that and say, "Yes, that's true, and the situation is thus and so" - much better than if you mention it.

(Gaston comes in)

White: I'm not as much impressed with that as I am with the other.

Taylor: After all, it's - I think we would have to check with France before we made the statement anyhow.

White: But the significant thing is to get the effect.

Taylor: France maybe isn't ready to say it yet. They've got various other things they've got on their mind.

H.M.Jr: The point that I am saying, Herbert, is that we have had a tremendous movement of gold today, France gaining much more than before, see?

Gaston: From here out?

H.M.Jr: Yes, and altogether, all around - I mean they have now passed the hundred million dollar mark, France, in ten days, see? What I am saying is that I think that we should - and this is the kind of gold we can

-6-

desterilize, see; and no one has talked on that point either - and I think that at this particular time, forgetting our own stock market but thinking of the world balance of power in the democracies, we could say something about this and how marvelous - they've got this tremendous - just called up Sumner Welles and told him about it, and he said, "You just can't imagine the significance of the fact that the French are gaining; it's the most marvelous thing," etc. See?

Now, in view of our conversation at lunch, they asked me the question "What's happening in the capital flows?" Now, no one can tell this thing, because we've got it so hidden and secret that it will be weeks before anybody will find out, because we've just got devices so they can't find it out for weeks. See?

Gaston: Yes

H.M.Jr: Now, I think one thing, one statement you made - I think you're perfectly right - that you can't do it without consulting the French; but of course, I should think the French would jump at the thing. I'm just wondering - if we make this speech on Sunday - why wouldn't we tell Cochran to tell Bonnet to make a speech on Sunday, and then we could confirm it Monday. Maybe that would be the way to do it. Make all their political speeches on Sunday.

Gaston: What objection is there to saying that we are releasing for shipment so many millions of gold?

H.M.Jr: They're not shipping it back, they're earmarking it here.

Gaston: That will show up in increased earmarking here, but it won't be known for which country.

H.M.Jr: Got this thing so hidden, Archie has, that you can't talk.

White: What would be the disadvantage - because I think there is an advantage - in waiting until another week?

H.M.Jr: Another what?

-7-

White: Another week, at which time I expect that there will be some more recovery in the market, at which time you can make the statement, after receiving their agreement, if they want to make the speech a week from Sunday, and desterilize gold, explain the desterilization of gold; explain also the fact, or indicate the fact, that they have been buying more of our securities - foreigners have been buying - don't have to specify France, because I'm not sure that they have been.

H.M.Jr: The two things have nothing to do with each other.

White: They have, because the other fellows will tie them up if you don't.

H.M.Jr: Wait a minute. There are two distinct movements. The fellows buying stocks here are not Frenchmen. Just let me go through it. There are two distinct things. London and Amsterdam are buying stocks here, which is one movement.

White: Right.

H.M.Jr: Then the movement by which the French are gaining is something entirely distinct.

White: Surely.

H.M.Jr: Am I right?

White: Right.

Taylor: London and Amsterdam purchases might be French.

H.M.Jr: well, but the chances are they are not.

Taylor: Well, we don't know.

H.M.Jr: But you're wrong, if you don't mind my saying. They're two distinct - they could be, but they are two distinct movements. I mean you can't buy a hundred million dollars worth of gold going to France and at the same time that the Frenchmen are buying a hundred million dollars worth of our stocks. Just doesn't make sense.

-8-

Taylor: Oh yes, two movements.

H.M.Jr: And they are both in our interest. And God, I sit here and keep it a secret!

White: But the point is that, as you said, you're going to mention them both together; it is not because they are both the same thing, but because the press will indicate....

H.M.Jr: They are two distinct and independently separate things.

White: Then why are you mentioning them together?

H.M.Jr: Because you said in case of an explanation - "Is gold moving out of here because they are selling our stocks?" and I say, "No."

White: Exactly.

H.M.Jr: I answer that they are two distinct movements; there is one movement where certain foreigners are buying our stocks because they think they are cheap, and there is another group of foreigners that are moving the gold into France because they think they can earn more money in France. Now, the movement is going two directions.

Gaston: They're going to cancel out then.

Taylor: No, no. The French movement is stronger than the other one.

H.M.Jr: They are two distinct - I mean it's two distinct movements. There is a flow of capital to France because they think they can make some money there. There is a flow of capital to the United States. And the one does not cancel out the other.

White: But don't you think you would get much more effect by waiting a week? I mean the stock market collapse, in the minds of the press - and that is whom you have to depend upon to create impressions - is too fresh to them. The erroneous conclusion is too obvious to draw. Notwithstanding your correct explanation, they will draw the erroneous one, because in the light of circumstances it is the more obvious one.

-9-

- H.M.Jr: Just let's put this to one side. The thing which I thought, Wayne, was that this fellow here would talk - "Oh, but you can't desterilize gold," and so forth and so on.
- Taylor: Haven't got around to that yet, but...
- Haas: You going to put - you going to desterilize an equivalent amount of gold? Is that your.....?
- H.M.Jr: That's the - what I was going to indicate. I was going to desterilize 25 million dollars worth of gold.
- Haas: I'll change my position and you can
- H.M.Jr: Which side are you on?
- Haas: On your side now.
- Lochhead: Oh, but you're thinking just - just got one idea, just so anxious to put money in the market. Don't let that change your views.
- Haas: No, I'm not thinking about that.
- Gaston: The full effect of the French transactions will be concealed by the offsetting transaction.
- H.M.Jr: The thing is this, Herbert. We have over a hundred million dollars worth of gold in London which we've been selling. Now, that - as we get the money, we put it in the special account in the Federal Reserve of New York, so it doesn't - completely isolate it, see. What we are talking about is taking that and transferring it to the General Fund. When we do that, that is desterilization, and it again becomes part of our 200 million dollar revolving fund.
- Gaston: You will add that to your billion eight.
- H.M.Jr: No, no. It goes into the General Fund and it's available.
- Lochhead: We would buy with the Stabilization Fund - we would buy 25 million dollars worth of gold from the sterilized fund and that would give the General Fund 25 million dollars more of funds....
- Gaston: Yes

-10-

Lochhead: ...which they could use.

H.M.Jr: Some place or other we've got 25 million dollars with which we can buy 25 million dollars worth of desterilized gold and release it. And that's - I should have said that first - that's what I want to do.

White: I think that's a third reason why you should wait a week, because if you do that now the whole thing looks a little too slick at the moment.

Taylor: It's too much connected with it.

White: A week from now there won't be quite the same - I'm assuming that ~~the market~~ will continue to recover; I expect it will. If it doesn't, then I say all the more reason why you shouldn't say it until you really....

H.M.Jr: Would you want me to do it on a falling market?

Haas: Technically, the market is in a

H.M.Jr: Wait a minute. Would you have me do it on a falling market?

White: I don't know. It's a tough question.

(Hearty laughter)

Taylor: I've got another reason - part of the same one,...

H.M.Jr: (To White) Coward, coward.

Taylor: ...which I mentioned earlier. You've got to remember that the French Parliament reconvenes approximately the 16th of November, that you've got these party meetings at the end of this month. Now, the reason that they haven't put out any bull conversation, except what appears in the Bank of France statement, and so on, must

H.M.Jr: What? You mean "bullish" conversation, don't you?

White: Same thing.

Taylor: I thought I said it.

-11-

- H.M.Jr: Well, there's a difference between that and "bull." I just wanted to make sure.
- Taylor: Yes. Sometimes synonymous. ...probably has something to do with their domestic situation.
- H.M.Jr: Well, listen, I don't - will you fellows think about this over night, and then we'll talk about it tomorrow. I haven't got to the place where I'd say my bones tell me I'm right. I haven't arrived at that, see - at that stage yet.
- Gaston: My hunch would be to let the French have it leak in Paris - dispatches to the American newspapers as to the amount of gold acquired.
- Lochhead: I may say this, that if the gold continues going out at the same rate it is going out now, within another week you will have no choice but to desterilize, because I've got a limited amount, roughly 75 million, left; and after we sell that, then we have to start taking it out, desterilizing.
- White: Be still better.
- Lochhead: Except on your thing, we might have a movement there where it's going out because of a falling market, people taking the money back; might be forced to make
- H.M.Jr: Well, would you have me make a statement on a falling market?
- White: I'm not anticipating a falling market.
- Lochhead: We have to realize that if money was going out because foreigners were selling stocks, you'd have to make the statement whether it was a falling market or not; you'd have no choice.
- Taylor: And it will be interpreted entirely the way the market happens to be moving at that particular time.
- Haas: That's right, that's right.
- H.M.Jr: Now, I come back that what you're telling me is this: I should wait until I have used up all the gold, and

-12-

then you come in and say, "Mr. Morgenthau, there's nothing left, you've got to do it today," and I have no alternative.

Lochhead: I'm telling you that in advance.

H.M.Jr: And I'm telling you now - how much we got left?

Lochhead: About 75.

H.M.Jr: Well, I'm looking ahead a couple days.

Gaston: I'm all for having it

H.M.Jr: I don't want to be in the position that you come in and say, "I'm terribly sorry, but she's all gone. You do it today and do it now."

White: Yes, you don't have to; you don't have to say that, you know. When you're all gone, you can let gold go directly out. You don't have to say the 200 million dollars is all gone.

Lochhead: But it will show up on the statement just the same as soon as the Secretary uses the sterilized gold. You say you're not going to make any statement. Well, as soon as that sterilized gold goes down, you have to make a statement. You'd have to let gold go out of the sterilized account, and you'd have to make some statement.

Gaston: I think the story should come out under Paris date line as soon as possible, and then I think that we should de-sterilize the 25 and when the thing appears on the daily Treasury statement a day or two later, the boys say, "What's this mean?" why, just point to the dispatch.

H.M.Jr: Well, the trouble - I again say the trouble with its coming from Paris is nobody believes it.

Taylor: Well, they'll believe it if it shows up on our figures.

White: I don't think that's the significant thing, whether it comes from Paris or here.

Taylor: I think that's the confirmation of it, that it does show here.

-13-

- White: If you're going to give it out and get the maximum publicity, the question is, when is the most effective and opportune moment? I don't think it matters much where it comes from.
- Taylor: I think very strongly if we do give it out, it will be misconstrued; if the French give it out and we confirm it, it's O.K.
- Lochhead: The only thing I was pointing out was that we might desterilize 25 million dollars worth of gold today, but on the other hand, on the same day we might get 16 or 20 million dollars dumped in on us from Japan. We go to make the statement, and the 25 isn't there; there's only four or five. We're still getting gold in.
- H.M.Jr: That's another argument why we shouldn't wait.
- Lochhead: Getting these movements. Gold from Japan will start coming in from now until the end of the month.
- Haas: The desterilization was started because we were afraid of inflation, so it's not necessary to sterilize the Japanese if you didn't want to.
- H.M.Jr: Well, you're talking about stopping gold sterilization.
- Lochhead: You're getting down to original
- Haas: I don't think you're tied to that absolutely.
- Taylor: That would be interpreted as jittery unless there were some good extra reason.
- H.M.Jr: I'll give you a bedtime story: sleep on it. I haven't got to the point where I say,...
- Klotz: "I must do it."
- H.M.Jr:"I must do it." But it's very interesting, and "tink" it over.

October 21, 1937
Thursday

The Secretary telephoned me this evening and referred to our conversations in the afternoon relative to the substantial acquisitions of gold by the French Stabilization Fund and the plan for the U. S. Stabilization Fund to draw gold from the sterilized gold account and thus give an opportunity to draw attention to the gains made by France.

The Secretary stated that he had thought out what appeared to be a simple solution, and that was, to have the Stabilization Fund replenish its gold holdings by taking over the shipments of Japanese gold now on the way to the United States, totalling about 40,000,000 dollars, instead of allowing these shipments to go into the sterilized account.

I agreed with him that this was a very simple way of replenishing the Stabilization Account without practically any comment, and could see no objection to it.

The Secretary stated that he would discuss it further the next morning.





DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 500.C 1198/122

October 21, 1937

My dear Mr. Secretary:

I enclose for your information a copy of despatch No. 33 Political dated October 8, 1937, from the American Consulate, Geneva, transmitting a list of the members of the reorganized Financial Committee of the League of Nations. The Consul states that it is expected the first meeting of this Committee will be on November 29.

Sincerely yours,

For the Secretary of State:

Herbert Feis

Enclosure:

No. 33 from Geneva,
October 8, 1937.

Herbert Feis,
Economic Adviser.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Department of State

BUREAU
DIVISION

EA

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

TREASURY

SS Political.

Geneva, Switzerland, October 8, 1937.

Reorganization of the Financial Committee.

The Honorable,
 The Secretary of State,
 Washington, D. C.

I have the honor to refer to the Consulate's telegram No. 348 of October 1, 10 p.m., and to advise the Department that the Consulate understands that invitations are now being sent forward to the new members of the Financial Committee.

It is understood that the first meeting of the reorganized Committee has been set for November 29, 1937.

The reorganized Committee will continue in office until the session of the Council in January, 1940, at which time the Council will be called upon to consider the composition of all League Committees functioning under the new statute.

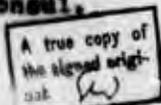
1/ Attached to this despatch is a complete list of the members of the Committee with indications of those who have previously served and those who are new appointees.

Respectfully yours,

Howard Bucknell, Jr.
 American Consul.

Enclosure:
 No. 1: List of Members.
 DDK/EW

Original and five copies to Department of State.
 One copy to American Legation, Bern.



LIST OF MEMBERS OF THE FINANCIAL COMMITTEE.

I. MEMBERS.

- (Old) Dr. C.V. BRAMSEKES, Director of the National Bank of Denmark (Danish).
- (New) Mr. W.S. CLARK, Deputy Minister of Finance (Canadian).
- (New) Mr. T.J. COOLIDGE, Vice-President, First National Bank, Boston (American).
- (Old) Mr. G. DAYRAS, Inspector-General of Finance (French).
- (Old) Mr. A.E. JANSSEN, President of the "Société belge de Banque", formerly Minister of Finance (Belgian).
- (New) Dr. B. Crena de JONGH, President of the Nederlandsche Handelsmaatschappij (Dutch).
- (New) Dr. V. KIENBOCK, President of the Austrian National Bank (Austrian).
- (New) Mr. S. NEDELKOVITCH, General Manager of the Yugoslav Postal Savings Bank (Yugoslav).
- (New) Mr. J. NOWAK, Manager at the National Bank of Poland, former Assistant Director of the General Administration of Funds at the Ministry of Finance (Polish).
- (New) Dr. S. ORIA, Professor of Finance at the Faculty of Economic Science (Argentine).
- (New) Mr. Frederick PHILLIPS, K.C.S.G., C.B., Under-Secretary, U.K. Treasury (British).
- (Old) Dr. V. POSPISIL, Envoy Extraordinary and Minister Plenipotentiary, former Governor of the National Bank (Czechoslovak).
- (Old) Mr. A. SVANIDZE, Vice-President of the State Bank (U.S.S.R.)
- (Old) Mr. G. TUMEDI, former Under-Secretary of State at the Ministry of Justice (Italian).
- (New) Mr. W.P. WEI, Assistant General Manager of the Chinese Development Corporation (Chinese).

II. SUBSTITUTE MEMBERS.

- (New) Mr. J.A. CASTILLA, General Manager in Europe of the "Banque Espagnole du Rio de la Plata" (Argentine).
- (Old) Prof. W.W. RIEFLER, Institute for Advanced Study, Princeton, N.J. (American).
- (New) Mr. S.Y.F. YOUNG, Expert at the Chinese Delegation to the League of Nations (Chinese).

RE GOLD MOVEMENT TO FRANCE

October 22, 1937
10:00 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. White
Mr. Oppen
Mr. McReynolds
Mr. Bell
Mr. Lochhead
Mr. Haas
Mrs Klotz
Mr. Riefler

H.M.Jr: Kind of overlapping here - Commodity Credit and gold. Got to wait for Professor Bell and Archie.

Taylor: Win Riefler's here. Do you want him?

(Bell and Lochhead come in)

H.M.Jr: Last night, about seven o'clock, I got what I thought was an answer on how to handle this gold. So I called up Archie to know what was the matter with it. Archie thought it sounded pretty good. This morning I walked down with Bell and told him about it. I said I thought it was wonderful that I got this idea first, with all these experts around. He said, "Well, if I had been sitting here, I'd have had the same idea."

Bell: Simple at least.

Haas: That helps the experts then.

H.M.Jr: So the idea that I've got is Hello (On phone)
Hello, Henry. (Has conversation with Sec'y Wallace)

(Riefler comes in)

Well, I've beaten the gun. But Bell and I have had a long time

Well, let's do this gold thing first; then we'll come back. Are you two gentlemen ready to report?

Lochhead: I've spoken to Mr. Taylor, Mr. Haas and Mr. White, who have all agreed that it would be a desirable thing to do, to follow your suggestion.

-2-

H.M.Jr: Well, let me give it in non-technical language, see, so that Mac can understand it.

McR: Have to be pretty plain.

(Hearty laughter)

H.M.Jr: Mac's here on corn. He kind of slipped in on this gold. I don't know how he got in here, but it's all right.

Taylor: Read Mr. Pegler this morning, Mac. Mac will appreciate that.

H.M.Jr: What I said is this. We have accumulated about 75 million dollars worth of gold - of dollars, through selling gold which we had abroad. This money is in a special fund in the Federal Reserve of New York, completely triple-isolated, insulated, and sterilized. During the period that we have been selling this gold, we have continued to buy gold and continued to sterilize the money, and this gold which we were buying during the same period about offsets it, so there really has been an excess of sterilization.

Now, what I am proposing to do today, because there is this big shipment of Japanese gold which is coming - 40 million dollars on the water - is to take this money which is in the Federal Reserve of New York in this special account, and from now on any gold which comes in - use this 75 million dollars, plus any other gold we may sell in London - I think, about what, 35 million left? -

Lochnead: (Nods yes)

H.M.Jr:to pay for any additional acquisitions of gold, and that will wash up what we have done in the last ten days in the way of excess sterilization. And to me, it seems to simple that I'm just dumfounded that nobody but Bell and I thought about it.

White: Don't push that too far, or we're liable to criticize it.

H.M.Jr: Now, I threw that at Bell there, and I assume that Archie - I asked him to see Mr. Taylor this morning the minute he came in, and I asked if he could to give

-3-

me an answer that it's O.K. Let me put it this way. Who doesn't think it's sound practice?

Riefler: What was the purpose of not doing it immediately? Was there any purpose?

H.M.Jr: Nobody could think it through. Nobody could think what we should do with it. That was the answer. We've all been talking and talking - I mean a lot of reasons given; thought we'd accumulate a hundred million, then maybe we could use it around the first of December - different thoughts - but nobody could think clearly what was the logical thing to do until Bell and I thought of it.

White: Well

H.M.Jr: No, that - that's an honest answer. I mean everybody's had ideas; I've had - everybody - we couldn't think what was the logical thing to do.

Go ahead, Harry, don't burst a blood vessel.

White: I can't answer that without saying something too mean.

Taylor: If you make a crack, I'll choke you.

White: Discretion, I think, befits me right now.

H.M.Jr: All right. I thought you'd say you were too polite. Well, anyway, everybody happy with that?

Olyphant: Opper raises the point of where and how it would show up.

H.M.Jr: It won't.

Olyphant: Your idea being that if it shows

Lochhead: You mean showing up from a publicity standpoint?

Olyphant: Won't show up as a desterilization.

Lochhead: It will not show up as a desterilization.

Taylor: But your import figures will not check.

-4-

Lochhead: Commerce Department import figures will not check with the sterilized gold acquisitions on the sheet, but that's happened before and a year ago in 1936 we did the same thing.

Opper: There will be little articles - "Why don't they check?" - but they won't know.

Lochhead: A year ago they didn't find out.

Haas: The Secretary's ready for that too.

H.M.Jr: We'll refer them to General Counsel's office for an explanation.

You can see Clarence had a vacation, the way he takes it.

Opper: Yes, I had forgotten how good these things were.

H.M.Jr: What other thing?

Oliphant: Check.

H.M.Jr: All right.

Now, would you (Taylor) mind, when you get through this Commodity Credit thing, calling up Marriner and telling him about it?

Taylor: (Nods O.K.) I have a suggestion as to how to do that, which is to call up Gardner and then tell Eccles that I've called up Gardner.

H.M.Jr: Well, I'll leave that to you, and you (Riefler) as an ex-Federal Reserver. What? And then the publicity to be handled by Elliot Thurston.

Oliphant: (Laughs) That's right.

Lochhead: No doubt about that.

Oliphant: And well-handled.

H.M.Jr: Well now, wait just a second. Now, can I forget about it? Dan?

Bell: It's all decided?

H.M.Jr: Yes. When did that Jap gold come in?

Bell: Six million of it came in yesterday.

H.M.Jr: That will be included?

Bell: Yes, sir.

Lochhead: Held it up.

H.M.Jr: Pardon me?

Bell: It will be paid for today, but I'll hold up the entries.

H.M.Jr: You might take Gaston aside and explain this thing to him, and now he shouldn't explain it.

Lochhead: Oh, I'll speak to him. He won't have to worry. They won't catch on to that. They won't catch on to that. Even the Federal Reserve Board didn't catch the one we did in 1936 until three months later, so I'm not worrying about it.

H.M.Jr: All right. Are you (White) perfectly happy?

White: Quite.

H.M.Jr: Even though it was Bell's and my idea.

All right?

Klotz: Didn't say anything.

White: No, I'll save it for a better occasion.

H.M.Jr: All right, Harry.

You (Riefler) are perfectly happy?

Riefler: Yes.

H.M.Jr: All right.

October 22, 1937
10:02 a.m.

H.M.Jr: Henry?

Henry
Wallace: Yes.

H.M.Jr: I saw the President this morning on Treasury matters,
and I said that Bell was ready to report on corn.

W: Un-huh.

H.M.Jr: And I had a great battle, but I finally succeeded in
getting an appointment at 11:45; but that I felt
that, we being ready, the sooner we got that off the
easier it would be for you.

W: Yes.

H.M.Jr: So the President finally gave us 11:45, and I imagine
in a little while you'll hear from McIntyre, but I
want to tell you.

W: Oh yes.

H.M.Jr: Now, do you care to see Bell and me before that?

W: How's that? Why, is it - of course I'd be most
happy - is it, do you think

H.M.Jr: Hello.

W: Do you think it's essential?

H.M.Jr: No, if you - we're all right here.

W: Un-huh. I mean you - you've found a way to handle it,
have you?

H.M.Jr: Yes. Have you seen your people?

W: No, I really haven't.

H.M.Jr: Well, I walked down with Bell, so I - I'm ready, see?

W: Un-huh. Well, I'll get in - I'll

H.M.Jr: The only thing which I'm going to throw in, new, see

W: Yes.

-2-

H.M.Jr: ...is that I'm going to suggest that we take 15 million out of the 440 and set it up as a reserve with Commodity Credit against the corn loans, see? Now, that's the only thing that your people don't know about.

W: Uh-huh.

H.M.Jr: But I - I'm going to make that suggestion instead of any - any kind of a tax, you see?

W: Uh-huh. That's all right on the corn end. On the cotton end I

H.M.Jr: Well, on the cotton end

W: I wouldn't check on the cotton end.

H.M.Jr: Well, on the cotton end, what Dan and I have agreed on is this, that we're going to recommend as part of - to you - to the President and you, as part of the permanent legislation, that we set Commodity Credit up as a separate identity.

W: Uh-huh.

H.M.Jr: That we ask Congress to appropriate out of the '38-'39 budget sufficient money to make up whatever the impairment is in the capital out of our General Fund.

W: Yes. And

H.M.Jr: And as far as this year, you see

W: That's as far as this year is concerned.

H.M.Jr: No, that's - no, that's for '38-'39.

W: Uh-huh.

H.M.Jr: '38-'39.

W: The '39 budget, yes.

H.M.Jr: Yes. And in order to make this thing taste a little sweeter and try to justify this corn loan when it

-3-

was not on the President's agenda, see

Wallace: Uh-huh.

H.M.Jr: ... I figured on setting up a ten cent reserve against 150 million bushels;

Wallace: Uh-huh.

H.M.Jr: ...that it would in some way give the President something to stand on, you see?

Wallace: Uh-huh.

H.M.Jr: Because he's going to be criticized quite severely on this. I mean on the financial end.

Wallace: Uh-huh.

H.M.Jr: See?

Wallace: Ah - I suppose perhaps I'd better bring either Tolley or Tapp along, hadn't I?

H.M.Jr: Well, that's up to you.

Wallace: You're going to bring Bell, are you?

H.M.Jr: Oh yes, it's Bell's report.

Wallace: Yes. Well, it's - it's - if it's Tolley or Tapp - if it's Tolley or Tapp who's been working on it with Bell, I suspect I'd better bring one or the other, hadn't I?

H.M.Jr: Bell's sitting here. I - Tapp, he says.

Wallace: Uh-huh.

H.M.Jr: Yes. Now, this is strictly between you and me. I suggested to the President that Jesse Jones should be there if he's in town.

Wallace: Yes, I would think so.

H.M.Jr: But the President said, "Emphatically no."

-4-

Wallace: No?

H.M.Jr: Uh-huh.

Wallace: I see. All right.

H.M.Jr: So - I don't know why.

Wallace: I see.

H.M.Jr: But I made that suggestion.

Wallace: Yes.

H.M.Jr: So - I don't know why - he said, "~~Emphatically no.~~"

Wallace: Yes. All right.

H.M.Jr: Well, then we'll meet you

Wallace: I'll wait - I'll wait word from Mac, I suppose.

H.M.Jr: Yes, well I'm following it up here and - through my secretary, and - but the appointment was 11:45.

Wallace: Yes. All right, thanks.

H.M.Jr: I'll - I'll meet - well, if - if you've got anything, call me back after you talk to Tapp, because it's rather - I'd like to go over there, if we could

Wallace: I find - I find, by the way, this, Henry, that all the people in AAA feel very emphatically that there's a rather serious political loss if the thing is less than 50. I - frankly I don't feel as strongly on the matter as they do, but they

H.M.Jr: Yes

W: They - they think there's

H.M.Jr: Well ...

W: They're rather concerned about that and don't think - and don't think that - and if you have this other suggestion of the 15 million being set up out of those

-5-

funds - by the way, I would like to talk that over with them; there may be aspects to it that I don't know about that would concern them seriously.

H.M.Jr: Well, tell them not to worry so much about politics, a little more about the budget.

Wallace: Yes. (Laughs) All right.

H.M.Jr: Yes.

W:

H.M.Jr: No, we've got - I've got - Dan says, "Will you go along?" and I says, "Well, I - I - I'm going to try to make the best of - of a very bad situation in view of what the President has just said."

W: Uh-huh.

H.M.Jr: And I think if he says, "Well, I'm taking 15 million dollars out of existing appropriations, set it up as a reserve against possible losses, and that money to go into the treasury of Commodity Credit," I think that that's - that's some kind of a sop.

W: Uh-huh.

H.M.Jr: But all this business about a one cent withholding of the corn

W: Oh yes, that's impractical.

H.M.Jr: That, or talking now a processing tax before you know what your own program is - I think it puts you in an impossible position, it puts the Treasury in an impossible situation.

W: Oh yes, all the - all the way round it does.

H.M.Jr: Now, you haven't had time to think your program through, and to commit ourselves at this time to a processing tax when a month from now you may want to finance it some other way - I - I think it's - it would be a major mistake, which ... What I've tried to do is to find a way, with the help of Bell, to do

-6-

this thing and not tie your hands as to what you're going to do next year, see?

Wallace: I think that's right.

H.M.Jr: Now, this - and I - I feel that if we pull out 15 million dollars, put it in the Commodity Credit treasury, we'll have something - something towards financial sanity.

W: Yes. All right, Henry.

H.M.Jr: Thank you.

RE COMMODITY CREDIT LOANS

October 22, 1937
10:15 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Bell
Mr. Haas
Mr. Riefler
Mr. Opper

H.M.Jr: Mr. Bell, the floor is yours.

Bell: Want me to read this memorandum?

H.M.Jr: I didn't talk too fast to Wallace, did I - didn't commit

Bell: I don't think so.

Oliphant: I've got some alternatives.

Bell: Yes. Well, I'll read this first.

"Present Commitments and Program.

"(a) Cotton loans. It is estimated that the Commodity Credit Corporation will make commitments for loans on cotton to the extent of about \$270,000,000, which represents loans on 6,000,000 bales at an average of \$45 a bale. It is expected that the loans will be made in the first instance by banks at the rate of 4%, the banks receiving 2½% for the credit extended, and the Commodity Credit Corporation receiving 1½% for its guarantee."

These figures should really be checked by the other members of this committee.

"It is contemplated that the loans will all mature on July 31, 1938, with a possible renewal for a further period ending not earlier than February 1, 1939. The agreement between the banks and the Commodity Credit Corporation provides that the banks can present their loans at any time to the Commodity Credit Corporation for prepayment. The Corporation has estimated that it might pay out in the fiscal year 1938 as much as \$60,000,000 on account of

-2-

prepayment of loans. A further payment might have to be made at the time of the maturity, but the Corporation expects that a large part of the maturing loans will be extended.

"(b) Corn loans. It is estimated that the Corporation will have to make a commitment for loans on approximately 150,000,000 bushels of corn at 45¢ or 50¢ a bushel, a total maximum commitment of \$75,000,000. Mr. Tapp advises me that this loan program will be confined to those who have agreed to participate in the 1937 agricultural program. As the heavy crop areas have only about 60% participation in the agricultural program, they were able to materially reduce the original estimate for loans. The loan will be for a period of six months, with a possible renewal of twelve months. The reason for the twelve-month period after the first maturity is to get the second maturity past the next corn crop harvesting period. Commodity Credit here again will make commitments to commercial banks to pay these loans at any time before maturity. It is not contemplated, however, that many of them will be presented before that time. It has been estimated that not more than \$10,000,000 in cash will have to be provided before June 30, 1938.

"(c) Miscellaneous loans. It is estimated that loans on other commodities will amount to about \$10,000,000. There will be no agreement in these cases with banks, and the Treasury will have to provide the cash. It is my understanding that these loans have been, in effect, guaranteed by the Secretary of Agriculture in connection with the administration of Section 32 of the Agricultural Adjustment Act. In other words, the Secretary has agreed to take the commodities, on account of which loans have been made, from the Commodity Credit Corporation at the amount of the loan and carrying charges, and that he will process the commodities and distribute them through the Surplus Commodities Corporation for relief purposes.

"A statement is attached showing commitments contemplated and cash outlays for the fiscal year 1938."

That statement shows commitments for all these of 50 million in October, 84 million in November, 102 million in December, 82 million in January, 27 million in February, and 10 million in March.

-3-

Oliphant: How much comes out of Section 32, Dan?

Taylor: Yes, read that part again, will you, Dan, about Section 32?

Bell: Ten million.

Taylor: Well, that only applies to special

Bell: Miscellaneous.

Now, the cash requirements are 5 million for October, 13 each for November and December, 12½ million for January, 7½ million for February....

H.M.Jr.: Kieley, call the White House and ask them if they're going to notify Mr. Wallace and Mr. Bell, or whether you should, see?

Wayne, I want you to go along.

Bell: ...5½ in each of the months of March, April, and May, and 12½ million in the month of June, or a total of 80 million dollars in cash required in the next nine months.

"II. Proposed Reorganization of Commodity Credit Corporation.

"Based on present market conditions, there are indications that the capital of the Commodity Credit Corporation, amounting to \$100,000,000 is impaired to the extent of about \$75,000,000. Of this impairment more than \$23,000,000, has already been realized and practically all of the balance is a potential realization upon the cotton that it now holds which was acquired under the 1934 program. If Congress does not appropriate funds for this last, it will fall upon the Reconstruction Finance Corporation.

"In order that the Commodity Credit Corporation may be set up so that it can operate on its own capital and not affect the Budget except for losses, I recommend that legislation be secured along the following lines:

"(a) That the corporation be made a separate entity.

-4-

"(b) That it be permitted to have a capital of \$100,000,000 and authority to sell its own obligations in the market, guaranteed as to principal and interest by the United States Government, in an amount of not to exceed \$500,000,000 outstanding at any one time.

"(c) That the form of the obligations to be sold, the procedure for their sale, terms, the amount to be sold at any one time, and the general commitments of the Corporation which will involve subsequent financing in the market, be approved by the Secretary of the Treasury.

"(d) That ~~each~~ year (before Congress adjourns and at least two months prior to the end of the fiscal year) an appraisal be made of the assets of the Corporation based on market prices at the time of such appraisal; that if there is any impairment of its capital Congress be requested to appropriate an amount equivalent to such impairment; and that the Corporation set up the amount so appropriated in a reserve for losses.

"(e) That if there is a surplus instead of a deficit, the amount of such surplus be deposited in the Treasury to the credit of miscellaneous receipts.

"(f) That the appraisal referred to be made by a committee composed of representatives of the Secretary of the Treasury, the Secretary of Agriculture, the Commodity Credit Corporation, and the Farm Credit Administration.

"By appropriating each year the amount by which the Corporation's capital is impaired, or depositing its surplus, if any, in the Treasury to the credit of miscellaneous receipts, the Budget will reflect the true picture for that year so far as the Commodity Credit Corporation is concerned, and the responsibility for providing Federal funds with which to make grants in the form of loans to farmers will be placed upon Congress where it belongs.

"There is an immediate problem which will have to be met if there is to be a commitment this fall for a corn loan; that is, providing the Commodity Credit

-5-

Corporation temporary assurance that it will be able to get the money when necessary to meet any bank loans presented to it for prepayment. This temporary commitment, it seems to me, would have to come from the Reconstruction Finance Corporation, but the Reconstruction Finance Corporation would be relieved of it as soon as legislation has been passed by the Congress, as the Corporation could then sell its own obligations in the market to provide the necessary funds. Such a commitment by the Reconstruction Finance Corporation might be construed as violating the restriction laid down by the President with respect to the Reconstruction Finance Corporation's commitments. With respect to allocations to be made by the Reconstruction Finance Corporation to Federal agencies the President said:

'I have also determined that the liabilities carried upon the books of the Reconstruction Finance Corporation in the nature of undischursed allocations to Federal agencies should not be used except to meet unavoidable requirements of existing law.'

"The Commitments to the Commodity Credit Corporation or any other Federal agency are not listed in the appendix attached to the Budget summation.

"I have conferred with Mr. Tapp of the Department of Agriculture, Mr. Ben Johnson and Mr. Chase of the Commodity Credit Corporation regarding the above legislative program and they are in full accord without attempting to commit the heads of those particular organizations.

"In order to protect the Treasury against losses on these commodity loans, the Secretary of the Treasury and I recommend that an additional reserve of not less than \$15,000,000 be set up out of the appropriation of \$500,000,000 under the Soil Conservation and Domestic Allotment Act."

H.M.Jr: Just read that last paragraph again.

Bell: "In order to protect the Treasury against losses on these commodity loans...." - said "these commodity loans" because the first question to be raised will be cotton and corn -

-6-

H.M.Jr: Yes.

Bell: "... the Secretary of the Treasury and I recommend that an additional reserve of not less than \$15,000,000 be set up out of the appropriation of \$500,000,000 under the Soil Conservation and Domestic Allotment Act."

Already got 60, so I say an additional reserve.

Now, Mr. Oliphant has some suggestions which I think could be worked out.

Taylor: Well

Oliphant: May I have the floor?

Taylor: Well, all right.

Oliphant: Well, I'm just going to state frankly that I don't think there is any way to make good on the President's word except to make good on the President's word. He said perfectly plainly that there will be no more commitments from the R.F.C., and I don't think setting up 15 million - I'm just going to say what's on my mind - makes good on the President's word. And if it can be done, and since it can be done in some other way, in any event - now, the first question I want to ask, before I state the plan I have in mind: by the time the money begins to flow out on the corn loan, there will be 35 million dollars under Section 32

H.M.Jr: How much?

Oliphant: 35 million dollars under Section 32. And as we read the statute, that can be used to finance this corn loan, and why shouldn't it be used? We want to repeal the statute anyway.

Bell: I don't get your statement of 35 million. Where do you get that?

Oliphant: Somebody in my office got from your shop that there was an unobligated balance under Section 32 of 30 million as of yesterday, and by the time the money

-7-

begins to flow out, which will be November 15, it would be a conservative estimate that there would be 35 million.

Bell: Must be talking about 1937 money.

Oliphant: Well, I can't check on that side, but I just raise the question.

Bell: '37 money has really lapsed.

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

Taylor: Well, Herman and I are thinking about exactly the same thing, that instead of setting up a reserve out of the other thing, you ought to take Section 32, which was put in there and has the possibility of guaranteeing - in other words, they've guaranteed ten of these special things, you see. All right, use everything that's left in Section 32 to guarantee against the loss on the corn loan.

Bell: I see what you mean, and I think I see where you get your figures. There's about 122 million dollars appropriated in 1938; I've got 90 million of it in reserve; there's still 32 million that's free. If that's the

Oliphant: May I go on from there?

Bell: Yes.

H.M.Jr: Before you go on, is this feasible or isn't it?

Bell: I have 90 million dollars of that 122 million dollars in reserve. Now, I'm going to lose, I know, 65 million for this benefit payment. So that leaves in round figures 60 million dollars of free money in - well, practically free money - in Section 32. Now, if you're going to freeze all of that for this purpose, that leaves Wallace nothing for his conversion or diversion program.

Taylor: Got ten that's already earmarked for that.

H.M.Jr: Already got ten?

-8-

- Bell: That's just Commodity Credit. He's got, as I recall, a program of about 25 million dollars approved by the President under 32.
- Taylor: I think Herman and I are both talking about the same thing. Whatever there is free, instead of setting up a special reserve, which I think you'll find difficulty in doing, why, nip on to the Section 32 stuff and guarantee Commodity Credit against loss to the extent that you have Section 32 funds loose.
- H.M.Jr: That's a better suggestion than mine. What? It's a better one than mine.
- Oliphant: And they can do that without that washing through R.F.C., so you leave Jesse Jones entirely out of that item and maintain the President's word.
- H.M.Jr: But I still - Dan, could you get somebody to tell us just how many dollars there are available, not earmarked, out of Section 32 to go into this?
- Bell: Why, I can get it in to you in a few minutes after I leave here.
- Taylor: They have already established the principle of guaranteeing Commodity Credit against loss on ten out of Section 32 funds; all right, let's get the rest of Section 32 and stick it right there.
- H.M.Jr: What does that do to the budget?
- Taylor: 'oesn't do a damn thing to the budget.
- H.M.Jr: Sure?
- Taylor: (Nods yes)
- H.M.Jr: Wait a minute, because Dan always looks six months ahead and figures he could save these things and use them, so how much has he figured he could save on Section 32?
- Bell: Well, I figured I could save up to 90 million until that cotton resolution went through, and then I lost 65 million of that 90. So I've still got 90 million

-9-

in reserve, and I've only got in the budget for 1938, as I recall, 30 million dollars of expenditures out of the 32 money, and 65 million which I'll have to release for obligation will not be spent until about July or August of next year, so it comes in the 1939 budget.

H.M.Jr: You'll need a little time to think this over, won't you?

Bell: Well, I question whether you can use it - I mean just offhand - as a guarantee, because in order to guarantee it Wallace has to use the money as outlined under Section 32, which is a diversion or export proposition.

Taylor: No, no.

Opper: "Or otherwise."

Taylor: "Or otherwise." That thing - you can drive 98 carriages through it.

Olipphant: We've done it.

H.M.Jr: Going to make a loan on dates; my golly, corn is as good as dates.

Bell: It isn't a loan, Mr. Secretary. Commodity Credit has agreed to make, and he's agreed to make, the loans for relief purposes. That's what he calls a diversion program. Now, if he wants to divert 150,000,000 bushels of corn to relief purposes

Taylor: They can do anything they want to under Section 32, and they've done it time and time again, including guaranteeing other corporations of the Government against loss.

H.M.Jr: And you're suggesting that they guarantee - whatever is available be taken as a guarantee against the loan of Commodity Credit, and the banks would then loan money on that guarantee.

Olipphant: That's right.

-10-

Taylor: And that is what you (Oliphant) are suggesting.

Oliphant: That is the preliminary suggestion. Now, whatever that is, grab that first, and leave Jesse Jones out of it.

Taylor: One of the things - one other point, can I make, while we're talking here? One thing that we've been trying to do is get that Section 32 where it won't be particularly effective, so that they are not going to be able to do the things that they have been doing. Isn't that correct?

Bell: That's right.

Taylor: Well, this is the way to do it.

H.C. Jr: That's Number One.

Oliphant: Now, before I mention the main one that we have in mind, I'd like to discuss just a minute the amount of money that is required to provide this cushion, to make this loan sweet enough for the country banks. I haven't yet got from any discussions how much money that is in the way of a cushion. I want to say to you - I was talking to Wells on another matter - we were discussing this general problem, and I think his knowledge and intuitive judgment on these things is one of the best of any man in town - and he says that the problem of how much money you have to provide is largely a problem of that interest rate; says they have been shaving it by a half percent too close for the country banks. But I just throw that to one side. I mean I throw that out as possibly one phase of the thing that ought to be looked into if you're going to talk about the amount of money you have to find without trenching on the President's word.

Now, the main idea, suggested to me by Oppen - or - I don't know -

Oppen: It was a joint suggestion.

Oliphant: ...is this: that if you had a free hand with legislation right now, could write your own legislation, you might very well take some of the capital of the Central Bank for Cooperatives or the Regional Banks for Cooperatives, for this purpose, on the ground that

-11-

they have an excess. Now, we worked out a way where that can be done now without any legislation. That is, the Commodity Credit Corporation, if they have to take these farmers' notes, can discount those farmers' notes with the Federal Intermediate Credit Bank, and that bank can endorse them, without recourse, either to the Central Bank for Cooperatives or to the Regional Banks for Cooperatives. So that by that method you can make immediately available, without any legislation, as much unnecessary surplus as they have in either of the Central Bank for Cooperatives or the Regional Banks for Cooperatives. And that, again, I think, is in line with what you later do in terms of your legislation. That plan will provide all the money you need and leaves Jesse Jones entirely out of it.

H.M.Jr: Well, I want to say this. If there is 25 million dollars or 30 million dollars available in Section 32, I'd take that and I wouldn't jump in on this other thing until we're ready - have more time, because we're doing the kind of a job I hate to do - got a pistol to your head, fighting for time.

Oliphant: I'm sorry I wasn't ready when we took a walk yesterday.

H.M.Jr: Well, that's all right. I mean what I'm trying to say is, this thing of tapping Bill Myers - I want to think about it. What Taylor keeps talking about is, when we set up this Commodity Credit, let's set it up as well as we set up Farm Credit, so it will be good for four, five years. Now, I don't know, when we set up Commodity Credit, whether we want them to discount their paper through Intermediate Credit or not. I mean what does that do to Intermediate Credit paper in New York market? They've got a beautiful situation now.

Oliphant: Nothing, because it is without recourse - no liability.

H.M.Jr: I know, but I'd much rather do without it. We can't go over there and say to those fellows what we can say to the President of the United States about this other thing, which is entirely within our control - recommend the transfer of Section 32 money. He can

-12-

say "Yes" or "No." But this other thing - we've got to sit down with Bill Myers, and Bill Myers has got a Board of Directors and that stuff. I mean you just can't shoot - we can't commit Bill Myers to a thing like this without consulting him. I mean it just couldn't be done. I mean he's got a Board of Directors in each community, and it's a cooperative. I mean I - it wouldn't be right. I mean if I was Bill Myers I just would object most strenuously. I wonder if it isn't sufficient to use the Section 32 money.

Oliphant: If there is enough of it.

Taylor: Of course, you're - plus the R.F.C., using that.

H.M.Jr: Wait a minute. Herman has got a magnificent idea, and - to leave the R.F.C. out of this thing.

Taylor: Don't think you can.

H.M.Jr: Now, wait a minute, Wayne. Now, please, will you on this - on this thing - I mean I'm asking you to go to the President because you're working on this with me; I mean let's differ here and not over there. And I tell you why. In the first place, this thing that the President's word, as I said before, is of tremendous importance. Walking down with Bell, I was willing to bend my conscience on this thing for him because I knew he'd have to do it, and I wanted to do it in as decent a manner as possible. Now, if we break this thing with the R.F.C., then you come with your part commitment that the R.F.C. has a bank in New Jersey, and something else in Texas, and something else in Georgia, and something else, and the thing is broken and we're sunk.

Now, I want to tell you, Wayne, right now, the conditions as they are. If the President breaks his word three days after he's given it, I don't want to be responsible for the reaction. And we have thrown all the brain power of the Treasury into the thing and if we can leave the R.F.C. out of it - that's maybe why the President didn't want Jesse there; I suggested it, but he didn't want Jesse there. I mean I'll fight with you from now until

-13-

11:45, but when I go over there - I mean if you can't convince - I mean if I can't convince you by then or you can't convince me, I don't want at that time for you to - but you see what I mean.

Taylor: Oh yes.

H.M.Jr: We know the R.F.C. had - we know that the R.F.C. had two or three weeks.... Listen, if I went to you and said, "You're the head of R.F.C. I want you to put down on paper every commitment or possible commitment you've got, and you've got three weeks to do it." And I'd tell you at the same time - you say, "Well, why do you want it, Henry?" "I want it because I'm going to recommend to the President to make it public." And I'm glad to know that Bartelt told Bell last night the same thing, and Bartelt must have gotten it from Mulligan, see; so that they knew that that list that they gave me was going to be made public.

Now, it's - I can't over-emphasize the importance of trying to hold up the President's hand on this thing, and if three days after he makes that statement, he comes out publicly with another R.F.C. guarantee - I think it's terrible. Now, have I at all convinced you?

Taylor: Well, you've got the relationship between the Commodity Credit and the R.F.C., and that I don't think we can ignore. That's the point that I'm making. And they've got an open-end commitment which is in the form of a press release, absolutely having to do with the cotton loan.

H.M.Jr: But not corn.

Oliphant: That was before the summation.

H.M.Jr: That said nothing about corn.

Taylor: But it's an indeterminate amount. But it is on cotton.

H.M.Jr: All true. And the reason I was willing to go along with Bell was because we've got in this statement

-14-

which went out Tuesday a hundred million dollars for Commodity Credit, and figuring the most that we could get hurt on cotton and corn and dates and everything else was 30 million, see? So, mixing our commodities, we were still within the hundred million which is in that budget summation. But it isn't corn.

But I still say that if we can do this thing without bringing R.F.C. in at all, then I say our first victory is there, and then every successive victory - every Senator, every Congressman who has something that Jesse Jones told him about six months or a year ago - well, it's just too bad. And this is pretty much the test of whether the President meant what he said, and this whole thing all gets back to, Does the President mean what he says?

Now, if we can do it - I'd put it in this order as far as I'm concerned: Section 32 first; Farm Credit second; as a final resort, a guarantee by Jesse Jones.

Taylor: Section 32 first.

H.M.Jr: First.

Taylor: I think you have to eliminate for the reasons that you have mentioned the Farm Credit and the bank co-ops. I think that would be extremely difficult to do at this time; that you'd get into the whole cooperative situation, and so on, and that you wouldn't be able to do it in the time it was necessary to do it; and you can't high-pressure that particular thing.

On the place of Jesse and the R.F.C. in this picture, you have Commodity Credit's Board of Directors largely composed of R.F.C. people.

H.M.Jr: And so what?

Taylor: And to attempt to eliminate the R.F.C. from this transaction at any stage - I don't ^{think} you can do it.

H.M.Jr: Well, all I'm talking about is, I don't want them to - I'd like to borrow 75 million dollars on corn - as a

-15-

matter of fact, only talking about ten million cash, isn't it?

Bell: Ten million cash for this year, yes.

H.M.Jr: Ten million cash for this year for corn. And that's all. Now, what I want to keep them - I'd like to be able to put the corn loan across and have the banks take it without having to get the R.F.C. to write a letter to Commodity Credit, and that's the point that you raise.

Oliphant: Well, may I make two statements, and then I'm through.

Taylor: I think that it is perfectly possible to do it, but you have to have Jesse and the R.F.C. people in on all those stages.

H.M.Jr: Yes, but you don't have to have them write another letter.

Taylor: I don't think you have to write another letter.

H.M.Jr: He ought to be here right now.

Taylor: That's right.

H.M.Jr: He ought to be here right now. But I don't want him to write another letter and say, "Here's the list and here's Appendix A, corn loan, dated October 22."

Taylor: All right, if you use Section 32 you can get away from that.

H.M.Jr: We're together, aren't we? As to machinery, of course Commodity Credit, as it is set up, is an integral part of R.F.C. - as to machinery. But I don't want any letters, additional commitments. Are we together on that?

Taylor: No disagreement.

H.M.Jr: And again I say, as I said to Dan, that I've acted with Mr. Jones as a gentleman. I said that Jesse should be there at 11:45; I said he should be

-16-

notified on Monday; I've done everything humanly possible, see? But I'm not - I'm just Secretary of the Treasury.

Olliphant: Two simple statements, and then I'm through. I want to go on record that I am opposed to Number Three under any circumstances; that setting up the 15 million dollars is not keeping the President's word and there is no way you can read this language that he used, which is perfectly plain, that makes it keep his word. I mean your Item Number Three. There should under no circumstances be any commitment from Jesse Jones.

Now, the second thing I'd like to say is that if you take what you can get out of Section 32, the remaining amount required is so small that it isn't a question of hurrying in order to adjust it through this - let me state that again: if you take what you can get out of Section 32, the additional amount required, if you set your interest rate right, is so small that there is plenty of time to work it out through the device I have suggested, which is perfectly plain and legitimate. And there is no necessity for asking Jesse Jones to make a commitment, because it's a trifling amount; the Central Bank for Co-ops alone can take care of it; don't have to get in the Regional Banks for Co-ops at all; everybody involved is here in town. That's all.

H.M.Jr: Well now, isn't the next move to find out how much actually there is in there?

Bell: Yes, that's the next move. But I don't think that you can put across this loan in the market without a full guarantee. I don't think you can guarantee just the cushion necessary. I don't think the banks will take this loan on corn or on cotton unless they are pretty sure that they can get their money out of their loan at any time they want it. I mean, in other words, it's got to be guaranteed.

Haas: Unconditionally.

Bell: I don't think your cushion you talk about is any cushion except the full amount of the loan.

-17-

Taylor: Well then, doesn't the Secretary of Agriculture guarantee it, and he sets up what is available under Section 32 as his estimate of the amount necessary to make that good; he gives it his unconditional guarantee.

Bell: Yes, but I don't think there is that much money in Section 32.

Taylor: Well, whatever there is in there he can guarantee, can't he?

Bell: You say he can; I don't know.

Taylor: Well, he's done it.

Bell: Well, I'm agreeable to that and I'd rather do it that way if that can be done.

H.M.Jr: well, you need a little time, don't you, upstairs?

Bell: Well, I have a hearing too, at 11 o'clock - people from out of town.

H.M.Jr: Well, I really think we ought to clear this thing.

Bell: Yes.

H.M.Jr: What, Dan?

Bell: Yes, I'll do it.

H.M.Jr: Have you got what you gave - did you give the suggestions for my talk

Bell: Yes, I turned them over to Seltzer.

H.M.Jr: Well then, we could work on that while you're working on this. Is that right?

Bell: Yes. I'll have to be excused on that.

H.M.Jr: Yes, but the minute that you have something will you come down to me?

Bell: Yes, sir.

-18-

- H.M.Jr: I mean I'll just stop doing what I'm doing when you know what your answer is.
- Bell: Oh, I think that's a good plan if we can get enough money; that's what's worrying me.
- H.M.Jr: Well, why don't you go up and find out and come back? Unless it's all clear, I think we're making a mistake to see the President at 11:45.
- Oliphant: We ought to have this afternoon on this problem.
- H.M.Jr: Listen, Herman, I spoke to you over ten days ago about this thing.
- Oliphant: That's right.
- H.M.Jr: Over ten days.
- Bell: Well, I'll see what we can work out in the next half hour.
- H.M.Jr: Now, you (Oliphant) can go to your office. I mean I'm going to work on this speech. No sense of your being here. I'm right, aren't I? Fully ten days you've been fussing away.
- Oliphant: And the problem didn't focus itself until Wallace sat there and told us about it.
- H.M.Jr: Well, if you don't - if we don't do anything else, we can tell the President the way we see it.
- Oliphant: And the money doesn't move until the 15th of next month; it doesn't move out at all.
- Magill: May I get a copy of your speech and come right back?
- H.M.Jr: Yes, we can do that.

Opper,
(Oliphant, Bell, Magill, and Haas leave)

Well, I don't know, I think it's just as well to see the President today, because we're so far apart with him (Wallace); he wants to do it through a

-19-

processing tax and all that. We'll say, "Now, Mr. President, as far as we've gone, we suggest financing it in the following alternative manners, rather than the way you have suggested." Then he says, "I don't want to do it through those means." So we can say, "This is as far as we've gotten." And Henry Wallace wouldn't commit himself either.

I think what you (Taylor) might do - you might go in and call up Henry and tell him that we have changed here and we're thinking more of Section 32 money than we are of the 15 million, see?

Taylor: (Nods yes)

H.M.Jr: Why not tell him just the way the conference went and how we feel?

Taylor: Yes, I'll tell him that.

H.M.Jr: See?

Taylor: And I just can't over-emphasize how serious I think it is to ignore Jesse at this stage.

COMMODITY CREDIT CORPORATIONI. Present Commitments and Program.

(a) Cotton loans.

It is estimated that the Commodity Credit Corporation will make commitments for loans on cotton to the extent of about \$270,000,000, which represents loans on 6,000,000 bales at an average of \$45 a bale. It is expected that the loans will be made in the first instance by banks at the rate of 4%, the banks receiving $2\frac{1}{2}\%$ for the credit extended, and the Commodity Credit Corporation receiving $1\frac{1}{2}\%$ for its guarantee.

It is contemplated that the loans will all mature on July 31, 1938, with a possible renewal for a further period ending not earlier than February 1, 1939. The agreement between the banks and the Commodity Credit Corporation provides that the banks can present their loans at any time to the Commodity Credit Corporation for prepayment. The Corporation has estimated that it might pay out in the fiscal year 1938 as much as \$60,000,000 on account of prepayment of loans. A further payment might have to be made at the time of the maturity, but the Corporation expects that a large part of the maturing loans will be extended.

(b) Corn loans.

It is estimated that the Corporation will have to make a commitment for loans on approximately 150,000,000 bushels of

- 2 -

corn at 45¢ or 50¢ a bushel, a total maximum commitment of \$75,000,000. Mr. Tapp advises me that this loan program will be confined to those who have agreed to participate in the 1937 agricultural program. As the heavy crop areas have only about 60% participation in the agricultural program, they were able to materially reduce the original estimate for loans. The loan will be for a period of ~~six~~ months, with a possible renewal of twelve months. The reason for the twelve-month period after the first maturity is to get the second maturity past the next corn crop harvesting period. Commodity Credit here again will make commitments to commercial banks to pay these loans at any time before maturity. It is not contemplated, however, that many of them will be presented before that time. It has been estimated that not more than \$10,000,000 in cash will have to be provided before June 30, 1938.

(c) Miscellaneous loans.

It is estimated that loans on other commodities will amount to about \$10,000,000. There will be no agreement in these cases with banks, and the Treasury will have to provide the cash. It is my understanding that these loans have been, in effect, guaranteed by the Secretary of Agriculture in connection with the administration of Section 32 of the Agricultural Adjustment Act. In other words, the Secretary has agreed to take the com-

- 3 -

modities, on account of which loans have been made, from the Commodity Credit Corporation at the amount of the loan and carrying charges, and that he will process the commodities and distribute them through the Surplus Commodities Corporation for relief purposes.

A statement is attached showing commitments contemplated and cash outlays for the fiscal year 1938.

II. Proposed Reorganization of Commodity Credit Corporation.

Based on present market conditions, there are indications that the capital of the Commodity Credit Corporation, amounting to \$100,000,000, is impaired to the extent of about \$75,000,000. Of this impairment more than \$23,000,000 has already been realized and practically all of the balance is a potential realization upon the cotton that it now holds which was acquired under the 1934 program. If Congress does not appropriate funds for this last, it will fall upon the Reconstruction Finance Corporation.

In order that the Commodity Credit Corporation may be set up so that it can operate on its own capital and not affect the Budget except for losses, I recommend that legislation be secured along the following lines:

- (a) That the Corporation be made a separate entity;
- (b) That it be permitted to have a capital of \$100,000,000 and authority to sell its own obligations in the market, guaranteed

- 4 -

as to principal and interest by the United States Government, in an amount of not to exceed \$500,000,000 outstanding at any one time;

(c) That the form of the obligations to be sold, the procedure for their sale, ^{terms,} the amount to be sold at any one time, and the general commitments of the Corporation which will involve subsequent financing in the market, be approved by the Secretary of the Treasury;

(d) That each year (before Congress adjourns and at least two months prior to the end of the fiscal year) an appraisal be made of the assets of the Corporation based on market prices at the time of such appraisal; that if there is any impairment of its capital Congress be requested to appropriate an amount equivalent to such impairment; and that the Corporation set up the amount so appropriated in a reserve for losses;

(e) That if there is a surplus instead of a deficit, the amount of such surplus be deposited in the Treasury to the credit of miscellaneous receipts;

(f) That the appraisal referred to be made by a committee composed of representatives of the Secretary of the Treasury, the Secretary of Agriculture, the Commodity Credit Corporation, and the Farm Credit Administration.

By appropriating each year the amount by which the Corporation's capital is impaired, or depositing its surplus, if any, in

- 5 -

the Treasury to the credit of miscellaneous receipts, the Budget will reflect the true picture for that year so far as the Commodity Credit Corporation is concerned, and the responsibility for providing Federal funds with which to make grants in the form of loans to farmers will be placed upon Congress where it belongs.

There is an immediate problem which will have to be met if there is to be a commitment this fall for a corn loan; that is, providing the Commodity Credit Corporation temporary assurance that it will be able to get the money when necessary to meet any bank loans presented to it for prepayment. This temporary commitment, it seems to me, would have to come from the Reconstruction Finance Corporation, but the Reconstruction Finance Corporation would be relieved of it as soon as legislation has been passed by the Congress, as the Corporation could then sell its own obligations in the market to provide the necessary funds. Such a commitment by the Reconstruction Finance Corporation might be construed as violating the restriction laid down by the President with respect to the Reconstruction Finance Corporation's commitments. With respect to allocations to be made by the Reconstruction Finance Corporation to Federal agencies the President said:

- 6 -

"I have also determined that the liabilities carried upon the books of the Reconstruction Finance Corporation in the nature of undisbursed allocations to Federal agencies should not be used except to meet unavoidable requirements of existing law."

The commitments to the Commodity Credit Corporation or any other Federal agency are not listed in the appendix attached to the Budget summation.

I have conferred with Mr. Tapp of the Department of Agriculture, Mr. Ben Johnson and Mr. Chase of the Commodity Credit Corporation regarding the above legislative program and they are in full accord without attempting to commit the heads of those particular organizations.

sub B

In order to protect the Treasury against losses on these commodity loans, the Secretary of the Treasury and I recommend that an additional reserve of not less than \$15,000,000 be set up out of the appropriation of \$500,000,000 under the Soil Conservation and Domestic Allotment Act.

COMMODITY CREDIT CORPORATION

(In millions of dollars)

Month	Commitments				Cash Requirements			
	Cotton	Corn	Misc.	Total	Cotton	Corn	Misc.	Total
October	50	-	-	50	5	-	-	5
November	80	-	4	84	10	-	3	13
December	70	30	2	102	10	-	3	13
January	50	30	2	82	10	.5	2	12.5
February	10	15	2	27	5	.5	2	7.5
March	10	-	-	10	5	.5	-	5.5
April	-	-	-	-	5	.5	-	5.5
May	-	-	-	-	5	.5	-	5.5
June	-	-	-	-	5	7.5	-	12.5
Total	270	75	10	355	60	10	10	80

October 22, 1937
11:32 a.m.

Cochran: Hello?

H.M.Jr: Yes. Go ahead. Go ahead, Cochran.

C: Mr. Morgenthau?

H.M.Jr: Yes.

C: I called on Professor Rist this afternoon.

H.M.Jr: Yes.

~~C:~~ He had seen Bonnet this morning.

H.M.Jr: Yes.

C: The Professor was told of the invitation.

H.M.Jr: Yes.

C: And Rist told Bonnet that he was very busy in France and had some trips planned to Czechoslovakia and England, but he was willing to take the trip and was very flattered at the invitation; but he wanted to be sure that it was the desire of Bonnet and his friends in the Government that he should go, and furthermore, provided he would be informed of the views and plans of this government, so that he would not be presenting merely his own personal views to you.

H.M.Jr: I see.

C: Do you follow?

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Yes.

C: You - you understand, now?

H.M.Jr: Yes, I get it.

C: And Bonnet seemed entirely agreeable to this, and indicated that he would give Rist such views of the Government and would expect Rist to report to him on

-2-

his return.

H.M.Jr: I see.

C: He would like, however, first to have a more specific indication from you as to the purpose of his visit and the topics to be discussed.

H.M.Jr: Right.

C: And Bonnet asked Rist to get this information to me and then for Rist to see him again.

H.M.Jr: Well, I won't be able to handle this before Monday now.

C: Well, I - I thought I'd better get the word to you before you left.

H.M.Jr: That's right.

C: Leaving town today.

H.M.Jr: I'm very glad you called me, and fortunastely Riefler is here now and I'll have a chance to talk with him tonight

C: Yes

H.M.Jr: ... and between us we'll work out a method of giving him some kind of a joint invitation, you see.

C: Yes, yes.

H.M.Jr: And then we can put it through the regular channels of the State Department on Monday.

C: I see.

H.M.Jr: See?

C: Then there'd be no more preliminary

H.M.Jr: No.

C: No.

H.M.Jr: I - I'll do it formally Monday through the State

-3-

Department, but I first want to have a chance to talk it over with Riefler.

C: I see.

H.M.Jr: See?

C: Well, Rist thinks that it's - if we could get this through, that Bonnet would be entirely agreeable to the trip.

H.M.Jr: Fine.

C: He just wants a little more specific

H.M.Jr: That's all right, he's entitled to it.

C: Rist will be in town Monday. He's leaving tonight over the week-end also.

H.M.Jr: Fine.

C: Then there's one little question about the schedule. He's going down to Austria on October 27th. He would be back here November 7th.

H.M.Jr: Yes.

C: And I told him I thought you would prefer to do it as soon after that date as possible.

H.M.Jr: Well, I'm going to go away for a little holiday right after Thanksgiving.

C: I see.

H.M.Jr: So I won't be back - I'll be leaving Washington around the 24th or 25th of November.

C: Yes.

H.M.Jr: And will not be back for about two weeks.

C: I see.

H.M.Jr: So he'd have to get here before that.

-4-

- C: Well then, the thing for him to do would be to leave on the 10th; there's a good ship then, the Queen Mary; that'd get him there the 15th.
- H.M.Jr: That'd be all right.
- C: Because I told him if he waited a week it would get him there just the week of Thanksgiving, which wouldn't be any good.
- H.M.Jr: That's right. He ought to come on the 10th.
- C: On the 10th.
- H.M.Jr: That's right.
- C: Fine. Well, I'm not saying anything here ...
- H.M.Jr: No.
- C: until I get the message through then.
- H.M.Jr: Now, what's the - got any fresh news on movement of capital to France?
- C: This morning things - it was still coming in pretty well. I haven't been in touch yet this afternoon because I've been over with - with the Professor, you see, all the time.
- H.M.Jr: You know about the seven million dollars they earmarked here?
- C: Well, I knew they were thinking of it. I didn't know whether they had yet or not.
- H.M.Jr: They did last night.
- C: Did last night.
- H.M.Jr: Yes.
- C: They - they'd been debating whether to go ahead through London or to work directly with you again.
- H.M.Jr: Well, they've decided evidently to work directly here.

-5-

C: Yes, fine. Well, I'll get - I'll - in touch with him now and send a wire later.

H.M.Jr: O.K.

C: But I'm not mentioning names here until we get something through.

H.M.Jr: All right.

C: And may I ask you the one question again?

H.M.Jr: Yes.

C: I mean I've got to make some plans. Would you still want me to come, do you think, in November?

H.M.Jr: Yes.

C: You would?

H.M.Jr: I think that you might come at the same time with Professor Rist.

C: Because that would suit - that would fit in very well, because there's a B.I.S. meeting on the 8th, ...

H.M.Jr: Yes.

C: ... you see.

H.M.Jr: Well, I would plan to come on the 10th with him.

C: And then I could bring you the fresh news from - from that meeting too.

H.M.Jr: That's right.

C: Fine. Well, I'll go ahead and plan that way if his trip goes through.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Goodbye.

C: Goodbye.

Treasury Chambers,
Whitehall, S.W.

22nd October, 1937.

Dear Mr. Wayne Taylor,

Mr. Morgenthau asked me when he last saw me whether we knew anything about Chinese shipments of silver to London. We have no direct information but we have heard that the great bulk of this silver belongs to the Chinese Government and is being sent to London for safe custody and not for sale. Statements similar to those we have heard have obviously been made to the bullion market as you will see from the enclosed extracts from the London papers.

I do not know the precise amount involved altogether but the Hong Kong Government reported that permits for the export of 114 million silver dollars to all destinations were issued during September. Possibly more authentic information could be obtained by an enquiry to the Chinese Government, referring to the statements which have appeared in the London Press.

Security and commodity markets have kept up here very well on the whole though I found the general sentiment

Yours faithfully,
The Chatfield Major

sentiment pretty gloomy when I got back. Things have
perked up remarkably in the last day or two however
after the rally in Wall Street and the improved
international situation, and there now seems to be some
genuine investment in progress in home industrials.

Yours very sincerely,

F Phillips

Times, September 14th 1937.

Silver Shipment from Hong-Kong.

According to reports that reached London yesterday a large amount of the silver recently transferred to Hong-Kong from Chinese territory is now being shipped from Hong-Kong to London. The amount is reported to be about 15,000,000 ounces (nearly £1,250,000). A renewal of sales of silver from Bombay yesterday was associated in the bullion market with the news of the dispatch of silver from Hong-Kong, but the reports already referred to indicate that the silver which is being sent to London belongs to the Chinese Government, and that it is being sent here for safe custody. There is, therefore, no reason to expect that the silver will be sold on the market. The shipment can only represent a part of the silver which is now deposited at Hong-Kong, for stocks there must have reached very large dimensions. Cablegrams from our Hong-Kong Correspondent at the end of last week showed that the accommodation in the vaults of the banks was insufficient to hold all the silver and wealth that had poured into Hong-Kong from the interior, and that much of it was being stored in merchandise godowns.

Financial News, 6th October, 1937.

HONGKONG SILVER FOR LONDON
Not to be offered on Market.

HONGKONG, October 5.- It is authoritatively learned that \$42,000,000 worth of silver was shipped to London last week-end.

Most of this shipment is said to have been made by the Hongkong and Shanghai Banking Corporation. It is believed that the silver is being held on Chinese account and not being offered on the open market.

FEDERAL RESERVE BANK
OF NEW YORK

137

OFFICE CORRESPONDENCE

DATE October 22, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knacke

BANK OF FRANCE.

I called Mr. Cariguel at 11:10 today. The market was very much quieter today, he said, (so far he had bought \$1,000,000 and £500,000), adding that yesterday had been very heavy. I replied that I concluded that from his last night's cable advising of the receipt of \$7,000,000 and requesting that we convert that amount into gold. I stated that, needless to say, we were very happy to see that he continued to gain, happy also that he should have decided to convert his dollars into gold in New York rather than in London as heretofore. Cariguel explained that the gain yesterday had been in excess of £3,000,000 and that he had decided to convert into gold in New York partly because they liked to operate under the Tripartite Agreement, partly because he wanted to take advantage of the opportunity to increase his gold holdings in New York, and finally because he thought we would like it if he distributed his gold purchases between London and New York. In the past where it had merely been a question of a few million dollars accumulated over a period of days, he had bought gold in London against these dollars, but now that the movement was likely to continue, they had thought it better to operate in both markets. It was true that he could get the gold a little cheaper in London but the cheapest way was not always the best.

LWK:KMC

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 22, 1937, 6 p.m.

NO.: 1494

FROM COCHRAN.

On Thursday the French control gained 660,000,000 francs foreign exchange. On Friday, up to 5:30 p.m., it had acquired about 75,000,000 francs foreign exchange, including some dollars purchased through the National City Bank.

Reference was made by my contact to the earmarking of gold with the Federal Reserve Bank last evening. He said that if possible it was preferable, in the present circumstances, to localize transactions in any currency on the market of that currency itself. Then too even though gold could be purchased more cheaply in London he preferred having some of his gold in the United States.

Rentes lower with very small turnover. Some profit taking in shares. [?] In nervousness over outcome of meeting of Government employees to be held Sunday under the auspices of General Confederation of Labor. Spot and forward belga more offered on fear that new political crisis may develop from investigation into National Bank of Belgium at a moment's notice.

Market observer understands British control is buying spot dollars and selling forward dollars.

BULLITT.

EA: LWW

RB

GRAY

Paris

Dated October 23, 1937

Rec'd 1:10 p. m.

Secretary of State

Washington.

1495, October 23, noon.

FROM COCHRAN.

Press reports appointment yesterday to Vice Governorship of National Bank of Belgium of Georges Janssen who had been named fourth director of the bank few days previously. Premier Van Zeeland's early return to Belgium to face new developments toward political expose is expected.

French financial press is not taking too seriously labor leader Jouhaux' plea for exchange control as an aid toward increasing labor's purchasing power, but such reminders of the continuing belief of certain Left and labor elements in virtue of exchange control prove effective deterrent to genuine large scale capital repatriation and partially account for failure to date of holders of such funds as are now coming back to invest them importantly in French securities. The question of compensating labor commensurately with increased cost of living without further slowing up French production offers plenty of difficulties.

BULLITT

CSB

GROUP MEETING

October 25, 1937
9:30 a.m.

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

H.M.Jr: Well, we'll just go ahead and do business - I mean they go and pass on a \$25,000 loan for Export-Import Bank and we're trying to get this thing straightened out. ~~He~~ (Taylor) isn't here and he's out, that's all.

Bell: You want me to cover

H.M.Jr: I want you to tell the people that are here where we stand on Commodity Credit. I'm not going to wait for anybody these days.

Bell: Well, you all know the suggestion was made the other day about putting Commodity Credit on its own feet, and then Mr. Oliphant made the suggestion that we explore the territory of the Farm Credit Administration to see whether or not we could get the commitment from one of those organizations under the Administration. Governor Myers has been sick, and we had a tentative appointment this morning at 9:30, but he is still sick and that is delayed for another day. And I was just telling the Secretary that it had been discussed a little bit with Governor Myers and he is, of course, violently opposed to the program, even for a temporary commitment. And I believe that when we get all through discussing it, we'll come out with the announcement that the R.F.C. will make a tentative commitment and that we will go to Congress right after November 15 and get the legislation to put Commodity Credit on its feet and charge the losses each year to the budget. There is a hundred million dollars in the budget this year for Commodity Credit which we feel will cover all the losses up to the end of this year. I think that will probably be the final decision; whether you like it or not, why, is another question.

-2-

H.M.Jr: Well, you and Oliphant and Taylor - I'll hold this afternoon if you're ready, and if you're not ready I'll do it tomorrow.

Bell: Well, I think it all depends on Governor Myers' condition. We can't discuss it until he gets back. He's still sick today.

H.M.Jr: Let's put it this way, so we can have the same time. We'll put it down for three on Tuesday.

Bell: All right.

H.M.Jr: How's that?

Bell: Fine.

Oliphant: Three, Tuesday.

H.M.Jr: (On phone) Hello. - Where's Taylor? - - I see. - - Well, leave word at Mr. Taylor's office that I was expecting him here at 9:30 and when he comes in he should let me know.

Well, that's the story, so

Bell: Yes.

H.M.Jr: (To Lochhead) Just take Bell outside a minute and tell him what you and I have agreed on, so that he knows.

Bell: When I may be excused?

H.M.Jr: Yes.

Just tell him, and if Mr. Bell doesn't agree, then I'll come out and join you. If he isn't in accord, I'll come out and join you.

Lochhead: O.K. (Bell and Lochhead go out)

McR: I got a letter from Congressman Ditter, Pennsylvania, member of the Appropriations Committee, asking for a separate justification for all of the appropriations we have put up this year, on the basis of a reduction

-3-

of 25 percent over what we are asking for, which is, as far as I can see, just an attempt to develop a little political conversation.

- H.M.Jr: Who's Ditter?
- McR: Minority member of the Appropriations Committee from Pennsylvania.
- Oliphant: Just a letter to give out to the newspapers, isn't it, Mac?
- McR: Yes.
- H.M.Jr: Oh, I can't put my mind on it this morning.
- McR: Well, I just wanted you to know. He'll probably be breaking this stuff. He's asked all the departments.
- H.M.Jr: You'll have to talk it over with somebody. I just can't - I've got so many things, so bound down. I can't It's all right to bring it in. Talk it over with Herbert. I just can't handle it.
- Gibbons: (Nods nothing)
- Upham: I've had much the same experience that Mac did, so you probably don't want to bother with it. I saw a minority member of the Appropriations Committee this morning who has that same idea.
- H.M.Jr: I just can't absorb it. We've got this Commodity Credit, other things, terrifically important. I mean you fellows will have to - some of you will have to just think about it. I mean you (McR) and you (Upham). You'll have to think about it. If you can think how to handle it, let me know, but I can't absorb it.
- George?
- Haas: I have nothing this morning.
- H.M.Jr: You saw steel, 57, this morning; down 8 points.
- Haas: Yes, that's a sore spot.

-4-

H.M.Jr: Yes.
I sent word to Miss Michener for certain figures.

Haas: Yes, she told me.

H.M.Jr: When do you think I can have them?

Haas: Had a draft ready this morning, but they'd like to have a chance to retype it. Several changes they wanted to make.

H.M.Jr: Think you can get it to me before one o'clock?

Haas: Oh yes.

H.M.Jr: But be sure it gets in to me. Better send it to Mrs. Klotz.

Haas: O.K.

H.M.Jr: Better send it that way - urgent. Want it before one o'clock.

Haas: Fine.

H.M.Jr: Herbert?

Gaston: We'll have the press conference as usual today?

H.M.Jr: (Nods yes)

Gaston: I don't know of anything else.

H.M.Jr: What?

Gaston: I don't know of anything else.

H.M.Jr: If you (Roche) will stay afterwards.

Roche: Yes, sir, thank you.

Oliphant: (Handing Secretary some papers) I gave you a little note underneath there. Just background.

H.M.Jr: I took it up in Cabinet and I was surprised at the reaction. I'll have to talk to you and Magill about

-5-

this as soon as I can. Stanley Reed takes the attitude - why, they simply can't go ahead and handle each individual case which we say are tie bids; each case costs about \$40,000.

Oliphant: Well, Bob, you see, has a plan to handle the situation.

H.M.Jr: So I want to say now to you and Mac that, pending this thing, I'm going to accept tie bids, putting the responsibility where it belongs. I'm not going to fight this thing. I'm serving notice on you right now. I won't fight another bid.

Oliphant: Well, you'll have to consider whether or not you are exposing your disbursement officers to

H.M.Jr: Well, put it in a letter to the President, that I will not fight it without the backing of the President and the Attorney General, which I have not got. I'm not going out on the end of a limb.

Oliphant: Is the President going to suggest

H.M.Jr: I don't know, Herman. Just too many people who are acting as Attorney General, and I can't follow it. I'm not going to have a tie bid and fight it and then find that the President and Attorney General aren't behind me. Now, I'm telling you and I want my position made perfectly clear.

Oliphant: Well, I think I'll prepare a document from you to the President which will protect you both on that side and on the side of your responsibility as Secretary.

H.M.Jr: From now on, all right. Stanley Reed says, "Oh, we'll take certain cases - tire cases." Well, the tire cases are settled. Why don't you take cement, which has been sticking around your shop for God knows how long? And somebody has told the President he can't do this and we're just - didn't say it - making darn nuisances of ourselves. And now, that's the attitude of the President and Stanley Reed - that we're making a darn nuisance of ourselves.

Oliphant: Well, I'll make your legal position to the President clear, in a memorandum to the President.

-6-

H.M.Jr: Well, I wish you would, because I'm not going out single-handedly and do this thing.

Oliphant: You - no, you can't do that.

(Lochhead returns)

H.M.Jr: What else?

Oliphant: (Nods nothing)

H.M.Jr: But we've got to make our position clear.

Oliphant: I know.

H.M.Jr: But I wish you'd talk it over with Ros. This thing here - have you seen it, Ros?

Magill: No.

H.M.Jr: (Handing papers to Magill) We need all the brains we can have. And as I say, I can't think it through because

Oliphant: I want to talk it over with Mac too.

H.M.Jr: Yes, that's all right.

O.K.?

Oliphant: (Nods yes)

Magill: I've got that memorandum whenever you're ready.

H.M.Jr: Well, I'm doing Miss Roche now. Take about - whatever time she needs.

Roche: Two minutes.

H.M.Jr: Two minutes - 15 minutes. And soon as Miss Roche is through, I'll phone you, and then I have the rest of the morning. I have two hours. I set from ten to twelve.

Magill: I see. All right.

-7-

H.M.Jr: What? I've got from ten to twelve. Enough?

Magill: Fine, plenty.

H.M.Jr: So Miss Roche will have a few minutes and then from ten to twelve I'm at your disposal.

But this other thing, this tie-bids thing, upset me terribly. I was a little disagreeable myself. And I think that that gentleman there - I'd like to have him come here and sit down. We all know him pretty well. There is something I don't understand.

Oliphant: ~~W~~You see, you're-really on the operating end of it, because you have to do all the buying.

H.M.Jr: But my God, Herman, the Army and the Navy and all the other people - see? What?

Gibbons: Maybe it's like a beer tax is.

H.M.Jr: No, because we're dealing with different people; we're dealing with different people on this thing, and - no, I don't - I mean I don't think so.

October 25, 1937
9:50 a.m.

H.M.Jr: Hello.

Operator: He'll be right on.

F.R. Op: Hello.

Operator: Secretary Morgenthau.

W. R.
Burgess: Hello.

H.M.Jr: Hello.

B: Good morning, Henry.

H.M.Jr: Good morning.

B: Just wanted to tell you that it looks as though things might be a little weak this morning - can't tell - but they were weak Saturday. And London was rather weak. Steel was down to 50 in London.

H.M.Jr: It was?

B: Yes. So ...

H.M.Jr: Well, what have you got from us?

B: I've got 3,835,000.

H.M.Jr: To go.

B: Yes. That'll be plenty, I'm sure.

H.M.Jr: Oh.

B: We'll match it, of course.

H.M.Jr: I don't even know what Steel closed at Saturday.

B: Here?

H.M.Jr: Yes.

B: Ah - 53, wasn't it? I've

H.M.Jr: Uh-huh.

-2-

B: I've forgotten. About 53, I think.

H.M.Jr: Uh-huh. Well, you've got - you've got enough, you say.

B: That's right.

H.M.Jr: And you'll match us.

B: If I - yes, and if we - if we need any more I'll call you. Shall I?

H.M.Jr: That's right.

B: Yep.

H.M.Jr: That's right.

B: I've given a few orders ahead of the market.

H.M.Jr: Uh-huh.

B: Ah - ...

H.M.Jr: Yes, for the sake of the New York Tribune, please.

B: (Laughs) Yes.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: All right, Randolph.

B: All right, Henry, I'll let you know if there's anything special.

H.M.Jr: Right.

B: Good.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

October 25, 1937
12:13 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Burgess: Hello, Henry.

H.M.Jr: Well, it's not as bad as you thought it'd be, is it?

B: No, it's - it's turned right around, it's much better.

H.M.Jr: Yes.

B: A rather curious thing developed out here.

H.M.Jr: What's that?

B: There were so many orders for Chrysler

H.M.Jr: I saw that on the ticker.

B: ... that they had to suspend trading for a while. Then they got that reopened, and then they had to do the same thing on U. S. Steel.

H.M.Jr: No.

B: Because more people wanted it than wanted to sell.

H.M.Jr: Well, what do you know about that?

B: Looks like short covering, or something like that.

H.M.Jr: I don't know what price it was selling at; we don't have a stock ...

B: What's that?

H.M.Jr: We don't have a stock ticker here.

B: (Laughs) Well, maybe it's just as well. You can avoid a lot of trouble.

H.M.Jr: Yes. I can wait until at night.

B: Yes, that's right.

-2-

H.M.Jr: Well - we haven't had to buy any bonds, have we?
B: No, not a bond.
H.M.Jr: All right.
B: And they look all right now.
H.M.Jr: So that's all right.
B: Yes.
H.M.Jr: All right.
B: Right.
H.M.Jr: Goodbye.

JR

GRAY

151

Paris

Dated October 25, 1937

Rec'd 2:40 p.m.

Secretary of State,
Washington.

1513, October 25, 4 p.m.

FROM COCHRAN.

Although the political speeches over the week-end gave no serious cause for concern, tendency on exchange was today adverse to the franc. French control yielded sterling but demand therefor was sufficiently heavy to cause control to recede from 146.26 to 147.26 by 3:30 p.m. One Paris broker alone took 900,000 pounds from the control through intermediary of Credit Lyonnais. British control operating in London for French control. Forward franc more offered. Rentes lower.

Market is obviously still nervous, some fearing that threatened strike in metallurgical industry may become general and others still concerned over Mediterranean situation. There is some short covering in sterling and French rentes may be suffering some from funds going into subscriptions to credit national loan.

Franc was offered slightly in London on Saturday. British control buying dollars today, and Paris American bank having sold it over one million. Belgium losing
gold

JR -2- #1513, October 25, 4 p.m., from Paris.

gold to Switzerland but no word yet as to fate of Van
Zeeland who returned to Brussels yesterday to call
Cabinet meeting. That part of Swiss Banking credit to
French Railways which was not taken firm by the banks is
reported to have been fully subscribed by the public.

BULLITT

~~_____~~
KLP

RECEIVED
OCT 25 1937
TREASURY DEPARTMENT
Office of the Secretary
Financial Section of the Department

October 25, 1937
4:37 p.m.

E. F.
Bartelt: Hello.

H.M.Jr: Bartelt.

B: Yes.

H.M.Jr: I wish you'd dictate for me a memorandum and give it to me personally tomorrow as to just how this letter of Mr. Jones came in and all that business, you see?

B: I'll do that.

H.M.Jr: That letter of October 11.

B: Yes, I'll do that.

H.M.Jr: Just exactly what happened.

B: Yes.

H.M.Jr: If you please.

B: All right.

H.M.Jr: And give it to me personally tomorrow.

B: I'll do that.

H.M.Jr: Thank you.



DEPARTMENT OF STATE
WASHINGTON

October 25, 1937.

My dear Mr. Secretary:

I enclose for your information a copy of paraphrase of strictly confidential telegram No. 1510 of October 25, 1937, from the American Embassy, Paris, reporting a conversation which Ambassador Bullitt had with the French Minister of Finance.

Sincerely yours,

For the Secretary of State:

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:
No. 1510 from Paris.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 25, 1937, 9 a.m.

NO.: 1510

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

Last evening, while I was talking with Bonnet, he told me that capital was still returning to France at an average daily rate of several hundred million francs. Bonnet said that at present they had so much gold in the equalization fund that unless there should be a sudden turn for the worse next Thursday at least two billion francs in gold could be paid to the Bank of France by the fund.

I asked him whether he thought the present favorable trend would continue. He replied that accurate predictions were impossible since there were so many factors involved. Of vital importance were developments in the international situation and some modification of the 40 hour law. A commission now studying this law, he said, would report that in certain industries it should be maintained, altered for certain others, and retooled for others.

Bonnet again said that he greatly appreciated the consistent cooperation of the American Treasury; he said he wished the British would give him the same sort of cooperation. As yet he had not been able to make arrangements with the British for renewal in December of the outstanding credit. He believed that he could do this, but he

- 2 -

had in any case made provision against the possibility that the loans might not be extended.

Another matter which Bonnet mentioned was that the British, as a part of their general line of holding France on a leash while flirting with Germany, were opposing the appointment to the BIS of a Frenchman to succeed Quesnay. A strong effort was being made by Niemeyer, supported by Montagu Norman, to abolish the post of assistant manager and to promote the German occupying this post to that vacated by Quesnay. Bonnet felt that this was solely to further the rapprochement in progress between Great Britain and Germany at the present time. In the discussion of this subject Fournier of the Bank of France, at Bonnet's request, had taken an extremely strong line and said that the French would withdraw at once the entire capital they had invested in the Bank if the authorities of the Bank should refuse to put a Frenchman in Quesnay's position. This capital, Bonnet said, amounted to about three-fourths of the total capital of the Bank for International Settlements. In the face of this threat by the French, Niemeyer had adjourned decision of this question for another month. The candidate of the French to replace Quesnay, Bonnet said, had been Auboin, and he still was their choice.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 25, 1937, 7 p.m.

NO.: 1516

FROM COCHRAN.

By 5:30 this evening the French control had lost one and a half quarter million pounds foreign exchange. In the morning the selling of francs had been by professionals. This afternoon sterling was being sought by the public also. It was the opinion of my contact that the speech of Chauvemps had been importantly responsible for the turn in the market, because it indicates he will try to hold the Radical Socialists in line in the Popular Front Government. In this way he will eliminate the early possibility of the setting up of a center government ~~which~~ of the kind which the capitalists want. As yet no decision has been reached with regard to showing a gold gain by the Bank of France in the statement to be issued on Thursday. My contact is against such (omission) before the market is more definitely and consistently favorable to (omission). It remains to be seen whether the set back today is just temporary or whether it may mark the beginning of an unfavorable period.

I just received the news of the resignation of the Van Zeeland Cabinet.

BULLITT.

EA:LWW

October 26, 1937
Tuesday

Mr. Cochran called the Secretary from Paris at 9 AM, New York time, and advised that owing to the Chautemps speech on Sunday, there was an adverse movement against the franc and that the French had lost probably 2,000,000 pounds in supporting the exchange this morning.

Mr. Cochran also stated that Professor Rist would be unable to sail on November 10, as originally planned, as he would not have sufficient time to see Bonnet. However, it was agreeable to him to leave about January 1, and Mr. Cochran requested that the proper authorization for this visit be cabled through the State Department. Mr. Cochran also requested that authorization be cabled today through the State Department to permit him to sail for New York on November 10 on the SS Queen Mary.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 26, 1937, noon

NO.: 1520

RUSH

FROM COCHRAN.

This morning there was a more acute adverse trend of the market against the franc; this ~~was~~ trend was discussed in my telegram No. 1516 of October 25, 7 p.m. The French control had lost two million pounds of foreign exchange while letting the rate slip to 148 by 12 o'clock noon. There were more offerings of the forward franc at the same time, at an increased discount. Following the resignation of Van Zeeland Cabinet the belga was weak; a contributing factor was the granting of leave to Governor Franck at his own request for three months. This means that he will not return to his post as governor of the National Bank of Belgium.

BULLITT.

EA:LWW

October 26, 1937.
12: 00 noon

H.M.Jr: Hello.
Stewart
McDonald: Good morning Mr. Secretary.

H.M.Jr: How are you?

M: I'm very well, thank you

H.M.Jr: Where are you?

M: I'm in New York City.

H.M.Jr: Oh. What I've been wanting to talk to you about, is not any emergency matter but I don't know whether the President talked to you about this idea he had about trying to get private capital interested in small houses.

M: Yes.

H.M.Jr: And that's what I wanted to talk to you about.

M: Well, that's fine, I had a long meeting Saturday afternoon with Marriner Eccles on the same subject.

H.M.Jr: I see.

M: And we've been working out some plans and ideas, and I'd like very much to discuss them with you.

H.M.Jr: Uh-huh.

M: Now, I'll be back tomorrow morning and any time it's convenient for you I'll come on over and see you.

H.M.Jr: Well, I don't know how I'm fixed tomorrow but I could - supposing we say three o'clock tomorrow afternoon.

M: All right, I'll be over there.

H.M.Jr: Thank you very much.

M: Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 26, 1937, 5 p.m.

NO.: 1525

Pressure on franc continued this afternoon. Spot rates had declined to 148.54 against sterling by 5:00 p.m. and three months discount widened to six. Switzerland is heavy seller of French francs. Belga maintained better level than expected through Belgian National Bank yielding Swiss francs. Dollar much in demand.

The franc's weakness of yesterday and today is not due to the market. Several factors contribute to the general uneasiness:

1. The speech which Chautemps made gave the impression that the Radical Socialists will not break with the Leftists, and that the Popular Front Government will continue, and keep the forty hour week.

2. The preceding has given rise to a fear that repatriation of capital will be discouraged thereby and prevent the improvement in French production which is much needed.

3. It is realized that the Radical Socialists and their Left partners are really not in harmony on basic principles, and therefore it will be difficult to have effective government.

- 4.

- 2 -

4. The railway workers were promised increased wages, with a resultant new charge to the Treasury of at least six hundred million francs.

5. Strikes are continually threatened in the building industries and in (omission).

6. Jouhaux and conservative organizations have been having acrimonious exchange of remarks in the press. The conservatives blame Jouhaux for misguiding labor with foolish promise to see that they have less work and more money.

7. The trade deficit continues.

8. Tourist business has let up for the season.

9. Unemployment is increasing.

10. The cost of living is going up.

11. The budget program for 1938 promises to give rise to bitter debate. This budget program is far from invulnerable.

BULLITT.

EA:LWW

TELEGRAM SENT

RB

GRAY

October 26, 1937

8 p. m.

AMEMBASSY

PARIS (FRANCE)

551.

The Secretary of the Treasury requests Cochran to return for conference on the QUEEN MARY leaving France November 10. Department authorizes this mission if agreeable to the Ambassador.

HULL
GSM

EA:HF:LWW EU AS

Ribbon copies of the attached memo 164
of 10/26/37 were sent to the following
with letters of transmittal dated 10/26/37
signed by the Secretary:

The President,
The Secretary of State
The Secretary of War
Attention: Col. Strong
(g-2)

TREASURY DEPARTMENT

Confidential
165

INTER OFFICE COMMUNICATION

DATE October 26, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current trade with Japan and China. (Preliminary data)

Trade with Japan

1. United States exports to Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>August 1937</u>
1st Week	\$1,727,000		
2nd Week	5,746,000	For whole	For whole
3rd Week	4,492,000	month	month
Three weeks	\$11,965,000	\$26,663,000	\$24,644,000

Excluding cotton, our exports this month are already greater than exports of October 1936:

Exports - 3 weeks October 1937, excluding cotton	-	\$11,410,000
" whole month October 1936	"	9,787,000

2. United States imports from Japan

	<u>October 1937</u>	<u>October 1936</u>	<u>August 1937</u>
1st Week	\$3,328,000		
2nd Week	3,984,000	For whole	For whole
3rd Week	3,419,000	month	month
Three weeks	\$10,732,000	\$15,930,000	\$16,297,000

Aside from imports of perilla oil (\$332,000 this month and none last October) the make-up of imports from Japan appear to be approximately the same. So far it appears that the total of imports from Japan will be about 8 percent less than last October, and 10 percent less than August 1937.

(Figures for our trade with Japan for September are unobtainable from the Department of Commerce until about November 3rd.)

Secretary Morgenthau - 2 -

3. United States cotton exports to Japan remain negligible.

1st Week	--	nil
2nd Week		\$192,000
3rd Week		<u>297,000</u>
Three weeks		\$489,000

Last October cotton exports to Japan amounted to \$16,876,000.

4. Compared with previous months, there is a sharp decrease in exports of scrap iron and steel.

1st Week	\$ 65,000
2nd Week	354,000
3rd Week	<u>468,000</u>
Three weeks	\$887,000

Monthly average March to August 1937, \$5,600,000.

5. Raw silk imports from Japan continue at a remarkably even rate.

1st Week	\$2,040,000
2nd Week	2,087,000
3rd Week	<u>2,095,000</u>
Three weeks	\$6,223,000

(Average monthly imports from Japan in 1936, \$8,000,000)

Secretary Morgenthau - 3

6. The following items show large decreases in exports to Japan compared with October of last year.

	<u>1st 3 weeks of October 1937</u>	<u>Month of October 1936</u>
Cotton, unmanufactured	\$489,000	\$16,876,000
Finished iron and steel manufactures	100,000	1,440,000
Wood, unmanufactured	90,000	420,000
Tobacco	10,000	384,000

7. The following items show large increases in exports to Japan compared with October of last year.

	<u>1st 3 weeks of October 1937</u>	<u>Month of October 1936</u>
Iron and steel semi-mfg.	\$3,084,000	\$197,000
Pig iron	567,000	None
Hides and skins	545,000	141,000
Ferro-alloys	224,000	6,000

U. S. Trade with China

(We have begun with the third week; will not be able to obtain trade figures of the first two weeks of October before December.)

8. U. S. exports to China and Manchuria.

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>
3rd week only of October 1937	\$457,000	\$787,000
	<u>For whole of China and Manchuria</u>	
Whole month October 1936	\$4,283,000	

If the exports during the third week are a good sample, our exports to China for the whole month will be greater than last October.

Secretary Morgenthau - 4 -

9. United States imports from China and Manchuria.

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>
3rd Week of Oct. 1937	\$414,000	\$956,000
	<u>For whole of China and Manchuria</u>	
Whole month Oct. 1936	\$4,957,000	

Our imports from China likewise will be greater than last year, if the 3rd week is a good sample.

10. Leading export items to China:

(a) North China and Manchuria - 3rd week only.

Petroleum products	\$ 194,000
Steel sheets and plates	123,000
Vehicles and parts.....	32,000
Electrical machinery and appliances	18,000
Industrial machinery	17,000
Cotton	14,000
Lumber	12,000
Other	47,000
Total	<u>\$457,000</u>

(b) Shanghai, South China ports, Hong Kong.

Tobacco	\$306,000
Edible vegetable products	97,000
Steel sheets.....	89,000
Printed matter	46,000
Petroleum products.....	69,000
Electrical machinery	46,000
Radio and apparatus	45,000
Other	89,000
Total	<u>\$787,000</u>

Secretary Morgenthau - 5 -

11. Leading imports from China.

(a) Imports from Manchuria and North China - 3rd week only.

Bristles	\$ 135,000
Wool and manufactures	132,000
Leather	68,000
Other	79,000
Total	<u>\$ 414,000</u>

(b) Leading imports from Shanghai, South China ports and Hong Kong.

Raw silk	\$ 244,000
Wood oil	189,000
Tin	142,000
Flax and hemp manu- factures	128,000
Food products	56,000
Tea	37,000
Other	160,000
Total	<u>\$ 956,000</u>

Secretary Morgenthau - 6 -

Of the total of \$11,900,000 of exports to Japan during the first three weeks of October the following items account for almost all of the total:

Iron and steel semi-manufactures	\$3,084,000
Petroleum products	2,364,000
Scrap iron and steel	889,000
Copper	833,000
Paper base stocks	623,000
Pig iron	567,000
Industrial machinery	565,000
Hides and skins	545,000
Cotton	490,000
Chemicals	393,000
Asphalt	300,000
Ferro-alloys	224,000
Automobiles, trucks and parts	207,000
Lead	167,000
Photographic and projections goods	105,000
Other	<u>544,000</u>
	\$11,900,000

Of the total of \$10,737,000 of imports from Japan during the first three weeks of October, the following items account for the bulk:

Raw silk	\$6,223,000
Cotton manufactures	625,000
Perilla oil	332,000
Tea	305,000
Silk manufactures	292,000
Rayon manufactures	287,000
Porcelain and chinaware	274,000
Fish	268,000
Inedible animal products	215,000
Wood and paper manufactures	209,000
Wool manufactures	188,000
Lily bulbs	155,000
Perethrum flowers	135,000
Earthenware	138,000
Metal manufactures	121,000
Other	<u>970,000</u>
	\$10,737,000

10/26/37

171

According to the Naval Intelligence Department, the three million barrels of oil contracted for by the Japanese Government, to be delivered during the next four months, was crude oil.

During the first 2½ weeks of this month the exports of oil products from the United States to Japan were

Crude oil.....	\$1,412,000
Diesel oil	532,000
Lubricating oil.....	251,000
Gasoline	35,000
Total	<u>\$2,230,000</u>

JDN

MEMORANDUM OF THE DAY'S ACTIVITIES

172

October 26, 1937

To: The Secretary

From: Mr. Magill

1. Social Security taxes

I have a long report from Mr. Graves directed to the Commissioner and recommending that the work of auditing tax returns under Title VIII should be transferred to the field. The present auditing unit in Washington employs 322 persons and costs a total of over \$590,000. Mr. Graves reports that the work done by this unit has "no value commensurate with the costs of performing it" and recommends that the unit be abolished as of November 1st.

2. Revenue revision

I talked to Congressman Vinson over the telephone regarding his plans for the procedure of the subcommittee. When the committee meets on November 4th he wishes to determine first whether its sessions are to be public or executive. He prefers the latter. He thinks the subcommittee should prepare not only a report but the actual tax bill; and is inclined to think that the subcommittee ought to hold any public hearings on the bill rather than follow the usual practice of having the full committee hold the hearings. After these matters are settled, Mr. Vinson wishes to take up the major questions one by one and study each of them fully before proceeding to the next subject. He feels there is no hurry about reporting a bill and that the subcommittee ought to do a complete job.

Mr. Vinson is leaving for Kentucky tomorrow to be gone over election day.

RM

October 27, 1937

11:30 am

HM, Jr telephoned the President and said, "I have seen in the papers that Magill and I are expected. Magill has a magnificent statement and we worked on it day and night. It just goes into this whole tax question and if I may say so, it is more timely than the budget thing. Bell may be sore, but this thing with Magill I consider very vital. We want to shoot it in by November 4th.

Bell only has two departments that he wants to talk to you about and they can wait until you come back.

Magill and I will get there by five o'clock and spend the night with you.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 27, 1937, noon

NO.: 1529

RUSH

FROM COCHRAN.

Yesterday the French control lost foreign exchange in the amount of 536,000,000 francs. The pressure is less this morning, and the control has endeavored with some success to push the rate back to 148.50, which effort had cost the control 500,000 pounds up until 12 o'clock. A feature of this morning's market is Swiss selling of dollars in Paris and London with conversion into gold of the sterling proceeds in London.

BULLITT.

RECEIVED
OCT 27 1937
TELETYPE DEPARTMENT
U. S. DEPARTMENT OF STATE
WASHINGTON, D. C.

EA:LWW

RB

GRAY

Paris

Dated October 27, 1937

Rec'd 4:03 p. m.

Secretary of State

Washington.

1530, October 27, 5 p. m.

FROM COCHRAN.

Franc sterling rates have been erratic today with control reducing it from 148.90 to as low as 147.60 at 5:30 this evening without heavy expenditure of foreign exchange. Forward rates improved from 7 to 5 for three months. Rentes up. Franc market still nervous and thin today with Radical-Socialists convening at Lille and with strike threats still existing but considerably better than yesterday.

Weakness of dollar resulted principally from (1) reported two shipments of \$6,600,000 (repeat 6,600,000) worth of gold each from Japan to the United States with London story that dollar proceeds would be converted into sterling, (2) sale in London by Swiss Bank Corporation of important amount of dollars for gold.

National Bank of Belgium apparently has not had to be so active today as yesterday to peg belga with Swiss franc since belga more in demand for end of month requirements.

RB -2- No. 1530, October 27, 5 p. m. from Paris

requirements. British press particularly regrets Van Zeeland's departure from Government, with FINANCIAL NEWS editor pessimistic as to Belgian prospects without him.

Statement Netherlands Bank as of October 25 showed gold gain 30,000,000 florins presumably from stabilization fund. Statement Swiss National Bank as of October 23 showed gold gain 32.9 million Swiss francs.

BULLITT

KLP

WVC

0307311
100102
11/27/30 (10/27/30)
11/27/30 (10/27/30)

CA

Gray

LONDON

Dated Oct. 27, 1937

Recd 7:30 p.m.

Secretary of State,
Washington.

672, October 27, 11 p.m.

FOR TREASURY FROM BUTTERWORTH

In the course of a conversation Ashton-Gwatkin, who acts as economic advisor to the Foreign Office, said that with the concurrence of the British Treasury he had recently been travelling through central and southeastern Europe investigating the possibilities of facilitating the removal of exchange controls, particularly in the Danubian area; that as far as the Danubian countries themselves were concerned it should be possible to do something certainly in the case of Czechoslovakia and Hungary where the controls were not drastic or rigid and even for instance in the case of Yugoslavia and Rumania where trade was improving decidedly.

The importance of German trade to those countries, of course, constituted the main difficulty. As far as the German situation was concerned the Reichsbank had categorically stated that in its opinion there was no technical reason why the mark could not be devalued and exchange controls removed. When asked about the possibility of a flight of capital ensuing, the Reichsbank expressed

confidence

confidence in the fact that the other "totalitarian" controls would suffice, given the psychological effect of obtaining at the same time a foreign credit. My informant said that unfortunately the military and Nazi elements appeared to be unwilling to relinquish the exchange control system, which they found entirely to their liking. Furthermore, it was realized even by the non-military and non-Nazi elements that the exchange control system had certain definite advantages in promoting German trade and influence in certain Danubian and South American countries and they also conceived it an impossibility that anything could be done towards rectifying the Danubian exchange control position without the prior consent and active cooperation of Germany.

My informant said that it remained to be seen whether this assumption was correct; for he conceived no overriding consideration which should prevent in the case of Czechoslovakia or Hungary a change irrespective of Germany's attitude. He said that at the moment his ideas were of necessity vague, if for no other reason than that his investigations were incomplete and he was leaving tomorrow for Italy to look into the situation, where he hoped to find controls less deep rooted than in Germany.

END OF SECTION ONE

BINGHAM

SMS RGC

RE

PLAIN

London

Dated October 27, 1937

Rec'd 7:40 p. m.

Secretary of State

Washington.

672, October 27, 11 p. m. SECTION TWO.

However his feeling was that something should be done to float some of the Danubian countries off the control rock if possible under their own steam or if not with the help of foreign credits and bring them into line with the tripartite monetary declarations.

I inquired whether his initiative was to be considered an alternative approach to the recommendations which Van Zeeland would presumably make shortly and he replied definitely not; that whereas he had not seen Van Zeeland's report or talked either with Frere or Van Zeeland, he did know that Frere had been thinking along these same general lines and that Van Zeeland's report was to be expected in the near future; he assumed that Van Zeeland's resignation would in no way affect his report, since he had been appealed to by France and Great Britain under the tripartite declaration as an individual and not as a chief of government.

As for

RB -2- No. 672, October 27, 11 p. m. Section Two from
London

As for the supersession of Schacht it probably
would eventuate in a more realistic position, that
is a Nazi system run by Nazis and that in turn might
well mean that things in Germany would have to get
worse before getting better.

I am meeting with Phillips tomorrow.

END MESSAGE.

BINGHAM

SMS

RECEIVED

NOV 1 1944

COMMUNICATIONS SECTION

U. S. DEPARTMENT OF THE ARMY

October 28, 1937.
10:16 a.m.

H.M.Jr: Hello

Burgess: Hello Henry.

H.M.Jr: Good morning.

B: I just thought you'd like a flash this morning because of this change in the margin regulations.

H.M.Jr: Yes.

B: It has been very well received. The stock market is up one, two and maybe three points.

H.M.Jr: How much?

B: One or two points.

H.M.Jr: Yes.

B: And sometimes three, on some issues.

H.M.Jr: Yes.

B: The high grade bonds are up a half a point.

H.M.Jr: Uh-huh.

B: Up to a half a point, and the second grade bonds are up a little.

H.M.Jr: Uh-huh.

B: And they're active, so our market is opening about the same as last night's close.

H.M.Jr: Uh-huh.

B: With a good tone to it.

H.M.Jr: Good.

B: The people we've talked to seem to like this action on margins.

H.M.Jr: Uh-huh.

B: I think it's going to make a good impression.

H.M.Jr: Well, that's fine. Well, thank you very much.

- 2 -

B: All right, Henry.

H.M.Jr: Thank you.

October 28, 1937.
10:39 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Secy.

Wallace: Hello

H.M.Jr: Hello Henry.

W: Yes. Why, I was just calling, Henry, to say I'd got back in town again and was at your service at once.

H.M.Jr: Well, here's the situation. We've run into quite a problem on RFC you see, and I've had two meetings with Jones, we're meeting again this afternoon, and the corn loan and Intermed- Commodity Credit is all tied up with this RFC thing.

W: Yes.

H.M.Jr: We hope to come to an understanding this afternoon, you see. Now, as far as the thing goes, the line we're taking, is that - just what the original agreement was that Bell had with Tapp, namely that RFC would make a commitment to Commodity Credit pending a meeting of the Congress and getting Commodity Credit set up as an independent agency.

W: That sounds like a good - a good approach.

H.M.Jr: Then - then the question as to the amount of the loan and all that, why we simply wouldn't be in on that you see.

W: Uh-uh.

H.M.Jr: You see?

W: I see.

H.M.Jr: So I would say that certainly by this evening as far as Jones, Bell and I are concerned, we'd come to an agreement, and I'll call you when Jones leaves here.

W: How's that?

H.M.Jr: I'll call you just as soon as Jesse Jones leaves here.

W: I see.

- 2 -

H.M.Jr: And let you know where the matter stands.

W: Uh-huh.

H.M.Jr: He's due here at three o'clock.

W: I see.

H.M.Jr: You see.

W: I see.

H.M.Jr: But I've got to first straighten out RFC.

W: Yes.

H.M.Jr: And then what we're suggesting and what we've drafted is a letter for the President to write to Jesse, which would cover both RFC and its commitments to Commodity Credit.

W: It will be a letter that will be made public.

H.M.Jr: I should think so, yes.

W: And it would have to do with regard to the legislation that would be needed.

H.M.Jr: It - it would point the way.

W: It would point the way, I see.

H.M.Jr: It would point the way. When we've agreed on - on the thing, I'll read the letter to you over the telephone.

W: I'd like to have - I'd like to have Tapp listen in on that, if that's all right.

H.M.Jr: Sure, or better - so that you can get it, I'll send you over a copy of it.

W: Oh, that would be fine.

H.M.Jr: Before it goes to the President.

W: Good.

H.M.Jr: How's that?

- 3 -

W: That'll be fine.

H.M.Jr: To make sure that everything that you want is in it.

W: Yes.

H.M.Jr: Is that all right?

W: Be splendid.

H.M.Jr: Thank you.

W: All right, thanks Henry.

OFFICE CORRESPONDENCE

DATE October 28, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

I called Mr. Bolton at 9:55 today. I mentioned that since I spoke to him last we had received a further \$20,000,000 worth of gold from Japan and that additional three shipments, totaling the same amount, were still on the way. After these latter shipments were received, the total amount we had taken from Japan since March of this year would be \$210,000,000. Bolton thought the Japanese must, after all these losses, be really down to bed rock, but I told him that, as far as I remembered the figures, they could lose approximately another \$200,000,000 before they were entirely stripped of available gold. (According to our records, the amount still available is actually \$140,000,000, in addition to which the Bank of Japan holds \$230,000,000 which are needed as statutory cover for the Japanese note circulation.) Bolton mentioned that, as far as he was aware, there had been no sales of dollars in the London market by the Japanese for many weeks. I replied that the Yokohama Specie Bank had been a steady and fairly substantial buyer of sterling in this market and that I rather thought sterling would continue to receive support from such Japanese purchases. Bolton suggested that another source of support for sterling was coming from Switzerland. There was no doubt, he said, that fugitive capital, which was in New York under Swiss names, was moving into gold in London. I mentioned that the figures available to us here indicated some liquidation of Swiss owned dollar balances which for the two weeks ending October 20, had gone down about \$14,000,000. In addition, the Swiss seemed to have been small sellers of our securities. I made reference to several London cables speaking of Swiss bank buying of gold. Bolton

LS 60M 6-37

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. KNOCK

BANK OF ENGLAND.

- 2 -

explained that all Swiss banks now seemed to be active in this field, the Swiss National Bank among them, which quite evidently had changed its technique and was now buying sterling and converting that sterling into gold with the Bank of England.

We discussed the French franc situation. Bolton seemed to feel that Chautemps' speech last Sunday had turned the franc weak on Monday because of his denial of any modification of the 40-hour work law and of his praise of the Popular Front in its present form, which seemed to have disappointed those who felt that for confidence to be definitely reestablished a new political constellation, leaning a little more to the right, would be necessary. As a result of this speech the franc had weakened to 149, with a certain amount of manipulation going on; nevertheless the feeling seemed to gain ground that it was difficult to depress the currency beyond 150, at which level it seemed to have natural factors of strength; in other words, 150 began to look like somewhat of a natural bottom for the currency, at least under present conditions. It was ^{the} growing realization of this fact which had caused the improvement in the rate late Tuesday and on Wednesday. On Monday and Tuesday the Bank of France had lost heavily, the total loss for Monday - Wednesday probably amounting to about \$4,000,000.

I asked whether there was anything new to be reported about Russian gold and Bolton replied that the Russians had not been near them for nearly three months. They had no gold in London at all now and had said nothing to the Bank of England about shipping any more. He was wondering whether all this gold, one had heard ~~of~~ ^{of} so much/in recent months, really existed.

October 28, 1937.
2:08 p.m.

Mrs. E.
Jaritzki:

I was wondering whether it was possible to give her any information about sending out a notice that would reach a wider area than a notice which has been sent out already from New York and Pennsylvania. She understood that there was some place in Washington and she didn't know just how it could be worked or just how to go about it.

H.M.Jr:

Yes

J:

Anything that she can do.

H.M.Jr:

Well, how - where can she be reached?

J:

Where can she be reached?

H.M.Jr:

Yes.

J:

At her - at her home at Schuyler 4-1449

H.M.Jr:

Just a minute. What's her name. Is it Mrs -

J:

Mrs. Sarah Bernheim

H.M.Jr:

Mrs. Sarah Bernheim - and what's - what's her telephone?

J:

Schuyler -

H.M.Jr:

Schuyler -

J:

4-

H.M.Jr:

4-

J:

14-

H.M.Jr:

14-

J:

49.

H.M.Jr:

49. Now see - Mrs. Sarah Bernheim, Schuyler 4-1449.

J:

That's right.

H.M.Jr:

And her boy disappeared last night?

J:

Yes, he was at the George School.

H.M.Jr:

I see.

- 2 -

J: And he was hitchhiking or something, something happened, and he walked up to her, -

H.M.Jr: And -

J: I mean he left some sort of a note, you see.

H.M.Jr: Has she reported it to the police?

J: She has reported it through New York and through Pennsylvania, but she was told that the wider area that could be reached, the better.

H.M.Jr: Uh-huh.

J: She understood that in Washington there was some way of covering a larger area.

H.M.Jr: Well, I'll get in touch with - the head of Secret Service immediately and I'll have him contact her and find out what he can do.

J: That'll be terribly nice Henry, because -

H.M.Jr: She'll hear -

J: She is in an awful state, and I didn't know what to do about it.

H.M.Jr: Well, she'll hear from somebody within ten minutes.

J: Oh well, that's swell.

H.M.Jr: Now, how are you?

J: Oh, I'm pretty well, but -

H.M.Jr: I'll be glad to do what I can, Elsie.

J: Well, it's awfully sweet of you. Thanks a lot.

H.M.Jr: Uh-huh.

AM

EG

GRAY

London

Dated October 28, 1937

Rec'd 3:13 p. m.

Secretary of State,
Washington.

673, October 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH

At a meeting at the British Treasury today Phillips began by commenting that the recent fall in British security prices had not been drastic; furthermore, about a fortnight ago there were signs of good investment buying of British industrials and last week giltedge was likewise fairly well supported. As far as the British economic outlook was concerned, there was what might be termed a "pause"; not that activity was not high but that long term orders had definitely slackened.

I referred to the fact that a good many people in the city with whom I had talked seemed now to assume that the peak of Britain's recovery movement had been passed at, say, coronation time, and that whereas no drastic declines were expected it was thought that the trend of activity would slowly but surely go down. Phillips said he did not agree with the opinion; that in his view this was a moment of pause, not of recession;

that

EG -2- #673, October 28, 6 p. m. from London

that whereas the fourth quarter of the year would probably compare somewhat unfavorably with the second, that by no means meant to him the beginning of recession for the pressure of an extraordinary amount of orders placed before and during the second quarter had been unusual. Of course there were adjustments and changes going on now were simply varying repercussions such as the decline in residential building in the South of England, balanced to some extent by an expansion of building in general in the North. Phillips maintained that what to him was the most interesting question was the manner in which the pause would be terminated in another forward movement and he gave the impression, repeat impression, that he felt fairly confident that the pause would be so terminated.

As regards France he had found on his return that things had settled down somewhat both financially and politically. However, no large amount of capital had been repatriated, probably not more than 25 million pounds, since the last depreciation which represented short covering and repatriation on the part of corporations which needed the money for operative purposes. In general Phillips stood by the estimate of the course
of

EG -3- #673, October 28, 6 p. m. from London

French events which he had expressed in Washington and still thought despite recent signs of improvement that it was entirely probable but by no means certain that the franc would have to fall further before this phase of the French situation was terminated.

Phillips asked whether I knew if Coolidge expected to come to the November meeting of the Finance Committee of the League; he said if not he assumed Rieffler would attend. He added he had been studying the agenda which seemed to look to the settlement of most of the problems of the world in general and those of Bulgaria and Hungary in particular.

BINGHAM

KLP:WNC

PARTIAL
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France

DATE: October 28, 1937, 5 p.m.

NO.: 1537

FROM COCHRAN.

Yesterday the French control spent 83,000,000 francs foreign exchange to improve the spot rate of franc-sterling; the control followed the same tactics today. It had sold three quarters million pounds up to 5:00 p.m., and had been able to buy back ~~about half~~ this amount including one order for 160,000 pounds in behalf of one of the French railways. Therefore the day's net loss will probably be a little less than yesterday's loss.

I have been confidentially informed that late this afternoon the Minister of Finance finally reached a decision to choose Bizot over Rueff for the position of Vice Governor of the Bank of France. This post was made vacant by Guiraud's transfer to another institution. This appointment delights my friends; Bizot, as you are aware, is also a good friend of ours.

Statement of Bank of France as of October 21 showed

RB -2- No. 1537, October 28, 5 p.m. from Paris

showed no change in gold holdings and no new advances to the state; coverage 51.69 versus 51.28.

It is announced that Credit National loan has been fully subscribed and closed. From Zurich I have word that the Swiss banks which took (?) 70,000,000 of the 200,000,000 Swiss franc loan to the French railways have not been able to pass on all of the remainder to the public and that these bonds which were offered at 99 are now being traded between banks at 97.

Swiss continue to sell dollars heavily as result of gossip on European markets that negotiations are under way between British and American Treasury officials for raising the gold price and depreciating both currencies. Swiss Bank Corporation alone is said to have purchased 500 bars of gold in London today with proceeds of dollar sales. Belga holding its ground rather well.

French market sentiment a little encouraged by improvement in French tax returns for September and in latest statement of savings banks, but trading is light and hesitating.(END GRAY).

BULLITT

FB

NPL

October 28, 1937.
5:50 p.m.

H.M.Jr: Hello

Operator: Secretary Wallace. Go ahead.

H.M.Jr: Hello.

Secy.
Wallace: Hello Henry.

H.M.Jr: How are you?

W: Fine.

H.M.Jr: Henry, I will read slowly over to you the - what we've got here. See, which we're in agreement on.

W: Yes.

H.M.Jr: And if it isn't perfectly clear, why you let me know, see.

W: Yes.

H.M.Jr: I won't read you the first part, which applies only to RFC, see.

W: Yes.

H.M.Jr: "In addition to the foregoing, there has been under consideration, as you know, Commodity Credit Corporation loans, including corn loans, aggregating approximately eighty five million dollars."

W: He - you say he raised that ten million, did he?

H.M.Jr: Well, we want to include your prunes and peanuts.

W: Oh, yes, sure.

H.M.Jr: See.

W: That includes the prunes and the peanuts, too, does it?

H.M.Jr: Prunes and peanuts.

W: And dates.

H.M.Jr: And pickles.

- 2 -

W: Yes.

H.M.Jr: And Jesse said popcorn. Jesse's sitting here. Popcorn.

W: Popcorn.

H.M.Jr: Yes.

W: No, no. Is it popcorn?

H.M.Jr: No. Ten million dollars. It's for ten million.

W: Yes. All right.

H.M.Jr: The miscellaneous.

W: Good. Go ahead.

H.M.Jr: "I have decided to recommend" - this is from the President to Jesse, you see.

W: Yes.

H.M.Jr: "I have decided to recommend to Congress, as soon as it meets, legislation which will provide the Commodity Credit Corporation with ample capital, and with authority to raise the funds necessary for its operations through the sale of its own obligations. This legislation should authorize annual appropriations to be made available to the Corporation to cover any impairment of its capital as shown by an appraisal of its assets from year to year. Under this plan each year's budget will reflect the losses, if any, sustained by the Corporation."

W: Yes.

H.M.Jr: Any question, so far?

W: No, it seems to be going fine.

H.M.Jr: All right. "This year's budget as revised by my summation of October 18th, contains an estimate of one hundred million dollars for Commodity Credit, which should be adequate to cover the needed capital for the fiscal year '38. Pending this legislation it will be necessary for the RFC to provide for these loans in an aggregate, of not to exceed eighty five million, the loans to be made by the Commodity Credit Corp. as in former years with a definite commitment from the RFC to provide Commodity Credit with the necessary funds.

These loans should only be made under regulations prescribed by the Secretary of Agriculture with my approval." Paragraph. "When the legislation referred to has been enacted the RFC will be relieved of this temporary commitment and reimbursed for any advancements made thereunder." That's the whole story.

- W: That last - refers to the future. "Any advancements made thereunder", that refers to the eighty-five million?
- H.M.Jr: Yes.
- W: Just to the eighty-five million.
- H.M.Jr: That's all.
- W: I think that should be made clear.
- H.M.Jr: Well.
- W: That particular point.
- H.M.Jr: Let me ask Bell, he's sitting here, may I?
- W: Yes.
- H.M.Jr: Just a minute. What are you thinking about, the cotton loan?
- W: Yes, I was thinking about the past.
- H.M.Jr: About the past. That's - we weren't going to do that. Just a minute, I want to ask Bell. Do you mind waiting a minute?
- W: Fine.
- H.M.Jr: What these gentlemen say here, - I've got Jones, Bell and Taylor here - you can only pay them back what you got, and if they should call on you for what you haven't got, you'd have to come to the Treasury anyway.
- W: Sure.
- H.M.Jr: They think this is all right. Oliphant has been over it too, he thinks it's all right.

- 4 -

W: Jesse -

H.M.Jr: Would you like to talk to Jesse, he's right here.

W: What I wondered was, if he felt safe with regard to his present cotton situation, if he thought he had enough money to swing his cotton.

H.M.Jr: I'll let him talk to you himself.

Jesse
Jones: Hello

W: Hello.

J: Yes

W: How do you feel this leaves you with respect to your cotton?

J: Well, I expect, - I don't know, we had some twenty six or seven million dollars equity when we started on that loan.

W: No, but I mean -

J: This eighty five million will be for your corn loan, and the prunes and things.

W: But I thought you felt that - that one hundred and fifty million we had for cotton might not see us through.

J: Well we've said, Henry, like it or not, that - we're going to take care of the cotton man.

W: So you feel that's taken care of and doesn't -

J: Oh absolutely.

W: That's taken care of and doesn't need to be covered in this letter.

J: Does not, no, no. That's all right.

W: Yes.

J: You see, that'll be taken care of with the - with what we've now got in the hundred million dollars.

W: Yes.

- 5 -

- J: You see, we are going to lend the money for this hundred million - for your eighty five million dollars temporarily.
- W: Yes.
- J: I don't think there's anything left undone.
- W: You feel that this - you feel this is safe.
- J: I think it's perfectly safe and just like it ought to be.
- W: Fine. It sounds - ~~sounds~~ sounds all right to me, but sometimes
- -
- J: Well, we've been working here for a good many hours, all of us, and you're new, and it's natural - I am glad you brought up the point.
- W: Well.
- J: But we all feel that's perfectly - I'm perfectly satisfied with it, Henry.
- W: Fine. Now, do you have an extra carbon of that over there now?
- J: Well, it's here with Henry.
- W: I'd like to - I just simply would like to show it to Jesse Tapp this evening, if there's a chance to get it and show it -
- J: All right, where do you want them to send it.
- W: Well, I just - tell you, it could be sent to - if you could have a messenger send it over to me at the Press Club, I'm going to be over at the Press Club at a little banquet there this evening at six thirty.
- J: All right. It'll be there.
- W: Thanks.
- J: All right, just a minute.
- W: Yes.

- 6 -

(Aside: H.M.Jr: Ask him if we can tell the President that it's all right.

Jones: I beg your pardon.

H.M.Jr: Can we tell the President it's all right?)

J: Henry wants to know if it's all right to tell the President this suits you.

W: Well I would like to have - Jesse Tapp is going to be with me at this banquet, I would like to have a chance to hear what he said.

J: Where is he now? Where is Jesse now?

W: I - I don't know where he is now, but I am going to be seeing him at six thirty.

J: Maybe he's there now, maybe you could get him.

W: He might possibly be over, although I don't think it, because it doesn't start until six thirty.

J: Henry says come on over here and bring Jesse Tapp.

W: I'll - I'll see if I can get hold of Jesse and send him right over.

J: All right.

W: Fine. Just a minute.

J: Hello.

W: Say, I understand that Jesse Tapp has gone to a hospital and won't be on hand until six thirty.

J: He will not be.

W: Yes. That is, he's left the office, stopped by way of a hospital on his way to this meeting at six thirty.

J: And you're going to see him at -

W: I'm going to see him at six thirty, yes.

J: At six thirty. Just a minute.

- 7 -

(Aside: H.M.Jr: If Henry would call on you and me tomorrow morning.

J: Yes, or he's going to be over there at six thirty.
- - - - Well, I've got nothing else to do except, let's get it behind us and do something else. You're going to leave town, so am I.

H.M.Jr: You're going to leave town?

J: I'm going to leave tomorrow.

H.M.Jr: Couldn't Henry Wallace let him know the first thing in the morning? Let this go tonight.

J: I don't mind going over there at six thirty and meeting him. That isn't but fifteen minutes.)

J: Hello?

W: Yes.

J: I'll meet you over there, with a copy of this letter.

W: Well, that'll be fine.

J: Six thirty.

W: O.K.

October 28, 1937.

My dear Jesse

Reference is made to our conference with respect to my budget summation released on October 18, 1937 as it affects certain commitments and activities of the Reconstruction Finance Corporation.

The Act extending the lending life of the Reconstruction Finance Corporation gave me authority to direct that you suspend lending from time to time under any or all of the provisions of the Act, and, until further notice from me, it is my purpose that only such loans as were under consideration when I wrote you on the 18th should be considered, except such loans as may be necessary to protect loans already made. Applicants to which loans have been authorized should have such reasonable time to comply with the conditions of your commitments as, in the opinion of your Board, will be proper under the circumstances surrounding the particular loan.

You are therefore authorized to proceed in these matters to the extent of not more than \$100,000,000 in addition to such of the commitments specifically mentioned in the list which you submitted on September 30th as may be actually disbursed.

In addition to the foregoing, there has been under consideration, as you know, Commodity Credit Corporation loans, including corn loans, aggregating approximately \$85,000,000. I have decided to recommend to Congress as soon as it meets legislation which will provide the Commodity Credit Corporation with ample capital and with authority to raise the funds necessary for its operations through the sale of its own obligations. This legislation should authorize annual appropriations to be made available to the Corporation to cover any impairment of its capital as shown by an appraisal of its assets from year to year. Under this plan each year's budget will reflect the losses, if any, sustained by the Corporation.

This year's budget, as revised by my summation of October 18, contains an estimate of \$100,000,000 for the Commodity Credit Corporation, which should be adequate to cover the needed capital for the fiscal year 1938. Pending this legislation, it will be necessary for the Reconstruction Finance Corporation to provide for these loans in an aggregate of not to exceed \$85,000,000, the loans to be made by the

- 2 -

Commodity Credit Corporation, as in former years, with a definite commitment from the Reconstruction Finance Corporation to provide Commodity Credit Corporation with the necessary funds. These loans should only be made under regulations prescribed by the Secretary of Agriculture with my approval.

When the legislation referred to has been enacted, the Reconstruction Finance Corporation will be relieved of this temporary commitment and reimbursed for any advances made thereunder.

Yours very truly,

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

OCT 27 1937

My dear Jesse:

I have your letter of October 16, forwarding information as to proposed loans of the Commodity Credit Corporation. I appreciate very much your giving me an opportunity to discuss these proposed commitments with you and Secretary Wallace, in response to my letter of October 14. As to these specific loans I have no suggestions or other comment.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

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

CVO:BJ 10/22/37

J. Sany HO Mrs. vet.



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

205

October 26, 1937.

In re: Conference at 3:00 P. M. today between Secretary Morgenthau and Chairman Jones of the Reconstruction Finance Corporation. Also present, Assistant Secretary Taylor, Mr. Bell, Acting Director of the Budget, Mr. Oliphant, General Counsel, and Mr. Bartelt, Commissioner of Accounts and Deposits

Secretary Morgenthau conferred today with Chairman Jones regarding the problems confronting the Reconstruction Finance Corporation as a result of the statement of the President in his Budget Summation for 1938, regarding the future policy with respect to commitments of the Reconstruction Finance Corporation, reading as follows:

"Reconstruction Finance Corporation. - On September 30, 1937, the Reconstruction Finance Corporation had on its books undisbursed commitments in the aggregate sum of \$405,000,000, exclusive of undisbursed statutory allocations to Federal agencies and of agreements to purchase securities from the Public Works Administration. These undisbursed commitments, however, include \$149,000,000 in the nature of conditional agreements, a large part of which ultimately will be cancelled. Moreover, it is probable that the Reconstruction Finance Corporation will not be called upon to meet all of its other commitments. The details of these commitments are shown in the appendix as Exhibit A.

"While the cancellation of such commitments would not of itself return money to the public Treasury, the ultimate effect of such action would relieve the Treasury of a substantial potential liability, and to this extent the Budget outlook would be improved. As

- 2 -

a means of reducing this liability, and of avoiding the substitution of other liabilities therefor, I have determined that no further commitments should be made by the Reconstruction Finance Corporation, other than for administrative expenses, and that the money represented by commitments now on its books, which, for one reason or another may later be cancelled, should not be used for expenditure on other commitments, but be completely cleared from the books, thus insuring the elimination of such potential charges against future budgets.

"I have also determined that the liabilities carried upon the books of the Reconstruction Finance Corporation in the nature of undisbursed allocations to Federal agencies should not be used except to meet unavoidable requirements of existing law."

During the conference the Secretary referred to the letter of Chairman Jones, dated October 11, 1937, with which was transmitted the detailed list of commitments of the Reconstruction Finance Corporation referred to in the Budget Summation. In this letter Mr. Jones said:

"In addition to the commitments listed, we have in a limited number of cases agreed that we would lend under certain circumstances but the number or amount of such tentative commitments is not large enough to have a material effect on Treasury requirements. Some loans that were in the making have taken definite form since September 30th and others are coming in from the agencies that we in all probability should make. All of these, however, probably will not aggregate more than \$35,000,000.

"It is not unlikely that railroads will need some further assistance, particularly in reorganizations or to aid in the purchase of equipment."

Due to miscarriage and misunderstanding, it appears that Mr. Jones' letter of October 11, 1937, (Exhibit A) was not seen by the Secretary

- 3 -

until October 25. The circumstances surrounding the delivery of the letter are explained in a memorandum of Mr. Bartelt to the Secretary of the Treasury dated October 25, copy of which is attached hereto as Exhibit B. The Secretary showed this memorandum to Mr. Jones.

In a preliminary conference preceding the conference between the Secretary and Mr. Jones there seemed to be some difference of opinion, or, at least, some doubt in the minds of the Treasury officials as to just what was meant by the second paragraph of Mr. Jones' letter of October 11, and whether the \$35,000,000 referred to therein covered all of the commitments referred to in said paragraph.

Assistant Secretary Taylor referred to the letter as a perfect "hedge" letter, the effect of which, as I understood Mr. Taylor's remarks, would possibly relieve the Reconstruction Finance Corporation of any responsibility with respect to any difficulties which might arise in connection with the action taken by the President. It is believed, however, that a careful reading of the paragraph, in its entirety, would lead to the conclusion that the \$35,000,000 covered all commitments referred to in said paragraph, including those which the Chairman said were coming in from the agencies and that "we in all probability should make". It later developed in the conference with Mr. Jones that failure to take special note of the letter of October 11, is not what would really cause embarrassment in the present situation. This view would

- 4 -

seem to be further established by the statements contained in Mr. Jones' letter of October 23, (Exhibit C) addressed to the President in which he lists a number of additional items which should be taken care of. And in a later memorandum, dated October 25, (Exhibit D) addressed to the President and the Secretary of the Treasury, Mr. Jones refers to even further commitments which may have to be made, notably for additional financial assistance required by banks. He said that 2,900 banks out of 5,100 are sound, and that the others "need nursing and watching".

Secretary Morgenthau appeared to be doubtful as to just what was the situation in view of the various letters and memoranda of the Reconstruction Finance Corporation and he, therefore, requested Mr. Jones to review the whole situation, item by item.

Mr. Jones laid particular stress upon the need of additional assistance by banks (as referred to in his memorandum of October 25, supra) and there was some discussion as to whether the F.D.I.C. might be able to help out through the purchase of the assets of certain banks under reorganizations. No definite conclusion was reached as to what might be done in this connection but it was agreed that the matter should be given careful consideration.

Mr. Jones referred to the railroad situation but did not indicate how much would be required. He also referred to the reference in his letter of October 23, to the effect that the Federal Housing Administrator feels that if the Government should discontinue entirely buying mortgages it would seriously interfere with the construction of new homes, but Mr. Jones' attention was called to the fact that under the

- 5 -

President's directions as announced in the Budget Summation the Reconstruction Finance Corporation would not be prohibited from making allocations to the Federal Housing Administration. Further, the detailed list of Reconstruction Finance Corporation commitments as of September 30, 1937, include commitments of some \$53,000,000 to the R.F.C. Mortgage Company.

With further reference to the letter of October 11, (Exhibit A) Secretary Morgenthau showed to Mr. Jones a memorandum from Mr. Bartelt, (Exhibit E) dated October 25, reading in part as follows:

"Although the detailed statement of outstanding commitments referred to in the Summation is as of September 30, 1937, the Summation was not approved by the President until October 18. It seems to me, therefore, that the President's determination not to make further commitments dates from October 18 rather than September 30. If this is the proper assumption, it appears that any commitments made by the Reconstruction Finance Corporation between September 30 and October 18, could be carried out without violating the statement made by the President in his Summation.

"It would seem, therefore, that the commitments referred to in Mr. Jones' letter of October 11, 1937, might be taken care of. It would not, of course, take care of additional commitments which the Reconstruction Finance Corporation thinks 'should be made'."

Mr. Jones indicated his agreement with the memorandum.

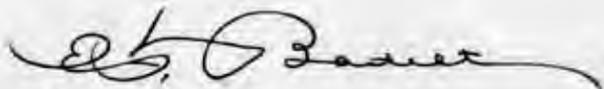
In order to illustrate some of his problems, Mr. Jones made reference to a couple of specific industrial situations which confront the Reconstruction Finance Corporation. Specifically, he referred to

- 6 -

one case where refusal of the Reconstruction Finance Corporation to grant a loan will result in the closing of a plant and the throwing out of work of approximately thirteen hundred people. Mr. Jones expressed the view that while he personally did not look with favor upon making the loan it was his opinion that it would be less expensive for the Government to do so rather than to throw the additional people upon the rolls of W.P.A. He asked the Secretary's advice but the Secretary indicated that Mr. Jones should use his own judgment.

The Secretary raised the point as to whether matters could be taken care of if the Reconstruction Finance Corporation should be permitted to use money through the cancellation of present commitments up to the sum of \$100,000,000. This matter is to be further considered.

At the close of the conference Chairman Jones handed to the Secretary a draft of a letter/^(Exhibit F) which he suggested the President might write to the Chairman of the Reconstruction Finance Corporation for the purpose of clarifying the intention of the President as set forth in his Budget Summation. The draft of letter was left with the Secretary for consideration with a view to its study, and arrangements were made for a further conference with Mr. Jones on Thursday afternoon, October 28, for the purpose of considering any revisions which should be made in the letter.



Commissioner of
Accounts and Deposits

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 11, 1957

EXHIBIT A

Dear Mr. Secretary:

~~Herewith~~ Pursuant to your request there is forwarded herewith a list of our outstanding loan and investment commitments together with a schedule substantially in the form requested by your office showing our estimated receipts and disbursements by fiscal years.

In addition to the commitments listed, we have in a limited number of cases agreed that we would lend under certain circumstances but the number or amount of such tentative commitments is not large enough to have a material effect on Treasury requirements. Some loans that were in the making have taken definite form since September 30th and others are coming in from the agencies that we in all probability should make. All of these, however, probably will not aggregate more than \$55,000,000.

It is not unlikely that railroads will need some further assistance, particularly in reorganizations or to aid in the purchase of equipment.

Sincerely yours,


Chairman

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

EXHIBIT B

212

October 26, 1937.

TO THE SECRETARY

In compliance with your request for a statement concerning the circumstances surrounding the delivery of the letter of October 11, 1937, addressed to you by the Chairman of the Reconstruction Finance Corporation, with which was transmitted a detailed list of the Corporation's outstanding commitments as of September 30, 1937, you are advised as follows.

The letter of October 11, and the detailed list of commitments accompanying it, were transmitted to the Treasury Department in response to your oral request of Mr. Jones at a conference held in your office on the morning of October 5, 1937.

Pursuant to your instructions, I maintained a close follow-up with the Reconstruction Finance Corporation concerning the preparation of the list, and, accordingly, about 7 p.m. on Monday, October 11, I called the Treasurer of the Reconstruction Finance Corporation (Mr. Mulligan) on the telephone to inquire whether the list was ready. I was informed by Mr. Mulligan that the list, with the letter of October 11, 1937, had been transmitted to the Office of the Secretary of the Treasury. I immediately proceeded to your office with a view to working on the list Monday night. Being unable to procure the list Monday night, I called at your office early Tuesday morning and learned that the list had been delivered to Mr. McGill's Office. I was then informed that the letter and the list had been sent to your Correspondence Section on the fourth floor, although I am not certain that it reached that section for the reason that it was later found to be in the possession of one of the messengers attached to the Secretary's Office. Being in urgent need of the list, I asked Mr. McGill's secretary if she would get it for me whereupon the list, together with the letter of October 11, 1937, was handed to me.

It appears that the letter and the schedule had not been delivered to you as I had assumed to be the case. I assume full responsibility for this erroneous assumption on my part.

10/27/37

Commissioner of Accounts
and Deposits.

RTB:MLT

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H JONES
CHAIRMAN OF THE BOARD

October 25, 1937

EXHIBIT C

Dear Mr. Presidents

In my letter to Secretary Morgenthau of October 11th, I stated that in addition to our commitments there were loans in the making which had taken definite form since September 30th and that others were coming in from the agencies that we in all probability should make. All of these, however, will not aggregate more than \$35,000,000.

In addition, there are a number of other applications in our Washington office and in our agencies where the applicants have been trying to qualify for a loan. In some of these cases there probably exists a moral obligation to grant the loan if our indicated conditions are met, inasmuch as the applicants have gone to considerable trouble and expense in preparing the applications and trying to meet conditions in the belief that they could get a loan.

In some of these instances we have been insisting that the applicant get his loan elsewhere and some would have been successful except for the recent disturbance in the securities market.

It is frequently necessary to make a second and sometimes a third loan to a borrower to prevent failure. This is particularly true with industrial loans.

In our drainage and irrigation loans it is sometimes necessary to make a loan to repair flood, plant failure or other damage, otherwise the entire loan would fail.

Then there are the disaster loans. We have authorized a total of \$8,000,000. That is to say, under the direction of Congress, we have bought that amount of stock in the Disaster Loan Corporation and were directed by Congress to buy a total of \$20,000,000.

Disaster Loan Corporation has authorized \$7,578,280 in loans, of which \$5,933,052 has been disbursed. It is doubtful if more than the \$8,000,000 will be required as we are receiving very few applications but if more than the \$8,000,000 is required, I assume you would want it taken care of. Expense of this will add about \$600,000 not included above.

In order to encourage banks, insurance companies and other lending agencies approved by the Federal Housing Administration, we have been buying FHA insured mortgages on "new homes." Administrator McDonald feels that if we discontinue entirely buying these mortgages it will seriously interfere with the construction of new homes.

There remains a number of closed banks in receivership to which loans should be made for distribution to depositors and there are banks in which we have preferred stock or capital notes and debentures that will need some additional assistance in this respect.

The President

Page two

Commitments have been made by the Commodity Credit Corporation for loans on peanuts and prunes and possibly one or two other small items. These commitments were made by Commodity Credit upon the recommendation of the Secretary of Agriculture and your request that consideration be given to making the loans. Commodity Credit wishes the Reconstruction Finance Corporation to put it in funds with which to complete these loans.

Other situations may arise from time to time that should have special consideration. Under all the circumstances and in view of the very wide scope of our operations, you might feel that consideration should be given to the situations herein referred to.

All of this can be done without increasing the amount of our commitments and within the spirit of your letter, as a great many definite and tentative commitments will undoubtedly lapse.

It is the opinion of our Board that, with your approval, this should be our course.

Sincerely yours,

(Sgnd) J.H.J.

Chairman

(In longhand)

H.M.Jr.) Will you talk this over with J.J?
W.Taylor) It seems to me that we have to carry out
D.W.B.) moral obligations and legal directions.

F.D.R.

The President
The White House

*File
J.H.J.
4/1/25*

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 25, 1937

EXHIBIT D

MEMORANDUM TO THE PRESIDENT AND SECRETARY OF THE TREASURY:

In addition to the items especially mentioned in my letter of the 23rd, particular attention is drawn to the fact that the law provides that no disbursement shall be made on any commitment after one year from the date of its authorization.

It frequently takes more than a year for drainage and irrigation applicants to qualify. Approximately \$30,000,000 authorizations under this particular heading are now more than one year old and others will be automatically lapsed from time to time. This is true of loans of other classes.

Many of these loans will never qualify, but those that do should have consideration.

A number of banks wish to convert their capital notes and debentures into preferred stock, and in some consolidations it may be necessary to accept capital notes in lieu of preferred stock where the surviving bank is not authorized to issue preferred stock. These cases will entail no new money but an advantageous re-arrangement of an already existing investment.

It may be necessary to give further assistance to some insurance companies through loans upon or investment in their preferred stock.

It may be necessary to make some few additional loans in connection with our self-liquidating projects heretofore financed, but which have not been entirely completed.

JESSE H. JONES

C O P Y

October 25, 1937

216
EXHIBIT E

TO THE SECRETARY:

In connection with the problem confronting you with respect to commitments of the Reconstruction Finance Corporation and with particular reference to the statement made by the President in the Budget Summation for 1938 (pages 10, 11), the following thought has occurred to me:

Although the detailed statement of outstanding commitments referred to in the Summation is as of September 30, 1937, the Summation was not approved by the President until October 18. It seems to me, therefore, that the President's determination not to make further commitments dates from October 18 rather than September 30. If this is the proper assumption, it appears that any commitments made by the Reconstruction Finance Corporation between September 30 and October 18 could be carried out without violating the statement made by the President in his Summation.

It would seem, therefore, that the commitments referred to in Mr. Jones' letter of October 11, 1937 might be taken care of. It would not, of course, take care of additional commitments which the Reconstruction Finance Corporation thinks "should be made".

Commissioner of
Accounts and Deposits

THE WHITE HOUSE
WASHINGTON

EXHIBIT F

Dear Mr. Jones:

With further reference to my letter of October 18th and my statement in summation of the 1938 budget, it was not my intention that you should not give consideration to applications before your Board at receipt of my letter, or that were then in course of preparation in your various agencies. The latter you estimated would not exceed \$35,000,000 in addition to commitments included in your September 30th list.

My letter did not include The RFC Mortgage Company except that no additional commitments should be made to it by the Reconstruction Finance Corporation without a letter from me authorizing the commitment.

The Act extending the lending life of the Reconstruction Finance Corporation gave me authority to direct that you suspend lending from time to time under any or all of the provisions of the Act, and it is my intention that only such loans as were under consideration formally or informally when I wrote you on the 18th should be considered, except any loans that might be necessary to protect loans already made.

Should any applicant included in your September 30th list for which a loan has already been approved need more time than he originally had to comply with the provisions of your commitment, you should grant such extension as, in the judgment of your Board, would be proper under the circumstances surrounding the particular loan.

The 1938 budget includes \$100,000,000 for the Commodity Credit Corporation. This amount I expect to ask Congress to add to the capital stock of Commodity Credit Corporation and for the government to guarantee directly, instead of through the Reconstruction Finance Corporation as has heretofore been the practice, Commodity Credit Corporation notes in making loans on farm commodities.

Honorable Jesse H. Jones

Page two

Pending this legislation it will be necessary for the Reconstruction Finance Corporation to provide for 1957 corn loans, the loans to be made by Commodity Credit Corporation as in former years with a definite commitment from the RFC to provide Commodity Credit Corporation with the necessary funds. Corn loans should only be made under regulations furnished by the Secretary of Agriculture.

Any further bank repair work or re-arranging of bank capital investments will as heretofore have my approval when requested by the Secretary of the Treasury.

Sincerely yours,

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

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

Scott, Miss.,
October 26, 1937.

Henry Morgenthau, Jr., Secretary of the Treasury,

Washington, D. C.

Dear Mr. Secretary:-

This will acknowledge your letter of October 14th, which you enclosed copy of letter of the same date to Mr. Jesse H. Jones, Chairman of the Board, Reconstruction Finance Corporation. You advise that you are sending me the copy of your letter to Mr. Jones in order that I may be "informed of the Treasury's attitude on finances of the Commodity Credit Corporation".

Your letter to Mr. Jones suggests a conference with him and Secretary Wallace, but does not shed any light upon "the Treasury's attitude on finances of Commodity Credit Corporation".

Quite naturally Commodity Credit Corporation makes no commitments and incurs no obligations of any sort except under the following conditions:-

- (1) With respect to a commodity as to which the President shall have asked that CCC take action.
- (2) With respect to a commodity as to which the Secretary of Agriculture shall have recommended and asked that a loan be made.
- (3) After submission of the entire matter to the Board of R.F.C. and having advance assurance that the required funds will be made available by R.F.C.

In view of the foregoing, you are assured that CCC has not in the past, and will not in the future, make commitments which may, directly or indirectly, impose a liability upon the Treasury, save and except where such commitment has the approval of the President, the Secretary of Agriculture and is supported by a direct commitment from R.F.C.

I appreciate your consideration in sending me a copy of your letter to Mr. Jones, and trust that you, Mr. Jones and the Secretary of Agriculture will, at your suggested conference, find yourselves in complete accord with respect to future policies of Commodity Credit Corporation.

Yours very truly,


Oscar Johnston, Vice-President,
Commodity Credit Corporation.



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

October 25, 1937

TO THE SECRETARY:

In connection with the problem confronting you with respect to commitments of the Reconstruction Finance Corporation and with particular reference to the statement made by the President in the Budget Summation for 1938 (pages 10, 11), the following thought has occurred to me:

Although the detailed statement of outstanding commitments referred to in the Summation is as of September 30, 1937, the Summation was not approved by the President until October 18. It seems to me, therefore, that the President's determination not to make further commitments dates from October 18 rather than September 30. If this is the proper assumption, it appears that any commitments made by the Reconstruction Finance Corporation between September 30 and October 18 could be carried out without violating the statement made by the President in his Summation.

It would seem, therefore, that the commitments referred to in Mr. Jones' letter of October 11, 1937 might be taken care of. It would not, of course, take care of additional commitments which the Reconstruction Finance Corporation thinks "should be made".

Commissioner of
Accounts and Deposits



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

October 25, 1937.

TO THE SECRETARY:

In compliance with your request for a statement concerning the circumstances surrounding the delivery of the letter of October 11, 1937, addressed to you by the Chairman of the Reconstruction Finance Corporation, with which was transmitted a detailed list of the Corporation's outstanding commitments as of September 30, 1937, you are advised as follows.

The letter of October 11, and the detailed list of commitments accompanying it, were transmitted to the Treasury Department in response to your oral request of Mr. Jones at a conference held in your office on the morning of October 5, 1937.

Pursuant to your instructions, I maintained a close follow-up with the Reconstruction Finance Corporation concerning the preparation of the list, and, accordingly, about 7 p.m. on Monday, October 11, I called the Treasurer of the Reconstruction Finance Corporation (Mr. Mulligan) on the telephone to inquire whether the list was ready. I was informed by Mr. Mulligan that the list, with the letter of October 11, 1937, had been transmitted to the Office of the Secretary of the Treasury. I immediately proceeded to your office with a view to working on the list Monday night. Being unable to procure the list Monday night, I called at your office early Tuesday morning and learned that the list had been delivered to Mr. Magill's Office. I was then informed that the letter and the list had been sent to your Correspondence Section on the fourth floor, although I am not certain that it reached that section for the reason that it was later found to be in the possession of one of the messengers attached to the Secretary's Office. Being in urgent need of the list, I asked Mr. Magill's secretary if she would get it for me whereupon the list, together with the letter of October 11, 1937, was handed to me.

It appears that the letter and the schedule had not been delivered to you as I had assumed to be the case. I assume full responsibility for this erroneous assumption on my part.

Commissioner of Accounts
and Deposits.

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 25, 1937

MEMORANDUM TO THE PRESIDENT AND SECRETARY OF THE TREASURY:

In addition to the items especially mentioned in my letter of the 23rd, particular attention is drawn to the fact that the law provides that no disbursement shall be made on any commitment after one year from the date of its authorization.

It frequently takes more than a year for drainage and irrigation applicants to qualify. Approximately \$30,000,000 authorizations under this particular heading are now more than one year old and others will be automatically lapsed from time to time. This is true of loans of other classes.

Many of these loans will never qualify, but those that do should have consideration.

A number of banks wish to convert their capital notes and debentures into preferred stock, and in some consolidations it may be necessary to accept capital notes in lieu of preferred stock where the surviving bank is not authorized to issue preferred stock. These cases will entail no new money but an advantageous re-arrangement of an already existing investment.

It may be necessary to give further assistance to some insurance companies through loans upon or investment in their preferred stock.

It may be necessary to make some few additional loans in connection with our self-liquidating projects heretofore financed, but which have not been entirely completed.

JESSE H. JONES

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 23, 1937

Dear Mr. President:

In my letter to Secretary Morgenthau of October 11th, I stated that in addition to our commitments there were loans in the making which had taken definite form since September 30th and that others were coming in from the agencies that we in all probability should make. All of these, however, will not aggregate more than \$35,000,000.

In addition, there are a number of other applications in our Washington office and in our agencies where the applicants have been trying to qualify for a loan. In some of these cases there probably exists a moral obligation to grant the loan if our indicated conditions are met, inasmuch as the applicants have gone to considerable trouble and expense in preparing the applications and trying to meet conditions in the belief that they could get a loan.

In some of these instances we have been insisting that the applicant get his loan elsewhere and some would have been successful except for the recent disturbance in the securities market.

It is frequently necessary to make a second and sometimes a third loan to a borrower to prevent failure. This is particularly true with industrial loans.

In our drainage and irrigation loans it is sometimes necessary to make a loan to repair flood, plant failure or other damage, otherwise the entire loan would fail.

Then there are the disaster loans. We have authorized a total of \$8,000,000. That is to say, under the direction of Congress, we have bought that amount of stock in the Disaster Loan Corporation and were directed by Congress to buy a total of \$20,000,000.

Disaster Loan Corporation has authorized \$7,578,280 in loans, of which \$5,955,052 has been disbursed. It is doubtful if more than the \$8,000,000 will be required as we are receiving very few applications but if more than the \$8,000,000 is required, I assume you would want it taken care of. Expense of this will add about \$600,000 not included above.

In order to encourage banks, insurance companies and other lending agencies approved by the Federal Housing Administration, we have been buying FHA insured mortgages on "new homes." Administrator McDonald feels that if we continue entirely buying these mortgages it will seriously interfere with the construction of new homes.

There remains a number of closed banks in receivership to which loans should be made for distribution to depositors and there are banks in which we have preferred stock or capital notes and debentures that will need some additional assistance in this respect.

The President

Page two

Commitments have been made by the Commodity Credit Corporation for loans on peanuts and prunes and possibly one or two other small items. These commitments were made by Commodity Credit upon the recommendation of the Secretary of Agriculture and your request that consideration be given to making the loans. Commodity Credit wishes the Reconstruction Finance Corporation to put it in funds with which to complete these loans.

Other situations may arise from time to time that should have special consideration. Under all the circumstances and in view of the very wide scope of our operations, you might feel that consideration should be given to the situations herein referred to.

All of this can be done without increasing the amount of our commitments and within the spirit of your letter, as a great many definite and tentative commitments will undoubtedly lapse.

It is the opinion of our Board that, with your approval, this should be our course.

Sincerely yours,

(Sgnd) J.H.J.

Chairman

(In longhand)

H.M.Jr.)	Will you talk this over with J.J.?
W.Taylor)	It seems to me that we have to carry out
D.W.B.)	moral obligations and legal directions.

F.D.R.

The President
The White House

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 11, 1957

Dear Mr. Secretary:

Pursuant to your request there is forwarded herewith a list of our outstanding loan and investment commitments together with a schedule substantially in the form requested by your office showing our estimated receipts and disbursements by fiscal years.

In addition to the commitments listed, we have in a limited number of cases agreed that we would lend under certain circumstances but the number or amount of such tentative commitments is not large enough to have a material effect on Treasury requirements. Some loans that were in the making have taken definite form since September 30th and others are coming in from the agencies that we in all probability should make. All of these, however, probably will not aggregate more than \$35,000,000.

It is not unlikely that railroads will need some further assistance, particularly in reorganizations or to aid in the purchase of equipment.

Sincerely yours,


Chairman

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

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

THOMAS H. JONES
MEMBER OF THE BOARD

October 11, 1957

Dear Mr. Secretary:

Pursuant to your request there is forwarded herewith a list of our outstanding loan and investment commitments together with a schedule substantially in the form requested by your office showing our estimated receipts and disbursements by fiscal years.

In addition to the commitments listed, we have in a limited number of cases agreed that we would lend under certain circumstances but the number or amount of such tentative commitments is not large enough to have a material effect on Treasury requirements. Some loans that were in the making have taken definite form since September 30th and others are coming in from the agencies that we in all probability should make. All of these, however, probably will not aggregate more than \$35,000,000.

It is not unlikely that railroads will need some further assistance, particularly in reorganizations or to aid in the purchase of equipment.

Sincerely yours,


Chairman

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

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 5, 1937

Dear Mr. Secretary:

On November 19, 1936, we submitted an estimate of our requirements for 1938 to the Director of the Budget, the net of which indicated that we would need to draw on the Treasury for \$148,500,000 in excess of our receipts.

I stated at our meeting with the President that we could do \$150,000,000 better than this, which would bring us out with a net credit of \$1,500,000. It now appears that this is about as good an estimate as we can make.

This figure will be affected, however, by our ability to sell securities, by collections that may be more or less than we estimate, and by any extraordinary disbursements that we may be called upon to make, particularly the purchase of PWA securities.

In our estimate to the Budget we made no provision for outgo or income from PWA securities, feeling that receipts from sales and collections would take care of purchases.

To date we have received from these collections and sales since June 30th \$35,880,000 in excess of purchases. This amount will go that far toward offsetting additional purchases we make from PWA during the remainder of the fiscal year.

The net of the above and in conclusion, you can rely upon our breaking even for the year, and depending upon our ability to market securities we could exceed this by \$100,000,000 to \$150,000,000.

Sincerely yours,


Chairman

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

Conference with the President at Hyde Park on October 29, 1937, attended by Secretary Morgenthau and myself. Miss Le Hand was also present but took no part in the discussion.

We presented the typed memorandum to the President before dinner and he read it through at that time. We had no time to discuss it in detail. He questioned the deduction recommendation on page 6, the net operating loss paragraph on page 7, the capital gain and loss recommendation on pages 7 and 8, and the recommendations regarding the undistributed profits tax on pages 9 and 10. He expressed himself as well pleased with our portion on capital gains; on the elimination of tax exemption and on percentage depletion.

After dinner, commencing at about nine o'clock, we went over the memorandum again, sentence by sentence. The changes which the President suggested in the memorandum itself appear in the attached copy. The principal points he made were the following:

1. That no changes in the present tax structure should be made which will bring in lower tax receipts during the current fiscal year than the present tax structure.
2. The elimination of tax exemptions should apply to future issues of securities, both state and Federal. I pointed out that this would mean that the provision would not yield much for the next few years and the President said he understood that, but that he felt that in good faith the exemption on present issues should be retained. He strongly favors an attempt to accomplish the result by statute rather than by constitutional amendment and likes the idea of including tax exempt income with taxable income in determining the rates of tax applicable to taxable income (the Glass proposal). He thinks the exemption of Federal officials from state taxes should also be eliminated.
3. He is agreeable to a reduction in the exemption of married persons to \$2000 from \$2500, and to a raise in the surtax rates between \$20,000 and \$100,000. His own ideas as to the surtax rates are shown in the left-hand column of the attached memorandum. He does not want to reduce the top surtax rate of 75 percent nor the total surtaxes applicable to persons with incomes of \$100,000 or more.
4. He also discussed the possibility of imposing a series of flat rate taxes upon gross incomes from various sizes between \$1000 and \$2000. He thought after a discussion that a \$100 deduction from gross income to cover all the present detailed deductions might be permitted. His chief interest

- 2 -

was in a very simple form of tax and a very simple return, with a yield equivalent to the revenue which we are now collecting. We are to look into the subject and no final conclusion was reached.

5. He finally agreed to the deduction recommendation although he did not like the examples given.
6. He agreed to the net operating loss recommendation, provided the carry-over is made one year instead of two.
7. He agreed to the capital gains recommendation with the same qualification, namely, that the carry-over of net capital losses against gains be limited to one year instead of two.

Our discussion closed around midnight after we had spent an hour discussing corporation taxes. The President urged the desirability of a capital stock tax based on the actual value of the property employed in the business. He wants to coordinate the values so reported with the value used by public utilities for rate making purposes and the values reported to the SEC. I pointed out the administrative difficulties in connection with the determination of value, but the President seemed to feel that these were outweighed by the desirability of the coordination just mentioned. The President disapproved of the recommendation for the exemption of corporate dividends from the individual normal tax on the ground that the reason given - lightening the tax burden on small incorporated businesses - was not strong enough. He felt that small businesses should not be incorporated anyhow, and that the loss of revenue involved, \$166 millions, was too great. As to the undistributed profits tax he agreed to the carry-over for one year of net operating losses but disapproved a similar carry-over for capital losses. As to the exemption proposal he thought it ought to be limited to small corporations and that the exemption amounts ought to be specifically earmarked for reserves which are only to be used for the purpose of meeting operating deficits in the future, but not for investment in plants and the like. Finally, he favored a provision for a credit of amounts used to retire temporary bank loans but only once a year and he did not think the provision should be broad enough to cover other kinds of indebtedness.

At the end of our discussion he spoke of the desirability of a graduated normal tax on corporations similar to that on individuals; and an increase in the tax on intercorporate dividends. He feels that large corporations should pay heavier taxes than smaller ones and that the fact that their stock is widely held is not material. He is apparently quite willing to discourage the investment by small taxpayers in companies of large size.

- 3 -

We did not get beyond this point in the memorandum and the balance of the memorandum was not discussed in detail, although the President indicated his strong approval of the percentage depletion recommendation.

The following morning the President stated that the next session of Congress would be largely devoted to legislation to curb monopoly; and that Vice President Garner and Senator Borah were both greatly interested in the subject. Hence, the President wanted me to collect the literature on graduated corporation taxes and be ready with it. He had previously told the Secretary that we could take a year for the study but the impression I got in the morning was that we might have to be ready sooner than this.

The President also said that we should go forward with the committee on the recommendations for improvements in the individual income taxes. We could treat, as agreed to, paragraphs 1 (a), (c), (d), (e), (f), and (g). As we go along with the committee we are to let him know the situation every week or so and as questions arise as to major policy, the President will set aside time for a discussion with the chairman of the subcommittee, the Secretary, and myself.

nm

Notes taken by
Mr. McGill

October 29, 1937

The attached tax recommendations were discussed with the President at Hyde Park today by the Secretary and Mr. Magill.

Pursuant to the President's message to Congress of April 20, 1937, the Treasury Department has made a careful survey of the entire Federal tax structure, with the purpose of assembling for the use of the Congress all pertinent information regarding the actual operation and effect of each of the present revenue laws. This survey has extended both to the administrative provisions, and to the sections imposing tax liability. The subcommittee of the Committee on Ways and Means will no doubt wish to examine the assembled data in detail. The present statement is intended to outline some of the major problems on which information has been assembled, and to which particular attention is directed. A list of detailed improvements which might be made in particular sections of the revenue laws, and of suggestions for administrative changes is available for later presentation.

Revenue Receipts and Requirements

During the fiscal year which ended June 30, 1937, the revenue receipts of the Federal Government amounted to \$5,294 millions. It is estimated that during the current fiscal year revenue receipts will amount to \$6,650 millions. Income and profits taxes are expected to produce \$2,792 millions and miscellaneous internal revenues \$2,386 millions. The distribution of these totals among the principal sources of revenue is shown in the following table.

Revenue Receipts for Fiscal Years 1937 (actual) and 1938 (estimated) ^{1/}

			Percentage distribution	
	Revised estimate, fiscal year 1938	Actual, fiscal year 1937	Revised estimate, fiscal year 1938	Actual, fiscal year 1937
(In millions of dollars)				
General and special accounts				
1. Internal revenue				
(1) Income tax				
Corporation	\$ 1,342	\$ 1,057	20.18	19.97
Individual	1,420	1,092	21.35	20.63
Excess profits	30	25	.45	.47
Total income and profits (unadjusted)	\$ 2,792	\$ 2,174	41.98	41.07
Adjustment to Daily Treasury Statement	-	- 16	-	- .30
Total income and profits taxes	\$ 2,792	\$ 2,158	41.98	40.77
(2) Miscellaneous internal revenue taxes: ^{2/}				
Capital stock tax	\$ 142	\$ 137	2.14	2.59
Estate tax and gift	402	306	6.05	5.76
Alcoholic beverage taxes	640	594	9.62	11.22
Tobacco taxes	548	552	8.24	10.43
Stamp taxes	71	70	1.07	1.32
Manufacturers' excise taxes	453	451	6.81	8.52
Sundry taxes	130	79	1.95	1.49
Total (unadjusted)	\$ 2,386	\$ 2,189	35.88	41.35
Adjustment to Daily Treasury Statement	-	- 8	-	- .15
Total miscellaneous internal revenue taxes	\$ 2,386	\$ 2,181	35.88	41.20
(3) Processing taxes (Agricultural Adjustment Administration)				
	-	-	-	-
(4) Other internal revenue taxes: ^{2/}				
Taxes on carriers and their employees	\$ 158	\$ -	2.38	-
Social Security taxes	606	265	9.11	5.01
Tax on unjust enrichment	5	6	.07	.11
Total (unadjusted)	\$ 769	\$ 272	11.56	5.14
Adjustment to Daily Treasury Statement	-	- 14	-	- .26
Total other internal revenue taxes	\$ 769	\$ 258	11.56	4.87
Total internal revenue	\$ 5,947	\$ 4,597	89.43	86.83
2. Customs	494	486	7.43	9.18
3. Miscellaneous revenues and receipts	210 ^{3/}	210	3.16	3.97
Total receipts, general and special accounts	\$ 6,650	\$ 5,294	100.00	100.00

^{1/} Collections for credits to trust funds are not included.

^{2/} Detail of income taxes, miscellaneous internal revenue taxes and other internal revenue taxes is on a collections basis. All other items are on the basis of the Daily Treasury Statement (unrevised).

^{3/} This estimate is carried forward from 1937 actual receipts. The final estimates of these items will be made in the Bureau of the Budget.

* Less than \$500,000.

- 3 -

The revenue adequacy of a tax structure is tested by its ability to meet the expenditures required for Government services performed plus the amounts requisite to retire the public debt. The estimate of expenditures (exclusive of debt retirement) for the 1938 fiscal year has been placed at \$7.3 billions, with relief and recovery accounting for \$1.8 billions. The Treasury Department has proceeded on the assumptions that the proposed revision will be made effective not earlier than January 1, 1938; and that the budget is to be balanced, and debt retirement adequately cared for.

The changes outlined below are designed to improve the fairness and the adequacy of the tax system as a whole. The additional detailed recommendations, to be submitted later, are intended to make administration of and compliance with the revenue laws simpler and more economical.

1. Improvements in the Income Tax on Individuals

Several changes in the income tax in the interests of greater fairness are worthy of careful consideration, particularly if that tax is to provide relatively a greater proportion of the Federal revenues.

✓ (a) Elimination of Tax exemptions

Steps should be taken, either by statute or by constitutional amendment, to eliminate for the future the existing exemptions from the income tax now accorded to state and municipal obligations.

- 4 -

The progressive surtax rates cannot be made to operate effectively, particularly in the cases of the larger incomes, so long as this easy mode of escape from them is available. Similarly, citizens of the United States who are also state or municipal officials, should be required to pay the same non-discriminatory tax upon their incomes, that is paid by citizens with like incomes from other sources.

(b) Rate Structure

Elsewhere in this statement, the Treasury is recommending the elimination of \$50 millions of nuisance taxes, which fall chiefly upon articles of general use; and increased credits for earned income, net operating losses, capital losses, and corporate dividends. The loss of revenue through these tax reductions can best be made up by means of the income tax, which is levied in accordance with ability to pay. The formulation of the rates and exemptions are left, of course, to the discretion of the Congress. However, if the tax reductions mentioned herein are adopted, it would be fair to reduce the exemption now accorded to married persons from \$2500, or two and one-half times the exemption now accorded a single

person, to \$2000, or twice the latter exemption. This change would strengthen the tax structure, by moving in the direction of the substitution of direct and plainly known tax liability for the indirect and hidden tax liability now imposed through the nuisance taxes.

The tax reductions now proposed also justify a slight increase in the surtax rates applicable to incomes in the brackets in the center of the rate scale, roughly those incomes between \$20,000 and \$100,000. The data now available further indicate that the upper surtax rates are too high for the greatest productivity; and that net revenues would be increased by a small reduction therein. The incentive to embark capital in new enterprises is noticeably dampened, when the state and Federal Governments together demand a participation in profits of as much as 89 percent, with a much smaller participation in losses. The estate tax and the gift tax, with the modifications to be proposed, will offer further assurance that accumulations of property will pay their fair share of governmental expenses.

✓ (c) Deductions

The deductions allowable for income tax

- 6 -

purposes should in general comprise those expenses, losses, and reserves which are directly occasioned by the activities which produce the income subjected to the tax. The present law contains a general provision to the effect that personal, living, or family expenses are not deductible from gross income but some of the preceding sections specifically allow deductions that are essentially personal in character. At the same time, some of the deduction provisions are unduly narrow in failing to provide for necessary expenses incident to the earning of the income that is taxed. It appears, therefore, that the deduction provisions as a whole should be restated in the light of accepted standards, so that, for example, interest on personal loans, losses from loans not made in the course of business, and personal losses from theft, fire, storm, and shipwreck should not constitute allowable deductions; but actual expenses incurred in the production of income should be allowed. It is not intended to disturb the general scope of the present deductions for taxes and for charitable and educational contributions. The first provision is justifiable as a means of preventing an undue overlapping of taxes; and the second, as an encouragement to institutions which are public in character.

- 7 -

(d) Community Property

In his message of June 1, 1937, the President recommended that the Congress should adopt some one of the available plans for placing the citizens of the forty states upon an equality with the citizens of the eight community property states, so far as the computation of their Federal income taxes is concerned. The recommendation was laid over for further consideration at this time. The Treasury strongly urges its adoption.

(e) Net Operating Losses

The present law taxes each year's income on a strictly annual basis. Thus, an individual who loses \$10,000 in his business one year and makes \$20,000 the next is taxed much more heavily than the individual who earned the same net amount during the two years, \$10,000, but earned it in equal installments of \$5,000 per year. In fairness, the law should provide some remedy for this situation.

(f) Capital Gains and Losses

For reasons more fully set forth in the Statement of the Acting Secretary of the Treasury

- 2 -

in 1933, the Treasury believes that the income tax on capital gains should be retained. On the score of capacity to pay, which is the foundation of an income tax levied at progressive rates, it is hard to see any justification for eliminating the tax on the profits from investments or speculations, while retaining it on the income of the merchant or the salaried man. Enough experience with the present method of taxation has now been accumulated, however, to enable a considerable improvement in the rates and in the method of taxation itself. In particular, provision should be made for carrying over the net capital losses of one year to be applied against the net capital gains of subsequent years.

(g) Earned Income

The Congress in 1934 provided a slight reduction in the income taxes applicable to earned income. It appears that this preferential treatment might now be somewhat extended.

2. Improvements in Corporation Taxes

(a) Repeal of Capital Stock and Excess Profits Taxes

Corporations are now subject to three forms of Federal taxation: (1) The capital stock and excess profits taxes; (2) the corporation normal tax; and (3) the undistributed profits tax. The first of these, while remarkably dependable as a revenue producer, is structurally undesirable, since it is not based upon the actual value of the corporate capital stock and surplus, nor upon its actual excess

profits. Rather, corporate officers are compelled to evaluate a series of future probabilities: The company's earning power, the likelihood of some notable increase or decrease in its profits, and indeed the likelihood of legislation to permit a new declared value. If these companion taxes were ~~revealed~~, the lost revenue could fairly be made up, for example, by a low rate corporation privilege tax, measured by the entire operating income, or by a slight increase in the corporation normal tax.

(b) Exemption of Corporate Dividends from the Individual Normal Tax

In the revision of the revenue laws in 1936 the corporation normal tax was retained and in addition corporate dividends were subjected to the normal tax applicable to individuals receiving them. The restoration of the former exemption of corporate dividends from the individual normal tax would be a desirable means of lightening the tax burden upon small incorporated businesses as compared to unincorporated businesses.

(c) Undistributed Profits Tax

In determining the amount of net income available for distribution to shareholders corporations should be allowed to deduct net operating

- 10 -

deficits of the previous two years. In the same way losses on the sale of capital assets should be allowed as a deduction against net operating income in determining the amount available for distribution to stockholders. Finally, a small, but general, exemption of some portion of earnings from the undistributed profits tax is justifiable as the best means of providing for special cases where a full distribution of earnings may be undesirable.

(d) Percentage Depletion

In his message of June 1, 1937, the President called attention to "the most glaring loophole in our present revenue law" - the exemption from the income tax of millions of dollars of income of large oil and mining companies, through the percentage depletion deduction. The deduction has no relation to the cost of the oil or mining properties, and indeed may be taken even though the cost has been fully recovered. The President cited the case of one mining company which in 1936 deducted nearly \$3 millions under this provision, although it had already completely recovered the entire cost of its properties.

The Treasury has heretofore contended for fair depreciation and depletion deductions applicable

- 11 -

to all businesses, and these are now granted. There is no justification, however, for allowances to special classes of taxpayers over and above their actual operating expenses and reserves for replacements. If total depletion allowances are limited to total costs, as in all fairness they should be, not only will a glaring loophole be removed, but the additional revenue thereby secured will permit tax reductions in like amount to individual taxpayers and businesses.

3. Improvements in the Gift Tax and Estate Tax

At the present time, the gift tax and the estate tax are levied separately with separate rate scales and exemptions. Consequently, transfers of identical amounts of property by different individuals may be subjected to quite different taxes. Thus, if a \$5 million estate is retained until death, the estate tax is \$1,901,400. If a gift of the entire estate were made, the tax would be nearly \$900,000 less, or \$1,029,455. If part of the property is given and part retained until death, the total estate and gift taxes can be reduced to \$976,059. These wide variations can be prevented if the two taxes are coordinated, preferably with a single set of rates and exemptions. At the same time, the structure of the

two taxes can be considerably simplified, and the total yield increased. Since the estate and gift taxes are among the few taxes which can be graduated in direct proportion to ability to pay, some of the losses of revenue from the reduction of other taxes might reasonably be made up here, through modifications of the present exemptions and rates.

4. Repeal of Nuisance Taxes

Some of the present manufacturers excise taxes can properly be called nuisance taxes, since their yield is small, since administration is difficult, or since they fall upon articles of general use. These taxes, it seems, should gradually be repealed as the revenues permit. The Treasury Department does not, of course, recommend that all manufacturers and miscellaneous excise taxes should be repealed during the next few years. There is no assurance that a wholesale change would inure in every case to the benefit of producers and consumers. Moreover, a good many indirect taxes should be retained permanently to insure the stability of the revenue system. The equity of the tax system, however, could be markedly improved by the elimination of some moderate amount of the miscellaneous excise taxes, perhaps \$50 millions during the next year, the loss of revenue being

- 13 -

made up through an increased use of the income tax and the estate tax, which in general take much more accurate account of ability to pay.

5. Coordination of State and Federal Taxes

It is generally agreed that there is need for the elimination of friction between the component parts of the tax system of the Federal Government and those of the several states. Although the elimination of present conflicts must of necessity proceed slowly, a beginning can be made in either of two ways. A small commission, composed of representatives of the Federal Government, and of the state tax administrations, and of some non-partisan experts in the field, might be designated to study the situation and to recommend a comprehensive program for its improvement. Another alternative would be for the Congress to adopt its own solution for the present overlapping of taxes in some particular field, such as the estate tax, utilizing either the crediting device or the device of Federal collection and distribution to states.

6. Conclusion

The suggestions for tax reductions and improvements in the interest of equity, which have been very briefly outlined above, are only a few of the principal changes which the committee will wish to consider in planning a general revision of the tax system. As a

- 14 -

by-product of its day-by-day experience in administering the revenue laws, the Bureau of Internal Revenue has found a large number of other instances in which the operation of the laws could be improved by revisions. Finally, the general administrative provisions, and the decisions and practice thereunder, and the practice and procedure in tax cases, are being carefully reviewed, to the end that ambiguities and uncertainties may be eliminated and needless delays in litigation ended.

The information which will be presented to the committee is intended to facilitate its determination of the particular taxes which ought to be included in a permanent Federal tax system and the relative importance which should be assigned to each. In endeavoring to ascertain what are the actual inequities of the present tax provisions, the Treasury has examined the data submitted by taxpayers as well as the great mass of material available in the Bureau of Internal Revenue. Although the Treasury believes that the equity of the whole system can be largely improved by various changes which will be presented to the committee at its convenience, two propositions have been regarded as equally fundamental in considering proposals for changes. In the first place, it is essential that the taxes as modified should yield

- 15 -

a total amount of revenue sufficient to balance the budget and to provide for debt retirement. The aim should be to secure the necessary revenue, by taxes fairly distributed among the different income classes, without impeding legitimate business transactions. In the second place, too violent changes in the existing tax structure should not be made on account of their unsettling effect upon ~~the~~ social and economic life of the country, as well as upon the revenues themselves. Certainty and adequacy, as well as equity, are of prime importance in a revenue system. Changes can be made at this time, however, which will strengthen the present tax structure; and through the elimination of some nuisance taxes and the provision for proper credits and deductions on the income and estate tax, point the way toward establishing the whole system on a sound basis.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

October 29, 1937.

TO Secretary Morgenthau
FROM Herman Oliphant

You asked me to examine the list of utilities and railroads against which the Government has claims with a view to picking one of each as a possible subject for a model reorganization.

It turns out that we do not happen to have any claims against companies that are very satisfactory for this purpose. I have chosen two utilities and three railroads, and describe each briefly in the attached material. The case as to each company is so complicated, that no final decision to use one of them would be possible without further and extended study. Enough is stated in the attached, however, to guide a decision as to whether any one of these companies should be further explored for the purpose in hand.

The location of these properties is stated under "Activities." I hope to mail maps to you later today.

Attachments (2) returned to Mr. Oliphant.

H/O

UTILITIES IN REORGANIZATION

A process of elimination leaves only two utility reorganizations deserving of further study. Neither of these companies appears entirely satisfactory. These are Midland United Company (Midland Utilities Company) and Standard Gas & Electric Company. The former is part of the Insull system and the latter is in the Byllesby system.

MIDLAND UNITED COMPANY (and MIDLAND UTILITIES COMPANY)

Control. The ultimate control of this company so far as can be at present ascertained is in Eastern States Corporation, dominated by the Schoellkopf and associates; or in any event is in Morgan-United Corporation interests. A majority of the common and Series 1 preferred is owned by Commonwealth Edison, Peoples Gas Light & Coke Company, Middle West Corporation, Public Service of Northern Illinois, and United Gas Improvement Company.

As of December 31, 1936, 577,696 shares out of a total apparently of 4,726,921 shares common outstanding were held by United Gas Improvement. It is dominated by United Corporation (has 26.1% of the voting interest), and United Corporation seems to be interrelated with American Super Power Corporation (a Commonwealth and Southern affiliate) through various minority interests, and Eastern States Corporation by virtue of the latter's 23.2% interest in St. Regis Paper Company which, in turn, holds 8% of United Corporation. United Gas Improvement has 8.7% in Niagara Hudson Power in which United Corporation has 23.4% and Niagara Share Corporation 10.3%; Niagara Share Corporation is a Schoellkopf institution.

People's Gas Light & Coke Company seems to have a monopoly of the Chicago gas business and is stated as holding 787,047 shares of Midland United Corporation common (Moody's Utilities, 1937, p. 2145).

Middle West Corporation, holding company for Insull properties, is stated to hold 1,072,688 shares of common of Midland United, together with 449,750 warrants. The stockholding in this company is given (Moody's Utilities, 1937, p. 613) as being mainly in several banks. It is said that out of 3,328,513 shares outstanding, 1,710,000 shares went to secured creditors as follows: Bankers Trust Company 568,022; Continental Illinois of Chicago 475,046; First National of Chicago 472,057; Central Republic Trust Company Receiver (R.F.C.) 173,995; General Electric Company 20,880. In addition, Halsey Stuart & Company appears to have been given a substantial interest in the reorganization.

- 3 -

Public Service of Northern Illinois is said (Moody's Utilities, 1937, p. 1753) to have 264,481 shares of common of Midland United. The Company is tied up at least by contract with People's Gas Light & Coke Company, as well as with Commonwealth Edison and Bell Telephone. In fact, 32.97% of its preferred and 37.44% of its common are held by Commonwealth Edison (Moody's Utilities, 1937, p. 1750). Commonwealth Edison in turn shows (Moody's Utilities, 1937, p. 1037) a consolidated investment exclusive of that of the Public Service of Northern Illinois in Midland United of 865,597 shares common. Commonwealth Edison is in the midst of various simplification plans as are other Insull properties.

Creditors' Interest. The Company has outstanding two series of preferred stock, in addition to one of common, and also certain notes. In addition, its subsidiaries have funded debts, which will be considered separately.

Midland United, Series A \$3 cumulative convertible preferred had outstanding as of December 31, 1934, 206,944-72/100 shares entitled in liquidation to \$50 per share, but without voting power. Each share entitled the holder to purchase a share of common at \$28.50 to December 31, 1933. Dividends were not paid after 1932. The People's Gas Light & Coke Company is stated to have held 437 such shares (Moody's Utilities, 1937, p. 2145).

The preferred stockholders committee formed in October, 1936, consists of George N. Lindsay (of Speyer & Company); Albert D. Farwell (of Farwell, Chapman & Co., of Chicago), and Edward S. Hlogden; with Cadwalader, Wickersham & Taft, of New York, as counsel.

The same committee acts for the Series 1, \$6 preferred stock, entitled to \$100 at liquidation with equal preference as Series A as to assets and dividends.

Middle West Corporation is stated (Moody's Utilities, 1937, p. 617) to hold 112,293 shares of Series 1; although it is also stated (Moody's Utilities, 1937, p. 2340) that the majority of this stock is owned by Commonwealth Edison Company, People's Gas Light & Coke Co., Public Service Company of Northern Illinois, Middle West Utilities Company, and United Gas Improvement Company.

In addition, there seem to be large amounts of secured notes outstanding. People's Gas Light & Coke Company is stated to hold secured 5% demand notes amounting to \$2,442,766 (Moody's Utilities, 1937, p. 2145). Public Service of Northern Illinois holds \$1,048,994 of such notes (Moody's Utilities, 1937, p. 1753) and Commonwealth Edison \$3,078,777 of such notes.

- 3 -

According to the statements filed by the receivers with the S.E.C. the list of chief indebtednesses forming the basis of claims filed in the reorganization are as follows:

Continental Illinois, \$6,206,298.35, with interest.
 Commonwealth, Subsidiary, \$3,078,777.23, with interest.
 People's Gas, Subsidiary, \$2,442,765.74.
 People's Gas Light & Coke Trust, \$1,091,120 with interest.
 People's Service, Subsidiary, \$1,048,994.23 with interest.

In addition two Internal Revenue claims are listed, one for \$2,335,064.69 and another for \$208,806, each with interest.

Subsidiaries - Securities Structure.

The Midland United seems to have a total of about 33 subsidiaries and sub-subsidiaries, of which the more important seem to be Central Indiana Power Company (controlling Northern Indiana Power Company), Indiana Railroad, Midland Utilities Company (controlling Chicago, South Shore and South Bend Railroad and Gary Electric and Gas Company - in turn controlling Gary Heat, Light & Water Power Company - Indiana Service Corporation, Northern Indiana Public Service Company, West Ohio Gas Company), Indiana Hydro Electric Power Company, Public Service Company of Indiana (operating Indianapolis, Columbus, and Southern Traction Co., Terre Haute Electric Company, and Terre Haute Western Railway Company).

Each of these subsidiaries seems to have a more or less complicated funded debt; of these Midland Utilities may be considered as apparently the most important. This company is in separate reorganization. It appears to have outstanding \$6,000,000 of unsecured Series A 1938 6% gold debentures; \$8,875,000 of 6% cumulative prior lien stock with voting power on default of dividends for twelve months (dividends have not been paid since 1932); 7% cumulative prior lien stock \$12,158,500, outstanding with equal voting power as the 6%; \$14,091,600 of 7% cumulative preferred Class A, with certain preferences, and \$3,315,300 of cumulative preferred Class A of 6%, with similar preferences.

United Gas Improvement Company is listed as holding 63,000 shares of the 7% Class A (\$6,300,000) of Midland Utilities. The Middle West Corporation is listed as holding 1,541 shares of the prior lien preferred and 1,178 shares of the preferred stock.

The statement filed with the S.E.C. on behalf of the trustees in reorganization of Midland Utilities lists as creditors claims filed in the reorganization:

- 4 -

Debenture holders	\$6,000,000
Continental Illinois	4,476,648
Commonwealth, Subsidiary	1,851,860
People's Gas Light & Coke Trust	1,091,020
People's Gas, Subsidiary	1,428,570

and Collectors of Internal Revenue, two claims totaling \$2,262,459, one of which has been completely disallowed by the trustees (for \$23,869) and in the other of which \$171,729 was allowed with interest.

Activities. The Midland United System includes 25 gas manufacturing plants, electric systems, and light, power, gas, and transportation services in 943 communities in Indiana, Ohio, Michigan, and Illinois, and having an estimated population of 1,810,302 (Moody's Utilities, 1937, p. 2339). The subsidiaries have interconnections with other public utility companies, as for example, Commonwealth Edison Company, Public Service Company of Northern Illinois, and People's Gas Light & Coke Company of Chicago.

Reorganization. The Midland United System is being reorganized in units. The parent company, Midland United Company, and certain of its subsidiaries (covering properties which serve 630 communities and a total of 1,121,307 in population) is being separately reorganized. Midland Utilities is another unit in reorganization. West Ohio Gas Company, a sub-subsidiary, is a third unit in reorganization. In addition, a sub-subsidiary, Chicago, South Shore and South Bend Railroad is in receivership.

The statements on file with the S.E.C. indicate that the claims against each of these two companies are largely secured by pledged collateral, and also contingent claims against the parent are recoverable against the subsidiary in large part and vice versa. The collateral pledged seems to include in large part interest-bearing notes.

- 5 -

STANDARD GAS & ELECTRIC COMPANY

Control. This company is controlled by Standard Power & Light Corporation, which in turn is controlled by creditors of United States Electric Power Corporation and H. M. Byllesby & Company. The United States Electric Power Corporation had pledged all of its holdings of Standard Power & Light (1,226,298 shares common and 12,798 Series B common) with banks for loans of \$13,500,000. On August 12, 1936, the balance of this loan, \$11,946,735, owing to the Chase National Bank, Guaranty Trust Company, and Chemical Bank & Trust Company having been taken up by a banking group consisting of J. Henry Schroeder Banking Corporation, Bancamerica-Blair Corporation, W. C. Langley & Co., A. C. Allyn & Co., and Emanuel & Company for \$3,500,000, the collateral, 1,226,298 shares of Standard Power & Light common and 12,798 shares B common, were bought in at public auction in November 1936 as follows: J. Henry Schroeder Banking Corporation 441,206 common and 4,328 Class B; Bancamerica-Blair Corporation 226,602 common and 2,164 Class B; W. C. Langley, A. C. Allyn, Emanuel & Company and Granbery, Safford & Company 220,603 common and 2,165 Class B. The H. M. Byllesby & Company owns a majority of the B common of Standard Power & Light Corporation (330,000 shares) held in a voting trust expiring November 8, 1946, of which Bernard W. Lynch, Henry C. Summins, and Matthew A. Morrison, directors of Standard Power & Light Corporation, are trustees. H. M. Byllesby & Company is controlled through 54.6% voting stock owned by Byllesby Corporation. The voting trustees are entitled to elect the minority of the board of directors of Standard Power & Light, and the latter enabled to elect the majority of Standard Gas & Electric. There are 440,000 shares of Common B (whose stockholders are entitled to a majority of the directors of Standard Gas & Electric) and 1,330,000 shares of common (entitled to a minority of directors of Standard Gas & Electric). The directors of Standard Power and Light are F. G. Badenhausen, Victor Emanuel (Emanuel & Company), B. W. Lynch (of the Byllesby interests), M. A. Morrison (of the Byllesby interests), L. H. Seagrave (chairman of the board of American General Corporation which is affiliated with United Founders and the group controlled by the Equity Corporation).

According to a statement filed by the Transamerica Corporation, Bancamerica-Blair Corporation and Transamerica General Corporation under section 3(a)(3)(A) of the Utilities Act of 1935 for exemption, the three companies owned substantial interests in the securities of the Standard Gas & Electric and Standard Power & Light. However, in February 1937 application was made for withdrawal of the exemption application on the ground that the companies had ceased to own as much as 10% of

- 6 -

the securities. The application said that Bancamerica-Blair owned, after dispositions, only 175,800 shares of Standard Power & Light, or 9.98% of outstanding securities, and that it owned 850 shares of 7% cumulative preferred of Standard Power & Light, 700 shares of Standard Gas & Electric \$7 prior preferred and 2,000 shares Class A of a subsidiary, Louisville Gas & Electric Company. Prior to that date Bancamerica-Blair held over 16% of the common, and various amounts of the other securities and notes.

Creditors. Excluding its subsidiaries, Standard Gas & Electric has outstanding the following: 14,823,000 6% gold notes due October 1, 1935; \$15,000,000 6% gold debentures Series A, due 1951; \$10,000,000 Series B due 1957; \$9,826,500 6% convertible gold notes due 1935. None of these securities is collateralized by mortgage; they were offered at various times by H. M. Byllesby & Company and associates. There are several committees: The Kinnear committee representing the 6% notes due October 1935 consists of W. S. Kinnear and several associates. The McRoberts committee, representing mte and debenture holders, is headed by Samuel McRoberts (Great American Insurance Company group); G. N. Armsby (Tidewater Oil, California Packing, etc.); H. C. Richard (Rossia Insurance Company) and Hamilton Pell of Pell & Company; this committee seems to be tied in with the Manufacturers Trust Company. Another committee representing similar interests is headed by George McAneny, and includes Leroy J. Weed of Ginn & Company, the publishers, and John Vannack. The various committees are apparently at odds on plans for reorganization. It also appears that there are open account debts, counterclaims between the company and Standard Gas & Electric and also Deep Rock Oil Corporation, in receivership, etc.

According to statements filed with the S.E.C. the liabilities as of December 31, 1936, include a funded debt of \$73,649,500 (consisting not only of \$14,823,000 6% gold notes, \$9,826,500 6% convertible gold notes, \$15,000,000 6% gold debentures A, and \$10,000,000 B, but also \$24,000,000 of 6% gold debentures due February 1, 1957 of the Standard Power & Light, assumed by Standard Gas & Electric. Furthermore, the company has contingent liabilities aggregating \$254,463. Tax claims are listed as \$385,203.71 and interest of \$1,653,095. The statement says that there is a dispute as to the Federal tax liability; in the trustees' opinion the assessment made against the company is largely in excess of the maximum liability.

Subsidiaries. Standard Gas & Electric has at least about 113 subsidiaries and sub-subsidiaries. Of these, the most important seem to be the California Oregon Power Company, Louisville Gas & Electric Company, Market Street Railway Company of San Francisco, Mountain States Power Company,

- 7 -

Northern States Power Company (of Minnesota, Wisconsin, and Delaware), Chippewa Power Company, Chippewa and Flambeau Improvement Company, Oklahoma Gas & Electric Company, Philadelphia Company, Consolidated Gas Company of Pittsburgh, Duquesne Light Company, Cheswick & Harmar Railroad Company, Allegheny County Steam Heat Company, Monongahela Light & Power Company, Equitable Auto Company, Equitable Real Estate Company, Equitable Sales Company, Harwick Coal & Coke Company, Kentucky-West Virginia Gas Company, Beaver Valley Traction Company, Philadelphia Oil Company, Pittsburgh Railways Company, Pittsburgh Motor Coach Company, Pittsburgh and West Virginia Gas Company, Equitable Gas Company, Seventeenth Street Incline Plane Company, San Diego Consolidated Gas & Electric Company, Southern Colorado Power Company, Wisconsin Public Service Corporation - either directly or as sub-subsidiaries. Each of these subsidiaries has a more or less complicated funded debt and capital structure. The Company likewise has an interest in Pacific Gas & Electric Company (through ownership of 300,400 shares of common out of about 6,261,000 shares outstanding); while North American Company holds 2,002,487 - North American is in the Atlas Corporation group.

Properties. The Standard Gas & Electric Company system includes steam and electric generating stations, hydro-electric generating stations, electric transmission lines, gas service, electric service, and street railway service in Pennsylvania, Kentucky, Indiana, Arkansas, Oklahoma, North Dakota, South Dakota, Minnesota, Wisconsin, Illinois, Montana, Wyoming, Colorado, Idaho, Washington, Oregon, and California, as well as certain oil production, refining, transportation, and distributing facilities through the Deep Rock Oil Corporation.

Reorganization. There seems to be considerable conflict of interests among the various committees. The Government's claim is apparently being contested, but it may be noted that much of the creditor interest is unsecured.

RAILROADS IN REORGANIZATION AND RECEIVERSHIP.

One railroad, the Alabama, Tennessee and Northern Railroad Corporation, in receivership under section 77B, and two railroads, the Georgia and Florida Railroad Company and the Wichita, Northwestern Railway Company, in equity receivership, present cases deserving of further study for the purposes of the present problem.

ALABAMA, TENNESSEE AND NORTHERN RAILROAD CORPORATION

Control: Little is known at this point in the investigation of the ultimate control of this company. However, it is to be noted that I. Howard Lehman of Cook, Nathan, Lehman and Greenman, General Counsel and attorneys for the Railroad (the firm is known to specialize in railroad bonds) and F. J. Lisman, the investment banker of New York, are on the Board. The other directors appear to be from Alabama.

Creditors' Interest: Total liabilities, exclusive of capital stock, as of December 31, 1936, were approximately \$5,000,000. The Treasury holds a claim against the road represented by a section 210 loan in the amount of \$151,500 principal and \$36,360 interest accrued to January 1, 1937, which loan is secured by \$77,000 of prior lien 6% bonds of the carrier and \$148,800 of equipment trust notes which are a first lien against certain equipment. The Reconstruction Finance Corporation holds a claim of \$475,000 principal and accrued interest, the amount of which is not available, which claim is secured by approximately \$500,000 prior lien 6% bonds of the carrier and the personal guaranty of the president of the carrier to the extent of \$110,000. Thus the total claims of the Government against the carrier are approximately \$475,000 or almost 10 per cent of the total liabilities of the carrier.

Activities: This carrier, incorporated in Alabama, owns lines which run from Mobile, Alabama, to Reform, Alabama, to a junction with the Mobile and Ohio Railroad, a distance of approximately 218 miles. Its lines connect at Aliceville with the St. Louis, San Francisco Railway and it goes through service in connection with that line. The carrier owns at Mobile, Alabama, about 7,500 feet frontage on the east side of the harbor. The equipment, as of December 31, 1936, consisted of 16 locomotives and 389 cars. The number of employees, as of that date, was 365.

Reorganization: The carrier is now being reorganized under section 77 of the Bankruptcy Act. The holding of the Government is sufficient to be of considerable weight in influencing the terms of the final plan of reorganization. The position of the Reconstruction Finance Corporation in that regard is especially strong since the reorganization will require new money and the Reconstruction Finance Corporation appears to be the only party ready and willing to advance such money.

- 2 -

GEORGIA AND FLORIDA RAILROAD COMPANY

Control: The ultimate control of this company is apparently in New York investment interests; this is evident from an examination of the personnel of the board of directors. For example, Franklin W. Brown is a partner of Redmond & Company, stockbrokers; W. V. Griffin, who is also one of the receivers, is a New Yorker, interested in many railroad, real estate, and other developments; W. H. Coverdale is the well-known industrial engineer, a member of the firm of Coverdale & Colpitts, interested in many railroads and other enterprises; H. B. Baruch is a well-known New York stock broker; R. W. Daniel is the President of the Liberty National Bank of New York.

Creditors' Interests: The total liabilities of the carrier, exclusive of capital stock, as of December 31, 1936, were approximately \$14,000,000. The Treasury holds a claim against the receivers of the carrier represented by a section 210 loan of \$792,000 principal and \$380,160 interest accrued to July 15, 1937, the loan being secured by \$1,100,000 first mortgage 6% bonds of the carrier, representing a first lien on all the lines of the carrier. The Reconstruction Finance Corporation has a claim against the receivers of the carrier for \$354,721 principal and accrued interest, the amount of which is not available, the claim being secured by receivers' certificates.

Activities: This carrier, incorporated in Georgia, owns a continuous line from Augusta, Georgia, to Madison, Florida, with branches to Statesboro, Relee, Moultrie and Sparks, Georgia. In June, 1929, the construction of a 57 mile line from Augusta, Georgia, to Greenwood, South Carolina, was completed. The Company owns terminal property in Augusta and Valdosta, Georgia. The freight carried is composed chiefly of petroleum oils, tobacco, lumber, fertilizer, fruits, poles, manufactured products, naval stores, coal, vegetables, cotton, bricks, clay, sugar, automobiles and cotton-seed products. The directly operated lines of the carrier, on December 31, 1936, consisted of approximately 408 miles and the number of employees was 639.

Reorganization: The carrier is now in an equity receivership. The claims of the Government total more than \$1,500,000, which represents more than 10 per cent of the total liabilities of the carrier, a sufficient amount to give the Government considerable influence in the formulation of a final plan of reorganization.

WICHITA, NORTHWESTERN RAILWAY COMPANY

Control: This company is so small that it does not appear to have directors at this time. It does not appear that, apart from the Government's interest, stated below, any other substantial interests exist, exclusive of stockholders.

- 3 -

Creditors' Interests: The total liabilities of the carrier, exclusive of capital stock, as of December 31, 1936, were approximately \$1,500,000. The Treasury holds a claim against the carrier represented by a section 210 loan in the principal amount of \$381,750 and interest of \$320,670 accrued to January 1, 1937, or a total of \$702,420. The loan is secured by a total issue of first consolidated mortgage bonds in the amount of \$600,000 with a lien covering the entire property of the carrier.

Activities: This carrier, incorporated in Kansas, operates lines extending from Pratt to Vaughn, Kansas, 74.49 miles; Trousdale to Kinsley, Kansas, 23.94 miles; Junction to Iuka, Kansas, 1.04 miles; a total of approximately 100 miles. The equipment of the carrier, as of December 31, 1936, consisted of two locomotives and 31 cars. The number of employees as of that date was 40.

Reorganization: The carrier is now in an equity receivership. The claim held by the Treasury represents approximately 50 per cent of the total liabilities of the carrier, a sufficient interest to dictate the terms of the final plan of reorganization. The remaining debts are so split up among various miscellaneous interests that the Treasury's position obviously is predominant.

The Secy
This is the
draft of a letter
to the President
on the bids I
promised you last
Monday

HO

10/29/57



THE SECRETARY OF THE TREASURY
WASHINGTON

259

MEMORANDUM TO THE PRESIDENT:

In view of the discussion of the matter at Cabinet Meeting on October 22, I think it desirable that I give you a brief statement of what the Treasury Department has done so far about tie bids, and that I submit, for your consideration, a statement of what I propose to do in the future.

The tie bids for tires, opened July 1, 1937, were submitted to the Attorney General. He ruled that, upon the facts in this case before the Department, it was justified in concluding that these bids were the result of collusion and a combination in restraint of trade, and that the rejection of these bids was, therefore, justified. He suggested that the matter be referred to the Department of Justice with a view to prosecution, which was done. Also, the bids were rejected and the bidders were advised that their bids had been rejected because of the indication of collusion.

On September 11, the Director of Procurement readvertised for bids and sent notice to all the prior bidders and to numerous other companies. Again no competition was obtained, and the bids made the same showing of collusion. Accordingly, they were again rejected.

From the foregoing, I concluded that further efforts to secure legally acceptable bids by advertisement would be futile. The time being short, I determined there was a public exigency which, under the

- 2 -

statute regulating Government purchases, authorized a negotiated contract for tires without further advertising for bids. The Attorney General ruled, and the Comptroller General agreed, that the Department was authorized to buy tires in this way.

Accordingly, a contract for the needed tires was negotiated with Sears Roebuck & Company at a saving ranging from 10 to 25 per cent under the prices contained in the two sets of identical bids that had been rejected.

As to the future, the following is the legal and practical situation confronting the Treasury. Apart from any duty on the Treasury to avoid aiding, with its patronage, a combination violating Federal anti-trust laws, the clear policy of the statute regulating Government purchases and binding on me is that the Government shall not be deprived of the benefit of competition by collusion among bidders or otherwise. If the Treasury is to make purchases, it must follow the law not only because of the obligation of the oath of public officers, but also because of the necessity of protecting from personal liability disbursing officers called on to pay for such purchases.

Accordingly, when the next case of tie bids comes before me for action, I propose to proceed as follows:

1. I shall ask the Attorney General specifically to rule whether on the facts of the case then before me I would be justified in concluding that no collusion or other violation of law was present.

- 3 -

2. If his answer is in the affirmative, I shall, to protect disbursing officers, ask the Comptroller General for a specific ruling whether, if a contract were concluded with one of the identical bidders chosen by lot, he would approve disbursements thereunder.
3. If the Comptroller General's answer is also in the affirmative and if at that time we are, as now, without a uniform policy applicable to all departments of the Government, I shall forthwith conclude a contract with one of the identical bidders, choosing him by lot.
4. If I do not get an affirmative answer from both the Attorney General and the Comptroller General, I shall, as to purchases for other departments, ask your approval for me to refer the matter back to such departments to make their own purchases. As to purchases for the Treasury Department, I shall endeavor, by private negotiation, to secure the best possible price for the Government as, with the approval of the Attorney General, was done in the tire case.

RB

GRAY

Paris

Dated October 29, 1937

Rec'd 4:19 p. m.

Secretary of State

Washington.

1541, October 29, 5 p. m.

FROM COCHRAN.

Exchange trading in Paris very slow today in anticipation of the four day holiday since banks and markets do not reopen until Wednesday morning. Franc sterling rate fluctuated between 147.14 and .45 with French control evidently operating very slightly. Dollars offered on reported statement by Bonnet at Radical Socialist Convention in Lille today that within the next few days and for the first time for a considerable period ships would be bringing gold to France from the United States.

Weakness of dollar due furthermore to heavy sales of dollars in London from Stockholm and Switzerland, with Central Bank of latter country reported as selling. Swiss Bank Corporation is said to have bought additional 200 bars of gold with proceeds of dollar sales.

Paris market expects early bond issue by Department of the Seine amounting to from 600 to 800,000,000 francs 6 percent, 15 years at 94. There is gossip this evening

that

RB -2- No. 1541, October 29, 5 p. m. from Paris

that Renault automotive workers may strike Tuesday for 12 percent wage increase.

Since preparing above message I have read Bonnet's Lille speech as given to L'INFORMATION apparently in advance. I find no statement in regard to gold coming here from America. The speech recites improvement since June in French financial and budgetary situation and reaffirms adherence to tripartite agreement which excludes exchange control.

BULLITT

SMS

EMB

RB

GRAY

London

Dated October 29, 1937

Rec'd 4:05 p. m.

Secretary of State
Washington.

677, October 29, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

As of possible interest there is set forth below certain impressions received in conversations in the City since my return to London regarding changes which have occurred in City opinion during September and October:

(One) As mentioned in No. 673, October 28, 6 p. m., the thought is now fairly frequently expressed in the City that the peak of Britain's recovery movement has been passed and that whereas no drastic declines are expected the trend of activity will slowly but surely go downward. Consequently, a note of caution is beginning to be sounded which, of course, has been partly occasioned by the recent declines in the New York stock market particularly and to some extent in the London market.

Incidentally, the new money market has been virtually dried up since the second week of September.

(Two) As regards France, a noteworthy change has occurred

RB -2- No. 677, October 29, 6 p. m. from London

occurred in City opinion which no longer insists to the same extent on the fundamental contradiction of a Front Populaire Government attempting to induce the necessary capital to return to France. This seems to be due partly to an appreciation of the progress which Bonnet has made toward balancing his budget (and this is particularly appreciated by those who have in mind the unbalanced state of the British budget) and partly to the belief that the Left movement in France has now been halted and that the Frenchman whose heart is always to the Left has now begun to think of his pocketbook which is always to the Right. Nevertheless, the City does not consider the present franc level as stable and is inclined to believe that whereas the franc may come to rest finally at about the present level, it will only do so after exceeding this level by possibly a considerable amount. Incidentally exchange dealers who in recent years have been highly critical of the manner in which the French fund has operated are impressed with the skill displayed and the tactics adopted during the past few years.

(Three) The City seems to be if anything more sensitive to international political events, particularly in Europe than ever before. This is due mainly to the fact that until recently it frankly favored a Franco victory in Spain but it

has now

RB -3- No. 677, October 29, 6 p. m. from London

has now come to evaluate Franco in terms of Italian aspirations, a thought which it finds most disturbing. As regards the Far East, a director of one of the large English Far Eastern banks summarized its view as follows: "Lots of British money has been lost and still more will be lost; nothing can be done to stop it and nothing will be done to stop it; in the end, however, the Japanese will overreach themselves". In general the City looks to future European political maneuverings to be characterized by shock tactics and therefore unpredictable in their consequences.

RECEIVED

BINGHAM

NOV 28 1941

SMS

EMB

RECEIVED
 OCT 29 1941
 U.S. DEPARTMENT OF STATE

MBo

GRAY

Paris

Dated October 30, 1937

Rec'd 9:45 a.m.

Secretary of State,
Washington.

1545, October 30, noon.

FROM COCHRAN.

At meeting here yesterday of Council of International Chamber of Commerce Aldrich of Chase Bank who has been named chairman of Chamber's new committee on monetary and credit policy is reported to have said that no lasting economic recovery in the world is possible so long as the problem of monetary stabilization is not solved, industry and trade requiring a stable measure of value on which they can base their business. He added that among the first problems which his committee would undertake would undoubtedly be the study of possible means for extending the tripartite agreement to a greater number of countries.

From this morning's press accounts of yesterday's Lille meeting of Radical Socialist party it appears that Minister of Finance Bonnet did make the statement in regard to gold coming from the United States to France mentioned in my 1541, October 29, 5 p.m. not in his prepared address but when discussing a resolution.

(End Section One.)

RR:CSE

BULLITT

123

GRAY

Paris

Dated October 30, 1937

Rec'd 12:45 p. m.

Secretary of State,
Washington.

1545, October 30, noon. (SECTION TWO)

The following is a translation of the resolution on financial policy voted by a very substantial majority at the Radical-Socialist Congress at Lille on October 29th:

"Recalling the particularly serious financial crisis at the end of June, which the Radical Party has been able to overcome,

Commends Camille Chautemps and Georges Bonnet for having returned to the traditional doctrine of the party and to have thus led the country into the path of necessary financial reconstruction;

Considers as indispensable the realization of a strict budgetary balance;

Resolutely rejects exchange control, which would result in isolating France from other countries and would definitely ruin the currency by the unlimited inflation which it would provoke;

Rejects, for the present, so-called structural (or constitutional)

1832-Mo. 1545, October 30, noon, Sec. 2, from Paris.

constitutional) reforms; and insists upon the policy of pause, without any rider or change, such as was defined in the Rambouillet declaration;

Demands the rational development of production under orderly and legal conditions, which alone can make it possible to overcome the crisis, improve the commercial balance and assure the stability of the ~~currency~~ currency;

Declares indispensable as regards the forty-hour law a more flexible application and one more adapted to requirements of national defense, and the investigation of measures likely to lead, through confidence in the destiny and prosperity of the country, to the return to circulation of the capital which has taken flight.

The Congress recalls, in conformity with the desire expressed at Biarritz, that the occupation of factories is unlawful, and that the Government's duty is to put aside such occupation without delay.

The Congress condemns all agitation carried on by any one of the organized political parties. In this respect it intends to recognize its responsibility, and to stress its decision not to allow any encroachment on the rights of labor, or to do anything which might harm the reestablishment of prosperity and the finances of
the country

HR 3-No. 1545, October 30, noon, Sec. 2, from Paris.

the country, and the return of all Frenchmen to the civic peace indispensable to ward off the dangers which threaten France."

It is significant and is stressed in the press that Bonnet himself was largely responsible for the text of the resolution.

(END MESSAGE)

BULLITT

WSB

02V11910

NOV 1 1945
RECEIVED
U.S. DEPARTMENT OF JUSTICE

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

October 30, 1937.

In reply refer to
EA 793.94/10893

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and quotes below for the information of the Treasury an excerpt from a telegram of October 29, 1937, from the American Embassy, Peiping, China, concerning plans for the financial future of North China:

"A campaign by Domei news agency has been apparent in the Chinese press during the past three days the purpose of which is evidently the weakening of banknotes of the three National Government banks. This may be a step in preparation for the establishment in North China of a new financial set up. It is known that plans for the financial future of North China have been under discussion in Tientsin during the past weeks by the Japanese authorities."