

DIARY

Book 101

December 7 - December 13, 1937

Associated Gas and Electric Company
 Congressman Somers (of Brooklyn) proposes settlement
 to HMJr; HMJr tells Somers same proposition has been
 offered him three times within last ten days -
 12/9/37..... CI 173

Bank for International Settlements
 Cochran, upon return to Paris from United States,
 reports that Schacht regrets Niemeyer has advocated
 Hechler as general manager for Bank for International
 Settlements; cannot support him but failure to
 support a German candidate will weaken his (Schacht's)
 position further - 12/9/37..... 110
 Cochran also reports that Fournier and Niemeyer will
 consult soon in Basel; Fournier to carry out threat of
 removing French deposits and French participation and
 even of reopening whole question of reparations by
 removing long-term French funds placed in Bank under
 the Young plan, if Niemeyer persists in his move for a
 German general manager - 12/9/37..... 110

Belgium
 Loan of E5 million at 4%, maturing 1960, arranged for
 Belgium Government in London - 12/13/37..... 325

Berle, Adolph, Jr.
 See Mexico

Business Conditions
 See also Great Britain: Unemployment
 " " Purchasing, Government
 " " Unemployment Relief

FDR tells HMJr "whole attitude changed after a day away
 from Washington"; HMJr gathers FDR thinks "things are
 not so bad" - 12/7/37..... 64
 FDR and HMJr again discuss - 12/8/37..... 69
 HMJr asks Macy's economist, how he can get, each week,
 actual cash sales of leading department stores - 12/9/37.. 121
 a) Recommendation is that request go out over
 HMJr's own signature
 b) List of stores to which telegram is sent - 12/8/37... 192

Conference on cyclical expansions and contractions of
 business activity; present: HMJr, Wesley Mitchell,
 Arthur F. Burns, Haas, and Miss Michener - 12/11/37..... 233
 a) National Bureau of Economic Research memorandum..... 247

	Book	Page
China		
HMJr-Feis conversation - 12/7/37.....	CI	14
a) HMJr does not feel State Department has given Treasury clean-cut answer		
b) Background concerning Chiang Kai-shek's present position given by Feis		
HMJr tells FDR present status: United States has agreed to buy fifty million ounces of silver over the next ten weeks but Treasury is awaiting State Department advice before giving extension of right, expiring 12/31/37, to borrow foreign exchange - 12/7/37.....		64
State Department memorandum discussed by FDR and HMJr - 12/8/37.....		70
Civilian Conservation Corps		
See Unemployment Relief		
Cotton		
Jones letter stating that Commodity Credit Corporation can make loans only on those commodities designated by the President; because of large investment in loans on cotton, the Corporation will undertake advertising campaign to increase consumption if FDR, HMJr, and Wallace so request - 12/7/37.....		66,70-C 67,70-B
a) HMJr so informs FDR.....		70-B
b) FDR suggests that he go on the air.....		70-E,71
c) Proposed FDR letter to Jones.....		276,278
Summary of situation as of 12/13/37.....		
Cuba		
See Latin America		
Cummings, Homer S. (Attorney General)		
Hopkins tells HMJr Tommy Corcoran "is out to get the Attorney General" - 12/8/37.....		175

Fechner, Robert		
See Unemployment Relief		
Federal Deposit Insurance Corporation		
Financial position discussed by HMJr, Taylor, and Harris - 12/9/37.....		166
Federal-State Fiscal Relations		
Magill tells HMJr problem "appears to be ready for an attack on a broad front" - 12/9/37.....		164
Financing, Government		
12/15/37 - Closing of subscription books - 12/7/37.....		1
HMJr-Burgess conversation - 12/7/37.....		2
a) Federal Reserve operations discussed		11
HMJr-Bell conversation - 12/7/37.....		
a) HMJr tells Bell, because of position taken with Federal Reserve, he thinks "we should convert all of our notes and then if we want to sell after Thursday, we can"		

	Book	Page
Financing, Government (Continued)		
HMJr-Harrison conversation - 12/7/37.....	GI	17,28
a) Federal Reserve operations		22
HMJr-Eccles conversation - 12/7/37.....		
a) Burgess had sold \$5 million of the rights and Discount Corporation had offered to take the balance before change in plans		
b) Plan now is "to convert the \$75 million into bonds"		
c) HMJr discusses present situation with Burgess.....		30
Burgess gives market resume - 12/8/37.....		72,84
Harris resume of major financing operations, December 1933 to December 1937.....		95
Conference concerning "allotment of December 15th issues and buying up of Treasury bills"; present: HMJr, Taylor, Bell, Gaston, Seltzer, Kilby, and Harris - 12/10/37.....		178
France		
See Stabilization		

- G -

Germany

Cochran, upon his return to Paris from United States, reports that Schacht, together with Hulse and Blessing, his two favorite assistants, will leave the Reichsbank on April 1st - 12/9/37.....		110
Schacht regrets that Niemeyer has advocated Hechler as general manager for Bank for International Settlements; cannot support him but failure to support a German candidate will weaken his (Schacht's) position further - 12/9/37.....		110

Gold

See Japan

Government Bond Market

Eccles and HMJr discuss Federal Reserve Bank balances and purchases of securities in immediate future - 12/9/37...		137
a) Conversation repeated to Burgess.....		145
b) " " " Bell.....		147

Great Britain

Increase in unemployment by 109,000 has crystallized more pessimism - 12/9/37.....		104
---	--	-----

- H -

Housing

See United States Housing Authority

- J -

Japan

Haas memorandum on Japan's foreign exchange resources showing that she can continue military exchange operations upon the present scale for at least another year - 12/13/37.....		322
Cable from American Embassy, Tokio, concerning shipments of Japanese gold to the United States - 12/14/37.....		326

Kennedy, Joseph P.

Odlum offer to represent utilities in Washington and
FDR's decision to appoint Kennedy to the Court of
St. James for six months discussed with HMJr by FDR -
12/7/37.....

CI 69

Krock, Arthur (New York Times)
See Roosevelt, Franklin D.

Latin America

HMJr suggests that plans be laid to woo Latin American
countries away from Fascist bloc; suggests that survey
be first made of Cuba and Mexico - 12/11/37.....

266

Mexico

See also Latin America

Request for loan from Stabilization Fund (letter signed
by Lockett) transmitted by Daniels to HMJr.....
a) HMJr's answer - 12/7/37.....

54
52

- 1) Stabilization Fund cannot be used for
purpose of granting direct loans
- 2) HMJr offers consideration of request
similar to that of January 1936, when
silver held in United States for the account
of Banco de Mexico was set aside from time
to time and pledged to Federal Reserve Bank
of New York, as fiscal agent of United States,
as security, together with gold

HMJr tells FDR about Suarez request transmitted by Daniels;
FDR advises consultation with State Department as care
that there is no interference with the so-called Berle
Plan - 12/8/37.....

70

Memorandum from Bank of Mexico: "Balance of payments of
the foreign commerce of Mexico and increase of the
import tariff" - 12/8/37.....

88

Conference; present: HMJr, Ambassador Najera, Suarez
(Finance Minister), Taylor, Feis, Lochhead, and White -
12/13/37.....

292

Mitchell, Wesley (Director, National Bureau of Economic Research)
See Business Conditions

National Bureau of Economic Research
See Business Conditions
Neutrality Act

China:

HMJr-Feis conversation - 12/7/37..... GI 14

a) HMJr does not feel State Department has given Treasury clean-cut answer

b) Background concerning Chiang Kai-shek's present position given by Feis

HMJr tells FDR present status: United States has agreed to buy fifty million ounces of silver over the next ten weeks but Treasury is awaiting State Department advice before giving extension of right, expiring 12/31/37, to borrow foreign exchange - 12/7/37..... 64

State Department memorandum discussed by FDR and HMJr - 12/8/37..... 70

Nicaragua

Magill memorandum on tax refund paid by a railway owned by the Government - 12/7/37..... 65

Purchasing, Government

Procurement Division memorandum on estimated purchases to be made by Government in December 1937, January and February 1938..... 189

Revenue Revision

FDR asks HMJr status of "surplus tax"; HMJr replies no method has been evolved to keep principle of tax and at the same time give necessary relief - 12/7/37... 64
a) Material left with FDR..... 75

Progress report on tax hearings before Ways and Means Subcommittee prepared by Magill and transmitted by HMJr to FDR - 12/9/37..... 167

Magill memorandum of conference with FDR attended by HMJr, Doughton, Vinson, and Magill - 12/11/37..... 263

Roosevelt, Franklin D.

HMJr sends to FDR chart of wholesale prices and factory employment kept current in Treasury Department, requested by Judge Rosenman in connection with FDR's state papers, reference to which was recently made by Arthur Krook (New York Times) - 12/9/37..... 161

Roosevelt, James

HMJr tries to tell FDR his difficulties with tax bill and with James; Miss LeHand later tells HMJr she has explained entire situation to FDR and that she does not wish James to have further contact with the Hill - 12/8/37..... 69

Ruml, Beardsley

See Business Conditions

Silver

See also China

" " Mexico

Senator Pittman states that silver industry has 400,000 people at work; HMJr tells Gaston to send Kintner to Bureau of Mines for the true figures to be used in story - 12/7/37.....

CI 25
70

HMJr asks FDR if he wants to "talk silver" - 12/8/37....

a) Both write down price they think it should be and both agree on 64¹/₂

Price in London well below price in New York - 12/13/37.. 316

a) HMJr asks Haas, White, Taylor, and Lochhead for their recommendations

b) HMJr tells Lochhead to "take anything up to a million ounces today at the fix"

Social Security

See Unemployment Relief

South America

See Latin America

Stabilization

France:

Exchange market movements resume - 12/7/37..... 48

" " " " - 12/8/37..... 100

Taxation

See Revenue Revision

Unemployment Relief

See also Business Conditions

" " Great Britain: Unemployment

Colonel Harrington gives HMJr statistics for week ending December 4th - 12/7/37..... 27,32,97,177

Loaigan memorandum on Boston visit - 12/7/37..... 34

a) Changes in employment in New England..... 41

b) Indexes of employment (manufacturing) in New England.. 44

HMJr and Bell discuss proposed schedule for employment on Works Progress Administration work projects, together with amount of money available - 12/7/37..... 59

HMJr tells 9:30 group Hopkins, too, is worried that states will not be ready "to pay unemployment money in January" - 12/9/37..... 115

a) Conference; present: HMJr, Bell, McReynolds, Bartelt, Collins, G. F. Allen; Altmeyer, Wagenet, and Banning (Social Security Board) - 12/10/37..... 199

	Book	Page
Unemployment Relief (Continued)		
Hopkins and HMJr again confer on future program - 12/8/37.....	CI	174
a) Civilian Conservation Corps camps discussed; Hopkins fearful of Fechner's "tremendous political drag"		
Outline of procedure in uncontested claims for benefits for total unemployment - 12/10/37.....		187
Newspaper stories based on Hopkins' statements at press conference - 12/9/37.....		201
Conference; present: HMJr, Colonel Harrington, Ross (Harry Hopkins at Mayo Brothers) - 12/13/37.....		310
United States Housing Authority		
HMJr tells 9:30 group Maxcy has been talking to Bell about financing; Taylor adds Straus has been talking to him about their legislation - 12/13/37.....		285
a) McReynolds has discovered that "the various units are stalling, waiting for the Federal Government to do it all; Straus seems to have \$30- to \$40 million worth of commitments where the communities are going to do 10%; if now he makes it easier for the cities to put up 10% or makes it a phony 10%, we'll be right back at the starting point"		
1) HMJr asks McReynolds to clear this up with Straus		
HMJr-Straus telephone conversation - 12/13/37.....		302
a) HMJr tells Straus Treasury is not going to give requested endorsement		
b) HMJr discovers Straus has no actual commitments - that communities have merely asked that funds be earmarked until they could see what could be done on raising their 10%; HMJr feels, therefore, that publicity has been definitely misleading		
HMJr asks McReynolds to see Straus immediately - 12/13/37..		306
United States Savings Bonds		
Sales have passed \$1 billion mark - 12/13/37.....		268

Works Progress Administration
See Unemployment Relief

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 7, 1937.
12/6/37.

Press Service
No. 11-85

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-1/2 percent Treasury Bonds of 1945 and of 1-3/4 percent Treasury Notes of Series C-1942 closed at the close of business Monday, December 6, for the receipt of cash subscriptions.

Cash subscriptions for either issue placed in the mail before 12 o'clock midnight, Monday, December 6, will be considered as having been entered before the close of the subscription books.

The subscription books for both issues will close at the close of business Wednesday, December 8, for the receipt of subscriptions in payment of which Treasury Notes of Series A-1938, maturing February 1, 1938, are tendered.

Exchange subscriptions for either issue placed in the mail before 12 o'clock midnight, Wednesday, December 8, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the bases of allotment will probably be made on Friday, December 10.

--CC--

December 7, 1937. 2
10:11 a.m.

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

H.M.Jr: Good morning.

B: Well everything looks all right this morning.

H.M.Jr: Good.

B: I thought your announcement was fine.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Well the boys figured that thing out, and they figured that that's about what it would be, we're a little bit on the safe side.

B: The bonds are quoted this morning at a hundred and one twelve sixteen or thereabouts.

H.M.Jr: Yes.

B: And the notes prior twenty three to twenty six.

H.M.Jr: Uh-huh.

B: So that there's a spread there of about three quarters of a point.

H.M.Jr: I see.

B: Now about our own operation Henry.

H.M.Jr: Please.

B: I talked with all the committee.

H.M.Jr: Yes.

B: - Harrison and Sinclair and Eccles talked with his people, and I talked with him around- late yesterday.

H.M.Jr: Yes.

B: Everybody's agreed on converting half into bonds.

H.M.Jr: Yes.

B: And they also all agreed that we ought to sell for the balance - sell rights, as far as we can do so without adversely affecting the market.

H.M.Jr: Yes.

B: And buy shorter stuff. Now I talked with Marriner the point you raised and had been all over it myself, and honestly I - I don't see a point to that really, Henry.

H.M.Jr: You don't.

B: I think we've got to operate the account as a prudent man would.

H.M.Jr: Yes.

B: And if we've got something with a half a point profit in it, then we could take that without disturbing the market.

H.M.Jr: Yes.

B: I think we've got to do it.

H.M.Jr: Uh-huh.

B: Otherwise we'd - the auditors might get after us and say "My boy you threw away half a point here". As long as there's no benefit to you particularly or doesn't adversely affect the market in doing it that way.

H.M.Jr: Well, just for argument, supposing you convert it, let's say either - well converted everything, either into bonds and notes and then sold.

B: Well, it's - it's just going round Robin Hood's barn. It's one or the other, you see. Doesn't make any difference really, the effect's the same. Except that we can probably do this with an insurance company or directly with some big holder, and do it to advantage without - more easily than we could later, perhaps.

H.M.Jr: Well couldn't you sell them - let's say you converted, couldn't you sell them the new bonds and be delivered on the 15th.

- B: Yes, but then we'd - but then we'd have to do this. Probably we'd have to show an increase in our bond holdings and then a decrease, which wouldn't be so good.
- H.M.Jr: Uh-huh. Well I don't -
- B: We've done this - we've done this almost every quarter day Henry.
- H.M.Jr: Yes.
- B: Now suppose for example, you were just offering a long term bond.
- H.M.Jr: Yes.
- B: Which would not be appropriate for a central bank to hold.
- H.M.Jr: Yes.
- B: Why then we'd have to sell the rights and go into something else.
- H.M.Jr: Well, of course - I - I'm s - I don't agree with you, and I don't agree with it, ^{that} there is such a thing as United States Government bond that a Federal Reserve System cannot hold.
- B: Yes, well we've got to keep a certain proportion of our portfolio short, because otherwise we're caused to deal with the market situation.
- H.M.Jr: Yes.
- B: We can't - when we've got to tighten money we can't rely on selling stuff. We've got to let the stuff run off.
- H.M.Jr: Yes.
- B: And that means that something like half our portfolio has got to mature within two years.
- H.M.Jr: Well I'm not going to - I mean - I think that - I mean - some day I mean I think the Federal Reserve may be called on, not by me, but by a Senatorial Committee to explain all that trading and -

B: Well that's very easy. I'd be very glad to do that any time.

H.M.Jr: Well.

B: As far as I'm concerned.

H.M.Jr: That's your - responsibility

B: Because always the Central Banking is back of that.

H.M.Jr: What?

B: The whole history of Central Banking supports us in that.

H.M.Jr: Yes.

B: That's - there's no difficulty about it.

H.M.Jr: Yes. Well, if that's the decision, all right, but I would have much rather seen the System convert then sell.

B: Well I don't think that's as practical Henry, and I don't feel -

H.M.Jr: You don't think it's what?

B: I don't think that's as practical a way to do it. And I think we'd run the danger of making a bad record on that, that is if we showed a big increase in bonds and then a decrease or you run the risk of its adversely affecting the market.

H.M.Jr: Uh-huh. Well, say -

B: We've been ever it pretty carefully Henry, and I'm just convinced that that's right.

H.M.Jr: Well -

B: And I'm sure Marriner feels the same way.

H.M.Jr: Well it's you people's responsibility.

B: Yes, that's our -

H.M.Jr: But I - I - I can also say I don't agree with you.

B: Well let's sit down some time, when we've got leisure and go into this whole question. I'd like to do it with you some time.

H.M.Jr: Yes. I think there's entirely too much swapping going on, and I can say this now with a very - very, very strong bond situation, the issue going extremely well, it isn't as though I was urging you to do something when we had a weak issue.

B: Yes.

H.M.Jr: I mean this is a time when the issue is extremely strong.

B: Yes.

H.M.Jr: And I can say it without having the System feel that we're doing it for selfish motives.

B: Yes. What is your feeling about it Henry, are you afraid'll it affect the market adversely?

H.M.Jr: No I just don't like it, that's all. I don't like - Governmental agency, you're selling the rights. That's the whole point. I mean, I don't mind if they convert it, then after beginning Thursday they want to sell off some of their stuff because they think they've got too much, or even if you took half bonds and half notes.

B: Yes.

H.M.Jr: I mean I don't see why - I mean, why you couldn't take -

B: But how would we justify throwing away three or four hundred thousand dollars. I haven't figured it out but suppose it's that.

H.M.Jr: Well how do I justify pricing this thing a sixteenth extra. I mean -

B: Well I don't see that our - what we do makes any difference in the success of the issue. The success of the issue is assured.

H.M.Jr: No, but it might - it might at some future date.

B: Oh, well, now, that's another question. If we got a point where we were adversely affecting the issue, why that makes another question.

H.M.Jr: I mean I wouldn't be having this conversation if the issue wasn't going well, see?

B: Yes.

H.M.Jr: I mean - I'd say, well I don't - I'm not going to put myself in a position -

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: But I tell you how strong I feel about it.

B: Yes.

H.M.Jr: If you fellows would convert, see?

B: Yes.

H.M.Jr: I'll give you a put on me for the balance of this month for fifty million dollars of the new issue, see?

B: Yes.

H.M.Jr: I'll give you - you can put it to me any time, fifty million dollars of bonds, of these new two and a halves, see?

B: Yes. Well if you feel that way I think you ought to talk with Marriner.

H.M.Jr: Well he's coming over for lunch.

B: Yes but this thing'll all be done before lunch.

H.M.Jr: Well.

B: All be done.

H.M.Jr: Well, no, no, I'm not going to argue but that's how strongly I feel.

B: Yes.

H.M.Jr: But you fellows go ahead and you know how I feel, I know how you people feel.

B: Well, let's discuss this thing at leisure, another time. We'd be creating no new precedence on this thing.

H.M.Jr: But.

B: I think this is the thing to -

H.M.Jr: But, I say, if the issue was not going well, then I'd keep my mouth shut, but it's going so well and just you people to make three or four hundred thousand dollars, I mean - you're not in sense - I mean -

B: As a matter of fact we'd rather have shorter notes than the five year.

H.M.Jr: I mean you couldn't make it if I didn't let you make it, in a sense through the pricing.

B: Well yes, but everybody else of course has the same rights.

H.M.Jr: But, yes, - but I mean I think - you're just looking at it as though you were a private individual.

B: No, no, I don't think so Henry.

H.M.Jr: And -

B: I don't think that's

H.M.Jr: I'm looking at it as though - what you are -

B: That's correct.

H.M.Jr: Governmental agency and I don't think - I think - I don't think you can consider the profit.

B: Well if, Henry, not if there's any disadvantage for you, and I don't feel that there's a particle on that.

H.M.Jr: Uh-huh.

B: And if I saw that the Treasury was in any way injured or this issue adversely affected by it, I'd be just as strong as I could be the other way.

H.M.Jr: Uh-huh.

B: But I don't see that it is.

H.M.Jr: Well, all right. Don't let's - I mean I'm not - I don't feel keenly enough about it to even approach -

B: Yes.

H.M.Jr: Saying that we have a difference, see?

B: Yes.

H.M.Jr: Or a break.

B: Yes.

H.M.Jr: See what I mean?

B: Yes.

H.M.Jr: I don't want you to feel that way.

B: Yes.

H.M.Jr: But I've stated my position, - the way I always do - you go ahead - and you never hear any re-crimination about it afterwards. You know me by now.

B: Yes. Well that's fine. We ought - in the leisure between times to discuss these matters and agree on the principle.

H.M.Jr: Yes, because some day there may be a weak issue, and -

B: That's right.

H.M.Jr: And I won't be in a position to argue with you.

B: Well I think we ought to sit down when we can do it leisurely together and go over it - Marriner.

H.M.Jr: But the eight millions that we have, we're going to convert.

B: Yes. Yes. Well, I should think it probably suited your books to do that.

H.M.Jr: No, I can say postal savings should get that profit. The Federal Deposit Insurance should get that profit.

B: Yes.

H.M.Jr: But I - I'm going to convert and later on if they still are all right, why we'd - they may sell, but I feel as a policy that they should convert.

B: Yes.

H.M.Jr: And that the small profit involved, they should waive it.

B: Yes.

H.M.Jr: But that's all right. I don't want you to feel, I mean while I'm talking strenuously, I mean there's - there's no personal feeling in it.

B: Yes.

H.M.Jr: You get the distinction?

B: Exactly, yes.

H.M.Jr: It's purely - an intellectual -

B: Exactly.

H.M.Jr: It's an intellectual approach and not a personal one.

B: Well we haven't generated any emotions on it either.

H.M.Jr: All right. All right.

B: Talk it over with Marriner, and there's still - in the meantime I think we'll just go ahead.

H.M.Jr: All right.

B: Very good, Henry.

H.M.Jr: Thank you.

December 7, 1937.
10:24 a.m.

11

Dan
Bell:

I talked to the Postal Savings people and also the Federal Deposits and they say that it will be all right to sell these and leave the case in their funds.

H.M.Jr:

Well I've changed my mind.

B:

You have.

H.M.Jr:

Well on account of the position I'm taking with the Federal Reserve. I think Dan we should convert all of our notes and then if we want to sell after Thursday, we can.

B:

I see.

H.M.Jr:

But I've taken a very strong position with the Federal that they should convert and then do what they want, and they say they won't do that. They're going to sell half their rights.

B:

Say they are.

H.M.Jr:

Yes.

B:

I see.

H.M.Jr:

So -

B:

You talked to them this morning, huh?

H.M.Jr:

I just got through this second.

B:

I see.

H.M.Jr:

So I would convert whatever we have on the February notes, then Thursday I can talk - whether we want to sell them or not.

B:

I see.

H.M.Jr:

See?

B:

Well our cash position was a little low and I thought that you might want to leave this in the cash, be invested maybe in January.

H.M.Jr:

Well now, on account of the position I took with the Federal I can't do that but Thursday if the

bonds are still good we can sell them.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: So I just buzzed for Harris and I'll tell him now to convert all the February notes we have into bonds.

B: I see.

H.M.Jr: And then if - if on Thursday, if the bonds are still all right, why talk to me and maybe we can sell them then, see?

B: All right.

H.M.Jr: But I've had a long talk with Burgess. I don't agree with him at all.

B: Uh-huh.

H.M.Jr: And I want to talk to you about it sometime.

B: All right. I'll do that.

H.M.Jr: What else do you know?

B: That's all.

H.M.Jr: All right.

B: You haven't seen the President?

H.M.Jr: No, but he called me last night and he said if he was well today he'd let me know.

B: Uh-huh. How's he feeling?

H.M.Jr: Well he said it's a question of either having the bone scraped or further excavation. They didn't know until the -

B: Uh-huh.

H.M.Jr: X-rays.

B: He's having some intestinal trouble I take it.

- 3 -

H.M.Jr: Oh really.

B: Well didn't the papers say that last night.

H.M.Jr: Why I don't think so, he called me last night.
Talked and sounded very cheerful.

B: Uh-huh. The paper said this morning, I think
Dr. McIntyre's statement said that it was caused
from an intestinal disturbance.

H.M.Jr: Oh!

B: Whatever it was. Pus maybe.

H.M.Jr: All right.

B: Goodbye.

H.M.Jr: Goodbye.

December 7, 1937.
10:29 a.m.

H.M.Jr: Hello.

Operator: Dr. Feis.

H.M.Jr: Hello.

Dr.
Feis: Yes. Good morning.

H.M.Jr: Herbert Feis I don't understand from the State Department. Are you people telling us yes, or are you telling us no about extending this credit arrangement with the Chinese.

F: Might I ask you to give me one minute, Henry, would you mind me getting out - sorry. I had to get rid of a visitor.

H.M.Jr: Oh!

F: Did - did our memorandum get there?

H.M.Jr: No, but I understand from what Lochhead tells me it isn't a definite answer.

F: I beg your pardon.

H.M.Jr: It isn't a clean cut answer.

F: Well it's clean cut in this sense. Well he hasn't seen it has he? I don't see how -

H.M.Jr: Well that's what he reports.

F: Well I don't believe the messenger has taken it over yet. I'd say - I'd interpret it as this.

H.M.Jr: The President called me on it last night and I said I couldn't give him an answer because I was waiting on the State Department.

F: I didn't lag behind a bit. I really did press just as hard as I could. And after we did our work we found the Secretary down on the Hill and couldn't get his O.K. for it until early this morning. I'd say it was tantamount of indicating that it was a border line case. The Department has no objection but suggested that you might want to consider putting in a clause of this type. We actually give you a

short clause suggested. Now that's about what it comes down about. I have a copy of that thing we just sent -

H.M.Jr: Who did you send it to?

F: Wayne Taylor.

H.M.Jr: Well I'll get it. I'll read it before I talk to you further. How's that?

F: Right. Now I'll - may I hold you one minute?

H.M.Jr: Please.

F: It's just - I was telling Wayne that I thought I ought to give you at the same time, just a word of background as to what appears to be happening. Our source is Donald, who is the American advisor to Chiang Kai Shek.

H.M.Jr: Yes.

F: So it ought to be a good source. He seems to be indicating that Chiang Kai Shek doesn't feel that he can hold Nanking. Feels very uncertain at all.

H.M.Jr: Yes.

F: Whether he can hold any Chinese Government out there. He states that their supply situation is getting so difficult he may virtually have to quiet. He won't sign anything with the Japs, but that would leave the field free for other elements with whom the Japs are already working to sign something.

H.M.Jr: Uh-huh.

F: So there's some possibility, if his forebodings are borne out that within, say, two weeks or thirty days you haven't got Chiang Kai Shek functioning in control of any of the parts of Eastern China.

H.M.Jr: I see.

F: Just what you'll be able to say to the Chinese Government is - it will be difficult.

H.M.Jr: Uh-huh.

F: But that's only Donald's report of what Chiang Kai Shek feels.

H.M.Jr: Well the President wanted to know where we were, and I told him I couldn't tell him, and I'll get this memorandum and if it isn't there, I'll call you back.

F: Well, it won't be there yet.

H.M.Jr: Has it left?

F: Well let me make sure. Unfortunately my messenger - here, can I read it to you?

H.M.Jr: No, send it, that is have you got -

F: Has that messenger left for the Treasury?
Yes he's left.

H.M.Jr: Well I'll get it from Wayne.

F: All right, sir.

H.M.Jr: Thank you.

F: Right, sir.

December 7, 1937.
10:59 a.m.

17

H.M.Jr: Hello.

Operator: Governor Harrison. Go ahead.

H.M.Jr: Hello, George?

Governor
Harrison: Hello, Henry?

H.M.Jr: Good morning.

H: Good morning, sir. I called you up last night to say hello, and to pat you on the back, if you will permit me to.

H.M.Jr: I'll take several pats.

~~H.M.Jr:~~ H: What?

H.M.Jr: I'll take several pats.

H: Well I think it's a grand job, and I'm - I haven't talked to you about it since you made the issue but I was delighted to see you did it - in the - with the option.

H.M.Jr: I think it's all right.

H: You remember the meeting we had there, I think I was about the only one - or two - who had any thought about the possibility of the bonds anyway.

H.M.Jr: Right.

H: I think it was very wise.

H.M.Jr: We had to make it a little extra sweet. It's an insurance policy and I'm not a bit sorry.

H: Well, I - in that, of course, you always run that risk.

H.M.Jr: Yes.

H: It's a hard thing to tell whether you -

H.M.Jr: Well.

H: Should insure yourself at some extra cost or not, but I think

H.M.Jr: Well, with the world so uncertain I think we have to.

H: Yes, well I thought that.

H.M.Jr: Yes.

H: It is pretty sweet now.

H.M.Jr: It's all right.

H: And -

H.M.Jr: Said make a little money this time and we can remind them of it if they should lose it next time.

H: It's a problem what we should do. Why I think we're - I've been talking to Burgess about it. I think we should take half of our stuff into bonds, anyway. Then the question in my mind was whether we, well - the demand for rights is so great, why not sell a few rights if we could do it, without unduly running up something else that we would have to take in their place.

H.M.Jr: Well I had a long talk with Burgess this morning fifteen or twenty minutes.

H: Yes.

H.M.Jr: And I told him how I felt.

H: Well I haven't seen him since you talked to him.

H.M.Jr: Fifteen or twenty minutes, and I understand that - that the System disagrees but it's their responsibility.

H: The System what?

H.M.Jr: Disagrees. I mean that he's going to try to sell half his rights, and I told him I didn't like it, and this was - when things were as good as they are was the time that I could say it. If it was weak it looked as though I was asking for help, when I shouldn't, you see.

H: Oh, you don't like our selling the rights?

H.M.Jr: No I don't.

H: Well, I don't think it makes awfully much difference, I -

H.M.Jr: Well, Burgess was very very insistent that they should sell the rights, and they can't run the system, and that they got three or four hundred thousand dollars worth of profit, they should take it, and so forth and so on.

H: Let me talk - I'll talk to him again. I don't - I don't feel so strongly about it in view of the way you feel.

H.M.Jr: Well - what I said, was, take half bonds and take half notes, see, if they want to. And then after - sell some of them, but convert.

H: Uh-huh.

H.M.Jr: I - I have no objection to the selling after you converted.

H: Yes.

H.M.Jr: But my objection was that, I said I thought that it might be difficult to explain selling the rights.

H: Uh-huh.

H.M.Jr: See?

H: Well, the only thing is that - the reason that I thought about that, in talking to him yesterday, was in the past we had often done that.

H.M.Jr: I know, and - but it just so happens with the issue so strong, I'm technically in a position where I can say what I think.

H: Yes.

H.M.Jr: Without being misunderstood.

H: Yes.

H.M.Jr: I mean - I don't know - as I say, I explained carefully, I have no emotions on it, and - but I simply think that it might be difficult to explain, but that, after all, would be up to the System.

H: Yes.

H.M.Jr: I mean why they didn't convert and why they were, so to speak, selling out - taking a quick profit.

H: Uh-huh.

H.M.Jr: But Burgess said he's - he's perfectly willing to go anywhere and explain it. I said all right.

H: Uh-huh.

H.M.Jr: And -

H: Well let me have a talk -

H.M.Jr: As I say, there's nothing - it's purely an intellectual difference. There's no personal feeling in the matter.

H: Uh-huh.

H.M.Jr: And I wouldn't feel free to say so if I had a weak issue.

H: Yes. Well Henry, my only thought today was - frankly, that I thought it would be the orderly helpful thing to do, rather than - well, it would be hard to explain.

H.M.Jr: Supposing you converted and then began to sell. It's just the same, only it's - you have converted.

H: Yes.

H.M.Jr: That's - that's the big difference.

H: Uh-huh.

H.M.Jr: Now whether you convert it, and then sell and then buy something, or whether you sell the rights and then buy something.

H: Uh-huh.

H.M.Jr: It doesn't seem to me that there's an awful lot of difference.

H: Uh-huh. Well, I - we thought we could handle it a little better this way, -

- 5 -

H.M.Jr: But that's - undoubtedly you know better than I do, because I'm not at the trading desk.

H: Yes.

H.M.Jr: But -

H: Well I'm very glad to get your reaction. I'm delighted I talked to you because I didn't know you felt that way.

H.M.Jr: Yes I did. I told Burgess that last night.

H: Uh-huh.

H.M.Jr: Then he called up this morning, and he said well if I felt that way to talk to Eccles. I said well he was coming for lunch, and Randolph said it would be too late. They wanted to start operating right away.

H: Yes.

H.M.Jr: I said, "Well I've stated my position, and the fact that the System feels they should do, all right."

H: Yes. But I, frankly, haven't seen him this morning at all, and it may be he's already done some of it, but I'll talk to him right away.

H.M.Jr: Thank you.

H: All right.

December 7, 1937.
3:30 p.m.

22

Operator: Go ahead.

H.M.Jr: Hello.
Marriner
Eccles: Hello.

H.M.Jr: Hello Marriner. Henry talking.

E: Oh yes. The - before we got to Randolph he had sold five million of the rights, and we stopped him from selling anymore.

H.M.Jr: I see.

E: He sold them at a hundred and one and fourteen thirty seconds.

H.M.Jr: Yes.

E: The Discount Corporation just offered to clean up the balance of them, showing that they're in demand.

H.M.Jr: Yes.

E: But what we have decided to do.

H.M.Jr: Yes.

E: Is to convert the seventy five million into bonds.

H.M.Jr: Yes. Well that sounds good to me.

E: Now the reason for that is that the five year note is neither - it's neither long nor short, neither is the eight year.

H.M.Jr: Uh-huh.

E: There isn't enough difference in the two.

H.M.Jr: No.

E: What we really want, we're getting rid of eighty million of stuff that's due in a couple of months.

H.M.Jr: Yes.

E: And what we want to do is to take this seventy five million.

- 2 -

H.M.Jr: Yes.

E: Or at least seventy five million of bonds.

H.M.Jr: Yes.

E: And to - to dispose of them, picking up an equal amount of something that comes due in a two year period.

H.M.Jr: Uh-huh.

E: Keeping our short term investment at about an even keel.

H.M.Jr: Yes.

E: We feel that it'll be easier, possibly, at least more desirable to sell the bonds than it would to sell the five year note.

H.M.Jr: I see.

E: You see?

H.M.Jr: I follow you.

E: So that that's - that's what we've decided to do.

H.M.Jr: Well, I'm very happy.

E: Well all right, I'm glad you are.

H.M.Jr: I'm very happy over that.

E: All right, then.

H.M.Jr: I appreciate that. I - I think it's good from the Government standpoint.

E: Well, it may be in this instance. I can imagine situations where it might be advisable to sell rights - being in a position to protect the bond market later - as a secondary market. If you, in other words, had a billion of bonds going out, where there would be a secondary market, because there's always a group of people that want to take a premium in them - I mean they want to cash in. With this issue of two hundred and fifty million being - it being small,

- 3 -

it being sweet, there isn't going to be much of a secondary market problem at all.

H.M.Jr: Is she a blond?

E: What is it?

H.M.Jr: You said she's small and sweet.

E: Yes. (laughs) That's right. Well, but isn't that -

H.M.Jr: It's a very good comparison.

E: But I can see, if you get a long - a large issue for billion - billion dollar issue, why, that it might be desirable to sell rights and be in a position to protect the secondary market.

H.M.Jr: All right.

E: All right, then.

H.M.Jr: Thank you very much.

E: Goodbye.

December 7, 1937.
2:17 p.m.

Operator: He's out of the office, they're getting him.

H.M.Jr: Yes.

O: Mr. Gaston.

H.M.Jr: Herbert Gaston?
Herbert
Gaston: Yes

H.M.Jr: In a statement that Key Pittman made the other day I saw he said that the silver industry had four hundred thousand people at work, see?

G: Yes.

H.M.Jr: Why don't you tell Bob Kitner to go over to the Bureau of Mines and get the real figures, and write a story on just how much employment silver does need.

G: Yes.

H.M.Jr: Yes. As a matter of fact I know what the answer is.

G: Do you?

H.M.Jr: Uh-huh. About eight thousand people.

G: Eight.

H.M.Jr: Eight.

G: Uh-huh. I'll do that.

H.M.Jr: Tell him to go over to the Bureau of Mines and get a story.

G: Yes.

H.M.Jr: I think - you see, noone has written it. How much does it mean on employment?

G: Yes.

H.M.Jr: I think there's eight thousand people employed in the silver industry in the United States.

- 2 -

G: Uh-huh. Well of course he could do - a little better than that, he could go back and get the figures, what was the employment some years ago compared to today.

H.M.Jr: I - I was thinking, every once in a while when we have an idea we can throw it to one of these boys.

G: Yes. Yes.

H.M.Jr: Think so.

G: Yes.

H.M.Jr: Huh?

G: Yes, sure.

H.M.Jr: All right.

G: Goodbye.

H.M.Jr: Goodbye.

December 7, 1937.
2:55 p.m.

H.M.Jr: Hello.

Operator: Colonel Harrington.

H.M.Jr: Hello.

Colonel Harrington: This is Colonel Harrington.

H.M.Jr: This is Morgenthau.

H: Yes, sir.

H.M.Jr: I wondered if you had unemployment figures, for the - what would it be the week ending the 3rd or the 4th?

H: Week ending -

H.M.Jr: What?

H: It would be the 4th.

H.M.Jr: The 4th.

H: Yes. December 4th. I left word that they were to be sent to me as soon as they came in Mr. Secretary.

H.M.Jr: Would you mind checking, and if you could - if they had them would you call me back.

H: Yes, sir. I'll do that.

H.M.Jr: Thank you.

H: All right, sir.

December 7, 1937. 28
3:22 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

George
Harrison: Hello, Henry?

H.M.Jr: Hello, George.

H: As soon as I got through talking with you I began trying to talk to different members of my committee.

H.M.Jr: Yes.

H: And I couldn't locate Marriner until after he had lunch with you.

H.M.Jr: I see.

H: In the meantime, you see, the committee as a whole had agreed that they should do this.

H.M.Jr: Pardon me?

H: I say - I say in the meantime the committee had previously agreed that Burgess should sell some rights.

H.M.Jr: You mean the Federal Reserve.

H: Yes, the - the executive committee.

H.M.Jr: Yes.

H: I had been in favor of it only because I thought you'd favor it, thinking it was the wise thing to do, but after I talked to you I didn't feel strongly enough about it.

H.M.Jr: Yes.

H: And I recommended to Marriner as soon as I get it that we should not make any sales of rights.

H.M.Jr: I see.

H: And he finally agreed.

H.M.Jr: I see. Marriner agreed.

H: What?

H.M.Jr: Marriner agreed.

H: Yes, he agreed.

H.M.Jr: Oh, you won him over.

H: Well, I don't know, you did, somebody did.

H.M.Jr: O. K. I'm feeling high, wide and handsom today, that's all right.

H: But I found that up - pre - prior to that time we had commitments up to five million so we did sell five million of rights.

H.M.Jr: Well I'll excuse you but don't let it happen again Georgie.

H: Well, no. But I tell you what I think we ought to do. I'd like sometime to talk to you about it, as a question of principal and as a fair operation to you.

H.M.Jr: All right.

H: I really think that it would have been better in some ways to do it from your standpoint, but as long as you did feel that way I didn't feel strongly enough one way or the other.

H.M.Jr: Well, let's between now and the 15th of March talk it over.

H: That's definite.

H.M.Jr: How's that?

H: That's very clear.

H.M.Jr: All right.

H: All right.

H.M.Jr: Thanks George, I'm very much obliged.

December 7, 1937.
3:30 p.m.

Randolph
Burgess: Yes, sir. Hello Henry.

H.M.Jr: How are you?

B: Very well.

H.M.Jr: Well -

B: Your market closed

H.M.Jr: It did.

B: They're quoting fourteen sixteen on the bonds.

H.M.Jr: Uh-huh.

B: Fifteen seventeen on the rights, and twenty eight thirty on the notes.

H.M.Jr: Yes.

B: You know what we're doing, do you Henry? Did Marriner tell you?

H.M.Jr: Well Marriner and George Harrison both called me in the last twenty minutes.

B: Oh well all right, I -

H.M.Jr: And they told me that you'd sold five -

B: Yes.

H.M.Jr: And the other seventy five you were going to exchange for bonds.

B: That's right. Yes, I didn't know whether anybody else had told you.

H.M.Jr: Well they both - first Eccles and then Harrison.

B: We need to coordinate here a little, don't we?

H.M.Jr: That's all right. I've got nothing better to do. And I'm very much pleased. I told Harrison between now and the 15th of March we'd sit down and talk it over.

B: That's fine. Yes.

- 2 -

H.M.Jr: And my God, I hope you can sell those bonds at a profit.

B: Oh, we'll try.

H.M.Jr: Oh, boy. - Wouldn't it be terrible. You'll sell them all right.

B: Oh I think we probably will -

H.M.Jr: In a pinch I'll buy fifty million from you.

B: Well - no we did that without your commitment.

H.M.Jr: That's all right. That still holds good.

B: You didn't name a price, did you?

H.M.Jr: No I didn't name a price.

B: I thought you didn't -

H.M.Jr: No, I just said I'd buy fifty in a pinch.

B: Well that - that won't injure you any, that commitment.

H.M.Jr: No, no. No, that's - I think it's all right, and I say I'm more than pleased - the next time you gentlemen come down to talk to you. Incidentally I see our stock market in the last fifteen minutes again took a two point rise.

B: Well that won't hurt anybody either, will it?

H.M.Jr: No it will not.

B: No, that's awfully good.

H.M.Jr: Well thank you.

B: All right Henry.

H.M.Jr: Goodbye.

December 7, 1937.
3:43 p.m.

H.M.Jr:
Colonel
Harrington:

Hello
Hello.

H.M.Jr:

Yes, Colonel.

H:

The last figure I gave you on employment was for November 27.

H.M.Jr:

That's right.

H:

That was one million, 519.

H.M.Jr:

That's right.

H:

740.

H.M.Jr:

That's right.

H:

Now without reports from South Dakota.

H.M.Jr:

Yes.

H:

From the six New England states and from New York.

H.M.Jr:

Yes.

H:

We have an increase of sixteen thousand, 639 -

H.M.Jr:

639

H:

To December 4th.

H.M.Jr:

I see.

H:

Which makes the total 1,536,379. -

H.M.Jr:

One million - what?

H:

536

H.M.Jr:

536

H:

379

H.M.Jr:

Yes.

H:

With such increases to be added - as may have occurred in South Dakota and in New England and in New York State, which I'll be able to give you tomorrow.

- 2 -

H.M.Jr: Right.

H: So, I'll give you the rest of that tomorrow Mr. Secretary.

H.M.Jr: Thank you. And you won't forget about Miss Lonigan.

H: No indeed, I'm expecting her to call me.

H.M.Jr: Right.

H: And I'll be very glad to hear from her whenever she calls.

H.M.Jr: Oh - she's to call you.

H: That was my understanding of it.

H.M.Jr: Well she called me, she didn't understand. She thought she was going to hear from you tomorrow. This - District Supervisor was to be in from -

H: Well, as a matter of fact he's coming in here in the morning from Chicago.

H.M.Jr: Well, suppose -

HL I think that the best thing would be to have Miss Lonigan come over here.

H.M.Jr: What time?

H: Well, - suppose - I'll call her in the morning Mr. Secretary, I won't worry you with that. I'll call her in the morning and ask her to come over.

H.M.Jr: Thank you very much.

H: All right, sir.

H.M.Jr: When you get the rest of the figures, you'll let me have them.

H: I will indeed. Yes, sir.

H.M.Jr: Thank you. Goodbye.

December 7, 1937

To: The Secretary
From: Miss Lonigan

On Wednesday morning, December first, I arrived in Boston, and called on Mr. Raymond Branion, Regional Director of WPA.

Mr. Branion talked about the general situation in New England and then introduced me to Colonel MacDonough, the State Director of WPA for Massachusetts, and to Miss Lindall who is in charge of WPA social work for the state.

I also talked in Massachusetts, with Mr. Fred Graham of the State Employment Service, Mr. Lawrence Harrington and his staff of the Unemployment Compensation Commission, Mr. James Moriarity, Commissioner of the Department of Labor and Industries, Mr. Roswell Phelps and his staff in the Bureau of Labor Statistics, Miss Ann Geddes of the regional office of the Social Security Board, Mr. John Reilly and his associate, of the National Association of Cotton Manufacturers, and Mr. Roy Cushman, head of the Council of Social Agencies.

On Thursday morning I went to Manchester, New Hampshire, and talked to Mr. William P. Fahey, State Administrator of WPA, and James P. Quinn, Director of Employment for WPA. I also talked to Mrs. Wilder, Director of the State Employment Service, with members of her staff, and went to see Mr. Graff of the New Hampshire State Planning and Development Commission.

I tried to reach representatives of the CIO and the A. F. of L., and also representatives of the shipping industry, and woolen manufacturing, but did not find them free in the time available.

* * * * *

WINTER UNEMPLOYMENT

There is serious unemployment in New England today. All signs indicate that unemployment is rising at an accelerating rate, and that any possible improvements in business cannot come in time to prevent serious distress during the winter.

The decline in employment set in in June. Woolen and cotton factories began reductions first. Shoe factories soon followed. The recession spread into other manufacturing industries, like the textile-machinery plants, and into trade and shipping, as less of cotton, wool and leather, and their finished products were being handled.

Colonel MacDonough, the WPA Administrator in Massachusetts, is receiving delegations every day from public officials in the various towns and cities, telling him of the great increase in unemployment and need. The cities and towns want large increases in their WPA quotas. Colonel MacDonough is able to give them increases of five or ten in their quotas, where they ask for fifty or a hundred.

In Lynn, Massachusetts, of 15,000 textile workers about 2,000 have been dropped, and about 13,000 have been reduced to two days a week.

In Lawrence, 13,000 to 15,000 workers are reported unemployed, and the mills are running at about one-third capacity. Relief is the highest it has been since 1934.

In Fall River, the situation is the same, with very heavy lay-offs in the textile mills, and even more widespread part-time work.

Reductions in wage-rates are now appearing in several textile cities.

In Brocton and the neighboring shoe towns, which have always been one-industry towns, whole sections of the working population are unemployed.

In Maine, New Hampshire, and Rhode Island, the picture is again repeated. The textile industries had an unusually good year in the early part of 1937, and reemployed some of their former workers who had been unemployed for a long time. Lay-offs and part-time began in mid-summer and increased steadily in momentum in the fall months. Lay-offs are still increasing, and the number of unemployed is rising.

In cotton textiles explanations of the cause of the lay-offs vary, but the many difficulties in the industry became acute with the first forecasts of a large cotton crop and the prospect of falling prices for raw cotton.

In shoe industry the difficulty is competition of cheaper shoes from Czecho-Slovakia. Barta, the Czecho-Slovakian worker, who learned about mass production while he worked in the United States has invented a better cement for cheap shoes

than the American manufacturers of low-priced shoes have been able to find. Cheap American shoes made with cement melt when wet, and the imported ones do not.

With these difficulties affecting their chief industries public officials do not see any hope of rising employment during the winter.

REEMPLOYMENT ON WPA

There are now three sources of public aid for the needy unemployed, WPA employment, city or town relief, and unemployment insurance benefits.

The beginnings of unemployment insurance benefits effective January first, will completely alter the present system of public aid for the unemployed.

The Works Progress Administration made steep reductions in their quotas this summer in New England as elsewhere. In Massachusetts rolls were reduced about 20,000 from June to July. The figures have been rising slightly since then.

In New Hampshire the number of workers was reduced from 6,000 in June to 4,500 in September. The rolls here also have been slowly rising, to 5,100 at the end of November.

In both states WPA employment has now reached the quota limits. No more workers can be added unless quotas are raised.

When the workers left WPA last summer they were given a promise that they would be taken back if their jobs did not last. Some of the people now applying to WPA are these same workers, who left with a promise of reemployment. Others are new applicants who have never before been on WPA. The officials point out that at present they cannot reemploy these former WPA workers because they have reached the limit of their quotas. If WPA can take back these workers as they promised, it will not only relieve suffering this winter, but will make it possible to make much steeper reductions in WPA lists next spring. If WPA is not able to take back the workers whom it promised to reemploy, they will not be able to induce any workers to leave the rolls next spring.

UNEMPLOYMENT COMPENSATION PAYMENTS

The Unemployment Compensation Commission has about 1,136,000 "covered workers" coming under the unemployment compensation system in Massachusetts. There are 17,496 employers in the system.

The Commission expects between 100,000 and 127,000 applications for unemployment benefits in January, on the basis of present unemployment.

The State Employment Service is very busily engaged in expanding its office quarters and opening new branch offices in time for unemployed workers to register under the unemployment compensation rules, when benefits go into effect on January first. The Employment Service will have to try to find work for all these registrants during the three-week waiting period.

The Unemployment Commission itself is very busy collecting payroll reports and posting the records of individual workers on its records cards, so that the Commission can compute each worker's benefits before January twenty-first. This clerical and administrative work is now behind schedule, partly because Massachusetts adopted a cumbersome system of record-keeping with elaborate new machines of the International Business Machine Company.

If Unemployment Compensation benefits are paid according to schedule, it will be the 29th of January before the workers' families receive any money to spend, although "eligibility" starts January first.

If the present delay in posting of records and computing of benefits is not entirely overcome before the middle of January it may be the end of February or later before workers receive any of the money they or their employers have paid into the Social Security Unemployment fund.

It is possible also that many workers will find that their credits have been exhausted and benefits cease after a few weeks, because they were not employed long enough in 1936 and 1937 to earn credit enough to get the full legal benefits. These complexities are probably not yet fully understood by the workers.

There is also a possibility, if the decline lasts long enough, that all the credits in the unemployment fund may be exhausted in the first year of operation.

PUBLIC RELIEF

In Boston the number of cases in receipt of general relief declined from March through July and then turned upward again. It is now a little higher than in the fall of 1936. In the meantime however, there has been a great increase in public assistance for the aged. The increase this fall means therefore a much higher total case load and higher expenditures for public relief in Boston than in the fall of 1936.

* * * * *

The immediate situation is determined by the steep decline in employment and the change in the system of public aid for the unemployed. In addition there are other more elusive influences at work affecting employment.

EMPLOYERS FEARS

Representatives of the cotton textile manufacturers pointed out that as the size of the new cotton crop grew, fears of a processing tax became the chief influence in delaying orders. The trade believed that with a new processing tax they could not sell cotton goods to consumers. Because most of the handling of cotton goods is on a percentage basis, the tax is pyramided where it reaches the consumers. Also the tax is heaviest on the goods, like overalls, bought by low-income families, because it is based on the weight of cotton in the article.

The excess profits tax also affects the textile industry severely because they operate on the basis of one good year in four or five. The profits from the good year carry the industry through the long slack period. The excess profits tax in 1937 caught their one good year. The fact that sudden unemployment came rapidly after one good year has greatly emphasized the effect of the tax. The industry is dependent on excess profits to maintain anything like continuous operation.

On the other hand it was suggested, (Not by the textile manufacturers) that some firms had earned almost as much profit by the middle of the year as they could have kept for the whole year under the excess profits law. Since additional profits would be largely absorbed by the tax and there was a possibility of losses, some firms may have reduced operations more quickly than they otherwise would have done.

Part of the difficulty of the industry came also from the fact that the manufacturers insisted on maintaining through last summer and fall a level of prices based on high raw cotton prices of the preceding year. When the price of cotton fell with the new crop cotton manufacturers refused to make an adjustment in price levels and the buyers rebelled.

With the increased momentum of the decline, the industry is also having trouble with bank loans. Banks are limiting the amount they will lend, partly because of their forecast of the business situation and partly because the decline in stock market values has reduced the value of collateral. This banking attitude may make it difficult for firms to get loans and increase employment, when the industrialists are ready to go forward again.

The situation in the wool industry is very much the same as that in cotton except that the wool industry is still financing growers of wool in the west and needs credit a year in advance to finance next year's crop.

The decline in demand for wool has seriously affected the import and export trade of Boston and reduced employment in shipping and trade.

USE OF THE LABOR SURPLUS

At best the textile industry has recovered only about half way compared with the employment it provided in the 1920's. Where mills moved to the South virtually all the workers formerly employed in the mill remained in the town. There has been no migration of workers out of the textile or shoe towns, to correspond with the migration of industry.

Even where the mills have not moved to the South, they are often changing to rayon, or otherwise altering their processes so that fewer workers are needed than formerly.

The cities and towns have tried to induce new employers and new industries to come in and use the vacant sites and the water power. This has been partly successful, especially the instance of the Amoskeag Mills in New Hampshire.

Frequently the new tenants of the mill property are former employers in the town who merely change their site. Or they may be employers who need highly skilled labor and bring their working force with them. Neither creates employment.

The other source of employment is the migration into New England of employers seeking cheap labor, especially in the sewing trades. Towns have offered free sites and tax exemption only to find either that the workers could not live on the wages offered, or that the firm stayed a few years and then left. Small shoe concerns are particularly likely to do that, since they do not own their machinery.

In one instance, in New Hampshire, a dress manufacturer asked for fifty women from WPA sewing rooms. The WPA sent ten workers. The best of them could earn only a few cents a day.

OTHER INDUSTRIES

Railroad shops are gradually reducing employment in rural towns because of competition from buses, and the need to consolidate repair work in one or two areas.

The pulp and paper industry is suffering from serious competition from the South-west.

Summer vacation industries in New Hampshire, bring increased business, but do not provide employment because summer hotels must have trained workers from the city. Local waitresses and maids will not stay on the job if some one gets sick at home.

Local fishing industries and scalloping are overcrowded because so many unemployed workers tried to get a little income that way.

CHANGES IN EMPLOYMENT
NEW ENGLAND

CHANGE IN NUMBER OF WPA WORKERS EMPLOYED

New England

July to November, 1937

<u>Week Ending</u>	<u>Number of Workers Employed</u>	<u>Change in Employment - Monthly</u>
July 31	94,359	
August 28	91,645	- 2,714
September 4	91,344	
11	91,718	
18	92,158	
25	92,421	+ 776
October 2	92,201	
9	92,128	
16	92,273	
23	92,957	
30	93,910	+ 1,489
November 6	95,230	
13	96,554	
20	97,445	
27	97,977	+ 4,067

Source: Works Progress Administration

EMPLOYMENT IN MANUFACTURING

Percent Change from Preceding Month

New England

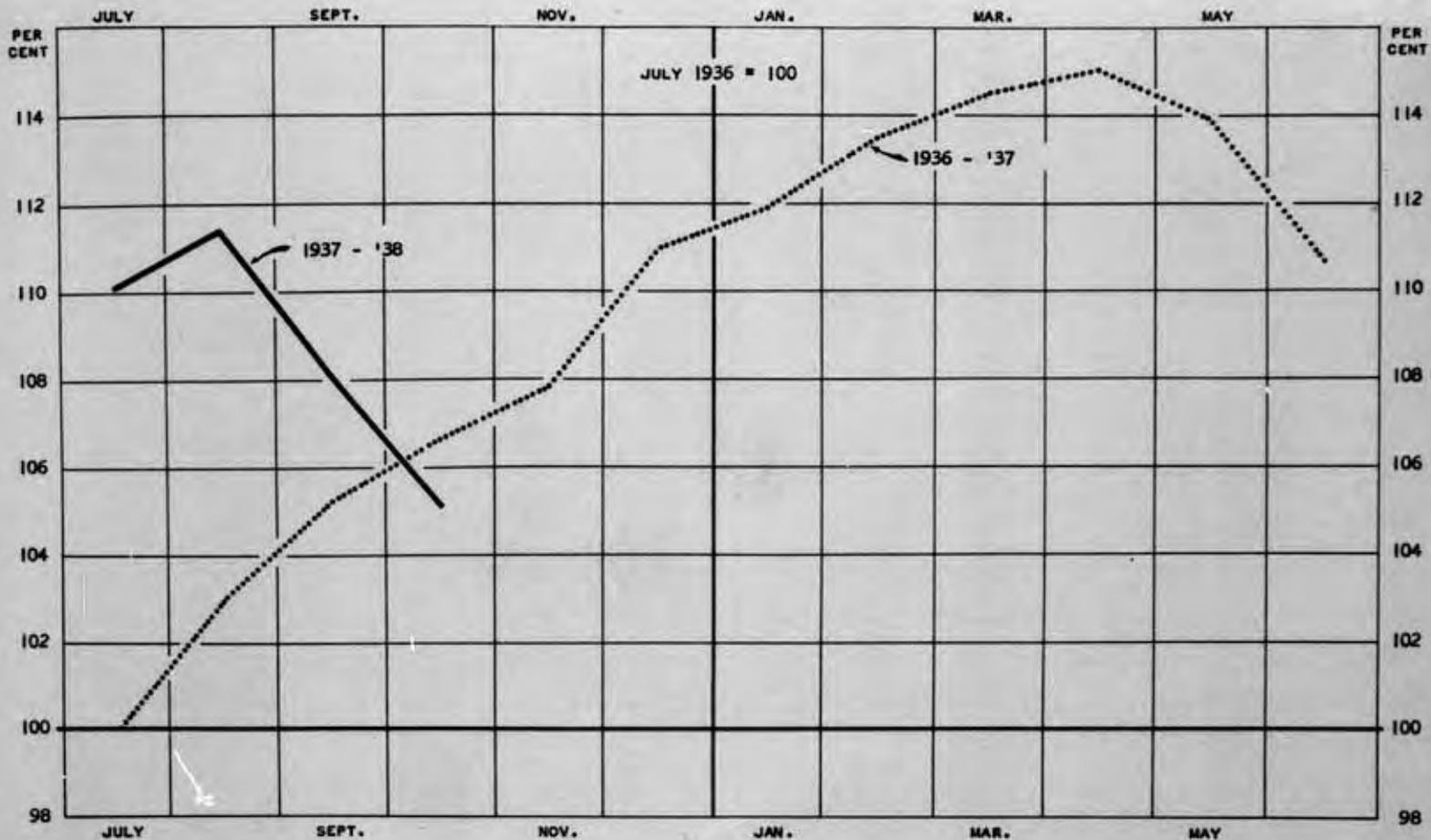
	<u>1929-30*</u>	<u>1936-37</u>	<u>1937-38</u>
July		/ 1.8	- 1.4
August		/ 3.0	/ 1.2
September		/ 2.1	- 3.0
October		/ 1.4	- 2.8
November		/ 1.1	
December		/ 3.0	
January		/ 0.8	
February		/ 1.4	
March		/ 0.9	
April		/ 0.4	
May		- 0.9	
June		- 2.0	

Source: U. S. Department of Labor

* Not available

The accompanying chart is based on relative figures computed from the percent change shown above.

INDEX OF EMPLOYMENT, MANUFACTURING
New England



INDEX OF EMPLOYMENT

Manufacturing

Massachusetts

1925-27 = 100

	<u>1920-30</u>	<u>1936-37</u>	<u>1937-38</u>
July	91.0	75.4	83.7
August	91.9	78.2	84.2
September	94.3	79.8	81.1
October	94.0	80.4	78.9
November	89.9	81.6	
December	86.5	83.6	
January	85.9	84.0	
February	86.1	85.2	
March	85.0	86.7	
April	83.4	87.2	
May	81.3	86.2	
June	78.5	83.4	

Source: Massachusetts Department of Labor and Industry.

INDEX OF EMPLOYMENT
Construction - Building Trades

Massachusetts

1930 = 100

	<u>1929-30</u>	<u>1936-37</u>	<u>1937-38</u>
July	119.4	40.1	46.4
August	127.2	41.2	50.3
September	124.4	43.0	50.1
October	121.5	44.4	51.5
November	120.3	46.1	
December	108.6	41.6	
January	93.3	36.3	
February	85.7	33.9	
March	89.3	35.4	
April	93.2	42.1	
May	91.8	47.2	
June	103.5	46.9	

Source: Massachusetts Department of Labor and Industry

INDEX OF EMPLOYMENT

Public Utilities

Massachusetts

1930 = 100

	<u>1929-30</u>	<u>1936-37</u>	<u>1937-38</u>
July	*	80.4	84.4
August	*	80.0	84.9
September	*	81.3	84.3
October	*	81.6	83.5
November	*	81.4	
December	*	81.5	
January	100.4	80.4	
February	99.1	80.5	
March	99.4	81.1	
April	102.0	81.6	
May	104.3	82.9	
June	103.7	83.8	

Source: Massachusetts Department of Labor and Industry

* Not available

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

48

FROM: American Embassy, Paris, France

DATE: December 7, 1937, 5 p.m.

NO.: 1706

FOR TREASURY.

Transactions were again limited on the exchange market here today. The dollar rate weakened to 29.39 this morning, apparently due to apprehensions regarding the future of the price of silver. However, the rate strengthened to about 29.42 in the official market. Sterling remained in the neighborhood of 147.09 also fund made substantial purchases. We are told by our market contact that probably about 400,000 pounds were obtained.

Rentes continued unsteady and lost about 55 centimes at the opening.

Reliable information has come to us that the ^{French} authorities are only "moderately satisfied" with the recent Treasury loan issue, as it is going "slowly".

The examination of the 1938 budget by the Chamber is progressing normally and so far the discussions have not given rise to any outstanding differences as had

been

-2- #1706, December 7, 5 p.m. (SECTION ONE) from Paris.

been feared.

Yesterday the budget of the Treasury was adopted. It totals approximately 23 billion francs which is about 45% of the total of the ordinary budget. Notably it includes about 14 billion francs for the interest payments on the public debt (the amortization fund is responsible for amortization payments on the debt) and about 9 billion for pre-war pensions (the pension fund, partly financed by loan issues, provides for postwar pensions). It was brought out that the public debt increased by about 24 billion francs during the year ending August 31, 1937, which is about equal to the increase of the preceding year.

KLP

BULLITT

MBo

GRAY

Paris

Dated December 7, 1937

Rec'd 3:52 p.m.

Secretary of State,
Washington.

1706, DECEMBER 7, 5 p.m. (SECTION TWO).

Smarting under criticism for failure of the Government to aid sufficiently French holders of foreign securities to recover their due, Bonnet promised to consider the creation in the Treasury of an organism grouping representatives of the Ministries of Commerce, Finance, and Foreign Affairs, and told the Chamber that the only effective means of dealing with such foreign debtors was for the French Government to act energetically when negotiating commercial treaties.

With respect to authorization granted to the Treasury to borrow during 1938, the text of the relevant provision approved reads approximately the same as that embodied in article 56 of the Finance Law for 1937 forwarded with Embassy's despatch number 256 of January 7 last. It limits the issue of ordinary treasury bonds to 20 billion francs, and authorizes the Minister of Finance to proceed to funding operations of public debt securities

2- No. 1706, December 7, from Paris.

securities to cover medium term loans maturing during 1938, and ordinary treasury bonds and bonds issued to finance the pension fund.

The practical unlimited freedom to borrow thus accorded was condemned severely in the Chamber, as was the case last year when the 1937 budget was debated. However, in view of the present attitude of investors towards government loan issues it was agreed that the danger of possible abuse of the authorization was ~~more~~ apparent than real.

It appears from quotations published from the report of the Chamber Finance Committee on the Treasury budget that appropriations totalling 14 billion francs requested for the service of the public debt exceed last year's appropriations by about one billion francs, and that the public debt (foreign and domestic) at August 31 last stood at 384,591,000,000 francs, compared with 360,645,000,000 at August 31, 1937. In this connection reference may be made to Embassy's despatch number 1145 of October 15, 1937. (END MESSAGE).

BULLITT

CS B:

DEC 7 1937

52

My dear Mr. Ambassador:

Through the courtesy of the State Department, I have received your note of November 16, 1937, enclosing a letter from Thomas H. Lockett, Commercial Attache, covering his conversation with Mr. Eduardo Suarez, Minister of Finance.

As you have already been advised, all of my time during the past week was devoted to budget and other fiscal matters, and therefore I have not had an opportunity to give proper consideration to this matter sooner.

I have carefully studied the statements of the Minister of Finance and naturally have a very sympathetic understanding of the difficulty he is at the present time facing in maintaining the present rate of exchange, and his keen desire to uphold the metallic ratio of the reserves of the Banco de Mexico.

With regard to the loan suggested by Mr. Suarez, I regret to state that the law under which the Stabilization Fund was created does not permit the resources of the Fund to be used in the granting of direct loans.

Mr. Suarez is of course familiar with the arrangement made in January, 1936, for the purpose of supplying the Republic of Mexico with dollar exchange against a peso deposit, and which provided that silver held in the United States for the account of the Banco de Mexico be set aside from time to time and pledged to the Federal Reserve Bank of New York as fiscal agent of the United States as security for the performance of the operations under the arrangement.

If Mr. Suarez feels that a similar arrangement, using gold as well as silver as security, would be of assistance, I shall be glad to give such a request consideration upon its receipt, which I presume would be presented to me through the Mexican Ambassador in Washington.

Sincerely yours,

Secretary of the Treasury

The Honorable
Josephus Daniels,
American Ambassador,
Mexico, D.F.

TELEGRAM SENT

JR

GRAY

December 2, 1937

11 a.m.

EMBASSY

MEXICO CITY (MEXICO)

238.

FOR THE AMBASSADOR.

Secretary Morgenthau has asked us to explain to you that he is so completely occupied with budget and other fiscal matters this week that he will not be able to give proper consideration to the matter raised in your letter until next week and trusts you will understand.

HULL
(S)

E.L.HF:LYW

Washed by Nov. 16, 1932. 54



EMBASSY OF THE
UNITED STATES OF AMERICA

Dear Henry :- The enclosed letter explains itself.
If the security offered is satisfactory and the
proposition is not contrary to your policy, I
would like to see the request granted,
with my sincerest regards,
Faithfully yours,
Frederick Danneberg

The State Department would send me an
answer in code.

should be ans. by
ask G. Lockwood
and Archie White
and Harry White

Mexico, D. F.
November 15, 1937.

EMBASSY OF THE
UNITED STATES OF AMERICA

OFFICE OF COMMERCIAL ATTACHE

MEXICO, MEXICO
MEXICO, D. F.

Honorable Josephus Daniels,
American Ambassador,
Mexico, D. F.

My dear Mr. Ambassador:

During a conversation with Mr. Eduardo Suarez, Minister of Finance, on the morning of November 15 he requested that I communicate direct and under very confidential cover the following information to Secretary Morgenthau.

The Minister said that the gold reserves of the Bank of Mexico had been diminishing rapidly for many weeks and that he was not able to prevent further substantial reductions in the near future and, therefore, he was becoming very uneasy over maintaining the present rate of exchange. He stated that the dwindling reserves in conjunction with the high loan position of the Bank of Mexico were causing considerable apprehension on the part of business interests and the public in general with the result that deposits had been and are continuing to be withdrawn from the banks in an abnormal manner. He said that under such conditions and with a continuation of them, the uncertainty of maintaining the present rate of exchange was quite pronounced. He stated that the United States Treasury, American exporters

and American invested interests in Mexico had a decided interest in Mexico's efforts to maintain the present rate of exchange and, therefore, he felt that our Treasury would do everything possible to give assistance.

The Minister requested that I explain to Secretary Morgenthau that he had not yet received authorization from the President to make the following request, but, that he would consult the President on this matter at his earliest opportunity. He asked further that I tell Secretary Morgenthau that the actual emergency has not been reached but that he was attempting to prepare a way to meet a financial condition which might develop at any time.

Minister Suarez said that the Mexican Government now has a certain amount of silver deposited in United States mints which is free of any obligations, because he had repaid the original loan to the United States Treasury. He qualified his statement by saying that the silver on deposit in the United States forms a part of the guarantee of monetary notes in circulation. The Minister said also that the Bank of Mexico has a certain amount of gold on deposit in the United States Federal Reserve which, likewise, is free of obligation except that it is also included in the monetary reserve. Mr. Suarez said that if the emergency arises he would need from \$5,000,000 to \$10,000,000 dollars with which to bolster up the monetary reserve. He added that he knew the United States Treasury had a very substantial stabilizing fund from which he hoped he could secure some assistance, in case of necessity. Mr. Suarez said that he could not pledge the gold and silver on deposit in the United States as a direct guarantee of a loan

-3-

from our Treasury, because he would then be compelled to deduct the equivalent from the monetary reserve, which action would not serve his purpose. However, he said that he would agree to leave the gold and silver in the United States until the loan made to the Mexican Government would have been repaid. Under this method he could still show the gold and silver in his monetary reserve and use the \$5,000,000 or \$10,000,000 dollars to immediately increase the monetary reserve. He stated that, naturally, the loan would be made direct between the two Governments and not between the Federal Reserve and the Bank of Mexico.

Minister Suarez explained that the situation might clear and he might not need the loan, but, he wished to secure Secretary Morgenthau's answer as soon as possible in order to have assurances of assistance in a quick emergency. The Minister added that in case Secretary Morgenthau could assist him, as outlined above, it would not be necessary to make an actual transfer of money, because an agreed loan could be shown immediately in the reserves of the Bank and, thus, serve the purpose of quieting withdrawals and possible runs on his banks.

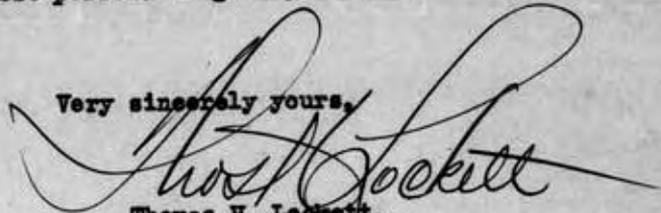
The Minister said that in case Secretary Morgenthau should require further guarantees that he would be glad to place quantities of exportable petroleum at the disposition of the American Government, or, whoever might be designated.

-4-

The Minister asked that the above information be kept in the greatest secrecy and handled with the utmost care. I would be very grateful to you for sending this letter to Secretary Mongenthan under personal cover.

With kindest personal regards, I remain

Very sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Thomas H. Lockett". The signature is written in dark ink and is positioned above the typed name.

Thomas H. Lockett,
Commercial Attache.

December 7, 1937

Mr. Bell handed the Secretary the attached proposed schedule for employment on WPA work projects.

The Secretary said: "You have on this state-ment a total of 1 billion 307. What I want to know is how much you have in every pocket." Bell replied, "We have an appropriation of 1 billion 500. We have transferred to it from old appropriations 61 millions. We can get 64 millions more. We haven't got it, but I think we can get it. This would make a total of 1 billion 625. The President has allocated up to December 6, 920 millions. That leaves a balance of 705 millions to be allocated, of which the 64 millions is yet to be found. He has tentatively earmarked for allocation 508 millions for WPA, Resettlement, etc., etc., leaving 197 millions. That 197 millions is in reserve. Specific reserves, 121 millions; general reserves, 76 millions.

HM, Jr: "Then what you really have is 121 million plus 76. I just can't understand Harry Hopkins. I think it is penny wise and pound foolish to squeeze this thing now and I think that if he put on another 100,000 men now we may save 500,000 later on. Everything we can do to stretch this thing and make it go now at this particular now may keep us from getting much, much worse. I am trying to get the best business statistics that I can. I am not yet convinced that this is a major depression and everything we can do to make the greatest use of the money that we have at our disposal may save us from going into something very much worse. I want you to think about it. We ought to have on our rolls 1,700,000 people; as of November 27th we had 1,519,000. We are talking about putting on another 180,000 people very soon."

Mr. Bell said that HM, Jr ought to talk to Harry Hopkins about this before he does anything and the Secretary replied that he was having Harry Hopkins for supper tomorrow night. Bell also reported that Harry Hopkins was not worried about this picture at the present time and that Harry Hopkins said that unless things get much worse he wants to get by on 1 billion 3.

Dec 7, 1937

Proposed Schedule for Employment
W. P. A. Work Projects

Month	Employment (In thousands)			Funds (In millions)		
	Proposed Schedule	Change from Previous Month	Percent Change	Required for Pro- posed Schedule	Available under Quota	Additional Requirements
July (a)	1,622	- 288	- 15.1	\$ 115.7	\$ 115.7	\$ -
August (a)	1,514	- 108	- 6.7	92.1	92.1	-
September (a)	1,485	- 29	- 1.9	89.1	89.1	-
October (a)	1,464	- 21	- 1.4	89.9	89.9	-
November	1,510	+ 46	+ 3.1	92.3	90.0	2.3
December	1,650	+ 140	+ 9.3	100.8	90.0	10.8
January	1,750	+ 100	+ 6.1	106.9	90.0	16.9
February	1,750	0	0	106.9	90.0	16.9
March	1,675	- 75	- 4.3	102.4	90.0	12.4
April	1,560	- 115	- 7.4	95.3	82.3	13.0
May	1,410	- 150	- 9.6	86.2	73.2	13.0
June	1,335	- 75	- 5.6	81.6	64.5	17.1
Total Amount for Work Projects				\$1,159.2	\$1,056.8	\$ 102.4
National Youth Adminis. (b)				40.0	40.0	-
Administrative Expenses (c)				63.1	57.7	5.4
Grand Total W.P.A.				\$1,262.3	\$1,154.5	\$ 107.8
Transferred to other Agencies from quota				45.5	45.5	-
Total W.P.A. Quota				\$1,307.8	\$1,200.0(b)	\$ 107.8

(a) Actual figures for these months (b) amount authorized by President (c) Maximum amounts authorized by law

Figures based on 61.00 per month

Dec 7. 1937... 61

1937 Relief Act.

Appropriation		\$ 1.500, #
Transferred to this appn.	\$ 61 #	
Estimated to be transferred	<u>64</u>	<u>125.</u>
Total available		\$ 1.625 #
Specific allocations up to Dec. 6th		<u>920</u>
Balance for allocation		\$ 705 #
Tentatively earmarked for allocation	\$ 508 #	
Specific reserves	121	
General reserve	<u>76</u>	<u>705 #</u>

December 7, 1937

Proposed Schedule for Employment
W. P. A. Work Projects

Month	Employment (In thousands)			Funds (In millions)		
	Proposed Schedule	Change from Previous Month	Percent Change	Required for Pro- posed Schedule	Available under Quota	Additional Requirements
July (a)	1,622	- 288	- 15.1	\$ 115.7	\$ 115.7	\$ -
August (a)	1,514	- 108	- 6.7	92.1	92.1	-
September (a)	1,485	- 29	- 1.9	89.1	89.1	-
October (a)	1,464	- 21	- 1.4	89.9	89.9	-
November	1,510	/ 46	/ 3.1	92.3	90.0	2.3
December	1,650	/ 140	/ 9.3	100.8	90.0	10.8
January	1,750	/ 100	/ 6.1	106.9	90.0	16.9
February	1,750	0	0	106.9	90.0	16.9
March	1,675	- 75	- 4.3	102.4	90.0	12.4
April	1,560	- 115	- 7.4	95.3	82.3	13.0
May	1,410	- 150	- 9.6	86.2	73.2	13.0
June	1,335	- 75	- 5.6	81.6	64.5	17.1
Total Amount for Work Projects				\$1,159.2	\$1,056.8	\$ 102.4
National Youth Adminis. (b)				40.0	40.0	-
Administrative Expenses (c)				63.1	57.7	5.4
Grand Total W.P.A.				\$1,262.3	\$1,154.5	\$ 107.8
Transferred to other Agencies from quota				45.5	45.5	-
Total W.P.A. Quota				\$1,307.8	\$1,200.0 (b)	\$ 107.8

(a) Actual figures for these months (b) amount authorized
by President (c) Maximum amounts authorized by law

Figures based on 61.00 per month

December 7, 1937

1937 Relief Act

Appropriation		\$1,500 M
Transferred to this appropriation	\$ 61 M	
Estimated to be transferred	<u>64</u>	<u>125</u>
Total available		\$1,625 M
Specific allocations up to Dec. 6th		<u>920</u>
Balance for allocation		\$ 705 M
Tentatively earmarked for allocation	\$508 M	
Specific reserves	121	
General reserve	<u>76</u>	<u>705 M</u>

December 7, 1937

The President called me last night and asked me what we had done on the Chinese situation and I told him that we agreed to buy 50 million ounces over the next ten weeks but that we were waiting on the State Department before we decided to give the Chinese an extension of their right to borrow foreign exchange which expires on December 31st.

He said, "As soon as I got a day away from Washington my whole attitude changed". He said, "I have had lots of time to think things over while I was on the boat and I expect to make an address shortly restating my position to the people of America in words of one syllable."

From other things that he said I gather that he feels that things are not so bad. He asked me whether we have been able to do anything about the surplus tax and I told him that we had not yet been able to work out a method which would keep the principle of the surplus tax and at the same time give the necessary relief.

MEMORANDUM OF THE DAY'S ACTIVITIES

December 7, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Revision

We expect to present tomorrow our proposals for changes in the present deduction for percentage depletion allowed to oil and mining companies; and for changes in the method of taxing married persons in community property states. We will then put in our recommendations for improvements in the general administrative provisions. I think we will complete our present series of recommendations to the Committee about the first of next week.

The draftsmen have not yet completed work on the proposal for a tax on companies which accumulate unreasonable surpluses in order to defeat the surtaxes upon wealthy shareholders, but excellent progress is being made. I believe the draftsmen will be able to work out a satisfactory section in the next few days, following the general lines which I described to you several weeks ago. If the proposal can be worked out it ought to solve a good many of our difficulties.

2. Nicaraguan Tax Refund

The General Counsel's office recommended a large refund of income taxes paid by a railway owned by the Government of Nicaragua. Mr. Parker's staff advised us that in their opinion the refund was improper under the law. The State Department was strongly in favor of the refund. After informal conferences had failed to resolve the dispute between the parties on the legal situation, I suggested that the question be formally placed before the Joint Committee on Internal Revenue Taxation. Mr. Oliphant suggested and I agreed that Mr. Wenchel should present the case to the Joint Committee on behalf of the Treasury, since he was familiar with the legal questions. I have just been informed by Mr. Wenchel that the Joint Committee felt quite strongly that the refund was unauthorized by the Internal Revenue Laws and he therefore assured them that it would not be made. The Committee suggested that the claim of Nicaragua ought to be presented in the form of a special bill, which would be referred to the Committee on Foreign Relations.

RM

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

December 7, 1937

Dear Henry:

The by-laws of the Commodity Credit Corporation provide that it can only make loans on such commodities as are designated by the President. The Corporation has observed that provision in the by-laws and in practice the Secretary of Agriculture usually makes a request to Commodity Credit Corporation and prepares one for the President.

If you and Secretary Wallace and the President feel that the Commodity Credit Corporation by reason of its large investment in loans on cotton should undertake to increase the consumption of cotton through an advertising program or studies that might find other uses for cotton, the directors would undoubtedly comply with the wish.

Sincerely yours,


Chairman

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

December 7, 1937

My dear Mr. President:

I have just received word from Jesse Jones that he has agreed with Henry Wallace and myself, and we are ready to report to you that it is feasible for Commodity Credit to spend \$1,000,000 to increase the consumption of cotton. *through advertising.*

I am anxious to bring this matter along with a number of other important matters to your attention at your earliest convenience.

As ever, sincerely yours,

Henry

The President,
The White House.

*P.S. Delighted to know
from Missy that your
tooth is better*

December 7, 1937

My dear Mr. President:

I have just received word from Jesse Jones that he has agreed with Henry Wallace and myself, and we are ready to report to you that it is feasible for Commodity Credit to spend \$1,000,000 to increase the consumption of cotton.

I am anxious to bring this matter along with a number of other important matters to your attention at your earliest convenience.

As ever, sincerely yours,



The President,
The White House.

December 8, 1937

Conference with the President. He seems to feel that it is very important that he restate the New Deal philosophy. He said, "After all, we are following the middle of the road program and if business continues this drive on the Administration they will simply push the Administration more to the left". I agreed.

He said, he had come to the conclusion that this present recession was almost entirely due to the inventory position of business. I said, "You must add to that the fact, as one said, 'Peace has Reared its Ugly Head in Europe' ". (he took time to write this down). I said business was counting on an unbalanced budget, inflation and the opportunity to sell raw materials for war purposes. All three of these factors failed to materialize and the combination has completely thrown business off its balance. He agreed.

I then talked to him about the great difficulty I had during the week ending November 27th in regard to the Tax Bill and the trouble that I had had with Jimmy. He did not want me to continue. He said, "I have heard three versions of what Vinson was supposed to have said". While he would not let me continue about that I said to him, after all I had been with him all these years and I did not want the question to come up where he would have to decide between Jimmy and myself.

After leaving the President, I had a talk with Miss LeHand and she told me that she told the President on Monday night, the 6th, the whole story about Jimmy and myself in the greatest of detail and that one of her reasons for telling him this was that she does not want Jimmy to have any more contact with the Hill.

The President then got started on Joe Kennedy. He said from three independent sources he had gotten the story that Floyd Odlum had offered Kennedy one million dollars to represent the utilities in Washington and that Kennedy had even gone so far as to arrange to split this million with certain parties; that he faced Kennedy with this story and that he absolutely denied it. The President then made a startling remark that he considered Kennedy a very dangerous man and that he was going to send him to England as Ambassador with the distinct understanding that the appointment was only good for six months and that furthermore by giving him this appointment any obligation that he had to Kennedy was paid for.

I said, "Well, Mr. President, England is a most important post and there have been so many people over there talking against the New Deal. Don't you think you are taking considerable risks by sending Kennedy who has talked so freely and so critically against your Administration". The President said, "I have made arrangements to have Joe Kennedy watched hourly and the first time he opens his mouth and criticizes me, I will fire him". He said two or three times, "Kennedy is too dangerous to have around here."

I don't know what he means but I certainly will be glad to have him out of Washington and I take it that is the way the President feels.

CHINA - I let the President read the memorandum that the State Department had furnished me with. The President read it very carefully and said, "That is the most stupid memorandum I have ever read. When they recommend that we add to the agreement to give China a foreign exchange loan the statement "this may be cancelled in case of a Neutrality Proclamation", this would be playing into the hands of somebody like Senator Nye" and I added "or the Japanese". He said, "Fix up an agreement with them right away in writing". I told him that we would extend it for a year but that I find the Chinese have only asked for six months' extension and that I will give them only what they ask for. (Memorandum from the State Dept. attached).

I find that the agreement that we made last week to buy 50 million ounces of silver from the Chinese Government is purely verbal and I told Lochhead that I wished to confirm it in writing.

I told the President that Suarez, the Mexican Minister of Finance, was on his way up here in order to arrange a foreign exchange loan against gold and silver deposited with us; that I wished to carry out these negotiations irrespective and independent of any deal that the State Department might have on with them. He said, "That is all right, provided you ask Sumner Welles whether, by doing so, you do not interfere or come in conflict with the so-called Berle Plan but", he said, "if he asks you tell him that you do not know what the Berle Plan is". I do not know and I did not ask the President but evidently he is using Adolph Berle, Jr., as a Secret Agent to negotiate something with the Mexicans.

SILVER - I said to the President, "Do you want to talk silver" and he got a kind of quizzical smile on his face and I said, "I have all the cards but I am not going to put mine down first. I will write on a piece of paper now what I think the price should be - if you will do the same - and I handed him the slip which gave the prices and dates of his various

THE WHITE HOUSE
WASHINGTON

~~64.50~~
1/2 of 1.29

Dec 21, 1933 - 64.6 ✓
April 10, 1935 - 71.1 ✓
April 24, 1935 - 77.5 ✓

2) 129.
64.50

Jan 20, 1936
for 1.29

ON ADVERTISING COTTON - he said, the great trouble with that is that some manufacturers of bath-tubs will come down and tell me that the supply of bathtubs is off and won't the government advertise bathtubs". So I said, "That is all right but we do not happen to have a commitment of over 450 million dollars in bathtubs, the way we do in cotton". Then the President said, "I'll tell you what you do. Tell the cotton textile people to get all their plans ready and that they should raise a half a million dollars of their own money and I am willing to go on the air and give a special talk devoted to cotton, with tears in my voice." I said, "Mr. President, that would be worth at least a million dollars provided you put the tears in." Then he said, "You can give a talk on what it means to the Treasury and Wallace can give one and, he said, the government will do everything it can to help and I think this will be just as effective as though we spent the money."

The President then said, "How are you feeling?" and my reply was, "Well I have had to keep my chin up since Labor Day but now that things look slightly better my chin is beginning to get a little heavy".

(See attached letter from Jesse Jones on cotton and the suggested reply for the President's signature to Commodity Credit Corporation which was prepared by Mr. Oliphant, both of which are self-explanatory.)

70C

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

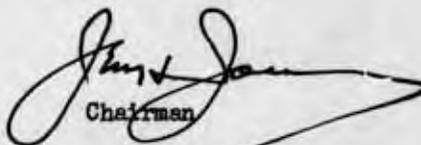
December 7, 1937

Dear Henry:

The by-laws of the Commodity Credit Corporation provide that it can only make loans on such commodities as are designated by the President. The Corporation has observed that provision in the by-laws and in practice the Secretary of Agriculture usually makes a request to Commodity Credit Corporation and prepares one for the President.

If you and Secretary Wallace and the President feel that the Commodity Credit Corporation by reason of its large investment in loans on cotton should undertake to increase the consumption of cotton through an advertising program or studies that might find other uses for cotton, the directors would undoubtedly comply with the wish.

Sincerely yours,



Chairman

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

70D

THE WHITE HOUSE
WASHINGTON

Gentlemen:

Upon the recommendation of the Secretary of the Treasury and the Secretary of Agriculture, I have determined that it would be in the public interest for the Commodity Credit Corporation, by reason of its large investment in loans on cotton, to undertake to increase the consumption of cotton through an advertising program and through other action that might find additional outlets for cotton.

I shall appreciate it if your Board of Directors will, at the earliest possible moment, consider the adoption of measures looking toward these objectives.

Very truly yours,

The Commodity Credit Corporation
1825 H Street
Washington, D. C.

70E

Gentlemen:

Upon the recommendation of the Secretary of the Treasury and the Secretary of Agriculture, I have determined that it would be in the public interest for the Commodity Credit Corporation, by reason of its large investment in loans on cotton, to undertake to increase the consumption of cotton through an advertising program and through ~~other action that might find additional outlets for cotton.~~ ^{other action that might find additional outlets for cotton.}

I shall appreciate it if your Board of Directors will, at the earliest possible moment, consider the adoption of measures looking toward these objectives.

Very truly yours,

The Commodity Credit Corporation
1825 H Street
Washington, D. C.

CVO:8 Typed 12/8/37

Q *W. H. [unclear]* *W. H.*

Gentlemen:

Upon the recommendation of the Secretary of the Treasury and the Secretary of Agriculture, I have determined that it would be in the public interest for the Commodity Credit Corporation, by reason of its large investment in loans on cotton, to undertake to increase the consumption of cotton through an advertising program and through other action that might find additional outlets for cotton.

I shall appreciate it if your Board of Directors will, at the earliest possible moment, consider the adoption of measures looking toward these objectives.

Very truly yours,

The Commodity Credit Corporation
1325 H Street
Washington, D. C.

December 8, 1937.
1:54 p.m.

72

H.M.Jr: Yes.

Operator: Dr. Burgess.

H.M.Jr: Hello.

Dr.
Burgess: Hello Henry.

H.M.Jr: I was just going over to see the President. I didn't know what you had was urgent or not.

B: Well you can take him over a word of cheer.

H.M.Jr: Go ahead.

B: Because - because this market is going very nicely.

H.M.Jr: Fine.

B: These - these bonds that you sold here are doing - are doing better than anybody had expected.

H.M.Jr: Good.

B: The two and a halves are now quoted a hundred and one twenty six to twenty eight.

H.M.Jr: There you sit there with your tongue hanging out and that damned fellow Morgenthau won't let you sell.

B: Well you made some money for us I guess, Henry. Glad to admit that.

H.M.Jr: Well -

B: When we sell

H.M.Jr: Then you can say thank you.

B: That's so. Well - we will.

H.M.Jr: Oh, yes.

B: We won't mind it

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

B: The notes are selling a hundred and one to a hundred one three.

H.M.Jr: Good.

B: And better than all that, Henry, the whole market is better.

H.M.Jr: Fine.

B: Some banks were reported buying your old two and a half.

H.M.Jr: Fine.

B: And they are up today to ninety nine fourteen.

H.M.Jr: Oh for heaven's sake.

B: Now that's up eleven thirty seconds on the day.

H.M.Jr: Well the cheerful thing is that pricing these things - well - contrary to the usual thing helped the market rather than hurt it.

B: Exactly.

H.M.Jr: Yes.

B: Exactly.

H.M.Jr: Yes.

B: And the - the corporate bonds are doing well.

H.M.Jr: Fine.

B: They're a little higher today. The best test of that is this new issue, you see we had the first corporate issue today for some time. This West Virginia Pulp and Paper Company-

H.M.Jr: Yes.

B: Four and a half.

H.M.Jr: Yes.

B: They sold ten million and they're doing very well. They tell me that the insurance company took about six million.

H.M.Jr:

Yes.

B:

And the rest of it is selling very well indeed. Now the fiscal new issue does this market a lot of good.

H.M.Jr:

I'll have to run now. When I come back I'll talk to again.

B:

The exchanges are all in the bonds, frankly.

H.M.Jr:

Fine. Well I'll tell him and thank you, and when I come back, I'll call you again.

B:

Very good.

H.M.Jr:

Thank you.

B:

Goodbye.

December 8, 1937

When HM, Jr saw the President at 2 o'clock this afternoon, he left the original of this material with the President.

THE PRESIDENT ON TAX REVISION.

Mr. Charles Schwarz of the Treasury attended the President's Press Conference on Friday, November 26, 1937. His report includes the following:

"TAXES - When Sandor Klein (of the United Press) asked the President if he believed that tax revision as an aid to business should be attempted at the current special session, the President asked in return, 'What have you been doing? Reading the newspapers?' Then he said that he had talked about tax revision in his budget revision message of last April and had made his present position clear in his special session message of November 15. 'I am in favor of it as soon as Congress gets ready to do it,' he said. Smiling again, the President added, 'But of course we don't want to fly in the face of those editorial desks that have been complaining of undigested legislation.'"

The President's statement on taxation in his message of November 15th to the Congress in extraordinary session is as follows:

"On the subject of taxation, in accordance with my suggestion of last spring, committees of the Congress, with the cooperation of the Treasury Department, are already engaged in studies aimed at the elimination of any injustices in our tax laws. Unjust provisions should be removed provided such removal does not create new injustices. Modifications adequate to encourage productive enterprise, especially for the smaller businesses, must not extend to the point of using the corporate form for the purpose of hiding behind it to reduce or eliminate taxes in a way not open to an individual or partnership. Nor should we extend tax privileges to speculative profits on capital where the intent of the original risk was speculation rather than the actual development of productive enterprise. Nor can we at this time accept a revision of our revenue laws which involves a reduction in the aggregate revenues or an increase in the aggregate tax burdens of those least able to bear them.

"We should give special consideration to lightening inequitable burdens on the enterprise of the small

businessmen of the Nation. Small businesses or even those of average size have difficulties of financing and distribution which are not shared by large corporations. Therefore, by special tax consideration they should receive more equal opportunity to compete with their more powerful competitors. In this way we may also find assistance in our search for a more effective method of checking the growing concentration of economic control and the resultant monopolistic practices which persist today in spite of antitrust statutes. A further search for additional methods to meet this threat to free competitive enterprise is called for at this time."

It will be noted that in the above the President refers to "my suggestion of last spring". This is without doubt a reference to the President's message of April 20, 1937, which contained revised budget estimates for the fiscal years 1937 and 1938. This message contained the following:

"Survey of Tax Structure.

"It has become apparent that there is an immediate need for a careful survey of the present tax structure. The Treasury will be prepared by November, next, to present to the appropriate committees of the Congress information as to such loopholes as may exist in the present revenue laws, and suggestions for such new or additional taxes as may be necessary to meet deficiencies, if any, in the revenue-producing power of the present levies. This will permit these committees to study such information and suggestions for the purpose of proposing early in the next session of the Congress legislation necessary to remedy defects in the present tax laws."

New Federal Saviours

WASHINGTON has suddenly blossomed out with an enormous crop of greater and lesser officials who are laying upon themselves the task of saving the country. Realizing that Congress wants to "do something" for business, these officials are actively in the business of telling Congress what this something should be.

James Roosevelt, son of the President, was in the vanguard of self-styled mentors to Congress. He is credited with taking over the problem of White House contact with Congress during the present crucial period when a whim of fate confines his father to his study with an infected tooth. He may have turned loose the parade of officials up Capitol Hill.

Joseph P. Kennedy, chairman of the Maritime Commission, who has gradually become a sort of "Assistant President" because of the array of subjects on which the White House consults him, was one of the first to appear at the Capitol and to counsel with Congressmen on a matter which normally is none of his official business: Taxes. He was followed by Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, who likewise talked about taxes. Meanwhile, Stewart McDonald, head of the Federal Housing Administration, was touring the capitol corridors in the interest of housing legislation.

Where was Secretary Morgenthau, the Administration's tax chief, while Messrs. Kennedy and Eccles were advising members on taxes? He was in his office at the other end of Pennsylvania Avenue. If President Roosevelt, directly or through son James, sent Mr. Kennedy and Mr. Eccles to Congress on a Treasury matter when Mr. Morgenthau was available to run the errand, then President Roosevelt is coming close to repudiating his Secretary of the Treasury. If James acted on his own initiative, he snubbed the Cabinet member who has been the President's closest personal friend. If Mr. Kennedy and Mr. Eccles acted on their own motion, then they indulged in precisely the sort of meddling which most irritates Mr. Morgenthau and for which he is not likely to allow them to go unreprimanded if he still has influence at the White House.

The situation appears headed for a snarl. The best outcome would be for Mr. Morgenthau to reassert the leadership of the Treasury on tax matters because no one is better equipped by background and recent study to counsel Congress on tax revision than Mr. Morgenthau's Undersecretary, Roswell Magill.

News Behind the News

Powerful Lobby Urges Immediate Tax Revision President Sticks to His Original Agreement

By Paul Mallon

Copyright, 1937, by King Features Syndicate, Inc. All Rights Reserved.
Reproduction in Part or in Full by Other Publications Prohibited.

HAVIEST lobby ever to depend upon Congress appeared there undetected last week to push for immediate tax revision. Reading from right to left, there were four:

Joseph Kennedy, the right-hand man.

Harry Hopkins, the left-hand man.

Barney Baruch, occasional backstabber hand.

Admiral Cacy Straton, rare hand lender.

They appeared not together, but on the same day (last Wednesday, to be exact) and moved with such care that only one was noticed by watchful observers.

House and Senate members were naturally startled and impressed. The quadruplets did not say they came from the White House, but such emissaries usually do not need to their appearance in the same drive at the same moment created the impression without the necessity of expressing it in words.

That is how the mysterious stories got started that Mr. Roosevelt wanted tax action immediately.

THE leaders thought this strange. They had said nothing around the cloakroom (and it has not been published even yet), but they thought they had a very definite agreement with Mr. Roosevelt whereby the tax revision bill would be reported to the House January 15, and no sooner. This understanding was the outgrowth of a conference discussion at the White House.

During that discussion, Mr. Roosevelt was informed it would be downright dangerous to rush through a modification of the corporate tax, just for psychological effect. Congressional tax-makers should do a careful job

that would not have to be done over again next year. They learned this lesson from their adoption of the present tax last session.

They rushed the present law through on the say-so of the Treasury, and now, within nine months, everyone, including the Treasury and the President himself, seemed willing to admit it was a mistake. This time they wanted to do the job right.

This and more they told Mr. R., and he agreed to allow the House Ways and Means Committee six weeks more to prepare the bill—but a few days later Messrs. Kennedy, Hopkins, Baruch and Grayson showed up demanding action.

TO an outsider this may seem slightly confusing. To the insiders it was absolutely bewildering. They let things slide until they read in the papers a

public expression from the White House on the run for what was advertised as just "a casual talk" about everything in particular and nothing in general. However, Mr. Barkley, as you may have noticed, took occasion to announce afterward that the new tax bill would be passed next session, not now.

The headlines said: "Roosevelt bars tax relief at extra session," but the news behind them is that the President is sticking to the original advice and agreement of his congressional leaders. This agreement will continue to stick unless the stock market goes weepy and needs a governmental handkerchief, or until the interested parties here again change their minds.

Thus proceeds the uncertainty of life and legislation in confused and confusing Washington, into which you will never get a sharper glance than afforded by what happened on taxes.

SHARP Senator Tom Connally swears he saw it with his own eyes. He was in the Vice President's office after lunch, and had not even had a second cup of coffee. He came to talk about legislation but found Mr. Garner preoccupied.

To Connally's amazement, the V. P. took off his coat and vest. Then he shed his trousers. Next he took off his shoes. From under his desk he pulled out a box and extracted some curious raiment which clearly was not a cowboy costume. After much grunting and some comparatively mild exclamations, he managed to get on what looked to Connally like a pair of checkered English hunting pants which Connally had once seen in a magazine advertisement. Then came a pair of hunting boots, a scarlet hunting cap, and an apology because the red hunting shirt was left at the hotel.

Togged out finally, the V. P. paraded around the office, silently, until Connally remarked it was certainly an elegant scarlet-topped outfit and would undoubtedly be just the thing for the deer hunt with Senator Guffey in Pennsylvania this week. At least, said Connally departing, it will be all right provided the hunters do not encounter a bull.

The V. P. seemed satisfied, took off his hunting outfit, put his street clothes back on.

Note—Without this outfit, on his sixty-fifth birthday, he shot a buck near Uvalde, at 250 paces.

The Capital Parade

Garner, With Reputation for Tory Leanings, Fights Off Tax Revision.

By JOSEPH ALSOP and ROBERT KINTNER.

MANY a private gathering has taken place in Vice President John N. Garner's cozy hideaway on Capitol Hill, but the "Bureau of Education" was recently the scene of a gathering which topped them all for pure improbability.

Three men participated, all of them eminent and powerful in the councils of the New Deal. The foxy Vice President was one, of course. The other two were Harry L. Hopkins, Works Progress administrator and the biggest spender in the Government, and Bernard Mannes Baruch, the last and best-known of the representatives of conservative finance on the unofficial White House advisory board. Mr. Hopkins and Mr. Baruch made an odd delegation. The object of their visit to the Vice President was, however, still more curious.

To put it bluntly, they wanted Mr. Garner to try to persuade the President to force action on tax revision at this session. And if he could not persuade the President to help, they wanted him to induce the House Ways and Means Committee to bring out its revised tax bill immediately.

Both Hopkins, the left-winger, and Baruch, the conservative, urged on the Vice President the importance of immediate steps to create business confidence. They declared that prompt emasculation of the undistributed profits and capital gains taxes would be the simplest and most effective step in this direction. But—and this is another strange feature of the meeting—they found a most un-receptive audience in Mr. Garner.

The Vice President is usually considered the very acme of democratic Toryism, yet he betrayed little or no interest in tax revision, and positively opposed prompt action. He said flatly that tax revision was impossible at the special session, and, although Baruch and Hopkins argued with him obstinately, they found him still more obstinate than they.

The incident is unusually interesting because, in the unexpected conjunction of Baruch and Hopkins, it shows how the depression jitters have spread through the whole administration. And the Garner attitude demonstrates how fruitless it is almost certain to be to ask Congress to act promptly on anything.



If the proposition grows more serious, the League is prepared to help happen. Industrial workers have been organized in the last three years will try to make the change to break down the barriers. Already informed sources in Detroit are quoting William A. Kitchin, of General Motors as saying:

"If we can't make any more, at least we can settle our labor problems." John L. Lewis and his Committee for Industrial Organization have made the largest advances in organizing new industries. Just as Lewis and his followers will have to bear the brunt of every General Motors effort to "settle labor problems," so they will be steel and glass and textiles and oil. You will hear a great many people these days saying that Mr. Lewis' star is on the wane. Nevertheless, Mr. Lewis himself is confident of the future.

He regards the tremendous expenditure of time and effort made by the C. I. O. in its organizing campaigns as a huge success. And he believes that, however hard the industrialists try to make unions, they will not succeed.

"We won't lose a cent of that investment," Lewis was heard to say.

For the present, he plans no new organizing. That is, General and Henry Ford will have to wait their turn and times. Mr. Lewis knows that a dollar spent on labor organizing goes only one-tenth as far as the same dollar in past times.



is no man to waste his strength. Means must be sought for raising all such efforts among his auto workers panned to find the end all but gone.

His confidence in the mass of workers has been on its waning since the outbreak of the depression. Take a few like the

the General Motors effort to "settle labor problems" and that it is made. There the mass of workmen have lived through depression. They have known two years of poverty, and have gained a potent new self-assertiveness from the experience. If the effort is made now to break their unions, they will meet the highest degree of violence, as Mr. Lewis sees it.

Because he has so dark a private picture of what the depression will mean among the industrial workers, Mr. Lewis has very positive ideas as to what should be done about it. In the place, he believes that Government spending on a grand scale be resumed at once. If spending is put off till 1939, a serious social unrest to be the result.

And, second, he is quietly meditating the need for a Government control over industry. He thinks that, if the grows as bad that business comes to Washington once more, the Government ought not to write any checks for loans attaching very definite strings to them.

In The Nation

Technique of Putting Congress 'On the Spot'

By ARTHUR KROCK

Some Senators and Representatives are described in Washington dispatches as believing the President is endeavoring to put all responsibility on Congress have evidently been overlooking at the switch. Their conclusion is based, in the dispatches, on Mr. Roosevelt's demand for curtailment of the Federal-State road-building program. But the background is larger and contains more incidents.

To understand the change in the President's relations with Congress it is necessary to do some looking backward. In the period of his complete control of the national legislature Mr. Roosevelt passed through several phases. During the first, a critical emergency existed, the country looked to him as the new leader, and a large majority of Congress was the appanage he picked up at the polls of 1932. Big business men, little business men, financiers of all sorts and the general public were urging him to adopt dictatorial methods to pull the nation to its feet.

In that period Mr. Roosevelt was striving for economy, and, despite his tremendous power and prestige, he had trouble with Congress over money

With great difficulty was he able to put through the Douglas Economy Act of 1933, and before very long Congress was beginning to emasculate that order the influence of an element always stronger than any President where its own interest is involved—the organized war veterans.

When spending began, in an effort to correct the NRA slump in the early Autumn of 1933, the President's power was further established. This is because Congress is a born spender, and it appropriated joyously at executive behest. The President's personal success in increasing his Congress majority at the polls of 1934 again enhanced his prestige. Nevertheless, Congress got away from him again when he tried to stem the bonus drive and keep executive control of the pension system he had acquired the year before.

The Discard Appears

Supreme Court setbacks through the decisions of 1934, 1935 and 1936 were counteracted, from the standpoint of prestige, by the huge Roosevelt victory in the latter year, and the new Congress assembled in pliant mood. But the President had already determined to use that prestige to force reductions in spending and to give Secretary Morgenthau full support in his steady insistence on a balanced budget. He did manage to get an appropriation of the relief moneys in a lump sum once more, probably for the last time. But Congress was beginning to see in the econ-

omy move more of a political effort to control spending than an economic move to balance the budget. Regardless of the size of annual appropriations, members of Congress facing reelection know that he who gets the best political strength from the money is he who earmarks it. They want for themselves, not the President, the credit for bridging Goose Creek.

Into this atmosphere came the proposals of Mr. Roosevelt to enlarge the Supreme Court, and some of the opposition to that in the House and Senate was based on a determination to cut (instead of extending) executive power, rather than on objection to the nominee as such. The President lost Klux Klan and had withheld the initiative, and with it a large quantity of prestige, which is the foundation of power. He was bitterly attacked in the report of the Senate Judiciary Committee. He resented that attack as bitterly, and at this time he decided on his new strategy which some members of Congress appear only now to have perceived. This strategy is to put on the legislature the blame for everything he can, so that the people may eventually decide they prefer a powerful President to an independent Congress wherein independence takes the form of fighting a balanced budget and delaying business, farm and labor relief.

Moves in the Game

Mr. Roosevelt's recent moves support the impression that such are his tactics. The real insiders have been complaining privately for more than six

months, long before the road program message came along. Toward the end of the session last Summer reliable wheel-horses were saying that the President was keeping himself aloof from his leaders on the excuse that Congress seemed to want to do things in its own way. They objected to his calling of the "fireside chat" on the calling of the special session, contending that Mr. Roosevelt knew Congress could not possibly do what he wanted and would unjustly get the blame for failure.

And in September much irritation had been aroused by the revelations that the President's first Supreme Court nominee had been a member of the Ku Klux Klan and had withheld the information when the charge was made in the Senate debate.

The next thing was Mr. Roosevelt's remark at a press conference last week that he wanted tax relief "as soon as Congress is ready." This got into all the headlines, and on Capitol Hill this was considered another unfair effort to put Congress on the spot. While Mr. Roosevelt accompanied this remark with an endorsement of careful drafting of tax statutes, Congressional critics among them his staunchest supporters—pointed out that he could have stated the case in a different way, considering the fact he had twice agreed with his leaders that tax reform could not come at the special session.

It seems to be a tactical battle, now well in the open.

Tax Revision Stalled by Many Conflicting Views

Snarl Develops Within Administration as Well as Between Treasury, Congress

Outcome Called Unpredictable

BY E. S. DUFFIELD

Staff Correspondent of THE WALL STREET JOURNAL

WASHINGTON—The type of tax relief which private enterprise can expect from the current tax-revision work has been rendered almost unpredictable by the snarl developing within the Administration, as well as between the Administration and Congress.

That the substitute undistributed profits tax evolved by the House Ways and Means subcommittee is so mild that it will arouse Administration opposition is becoming increasingly clear.

Thus, the only tangible measure of tax relief for corporations yet to appear is under a cloud, with its fate uncertain, but this is only one of the muddles which has developed in the tax work to date.

Within the Administration, Jesse H. Jones, chairman of the Reconstruction Finance Corp., and Joseph P. Kennedy, chairman of the Maritime Commission, have emerged, somewhat to the surprise of the Treasury, as active forces in the tax work, both bent upon quick and drastic change in the undistributed profits tax.

That the Treasury and even the White House do not see eye to eye with Messrs. Jones and Kennedy on all points is becoming increasingly clear and this is especially true of Mr. Jones' statement on Friday that modification of the undistributed profits tax should be completed at once or, if this is not possible, relaxation should be made retroactive to 1937 incomes.

The Treasury has opposed retroactive tax laws and has won over to its side Senator Pat Harrison, chairman of the Senate Finance Committee, despite the fact that Senator Harrison will meet Treasury opposition to many of the tax relaxations he desires.

Mild vs. Extensive Revisionists

Mr. Kennedy's reported support of the House version of the undistributed profits tax is another point, like Mr. Jones' retroactive suggestion, on which an important White House adviser may find himself out of step with the Treasury and, possibly, even the White House.

Another split is appearing among almost all Congressmen, who want the undistributed profits tax repealed outright and those who want it kept with modification. Meanwhile, those who favor modification are falling out with each other over how far revision can go without destroying the "principle" of the undistributed profits tax.

It is in this latter split—between mild and extensive revisionists—that President Roosevelt may play his most important part. The President, Congressional circles hear, is a defender of the existing undistributed profits tax, believing that it needs only moderate revision.

Radical Changes Not Planned

Changes as radical as that in the House subcommittee plan, which would graduate corporation taxes only from 18% to 20%, are said not to be within the Administration's plan despite the activities of Chairmen Jones and Kennedy. What will happen if the President, or the Treasury, speaking for him, comes out against the House proposal, is one of the questions which makes the nature of ultimate tax relief uncertain.

Some officials are guessing that the advo-when contributions were paid. Under existing
dates of outright repeal then would stampede law, Chairman Vinson said, the deductions can
the Congress into flat defiance of the President, be taken in the year the contribution is obli-

Meanwhile, more thorny questions—although gated.
of a less-important nature—lie ahead. One is The change tentatively agreed upon would
tax allowances to oil and mining companies be- prevent a taxpayer from obligating himself for
cause of depletion, a subject on which Secre- a charitable contribution in a year of large
tary Morgenthau was challenged over the week- profits in order to reduce surtax payments.
end by the Independent Petroleum Association Mr. Vinson said the change was largely because
of California and on which the Treasury faces the new provisions would be easier to administer.
the opposition of Senators from oil and mining Another change tentatively agreed upon
States. Another ticklish question is taxation would prevent corporations from including
of tax-exempt securities. charitable contributions as an item of busi-

Senator Lonergan (Dem., Conn.), has pre- ness expense. The committee agreed that all
dicted that before June, 1933, Congress will charitable contributions should be included in
have passed legislation to eliminate further is- the section allowing an exemption up to 5%.

The Senator said the House Ways and Means cause there had been considerable litigation as
Senate Judiciary Committee report on a pro- to what contributions were a business expense.
posed constitutional amendment to allow the Limiting Individual's Contributions
federal and state governments to tax each
other's securities.

One of the most serious objections to tax
exempt securities, Senator Lonergan said, is
that "when a man invests his wealth in such
securities he takes from useful business inter-
prise not only his money, but his personal ability
and experience."

Mr. Lonergan also forecast tax revision "to
encourage the flow of capital into business and
industry" through modification of the undis-
tributed profits tax.

Celler Meets Business Group

Representative Celler (Dem., N. Y.), an-
nounced that a group of about 70 business men,
whom he had assembled in Washington, had as-
sured him that if his bills to repeal the capital
gains and loosen tax and the undistributed
profits tax were passed they could put more
that 1,000,000 men to work.

The House tax subcommittee Saturday tenta-
tively agreed upon changes in the revenue laws A small change tentatively agreed upon by
which would require corporations to take de- he committee was to allow taxpayers to deduct
ductions for charitable contributions in the year attorney fees in litigation up to 50% of the
amount recovered if the amount recovered is
included in gross income.

The committee also tentatively agreed on a
provision which would tax dividends received
on paid-up insurance policies. This decision
would not change the present law which ex-
empts dividends on insurance policies which are
not paid up.

The Treasury Department submitted no esti-
mates on likely revenue increases from these
changes, Mr. Vinson said. The tax subcommi-
tee will meet again today and, according to its
chairman, may have some tentative draft bills
later in the week.

December 8, 1937.84
3:40 p.m.

H.M.Jr: Hello.

Operator: Burgess: Go ahead.

H.M.Jr: Hello.

Burgess: Oh, hello Henry.

H.M.Jr: Hello.

B: Yes sir.

H.M.Jr: Well things seemed to close very nicely.

B: They did, yes. This has been a fine day.

H.M.Jr: What?

B: This has been a good day.

H.M.Jr: Uh-huh, and -

B: Few more days like this, why this - be all cheerful again.

H.M.Jr: Well, Bell tells me that the thing was sixteen times over-subscribed our bonds. He said he had the figures last night. I haven't seen them.

B: Is that so. I haven't - I haven't talked with him. I haven't got -

H.M.Jr: Well I'll ask him to give me the figures in the morning and then I'll tell them to you.

B: Yes. Well that's fine. That'll be all the better.

H.M.Jr: Yes. I don't - I'll find out - I don't see, if they have those figures in, I wondered - we're not to make announcements - allotments until Friday, are we?

B: No, we -

H.M.Jr: We told them Friday.

B: We've got a tremendous job here today.

H.M.Jr: Well I can wait until Friday.

B: We're doing the best we can, we're having a tremendous -

H.M.Jr: Well, I'm in no hurry, Friday is all right.

B: Well that's very nice Henry.

H.M.Jr: Yes. I mean I told the newspaper men Monday night we wouldn't announce until Friday morning.

B: That's fair enough. Yes.

H.M.Jr: So that's - they know there's no sense hurrying.

B: Well I don't believe we will be ready to send down the allotment notices but you can announce percentage then, I think.

H.M.Jr: Well, but that will be something.

B: Yes, yes.

H.M.Jr: And let's see how she behaves tomorrow, huh?

B: Yes. Going a little too fast. Wish it weren't going quite so fast.

H.M.Jr: Well, will you begin to sell some bonds tomorrow?

B: Yes, we can start in tomorrow.

H.M.Jr: That's right.

B: Yes.

H.M.Jr: And I suppose you'll buy bills in place of it?

B: Oh anything we can get that's short without disturbing that market.

H.M.Jr: Whatever you can get short.

B: The next problem is to - is to find the replacement stuff without upsetting that short market.

H.M.Jr: Yes. That's right. That's right. All right, let's hope we have a couple weeks like this.

B: Well you ought to feel very happy tonight, Henry.

- 3 -

H.M.Jr: I do.

B: I'm sure that your financing has been a helpful factor in this thing Henry.

H.M.Jr: I am too. And the President, I just left him,

B: Yes.

H.M.Jr: Most pleased, and he was delighted we had priced it the way we did, and he thinks it was all to the good.

B: Well I have no regrets whatever, this time.

H.M.Jr: Well I haven't seen any criticism anywhere, have you?

B: I haven't either. I've seen quite a number of very favorable comments.

H.M.Jr: Yes.

B: And the things that I get from the market are all favorable.

H.M.Jr: Fine.

B: They think we did very well.

H.M.Jr: Were you at that dinner last night?

B: Yes.

H.M.Jr: How was that?

B: Well it was a good dinner in a way.

H.M.Jr: Yes.

B: The - Wayne was in a tough spot.

H.M.Jr: He was. How did he do?

B: Well -

H.M.Jr: All right.

B: All right. I don't want to say it Henry.

- 4 -

H.M.Jr: All right. All right.

B: He had more stuff in there than they quite give him credit for. Got it off very quietly, and it was - he was in a tough spot, of course, he couldn't really say anything, and -

H.M.Jr: No.

B: And it was very difficult to interest people, - in a rather academic kind of presentation.

H.M.Jr: Well, I'll be talking to you tomorrow.

B: All right.

H.M.Jr: Good night.

B: Good night.

TRANSLATION

BANK OF MEXICO
Cable address: Banxico
Apartado 98 BIS
Mexico, D. F.

CONFIDENTIAL.

MEMORANDUM

Manager's Office

Balance of Payments of the Foreign Commerce of Mexico
and Increase of the Import Tariff.

December 8, 1937.

The experience of several previous years demonstrates that in order to be able to reach an equilibrium in the balance of payments of Mexico, it is necessary that the imports shall represent approximately only about 60 percent of the exports, that is to say, that there shall remain an excess of 40 percent between the exports and the imports. The balance of trade of Mexico, therefore, in order to be normal, must always be favorable by about 40 percent.

Thus, for example, if the exports in a certain year are \$800,000,000, the imports should not be more than \$480,000,000, since about \$320,000,000 are necessary, in that case, to cover the debit balance of Mexico on account of the invisible factors of the balance of payments, principally for the dividends and returns of the foreign capital invested in the country.

During the first six months of 1937 it was observed that the imports maintained themselves more or less within
the

the indicated limit;

<u>1937</u>	<u>Exports</u>	<u>Imports</u>	<u>Relation in Percentage</u>
January to June, inclusive	428	294	63%
		Less imports of the Government, etc. <u>28</u>	
		Net 266	

Although the published import figures are larger, nevertheless there must be deducted from them, to make this computation correctly, the imports made by the Government and its dependencies, including the railways during that half year, which amount approximately to \$28,000,000.

There do not yet exist concentrated data on the imports for a sufficient number of months of the second half of 1937 to be able to make the respective computation clearly; however, there are available the data of the customs revenues which are as follows:

<u>1937</u>	<u>Revenues</u>	<u>Average</u>
First half year.....	49.8	8.3
First four months of the second half year.....	42.5	10.6

There will be noted from this a distinct increase which might make it logical to think that the imports, during the second half year, are increasing in a proportion which would be inconvenient for the above indicated relation of the balance of payments.

It is especially to be supposed that such a thing is happening

- 3 -

happening if we take into consideration that the American price level, as published by the National Fertilizer Association, shows a decrease from July 31 to November 20 of about 10 1/2 percent. (1)

For its part, the Index of the Bank of Mexico during the same period shows an insignificant decrease - about 2 percent; it must be taken into consideration that the said Mexican Index previously had a very marked ascending movement, as can be seen in the following table:

<u>1937</u>	<u>National Fertilizer (Base average, 1926-1928)</u>	<u>Index of the Bank of Mexico Base 1929</u>
March 27	88.6	113.9
April 24	<u>87.7</u>	<u>115.9</u>
May 29	88.0	118.6
June 26	87.4	124.0
July 31	88.3	125.2
August 28	86.7	123.2
September 25	87.1	123.3
October 30	82.2	122.6
November 20	79.8	122.6

The probability is that in the month of May there will prove to be a disequilibrium in the relation of international prices and taking into account the time necessary for placing

the

- 4 -

the orders and delivering them, et cetera, its effect began to be felt in the customs houses at the end of July.

For its part, the metallic reserve of the Bank of Mexico has suffered a very considerable constant decrease from July to November (\$64,000,000) and although it is evident that a large part of this loss is due to flight of capital, especially of certain foreign companies, generally American, it is probable that this is not the only cause for the losses in the reserve during this period, but that there exists simultaneously a continuous loss derived from the increase of imports.

The losses derived from flight of capital are never so alarming as those resulting from a disequilibrium in the balance of payments, since generally when the cause which occasioned the flight of capital disappears, the capital tends to return to the country where it is needed; but as to the losses derived from disequilibrium in the balance of payments, they are extremely grave and in the end no reserve fund can resist them. It becomes necessary by some means to change the situation, that is to say, in our case, either increase the exports, or diminish the imports, or alter the relation between foreign prices and Mexican prices through choosing a new rate of exchange equilibrium.

The

- 4 -

The alteration of the exchange rate would bring with it very serious harms since it means a new demonstration that investments in Mexico are insecure, that is to say, a new reason for capital leaving the country for a large period of time; moreover, it represents an alteration of the real wages of labor, since the purchasing power of our currency, if the exchange rate is raised, would tend to decrease and would be a cause of intranquillity in the industrial organization; it also means an increase in the expenses of the Government, especially because of the acquisition or expenditures which it has to make abroad, and, finally, a new situation in the distribution of all individual incomes, for which reason it must be considered in general terms, as a very undesirable measure and must be left for an extremity in which it should be totally impossible to find another remedy.

Before taking so serious a measure, it is preferable in a measure to alter the situation of the balance of trade, on the one hand, and on the other hand, to inspire confidence in capital to prevent its flight even if during the time in which this maneuver has to be made, the reserve must still suffer some small losses.

It is not possible to increase exports easily at will, for that means new investments of capital and represents

a combination of factors which cannot be availed of at a given moment. For this reason, there is nothing else to do but have recourse to the reduction of imports by means of tariffs which avoid the effects of the reduction in foreign prices.

As the alteration of the tariffs represents an international problem, since generally the countries with which we trade will see in it an obstruction to their export trade, it will be necessary to convince the interested parties, to avoid reprisals of a similar kind, that we are faced with a grave alternative, and that a temporary alteration in the tariff is preferable to a modification in the exchange rate, which because of the inevitable increases in wages tends to become definitive. In any case, it is more difficult to reduce wages when the disequilibrium passes, that is to say, when American prices go up again, than to derogate a provisional tariff, especially if the Mexican public has been notified that it has that transitory character, in order to avoid "creating interests" meantime under its shelter.

The discriminating increase in the customs tariff is less inconvenient and subject to complete control of the Government at all times, while the devaluation of the
 currency

- 7 -

currency is equivalent to an indiscriminate raising of the customs tariff, modification of which in the opposite direction requires events and economic conditions which it is not easy to command at a given moment.

-
- (1). - The Index of the National Fertilizer Association is taken as base, since the group of articles which form it are more like those which form our imports, which is not true of the Index published by the United States Labor Department, which includes many articles which are not related to Mexican imports.

TREASURY DEPARTMENT

95

INTER OFFICE COMMUNICATION

DATE: December 8, 1937

TO Mr. Lochhead

FROM M. A. Harris

Subject: Major Financing Operations -
December 1933 to December 1937

In the period December 1933 to December 1937 there have been 27 major financing operations. This figure includes five offerings of 100 million each of outstanding bonds on the "highest bid" basis. These operations do not include Treasury bills, United States Savings bonds or special issues to governmental corporations and trust funds.

Called liberty bonds amounting to about \$6,048,000,000 were refunding and assuming that \$277,000,000 Treasury notes will be exchanged in the current operation, refunding of Treasury notes and Certificates of Indebtedness amounts to about \$9,314,000,000. Cash offerings during this period amount to about \$11,631,000,000 which includes an estimated \$450,000,000 of cash in the current offering. This cash figure does not represent net cash as from time to time special tax date Treasury bills have been paid off in cash.

Details of these operations are given on the attached sheet.

Principal Treasury financing operations, December 1, 1933 to December 15, 1937
 (Excluding Treasury bills, United States savings bonds and special
 issues to governmental corporations and trust funds)

(Dollar figures in millions)

Date of issue	Treasury notes and certificates 1/			Treasury bonds			Class of offering			Price on when issued basis 2/ (decimals are thirty-seconds)	
	Rate	Term	Amount	Rate	Term	Amount	Exchanges for Liberty bonds	Exchanges for other securities	Per cash		
1933 Dec. 15	2 1/4%	1 yr.	992.5*	-	-	-	-	607.6	384.9	100.01	
1934 Jan. 29	1 3/4%	7 1/2 mo.	524.7*	-	-	-	-	-	524.7	100.02	
Jan. 29	2 1/8%	13 1/2 mo.	528.1	-	-	-	-	-	528.1	100.13	
Feb. 19	2 1/4%	22 mo.	418.3	-	-	-	-	-	418.3	100.09	
Feb. 19	3%	3 yr.	428.7	-	-	-	-	-	428.7	100.14	
Mar. 15	3%	4 yr.	455.2	-	-	-	-	455.2	-	101.16	
Apr. 15	-	-	-	3 1/4%	1944-46	1,062.0	827.5	234.5	-	101.05	
June 15	2-1/8%	5 yr.	528.5	-	-	-	-	-	528.5	100.24	
June 15	-	-	-	3%	1946-48	824.5	-	489.0	335.5	100.14	
Sept. 15	1 3/4%	2 yr.	514.1	-	-	-	-	-	-	100.04	
Sept. 15	2 1/8%	4 yr.	596.4	-	-	-	596.4	514.1	-	100.06	
Sept. 15	-	-	-	3 1/4%	1944-46	456.9	456.9	-	-	100.28 1/	
Dec. 15	1-1/8%	18 mo.	686.6	-	-	-	-	-	210.1	476.5	100.19
Dec. 15	2-1/8%	5 yr.	765.2	-	-	-	-	765.2	-	100.20 3/	
Dec. 15	-	-	-	3-1/8%	1949-52	491.4	-	-	491.4	100.30	
1935 Mar. 15	1-5/8%	5 yr.	513.9	-	-	-	-	-	-	100.23	
Mar. 15	-	-	-	2-7/8%	1955-60	1,558.0	1,558.0	513.9	-	101.06	
June 3	-	-	-	3%	1946-48	98.7	-	-	98.7	103.4 4/	
June 15	1-5/8%	5 yr.	864.5	-	-	-	864.5	-	-	101.07 3/	
June 15	-	-	-	2-7/8%	1955-60	746.4	746.4	-	-	101.13 3/	
June 15	1 3/4%	5 yr.	738.4	-	-	-	-	738.4	-	100.22	
July 1	-	-	-	3%	1946-48	112.7	-	-	-	103.18 4/	
July 15	1-3/8%	4 1/2 yr.	526.2	-	-	-	-	-	112.7	100.19	
July 22	-	-	-	2-7/8%	1955-60	102.0	-	-	102.0	101.19 1/2	
Aug. 5	-	-	-	2-7/8%	1955-60	106.5	-	-	106.5	101.18 4/	
Aug. 19	-	-	-	2-7/8%	1955-60	98.2	-	-	98.2	100.25 5/	
Sept. 16	1 3/4%	3 1/2 yr.	941.6	-	-	-	429.2	-	512.4	100.11	
Sept. 16	-	-	-	2-3/4%	1945-47	568.7	568.7	-	-	100.11	
Dec. 15	1 3/4%	5 yr.	737.2	-	-	-	-	249.4	487.8	100.17	
Dec. 15	-	-	-	2-3/4%	1945-47	618.7	-	161.3	457.4	100.12 3/	
1936 Mar. 15	1 3/4%	5 yr.	676.7	-	-	-	-	48.1	628.6	100.22	
Mar. 16	-	-	-	2-3/4%	1948-51	1,223.5	-	496.5	727.0	101.02	
June 15	1-3/8%	5 yr.	503.9	-	-	-	-	68.7	435.2	100.26	
June 15	-	-	-	2-3/4%	1951-54	1,626.7	-	955.8	670.9	101.05	
Sept. 15	-	-	-	2-3/4%	1956-59	981.8	-	511.8	470.0	101.09	
Dec. 15	1 3/4%	5 yr.	206.8	-	-	-	-	206.8	-	100.31	
Dec. 15	-	-	-	2 1/4%	1949-53	1,302.6	-	551.2	751.4	101.01	
1937 Mar. 15	-	-	-	2 1/4%	1944-53	483.9	-	483.9	-	100.27 3/	
June 15	1-3/8%	2 1/2 yr.	426.5	-	-	-	-	-	426.5	100.08	
June 15	1-3/4%	4-3/4 yr.	426.3	-	-	-	-	-	426.3	100.11	
Sept. 15	1 3/4%	15 mo.	433.5	-	-	-	-	433.5	-	100.04	
Sept. 15	2%	5 yr.	342.1	-	-	-	-	342.1	-	100.04	
Dec. 15	-	-	-	2 1/4%	1945	-	-	-	-	101.15	
Dec. 15	1-3/4%	5 yr.	5/	-	-	-	-	-	-	100.23	

Treasury Department, Division of Research and Statistics.

December 7, 1937.

Source: Data taken from Treasury press releases.

- 1/ Certificate issues started.
- 2/ First quotation shown on this sheet.
- 3/ Price at close of day of offering of additional issue of outstanding securities.
- 4/ Average price of tenders for additional issue of outstanding securities.
- 5/ Allotment not made.

Dec. 8.

97

Colonel Harrington telephoned that final figures on WPA employment for the week ending December 4th was

1,537,539

an increase of 17,799 over preceding week.

The figures he gave you yesterday afternoon did not include North Dakota, six New England States and New York, but above figures are now complete for the week ending December 4.

mnc

MEMORANDUM OF THE DAY'S ACTIVITIES

98

December 8, 1937

To: The Secretary

From: Mr. Magill

1. Tax revision

Mr. Treadway asked this morning that the subcommittee report favorably his bill to repeal the undistributed profits tax as of January 1, 1937, and to substitute therefor an increase of one percent in each of the corporation normal tax rates. The subcommittee refused to act on the ground that the bill had not been read but asked the Treasury to furnish an estimate of the revenue yield of Mr. Treadway's bill as soon as possible.

After the close of the meeting of the subcommittee this morning Mr. Doughton again talked to me about securing more immediate action on the tax bill, and limiting the subject matter of the revision to the tax on capital gains, the undistributed profits tax, and a few other non-controversial topics. He expressed his belief that this was not the time for a general revision of the revenue laws and that if we attempted it we might be defeated in either the House or the Senate by a combination of groups that opposed particular changes which we have in mind, such as the recommendations on the income of married persons in community property states and the reduction or elimination of the percentage depletion deduction. I told Mr. Doughton that we were anxious to eliminate other inequities in the revenue laws besides the two to which attention had been directed in the press, and in particular that we did not want to be rushed into the position of making changes which are exclusively for the benefit of particular groups of taxpayers. Messrs. Doughton and Vinson asked whether we could not get an immediate agreement upon the capital gains and undistributed profits tax recommendations. I replied that there seemed to be no serious difficulty on capital gains. As to the undistributed profits tax the President had clearly expressed his point of view and the Treasury is of course bound by it. Consequently, if Messrs. Doughton and Vinson thought that the President or Congress should take a different position they should communicate with the President directly. The situation is somewhat the same in the case of community property and percentage depletion. The President took a strong position on both questions in his message of June 1st and the Treasury will of course present the recommendations which he then made.

Mr. Vinson said that they could not very well talk to the President until the draftsmen had reported to them on the practicality of the proposed amendments to the undistributed profits tax. He is going to ask the draftsmen to report tomorrow morning.

2. Conference with Senator Harrison

The Senator advised me that he was receiving a good many comments upon the new form which the Commissioner has sent out to revenue agents in the field, in order to obtain statements of the net worth of taxpayers with incomes in excess of \$100,000. Mr. Harrison said he did not want to interfere in the matter but he doubted the advisability of seeking this information from wealthy taxpayers at a time when the country is in the midst of a business recession. The Senator also asked me to find out the status of the Associated Gas and Electric Company case. He had been advised by the company's attorney that it would spend a great deal of money on improvements if its tax case could be promptly settled.

3. Provisions for tax appeals

Mr. Traynor has conferred with Assistant Attorney General Morris and his associates twice on the subject of our proposals for simplifying tax appeals by providing for a single form of proceeding instead of the four forms now available. Mr. Morris has expressed strong opposition to any change in the present provisions for tax appeals except that he advocates a provision whereby the denial of certiorari by the Supreme Court in a tax case would be regarded as a final decision on the merits. This proposal would in no way simplify court procedure but instead would bring up again certain aspects of the court fight of last spring. Mr. Oliphant is going to see the Attorney General and try to persuade him to approve our proposals. We will all be greatly disappointed if the Department of Justice continues its opposition since the proposals we have worked out are the result of several months of careful study and would bring about an enormous improvement in the present state of affairs.

Rm

MBo

GRAY

Paris

Dated December 8, 1937

Rec'd 3:28 p.m.

Secretary of State,
Washington.

1712, December 8, 5 p.m.

FOR TREASURY.

The exchange market here today has been even less active than yesterday and the quotations remain practically unchanged as a result. We are told by one market contact that the fund bought a fair amount of sterling at 147.09.

Very little business was transacted on the security market and there was a sagging tendency all around.

The question of the extension of the Silver Purchase Act has not given rise to any extensive comment in the financial press, although statements attributed to the President and to Mr. Morgenthau in this connection are widely quoted. The impression seems to prevail, following these statements, that the American buying program is not likely to be interrupted. Information concludes in this respect that the President will probably hesitate to increase purchases for fear of displeasing orthodox sentiment

2- No. 1712, December 8, from Paris.

sentiment, and that on the other hand he will be restrained from decreasing purchases for fear of arousing the "silver men", and partisans of inflation. Therefore, this paper predicts the "status quo". (END SECTION ONE)

BULLITT

KLP:CSB

RB

GRAY

Paris

Dated December 8, 1937

Rec'd 3:43 p. m.

Secretary of State
Washington.

1712, December 8, 5 p. m. (SECTION TWO)

A recommendation made yesterday in POPULAIRE by Serol, the President of the parliamentary group of the Socialist Party, that the Government should be authorized to apply exchange control when it deemed the moment opportune, is bitterly criticised in today's AGENCE ECONOMIC which points to the dangers that could follow such a step. Notably this paper stresses that such a demand coming from one of the most important parties of the majority cannot fail once more to alarm capital, and suggests that the object of this prominent socialist is to embarrass the Minister of Finance.

Serol ridicules and belittles fears expressed that exchange control would demolish the tripartite monetary arrangement, lead to a closed economy, and to a dictatorship. In his view neither Great Britain nor the United States could very well protest for the

REASON

RB -2- No. 1712, December 8, 5 p. m. Section Two
from Paris

reason that in the past the former had adopted measures of monetary constraint, and President Roosevelt had decreed the requisition of gold, and other constraints against capitalists.

While Serol agrees that exchange control would not represent a "universal panacea", he maintains that it could serve to render the acquisition of foreign currencies dependent upon the production of proof of necessity for a legitimate operation. He recognizes that it would not serve to hasten the repatriation of French funds still out of the country (which he estimates at between 40 and 50 billion francs), but holds that it would prevent new exports of capital.

(END MESSAGE)

BULLITT

KLP

WWC

RB

GRAY

London

Dated December 9, 1937

Rec'd 5:26 p. m.

Secretary of State

Washington.

763, December 9, 9 p. m.

FOR TREASURY FROM BUTTERWORTH.

The effect of the publication on Tuesday of the increase in unemployment by 109,000 has been to crystalize a gradually growing pessimism.

Through October, indices of activity had shown on the whole maintenance of the high levels of the earlier months of the year. The luxury and semi-luxury trades had already been affected but this was easily accounted for by the declining stock market; the still high level of employment lent confidence to the markets for necessities; while the rearmament program assured to the heavy industries a fairly long outlook of active and remunerative operations. Building operations continued at a high level and though the much watched "plans approved" figures were falling the incompleteness of those figures and the knowledge that rearmament construction would fill the gap for many months tending to counteract to a considerable extent the psychological

RB -2-No.763, December 9, 9 p.m. from London

psychological effect of this index. The rising cost of living, wage increases and high costs of materials, especially steel were tending to make industrialists and shipping companies hesitate in their expansion programs.

END SECTION ONE.

JOHNSON

NPL

SMS

RB

PLAIN

London

Dated December 9, 1937

Rec'd 5:35 p. m.

Secretary of State

Washington.

763, December 9, 9 p. m. (SECTION TWO).

Declining prices of primary products combined with high costs pointed to a soon to be expected falling-off in overseas demand for some of Britain's basic exports. Many expected a continued gradual decline in a number of lines but believed the cushion of the rearmament stimulus and the still healthy building industry would render this country immune from a major recession though liable to a considerable period of slowing activity in general business. Prevailing opinion held that the slowing down was due entirely to conditions in the United States and that an improvement there would mean a quick recovery here.

Today the outlook appears more gloomy and there is already discussion of possible curative measures. Among actual pointers to the future may be mentioned the shrinking order books of textile companies; the unfavorable

RB -2- No.763, December 9, 9 p.m. Section Two from London

unfavorable outlook for coal exports which have expanded encouragingly during the year but may be expected to show a sharp decline in the spring when deliveries on existing contracts are completed and the recent impact of German subsidized competition in continental markets will show itself in the trade figures. The building outlook remains good for some time as does that of engineering and shipbuilding but steel producers are showing signs of realizing that the prices they have been able to charge may be difficult to maintain much longer especially in export markets where they are now being underbid. Furthermore the cumulative effect of the reduction in purchasing power in the primary goods producing countries is likely to be shown in export and unemployment figures to an increasing extent and will overlap the old bugbear of the depression years--high costs at home--for a considerable period.

I venture a prediction that further increases in unemployment totalling not less than 150,000 will occur before the spring and if the growing caution reflected in the retail sales index gains in momentum it may well be considerably more.

The City

RB -3- NO.763, DECEMBER 9, 9 p.m. Section two from London

The City is now beginning to discern features in the British situation which are less dependent on the trend of business in America than at first appeared and though the slow working of these forces have undoubtedly been accelerated by the slump in America they may be expected to continue to operate irrespectively of the future trend in the United States or at least in some measure to counteract any stimulus that may come from that source.

The differences in the long range outlook here and in the United States might be noted. This country for example has passed its peak in building and must expect a decline in this industry as soon as the peak of re-
armament construction is passed. This is true also of the iron and steel, engineering and shipbuilding industries unless export markets are such as to take up the slack at the right time. Arrears of capital expenditure such as those so widespread in America cannot be said to exist here while the greater dependence on export markets constitutes a factor of uncertainty which is of less importance for American industry.

The contrast in the British economic and financial
position

RB -4- No.763, December 9, 9 p.m. Section Two from London
position of today and 1930-31 might be worth mentioning.
There are no longer available such expedients as unilateral
currency depreciation, the resort to a protective tariff
and the introduction of a cheap-money era through a major
debt conversion for these "resources" have already been
tapped. The only hidden reserve is the still undervalued
gold holding of the Bank of England. This is a potential
source of funds on which a public works program could be
launched. The need for such measures is not (repeat not)
yet in sight while the future trend in the United States
is still so uncertain but the fact that forward-looking
observers are discussing such expedients is of signifi-
cance.

In any case there is not now the same confidence
that was evident a few weeks ago that an upturn in
America would produce an automatic and speedy recovery
here.

END MESSAGE.

JOHNSON

SMS

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris.
No.: 1717.
DATE: December 9, 1937, 7 p.m.
FROM COCHRAN.

Having returned yesterday to Paris from America, I called at the Bank of France this evening. Foreign exchange has been acquired by the French stabilization fund steadily, although frequently the amounts have been rather small; the gain today was only about 25,000,000 francs of sterling. This evening slightly over 9,000,000,000 francs was the total gold and foreign exchange in the fund. This situation is considered satisfactory by operating officials, especially after having provided the necessary exchange for two installments of the British banking credit of 40,000,000 pounds and after having ceded 3,200,000,00 francs of gold recently to the Bank of France. The third payment of the British banking credit will be taken care of similarly next Monday. In each of these two operations the Treasury account with the Bank of France has been debited for the amount of francs necessary to buy the sterling. The Treasury has so far had in its account sufficient francs to make payment for this foreign exchange without finding

-3-

finding it necessary to borrow further from the Bank of France on its credit. However, there is extreme likelihood that before completing the last payments it will be necessary to resort to this credit. Definite denial was made by my contact that there was any possibility that the Treasury, in order to make this reimbursement, might take their capital from the stabilization fund (the three or more billion francs, for example, by which the fund now exceeds its original endowment of 10,000,000,000 francs).

Thus, while the monetary situation is easier, the extent to which it has been necessary for the Treasury to borrow during recent weeks from various sources is causing concern at the bank. It is expected that end of the year Treasury requirements will be very heavy. Then the borrowing program for 1938 will follow, which, unless conditions improve significantly, will be a tremendous strain upon the French market, according to estimates now before Parliament. Earlier in the day I had heard that officials who favor a pickup in the French investment market were urging the control for the purpose of strengthening the franc through not acquiring foreign exchange and even through spending part of its foreign exchange in order to buy francs.

However,

-3-

However, my contact strongly denied this rumor. The idea of the proponents of this measure was said to be that if the franc began to gain, French holders of sterling would quickly start liquidating their foreign funds. The contrary position was taken by my contact. He insisted that stability is what is now needed in the franc and that increased purchases of sterling would be the result of any tendency along the above lines. While the currency situation is therefore better than it was when I left France a month ago, there is cause for worry in the heavy borrowing that has already been necessary and in the borrowing that is in early prospect. Bonnet, I am told, is very much distressed over the Government's hesitancy to take any more forceful steps than they have already taken since the Rambouillet declaration to amend the forty-hour week. My friend, speaking entirely personally, indicated the possibility (which has been felt by me for some time) that if better results in this direction and toward increasing production do not materialize in the next few weeks, Bonnet might point to his considerable accomplishments since becoming Minister of Finance, place emphasis upon the impossibility of bringing about further progress in the face of problems of an economic nature, for the solution of which

his

his ministry cannot be held responsible, and resign, possibly to go back to a more pleasant position.

Deboisanger, First Under Governor of the Bank of France, returned two days ago from Berlin, where he visited Schacht and other officials of the Reichsbank. He received the definite impression that Schacht and Hulse and Blessing, his two favorite assistants, will leave the Reichsbank on April 1. All of them will be replaced by bona fide Nazis. It was confidentially intimated to the Bank of France by Schacht that he was unhappy because Niemeyer was advocating Hechler as the B.I.S. general manager. Unfortunately, Schacht said, it would be difficult for him to oppose a German for the position since the matter had received so much publicity. Schacht will try to refrain from voting if the matter comes to a vote at the B.I.S. He felt, however, that his position would be even more seriously impaired than it is at present if it should leak out that he had failed to support a German candidate. On Saturday morning Fournier and Niemeyer are going to have a personal talk at Basel. Fournier expects to carry out his earlier threat of removing French deposits and French participation from the B.I.S. and even of reopening the whole question of reparations by seeking

to

-5-

take out the long term French funds that were placed in the bank under the Young plan, if Niemeyer persists in his move for a German general manager and succeeds in getting any support at Basel.

END OF MESSAGE.

BULLITT

EA:EB

03713031
DEC 10 1937
RECEIVED
U.S. DEPARTMENT OF JUSTICE
WASHINGTON, D.C.

GROUP MEETING

December 9, 1937
9:30 a.m.

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

H.M.Jr: Well, Mr. Upham?

Upham: Nothing.

H.M.Jr: Bell?

Bell: I have nothing.

H.M.Jr: Dan - I'll see you later today - but Harry was at the house - I'll tell you about it later on - and he has got the same worry... I'm sorry Mac isn't here; is Mac sick?

Gaston: No, Mac is in my office talk^{ing} to Carl Ladd - hadn't quite finished explaining that thing.

H.M.Jr: Well, Mac ought to come in.

(McR comes in)

Mac, I wanted you to listen. Harry Hopkins was at the house last night. He's got the same worry that I have that the states aren't going to be ready in January to pay unemployment money on Social Security. And I said that we had talked about it and I had asked you to find out, and if necessary - is it 21 he said, or - I don't know - 22 states ...

Bell: 21 or 22.

H.M.Jr: ... and we'd go in and see whether they're ready. He said, "You, as Secretary of the Treasury, can do that and get away with it, and I can't." He said to take one of his men with us; otherwise Altmeyer's people would just eat them up. "You fellows can

-2-

get away with murder over there. I can't."

I think it is important enough from the standpoint of the Treasury and the Budget and the present Administration that there shouldn't be anything go wrong. Now, Miss - what's the woman that's the head of Social Security in New York?

Gaston: Rosenberg.

H.M.Jr: Miss Rosenberg, who is a very able woman, came down and said they are not ready. They're not going to blame Lehman; Mark Graves will say it's us. Now, I'd like to have between now and tomorrow morning a plan that we send a man into every state and look at that state machinery and see whether they're ready to function or not. Now, you (Bell) have got people in every capital still, haven't you?

Bell: Well, I have - oh, you mean

H.M.Jr: Yes. What?

Bell: I have Treasury accounting people, but they're not in any sense interested in Social Security.

H.M.Jr: Well, let's - I don't know of anything more important - because, I mean - than that. How can we organize a flying squad to go into these 22 states and find out, so if they're not ready I can write a letter to the Governors and put them on notice?

Gibbons: Isn't Revenue capable of doing it?

H.M.Jr: I'm just trying - no, I don't know. Now, who actually pays those checks, the states or we?

Bell: We will give the Treasurer of the state a Treasury check for the full amount of the requisition, and then it is up to the State Treasurer to disburse the funds to the individuals. Now, I suppose our accountants could go in and find out what the situation is in each state, what their plan is, what they propose to do.

H.M.Jr: Well, not to tie you up too much - would that be Eddie Bartelt?

-3-

Bell: Yes. Wouldn't tie me up. I'd do it through Bartelt.

H.M.Jr: Well, could you come in with a plan tomorrow morning?

Bell: I think so.

H.M.Jr: I'd like to do - I'd like to cover every state next week, which would mean - I'd like every state covered next week.

McR: I think we ought to - I think the thing ought to be cleared with Altmeyer. I don't know that we'd have any difficulty there.

H.M.Jr: That's all right, put him on notice, but - I'd let him send a man along; let him send a man with ours.

Bell: They have people in each state.

McR: Well, it would be his regional

Bell: That's right.

McR: His regional superintendent or whatever it is, in each one of these, that our boys would pick up and contact.

H.M.Jr: Now, I don't want to pick up Harold Graves, because he's doing something; but this is something that is really an accounting ...

Bell: Well, it's a payment procedure.

H.M.Jr: Which we ought to know. Well, look, between now and 9:30 tomorrow morning, will you fellows come with a written thing that we send people in, and let Altmeyer's people go right along with them. I want every one of 21 or 22 states covered, and I want - and as they find that they're no good, I want them to telephone in.

Now, couldn't we just detach one man and say, "Now, that's your responsibility." Who have we got up in

-4-

Eddie's office?

Bell: Well, I'll let Bartelt handle it.

H.M.Jr: Well, let's pin it on Bartelt.

Bell: Probably ought to get Paul Banning over, who is the accountant over there, with Altmeyer's permission, of course.

McR: Yes, sure. We've got to pull those fellows in it. Now, Banning is one of our old boys, one of the fellows I brought to Farm Credit; brought him over here, and he went from here as Chief Accountant to Social Security. We can work with Paul. Paul will work with Eddie. He did work with him.

H.M.Jr: Between now and 9:30 tomorrow I want a completed plan. I want to serve notice on Altmeyer. I don't give a damn what Altmeyer says. I want to cover the 22 states next week. I want to know if they're ready. And ask the boys, if they find any breakdown, to report to Eddie Bartelt and we'll get busy with the Governors. Because there's 15, 20 million dollars that - if we don't get it - and the whole thing Just as Harry says, that group isn't going to sit there and take alibis, and they just end up by blaming Roosevelt.

Bell: I'm afraid you're going to find out in some of the states - a little - some politics. In New York State, for instance, where 75 percent of your money is collected in New York City and 75 percent of your payments will be made in New York City, the whole job is being centralized in Albany, because the banks in Albany want the business. It means the banks in Albany have got to take New York checks and clear them through New York Federal Reserve, whereas they could be cleared locally if ...

H.M.Jr: Listen, Bell, I've arrived at this stage - I don't know whether you know it - I just don't give a damn for anybody except the President of the United States.

Bell: Well, that's a situation we can't very well control, I realize.

-5-

H.M.Jr: Why not? I'll say so right in the papers; I'll come right out and say so. "The following states are ready and these other states aren't."

Bell: Well, what I'm saying goes also to the cost of administration, which is very expensive.

H.M.Jr: What?

Bell: New York State will spend ten million dollars in administrative expenses.

H.M.Jr: Well, will you

Bell: Yes, I'll bring it in.

H.M.Jr: Now is the time. If I could say on the 15th of December, "The following states are ready," that I have made this investigation, and New York and the others aren't, you see Lehman go to work; believe me, I know him. You see Lehman go to work, if we can come out and say we have made this investigation - Mr. Altmeyer, Social Security and the Treasury - for the President of the United States, and the following states are ready and the others aren't, and just say so publicly.

But the point of the thing is - first, the human part of it, that these people have got to wait three weeks to qualify, and then they've got to wait another three weeks for the machinery to creak; then they come down and say, "Well, all right, put on another hundred, two hundred thousand men down here, because this thing isn't working." Huh? I'm just thinking of the budget.

Bell: Yes. I don't think the breakdown will come in Washington.

H.M.Jr: Well, I can't do anything more

Bell: That's right.

H.M.Jr: than to say to you two fellows, will you please come in tomorrow; have Eddie here.

-6-

Bell: All right.

H.M.Jr: I give you 24 hours to give me a plan so we can go over the 21 or 22 states. Check?

Bell: O.K.

H.M.Jr: I thank you. And I'll just say this to you: I had a very satisfactory interview with Hopkins. Very satisfactory.

Bell: "id he stick to his figure that I gave you?

H.M.Jr: Lucky number?

Bell: 150,000.

H.M.Jr: Well, it takes a little explaining. It takes a little explaining. He's working very hard, and he's all right. I mean what he's doing is down our alley and in the interests of the people.too.

Anything else?

Bell: That's all.

H.M.Jr: Burgess was kind enough to say I made him some money by insisting that he didn't sell his rights. What?

Lochhead: Made at least 10-32ds on the whole deal.

H.M.Jr: 10-32ds on 80 million is what? A third of ...

Bell: About \$250,000.

Gaston: They

Lochhead: Of course the profit doesn't mean anything up there.

Gaston: They credit it to our account up there, I don't doubt, on the expenses of operation.

H.M.Jr: You (Lochhead) all right?

Lochhead: Nothing doing yet.

-7-

H.M.Jr: Incidentally, for your (Oliphant) information, the President of the United States informally told me to send that memorandum that Feis wrote or Hackworth wrote about China that we should do this but put a little thing - "But in case we invoke the Neutrality Act, this thing doesn't count" - he says, "Isn't that marvelous? We say we should beat the gun, but if the gun isn't fired, we won't race. Silliest document I ever saw." He says, "Don't have them around the Treasury. Silliest document I ever saw."

So they're fixing up - they're going to clear the telegram with you. We're going to go ahead with China. But to put in the thing - just the thing we're trying to avoid - he read it three times; stupidest thing he ever saw.

Oliphant: (Words not understandable)

H.M.Jr: Well, he asked me to see the State Department and I did.

Oliphant: I mean Hackworth's being called in on it.

Gibbons: (Nods nothing)

H.M.Jr: They're talking about it long enough to have China divided up.

Haas: I got off those wires.

H.M.Jr: Oh, may I see them?

Just to keep you fellows posted: Following up my idea that I want the best business statistics of anybody in the United States, I asked Professor Beardsley Rummel, who is an economist for Macy's, how I could get each week the actual cash sales of the department stores in the leading cities, and he gave me the names of - what, 50? ...

Haas: About 50.

H.M.Jr: ... 50 department stores. He says that frankly nobody could get it, but if I do it over my own name they'll give it to me; but he says they wouldn't

-8-

give it to the Retail Association or anybody else, because they are so jealous. So this telegram went yesterday:

"AS AN AID IN FOLLOWING DEVELOPMENTS IN THE GENERAL BUSINESS SITUATION I AM ASKING THE COOPERATION OF STORES IN VARIOUS PARTS OF THE COUNTRY IN SUPPLYING WEEKLY FIGURES ON GROSS SALES."

I take it you showed this to Beardsley Rummel.

Haas: Yes.

H.M.Jr: " ... ~~AS~~ PART OF THIS PICTURE I SHOULD GREATLY APPRECIATE RECEIVING FIGURES ON DOLLAR VOLUME OF YOUR GROSS SALES FOR EACH WEEK BEGINNING WITH WEEKS ENDED NOVEMBER TWENTY SEVEN AND DECEMBER FOUR, WITH COMPARABLE DATA FOR SAME TWO WEEKS OF PREVIOUS YEAR, AND CURRENTLY THEREAFTER TO REACH ME EACH SUCCEEDING TUESDAY ATTENTION GEORGE C. HAAS. I SHOULD APPRECIATE ALSO RECEIVING AS SOON AS POSSIBLE CORRESPONDING WEEKLY DATA SINCE JULY FIRST NINETEEN THIRTY FIVE. THIS INFORMATION IS FOR MY USE AND I CAN ASSURE YOU IT WILL BE HELD ABSOLUTELY CONFIDENTIAL. IT WILL BE USED TO COMPILE AGGREGATE DATA ON SALES TRENDS FOR THE COUNTRY AS A WHOLE. ANY COMMENTS YOU MAY WISH TO MAKE ON DATA OR TRENDS FROM TIME TO TIME WILL BE HELPFUL."

Here's the bait:

"... IN RETURN I SHALL BE GLAD TO SEND YOU THE AGGREGATE DATA EACH WEEK IF THEY WOULD BE OF INTEREST TO YOU. CONFIRMING LETTER FOLLOWS."

Then signed with my name.

Haas: Now, with regard to the - Rummel had a couple comments.

H.M.Jr: This is for my files?

Haas: No, I'd better send it.

H.M.Jr: Little note that it's for my diary.

Haas: Rummel made this comment. He said, "Which do you find gets better results, a telegram or a letter?" And I said from a telegram was my experience.

"Well," he said, "what I had in mind ..." - some of these stores, he thought, would appreciate a letter from you, and I said, "We'll work both." When I suggested the confirming letter.

H.M.Jr: Good. I'll do it over my signature.

Gaston: Your signature would be appreciated.

Haas: That's the way he felt about it.

H.M.Jr: All right.

Haas: And the other thing, he said, "How about stocks?" And of course that is very important information - to get stocks. But then we discussed it back and forth and he said, "Well, maybe you'll burden them down too much. Get this thing going and maybe in a couple weeks, if it's all going, we'll ask for stocks."

Gibbons: You mean inventory.

Haas: Inventory, I mean.

H.M.Jr: Well, why wait?

Haas: Well, he thought, give them a week.

H.M.Jr: Give them a week. But this is going to be very helpful. I'll be glad to sign those letters.

Oliphant: Swell stuff.

H.M.Jr: What?

Oliphant: Fine.

H.M.Jr: What? And you men know - I've told you about what Wesley Mitchell and his bureau is doing for us.

-10-

Haas: I don't think you've told this staff.

H.M.Jr: Well, Wesley Mitchell has this bureau - very fancy name, but it's a pool of the various universities' economists on labor and business. And I've retained that bureau to set up for me the sign posts to look for as we go down to a depression and as we reach the bottom of a curve, and also for the things to look for as we go up. Independent agency outside of the Government, recognized, I suppose, as the most reputable economic group in America - and to keep us from doing any wishful thinking. It will not be expensive, and I've checked around and everybody agrees that that group is about the outstanding group. So what I am trying to do here is not to do any wishful thinking; at the same time, to get the best information of anybody on business on a day-to-day basis, so I can advise that man across the street.

Put - and Beardsley Rummel will be here Monday - I mean Saturday.

O.K., George?

Haas: Yes, that's all. I've got some more of those reports.

H.M.Jr: Give them to me.

Haas: Haven't got them set. Just came in. Have to put them in order, and it takes a little time.

H.M.Jr: I burn them after you give them to me.

Haas: Yes.

H.M.Jr: I don't keep them.

Take that building chart when you go.

Did Miss Lonigan come to see you before she left?
I sent you the memorandum last night.

Haas: No. She left - you see, I was up on the Hill late and she probably left before I got back.

-11-

H.M.Jr: But did you get the memorandum from me?

Haas: I got the memorandum.

H.M.Jr: Did you see her?

Haas: I saw the memorandum, yes.

H.M.Jr: Did you see Miss Lonigan?

Haas: No, sir, but it probably wasn't her fault.

H.M.Jr: Well, I still haven't - I want to send that memorandum - a copy to Colonel Harrington and one to the President.

Haas: The one that you were discussing?

H.M.Jr: With the charts.

Haas: Well, I'll get that back in to you.

H.M.Jr: I want three sets.

Haas: The memorandum and charts.

H.M.Jr: I want three sets and the original; one for me, one for the President, and one for Hopkins.

Haas: All on ribbon?

H.M.Jr: Yes.

Haas: O.K. But I don't think it was her fault last night. I was tied up on that appropriation thing.

H.M.Jr: Anything else?

Haas: That's all.

Gaston: Press conference, I suppose, at 10:30.

H.M.Jr: Yes. Listen, will you and Mr. Oliphant go into a huddle, and after you've got the answer on this thing about the windfall tax, I wish you'd send for either Pearson or Allen and sit down and let them know where they're wrong. We saw them the

-12-

other day and they said any time they're wrong they'd like to know it. In the first place, I'm sure a hundred - not a hundred, but 90 percent, that Mr. Wallace never did write such a letter. That's Number One. But check my files. And Number Two ...

McR: Wallace letter on windfall?

H.M.Jr: Yes.

McR: We had a letter from Wallace and - well, I don't know what that is, but ...

H.M.Jr: Well, let's get out the whole thing; do it carefully. And I would say, if you can do it tomorrow, I'd like to do it.

I don't think you (Magill) get in on that, do you?

Magill: Well, only indirectly. We had a letter from Mr. Wallace not so long ago about the windfall tax. I don't know just what ...

McR: Ezekiel put in some memoranda on it.

Oliphant: Asked us to hire a big bunch of economists they have over in Agriculture.

Magill: That's the idea.

Oliphant: I know where that story came from.

H.M.Jr: I would like to have the story. Then I'd like Do you (Magill) want to get in on it?

Magill: I'd rather not, but - because of all these - this other situation.

H.M.Jr: Well, would you (Oliphant and Gaston) - and then tell these fellows. And I'd tell them the facts.

Oliphant: Just call them in and tell them the facts.

H.M.Jr: Yes.

-13-

McR: There is a memorandum already prepared. Roswell and I had Revenue write a very full memorandum - 12, 15 pages - covering the whole situation.

H.M.Jr: Well, what I'd do - and I'd send for these boys tomorrow and I'd give them the facts.

Oliphant: Just tell them the truth.

H.M.Jr: Now, I don't believe in doing that kind of stuff, but if somebody hits I'll hit just a little harder. See?

Oliphant: Well, that's what it is - a push to get us to hire a bunch of economists over in Agriculture.

Haas: They're already being hired.

McR: I don't think it's Wallace; it's Ezekiel and his gang.

H.M.Jr: Well, they've hit and we can hit just a little harder.

Oliphant: Wallace doesn't know anything about it; it's Ezekiel.

H.M.Jr: Oh, now - you still believe in Santa Claus!

Oliphant: Well ...

H.M.Jr: Well, I don't.

Oliphant: At Christmas time.

H.M.Jr: Let me tell you this. When I was in Constantinople, they celebrated Christmas five times over three weeks. You could take your choice of any one.

Gibbons: Five different Catholic religions.

Magill: Would you have to take your choice?

McR: Take them all.

Oliphant: Take any one.

-14-

- H.M.Jr: There's Russian Catholic, there's the Greek Catholic, there's the Roman Catholic - I think there were five different times that Christmas was celebrated, all on a different calendar basis.
- Gaston: There's a Coptic Church and there is the Western Evangelical.
- H.M.Jr: Five different kinds. And the most beautiful thing I've ever seen was the Roman Catholic service of the Apostolic Delegate, which he personally presided at, if that's the word. Is that the word - "presided"?
- Gibbons: Yes.
- H.M.Jr: But that was the most beautiful service and the most beautiful music I ever heard. You know - I don't know whether you know, but in the Far East all Catholic priests must wear beards. Did you know that?
- Gibbons: Yes. And they marry.
- H.M.Jr: And they must wear beards. And the robes and the jewels of that Apostolic Delegate!
- You see, my father represented the Catholic Church in Constantinople, because they couldn't - the Austrian was too wishy-washy, and he was supposed to, and he couldn't get anything. So he'd come around to Pop and say, "No, I'm sick and tired of this fellow, but they have taken this monastery and nunnery ..." - would we go to bat for them? So Pop would come right along. The Austrians couldn't get anything, but my father would. And he'd be around; he'd tell them. Quite young, as I remember the man; he was quite a young fellow. Of course, my father knew the present Pope when he was Apostolic Delegate in Poland.
- Gibbons: Oh yes, I've got a funny story. Take a minute. I was over to Saint Patrick's Church on Thanksgiving Day as a representative of the Treasury at Thanksgiving Day Mass, and I met the Apostolic Delegate here - little Italian, nice little fellow. He said,

-15-

"Oh, you represent the Treasury. I'd like to come over some time. What do they do with the money - what do you call it - that isn't any good?"

"Do you mean counterfeits?"

He said, "Do you ..." - here's the guinea: they're all counterfeiting - "... I want to come over and see that." Wanted me to take him downstairs. Wasn't that funny?

H.M.Jr: You might tell him

Gibbons: That was the one thing that appealed to him.

H.M.Jr: Maybe that accounts for the fact - the day that Italian gold coins which are short-weight were being sold at three and four percent premium in Berlin and Rome.

Gibbons: Had a funny name - C-i-o-g - I don't know.

H.M.Jr: Is that right, Archie?

Lochhead: Yes, premium of three or four percent. The news came in - London attaché, Italian attaché in London, was very anxious - said they had a lot of short-weight coins over there they wanted to sell, which they did.

Bell: On that basis, too.

Gibbons: Isn't that funny, though? And incidentally, his private secretary is a young fellow from Philadelphia who is going to college with several fellows that I know.

Gaston: I've got one other thing I'd like to talk to you about later, if I may.

H.M.Jr: All right. Before the press conference?

Gaston: Well, it doesn't matter - before or after; it doesn't matter.

-16-

H.M.Jr: Yes. Well, why don't you stay? I told Magill to stay after this, so ... I mean about 25 after come in.

Gaston: Yes.

H.M.Jr: Is that time enough?

Gaston: Yes, won't take over five minutes.

Oliphant: Bill to stop the Japanese from running away with those salmon fisheries in Alaska. Request from Chairman Bland of the Committee not to report on the bill but rather on the request for all the information which Coast Guard has on illegal fishing on the part of the Japanese. And the data have been prepared by the Coast Guard, along with photographs. I thought it might be desirable to have it cleared with the State Department.

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

Oliphant: Just turn it over to Taylor?

H.M.Jr: Yes.

Oliphant: Is he here?

H.M.Jr: He's here, but he's over with Import-Export Bank.

Oliphant: That's all. Did the letter on cotton serve all right?

H.M.Jr: Yes, but - I don't want to explain, but the President has another angle on it.

Oliphant: He does?

H.M.Jr: Yes.

Oliphant: Any more work to be done on it?

H.M.Jr: No. I'll tell you, if you're not busy, at three o'clock.

Oliphant: Three o'clock. That's all.

-17-

Bell: Any appointment been made with Mr. Jones on new legislation? He asked for an appointment with you.

H.M.Jr: No, he didn't, that's the funny thing.

Bell: Yes, in his note to you he said, "I would like to talk to you personally about this."

H.M.Jr: (On phone) Miss Chauncey on the telephone.
There's a misunderstanding all around. I haven't seen his legislation.

Oliphant: Just cleared my office in final form yesterday.

Bell: We're talking now about the other piece of legislation, which eliminates from Jesse's balance sheet the allocation that he's made.

H.M.Jr: Well, who's got it?

Bell: Well, Mr. Aarons in Mr. Oliphant's office.

H.M.Jr: (On phone) - Well, tell her never mind. Mr. Bell knows what I want.

Bell: He has the legislation, with a little pen and ink note to you which says, "I would like to talk to you personally about the attached at your convenience" - something like that.

H.M.Jr: He told Taylor that he wanted to talk to me this time before we made up our minds like we did on Commodity Credit. He said he'd like to get in while we were making up our mind. Mr. Taylor says, "Does my dollar look safe?" We've got a bet. So he said, "Before you make up your mind on this, I'd like to see you." Well, I think I know what he wants.

Well, let's leave it this way. When you men are ready to talk, you (Bell) and Taylor walk in here. How's that? In other words, I'm sitting here waiting for you.

Bell: All right with me.

-18-

H.M.Jr: I'm waiting for you fellows.

What else?

All right. Everybody happy?

December 9, 1937. 133
10:10 a.m.

H.M.Jr: Hello.

Operator: Attorney General's Secretary, Mr. Houston.
Go ahead.

H.M.Jr: Hello.

Mr.
Houston: Hello.

H.M.Jr: This is Mr. Morgenthau talking.

H: Why yes, Mr. Secretary.

H.M.Jr: Is the Attorney General in town?

H: Yes he is, sir.

H.M.Jr: All right. Now I'd like very much if he could see Mr. Magill and Mr. Oliphant today, and the reason I emphasize today is that, Mr. Magill is on the Hill every day testifying, but it just so happens today they will not be. The matter they want to see him about is to discuss with him the methods of presenting the tax cases in court, and that they have reached an impasse with Mr. Morris.

H: Uh-huh.

H.M.Jr: And therefore they'd like to present the Treasury viewpoint directly to the Attorney General.

H: Yes sir.

H.M.Jr: And if he could arrange to see them today, I'd appreciate it very much.

H: Certainly sir. And shall I get in touch with them as to the time?

H.M.Jr: If you'd contact Mr. Magill direct I'd appreciate it.

H: All right Mr. Secretary I'd be very glad to do that.

H.M.Jr: Thank you.

H: You're quite welcome.

December 9, 1937.
10:27 a.m.

Operator: Go ahead.

H.M.Jr: Hello.
Sen. Theodore
F. Green: Henry?

H.M.Jr: Hello Senator.

G: How are you?

H.M.Jr: Oh, I'm fine.

G: Well this is a fine morning, you ought to feel good and crisp.

H.M.Jr: Well I just raised plenty of money, a reasonable price.

G: How much was that over-subscribed?

H.M.Jr: Well I think the bond's last figure's about sixteen times.

G: Sixteen to one, that's back in the bond days.

H.M.Jr: Yes, but this is cash, not silver.

G: Well, tell you what I called you about, there's a Mr. John B. Wathem here.

H.M.Jr: Yes.

G: Who's got - who wanted to have a brief interview with you and give you some information about the inside violation of an order you issued down there with reference to Government employees and others peddling around butter and milk and stuff around in the Treasury. I wonder if you could see him a minute.

H.M.Jr: Sure I can.

G: What time?

H.M.Jr: Oh I can see him at quarter of twelve.

G: Quarter of twelve.

H.M.Jr: What's his name?

G: Mr. John B. Wathem. W-A-T-H-E-M

H.M.Jr: W -

G: He's a Kentuckian.

H.M.Jr: Well I don't hold that against him.

G: Huh?

H.M.Jr: I won't hold that against him.

G: You won't hold that against him.

H.M.Jr: No.

G: Well, now I - I'm always frank with you. I won't slip up on your blind side. I want to tell what these - where these people are from.

H.M.Jr: Yes. That's right.

G: So you just overlook that.

H.M.Jr: Now - Hello.

G: Yes.

H.M.Jr: I think the drive on us to do something for taxes now has considerably let up, don't you?

G: Yes. yes.

H.M.Jr: Don't you think so?

G: Oh, yes.

H.M.Jr: I think you called the time when you announced it wouldn't hit the public.

G: Well, it certainly has subsided over here since then.

H.M.Jr: Well it has down here.

G: Yes.

H.M.Jr: And the pressure on us has let up tremendously.

G: Well I'm glad of it. There's no use to get stamped on a thing like that.

H.M.Jr: Well there now - they're now going to draw a bill.

G: Yes, oh yes. It was

and organized and maneuvered and timed.

- H.M.Jr: Yes. The pressure on us has let up tremendously.
- G: Yes. Well, after the first of the year, of course, we can take time enough to write a decent Bill.
- H.M.Jr: Listen, they're not selling down in the Treasury, are they?
- G: Well -
- H.M.Jr: Just butter.
- G: If they were I wouldn't ask you to interfere with that.
- H.M.Jr: Send him along, I'll be glad to see him.
- G: All right.
- H.M.Jr: Thank you.
- G: Thank you. All right.

December 9, 1937.
11:42 a.m.

137

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Marriner?

E: Yes.

H.M.Jr: Bell and Burgess have been talking about our balances in the Federal Reserve Banks.

E: Yes. They're a little high now, aren't they?

H.M.Jr: Exactly. And Bell has made this recommendation, that if we - in the next day or two, beginning today buy fifty million of our December 15th or 18th bills, in order to reduce our balances by that amount.

E: Yes.

H.M.Jr: And if you thought well of it, why I'd give those instructions.

E: I don't see any objection, it just puts that money out before the 15th instead of on the 15th.

H.M.Jr: That's all. It just -

E: It keeps the reserves up, instead of them going all up at once, why they go up gradually.

H.M.Jr: That's the idea. He said we did that a couple of years ago.

E: Well I don't see - I don't see any objection at all in it because the bills have practically no - they have no value anyway now, I mean they're selling on - on a no yield basis.

H.M.Jr: That's it, and it would - then Monday when we look through our balances again, we can take another look. But we have enough money that we can anticipate by buying in fifty million now.

E: Burgess doesn't see any objection to that.

- H.M.Jr: As I understand it he'd like us to do it.
- E: Well it looks favorable to me, yes I - I think it would be a good idea. I think it's a good way to get the money out, in view - in view of the fact that it's going out on the 15th anyway, it isn't like you're buying longer term stuff.
- H.M.Jr: Oh no, it's just these bills which are due in a week.
- E: It looks - it certainly looks all right to me.
- H.M.Jr: Well I'll tell Burgess to do it.
- E: By the way, what do you think of - we haven't decided what to do with reference to buying any further securities, and I'm - of course we can wait, I suppose, a few days, maybe a week yet, but I told you, you remember, the result of our last meeting, that we decided that we just continue as we had been.
- H.M.Jr: Yes.
- E: Unless the Executive Committee, in the meantime, should meet and decide that for some reason that they shouldn't do so.
- H.M.Jr: Yes.
- E: Well I know that - that George and Sinclair, of course, don't want to do anything more. They don't feel that the situation - that it doesn't amount to enough to - and the situation doesn't call for it. I'm more or less on the fence on the thing. I realize that to pick up twenty or thirty million of - between now and Christmas don't amount to a damn, and you can't pick up a lot of it. On the other hand it does show the direction and the pendency, that it's - it's - that we are moving in the direction of - of - the easiest kind of a money policy and there's nothing restrictive at all about our action.
- H.M.Jr: Well.
- E: It's the psychology of it. It's about all it is.

H.M.Jr: Have you made up your mind yet what you are going to do about your seventy five million of the new two and a halves?

E: Yes.

H.M.Jr: What are you going to do about those?

E: We've already - we've taken seventy five million bonds.

H.M.Jr: Yes, but I mean - I didn't know whether you were going to hold them or not. That's what I mean.

E: Oh, well what we want to do is to - to gradually work up some of the longer bonds, and - and pick up a like amount of stuff falling due within a period of two years to take the place of this short stuff which has just matured.

H.M.Jr: I see.

E: See? And that of course depends entirely upon - upon the market being favorable to the shift.

H.M.Jr: Yes. Well, incidentally Burgess was kind enough to say that by having converted, following my advice the System's going to make about twice as much as they would have.

E: We had a Hell of a time with George on that. I m - as a matter of fact, the three of us just outvoted him.

H.M.Jr: Yes. But I mean by shifting off, Burgess said, "Well we've got you to thank that we made a nice profit."

E: Yes. Well I'm - of course we recognize we have the profit there but -

H.M.Jr: Well if you had told -

E: I mean - I mean - of course, the fact you gave us an option it does give us a profit.

H.M.Jr: No, I mean if you'd have sold the rights Tuesday.

E: Oh yes, I see.

H.M.Jr: Instead of converting.

E: Oh yes.

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

E: Well the only reason -

H.M.Jr: Well I mean if you had sold the rights Tuesday. Instead of that you've got the bonds today and they're worth considerably more.

E: Oh yes. Well I - I think that's - that's right. There's no question about it. The - what we did - you see, what George wanted us to do was to take half - take half of the notes and half of the bonds.

H.M.Jr: Yes.

E: And we compromised, we discussed the thing on the idea of buying - or selling the rights, see?

H.M.Jr: Yes.

E: And then when we talked to you, and you - you felt it better to always convert, then it was a question of whether we would convert into, the forty million into notes or into bonds. Well George wanted the notes and the rest of us wanted the bonds, so we decided on the bonds. Oh well there's no - they talk about a profit, why it's the easiest money that we'll ever make.

H.M.Jr: To ask you another question about your continuing buying. As long as you've asked me see?

E: Yes.

H.M.Jr: If I was - my responsibility, would you like to know what I'd do?

E: That's right.

H.M.Jr: I wouldn't buy any more but I'd do what you talked about the other day, and I'd do it by the 15th and that is to lower reserve requirements on the country banks. I think that that would have a wonderful effect.

E: Well, we can't do it by the 15th, because we haven't got enough information. We're making a study. It's the damnest job to get it. The thing that - you see the Comptroller instead of making the last call this year, he didn't make a call.

H.M.Jr: Well you know it'd be right though.

E: What is it?

H.M.Jr: You know it'd be the right thing to do.

E: Well, I feel - I feel that it would from just the - from the impression of the information that I have from individuals, so it's a sort of spot checking, you see?

H.M.Jr: Yes.

E: It's my impression that it would be a good thing to do.

H.M.Jr: Now let me tell you the kind of story that Hopkins has and I know we gave it to the President, see?

E: Yes.

H.M.Jr: His friend Maybank the Mayor of Charleston. He's in the cotton brokerage business.

E: Uh-huh.

H.M.Jr: He had a lot of money borrowed. They loaned it to him at seven and a half cents a pound. Within the last two weeks the bank calls him in, gives him twenty four hours notice and said we're only going to loan six cents a pound on cotton.

E: Going to loan what?

H.M.Jr: Six cents.

E: Well -

H.M.Jr: And Maybank had to put up his house, his jewels and his whole thing and he managed to scrape together forty nine thousand dollars, and he goes to the bank says "What are you doing this to me for?". He says "Well we got word from New York." It's that kind

of stuff, you see, and they may feed it around, and it all hurts, all of us that are in the same boat.

E: Of course that, the Reserve has got nothing to do with that. That's because if we had three billion in reserves and the price goes down to where the margin makes it unsafe why you - you'll get a collection. In other words the country banks, at the present time, have a larger percentage of excess reserves than the city banks. However the gesture, it doesn't amount to an awful lot and the thought that I've had in mind is if we get this Housing bill, we can give as part of a reason, that to - to enable the financing in the country districts and the fact that money is going out of these country districts because of low prices of farm products, see? I mean the same money isn't going back in as it would go in if the prices were higher.

H.M.Jr: No, well just let me ask you this. Do you think you can do it between now and the end of the year? That you'd have information?

E: I doubt if the Board will do it. I - In fact I don't know that they'll do it at all, but the - the way the thing was left we agreed to call a meeting of the open market committee on the 8th of January, and that we would, at that time, be prepared to determine what our policy would be, with reference both to further open market and - and the question of changing reserves.

H.M.Jr: That's a month off.

E: And I doubt -

H.M.Jr: That's a month off.

E: Yes.

H.M.Jr: It's a hell of a long way, a lot can happen.

E: Well what'll happen after the middle of December? Not the middle of December, after the 25th?

H.M.Jr: Yes.

E: You'll see reserves build up awful fast. They'll go down. I was reading a report last night, and the

- 7 -

excess reserves, if we did nothing more at all on open market. The excess reserves won't likely go below a billion.

H.M.Jr: Yes.

E: At the peak of currency demands, that they will likely fall, they'll likely go back up over the period of the next two weeks, to at least a billion and a quarter. Well, if - then we further took action with reference to the country banks, that would put them back up another hundred and fifty million, or it would put them up to a - it'd put them up to a billion four, close to a billion and a half.

H.M.Jr: Yes.

E: Now that's about the picture of where the reserves are going to drop down in the next two weeks is New York.

H.M.Jr: Yes.

E: That as far as the country is concerned they're drawing money out of New York now.

H.M.Jr: Yes.

E: And an open market and a bill market of course would - would immediately offset some of that withdrawal in the New York market.

H.M.Jr: But answer your original question, should you increase your portfolio now, see?

E: Yes.

H.M.Jr: If I had to make the decision, I'd keep out of this market while it's falling, the way it is. I give you a straight answer on that.

E: Well I want - I'm glad to get your -

H.M.Jr: I'd keep out of it while she's falling.

E: Well we wouldn't - we didn't intend to do anything at all for fully a week.

H.M.Jr: Yes.

E: And then if we did do anything it would merely be in bills.

H.M.Jr: Yes.

E: Just -

H.M.Jr: Well I - good thing changes so every day, but certainly for the rest of this week -

E: No we wouldn't do anything at all.

H.M.Jr: Well I'll be seeing you Tuesday.

E: Well, say by the way, I've got to be in Chicago. Chester Davis, about a month ago when O'Neil was over here at the building opening, got me committed to go to Chicago and talk to the Forum Bureau Federation annual meeting.

H.M.Jr: Yes.

E: I did it then because it was a long way off.

H.M.Jr: Yes.

E: But I'm sorry I did it now.

H.M.Jr: Yes.

E: Well I - I'll talk to you before I go, anyway. I'll call you Monday.

H.M.Jr: Well then we understand - you're not going to increase your portfolio without giving me another ring.

E: No, we won't do anything on that. We won't do anything this week at all.

H.M.Jr: All right.

E: O.K.

H.M.Jr: Give me a ring Monday.

E: All right.

H.M.Jr: Thanks.

E: Goodbye.

December 9, 1937. 145
11:56 a.m.

Operator: Gone upstairs.

H.M.Jr: All right, where's Burgess?

Operator: Right here. Go ahead.

H.M.Jr: Hello.

Randolph
Burgess: Hello Henry.

H.M.Jr: Randolph?

B: Yes, sir.

H.M.Jr: I've talked to Eccles and Bell about this idea of our buying fifty million dollars worth of these December 15th, 18th bills, see?

B: Yes. Yes.

H.M.Jr: I tell you now to go ahead and do it.

B: Well that's fine.

H.M.Jr: As I understand, you'd like us to do it?

B: Yes I think it would be very helpful to keep your balance from running up too high, running out of the market, you know.

H.M.Jr: Well you go ahead and we'll give you a telegram confirming it. Mr. Taylor's sitting right here.

B: That's very nice.

H.M.Jr: And Monday we'll see how much money we got, see Monday's what - the 13th. I don't know whether we'd want to do any of that Monday or not, but this will go for this week.

B: All right.

H.M.Jr: What?

B: All right. That's fine.

H.M.Jr: This ought to be enough, wouldn't it?

B: Oh yes, that's all we could use this week, anyway, I'm sure.

- 2 -

H.M.Jr: Well we give you instructions now to buy fifty million.

B: That's fine.

H.M.Jr: All right.

B: Very good, Henry.

H.M.Jr: Thank you.

B: Goodbye.

December 9, 1937.
12:00 noon.

H.M.Jr: Hello.

Operator: Mr. Bell. Go ahead.

H.M.Jr: Hello.

Dan
Bell: Yes.

H.M.Jr: Bell?

B: Yes.

H.M.Jr: I talked to Eccles. He thinks that's fine, to pick up fifty million.

B: Uh-nuh.

H.M.Jr: I talked to Burgess, he's crazy to do it, and Taylor's sitting here, so I told Burgess to start, that you'd send him a telegram on confirmation.

B: O.K.

H.M.Jr: See?

B: Yes.

H.M.Jr: I say are you in a conference?

B: No.

H.M.Jr: Well let me read you something that came over the Dow-Jones ticker.

B: All right.

H.M.Jr: Haven't the slightest idea where they got it from.

B: I bet you're smiling.

H.M.Jr: Yes. This is the headline: 'Roosevelt represented as still firm and budget balance resolved.' What I did, I talked to the boys for background in my Press conference this morning, see?

B: Yes.

H.M.Jr: For background. In front of everybody, and this is - this result : 'President Roosevelt was

represented today by those close to him as standing pat on his budgetary estimates and policies as laid down in his statement and speeches this order. Neither the President nor officials directly responsible to him for revenue and budgetary policies are thinking at this time either of further gold de-sterilization or of greater unbalancing the budget despite predictions yesterday by Marriner S. Eccles, Reserve Board Chairman of further deficit because of business recession it was stated today.' How's that?

B: That's good.

H.M.Jr: 'Mr. Eccles or anyone else not directly concerned with budget work speaks only for himself and not for the Administration, when he discusses the budgetary outlook, it was emphasized. In no circles were budgetary policies determined. There's no thought at this time of using the sterilized gold immediately the finance increase expenditures or the adopting a long range program of using gold as a budgetary cushion.'

B: Very good.

H.M.Jr: 'Neither is there any belief in these circles that the budget estimates published by the President October 19th may be revised by subsequent developments. Revenues were adjusted in that budget to a lower business level and the least expenditure of the is anticipated it was said. In addition to terminate the balance of 1938 budget still is being adhered to.' Pretty strong.

B: Well that couldn't have been said better if you'd said it yourself.

H.M.Jr: Right.

B: I thought you'd like that. That's very good.

H.M.Jr: And I thought that so-and-so had it coming.

B: That's right.

H.M.Jr: There's too God-damned much talking around this town of people that have nothing to do, you and I - swear -

B: Everybody in town is talking budget. I just can't get it.

H.M.Jr: Yes. That's right.

B: God. Jesse Jones, Marriner Eccles, Henry Wallace and everybody's talking budget.

H.M.Jr: Well I just got fed up this morning, and I said it with a smile, but they got it.

B: Well that's very good. There's certainly a lot of snooping going on around, now, since you made the statement.

H.M.Jr: Well -

B: By close representatives.

H.M.Jr: Well I made it in front of twelve newspaper men.

B: Well, of course, they -

H.M.Jr: They don't have to do too much.

B: That's right they don't have to do very much.

H.M.Jr: This wasn't whispered to any columnist behind closed doors.

B: Well that's very good.

H.M.Jr: I thought you'd like it.

B: Yes I like that.

H.M.Jr: Thank you for bringing my attention about the balances.

B: All right. Fine, I'll take care of it.

December 9, 1937.
12:46 p.m.

150

H.M.Jr: Hello.

Operator: Senator Sheppard. Go ahead.

H.M.Jr: Hello.

Sen. Sheppard: Hello, Mr. Secretary.

H.M.Jr: How are you?

S: Best wishes.

H.M.Jr: Thank you.

S: Oh I'm commending a man - a Texas man -
Page. P-A-G-E.

H.M.Jr: Yes.

S: If you'll just put it down, Honorable Paul D. Page.

H.M.Jr: For what position?

S: Vacancy on the Board of Tax Appeals.

H.M.Jr: All right, Senator. We'll make a note of it.

S: He was in the Internal Revenue service for several
years, rendered fine service and then he's been
requested by two or three other Departments to come
over and help them. He is now with the Maritime
Commission.

H.M.Jr: All right.

S: And I'm sending a little personal note about it.

H.M.Jr: Well I - I'm always glad to hear from you.

S: How are you?

H.M.Jr: I'm fine.

S: Well, that's good. More power to you.

H.M.Jr: Thank you, Senator.

S: All right.

December 9, 1937.
5:00 p.m.

151

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

H.M.Jr: How are you?

B: Oh I'm fine. Just wanted to give you a word of cheer.

H.M.Jr: Go ahead, I'll pay your diff' .

B: We made some money for you today.

H.M.Jr: You made some money for me.

B: Yes, sir, I -

H.M.Jr: Now listen, you've got a nerve to tell me about the measly little bills you bought when you fellows sold twenty two million bonds at a two point profit.

B: You know what you made?

H.M.Jr: Why, how much?

B: Nine hundred and sixteen dollars and thirty nine cents.

H.M.Jr: How much?

B: Nine hundred and sixteen dollars and thirty nine cents.

H.M.Jr: On how much transaction?

B: Forty three million.

H.M.Jr: On forty three million you make nine hundred and sixteen dollars. Why it doesn't even pay me to talk to you about it.

B: Well then I wanted also to thank you for the money you made for us.

H.M.Jr: Well then, how much did we make for you?
How much did you make today?

B: Well I don't know how much we made. I haven't figured that out. Thought you'd be more interested in what you made. But we made - we sold at - the new bonds at a hundred and one twenty six.

H.M.Jr: Yes. You sold over twenty million, didn't you?

B: What's that?

H.M.Jr: You sold over twenty million?

B: We sold twenty two and a half of the new two and a halves.

H.M.Jr: Yes.

B: And we sold three million of the old fifty six nines.

H.M.Jr: And what did you buy?

B: And we bought notes. Miscellaneous notes all the way from thirty eight to forty two.

H.M.Jr: I see.

B: All over the place.

H.M.Jr: I see.

B: We did it almost all together, in one spot. You know that we didn't hit the market, I think at all.

H.M.Jr: Did you do it with a discount?

B: Yes, we did it through a discount, but they did it through one customer, practically.

H.M.Jr: Do you know who it is?

B: No I don't.

H.M.Jr: Uh-huh.

B: Couldn't find out yet. I'll find out.

H.M.Jr: Uh-huh.

B: Sooner or later.

H.M.Jr: Well.

B: But it puts opposition very much better.

H.M.Jr: Yes.

And it - it avoids your tying up a lot of money on this - on this tax day, which might have had a little effect on the market.

H.M.Jr: How many bills did you buy for us?

B: Forty three million.

H.M.Jr: Very nice.

B: Yes, I think so. I think that was a nice operation.

H.M.Jr: Very nice.

B: It came in just at the right time. Some of these fellows were expecting they might be a little bit tied up, and so were willing to sell. Worked out very nicely.

H.M.Jr: Well that's all right, and I was asked today whether I thought you fellows should start open market operations again, and I said no. See?

B: I agree with you a hundred per cent.

H.M.Jr: I said no.

B: Well I'm very glad you did.

H.M.Jr: But I also said as long as my advice was being asked that the Federal Reserve Board wanted to do something, do it within a week. If they dropped Reserve requirements on the country banks I think it would have a marvellous effect.

B: Do you? Well that's very interesting.

H.M.Jr: What?

B: That's very interesting.

H.M.Jr: But they said they weren't going to have another meeting until the 8th of January. I said that was another lifetime.

B: Yes.

H.M.Jr: But if they'd do it, say, next week, I think the psychological effect would be wonderful.

- B: You know I really don't think the country banks needed any more than the others, as far as need goes.
- H.M.Jr: No, but that's where - that's where all the talk comes from.
- B: Oh, that's the political -
- H.M.Jr: Oh, if they do the whole thing, that would be still better, but I'm not - I'm such a timid little flower.
- B: I got you.
- H.M.Jr: That I just suggested the country banks.
- B: Yes.
- H.M.Jr: See?
- B: If they've got to do everything I'd rather see them take a little slice off the whole business.
- H.M.Jr: Well, of course, I'm so timid. I never make any suggestions.
- B: Yes. I think there's this political objection to doing just the country banks, Henry.
- H.M.Jr: Uh-huh.
- B: That the Administration has been accused repeatedly of - of just being interested in the little fellow and letting the big fellow go to hell, and so that just picking out the country banks, who aren't country banks at all really, you know, might have a bad reaction.
- H.M.Jr: Well I think you did a fine job today. More power - Thanks for the nine hundred and sixteen dollars.
- B: Well, thank you for the others.
- H.M.Jr: All right.
- B: Whatever it was, fifty thousand, or something.
- H.M.Jr: How much?

H.M.Jr: All right.
Bl All right.
H.M.Jr: Goodbye.
B: Good luck. Goodbye.

December 9, 1937 - 5 P.M.

Mr. Hull called the Secretary. The following is a one-sided conversation with Mr. Hull.

H.M.Jr: If the Governor General of Canada wants to send word to Great Britain that they should begin talking to us about the British debt I do not see on what ground we should say to them, "Don't send that word along". In your talking to me just now you said a couple of times, "The President and the Secretary of the Treasury will go after them on their debts". The reason I want to go slow is that very point. Who is going to go after them has never been settled since I have been here. I think you and I ought to ask the President whom he wants to negotiate with debt.

If you and I understand each other on this basis, then let Canada send their word along and then you and I can ask the President which Department he wants as a collection agency. Certainly there can be no objection on the part of the Treasury if the Governor General wants to send that word along.

I appreciate your talking to me and I cannot see but what it is entirely all right.

Mr. Hull also said to Mr. Morgenthau, "When we have a Debt Commission the Secretary of the Treasury is always Chairman of that Debt Commission".

Dec. 9, 1937



TREASURY DEPARTMENT
WASHINGTON

157

To the
~~My dear~~ Mr. Secretary:

It is estimated that our balances with the Federal Reserve Banks will be as follows on the days indicated:

December 11	\$238,000,000
" 13	244,000,000
" 14	259,000,000
" 15	317,000,000
" 16	325,000,000
" 17	275,000,000
" 18	224,000,000
" 19	163,000,000
" 21	126,000,000

These balances of course are based on the assumption that we will get the taxes indicated in the schedule sent you every day and that we will receive 25 percent of the allotment on Treasury bonds and notes in cash which will amount to \$210,000,000. I have, as usual, given Dr. Burgess these figures and he feels that this is taking too much money out of the market and that we ought to do something to level off our balances which would not get down to normal until the 21st when the last of the maturing Treasury bills will be paid off.

Several years ago we had to meet a situation of this kind in order not to disturb the money market. The method adopted was to redeem in advance any Government obligations maturing on tax payment dates. We could do the same thing in this case by buying in the special Treasury bills maturing between the 16th and 21st at their market price. There would be some little savings here in whatever discount we were able to get in the market.

I will not know until Saturday morning how much cash we will get on the new securities but our balances are such that we could stand an advance redemption before Saturday of as much as \$50,000,000. I recommend, therefore, that we authorize the Federal Reserve Bank of New York to buy for advance redemption, not to exceed \$50,000,000, face amount, of any special Treasury bills maturing on December 16th, 17th, 18th and 21st.

If, after talking to Dr. Burgess and Chairman Eccles, you approve of this suggestion, I should be glad to prepare the necessary telegram of instructions to the Federal Reserve Bank in New York.

Very truly yours,
DWB

D. W. Bell.

The Honorable,

The Secretary of the Treasury.

Dec 9, 1937
12. received
D.W.B.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: December 9, 1937

TO Secretary Morgenthau

FROM M. A. Harris

The Federal Reserve Bank of New York purchased \$45,000,000 December tax dated bills for the Treasury today as follow:

Delivery Dec. 10	\$ 3,000,000	bills due Dec. 20	@ 0.14%
" " "	5,000,000	" " "	17 @ 0.10%
" " "	7,500,000	" " "	18 @ 0.15%
" " "	2,000,000	" " "	18 @ 0.15%
" " "	4,500,000	" " "	18 @ 0.10%
" " "	11,000,000	" " "	18 @ 0.10%
Delivery Dec. 13	4,000,000	" " "	18 @ 0.14%
" " "	6,000,000	" " "	17 @ 0.14%
TOTAL PURCHASED	43,000,000		

The Federal Reserve System sold today \$22,500,000 - 2 1/2% Treasury bonds of 1945 and \$3,000,000 - 2 3/4% Treasury bonds of 1956/59; a like par amount of various Treasury notes was purchased in replacement. Details of these transactions follow:

System Account

Sold - Delivery Dec. 15 -	2,500,000	- 2 1/2% Tr. Bds. of 1945 @ 101.27
	20,000,000	- 2 1/2% Tr. Bds. of 1945 @ 101.26
	<u>\$22,500,000</u>	

Purchased in Replacement:
Delivery Dec. 15 -

10,000,000	- 2 1/8% TN June 1939 @ 102.8
2,000,000	- 1 3/8% TN June 1941 @ 100.19
5,000,000	- 1 1/4% TN Dec. 1941 @ 100.1
1,000,000	- 1 3/4% TN Mar. 1942 @ 101.10
2,000,000	- 2% TN Sept. 1942 @ 102.10
2,500,000	- 1 3/4 TN Dec. 1942 @ 101.2
<u>\$22,500,000</u>	

Sold-Del. Dec. 13 -	3,000,000	- 2 3/4% Tr. Bds. 1956/59 @ 100.16
Purchase " " "	3,000,000	- 1 1/4% Tr. Notes Dec. 1938 @ 101

December 9, 1937

ROOSEVELT REPRESENTED AS STILL FIRM IN BUDGET
BALANCING RESOLVE

1178
WASHN- PRESIDENT ROOSEVELT WAS REPRESENTED
TODAY BY THOSE CLOSE TO HIM AS STANDING PAT
ON HIS BUDGETARY ESTIMATES AND POLICY AS
LAID DOWN IN HIS STATEMENTS AND SPEECHES
THIS AUTUMN

NEITHER THE PRESIDENT NOR OFFICIALS
DIRECTLY RESPONSIBLE TO HIM FOR REVENUE
AND BUDGETARY POLICIES ARE THINKING AT THIS
TIME EITHER OF FURTHER GOLD DESTERILIZATION
OR OF GREATER UNBALANCING OF THE BUDGET
DESPITE PREDICTIONS YESTERDAY BY MARRINER S
ECCLES RESERVE BOARD CHAIRMAN OF FURTHER
DEFICITS BECAUSE OF BUSINESS RECESSION IT
WAS STATED TODAY

MR ECCLES OR ANYONE ELSE NOT DIRECTLY
CONCERNED WITH BUDGET WORK SPEAKS ONLY
FOR HIMSELF AND NOT FOR THE ADMINISTRATION
WHEN HE DISCUSSES THE BUDGETARY OUTLOOK
IT WAS EMPHASIZED

IN THOSE CIRCLES WHERE BUDGETARY POLICY IS DETERMINED THERE IS NO THOUGHT AT THIS TIME OF USING THE STERILIZED GOLD IMMEDIATELY TO FINANCE INCREASED EXPENDITURES OR OF ADOPTING A LONG RANGE PROGRAM OF USING GOLD AS A BUDGETARY CUSHION

NEITHER IS THERE ANY BELIEF IN THESE CIRCLES THAT THE BUDGET ESTIMATES PUBLISHED BY THE PRESIDENT OCT 19 NEED BE REVISED IN THE LIGHT OF SUBSEQUENT DEVELOPMENTS - REVENUES WERE ADJUSTED IN THAT BUDGET TO A LOWER BUSINESS LEVEL AND RELIEF EXPENDITURES ARE RUNNING ABOUT AS ANTICIPATED IT WAS SAID - IN ADDITION THE DETERMINATION TO BALANCE THE 1938-1939 BUDGET STILL IS BEING ADHERED TO

December 9, 1937.

My dear Mr. President:

I am sending you attached a copy of a chart of wholesale prices and factory employment for the years 1929 to 1937, inclusive, which is one of a series kept current by the Division of Research and Statistics in the Treasury Department. There is also attached a description of the chart and a list of copies prepared by the Bureau of Labor Statistics in which the chart was used.

Mr. Rosenman has seen public reference to this chart and has asked that he be supplied with a copy of it in connection with your state papers, which he is editing. The origin of the newspaper references should perhaps be explained to you. Mr. Arthur Kroeber in his column in the New York Times on Friday, December 3rd, said: "On their face the Government's suits against the two large balloon companies add yet another inconsistency to New Deal policies", and, further on "In the light of these evils the Roosevelt Government seems to be contradicting itself once again as when after making a drive for higher prices, it asked the Federal Trade Commission to find out why prices were higher", etc.

There also was an editorial in the Times in the same vein.

It was pointed out to Mr. Ewert that anyone who had followed your policies understandingly would realize that there had been no real inconsistency; that your whole policy had been directed toward increasing prices that were too low - in other words, prices that had declined more sharply during the depression - and that nothing had been done directed toward increasing or stabilizing prices that had shown little declines and were too high in relation to the general price structure. A copy of the attached chart was shown to him and it was on this basis that he wrote the column which appeared in the Times of Tuesday, December 7th.

Further discussion of the implications of this chart could be prepared if you should desire it.

Sincerely yours,

Secretary of the Treasury.

The President,

The White House.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

164

December 9, 1937

MEMORANDUM FOR THE SECRETARY:

The problem of Federal-state fiscal relations, in which the President has evidenced special interest, appears to be ready now for an attack on a broad front. A piecemeal proposal to cure the present overlapping in the case of a single tax only is unlikely to make much progress and may very well hinder a more complete solution of the problem.

To formulate a broad program that will gain general acceptance is a task that requires a special commission of the highest dignity, with adequate time (at least a full year) and adequate funds for hearings, research by a staff of fiscal experts, and publicity. Presumably the members of the commission would serve without pay. It would be necessary to avoid giving either the states or the Federal Government a preponderance of representation on the commission; this problem could be solved readily by appointing simply disinterested citizens, none of whom would represent directly either the states or the Federal Government. A small commission could probably work most efficiently.

The proposed commission might be designated by the President alone; or it might be authorized by a section of the revenue bill now being drafted. I should like your recommendation on the subject before I discuss the question with members of the Ways and Means subcommittee now considering tax legislation.

RM

December 9, 1937

MEMORANDUM FOR THE SECRETARY:

The problem of Federal-state fiscal relations, in which the President has evidenced special interest, appears to be ready now for an attack on a broad front. A piecemeal proposal to cure the present overlapping in the case of a single tax only is unlikely to make much progress and may very well hinder a more complete solution of the problem.

To formulate a broad program that will gain general acceptance is a task that requires a special commission of the highest dignity, with adequate time (at least a full year) and adequate funds for hearings, research by a staff of fiscal experts, and publicity. Presumably the members of the commission would serve without pay. It would be necessary to avoid giving either the states or the Federal Government a preponderance of representation on the commission; this problem could be solved readily by appointing simply disinterested citizens, none of whom would represent directly either the states or the Federal Government. A small commission could probably work most efficiently.

The proposed commission might be designated by the President alone; or it might be authorized by a section of the revenue bill now being drafted. I should like your recommendation on the subject before I discuss the question with members of the Nye and Means subcommittee now considering tax legislation.

RM:ce

December 9, 1937

As a result of a discussion between Secretary Morgenthau, Assistant Secretary Taylor, and Harris this morning, it was agreed that,

In view of the fact that the Federal Deposit Insurance Corporation would like to show a cash position in their December, 1937 statement somewhere in the neighborhood of \$15,000,000, and, further

In view of the fact that the present cash position of the Federal Deposit Insurance Corporation amounts to only \$8,582,000, and, further

In view of the fact that the Federal Deposit Insurance Corporation understood that the \$5,335,000 2 1/2% Treasury bonds of 1945 that will be allotted on their exchange subscription are to be sold as soon as possible upon allotment of the bonds,

The \$5,335,000 2 1/2% Treasury bonds of 1945 should be sold as soon as the bonds have been allotted. Secretary Morgenthau authorized this sale for account of the Federal Deposit Insurance Corporation.

Mr. Bell telephoned Mr. Reilly of the Federal Deposit Insurance Corporation and informed him of the proposed sale, to which he agreed.

December 9, 1937

My dear Mr. President:

I have asked Mr. Magill to write a progress report on the tax hearings before the Ways and Means Sub-Committee, for your confidential information. This memorandum is attached hereto.

If after reading it you have any suggestions to make as to the progress made so far or as to the future representations that the Treasury should make in regard to tax revision, we would be more than pleased to receive the same.

Sincerely,

The President,

The White House.

December 9, 1937

My dear Mr. President:

I have asked Mr. Magill to write a progress report on the tax hearings before the Ways and Means Sub-Committee, for your confidential information. This memorandum is attached hereto.

If after reading it you have any suggestions to make as to the progress made so far or as to the future representations that the Treasury should make in regard to tax revision, we would be more than pleased to receive the same.

Sincerely,

The President,
The White House.

December 9, 1937

MEMORANDUM FOR THE PRESIDENT:

Since the work of the Ways and Means subcommittee on tax revision is gradually approaching completion it is now possible to summarize the general outlines of the recommendations which have been tentatively adopted. From the beginning the committee has taken the position that the revenue bill should not be reported at the special session but almost every day some member of the committee has urged the necessity of haste; and of restricting the scope of the revision to as few topics as possible. The Treasury has insisted throughout that the tax on capital gains and the undistributed profits tax were only two among the various subjects which should be considered. Nevertheless, the subcommittee has been very reluctant to consider recommendations for improvements in the revenue laws in other respects.

The principal subjects upon which action has been taken are outlined below:

1. The undistributed profits tax - The subcommittee has tentatively agreed to a plan which would completely exempt from this tax all corporations having net incomes of \$25,000 or less. Corporations with net incomes in excess of \$25,000 would be subjected to a tax of 20 percent on net income, but would be given a tax credit for dividends distributed, under which, if there were full distribution, the rate of 20 percent would be reduced to between 16 and 17 percent. The Treasury has informed the committee that the rate of 20 percent is too low to

force distributions from corporations controlled by wealthy stockholders; and that the proposed rates would result in a serious loss of revenue to the Treasury. The Treasury has also urged the necessity of strengthening the other provisions of the Revenue Act (section 102) which deal with the accumulation of unreasonable surpluses by corporations. The problem is to substitute a series of objective standards of unreasonable accumulations, in place of the present general provisions which place upon the Treasury the burden of showing that the accumulation of surplus is unreasonable. We are now convinced that the existing provisions can be materially strengthened to insure that corporations that are of considerable size, that are closely held, and that do not distribute earnings shall be subjected to an additional tax. If an effective objective provision can be written into a new section 102, unreasonable accumulations of surplus can be prevented without inflicting hardship upon the general run of small and medium-sized business corporations.

2. Capital gains and losses - The subcommittee has tentatively agreed to tighten the provisions for the deduction of capital losses by providing that one year losses, which are generally speculative in character, shall be deductible only from one year gains. The committee has also agreed that capital losses in excess of gains may be carried over for one year and applied against the capital gains of the later year. Finally, the taxpayer at his option may pay a flat tax on capital gains on the sale of property held for more than one year, the rate varying from approximately 30 percent in the case of property held for two years to approximately 16 percent if the property has been held five years or more.

3. Excise taxes - The subcommittee has tentatively agreed to the repeal of a number of the less justifiable excise taxes, including some of the so-called "nuisance" taxes which annoy the taxpayers and produce small returns. It is estimated that about \$25 million would be lost by the repeal of these items.

4. Estate and gift taxes - The subcommittee has tentatively agreed to simplify the schedules of estate and gift taxes and to reduce the exemptions from these levies, with a net result of some increase in expected revenues.

5. Tax-exempt securities and salaries - The Treasury recommended to the Committee statutory amendments to (a) subject the salaries of state officials to the Federal income tax; and (b) include income from tax-exempt Federal, state and municipal securities, issued hereafter, in net income for the purpose of determining the rate at which taxable income should be taxed. There was considerable doubt of the validity of such a statutory provision. The decision in *James v. The Dravo Contracting Company* by the Supreme Court on Monday, December 6th, so strengthened the doubt as to the validity of such a statute that the committee decided not to recommend it at this time.

6. Community property income; Percentage depletion - We will again urge upon the subcommittee the desirability of eliminating the inequities of the revenue laws in these two respects, as pointed out in your message of June 1, 1937. Informal discussions indicate that the individual members of the committee are sharply divided upon these proposals.

7. Simplification of court proceedings in tax cases - Conferences between the Department of Justice and the Treasury are now being held upon proposals to simplify procedure and appeals in tax cases, and in

particular to provide a single form of suit and of appeal, in lieu of the three forms now available. Complete agreement between the two departments has not yet been reached.

5. Declaratory Rulings - The Treasury will propose a method of procedure whereby a taxpayer who is about to enter upon a taxable transaction may secure an advance opinion as to the resulting tax liability. Both the taxpayer and the Treasury will be bound by the ruling, if the transaction is then carried out as planned.

The subcommittee will probably report to the full committee about the first of the year. The revenue bill can hardly be drafted for introduction prior to January 15th. Public hearings will probably be held by the Ways and Means Committee after it receives the subcommittee's report, and before the bill is actually completed.

December 9, 1937

Congressman Somers of Brooklyn came in to see me. It was an emergency call from Hester that Somers had to see me. When he got down, Somers wanted to know whether we would accept a settlement from Associated Gas and Electric that if they agreed to spend 50 million for improvement would we take that in place of the assessment that we have against them of 54 million dollars. I told him very quietly that that was the third time within ten days that the same proposition had been made to me. Needless to say, he was very much impressed.

I sent for Hester to find out if he knew what Congressman Somers of Brooklyn wanted.

Dictated December 9, 1937
at 11:30 a.m.

Hopkins spent last evening with me and he tells me that he is working on a program which will be within the 1 billion 3.

He is trying to find a man whereby he could put on another 500,000 men and have a total of 2,000,000 men through reducing the cost per man. He feels that he has a good chance of doing this. I told him if this could be done it would be marvelous and that the sooner it could be done, the better. He says that all the plans that they are making now do not contemplate spending above the 1 billion 3, but that he reserves the right to change his mind if the situation gets worse. He says that the lay-off by the factories is something terrible.

He says he is starting between 20 and 50 what he calls "cheap" C.C.C. camps which will not cost the Government more than, I think he said, \$40.00 per man per month. He said that if he had the C.C.C. camps he could run them for 60% less than Fechner does, but that he, Hopkins, could not suggest it because they would take his head off on the Hill. He said that what Fechner does is every time he opens a new camp he has seven exempt jobs which he hands over to the Congressmen to fill and that that's where he gets his big drag. He said that the Army have recommended that each camp have a First Lieutenant instead of a Captain in charge and that this move alone would save \$150,000 a month.

He frankly admitted that he was afraid to make any move against Fechner on account of Fechner's tremendous political drag, which leaves it up to me to do something because if these boys can be taken care of as well and not be under the military, it would be a great advantage besides the tremendous amount of money that we could save.

He said it's the President's dream that every boy who wants to go to camp in America for six months should have that opportunity and I agree that it would be a great training for the youth of American if they could have such an opportunity.

But I can see that Hopkins is going to "inch down" by demonstrating how he can run 50 camps at much

less money and get around Fechner in that way rather than coming out in the open.

He told me that he expects to leave for the Mayo Brothers for examination for his ulcers of the stomach and that he has had this now for 2½ years and he's sick and tired of it and he was going there in a week and take the advice of the Mayo Brothers whatever it is; that during his absence the men will be working on this program, and that Colonel Harrington will keep me posted.

He told me that Tommy Corcoran is out to get the Attorney General by fair or foul means, and that when Drew Pearson has a good story about the Attorney General you can put your money on it that he got it from Corcoran. He says Corcoran not only, to use Hopkins' language, "has smart lawyers spotted" all through the Attorney General's office, but also good looking girls, all of whom report to him direct. He says what he does not know about the Attorney General's office is not worth knowing. He says he knows every move he makes.

On my part, I assured Hopkins that until he worked out his program that I would see that none of the extra money which Bell has tucked away in his vest pocket or other places for emergency purposes would be given to anybody and that I would see that every dollar would be kept in reserve for relief purposes.

Employment went
up 18,106.

New total 1,555,667

136 377
Increase 733. NYC

in Texas and Okla) people went off
to pick cotton
& are now
back again

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending December 4 and November 27, 1937

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending December 4	Week Ending November 27	
GRAND TOTAL	1,537,539	1,519,740	+ 17,799
CONTINENTAL UNITED STATES	1,534,966	1,517,178	+ 17,788
Alabama	22,610	22,075	+ 535
Arizona	6,627	6,519	+ 108
Arkansas	19,472	19,418	+ 54
California	68,723	68,531	+ 192
Colorado	17,334	17,037	+ 297
Connecticut	15,004	14,371	+ 633
Delaware	1,812	1,796	+ 16
District of Columbia	5,691	5,764	- 73
Florida	23,462	23,124	+ 268
Georgia	22,098	21,904	+ 194
Idaho	5,785	5,509	+ 276
Illinois	107,563	106,926	+ 637
Indiana	43,104	42,686	+ 418
Iowa	17,477	16,957	+ 520
Kansas	25,878	25,864	+ 14
Kentucky	37,472	37,458	+ 14
Louisiana	22,765	22,578	+ 187
Maine	3,668	3,483	+ 185
Maryland	9,058	8,801	+ 257
Massachusetts	62,955	62,727	+ 228
Michigan	43,255	42,824	+ 431
Minnesota	36,068	35,492	+ 586
Mississippi	18,134	18,040	+ 94
Missouri	49,717	48,453	+ 264
Montana	12,586	12,339	+ 247
Nebraska	18,892	18,855	+ 37
Nevada	1,496	1,488	+ 8
New Hampshire	5,221	5,133	+ 88
New Jersey	56,645	56,946	- 301
New Mexico	5,999	5,938	+ 61
New York City	135,644	135,705	- 61
New York (Excl. N.Y.C.)	53,051	53,002	+ 49
North Carolina	20,578	20,045	+ 533
North Dakota	12,336	11,719	+ 617
Ohio	88,847	87,827	+ 1,020
Oklahoma	39,741	38,704	+ 1,037
Oregon	11,252	10,868	+ 384
Pennsylvania	157,825	157,971	- 146
Rhode Island	9,970	9,796	+ 174
South Carolina	17,818	17,359	+ 459
South Dakota	14,744	14,799	- 55
Tennessee	20,612	20,453	+ 159
Texas	48,399	44,860	+ 3,539
Utah	6,487	6,400	+ 87
Vermont	2,566	2,467	+ 99
Virginia	17,239	16,987	+ 252
Washington	26,899	24,457	+ 2,442
West Virginia	26,251	27,902	- 349
Wisconsin	35,123	34,826	+ 297
Wyoming	1,935	1,935	+ 43
Alaska	11	13	- 2
Hawaii	2,562	2,549	+ 13

RE ALLOTMENT OF DECEMBER 15 ISSUES
AND BUYING UP OF TREASURY BILLS

December 10, 1937
9:15 a.m.

- Present: Mr. Taylor
- Mr. Bell
- Mr. Gaston
- Mr. Seltzer
- Mr. Kilby
- Mrs Klotz
- Mr. Harris

H.M.Jr: If you made it 6 percent, how much would it be?

Kilby: It would be a scant 250.

Bell: About 249.

H.M.Jr: What do you fellows recommend? 7 percent allotment on the bonds is 290; 6 percent is

Kilby: A little under 250; about 249.

Bell: In view of the small amount of the issue, Mr. Secretary, and the large over-subscriptions, I recommend the 7 percent.

Kilby: Six sounds rather tiny.

H.M.Jr: What do you think, Wayne?

Taylor: I kind of like 250, somehow. But then, say you - see what doctoring you can do. Can you do that in allotments in full up to a certain amount?

Kilby: This contemplates allotments in full up to a thousand and there are only two million seven of those. The padding is almost entirely eliminated from that group now.

Taylor: How does it work out if you take up to five?

Kilby: You just let the bond down for the old practice; we used to get 80, 90, and 100 million in that group, mostly padding. Now we're down to 18 million, because it's a bona fide subscription. I think it would be a bad effect to let them have it, because next time that padding would come right in that bracket again.

-2-

H.M.Jr: Oh, I think this is all right.

Kilby: In September '36, on a 400 million bond offering, we took 470, which is 17 percent over.

Bell: That was a large over-subscription too.

Kilby: Oh, that was a huge over-subscription, and the allotment was 7 percent.

H.M.Jr: I don't see how anybody is going to criticize.

Bell: I don't think they will.

Kilby: You've got a beautiful picture on your note.

Bell: That's a perfect set-up; 8 percent gives us 219, just under the 10 percent.

H.M.Jr: Oh, that's all right.

Seltzer: I don't think it makes much difference.

H.M.Jr: That's 7 and 8. (Signs allotment release)

I want that on the ticker not later than a quarter of ten, Herbert.

Bell: The only thing unusual about the press release - we haven't put the percent in - is this "preliminary reports of exchange subscriptions in payment of which Treasury notes of February 1 were tendered, indicating that practically all of the maturing notes have been exchanged for the new issues, and that about 95 percent of the exchanges are for the bonds."

H.M.Jr: All of them have been in?

Kilby: The exchange figure now is 260, and only 17 out.

H.M.Jr: Only 17 now.

Bell: 95 percent bonds.

H.M.Jr: I wish that somehow or other you fellows would get it over that a democratic country is the only country

-3-

that does successful financing, some time when you talk to somebody. Just stop and think about it; there isn't a dictator country that has put on a successful financing.

Gaston: They do capital levies.

H.M.Jr: I mean some time.

Gaston: Yes, yes.

H.M.Jr: I'm very serious about that.

Klotz: I've heard you say that.

H.M.Jr: What?

Klotz: I've heard you say that.

H.M.Jr: I mean the only thing that the Fascist countries can do, the dictator countries, is to go out and put it on these - Ethiopia and China and places like that.

Herbert Gaston isn't hearing a word I'm saying.

Gaston: Well, I got it, but I was just noticing we had an 8 in there where it should be a 7.

H.M.Jr: All right. It's true. Some time get a story.

Now, one other minute. I like very much

You get started on this, Herbert, because what I've got to say has got nothing to do with this.

(Gaston leaves)

I like very much buying those 43 million dollars worth of bills yesterday.

Bell: We might do some more Monday.

H.M.Jr: I thought we might give them an order to go up to a hundred million.

-4-

(Harris comes in)

Bell: Well, that's all right, because if I'm short I can make a call tomorrow for payment Wednesday. See, my trouble is if I don't get the hundred million in cash on the new issue, then my balance may drop down pretty low.

H.M.Jr: Well, your balance today is 726.

Bell: No, I'm talking about the balances in the Federal Reserve banks.

H.M.Jr: Oh well, what are they?

Bell: They are 240, and if you take 50 off, it makes them 190; if you take off another 50, it gets them down to 140. Then you've got the rest of this 350 to retire. Now, if there isn't a hundred million of cash from this issue in there

H.M.Jr: But those notes were distributed over four days. I mean all kinds of bills. I mean you want I don't want to crowd you. If you think that you'd rather wait until Monday

Bell: No, not Monday. I was hoping we'd wait until tomorrow noon.

H.M.Jr: I mean to buy any more.

Bell: Well, I think we can stand 50 more. I think we're bound to get somewhere above 75 million in cash on this new issue. We got 24 percent in June.

H.M.Jr: Supposing I tell them today 25.

Bell: That's all right.

H.M.Jr: Huh?

Bell: I think that's all right.

Kilby: You ought to get 90 out of 480.

Bell: Well, I'm figuring on about 25 percent cash - 120 million.

-5-

H.M.Jr: I don't want to crowd you.

Bell: Let's take a chance on another 25 million.

H.M.Jr: What? We'll tell them another 25 million, huh?

Bell: All right.

H.M.Jr: What?

Bell: I'm willing.

H.M.Jr: Will you fix up the telegram?

Harris: Ten million of this is for delivery Monday, you know.

Bell: Yes, I know it is.

H.M.Jr: (On phone) Dr. Burgess - see if he's in.

Bell: I'm not worried about Monday, Tuesday, and Wednesday.

H.M.Jr: Do you (Seltzer) know what we're doing on this bill market business?

Seltzer: No, I don't.

H.M.Jr: Well, Harris, afterward - that's what I wanted you here for; I want you to find out, so that that Division - will you explain to Dr. Seltzer what we're doing? We're buying up the bills in advance; we bought 43 million in order to draw down our deposits with the Federal Reserve and ease this market temporarily. But you fellows ought to know what we're doing.

Just a minute. I'm trying to get Burgess.

Now, on Jesse Jones, Mrs. Klotz, if you would

(On phone) Hello. - Well, who's on the decks?

Bell: Matteson.

H.M.Jr: (On phone) Yes. Well, let me talk to him. - Please.

Let's see, ll - I could see Jones at 11:30. Could

-6-

you be here at 11:30?

Bell: Today?

H.M.Jr: Yes. Clear up this matter of Jones'

Bell: I guess so.

Taylor: That's - I think we want to get that out of the way today, and finished.

Bell: Is this phone free?

H.M.Jr: No. Kieley's is.

Bell: Well, go ahead; I'll arrange it some way.

H.M.Jr: (On phone) Hello. (Conversation with Matteson follows:)

December 10, 1937.
9:25 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess won't be in at all today. I can get him at home.

H.M.Jr: Well who's on the decks.

O: I think Mr. Madison is there.

H.M.Jr: Yes. Well let me talk to him.

O: Right.

H.M.Jr: Please.

H.M.Jr: Hello.

O: Mr. Madison. Go ahead.

H.M.Jr: Hello.

Madison: Goodmorning Mr. Secretary?

H.M.Jr: Hello, Madison?

M: Yes, sir.

H.M.Jr: We're talking here, Mr. Taylor, Bell and I, about whether we want to give you an order to buy some more of these December 15th bills.

M: Yes, sir.

H.M.Jr: Now, do you think it would be useful to have an order when you've executed the fifty million.

M: I think so. I think it's a nice thing to do.

H.M.Jr: You do?

M: Yes.

H.M.Jr: Well, how about if we give you an order for another twenty five million?

M: Yes, that will be fine.

H.M.Jr: What?

- 2 -

M: That will be fine.

H.M.Jr: Well, we - you've got an order now to do another twenty five million.

M: All in Decembers of course, anticipating the maturity.

H.M.Jr: That's right.

M: All right.

H.M.Jr: And they'll get you out a wire confirming this.

M: All right, sir.

H.M.Jr: It's helpful, isn't it?

M: Oh very helpful indeed.

H.M.Jr: All right.

M: There's been a little unnatural jam here.

H.M.Jr: What?

M: A little unnatural jam on account of the Treasury money coming in a little ahead.

H.M.Jr: That's right.

M: Yes.

H.M.Jr: Thank you.

M: Yes.

-7-

Bell: We got those at a pretty good price yesterday.

H.M.Jr: Saved \$916.22.

Bell: That's all right; that's my salary for a couple months.

H.M.Jr: On 43 million dollars.

Taylor: We better get Jesse on that before Dan breaks his date. I haven't got a date with Jesse.

H.M.Jr: Well, Mrs. Klotz will do it when she goes out. See whether Mr. Jones can come over here at 11:30, and if he can Mr. Bell will be in the room here. We're going to do Social Security. Let him know.

But I want a meeting fifteen minutes before that with you fellows.

Bell: We were just going over that thing now with Clarence Oppen.

H.M.Jr: Well, I want a meeting at 11:15 with you fellows. Mr. Taylor wants to prepare my mind, but not to make up my mind.

Bell: I see the distinction.

H.M.Jr: I won't give Taylor credit for that.

Bell: I understand that Jesse wanted to see you this time before you made up your mind.

Taylor: I guaranteed him that that would be the case.

OUTLINE OF PROCEDUREIN UNCONTESTED CLAIMS FOR BENEFITS FOR TOTAL UNEMPLOYMENT

1. When a worker covered by the State unemployment compensation law is separated from his employment, the employer gives him notice (on a printed form furnished by the State agency) to report to the most convenient employment office.
2. The employment office takes his application for work; assists him in filing his original claim for benefits; gives him necessary information and instructions concerning his benefit rights and responsibilities; and assigns him a specified weekly reporting time.
3. The local office transmits the claim to the central office of the State Unemployment Compensation Agency, where the worker's wage records have been accumulated.
4. The central office determines the claimant's eligibility for benefits on the basis of wages reported for the qualifying period specified in the State law and computes his weekly benefit rate and maximum amount of benefits.
5. The central office transmits to the local office a report of the claimant's benefit rights and places the claim in a pending file until further report from the local office.
6. During continuing weeks of unemployment, the claimant reports at the employment office at the specified time each week to renew his application for work and, if no suitable work is available, to file his continued claim for benefits.
7. The local office informs the claimant of his benefit rights as determined by the central office.
8. After the claimant has served the required waiting period (two to four weeks depending on the State law), has reported one additional week of unemployment, and has complied with all eligibility requirements, the local office reports to the central office that the weekly benefit amount is payable for the first week of total unemployment, which is compensable.

- 2 -

9. The central office mails a check for the amount to the worker at his home address.
10. Until the claimant's benefit rights are exhausted, as long as he continues to meet all conditions of eligibility, the local office issues to the central office weekly orders for the payment of the claim.

- - - - -

The outline above presents, in the most simplified form, the basic procedure necessary in the payment of claims for benefits for total unemployment. Variations of this procedure, or additions to the procedure, are necessary under many circumstances; for instance:

1. When the unemployed worker lives distant from a community served by an employment office and must file his claims with an itinerant interviewer.
2. When the worker is separated from his employment under conditions which the employer contends were such as to bar or suspend right to benefits and the State agency must determine whether there is any disqualification.
3. When the claimant or his employer appeals from the decision on the claim and the State agency must provide a fair hearing before an appeals board.
4. When during any week of unemployment a claimant has some earnings and his benefits for that week must be reduced in amount.
5. When during any week of unemployment the claimant fails to apply for work or to accept work offered him, and the State agency must determine whether it was suitable work and whether his rights to benefits are therefore suspended.
6. When large numbers of workers are separated from their employment simultaneously and the local office cannot deal with claims and registrations on an individual basis.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 10, 1937

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

SUBJECT: Estimated Purchases to be made by Government Activities in December, January, and February.

Under date of November 30, 1937, formal request was sent to all Federal activities to report immediately to the Director of Procurement the estimated purchases to be made during the months of December, January, and February. While reports from all agencies have not been received, the reports from the major purchasing activities indicate that purchases during those three months will be as follows:

December 1937	\$ 63,947,785
January 1938	68,713,380
February 1938	<u>67,841,013</u>
Total	\$200,502,178

Broken down to thirteen major classifications, the estimated purchases will be as follows:

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Textiles and their products, including clothing, cordage, house-furnishing goods, knit goods, etc.	\$ 10,982,663
Forest products, including furniture, planing mill products, treated lumber, etc.	3,261,426
Chemicals and allied products, such as linseed oil, paints and varnishes, soap, chemicals, etc.	5,568,892
Products of asphalt, coal, and petroleum, including fuel oil, gasoline, lubricating oils, greases, etc.	20,314,594
Leather and its manufactures, including boots, shoes, gloves, etc.	3,706,628
Stone, clay and glass products, such as bricks, cement, crushed stone, glass, sand and gravel, tile, etc.	7,496,917

Memorandum to the Secretary

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Iron and steel and their products, such as pipe and fittings, forgings, miscellaneous hardware, metal doors, sash and frames, metal furniture, steel rails, wire rope, etc.	\$ 24,074,486
Nonferrous metals and their alloys, including aluminum manufactures, brass, bronze and copper products, tin, etc.	6,225,585
Machinery (not including transportation equipment and electrical equipment), such as engines, turbines, machine tools, power shovels and drag-lines, pumps and pumping equipment, etc.	7,598,587
Electrical machinery, apparatus and supplies, such as batteries, cable and insulated wire, generators, lighting equipment, switchboards, etc.	14,366,996
Transportation equipment, such as aircraft, motor vehicles, etc.	35,200,213
Miscellaneous, which includes brooms and brushes, professional and scientific instruments, paper and allied products, photographic apparatus and materials, etc.	28,256,335
Food and kindred products, such as canned fruits and vegetables, cereals, coffee, condensed milk, flour, etc.	<u>33,448,856</u>
Total	\$200,502,178

It should be understood that these are estimates only and that actual expenditures may be greater or less than the amounts stated.

These figures include the normal requirements of the Federal Government as well as the increased expenditures that will result from the President's memorandum of November 27 to the Executive Departments and Agencies. A conservative estimate of the result

Memorandum to the Secretary

of his Memorandum is that the normal purchases, exclusive of those to be made for the Works Progress Administration, will be increased in this three month period by ten per cent. As to the Works Progress Administration, it is estimated that, as a result of the President's memorandum, purchases in December and January will be stepped up to \$17,500,000 from a normal of \$7,500,000, or an increase of \$10,000,000. The estimated normal purchases, the estimated total purchases, and the amount of the increased purchases resulting from the President's memorandum are set out below:

	Amount of Estimated Normal <u>Purchases</u>	Amount of Estimated Total <u>Purchases</u>	Amount of Increase Resulting from <u>Memorandum</u>
December	\$ 53,588,895	\$ 63,947,785	\$ 10,358,890
January	57,921,255	68,713,380	10,792,125
February	<u>61,673,648</u>	<u>67,841,013</u>	<u>6,167,365</u>
Totals	\$173,183,798	\$200,502,178	\$ 27,318,380


Acting Director of Procurement.

TREASURY DEPARTMENT

192

INTER OFFICE COMMUNICATION

DATE December 10, 1937

TO Secretary Morgenthau
FROM Mr. Haas 

Attached is copy of the telegram requesting weekly data on store sales which was dispatched on December 8, 1937, in accordance with your request at a conference in your office on the same date. Draft of the telegram was checked by telephone with Mr. Ruml, as you suggested. In this conversation, Mr. Ruml indicated that after a few weeks he thought it would be possible to ask the same stores to include stocks in their reports, if you so desired.

Of the list of stores suggested by Mr. Ruml, there are two, Sears Roebuck and Company and J. C. Penney Company, which are among the list of companies already reporting to us certain sales data. No further request was sent to these stores at this time. They handle a somewhat different type of business from the other stores listed. It was thought also that when sufficient information had been secured from the other stores to be of interest, it might be transmitted to these two as well, and that their own reports might then be brought into line with the others.

The three Washington stores included in Mr. Ruml's list were covered by letter only.

Attachment

COPY

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TREASURY DEPARTMENT ¹⁹³

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

CONTINGENT EXPENSES, TREASURY DEPARTMENT

(The appropriation from which payable must be stated on above page)

U. S. GOVERNMENT PRINTING OFFICE 2-14117

1935

see. 8, 1937.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

(List of addresses attached)

Night Letter

AS AN AID IN FOLLOWING DEVELOPMENTS IN THE GENERAL BUSINESS SITUATION I AM ASKING THE COOPERATION OF STORES IN VARIOUS PARTS OF THE COUNTRY IN SUPPLYING WEEKLY FIGURES ON GROSS SALES. AS PART OF THIS PICTURE I SHOULD GREATLY APPRECIATE RECEIVING FIGURES ON DOLLAR VOLUME OF YOUR GROSS SALES FOR EACH WEEK BEGINNING WITH WEEKS ENDED NOVEMBER TWENTY SEVEN AND DECEMBER FOUR, WITH COMPARABLE DATA FOR SAME TWO WEEKS OF PREVIOUS YEAR, AND CURRENTLY THEREAFTER TO REACH ME EACH SUCCEEDING TUESDAY ATTENTION GEORGE C. HAAS. I SHOULD APPRECIATE ALSO RECEIVING AS SOON AS POSSIBLE CORRESPONDING WEEKLY DATA SINCE JULY FIRST NINETEEN THIRTY FIVE. THIS INFORMATION IS FOR MY USE AND I CAN ASSURE YOU IT WILL BE HELD

TREASURY DEPARTMENT 194
WASHINGTON

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 2-14117

- 2 -

ABSOLUTELY CONFIDENTIAL. IT WILL BE USED TO COMPILE AGGREGATE DATA ON SALES TRENDS FOR THE COUNTRY AS A WHOLE. ANY COMMENTS YOU MAY WISH TO MAKE ON DATA OR TRENDS FROM TIME TO TIME WILL BE HELPFUL. IN RETURN I SHALL BE GLAD TO SEND YOU THE AGGREGATE DATA EACH WEEK IF THEY WOULD BE OF INTEREST TO YOU. CONFIRMING LETTER FOLLOWS.

HENRY MORGENTHAU JR.
SECRETARY OF THE TREASURY

AMM:FMD:GCH:mv1

Mr. Malcolm McNaghten, Pres.
Broadway Dept. Store, Inc.
Los Angeles, Calif.

Mr. P. G. Winnett, Pres.
Bullock's, Box 800 Sta. C.
Los Angeles, Calif.

Mr. Tom May, V. P.
The May Co.
Los Angeles, Calif.

Mr. J. W. Schneider, Pres.
J. W. Robinson Co.
7th St. & Grand Ave.
Los Angeles, Calif.

Mr. E. C. Lipman, Managing Dir.
The H. C. Capwell Co.
Oakland, Calif.

Mr. E. C. Lipman, Managing Dir.
The Emporium
San Francisco, Calif.

Mr. Marshal Hale, Pres.
Hale Bros. Stores, Inc.
San Francisco, Calif.

Mr. D. G. Davis, Pres.
Raphael Weill & Co. (White House)
San Francisco, Calif.

Mr. C. A. Shinn
Denver Dry Goods Co.
Denver, Colo.

Mrs. E. F. Auerbach, Pres.
G. Fox & Co., Inc.
Hartford, Conn.

Mr. George E. Whitten, Gen. Mgr.,
Burdine's
Miami, Fla.

Mr. Frank H. Neely,
Rich's, Inc.
Atlanta, Ga.

Mr. Jacob Espovich
The Boston Store
Chicago, Ill.

Mr. G. L. Pirie
Carson, Pirie, Scott & Co.
Chicago, Ill.

Mr. D. F. Kelly
The Fair
State, Adams & Dearborn Sts.
Chicago, Ill.

Mr. Frederick D. Corley, Pres.
Marshall Field & Co.
121 N. State St.
Chicago, Ill.

Mr. Leon Mandel, Gen. Mgr.
Mandel Bros.
Chicago, Ill.

Mr. Frank M. Folsom, V. P.
Montgomery Ward & Co., Inc.
619 W. Chicago Avenue
Chicago, Ill.

Mr. Elmer F. Wieboldt
Wieboldt Stores, Inc.
106 S. Ashland Blvd.
Chicago, Ill.

Mr. Frederic M. Ayres, Pres.
L. S. Ayres & Co., Inc.
Indianapolis, Ind.

Mr. Henry Frankel, Pres.
Yunker Bros.
Des Moines, Iowa.

Mr. H. J. Schwartz, Pres.
Maison Blanche Co.
New Orleans, La.

Mr. Albert D. Hutzler, Gen. Mgr.
Hutzler Bros. Co.
Baltimore, Md.

Mr. T. P. Abbott, Pres.
Stewart & Co.
Baltimore, Md.

Mr. Louis E. Kirstein
Wm. Filene's Sons Co.
Boston, Mass.

Mr. Felix Vorenberg, Pres.
The Gilchrist Co.
Boston, Mass.

Mr. Adolph Ehrlich
C. F. Hovey Co.
Boston, Mass.

Mr. G. W. Mitton
Jordan Marsh Co.
Boston, Mass.

Mr. Robert W. Maynard, Pres.
The R. H. Stearns Co.
Boston, Mass.

Mr. B. F. Raphael
R. H. White Co.
Boston, Mass.

Mr. James B. Jones, Pres.
Crowley, Milner & Co.
Detroit, Mich.

Mr. V. W. Sincere
Frank & Seder
Detroit, Mich.

Mr. Oscar Webber,
The J. L. Hudson Co.,
Detroit, Mich.

Mr. G. N. Dayton
The Dayton Co.
Minneapolis, Minn.

Mr. Ralph Waltz
L. S. Donaldson Co.
Minneapolis, Minn.

Mr. G. F. Williams, Pres.
Powers Mercantile Co.
Minneapolis, Minn.

Mr. Matthew J. Dunfey
Golden Rule
St. Paul, Minn.

Mr. Morton J. May, Pres.
Famous-Barr Co.
St. Louis, Mo.

Mr. F. M. Mayfield, Pres.
Scruggs-Vandervoort-Barney, Inc.
St. Louis, Mo.

Mr. Wm. J. Wells, Pres.
L. Bamberger & Co.
Newark, N. J.

Mr. H. C. Buck, Pres.
Hahne & Co.
Newark, N. J.

Mr. Walter N. Rothschild, Pres.
Abraham & Straus, Inc.
Brooklyn, N. Y.

Mr. Lewis M. Gibb, Pres.
Frederick Loesser & Co., Inc.
Brooklyn, N. Y.

Major Benjamin H. Namm, Pres.
The Namm Store
Brooklyn, N. Y.

Mr. W. J. Brunmark, Pres.
J. N. Adam & Co.
Buffalo, N. Y.

Mr. J. Edward Davidson, Pres.
Wm. Hengerer Co.
Buffalo, N. Y.

Mr. John S. Burke, Pres.
B. Altman & Co.
New York, N. Y.

Mr. Michael Schaap
Bloomingdale's
New York, N. Y.

Mr. Philip LeBoutillier, Pres.
Best & Co.
New York, N. Y.

Mr. Wm. M. Holmes
Bonwit Teller, Inc.
New York, N. Y.

Mr. Spencer Gresson, Treas.,
Brooks Bros.,
Madison Ave. & 44 St.,
New York, N. Y.

Mr. Saul Cohn, Pres.
City Stores Co.
132 W. 31 St.
New York, N. Y.

Mr. Samuel Klein
14th St.
New York, N. Y.

Mr. Bernard F. Gimbel, Pres.
Gimbel Bros.
New York, N. Y.

Mr. M. Levin, Pres.
Hearn Dept. Stores, Inc.
14th St. & 5th Ave.
New York, N. Y.

Mr. Walter Hoving, Pres.
Lord & Taylor
New York, N. Y.

Mr. Percy S. Straus, Pres.
R. H. Macy & Co., Inc.
New York, N. Y.

Mr. Neil Petree, Pres.
James McCreery & Co.
New York, N. Y.

Mr. Robert D. Levy
Oppenheim & Collins
New York, N. Y.

Mr. Nathan Ohrbach
Ohrbach's
New York, N. Y.

Mr. Adam L. Gimbel
Saks-5th Ave.
New York, N. Y.

Mr. Frederic A. Gimbel
Saks-5th Ave.
New York, N. Y.

Franklin Simon & Co.
5th Ave. & 38 St.
New York, N. Y.

Mr. Wm. O. Riordan
Stern Bros.
41 W. 42 St.
New York, N. Y.

Mr. Chas. P. Shipley, Pres.
Wanamaker's
New York, N. Y.

Mr. J. R. Sibley, V. P.
Sibley, Lindsay & Gurr Co.
Rochester, N. Y.

Mr. J. Danby
The M. O'Neil Co.
Akron, O.

Mr. John C. Pogue, Pres.
H. & S. Pogue Co.
Cincinnati, O.

Mr. L. G. Oppenheim
The Bailey Co.
Cleveland, O.

Mr. Samuel H. Halle, Pres. & Gen. Mgr.
The Halle Bros. Co.
1228 Euclid Ave.
Cleveland, Ohio.

Mr. N. L. Danby
The May Co.
Cleveland, O.

Mr. C. H. Strong, Gen. Mgr.
The Wm. Taylor Son & Co.
Cleveland, O.

Mr. Simon Lazarus
The F. & R. Lazarus Co.
Columbus, O.

Mr. F. H. Rike, Pres.
The Rike-Kumler Co.
Dayton, Ohio.

Olds, Wortman & King
Portland, Ore.

Mr. Chas. A. Holmes, Managing Dir.
Pomeroy's
Harrisburgh, Pa.

Mr. Arthur C. Kaufman
Gimbel Bros.
Philadelphia, Pa.

Mr. W. T. Grossoup, Exec. V. P.
Lit Bros.
Philadelphia, Pa.

Mr. Geo. H. Johnson, Pres.
Lit Bros.
Philadelphia, Pa.

Mr. Morton Snellenberg
Snellenberg's
Philadelphia, Pa.

Mr. Herbert J. Tily
Strawbridge & Clothier
Philadelphia, Pa.

Mr. B. Neiman
Frank & Seder, Inc.
Pittsburgh, Pa.

Mr. Jacques Blum
Gimbel Bros.
Pittsburgh, Pa.

Mr. A. H. Burchfield, Pres.
Joseph Horne Co.
Pittsburgh, Pa.

Mr. Edgar J. Kaufmann
Kaufmann Dept. Stores, Inc.
Pittsburgh, Pa.

Mr. Bert B. Croup, Gen. Mgr.
The Rosenbaum Co.
Pittsburgh, Pa.

Mr. Joseph Samuels
The Outlook Co.
Providence, R. I.

Mr. Robert F. Shepard, Pres.
The Shepard Co.
Providence, R. I.

Mr. W. S. Rhoads, Pres.
Miller & Rhoads
Richmond, Va.

Mr. Henry Owen
The Bon Marche
Seattle, Wash.

Mr. Wm. H. St. Clair, Pres.
Frederick & Nelson
Pine St., 5th-6th Aves.
Seattle, Wash.

Mr. Stanley Stone, Pres.
The Boston Store
Milwaukee, Wisc.

Mr. Chas. A. Zadok
Gimbel Bros.
Milwaukee, Wisc.

Mr. Max E. Friedmann
Ed. Schuster & Co., Inc.
Milwaukee, Wisc.

Mr. Allen E. Meier
Meier & Frank Co.
Portland, Ore.

MEMORANDUM

Conference held in Secretary's Office at 9:30 A. M.
December 10, 1937.

Present: Secretary Morgenthau
D. W. Bell
Wm. H. McReynolds
E. F. Bartelt
Maurice Collins
G. F. Allen

Mr. Altmeyer, Mr. Wagenet, and Mr. Banning of Social Security Board.

The Secretary stated that as a result of certain information that had come to him from various sources concerning the prospects of difficulty in the states getting started promptly to pay unemployment benefits after January 1st, he had directed certain of his staff to undertake, subject to the approval of the Social Security Board, to render the Board such assistance as might be found possible looking to the placing of all state offices, where benefits begin in January, in a position to make prompt payments of all acceptable claims.

Mr. Altmeyer stated that the Board was grateful for and would be glad to accept the type of assistance that had been discussed with Treasury staff and felt that it would be of very great use.

Mr. McReynolds stated that as a result of conferences with Social Security staff, particularly between Mr. Bartelt of Treasury and Mr. Banning of the Social Security Board, the most practicable method of rendering assistance would be for Mr. Bartelt to call in from the field offices ten or more of his principal accountants for a few days instruction in Washington covering the scope of the job to be accomplished. It was agreed that this would be a desirable procedure.

Mr. Altmeyer suggested that it seemed to him desirable that

- 2 -

the Treasury accountants who are to work on this project should be detailed to work directly under the supervision of Mr. Banning, who is the Social Security Board's Chief Accountant. This suggestion was agreed to.

The Secretary stated that in accordance with his uniform policy in matters of this kind, there would be no publicity whatever given to the fact that the Treasury was participating in this work, and that he felt it particularly important that no impression be given out that the Treasury Department was undertaking to take over the job of the Social Security Board. Mr. Altmeyer expressed gratification with the Treasury attitude.

Mr. Altmeyer explained at some length the fact that under the law an average waiting period of three weeks after January 1st is provided before compensation begins, and an additional week for which compensation will be applicable must then elapse before final proof of claim can be submitted - so that there will be an elapsed time of a minimum of four weeks, plus the time required to pass on the claim and prepare the checks before payments can begin. The Secretary asked Mr. Altmeyer to prepare for him and place in his hands before one o'clock today a time schedule indicating the necessary lapse of time in the various stages from the date when the law becomes operative to the date when checks will be expected to be delivered to claimants. Mr. Altmeyer promised to furnish such a schedule.

The Secretary stated that after the Treasury accountants have completed their training period in Washington, he wanted them brought to his office for a personal conference with him before they go to the field, and he suggested to Mr. Altmeyer that it would be desirable for him (Altmeyer) also to confer with them to make sure that they understood the scope of the job they were undertaking and the relationship and attitude of the Treasury and the Social Security Board with respect to it.

FROM: MR. GASTON'S OFFICE

201

TO:

The Secretary

Mr Phelps in WPA
Press Section tells us
these stories were based
on statements by Hopkins
at his Press conference
at 4 p.m. Thursday,
Dec 9, and that there
was no press release.

J. E. G.

WPA WILL PUT 350,000 MORE ON ITS ROLLS

Boost Will Bring Winter Total To Nearly 2,000,000, Hopkins Announces

Agency Will Stay Within \$1,500,000,000 Appropriation, Works Chief Says

By **DEC 10 1937**

(Washington Bureau of The Sun)
Washington, Dec. 8—Approximately 350,000 persons will be added to the WPA rolls during the next few weeks, boosting the total to nearly 2,000,000 for the winter period, Harry L. Hopkins, Works Progress Administrator, announced this afternoon.

Employment on projects of the WPA now totals approximately 1,575,000, he said, an increase of slightly over 55,000 since the last week in November. The rate of increase, however, will be stepped up immediately, he explained, until the expected peak of nearly 2,000,000 is reached.

To Stay Within Appropriation
Mr. Hopkins emphasized that in providing the additional WPA jobs he would keep within his appropriation of \$1,500,000,000, which was made for the fiscal year ending June 30.

"Inside our existing appropriation of \$1,500,000,000, and over and above the 1,575,000 persons working today, we can add about 350,000 more to the WPA," he said. "We are going to allocate the quotas increasing the number on the WPA during the coming weeks."

Hopkins Going To Mayo Clinic
The WPA Administrator also disclosed, at a press conference called to explain the WPA increases, that he expected to leave tonight for Rochester, Minn., for a medical examination at the Mayo Clinic.

Explaining that he was going to be "looked over," Mr. Hopkins said: "I've been feeling a little burn for the last few months and I'm going out there to have a thorough going over."

He said he didn't know how long he would be absent from Washington, observing that he would stay "as long as they tell me." He explained he had got a good amount of rest as a member of the party accompanying President Roosevelt on his fishing trip last week, but that, while he was not greatly worried about his physical condition, he thought a thorough examination advisable.

Doesn't Mean To Fix Need
Mr. Hopkins asserted no implication should be drawn from the 350,000 increase as to the number of persons who should be employed this winter. "This is what we can do within our existing budget," he continued. "There should be no implication drawn, likewise, that I think we are going to require more than the amount appropriated."

"It simply means that we should increase the number of WPA by 350,000 on the basis of the present need for relief. I don't want to indicate I think it's going to be enough, nor that it isn't going to be enough."

Aid To 1,400,000 More
On the basis of four members to the average family, he pointed out, the increase of 350,000 WPA jobs would mean that 1,400,000 additional persons will be aided by the work program. Asked how long the additional jobs would last, he replied: "There is always a curve that goes up in the winter and down in the spring, and we are going on that basis."

Thus, he indicated, the total will have to be reduced to approximately 1,500,000 in the spring in order to keep within the appropriation.

\$559,149,747 Spent So Far
Up to December 2, according to the Treasury statement, WPA expenditures in the current fiscal year totaled \$559,149,747. During the same period a year ago the total was \$671,252,967.

At last year's rate of expenditure, the WPA would have spent approximately \$1,280,000,000. The savings during the first part of the year makes it possible to increase the rate during mid-winter.

It was roughly calculated by the WPA that the \$1,500,000,000 appropriation would provide for an average of 1,500,000 persons throughout the year. The low point for the current year was reached last October 2, when approximately 1,400,000 were on the rolls.

Avoids Business Comment
Mr. Hopkins avoided comment on business and unemployment conditions, observing that he should not be asked such questions because he was not "just getting off a boat from Europe." He went on, however, to note that regional officials of the WPA

were constantly checking on unemployment through employers, labor leaders and others, and said the WPA increases were related largely to the relief needs as thus disclosed.

"It will be idle to say," he commented, "that some of this increase is not reflected by unemployment conditions."

The beginning of payments on unemployment compensation in twenty-two States after the first of the year, he said, will be a favorable factor in the relief situation, as will the continuation of old-age pensions.

He said no specific date was set for completing the increases, but that "we are going to start pushing up the total right away."

Silent On 1939 Budget

The WPA administrator declined to comment on the size of the WPA appropriation to be included in the 1939 budget, which President Roosevelt will send to Congress early in January. Mr. Hopkins has seen the President several times since they returned to Washington from the fishing trip last Monday.

Reports are current that efforts may be made to hold the 1939 appropriation—for the fiscal year beginning next July 1—to \$1,000,000,000, but Mr. Hopkins professed to have no knowledge of such a move.

1,337,539 On Rolls Now

For the week ending December 4 there were 1,337,539 on WPA rolls. At approximately the same period in 1936 the figure was 1,275,000, but the 1936 total had been boosted by drought cases and was decreasing in December because of the transfer of such cases to the Recreational Administration.

The current WPA report showed a total of 9,658 on WPA rolls in Maryland as of December 4, an increase of 27 over the previous week. Delaware showed a gain of 16, Virginia an increase of 252 and West Virginia of 348. Pennsylvania, however, reported a drop of 146 cases and the District of Columbia a decrease of 73.

To Seek Half Billion More

In connection with Hopkins' announcement Representative Ellenbogen (Dem., Pa.), urged that Congress appropriate half a billion more for the work relief agency, declaring: "I'm convinced that regardless of business developments, the situation is such that we must have at least a half billion more. I'm convinced the Administration will ask for it soon."

Word that President Roosevelt still intended to balance the budget came, however, from Representative Johnson (Dem., Ohio), chairman of a Democratic House group which protested to the Chief Executive against a proposed \$75,000,000 cut in next year's outlays for the Civilian Conservation Corps.

Budget Balance Still Aim

"The President said that the CCC camps had done excellent work," Johnson said, "but he said there was a demand for balancing the budget and that he intended to do it."

The House committee advised the President that, while it opposed the proposed elimination of 300 camps in the next fiscal year, it was not opposed to economies effected within the camps without impairing their efficiency. As a economy the group said it wouldn't plan for, however, was cutting ration expenses.

NEW YORK TIMES - December 10, 1937

INDUSTRY INVITES NEW DEAL TO JOIN IT IN WAR ON SLUMP; HOPKINS ADDS 350,000 TO WPA

~~NYT~~

12-10-37

WORK NEED GROWS

WPA Refuses to Say if the New Increase Will Solve the Problem

HOPKINS CITES HIS BUDGET

Ellenbogen Asks \$500,000,000 More for Relief—Workers to Total 2,000,000

Special to THE NEW YORK TIMES.
WASHINGTON, Dec. 9.—Harry L. Hopkins, Works Progress Administrator, announced today that 350,000 additional workers would receive employment on WPA projects to take care of present and developing relief needs throughout the country. The allocation, to be made within the next few weeks, will be by States according to conditions and existing needs.

Employment on WPA projects totaled 1,575,000 on Dec. 4, Mr. Hopkins said, an increase of 17,799 from the figure of the preceding week. The total was 1,450,000 on Oct. 2.

The increase in WPA employment, according to Mr. Hopkins, reflects in part the normal rise incident to the approach of winter, and in part the recession in business and industry which has brought new recruits to the relief rolls and is recognized as a factor to be reckoned with during the coming months.

Representative Ellenbogen of Pennsylvania introduced a bill today proposing an additional \$500,000,000 for relief for the rest of the current fiscal year. He said that he believed this amount was necessary to care for the increase in unemployment reflected in "unofficial estimates.

Hopkins Silent on Funds

Mr. Hopkins had "nothing to say" about the anticipated increase in relief needs or concerning Mr. Ellenbogen's proposal to increase the relief work appropriation. Neither would he make any predictions as to the adequacy, and for how long a period, of the \$1,500,000,000 appropriated for the year beginning July 1.

In announcing his plan to put additional employes on WPA projects Mr. Hopkins said that he did not mean to be understood as stating that this would or would not solve the relief problem for the coming year.

"There is in it no implication of the number of people who should be employed," he said. "We are going to increase our numbers by 350,000. I do not say that this number includes all who will need relief employment, nor that it will not. It is based on a realistic view of the existing situation, and the fact that we can give employment to that number of additional workers without exceeding the limits of the \$1,500,000,000 relief appropriation.

"This is what we can do within the existing budget."

Rise Gradual Since October

On the basis of four persons to a family, the employment of 350,000 additional WPA workers, making a total of nearly 2,000,000, will increase by 1,400,000 the number of persons involved in the operation of the WPA program, which will then reach a grand total of more than 7,500,000.

Since early October a gradual increase in WPA rolls had been apparent, Mr. Hopkins said, culminating in the sharp rise during the week between Nov. 27 and Dec. 4. Of the 17,799 additional workers receiving relief employment during that week, 3,539 were put to work on WPA projects in Texas, 2,642 in the State of Washington, 1,037 in Oklahoma and 1,020 in Ohio.

In New York, exclusive of New York City, WPA employment increased by only 49 workers during the week ending Dec. 4, and in New York City the total was decreased by 61 from 133,706 employed on Nov. 27.

Mr. Hopkins left tonight for Rochester, Minn., for what he defined as a "going-over" at the Mayo Clinic. He said that he had not been feeling well for some time and was going there for a health "check-up" and treatment, if required.

Budget Questions Are Raised

By The Associated Press

WASHINGTON, Dec. 9.—The government ordered an increase in WPA spending today to cope with mounting unemployment, the sum involved being estimated by some at \$23,000,000 a month.

This announcement increased speculation as to whether President Roosevelt's announced goal of a balanced budget in the next fiscal year could be achieved in view of the business recession.

Word that President Roosevelt still intended to balance the budget came, however, from Representative Johnson, chairman of a Democratic House group which protested to the Chief Executive against a proposed \$75,000,000 cut in next year's outlays for the Civilian Conservation Corps.

Senator La Follette said today that he was studying relief needs to determine what further increase in WPA spending might be desirable. He said that the 350,000-man increase announced by Administrator Hopkins would not create sufficient spending power to have any appreciable effect on business.

PLEA BY CHESTER

Action Vital Before It Is 'Too Late,' He Tells 2,000 at Session

SPEAKERS ACCUSE LABOR

Hold Strikes a Major Cause of Recession—Wide Curbs on Walkouts Proposed

Colby M. Chester address, Page 22. Labor relations platform, 22.

The government was invited to "sit down with business and with labor to cure the present depression, before it gets beyond control," in an address last night by Colby M. Chester as chairman of the board of directors of the National Association of Manufacturers.

The invitation was made publicly before an audience of 2,000 of the leading employers of the country at a dinner in the Hotel Waldorf-Astoria which closed their annual "Congress of American Industry."

Earlier in a final all-day session, speakers had charged labor with major responsibility for this depression.

Walter J. Kohler, chairman of Kohler Company, who opened the day session and presided over it, said that "labor disturbances indisputably contributed in large part."

Weir Points to Costly Strikes

Ernest T. Weir, chairman of the National Steel Corporation, said that strikes in 1937 had cost the country \$5,000,000,000 in lost wages, lost profits and lost goods. He said "a critical business recession has set in," and laid the blame for strikes on government as well as on labor. Both, he said, "sponsored the theory that strife is the necessary basis of labor relations."

Leo Wolfman, former chairman of the labor advisory board of the NRA, said the government had "set up machinery destined to widen the scope of strife—in four years we have traveled a great distance from cooperative relations between employers and workmen."

The conditions under which industry now proposes to restore such cooperation were presented in an eighteen-point program at the fundamentals of satisfactory Employment Relations."

This was formulated by sixty of the leading employers of the country who constitute the board of directors of the National Association of Manufacturers. It was adopted last night after a long session yesterday afternoon by the congress as the basis of a campaign to have its prescriptions followed by every employer.

Would Limit Labor Action

Among the "fundamentals," the assembled employers demanded the comprehensive amendment of the National Labor Relations Act to outlaw sit-down, secondary, sympathetic and general strikes as well as strikes for the check-off. They would penalize such strikers by depriving them under the revised statute of any vote in labor elections and of any right to reinstatement by the National Labor Relations Board.

They also would restore the labor injunction to Federal and State statute books and would have Congress prohibit the interstate movement of "paid pickets."

The possibility of amending the National Labor Relations Act was flatly rejected, however, by Charles W. Fahy, general counsel of the NLRB. He had been invited from Washington to an "NLRB Clinic" at which he underwent more than an hour of questioning by John C. Gell, counsel for the National Manufacturers Association.

Noting "strong opposition in some quarters," he said:

"There can be no trust in or respect for an employer who is unwilling to recognize the basic rights of labor as guaranteed by this act."

There was no heading from more than 2,000 manufacturers who crowded the ballroom floor and filled the galleries. Mr. Gell presented the questions, as Mr. Fahy said later, "quite politely." But occasionally a snicker ran through the house.

General Hugh S. Johnson, former head of the NRA, later stepped into the scene with a "warning."

"Some interests who are represented here helped to kill the NRA by some of the most adroit tactics I have ever seen," he said. "But, as events are now proving, that was skin off them and not off me."

"I am not here to defend the NRA but I can't refrain from saying this. It was the first great attempt of this government in peace to give you what you have consistently clamored for as long as I have known you—cooperation between business and government to solve the great economic problems of the nation."

"That suggests to me a warning. Among the changes you must not expect is any surrender of the principal social aims for which this administration was so overwhelmingly elected."

"How shall all this be worked out? I am not here with any formula. You are far more able to offer one than I am. But I am here with a piece of gratuitous advice: Don't use your great abilities to stir up all the objections you can imagine."

"I have been up and down this country for the last four years talking with thousands in rough-and-tumble forums. My mail also runs into thousands of communications. The people of this country believe some wages-and-hours law is necessary. I will also fight for some reasonable ceiling over hours and floor under wages on some flexible, irrevocable, constitutional basis."

"Today you are threatened with a perfectly natural alternative. If the thing must be done and you don't want to do it yourselves in cooperation with a sympathetic and experienced government, you will have it done for you by some new Simon Legree National Labor Relations Board type of pressure bureau under Madame Perkins. It will be done for you by a star-chamber which regards you as a bunch of high-binding bandits."

Resolution Opposes Wage Bill

The next and final act of the session was the adoption of a resolution in which the congress voted its "vigorous opposition" to the Black-Conerney Wage and Hour Bill and adjourned until next year.

The resolution read:

"The Black-Conerney Wage and Hour Bill, if enacted, will create a vast Federal bureaucracy to fix wages and hours. The bill requires the Federal Labor Standards Board to consider many difficult and conflicting factors prior to issuance of its wage-hour orders."

"The bill is not limited to factory employees; it also includes salesman, foremen, clerical and office workers, and many others. The bill is not limited to manufacturers; it covers also wholesalers, retailers and other classes of business. The regulation of hours and overtime involve totally different factors from wage regulation and will seriously disturb business and adversely affect employment."

"The bill contains many other unworkable features. It establishes a dangerous precedent in its bureaucratic control of business that must inevitably lead to broader powers for Federal control. This bill should be vigorously opposed. The committee recommends State legislation as the proper and workable approach in this field."

Cutten Attacks "Equality"

In a luncheon speech, Dr. George B. Cutten, president of Colgate University, said "there is a lot of twaddle being talked about the abundant life." He added that "you can't have equality and liberty at the same time and you will have to choose." He pronounced equality "a dismal failure."

He was introduced by T. M. Girdler, chairman of the board of the Republic Steel Corporation, who said "the entrance of government into industrial relations and the growth of labor organizations has created a new balance of power, and that power should carry its share of responsibility."

Tells of Labor Rackets

William Fettes Morgan, commissioner of Markets of New York City, reviewed his experience with "labor rackets" and said "labor leaders have been given such a free hand to organize the employees of industry and are so well protected that they are almost invulnerable. You are far more able to offer one than I am. But I am here with a piece of gratuitous advice: Don't use your great abilities to stir up all the objections you can imagine."

Various speakers referred to the struggle between the Committee for Industrial Organization and the American Federation of Labor as a "struggle for power" which was disillusioning the "real workers" about the interests of "outsiders." Several expressed the belief that public opinion had turned against all disturbers of employment relations. Mr. Weir cautioned them, however, that the whole subject was surrounded by "passion and emotion in a sort of whirlpool of hysteria."

Mr. Chester's dinner address was entitled "How Liberal Is Business?" He asked the public to "scrutinize us carefully, to examine our credentials and to satisfy themselves that with the aid of business the job can be done, and without it it is extremely doubtful."

He reviewed the "liberal record of business." He explained the opposition of business to the Social Security Act, the Wagner Labor Relations Act, the undistributed profits tax and the Wages-and-Hours Bill. He said it was not resistance to social objectives but to the "procedures adopted."

"Is our program fair, social, constructive?" he continued. "Is it liberal? We believe so. Furthermore, if it is not, we are prepared to make it so."

He challenged government and labor to an equally liberal attitude. He said it was time for employers and union leaders to stop fighting like cats on a fence. As to government, he said:

"The public will gladly give credit for a successful solution and likewise give blame if no solution is found."

It was then that he launched his invitation to government and labor to "sit down" with business.

"On your behalf," he declared, "I say to the American people, you don't have to draft American business in this emergency. It has already volunteered."

Garner Asks Press Aid To Cut Senate Hours

Special to The New York Times.

WASHINGTON, Dec. 9.—Vice President Garner called on the press today to aid him in controlling the Senate. He charged that the Senate was violating union rules by working overtime. It was after 5 o'clock and the discussion of the farm bill was still going on.

Mr. Garner had relinquished the gavel to take part in an anteroom conference and, as he returned to the Senate, he turned to a group of reporters.

"Why don't you molders of public opinion do something about this violation of union rules?" he said. "Here the Senate goes in work and passes legislation to help labor and is working overtime itself, and you sit here and do nothing about it. Our day is supposed to be five hours."

When it was suggested that the Vice President should take some action through a protest from the chair, he shook his head.

"I don't boss the Senate," he said. "I'm just a slave."

W. P. A. to Add 350,000 Soon To Relief Rolls

Hopkins Announces Plan With Less Than Billion of Appropriation Left

From the Herald Tribune Bureau

WASHINGTON, Dec. 10, 1937.—With more than \$1,000,000,000 of the 1937 relief appropriation available, the Works Progress Administration is making plans to add 350,000 persons to the work relief rolls within the next few weeks.

Harry L. Hopkins, Works Progress Administrator, gave assurance today that this number could be carried throughout the winter without a deficit appropriation, assuming the usual spring shut-off is not offset by new additions to the unemployed. He warned, however, that there was no implication in the decision to step up the relief rolls that a deficit appropriation would or would not be required.

"The fact is," he explained, "no one knows what the situation will be in January or February and no one knows whether or not we can stay within the existing budget. All that we are saying now is that we can add 350,000 and stay within the present appropriation, provided, of course, unemployment follows the usual curve, rising to a peak in mid-winter and slackening off when the spring weather sets in."

From a low of 1,450,000 the week ended October 2, the work relief rolls rose steadily to 1,519,740 the week ended December 4. By the end of the present week, Mr. Hopkins estimated, the total would stand at 1,375,000. Hence, the peak load under the present plans would be 1,949,740, some 449,000 fewer than were carried on the rolls the first week of December a year ago.

Mr. Hopkins announced the winter relief plans at a press conference after he had conferred at the White House with President Roosevelt. He implied that he had gone over es-

pecially with the President the probable relief needs for the rest of this fiscal year and also the estimate for the next fiscal year which would appear in the President's budget message to the regular session of Congress.

Sources close to the President contended, despite intimations to the contrary, that he was still insisting on balancing the budget. Plans that a balanced budget would be out of the question if the present business recession continued have been thrown out by such Administration experts as Marriner S. Eccles, chairman of the board of the Federal Reserve System, and Jesse F. Jones, chairman of the Reconstruction Finance Corporation. Mr. Eccles bluntly warned the Senate Banking and Currency Committee yesterday that it would be impossible to balance the budget unless business experienced a quick revival.

Representative Robert L. Bacon, Republican, of New York, charged today that the President actually was making no serious effort to balance the budget, judging from the first few appropriations bills sent up by the Budget Bureau for Congressional committee consideration for next year. "While he is proposing cuts in road funds, the C. C. C. and for the time being, relief, the administrative costs of the regular departments and agencies are all higher in next year's recommendations," he said. "If the President means business he ought to put his own regular house in order first. In the three fields in which he is initiating cuts should be made he is running up against the opposition of his own party in Congress. It seems to me, therefore, he ought to set an example to Congress by cutting down on his own administrative costs."

Mr. Hopkins refused to say whether the President intended to include an estimate of relief requirements for the next fiscal year in his budget message to Congress. It was learned on good authority, however, that following the procedure of past years, he would defer the relief esti-

mate for a special message at a later date. One reason for delay, it was pointed out, would be the lack of adequate data concerning unemployment. The results of the national unemployment census conducted by John D. Biggers, Toledo manufacturer, will not be available until January 3 at the earliest.

The impression in informed quarters was that the budget for the next fiscal year would be held down to the bone, but that it would be conditioned by a warning that if business conditions failed to improve or continued to get worse, the President would be the first to ask for additional expenditures regardless of whether such expenditures would throw the budget out of balance.

A deficit appropriation to carry relief through to the end of the present fiscal year, that is, until July 1, would have no bearing on the balancing of the next budget but it would greatly alter the Treasury's present estimate of the 1937 deficit. That deficit already exceeds the estimate of \$700,000,000 made by the Treasury last October.

A bill for a deficit relief appropriation of \$500,000,000 was introduced in the House today by Representative Henry Ellenbogen, Democrat, of Pennsylvania, but Mr. Hopkins insisted Mr. Ellenbogen was acting entirely on his own, not at the suggestion of the Administration. A deficit of that proportion would boost the 1937 deficit to more than \$1,200,000,000.

Allocations among the states of quotas for the stepping up of the work relief rolls already have been prepared, Mr. Hopkins said, and will be mailed out in the next few days to the state administrators. He declined to hazard a guess as to how soon the peak load of nearly 2,000,000 would be attained.

The increase in work relief during the first week in December was 17,700. New York City did not share in the upturn. W. P. A. figures show a decline of sixty-one in the

DEC 10 1937

number on work relief rolls from 133,706 to 135,344. It also rose outside of New York the number on relief rolls forty-nine, from 23,000 to 23,049. The greater part of the increase was accounted for by rises in Ohio, Texas, Washington, and Oklahoma.

The work relief rolls are well below the 1936 total for the first week in December, which was 2,308,000. A year ago the work relief rolls rose sharply from mid-summer to a peak of 2,587,000 in December. This increase was due to the addition to the rolls of farmers hard hit in the Middle West by the drought.

December 10, 1937

10:20 am

Present:

Mr. Sumner Welles
Dr. Herbert Feis
Mr. Wayne C. Taylor

HM,Jr: May-hee-ko?

Mr. Welles: May-hee-ko. Did you get a copy (I don't believe you did) of the telegram Mr. Daniels sent me. I spoke to you about it on the 'phone.

HM,Jr: No. Did you get a copy, Wayne?

Mr. Taylor: No.

HM,Jr: Speaking for the Treasury, we did not get a copy.

Mr. Welles: I express deep regret.

HM,Jr: I accept.

Mr. Welles: Mr. Suarez is arriving, I think, on Sunday and, as you arranged, will come to see you Monday at eleven.

The purpose of his discussion with you was not forecast in the telegram. The purpose of his discussion with us was forecast. He is trying to explain to the Secretary of State why, notwithstanding pledges given by the Mexican Government, Mexico has twice upped her tariffs and he is also to discuss with me some proposed solution of the very serious problem which has been created for us of continued expropriation by the Government of Mexico of agricultural and other properties belonging to United States citizens without compensation therefor and he is also ready to discuss what can be done with finding some solution of the American oil interests in Mexico.

-2-

HM, Jr: He will be here a couple of weeks?

Dr. Feis: He should stay several weeks.

Mr. Welles: Now, I can only assume that what he wants to get from you is the same type of commitment that the Treasury will continue dealing with Mexico on the purchase of silver along the same lines that it has been dealing up to now. He will also probably want to take up the other matter which he has discussed with you in times past.

HM, Jr: The other matter is a simple one, and that is that they have same arrangement, and that is to deposit gold or silver with the Federal Reserve Bank of New York and be permitted to borrow foreign exchange against it. Now, that has been extended to them before and that is the thing that Mr. Daniels wrote me about that they want and I think it would be extremely difficult for us to refuse them. If they simply say if we comply with exactly the same rules that you laid down before (which they will) we would like to do business.

Mr. Welles: Surely.

HM, Jr: Now, I think unless there is some good reason that I don't know about that if he comes in and says, All right, we would like to play the game we did before, we give it to them, and if they want to borrow like they did before, \$4,000,000 or \$5,000,000 for a very short period and they set up a credit for us on their books and against that we have gold and silver and they paid it promptly.

Mr. Welles: I quite agree with you, but are they in a position to do that?

HM, Jr: Yes, they are.

Dr. Feis: I understood they will come back to the original proposal which you turned down, which is that you make these advances ..

HM, Jr: They have the metal here.

Dr. Feis: They have the metal, but their reserve

-3-

situation is already so weak that to make the pledge, which means compelling them to take it out of their reserve as published, would intensify the difficulty, which I think is not the simple difficulty of the Mexican Government. That seems to me so many-sided that it seems a first-rate mess, but I think it's the obvious difficulty facing Suarez which -- if I may take a moment for background, the growing lack of confidence in the peso created by, chiefly, the lax spending policy of the Mexican authorities, also the way they are affecting private interests and the steady withdrawal of liquid capital from Mexico, that has affected adversely the position of your ordinary banks. At the same time your Bank of Mexico has been spending on a large scale. The Government has been borrowing from the Bank of Mexico. The reserve position is now down to around 42.65. The Mexican Government has also gone in for these large-scale Governmental plans, in the Laguna district on cotton and other districts on sugar. It has crops coming along for which it needs financing. The ordinary banks in their reduced situation are having trouble promising to finance. They say -- as far as we can read; our picture is imperfect -- Can we fall back on the Bank of Mexico for rediscount? The Bank of Mexico is saying, We can give you insufficient assurances regarding rediscount because our reserve position is already so impaired. Now, as against that background, it becomes significant to Suarez that he has not any engagement with the American Treasury to pledge metal that might be part of the Bank of Mexico reserve.

HM, Jr: Mr. Feis, I can assure you that unless he does, we don't do business.

Dr. Feis: I certainly would not contradict you.

HM, Jr: I assure you, unless he puts up the hard metal on deposit with us as a pledge, we are not going to do business, but, on the other hand, I don't want to be in the position that if he says, All right, we will do it -- I will say yes.

Mr. Welles: Let me interject. As far as I am concerned, I hope the Treasury will be able to go along

-4-

on the whole proposition. I think it has been very advantageous on the standpoint of policy and I think it can be continued. It is not that question I want to raise, but if and when the appropriate opportunity presents itself, it be made clear to him by the Treasury Department, as has been recently stated, 'Fine. But the so-called Good Neighbor policy is a two-way policy and we are very happy to do whatever we can to be of service, but at the same time we expect them to give reasonably fair treatment to our citizens.

HM, Jr: That's right. But the position I take is I have no trouble with the State Department, but when we do business with the Treasuries -- a reasonable request from one Treasury to another -- even though they are having their troubles, I think we should comply.

Mr. Welles: I thoroughly agree.

HM, Jr: Now, when it is a hand-out, no reason why we should not rub it in and rub it hard. I will go the limit on that. I simply say, While the President decides what he's going to do about the domestic price, I can't talk to you about any other price, and I can very easily keep him on the strip up to the time the President says something about the domestic price.

Mr. Welles: I think if you can do that for a week, we can get the assurances we need.

HM, Jr: I can do it for more than that, because the President has said at a press conference that he would not announce anything on silver until December 23rd or 24th, so I can say to him, Unless the President makes his announcement, I can't say anything to you or Canada or anybody else.

Mr. Welles: I think that will help a great deal.

HM, Jr: But the other thing is a matter of courtesy between Treasuries. It should be more or less automatic if they have the metal and want to put it on deposit. I want to find out how much metal they have. I don't know. (Secretary rang for Mr. Dietrich to come in.)

Mr. Taylor: Even after the President has made

-5-

his announcement on the domestic stuff, if it's useful to do so we can still kid a bit longer than that.

HM,Jr: The next time they come in is the 15th.

(Mr. Dietrich came in.)

HM,Jr: (To Mr. Dietrich) I want to know how much silver and gold Mexico has on deposit with the Federal Reserve or anyone else in the United States -- the Mexican Government or the Bank of Mexico -- and if and when the next request comes in from Mexico to sell us silver, see me. They do it on the 15th of each month.

Mr. Dietrich: No. We make them bids every day. We renew their agreement monthly and we have to have their request before the 15th of the month.

HM,Jr: Well, before that happens, see me; but in the meantime, get the figures as fast as you can. Do it fast, please.

That agreement is up on the 15th.

Mr. Welles: He will be in to see you on the 12th.

HM,Jr: On that thing I can say, I am very sorry; I will have to put off the renewal of that until the 31st. See? That's easy.

Mr. Welles: That's all that I wanted, and it will be very helpful.

HM,Jr: When he comes, do you want to sit in, Feis?

Dr. Feis: What do you think?

Mr. Welles: I think it would be a good thing.

Dr. Feis: Perfectly agreeable.

HM,Jr: I would be lost without you! Eleven o'clock Monday. That's all the official you have?

Mr. Welles: Yes.

oOo-oOo

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 10, 1937

MEMORANDUM TO THE SECRETARY:

SUBJECT: Estimated Purchases to be made by Government Activities in December, January, and February.

Under date of November 30, 1937, formal request was sent to all Federal activities to report immediately to the Director of Procurement the estimated purchases to be made during the months of December, January, and February. While reports from all agencies have not been received, the reports from the major purchasing activities indicate that purchases during those three months will be as follows:

December 1937	\$ 63,947,785
January 1938	68,713,380
February 1938	<u>67,841,013</u>
Total	\$200,502,178

Broken down to thirteen major classifications, the estimated purchases will be as follows:

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Textiles and their products, including clothing, cordage, house-furnishing goods, knit goods, etc.	\$ 10,982,663
Forest products, including furniture, planing mill products, treated lumber, etc.	3,261,426
Chemicals and allied products, such as linseed oil, paints and varnishes, soap, chemicals, etc.	5,568,892
Products of asphalt, coal, and petroleum, including fuel oil, gasoline, lubricating oils, greases, etc.	20,314,594
Leather and its manufactures, including boots, shoes, gloves, etc.	3,706,628
Stone, clay and glass products, such as brick, cement, crushed stone, glass, sand and gravel, tile, etc.	7,496,917

Memorandum to the Secretary

<u>Type of Commodity</u>	<u>Estimated Amount</u>
Iron and steel and their products, such as pipe and fittings, forgings, miscellaneous hardware, metal doors, sash and frames, metal furniture, steel rails, wire rope, etc.	\$ 21,074,486
Nonferrous metals and their alloys, including aluminum manufactures, brass, bronze and copper products, tin, etc.	6,225,585
Machinery (not including transportation equipment and electrical equipment), such as engines, turbines, machine tools, power shovels and drag-lines, pumps and pumping equipment, etc.	7,598,587
Electrical machinery, apparatus and supplies, such as batteries, cable and insulated wire, generators, lighting equipment, switchboards, etc.	14,366,996
Transportation equipment, such as aircraft, motor vehicles, etc.	35,200,213
Miscellaneous, which includes brooms and brushes, professional and scientific instruments, paper and allied products, photographic apparatus and materials, etc.	28,256,335
Food and kindred products, such as canned fruits and vegetables, cereals, coffee, condensed milk, flour, etc.	<u>33,448,856</u>
Total	\$200,502,178

It should be understood that these are estimates only and that actual expenditures may be greater or less than the amounts stated.

These figures include the normal requirements of the Federal Government as well as the increased expenditures that will result from the President's memorandum of November 27 to the Executive Departments and Agencies. A conservative estimate of the result

Memorandum to the Secretary

of his Memorandum is that the normal purchases, exclusive of those to be made for the Works Progress Administration, will be increased in this three month period by ten per cent. As to the Works Progress Administration, it is estimated that, as a result of the President's memorandum, purchases in December and January will be stepped up to \$17,500,000 from a normal of \$7,500,000, or an increase of \$10,000,000. The estimated normal purchases, the estimated total purchases, and the amount of the increased purchases resulting from the President's memorandum are set out below:

	Amount of Estimated Normal <u>Purchases</u>	Amount of Estimated Total <u>Purchases</u>	Amount of Increase Resulting from <u>Memorandum</u>
December	\$ 53,588,895	\$ 63,947,785	\$ 10,358,890
January	57,921,255	68,713,380	10,792,125
February	<u>61,673,648</u>	<u>67,841,013</u>	<u>6,167,365</u>
Totals	\$173,183,798	\$200,502,178	\$ 27,318,380


Acting Director of Procurement.

December 10, 1937. 217
11:22 a.m.

H.M.Jr: Hello. Hello.
Sen.
Green: Yes.
H.M.Jr: Senator Green?
G: Oh, Yes.
H.M.Jr: Morgenthau.
G: Oh, Mr. Secretary, how are you, sir.
H.M.Jr: I'm fine. I wondered if I could save you coming down here, and possibly having you tell me over the phone, or whether you'd rather come down.
G: I think I'd rather come down.
H.M.Jr: You would.
G: You afraid of taking more of my time and more of yours too.
H.M.Jr: No I want to try to save you, that's all.
G: Well, perhaps I could tell you over the telephone.
H.M.Jr: Yes.
G: I'll - I'll send you a letter confirming it.
H.M.Jr: Yes.
G: There's a fellow I know in Rhode Island, very prominent there, a John J. Cooney.
H.M.Jr: Yes.
G: The Assistant Attorney General.
H.M.Jr: Yes.
G: Of Rhode Island. And he's been a very staunch Democrat, works hard for party always. He - that's one reason he deserves our consideration. The other reason is that he holds personal qualifications. He's a graduate from Brown University and the Harvard University Law School, and he's had a good record at the Bar, and for some years

- 2 -

has been - for four and a half years has been Assistant Attorney General.

H.M.Jr: Yes.

G: And I should like very much to have him seriously considered.

H.M.Jr: Yes.

G: For a position in your Department.

H.M.Jr: I see.

G: And - especially the Board of Tax Appeals.

H.M.Jr: Uh-huh.

G: I think that he is - would make a good man.

H.M.Jr: I see.

G: New England - As I understand it, New England is not represented on the Board, and I think that's an additional reason.

H.M.Jr: Uh-huh. Well it - I -

G: If you'd like I'm sure he would be glad to come to Washington.

H.M.Jr: Well if you don't mind just sending me a letter just confirming this, and then if and when the President gets around to it, why I'm -

G: Yes.

H.M.Jr: Got all the recommendations together.

G: All right.

H.M.Jr: And - thank you very much for bringing it -

G: I'll send the whole thing to you.

H.M.Jr: All right.

G: But the reason I wanted to see you, I want to be sure it wasn't just filed away -

- 3 -

H.M.Jr: No it won't be.
G: All right. Well thanks, Mr. Secretary.
H.M.Jr: Thank you.
G: Goodbye.

M3o

GRAY

Paris

Dated DECEMBER 10, 1937

Rec'd 3:35 p.m.

Secretary of State,
Washington.

1719, SECTION ONE, DECEMBER 10, 4 p.m.
FROM COCHRAN.

Practically no trading in Paris today and little activity in exchange market is expected before beginning of new year. With the dollar weaker, one Paris American bank reports having received half dozen separate inquiries today as to date on which President's authority to lower dollar to 50 cents expires, it apparently being thought by some that this power ends this month. French Treasury loan said to be going well and market observers expect total eventually to reach $3\frac{1}{2}$ or 4 billion francs. Payment of subscriptions is being asked for December 20th so such funds may possibly be collected in sufficient time and amount to eliminate necessity of treasury borrowing from Bank of France to finish repaying British banking credit.

BULLITT

HTM:RR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, PARIS.
NO.: 1719 (Section Two).
DATE: December 10, 1937, 4 p.m.

I am informed by Pennachio of the Bank of Italy that it had originally/planned that First Under Governor of the Bank of France, Deboisanger, who was recently in Berlin, should also visit the Bank of Italy. Pennachio says, however, that it was suggested by Italian authorities that such a visit to Rome be deferred lest this give rise to improper speculation in view of press reports recently that Italy was attempting to float a loan abroad, particularly in England. Previous to my trip to America, I was told by Fournier, Governor of the Bank of France, that he expected to make use of Deboisanger to make calls on certain European central banks as his representative. Pennachio also said that a visit to the Bank of Italy was also being contemplated by Yanagittua of the Bank of Japan but that this likewise might be postponed for fear too much significance might be attached to it.

BULLITT

EA:EB

EDA

GRAY

PARIS

Dated December 10, 1937

Received 5:21 p.m.

Secretary of State

Washington

1719, December 10, 4 p.m. (SECTION THREE).

Correspondent of AGENCE ECONOMIC at Bucharest telegraphs that during his contemplated visit to Paris in January Tataresco will examine with the French authorities (1) possibility of the extension of economic relations between France and Rumania (2) functioning of existing arrangements, especially as concerns Rumanian national defense, and (3) utilization of French capital in the development of commercial exchanges and creation of new industries in Rumania (armaments, automobiles, motors, et cetera). Either direct or indirect financing of these projects will be the main question involved. L'INFORMATION states that 2,000,000,000 lei to the credit of Rumania are blocked in the existing Franco-Rumanian clearing arrangement and that the latter is to be made more "supple". Furthermore, that the Rumanian aviation industry is to be developed through the modification of the arrangements signed on February 7, 1936, between
France

EDA - 2 - #1719, December 10, 4 p.m. from Paris Section 2

France and Rumania. JOURNEE INDUSTRIAL carries similar reports and adds that a well known French automobile firm has just completed the construction of factories for the manufacture of tanks for the Rumanian army. Proceeding tonight to Basel where B I S directors meet this weekend.

END OF MESSAGE.

BULLITT

PRA:SES

EDA

GRAY

LONDON

Dated December 10, 1937

Received 5:45 p.m.

Secretary of State

Washington

765, December 10, 9 p.m.

FOR TREASURY FROM BUTTERWORTH.

With respect to No. 750, December 3, 7 p.m., regarding the changing attitude of British politicians to the trade position particularly as to the effect of the American recession, there is cited below an excerpt from a statement by Winston Churchill which appeared today under the heading EUROPE'S PLEA TO ROOSEVELT:

"But there is one way above all others in which the United States can aid the European democracies. Let her regain and maintain her normal prosperity. A prosperous United States exerts, directly and indirectly, an immense beneficent force upon world affairs. A United States thrown into financial and economic collapse spreads evil far and wide, and weakens France and England just at the time when they have most need to be strong. The quarrel in which President Roosevelt has become involved with wealth and business may produce results profoundly harmful to ideals which to him and his people

are

EDA - 2 - #765, December 10, 9 p.m. from London

are dear. It is surely far better to allow the productive force of capital and credit to create wealth and abundance, and then by corrective taxation on profits meet the needs of the weak and poor. Instead, the Washington administration has waged so ruthless a war on private enterprise that the United States, with none of the perils and burdens of Europe upon it, is actually at the present moment leading the world back into the trough of depression.

*** In quiet times there is much to be said for some of these issues being patiently fought out. But even the most enthusiastic New Dealer might ask himself whether, with Europe and indeed the whole world in its present condition, this is a good time for the United States to indulge in this devastating internecine war. Those who are keeping the flag of peace and free government flying in the old world have almost a right to ask that their comrades in the new world should, during these years of exceptional and not diminishing danger, set an example of strength and stability. The well being of the United States may spell not only the well being but the safety of all sorts and conditions of men".

In recent days rumors have increased regarding possible further devaluation of the Italian lira. I had

a brief

EDA - 3 - #765, December 10, 9 p.m. from London

a brief opportunity to mention this to Waley who has just returned from Rome (No. 687, November 2, 7 p.m.) and he said that his observations there lent no confirmation to this report.

JOHNSON

EMB:SMS

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, December 10, 1937.

Press Service
No. 11-92

Secretary of the Treasury Morgenthau today announced the subscription figures and the bases of allotment for the cash offering of 2-1/2 percent Treasury Bonds of 1945 and of 1-3/4 percent Treasury Notes of Series C-1942.

Reports received from the Federal Reserve banks show that cash subscriptions for the offering of Treasury bonds aggregate \$4,084,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 7 percent, but not less than \$1,000 on any one subscription.

For the offering of Treasury notes cash subscriptions aggregate \$2,702,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 8 percent, but not less than \$1,000 on any one subscription.

Preliminary reports of exchange subscriptions, in payment of which Treasury Notes of Series A-1938, maturing February 1, 1938, were tendered, indicate that practically all of the maturing notes have been exchanged for the new issues, and that about 95 percent of the exchanges are for the bonds.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

--oOo--

December 11, 1937.
11:20 a.m.

228

H.M.Jr: Hello.

Senator

Wm. H. King: Hello, Mr. Secretary.

H.M.Jr: How are you?

K: How are you this morning?

H.M.Jr: Fine.

K: It wasn't important enough for you to call me, my dear friend, I was down there, and I called in to see you.

H.M.Jr: Oh!

K: About two matters.

H.M.Jr: Please.

K: May I speak of them over the phone?

H.M.Jr: If you please.

K: I beg your pardon.

H.M.Jr: Yes. Would you? Would you like -

K: Yes.

H.M.Jr: It's all right, as far as I'm concerned.

K: Yes. Oh, it's all right with me. Why, Mr. - Congressman Robinson, of my state, who is a very fine man, a good lawyer, and so on. He's - he is a candidate, if there's any chance for him, for a position on the tax fields.

H.M.Jr: Oh, yes.

K: He - he doesn't like working in Congress, he's a lawyer and a student, and he doesn't like this hunting for jobs, and so on, and of course he'll be re-elected, if he's a candidate, you know, if - without any opposition.

H.M.Jr: Yes.

But he's very anxious to get out of Congress and to - he'd be very glad to get a position on the Board of Tax Appeals.

H.M.Jr: I see.

However he can't afford, don't you see, to become a candidate and then not get it because that - that would immediately - if it's known he's a candidate - some aspiring person would get in the field, don't you see?

H.M.Jr: I understand.

So I wanted to call your attention to it, and - if it met your approval and the President's -

H.M.Jr: Well.

Very glad to have him appointed. We - the delegation has written to the President, and I'll send you a copy of the letter.

H.M.Jr: All right.

And if you could sort of -

H.M.Jr: Well, I haven't talked - I don't know what the President has in mind.

No.

H.M.Jr: No. We'll find out.

Yes, I'd be very glad if you could.

H.M.Jr: Thank you Senator.

Then there's yet one other matter. I suppose we'll hear something about the silver matter in a few days.

H.M.Jr: Well the President said, at his Press conference -

Beg your pardon.

H.M.Jr: The President, at his Press conference, said he'd have something to say on December 23rd or 24th.

I see.

- 3 -

H.M.Jr: Well -
Well unfortunately I'll be down in Peurto Rico. They've got a hell of a mess down there, and the committee's got to go down and I'm on the committee.

H.M.Jr: I see.
So I can't know until I get back.

H.M.Jr: Well, that's what he said.
Yes.

H.M.Jr: On these things.
All right.

H M.Jr: Thank you.
Well, good luck to you.

H.M.Jr: Thank you.
Look here, young man.

H.M.Jr: Yes.
You stay there and don't you go to France.

H.M.Jr: France?
What?

H.M.Jr: What should I go to France for?
Why some, I saw in the newspaper yesterday, that you were - that Kennedy was going to take your place and you were going to be Ambassador to France.

H.M.Jr: No. No. Kennedy's going, I'm staying.
Well, we're satisfied to have you where you are.

H.M.Jr: No, they can't - any time that the President isn't satisfied I go back to my farm. They can't give me any other job.
Well, may I say, without any flattery?

H.M.Jr: Yes.

Because I'm a good deal of a realist. We're satisfied and we want you to stay.

H.M.Jr: Thank you. Well, there's been no suggestion, but Mr. Kennedy is leaving town and I'm staying.

That's good. All right.

H.M.Jr: Thank you.

Goodbye.

December 11, 1937. 232
11:47 a.m.

H.M.Jr: Hello.

Operator: Mr. Madison. Go ahead.

H.M.Jr: Hello, Madison?

Madison: Yes, Mr. Secretary.

H.M.Jr: Is this Madison?

M: Yes, sir.

H.M.Jr: Well, we're sending you a telegram now giving you an order to buy another fifty million dollars worth of our December 15th bills.

M: Yes.

H.M.Jr: See. If there's any kicking around now you can pick them up.

M: I'll see if there's anything I can get today although I doubt it.

H.M.Jr: Well I just - we just got our figures, we've got enough cash.

M: Yes.

H.M.Jr: Another fifty million.

M: Yes. That - that'll be between the maturities between the 18th and the 20th inclusive.

H.M.Jr: That's right.

M: All right, sir.

H.M.Jr: That's right.

M: All right, sir.

H.M.Jr: Fine.

RE DATA ON CYCLICAL EXPANSIONS AND
CONTRACTIONS OF BUSINESS ACTIVITYDecember 11, 1937
10:10 a.m.

Present: Mr. Haas
Miss Michener
Dr. Wesley C. Mitchell
Dr. Arthur F. Burns

H.M.Jr: Now, sir, we're at your service.

Mitchell: Well, what we have done, Mr. Secretary, is to go over the rather considerable number of statistical series that we have been studying for the last six or eight years, with an eye to finding out what cyclical behavior is characteristic of them; that is, how they respond to business cycles. We've got about - not quite 500 American statistical series, in monthly or semi-annual form, just taking the monthly and quarterly ones, - monthly and quarterly form. And among the measures that we make are measures that show the timing with respect to the general revivals and general recessions in trade.

From that rather long list, we first selected a list of about - 170, was it, Arthur? -

Burns: Around that.

Mitchell: that had fairly regular

H.M.Jr: I didn't get your full name.

Burns: Arthur F. Burns. .

H.M.Jr: B-u-r-n-s?

Burns: Yes, sir.

H.M.Jr: All right. Doctor or Mr.?

Burns: Mr.

H.M.Jr: Either one.

Mitchell: Or Professor, if you like. He's a Rutgers man.

-2-

H.M.Jr: All right.

Mitchell: Also associated with me at the National Bureau.

We selected about 170 series that had fairly consistent timing, so that one can rely on them to a certain extent to indicate when these general changes are taking place.

And then from that we made a second selection of about 72 series, which had still better - were the most consistent records of the lot. And finally we have made a selection of about 25 series that, we think are the cream of the whole group.

H.M.Jr: I see.

Mitchell: And we show you here our selection of 72 and then in greater detail, with annotations, our final brief list.

Our general view is that if one wants to be in a position to determine with a fair degree of promptness the time when a general upturn in the business cycle occurs, it is far safer to use a considerable number of series that represented a wide variety of economic activities; they come from different fields. Much wiser to use a considerable number of series representing a variety of economic activities than it is to rely on any single index. Of course, some of the best of our indexes are in this list, even in the brief list, but we think you have a better chance of avoiding mistakes, which are easy enough to make under the best of circumstances, if you take this general survey of the situation. And that is why we have thought we could be of greater service to you by presenting apparatus that is rather laborious to use; it certainly isn't fool-proof.

H.M.Jr: No.

Mitchell: It has always to be used with judgment. But, as I have said, it is in our opinion less likely to betray an intelligent user into forming erroneous judgments than any other thing that we know of.

So what we'd like to do is to turn over to you half

-3-

a dozen copies of this letter. That is our explanation. And those large tables show our list of 72 series. You come at the end to this.

(Group studies memorandum and charts)

- H.M.Jr: Is this table continued or - oh, yes, that's continued.
- Mitchell: What are there, four sheets of that, Arthur?
- Burns: Yes, four double sheets.
- H.M.Jr: Now, in asking about this - are these monthly figures?
- Mitchell: Those are monthly or - very few of them are quarterly.
- Burns: There are only two series that are quarterly for a brief early interval. They are stated.
- H.M.Jr: This first series is the 70-odd.
- Mitchell: Yes, that's the 72. That's our
- H.M.Jr: And then you've combed those.
- Mitchell: We've combed those.
- H.M.Jr: Grand.
- Mitchell: This is itself a selection and then we've got a final selection. Those are arranged in the order of their leads.
- H.M.Jr: You mean of their - of their effectiveness?
- Mitchell: No, of the earliness of date with which they make their own cyclical turns.
- H.M.Jr: You mean #53 would turn - is more sensitive than #54?
- Mitchell: It would turn, if anything, a trifle earlier.
- H.M.Jr: I see.

-4-

Mitchell: It certainly would turn a great deal later than #1.

H.M.Jr: What I'm doing is this. I'm just skimming this thing, you see.

Mitchell: Yes.

H.M.Jr: I mean Mr. Haas might get down and argue why you select the 23 out of 76. I'm not going to.

Mitchell: Yes.

H.M.Jr: See? In fact, I'm not going to argue at all. I think that's

Mitchell: Those are just explanations of that long table.

H.M.Jr: Uh-huh.

Now - "Total liabilities of business failure. Average lead 9 months." What does that mean, "average lead 9 months"?

Mitchell: That is, when you compare the date on which this series made its downturn - this is an inverted series, you see, moves against the business line - with what we call our reference dates that we take to indicate the time when the turns of general business cycles occur, you will find that on the average this series led by 9 months - it came 9 months earlier than those turns in the business cycle.

H.M.Jr: Again may I ask, if business fails - you mean that the upturn came 9 months sooner?

Mitchell: No, the downturn. You see, if business fails it would be the downturn.

H.M.Jr: This would come

Mitchell: ... 9 months before, on the average.

H.M.Jr: On the average.

-5-

Mitchell: Yes.

H.M.Jr: And if the business failures became less, then that would ...

Mitchell: That's a good sign.

H.M.Jr: That would come 9 months earlier.

Mitchell: That would come 9 months earlier. That is, when you get the cyclical turn in business failures.

Now, in all these series, the big trouble is that you find little wiggles in them; we call them erratic movements.

H.M.Jr: But this particular thing - I mean if this thing, in looking it over - as long as you have business failures, the upturn in that comes 9 months sooner than what?

Mitchell: The downturn comes 9 months earlier than the turn in the business cycle - than the revival in the business cycle.

H.M.Jr: This is very good.

This is, I take it, the stuff that you're using - 20- how many?

Mitchell: 24? what did we say?

Burns: 21. Let me make - I can count them.

Mitchell: Just 21. Is that right?

Burns: No, it's 20.

H.M.Jr: How many?

Burns: Really 20 series.

H.M.Jr: Well, let me just - I'm just going over how many of these are weekly. Now, business failures - is that weekly? Are the figures available on a weekly basis?

-6-

- Burns: I don't know, but I don't believe so. Can't be sure.
- Haas: I don't know. I'm
- H.M.Jr: Stocks, passenger car production. Inner tube production - we could get that on a weekly basis; we could get that, George. I'm thinking in terms ... Paper production; we get that weekly. Railroad operating income, no. Total residential - ten-day period, isn't it?
- Haas: First 15 days in each month and twice in the second half of the month. Three times a month.
- H.M.Jr: Ton-mile average of freight. I'm not familiar with that.
- Haas: Weekly. No, I don't know; we get carloadings.
- Mitchell: Carloadings.
- H.M.Jr: We get car production; we get that weekly. Bradstreet's wholesale, weekly. Average hours worked - where does that come from, Department of Labor?
- Mitchell: N.I.C.B.
- H.M.Jr: What?
- Mitchell: National Industrial Conference Board.
- H.M.Jr: What does that figure - I mean how quickly does that come?
- Burns: I can't say.
- H.M.Jr: Most likely is monthly.
- Burns: It's a monthly series. That is, promptness of publication is something we haven't looked into.
- H.M.Jr: Well, you don't mind - I'm thinking of that. Bank clearings, weekly. Index Federal Reserve, monthly. Floor space; that's monthly.
- Mitchell: That's a Dow-Jones series.

-7-

H.M.Jr: Pig-iron, weekly. Steel, weekly. American Telephone ...

Mitchell: That's monthly.

H.M.Jr: We get that weekly.

Mitchell: Oh, do you? I didn't know they worked that out weekly, the A.T.T.

H.M.Jr: The A.T.T. index.

Mitchell: The index of business?

Haas: We get something else weekly, but I know they have a weekly index.

H.M.Jr: They give us their total calls.

Mitchell: Total calls - that's something

Burns: Something else.

Haas: They have a weekly, though.

H.M.Jr: Standard Statistics index of production; I don't know about that.

Department store sales. With the help of Beardsley Ruml, I am now, beginning with next week, to get a hundred department stores once a week.

Mitchell: Once a week.

H.M.Jr: He said the only way we could get it was for it to go over my own name. Telegrams went out Tuesday. So we'll get that once a week.

Factory employment; that's monthly.

Other employment series.

Mitchell: Those are all B.L.S. series, aren't they, Arthur?

Burns: Also New York State.

Mitchell: I don't think this really tells much about the series that Mr. Haas didn't already know.

-8-

H.M.Jr: No, no, perhaps

Haas: No.

Mitchell: Merely confirming ...

Haas: Yes.

H.M.Jr: Now, this is what I want to do, George, you see. I don't want to change one single thing that they are doing. I mean - I'll explain in a minute - I mean I want this as they have set it up in the National Bureau of Economic Research. I want their work. I don't want to influence them on a single index. All that we might do is be able to give it to you on a weekly basis, if we might get it, as against monthly.

Mitchell: Much better for your purposes.

H.M.Jr: But, if you don't mind, I'd like this thing run in your shop and not mine, because I - you can't come in contact here without somebody trying to influence you.

Mitchell: Well now, Mr. Secretary, you're scaring me. I don't know what you're implying.

H.M.Jr: Well, I mean all we've got to do is get these figures together, or if you want the mechanical work done and if you could have somebody like this gentleman come down and simply put - I don't want anybody to get you and say, "Why do you do this one, why do you do that one?" I want it just as you people up there think it should be. And we'll run our own. See what I mean?

Mitchell: I think I do, yes.

H.M.Jr: We'll run our own, and we're running a lot of them. But I want to be able to say that these particular groups were chosen by the National Bureau of Economic Research.

Mitchell: Well now, Mr. Secretary, would you like to have us publish a bulletin, either with or without any

-9-

reference at all to you, in which we explain to the public at large what we think the most reliable indicators of the revival are?

H.M.Jr: Yes.

Mitchell: "ould you like to have us do that?

H.M.Jr: Sure, sure. But what I'm trying to get here is - and all we need would be somebody - well, what - couple days a week, George?

Haas: To keep this up?

H.M.Jr: Yes. I mean to supervise it. We've got the drafting rooms and the photostating rooms. We've got all that machinery here. See what I mean?

Haas: Oh, it doesn't take so long to just set up the mechanical part, provided they have the clerical assistance, charting facilities, and all that.

H.M.Jr: I mean we've got all that. I don't know whether you have or not.

Mitchell: Not on any large scale. We're a modest organization.

H.M.Jr: Well, we've got all that, you see.

Mitchell: Yes.

H.M.Jr: We run it nights when we have to, and all that kind of thing.

Mitchell: Yes.

H.M.Jr: But the only thing - and, as I say, if you're going to mix your weekly with your monthly, that's the only question I raise. Do you have to sit back and wait for all your monthly ones to come in? Couldn't you just - could there be any way of dividing

Mitchell: Well, I think it's pretty optimistic to think that you can spot an upturn in business within a week or two of its occurrence.

-10-

H.M.Jr: All right.

Mitchell: I think that's pretty optimistic.

H.M.Jr: Now, could you - how much time have you allowed for today?

Mitchell: Any amount of time you want.

H.M.Jr: I mean I - what I'm getting at - I want to make the most use of your time. I think, George, what you should do is to sit down with Professor Mitchell and Professor Burns and start this thing today; I mean this particular series as they have laid it out, these 20-odd things, be fed in, see, and that we run it - set it up on a tentative basis. We can send it up to you and say, "Is this the way it's done?" and then have it come back. In other words, this is to be your series, and all we'll do is just the mechanical end. Then when the series begins to take form, I want you to interpret it for me.

Mitchell: Well, I'll have to do that strictly as an individual. I can not do that as a member of the staff of the National Bureau. As a member of the staff of the National Bureau, I can give you this set of judgments as to what we think the most reliable indicators are.

H.M.Jr: But as an individual can you interpret them?

Mitchell: Well, I'd be willing to go as far as I felt scientifically justified.

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

Mitchell: Yes. And I'd do that with a definite understanding on everybody's part that, though I have had a good deal of experience in handling these things, I regard any judgments that I make at a given time as subject to a considerable margin of uncertainty. Now, I don't think anybody who undertakes to tell you very quickly is a person who

H.M.Jr: But, Professor Mitchell, no publicity will be given on our side. Any publicity of our working with the

-11-

Bureau or with you will come only if either you ask it or you say, "Well, it's found out," - I mean after you say that's what you want. Now, that's the way we work it.

Mitchell: Well, we'll consider

H.M.Jr: See what I mean? No publicity either as to Bureau or as to - as an individual, will come out of this office unless it first is O.K. as to every word that is in it, or initiates with you. Now, could anything be fairer than that?

Mitchell: No, that's perfectly secure and satisfactory.

H.M.Jr: There won't be a single word of publicity come out of this office.

Mitchell: And we shan't, on our side, give any publicity, though we may conclude that it would serve our particular clientele if we published a bulletin including these figures; we'd put it in different form and we'd publish it just as if it were one of the regular jobs that came out of the Bureau. That would be all right with you.

H.M.Jr: Oh, fine. We'll do the mechanical work here and send it up to you. You see?

Mitchell: Yes.

H.M.Jr: Just based on the series. And I don't want a single one changed, George.

Haas: No. Well, they'll supervise it, have a man come down, I presume, once a week or so.

Mitchell: If there are any changes, be changes that I recommend.

H.M.Jr: Can somebody come down and supervise it?

Mitchell: well, let us talk with Mr. Haas about that in detail and see what sort of set-up he has. I think likely he doesn't require - he doesn't need any supervision in his office. I'd like to see his work.

Haas: Well, one reason - if they'd supervise it, it would be as you have indicated - wouldn't be any question about it.

H.M.Jr: Well, Professor Mitchell says he wants to see what you've got back there. Let him take a look, and whatever you two men agree on

Haas: O.K.

Mitchell: I'd like to see your working form and the

H.M.Jr: I take it Miss Michener would watch it for you, wouldn't she?

Haas: This would logically go in O'Donnell's sub-division, but we can put it any place we want. Probably have to get some other people too, or add somewhere on

H.M.Jr: Well

Mitchell: I don't think the mechanics of it are hard.

Haas: We'll see after we get back there.

H.M.Jr: But I make myself plain, don't I? I want this stuff to be N.B.E.R. - whatever it is - I've got a letter for everything around here - your series, and you look it over and then if you feel - we'll turn it over to you and after you've had time to digest it, what I'd like you to do is come down and spend a half day with me personally going over it - after we get the thing set up.

Mitchell: All right, I'll do that.

H.M.Jr: How's that? I'll set aside a half day and we'll go over the thing, and I can get it verbally from you.

Mitchell: Yes, all right.

H.M.Jr: How's that?

Mitchell: That's all right.

H.M.Jr: See?

-13-

Mitchell: Yes.

H.M.Jr: And then I would like to say, if it is agreeable to you, that we have made this arrangement with your Bureau to do just this thing for us, and you can think that over. There's no hurry about it.

Mitchell: Yes. We are, of course, a service bureau; we have been, in reference to various problems of government in the past. I always think that when we have a call from any government - state, municipal, or national - that we should do what we could to provide anything that is asked. But we are debarred by our by-laws, by the very character of our organization, from giving any advice as to policy.

H.M.Jr: It's time enough for next time if you as an individual, a professor at Columbia

Mitchell: I can say anything that I'm foolish enough to.

H.M.Jr: You can do it just as McGill or Shoup

Mitchell: Exactly in the same position personally.

H.M.Jr: I mean they come down as individuals.

Mitchell: Exactly. As an individual, I'm an American citizen and I've got a constitutional right to

H.M.Jr: Just as much as when Viner comes down here.

Mitchell: Surely.

H.M.Jr: What?

Mitchell: Yes.

H.M.Jr: No, I'd like to have you in your personal capacity - that you would come down when the first thing is set up - let you come down and spend half a day. And then we might even have Viner and Riefler sit around and listen also. What?

Mitchell: Yes. Yes. I'd like very much to have them.

-14-

H.M.Jr: What?

Mitchell: I'd like very much to have them in on this discussion.

H.M.Jr: On the same day. I'd like Viner and Riefler, if it's agreeable to you, to sit in with us.

Mitchell: Oh, thoroughly agreeable.

H.M.Jr: Because they both have keen minds.

Mitchell: And they know this kind of game, more or less.

H.M.Jr: Let me just take a minute - this looks all right to me and, as I say, if you look over Haas's shop, see what he's got - and I guess what we'll do is - I don't know, maybe we don't have to. Some monthly and some weekly. We don't have to ask especially for the weekly; just let this thing feed the way it automatically feeds any other agency; just get those things and begin working out a line. That's what it amounts to, huh?

Mitchell: Yes.

Haas: Many of these series we keep up. We don't keep up a number of indexes of industrial production. We examine ones we like the best and we keep those up.

H.M.Jr: But this is their best thought, and that is just what we want. We want somebody outside to keep us from doing, as you put it, wishful thinking.

Mitchell: Yes.

H.M.Jr: That's what we don't want to do.

Mitchell: Well, we've made our selection of the series on the basis of their consistency of behavior and revivals in the past.

Haas: I'm familiar with it.

H.M.Jr: I think that's fine; simply - I'm delighted. If you will go back, George, and just concentrate on this today until both of you are satisfied.

Haas: All right.

H.M.Jr: Ever so much obliged.

Mitchell: Not at all. Good-bye.

NATIONAL BUREAU OF ECONOMIC RESEARCH INCORPORATED

OFFICERS: George Soule, President; David Friday, Vice-President; Shepard Morgan, Treasurer; J. H. Willis, Executive Director; Martha Anderson, Editor

RESEARCH STAFF: W. C. Mitchell, Director; A. F. Burns, Solomon Fabricant, Simon Kuznets, F. E. Maczulay, F. C. Mills, Leo Wolman, Eugen Altschul, D. L. Wickens, Associates

DIRECTORS AT LARGE: H. S. Dennison, G. M. Harrison, O. W. Knauth, H. W. Laidler, L. C. Marshall, G. O. May, Shepard Morgan, Beardsley Ruml, George Soule, N. I. Stone

DIRECTORS BY UNIVERSITY APPOINTMENT: W. L. Crum, Harvard; W. H. Hamilton, Yale; Harry Jerome, Wisconsin; H. A. Millis, Chicago; W. C. Mitchell, Columbia; J. H. Willis, Pennsylvania

DIRECTORS APPOINTED BY OTHER ORGANIZATIONS: F. M. Felker, American Engineering Council; David Friday, American Economic Association; Lee Galloway, American Management Association; W. W. Baffler, American Statistical Association; G. E. Roberts, American Bankers Association; Arch W. Shaw, National Publishers Association; Matthew Wall, American Federation of Labor

A NON-PROFIT MEMBERSHIP CORPORATION FOR IMPARTIAL STUDIES IN ECONOMIC, SOCIAL AND INDUSTRIAL SCIENCE
1819 BROADWAY - NEW YORK - CO lumbus 5-3615

December 10, 1937

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

Dear Mr. Secretary:

In compliance with your request, we submit the following memorandum upon the statistical indications of a revival of general business activity after a cyclical contraction.

I

Character and Uses of the Memorandum

This memorandum rests upon an analysis of the cyclical behavior of some 487 statistical series in monthly or quarterly form, of which many cover only the post-War period while a few run back to the 1880's or earlier decades. The range of our sample is indicated by the following list of the activities represented and the number of monthly or quarterly series extending through 1933 analyzed under each group.

Group	No. of Series
Production	121
Construction	70
Transportation	19
Prices	79
Stocks of commodities	20
Foreign trade	12
Personal incomes	50
Profits and losses	19
Savings and investments	14
Security markets	5
Volume of trade	19
Interest rates	20
Money and banking	16

What we have to offer is a digest of past experience, which we take to be on the whole the best teacher of what to expect in the near future.

Hon. Henry Morgenthau, Jr.

December 10, 1939

- 2 -

But one of the clearest teachings of past experience is that every business cycle has features that are peculiar to it. Accordingly, no one who knows the past expects that what happened during any earlier business revival will repeat itself exactly during the next revival. Even average experience over a number of revivals establishes no more than a presumption concerning the general character of the developments that may be expected when next the business tide begins to rise. And whatever judgments are formed ought to be based, not upon the average past behavior of one or two indexes of business conditions, but upon the average past behavior of a considerable number of statistical series that represent a wide variety of economic processes.

Hence we have drawn up for your consideration a list of statistical series differing widely in other respects but alike in that each series has proved in the past to be a fairly consistent indicator of cyclical movements in general business. We do not regard this list as a 'forecasting' machine, but rather as the least fallible gauge of current fluctuations in general business activity that we can derive from our study of earlier revivals and recessions.

Unfortunately the list is a rather cumbersome machine to use. It is not automatic, but requires the exercise of the user's judgment. Also we must make some technical explanations about the way in which the machine was constructed and the precautions to be taken in using it. But we think that we can be of more service to you by facing frankly the real complexities and uncertainties that attend upon all efforts to determine when a cyclical revival occurs than by attempting simplifications, which might prove treacherous.

II

The Dating of Cyclical Revivals and Recessions

Before we can determine what series have been reliable indicators of cyclical revivals and recessions we must determine when these turns in the tides of business activity occurred.

That difficult problem we have treated by the method of successive approximations. Current reports in trade and financial periodicals give the opinions of supposedly qualified contemporary observers upon current changes in business conditions. We check the consensus of these opinions by studying whatever statistical series are available for the periods under examination, and select tentative dates to mark the troughs and peaks of successive business cycles. Next we fix the dates of the peaks and troughs of the cycles that appear in each series that we use after removing its seasonal variations, which is the only 'adjustment' of the original data that we practice. Of course we expect to find a considerable scatter of the dates on which different series make their turns in a given business cycle. From these scattered arrays we attempt to approximate the months around which the cyclical revivals and recessions in individual series centered. To that end we compare the timing of the cyclical turns in individual series with our tentative dates for business cycles; then we revise these tentative

dates in whatever way the first results suggest, and repeat the operation until no further improvement seems possible with the available data. In practice some series lead with considerable regularity the turning dates that we finally accept for business cycles; some coincide with them on the average, others commonly or always lag behind.

Table 1 shows what we call our 'reference dates' of business cycles in the United States from January 1855 to March 1933. As yet we have not attempted to fix the date on which the current cycle reached its peak, though we suppose that this date will be found to come late in 1936 or in the spring of 1937.

Table 1
Reference Dates and Durations of Business Cycles
United States, 1855-1933

Expansion		Contraction		Duration in months		
Revival	Peak	Recession	Trough	Ex-pan-sion	Con-trac-tion	Full cycle
Jan. 1855 to June	1857	July 1857 to Dec.	1858	30	18	48
Jan. 1859 to Oct.	1860	Nov. 1860 to June	1861	22	8	30
July 1861 to Apr.	1865	May 1865 to Dec.	1867	46	32	78
Jan. 1868 to June	1869	July 1869 to Dec.	1870	18	18	36
Jan. 1871 to Oct.	1873	Nov. 1873 to Mar.	1879	34	65	99
Apr. 1879 to Mar.	1882	Apr. 1882 to May	1885	36	38	74
June 1885 to Mar.	1887	Apr. 1887 to Apr.	1888	22	13	35
May 1888 to July	1890	Aug. 1890 to May	1891	27	10	37
June 1891 to Jan.	1893	Feb. 1893 to June	1894	20	17	37
July 1894 to Dec.	1895	Jan. 1896 to June	1897	18	18	36
July 1897 to June	1899	July 1899 to Dec.	1900	24	18	42
Jan. 1901 to Sept.	1902	Oct. 1902 to Aug.	1904	21	23	44
Sept. 1904 to May	1907	June 1907 to June	1908	33	13	46
July 1908 to Jan.	1910	Feb. 1910 to Jan.	1912	19	24	43
Feb. 1912 to Jan.	1913	Feb. 1913 to Dec.	1914	12	23	35
Jan. 1915 to Aug.	1918	Sept. 1918 to Apr.	1919	44	8	52
May 1919 to Jan.	1920	Feb. 1920 to Sept.	1921	9	20	29
Oct. 1921 to May	1923	June 1923 to July	1924	20	14	34
Aug. 1924 to Oct.	1926	Nov. 1926 to Dec.	1927	27	14	41
Jan. 1928 to June	1929	July 1929 to Mar.	1933	18	45	63
Average duration, 20 cycles				25.0	22.0	47.0

All the leads and lags of individual series at revivals or recessions are determined by comparing the dates of the cyclical turns in each individual series with the corresponding reference dates in the above table. Of course the reference dates are subject to error, particularly in the earlier decades for which monthly series are few. Also the cyclical turns in some series are so obscured by random movements that they are hard to fix.

- 4 -

Though we include few if any such series in this memorandum, we cannot be sure that all the specific turning points we have taken are correct. Other possible sources of mistakes are imperfect adjustments for seasonal variations, and errors in the original data. Hence our leads and lags are not to be trusted implicitly. All that we can claim for them is that they represent the best judgments that we could form after a careful study of a considerable body of statistical evidence.

One other remark is necessary. The durations of business cycles as shown in Table 1 differ so much and so irregularly that they give little help in judging when the next cyclical turn may occur. And the durations of cyclical contractions are more variable than those of cyclical expansions. If our reference dates are correct, since 1855 there have been two cyclical contractions as short as eight months, one at the outbreak of the Civil War, one at the close of the World War. If we set these instances aside on the ground that they were dominated by random factors, there remain five contractions lasting only 10, 13 or 14 months. At the other extreme are the long contraction of the 1870's (65 months) and the 'Great Depression' of 1929-33 (45 months). Though we can be reasonably sure that a cyclical contraction is now under way in the United States, we cannot tell from past experience as recorded in Table 1 that it may not last less than a year, or that it may not drag on for several years.

III

The Criteria for Selecting Trustworthy Statistical Indicators
of Cyclical Revivals and Recessions

An ideal statistical indicator of cyclical revivals and recessions would have the following characteristics:

- (1) It would cover half a century or more, thus showing its relation to business cycles under a variety of conditions.
- (2) It would lead every cyclical revival by an invariable interval - say three months, or better, six months. It would also lead every cyclical recession by an invariable interval, which might differ from the lead at revival.
- (3) It would show no erratic movements; that is, it would sweep smoothly up from each cyclical trough to the next cyclical peak and then sweep smoothly down to the next trough, so that every change in its direction would herald the coming of a revival or recession in general business.
- (4) Its cyclical movements should be pronounced enough to be readily recognizable, and give some indication of the relative amplitude of the coming change.
- (5) It would be so related to general business activity as to give us as much confidence as the nature of such things permits that its future behavior with reference to business cycles will be like its past behavior.

Hon. Henry Morgenthau, Jr.

December 10, 1937

- 5 -

Needless to say, we have found no series that possess all these characteristics. What we have done is to select those series that approximate the ideal most closely. Most of them are shorter than we like; the intervals of the leads or lags always vary appreciably from cycle to cycle, and all the long series that usually lead at revivals or recessions show an occasional lag; all show some erratic movements, so that an upturn during a cyclical contraction may not mean that a general revival is 'just around the corner', and a downturn during expansion may not mean that a general recession is imminent; the relation of the series that we have selected to general business activity is such as to establish a presumption of their diagnostic, and perhaps in some measure of their prognostic, value; but we can never be sure that unusual circumstances may not make any series behave in an unprecedented fashion at the next revival or recession.

It is because of the past shortcomings of the most trustworthy indicators we have been able to find that we think it unsafe to base judgments of current conditions upon the behavior of any one series, or of a few series. The likelihood of being misled is reduced, though not eliminated, if one uses a considerable number of series, each with a good past record as an indicator, and representing in the aggregate a wide range of business activities.

IV

Statistical Series that Have Been Relatively Consistent
Indicators of Business-Cycle Revivals

From the 487 American monthly or quarterly series that we have analyzed, we selected 171 that conform closely to business cycles. From this list we made a second selection of 72 series that have been most consistent in their timing in relation to business-cycle revivals.

These 72 series are listed in Table 2 in the order of the timing of their average cyclical upturns, beginning with the series that lead the procession of revival by the longest intervals and ending with the series that lag farthest behind. Series numbered from 1 to 48 have led at reference revivals in two-thirds or more of the business cycles that occurred within the periods covered by the data. Series numbered 65 to 68, and 71 to 76 have lagged at reference revivals in two-thirds or more of the business cycles that occurred within the periods covered by the data. There are included also series that have made their cyclical upturns within a period of three months or less of the reference dates for revivals in two-thirds or more of the instances; for these series have considerable consistency in cyclical timing whether they alternate between leads and lags or show a marked tendency to turn upward shortly before or shortly after the reference dates.

To facilitate the reading of Table 2 we explain the captions and symbols column by column.

Column 3 identifies the period covered by our analysis for each series. The first date is the initial trough of the first specific cycle that we recognize in the series; the second date is the terminal

Table 2

Timing of Business-Cycle Revivals in the United States

Series No.	Series ^a	Period covered by specific cycles ^b	No. of cycles		Average		Range of leads or lags (months)
			Spe- cif- ic	Busi- ness	Lead (-) or lag (+) (months)	Deviation of leads or lags (months)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Orders of fabricated structural steel	Nov10-Jan32	8	6	-10	5	-15 to -1
2	Yields of 15 high grade industrial bonds ¹	Sep00-Jun32	9	9	-10 ¹	4	-16 to -3
3	Yields of 15 high grade public utility bonds ¹	Oct00-Jun32	9	9	-9 ¹	3	-17 to -2
4	Yields of railroad bonds, Macaulay ¹	Oct57-Jun32	21	19	-9 ¹	10	-64 to +23
5	Business failures total liabilities ¹	Apr84-Oct31	13	12	-9 ¹	3	-17 to +6
6	Business failures, all commercial liabilities ¹	Oct75-Apr32	13	13	-8 ¹	3	-13 to +7
7	Bond sales, N.Y. Stock Exch.	Feb94-Nov32	13	11	-8	6	-22 to +16
8	Index of industrial stock prices, Dow-Jones	May97-Jun32	9	10	-7	5	-18 to 0
9	Index of railroad stock prices, Macaulay	Oct57-Jun32	18	19	-7	8	-32 to +12
10	Building plans, Manhattan	Dec69-Mar33	17	16	-7	4	-19 to +3
11	Passenger car production	Oct13-Oct32	5*	5	-6	4	-14 to -1
12	Inner tube production	Dec20-Mar33	3*	3	-6	5	-12 to 0
13	Bank clearings, N.Y.C.	Feb55-Apr33	25	20	-6	5	-16 to +2
14	Price of hides, Chicago	Jun92-Jun32	11	10	-6	6	-20 to +13
15	Index of prices of hides and leather	Aug94-Feb33	8	9	-5	5	-15 to +7
16	Railroad operating income, total	May08-Jul32	5*	5	-5	4	-13 to 0
17	Orders of steel sheets	Mar19-Mar33	4*	4	-5	5	-12 to 0
18	Number of shares sold, N.Y. Stock Exch.	Feb78-Mar33	15*	15	-5	5	-19 to +7
19	Paper production, total	Mar19-Jan33	4*	4	-5	4	-11 to -1
20	Book paper production	Dec18-Jul32	4*	4	-4	2	-8 to +1
21	Steel sheet production	Mar19-Aug32	4*	4	-4	3	-8 to -1
22	Truck production	Sept14-Aug32	6	5	-4	2	-8 to -1
23	Freight hauled, ton-miles	Feb08-Aug32	5*	5	-4	3	-11 to -1
24	Total building contracts, floor space	Jan19-Dec32	4*	4	-4	3	-9 to +1

Stations	Number of timing observations that are			Erratic Movements		Amplitude of specific cycle:					
	lags	Coincidences	Within 3 mos. of reference revivals	Relative move in same intensity direction ^c	Av.no.of mos. in which data	Average			Average deviation ^e		
						Rise	Fall	fall ^d	Rise	Fall	fall
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
7	0	0	2	Pronounced	2.1	78	78	156	30	32	44
9	0	0	1	Mild	2.6	9 ⁱ	10 ⁱ	18	5	5	8
9	0	0	1	Mild	2.9	10 ⁱ	10 ⁱ	20	6	6	10
5	4	1	1	Mild	2.8	13 ⁱ	10 ⁱ	23	8	5	10
3	1	0	0	Pronounced	1.5	17 ⁱ	125 ⁱ	243	83	78	110
3	1	0	0	Pronounced	1.6	120 ⁱ	136 ⁱ	256	62	60	103
1	1	0	0	Moderate	1.7	92	70	162	48	34	68
9	0	1	4	Mild	2.9	55	47	102	23	27	49
4	4	0	5	Mild	2.7	36	32	67	20	17	36
3	1	2	4	Pronounced	1.5	111	111	223	50	49	89
6	0	0	2	Moderate	2.6	104	96	200	23	29	34
3	0	1	2	Moderate	1.8	66	52	117	38	28	29
7	3	1	9	Mild	1.7	53	43	95	25	20	40
0	2	0	3	Moderate	2.3	44	45	90	19	23	35
3	2	0	4	Mild	3.6	17	18	35	6	12	17
5	0	2	3	Mild	1.8	72	51	123	54	28	70
4	0	1	3	Very pronounced	1.8	95	95	190	16	30	26
2	2	2	8	Pronounced	1.8	98	92	190	32	31	56
5	0	0	3	Mild	1.7	32	26	57	11	17	14
4	1	0	1	Moderate	1.7	34	31	66	10	24	23
5	0	0	3	Pronounced	2.1	70	76	146	17	34	24
6	0	0	3	Moderate	2.0	85	55	140	20	39	37
7	0	0	4	Mild	2.4	26	28	54	7	18	13
4	1	0	3	Mild	2.0	74	86	160	31	46	44

Series No.	Series ^a	Period covered by specific cycles ^b	No. of cycles		Average		Range of leads or lags (months)
			Specific	Business	Lead (-) or lag (+) (months)	Deviation of leads or lags (months)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
25	Residential building contracts, floor space	Jan19-Dec32	4*	4	-4	3	-9 to 0
26	Commercial building contracts, floor space	Jan19-Oct32	4*	4	-4	3	-9 to 0
27	Food factories building contracts, value	Jan19-Sep32	4*	4	-4	2	-7 to -1
28	Orders of oak flooring	Dec13-Mar34	5	5	-4	6	-12 to +12
29	Average hours worked, all wage earners	Feb21-Aug32	3*	3	-4	3	-7 to 0
30	Index of wholesale prices, Bradstreet's	Jun96-Feb33	8*	8	-4	4	-12 to +5
31	Index of deposits activity, Snyder	Dec78-Jan33	14	15	-4	4	-16 to +4
32	Bank clearings, outside N.Y.C.	May78-Mar33	13*	13	-4	4	-11 to +4
33	Index of business activity, Ayres	Dec54-Jul32	21	20	-3	4	-12 to +3
34	Index of business activity, Pittsburgh district	Jan85-Mar33	15	14	-3	3	-9 to +1
35	Clearings index of business, Snyder	Jan79-May33	15	15	-3	2	-8 to +2
36	Index of industrial production, F.R. Bd.	Mar19-Jul32	4*	4	-3	3	-8 to 0
37	Pig iron production	Jan79-Mar33	15*	15	-3	3	-13 to +1
38	Steel ingot production	Oct00-Aug32	9*	9	-3	3	-8 to +6
39	Bituminous coal production	Apr08-Jul32	7*	7	-3	4	-11 to +10
40	Cotton consumption	Aug14-Jul32	6	5	-3	4	-9 to +4
41	Price of copper, N.Y.C.	Jan68-Feb33	13	15	-3	5	-21 to +10
42	Imports, semi-manufactures	Feb08-Feb33	5*	5	-3	4	-10 to +1
43	Industrial building contracts, floor space	Feb19-Jul32	4*	4	-3	2	-8 to 0
44	Price of zinc, N.Y.C.	Apr95-Jul32	8	9	-2	5	-19 to +10
45	Index of physical volume of business, Babson	Oct04-Mar33	8*	8	-2	3	-12 to +2
46	Coke production, total	Nov14-Aug32	5*	5	-2	2	-7 to +1
47	Electric power production	Mar19-Mar33	3	4	-2	1	-4 to 0

Number of timing observations that are				Erratic movements	Av. no. of mos. in which data move in same direction ^c	Amplitude of specific cycles					
Leads	Lags	Coincidences	Within 3 mos. of reference revivals			Relative intensity	Average			Average deviation	
				Rise	Fall		Rise & fall ^d	Rise	Fall	Rise & fall	
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
4	0	1	3	Mild	1.9	97	105	202	59	68	80
4	0	1	3	Moderate	1.7	66	80	146	8	48	52
5	0	0	3	Moderate	1.5	84	105	190	8	41	49
4	1	0	0	Moderate	1.9	101	111	212	38	33	39
3	0	1	2	Mild	2.3	8	16	23	4	13	10
9	1	0	4	Mild	3.4	17	18	34	7	13	14
13	2	0	8	Moderate	3.9	29	30	59	12	17	27
11	1	3	8	Moderate	1.7	30	19	49	10	17	20
14	2	5	13	Mild	3.1	19	22	41	5	8	11
12	1	2	10	Moderate	3.2	29	31	60	8	12	15
11	1	3	11	Mild	3.2	16	18	34	6	9	10
4	0	1	3	Mild	3.3	28	34	62	9	18	18
2	1	3	10	Mild	3.3	62	55	117	15	21	27
8	1	1	5	Moderate	2.7	65	61	126	15	23	25
7	1	0	3	Pronounced	1.9	36	39	76	14	13	21
5	1	0	2	Moderate	1.4	32	35	68	14	8	14
0	3	1	7	Moderate	3.6	42	50	92	19	29	46
5	1	1	4	Moderate	1.7	54	51	105	20	37	46
4	0	1	4	Mild	1.5	109	130	239	38	67	93
7	2	1	5	Mild	2.8	39	38	77	12	17	21
6	1	2	7	Mild	2.6	29	24	53	7	13	14
4	1	1	5	Mild	2.9	56	61	117	21	23	27
3	0	1	3	Mild	2.0	35	12	47	12	7	17

Series No.	Series ^a	Period covered by specific cycles ^b	No. of cycles		Average		Range of leads or lags (months)
			Spe- cif- ic	Busi- ness	Lead (-) or lag (+) (months)	Deviation of leads or lags (months)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
48	Freight cars loaded	Mar19-Aug32	4*	4	-2	2	-7 to 0
49	Railroad operating revenue, freight	May08-Jul32	5*	5	-2	3	-8 to +3
50	Index of machine tool orders	Feb19-Mar33	4*	4	-2	2	-8 to 0
51	Total imports	Jan68-Feb33	16	15	-2	4	-12 to +8
52	New corporate issues, industrial	Apr19-Jun32	4*	4	-2	3	-9 to +2
53	Index of business activity, A.T. & T.	Apr79-Mar33	15*	15	-2	3	-8 to +1
54	Production of producers' goods, F.R. Bk. of N.Y.	Mar19-Jun32	4*	4	-2	3	-9 to +2
55	Index of industrial production, Stand. Stat. Co.	May19-Mar33	4*	4	-1	2	-6 to +1
56	Department store sales	Jan19-Mar33	4*	4	-1	2	-3 to +3
57	Railroad expenses on maintenance of way and structures	Mar08-Apr33	5*	5	0	4	-9 to +8
58	Raw cotton stocks at mills	Oct14-Mar33	7	5	0	4	-10 to +9
59	Factory payrolls, total	Mar19-Mar33	4*	4	0	1	-1 to +2
60	Factory employment, total	Jan15-Mar33	5*	5	0	1	-2 to +1
61	Factory payrolls, iron and steel	May19-Mar33	4*	4	0	1	-2 to +1
62	Factory employment, iron and steel	May19-Mar33	4*	4	0	1	-2 to +1
63	Factory employment, N.Y. State	Jan15-Mar33	5*	5	+1	2	-1 to +5
64	Factory payrolls, machinery	Jun19-Mar33	4*	4	+1	1	0 to +2
65	Factory employment, machinery	Jun19-Mar33	4*	4	+1	1	0 to +2
66	Business failures, number of trading cos. ¹	Sep96-Aug32	9	10	+1 ¹	5	-9 to +10
67	Factory payrolls, N.Y. State	Jan15-Mar33	5*	5	+2	2	0 to +4
68	Magazine advertising	Apr15-Apr33	5*	5	+2	3	-4 to +9
69	Index of retail prices of foods, B.L.S.	Sep22-Feb33	3*	3	+3	5	-2 to +12
70	Index of prices of metals and metal products	Mar95-Apr33	8	9	+3	4	-2 to +11

Number of timing observations that are				Erratic movements		Amplitude of specific cycles					
Stads	Legs	Coincidence	Within 3 mos. of reference revivals	Relative intensity	Av. no. of mos. in which data move in same direction, ^c	Average			Average deviation		
						Rise	Fall	Rise & fall ^d	Rise	Fall	Rise & fall
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
4	0	1	4	Moderate	1.8	17	25	42	6	20	17
5	1	1	5	Moderate	1.9	21	24	46	6	18	14
3	0	2	4	Mild	1.8	110	129	239	15	72	81
9	5	2	11	Moderate	1.7	38	33	71	12	17	23
2	1	2	4	Pronounced	1.6	142	162	303	64	94	158
8	1	7	11	Mild	3.4	23	26	49	5	10	12
2	1	2	4	Mild	2.9	24	39	63	5	19	17
2	1	2	4	Mild	4.4	32	36	68	12	22	20
2	1	2	5	Mild	1.9	16	18	34	8	18	20
3	4	0	5	Mild	2.3	19	29	48	7	27	22
2	2	2	4	Mild	2.9	34	32	66	16	11	24
2	1	2	5	Mild	3.4	27	44	71	11	31	30
2	2	2	6	Mild	5.1	16	24	40	6	16	13
1	2	2	5	Mild	2.5	42	62	104	19	42	36
1	3	1	5	Moderate	3.6	25	39	64	14	25	21
1	3	2	5	Mild	3.4	15	25	40	7	15	11
0	3	2	5	Mild	2.7	46	63	109	12	46	51
0	4	1	5	Mild	6.3	31	46	76	10	31	30
3	7	0	4	Mild	1.6	42 ⁱ	50 ⁱ	92	30	26	46
0	4	2	4	Mild	2.8	34	33	67	18	25	27
2	4	0	3	Mild	1.9	35	33	68	14	24	30
2	2	0	3	Moderate	2.4	8	20	28	3	20	19
5	5	0	7	Mild	4.0	23	24	46	15	7	21

Series No.	Series ^a	Period covered by specific cycles ^b	No. of cycles		Average		Range of leads or lags (months)
			Spe- cif- ic	Busi- ness	Lead (-) or lag (+) (months)	Deviation of leads or lags (months)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
71	Index of prices of fuel and lighting	Jun92-May33	10	10	+5	4	-6 to +13
72	Bond sales, N.Y. Stock Exch. ¹	May92-Feb34	14	12	+7 ¹	7	-11 to +22
73	Discount rate, F.R. Bk. of New York	Jan23-Jan28	2*	2	+8	6	+1 to +16
74	Yields of 15 high grade pub. util. bonds	Apr01-Apr28	7	8	+10	8	-2 to +25
75	Yields of 15 high grade industrial bonds	Jul02-Jan28	7	8	+10	8	-8 to +19
76	Yields of railroad bonds, Macaulay	Aug60-Dec27	19	18	+12	7	-6 to +27

^a

All series are monthly, except total liabilities of business failures, which are by quarters before 1893 and liabilities of commercial business failures, which are quarterly before 1896.

^b

The period from about 1915 to 1921, depending upon the dating of the specific-cycle turns, is omitted from all series on prices of commodities, value of foreign trade, railroad revenues and expenses, liabilities of business failures, and bank clearings outside New York. The period from 1911 to 1919 is omitted from ton miles of freight hauled, because data are lacking.

^c

Based on experience during 1919-1933, except in series for which we omit the cycle from 1919 to 1921.

^d

This column is computed directly from the individual cycles; hence the slight discrepancies between the entries on "rise and fall" and the sum of the entries on "rise" and "fall".

Number of timing observations that are				Erratic movements		Amplitude of specific cycles					
Leads	Lags	Coincences	Within 3 mos, of reference revivals	Relative intensity	Av.no.of mos. in which data move in same direction ^c	Average			Average deviation		
						Rise	Fall	fall ^d	Rise	Fall	Rise & fall
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
1	9	1	4	Moderate	2.9	24	24	49	14	8	20
2	11	0	2	Moderate	1.7	70 ⁱ	92 ⁱ	162	34	48	68
0	3	0	1	Mild	12.1	20	25	44	8	12	4
1	7	0	1	Mild	2.9	11	10	21	7	7	10
1	7	0	2	Mild	2.6	10	9	19	5	5	9
2	14	1	1	Mild	2.8	10	13	23	5	8	10

Hon. Henry Morgenthau, Jr.

December 10, 1937

- 6 -

trough of the cycle with which our analysis closes. By specific cycles we mean the cyclical movements found in an individual series, as distinguished from business cycles, which are the whole congeries of cyclical movements in most of the economic activities of a nation.

Column 4 states the number of specific cycles found in each series. Column 5 states the number of business cycles that occurred during the period covered by these specific cycles. The entries in columns 4 and 5 are the same in about two-thirds of the series listed. In a few series this identity is fortuitous; one specific cycle may stretch over the period occupied by two business cycles and at another time two specific cycles may occur within the period occupied by one business cycle. Those series which show a one-to-one correspondence of specific cycles to business cycles are marked with an asterisk (*) in column 4.

Column 6 reports the average timing of the specific cycles in each series in relation to business cycles. A minus (-) indicates that revivals in the series occur earlier on the average than revivals in general business as indicated by the corresponding reference dates. A plus (+) indicates that revivals in the series occur later than the corresponding reference revivals. An entry of zero means that the timing of specific-cycle revivals is coincident on the average with the timing of reference revivals.

Columns 7 and 8 show how variable the timing of specific-cycle revivals has been in relation to business cycles. In column 7 we give the average deviation of the leads or lags about their mean. The absolute limits within which the leads or lags fall are shown in column 8. This range shows vividly how much more fickle the past behavior of some series has been than that of others; but it must be borne in mind that a series that covers a dozen cycles represents reactions under a greater variety of conditions than does a series that covers only four or five cycles.

Columns 9 to 12 supply additional details on the timing of the series in our list. They show the degree of consistency with which a series has lagged, led, made its upturn coincidentally with general business, or within three months of the upturn in general business. When the specific cycles in a series bear a one-to-one correspondence to business cycles the sum of the entries in columns 9 to 11 must be larger by one than the number of business cycles covered as shown in column 5; for we make observations both at the trough with which each business cycle starts and at the trough with which it ends. If a series 'skips' one business cycle, the sum of entries in columns 9 to 11 is equal to the entry in column 5; if it skips two business cycles, the sum is one less than the entry in column 5. When there is a break in the data, caused by the omission of certain cycles, these relations apply to each segment of the series taken by itself, not to the series as a whole.

Columns 13 and 14 report characteristics of the erratic movements to which a series is subject. Erratic movements are the criss-cross fluctuations that occur within the cyclical expansions and contractions of economic time series. We judge the intensity of the erratic movements in a series by comparing their amplitude with the amplitude of specific cycles as explained below. Column 13 indicates these relative intensities by a scale that runs from mild to moderate, pronounced and very pronounced. Column 14

- 7 -

indicates the average number of months in which the seasonally-adjusted data of each series move in the same direction, and thus indicates the frequency with which erratic movements run counter to the direction of a cyclical expansion or contraction.

Columns 15 to 20 show the amplitudes of the cyclical movements found in each series. The amplitudes are measured by (1) turning the seasonally-adjusted data for each specific cycle into relatives of their average value; (2) computing the average of the relatives for the three months centered on the initial trough of the specific cycle, on the peak, and on the terminal trough; (3) finding the rise from the average for the three months centered on the initial trough of the specific cycle to the average for the three months centered on its peak, and finding the fall from the average at the peak to the average of the three months centered on the terminal trough.

Thus the amplitude measures state essentially the range of fluctuations of cyclical movements in the form of percentages of the average value of the items composing a series during a specific cycle. Columns 15-17 show the results we get by striking averages of the amplitude measures of the successive cycles in each series. Columns 18-20 show the average deviations of the amplitude measures of these cycles about their mean.

Series that tend to decline when general business expands and to advance when general business contracts are marked by the symbol 'i' to show that they have an inverted relation to business cycles. In all such instances the entry in column 6 shows the average number of months that the recessions of specific cycles lead or lag at reference revivals; the entry in column 15 shows the average fall of the specific cycles, not the rise; and the entry in column 16 shows the average rise, not the fall.

A series that usually makes its cyclical turns near the middle of reference expansions and near the middle of reference contractions can be treated as having either a positive or an inverted relation to business cycles. Three series on bond yields appear at the bottom of Table 2 because they have exceptionally long lags at reference revivals. But when a process reacts fairly consistently to business cycles, long lags of its specific-cycle revivals at reference revivals must mean that its specific-cycle recessions lead the reference revivals by substantial intervals. Hence the timing of bond yields is shown in Table 2 on an inverted as well as on a positive basis. For a similar reason a double set of entries is made for bond sales on the New York Stock Exchange.

V

Conclusions Concerning the Most Trustworthy Indicators of Business-Cycle Revivals

Critical examination of the series in Table 2 shows the respects in which and degrees to which the different series fall short of the requirements of an ideal indicator of business conditions that were set forth above. No doubt each of the 72 series listed may make a significant contribution to judgments about the occurrence of a cyclical revival. But

some of the series are more trustworthy indicators than others and merit especial consideration on that ground. If we can determine which these most trustworthy series are we shall have a much shorter list -- and the brevity will be a substantial advantage, provided that it is not gained by reducing over much the variety of activities represented.

We have considered the following factors in making this final selection from our materials: Other things equal, a series is more reliable as an indicator of revivals in general business

1. The longer its average leads at past revivals
2. The more uniform these leads in occurrence and length
3. The closer its specific cycles come to having a one-to-one correspondence to business cycles
4. The more clearly defined its specific cycles
5. The less intense its erratic movements in comparison with the amplitude of its specific cycles
6. The fewer the changes in the direction of its month-to-month movements
7. The smaller and more regular the seasonal variations that have to be 'eliminated' before the cyclical movements can be studied
8. The larger the number of past revivals covered by the series
9. The farther back in time any irregularities in conformity to cyclical revivals occurred
10. The broader the range of activities or the more stable the economic significance of the process represented by the series.

But other things never are equal. When a series ranks high as judged by one or two of these criteria, it ranks lower as judged by others. Hence we have drawn up an annotated list of the series that seem to us to be the most trustworthy indicators of revivals. The annotations show both the respects in which the series merit high rank and their shortcomings.

Total liabilities of business failures

A long series that moves invertedly. Average lead 9 months. Thirteen leads, one lag. Leads consistently long; shortest being 6 months. Extra cycle and single lag occur before 1900. Principal defect is that erratic movements are pronounced and changes in direction frequent; but erratic movements only moderate in neighborhood of cyclical revivals. Seasonal large but tolerably stable. Range of timing, -17 to +6 months.

Industrial stock prices

Average lead 7 months. No lags, but one coincidence. Erratic movements mild. Reversals of direction relatively infrequent. No seasonal. Covers 10 business cycles. Skips the cyclical decline of 1926-27, but shows marked retardation in 1926 and early 1927. Timing ranges from -18 to 0 months.

Passenger car production

Average lead 6 months. No lags or coincidences. One-to-one correspondence. Reversals of direction relatively infrequent. But erratic movements moderate - not mild; seasonal large and unstable; covers only 5 cycles; leads range from 1 to 14 months, and are smaller in the last three than in the first three revivals.

Hon. Henry Morgenthau, Jr.

December 10, 1937

- 9 -

Inner tube production

Average lead 6 months. No lag, one coincidence. One-to-one correspondence, but covers only three cycles. Erratic movements moderate, but reversals of direction relatively frequent and seasonal large and changing. Timing ranges from -12 to 0.

Total paper production

Average lead 5 months. No lags or coincidences. One-to-one correspondence. Erratic movements mild but reversals of direction rather frequent. Seasonal small and comparatively stable. Covers only 4 cycles and leads range from 1 to 11 months.

Total railroad operating income

Average lead 5 months. No lag, two coincidences. One-to-one correspondence. Erratic movements mild on the whole but of uneven intensity, and reversals rather frequent. Seasonal stable but large. Covers only 5 cycles, two of them pre-War. Timing ranges from -13 to 0.

Total residential building contracts, floor space

Average lead 4 months. No lag, but one coincidence. One-to-one correspondence. Erratic movements usually mild, but at times substantial and reversals of direction rather frequent. Seasonal large but tolerably stable. Covers only 4 cycles. Timing measures range from -9 to 0.

Ton-miles of freight hauled

Average lead 4 months. No lags or coincidences. One-to-one correspondence. Erratic movements mild. Reversals of direction relatively infrequent. Seasonal comparatively small and stable. Covers 5 cycles, one of them pre-War. Timing range rather wide, -11 to -1. Principal defect is that three of the seven leads are only one month.

Truck production

Average lead 4 months. No lags or coincidences. Erratic movements moderate. Shows an extra cycle, but it was of slight amplitude and occurred during the War. Seasonal smaller than in passenger cars, but reversals of direction in data more frequent.

Index of wholesale prices, Bradstreet's

Average lead 4 months. Nine leads, one lag. One-to-one correspondence. Covers 10 cycles if we count also the cycles in 1914-21; leads in these cycles. Erratic movements mild and changes of direction infrequent. No seasonal. A slight defect in the record is the 5 months lag at one revival - that in December 1900. Range of timing, -12 to +5.

Average hours worked, all wage earners

Average lead 4 months. Three leads, no lags, one coincidence. Timing range moderate, -7 to 0. One-to-one correspondence. Erratic movements mild; changes in direction relatively infrequent. Seasonal slight. Chief

- 10 -

defect of the record is its brevity, only 3 cycles.

Bank clearings outside New York

Long series, 13 cycles. One-to-one correspondence. Average lead 4 months. Eleven leads, one lag, three coincidences. Seasonal small and rather stable. Erratic movements moderate and changes in direction rather frequent. Chief uncertainty lies in the fact that 4 out of 15 observations are not leads. Range of timing, -11 to +4.

Index of industrial production, Federal Reserve Board

Average lead 3 months. Four leads, no lags, one coincidence. One-to-one correspondence. Erratic movements mild, changes of direction infrequent. Reliable indicator; but lessened in value by the short average lead, the one coincidence and the brevity of the record.

Floor space of industrial building contracts

More closely integrated in time with business cycles than any other construction series. Average lead 3 months. Four leads, no lag, one coincidence. Erratic movements mild but reversals frequent. Seasonality pronounced and unstable. However, rise from cyclical troughs is very sharp. Principal defects are that the record covers only four cycles and that the average leads are short.

Pig-iron production

Covers 15 cycles, maintaining one-to-one correspondence throughout. Average lead 3 months. Twelve leads, one lag, three coincidences. Erratic movements mild and changes of direction infrequent. Seasonal small and tolerably stable. Principal defect is that the one lag and three coincidences have all occurred since 1914.

Steel-ingot production

Record shorter than pig iron (9 cycles compared with 15). One-to-one correspondence. Average lead 3 months. Eight leads, one lag, one coincidence. Range -8 to +6. Erratic movements somewhat more intense, changes in direction more frequent and seasonality larger, than in pig iron. Chief advantage over pig iron is that the tendency to lead is slightly more pronounced in recent cycles.

To the above list we add a few series that have short average leads or no leads, but that show notably narrow ranges in their timing, and are valuable on that account.

American Telephone and Telegraph Company's Index of Business Activity

Covers 15 cycles, maintaining one-to-one correspondence. Average lead 2 months; eight leads, one lag, seven coincidences. Timing range, -8 to +1. Erratic movements mild, and changes of direction very infrequent. Average timing at recessions 0; but range much wider than at revivals, -15 to +9.

Standard Statistics Company Index of Production

Average lead 1 month; two leads, one lag, and two coincidences. Timing range -6 to +1. A reliable indicator since 1919, the period to which our analysis is confined. Erratic movements mild. Changes in direction less frequent than in Federal Reserve Board index of production or in the A. T. & T. index of business. Average timing at recessions 0; range -1 to +1.

Department stores sales

Average lead 1 month; two leads, one lag, two coincidences. One-to-one correspondence. All 5 turns occur within 3 months of reference revivals. Seasonality large and changing, but the changes are fairly continuous. Erratic movements mild, but changes in direction frequent. Average timing at recessions: lag of 4 months, with a range from 0 to +6. A highly consistent indicator; but covers only 4 cycles.

Factory employment total, Bureau of Labor Statistics

Timing range very narrow, -2 to +1. Two leads, two lags, two coincidences; average timing 0. One-to-one correspondence. Erratic movements mild, changes in direction exceptionally infrequent. One of the most consistent indicators of revival. Timing at recessions less consistent than at revivals. Chief limitation is brevity of the record which covers 5 cycles.

Other employment series

Several other employment or payroll indexes in Table 2 are almost or quite as consistent as the series named; but they cover 4 cycles instead of 5. We may note however that the timing of factory employment in the machinery group is slightly more consistent than that of the B.L.S. series for total employment at revivals and much more consistent at recessions. Reversals of direction in machinery employment are even less frequent than in total employment.

While we regard the series listed in this section as more trustworthy indicators of cyclical revivals than the other series in Table 2, we think that it is wise to test judgments based upon the shorter list by seeing whether they are confirmed by study of the longer list.

Probably there are good business indicators among the series carried by the Survey of Current Business and other Federal publications that we have not analyzed because they cover only two cycles as yet, or for other reasons. Judgments regarding their probable value must be based on criteria other than consistency of past performance.

VI

The Problems of 'Double Bottoms'

Several of the depressions of which we have fair statistical knowledge show two troughs about equally low separated by a mild upturn. A notable instance is the latest American depression which had a trough about July 1932, a substantial upturn in the autumn, a relapse in the winter, and

Hon. Henry Morgenthau, Jr.

December 10, 1937

262

- 12 -

a new low point in March 1933, which we take to be the trough of the cycle. A large proportion of the most trustworthy indicators of business conditions participated in the abortive upturn of the autumn of 1932 and in the relapse that followed.

To the best of our knowledge there is no certain way of telling at the time it begins whether an incipient revival will suffer a relapse or develop into a cyclical expansion. A man who uses intelligently such a list of series as we have drawn up should be able to determine rather promptly when general business activity has ceased to shrink and has begun to expand again. If he merely states what has occurred to date, he is likely to be right. But if he makes a judgment about the near future by supposing that recent movements will keep the same direction or that past sequences will repeat themselves, he enters the uncertain realm of forecasting.

The occasions are frequent when speculation about the future course of business is demanded by pressing present needs. Those whose hard duty it is to make these guesses have the best chance of being substantially right if they combine analysis of current business trends with some knowledge of the past history of business cycles, such information as is available concerning the probable effect of important factors arising outside the realm of business, and a firm determination not to let their hopes and fears color their judgments more than is inevitable.

Yours respectfully,

Wesley C. Mitchell

Arthur F. Burns

December 11, 1937

MEMORANDUM OF CONFERENCE WITH THE PRESIDENT,
DECEMBER 10, 1937, ATTENDED BY SECRETARY
MORGENTEAU, MESSRS. DOUGHTON, VINSON AND
MAGILL.

Mr. Doughton requested a conference with the President in order to obtain his views respecting the modifications in the undistributed profits tax tentatively agreed to by the Ways and Means Subcommittee; and the suggested strengthening of the provisions of the law for taxing large corporations which accumulate unreasonable surpluses. Colonel McIntyre informed my office of the appointment and asked me to attend. I thereupon advised the Secretary.

Mr. Vinson explained that the 20-16 plan for taxing corporations with incomes of more than \$25,000 was adopted by the Subcommittee in order to forestall the political effect of the Republican caucus scheduled for the afternoon of the day on which the Subcommittee acted. He explained that he thought the proposed tax was the best which could be secured under the circumstances. He said that the Treasury had cooperated with the Committee and its experts at all times on this and other proposals but that the Treasury had not approved these particular modifications of the undistributed profits tax. Following this action by the Committee the Treasury and the Committee experts had been working on provisions to apply to large industrial companies which accumulate unreasonable surpluses. The intention was to work out provisions similar to Section 351 which is applicable to personal holding companies; that is, to provide objective tests of corporations which would fall under the proposed additional tax. The tentative proposals would be applicable to corporations with more than \$50,000 net income, which distributed less than 50 percent of their earnings and whose stock is closely held. A sliding scale had been proposed whereby if 50 percent of the corporate stock is owned by one stockholder, and the other conditions are satisfied, the corporation would fall under the new provisions; or if two stockholders owned 53 percent, three owned 56 percent and so on up to ten owning 77 percent.

The President replied that the proposed treatment would not catch all of the corporations at which he was aiming in his 1936 message. He thought a \$50,000 exemption was rather high and that control of large corporations was often vested in stockholders who controlled less than 50 percent. He suggested the du Pont Company and Gulf Oil in this connection. I said the minimum net income

- 2 -

might be lowered from \$50,000 to \$40,000. Mr. Vinson expressed his willingness to reduce the requisite number of controlling stockholders from ten to five and to subject the corporation to the proposed treatment if five or ten stockholders controlled 51 percent of the stock. He suggested that the so-called family rule might be applied to the proposed new provision although there were some difficulties in the corporations ascertaining the family connections of its stockholders and also in the Treasury's administering such a provision.

In response to a question as to the proposed rates Mr. Vinson said he thought that the additional tax plus the tax provided in the 20-16 plan should total an effective rate approximating that in the present undistributed profits tax law but somewhat less. He said that the top effective rate at present of the combined corporation normal tax and undistributed profits tax is a little over 32 percent. He thought the maximum total rate under the new proposals should be 30 to 32 percent. I told the President that the draftsmen had calculated that the additional tax rate should be about 20 percent on the net income reduced by taxes, liberty bond interest, dividends paid, and other credits.

Mr. Vinson called attention to the close vote in the House on the motion to recommit the farm bill and said that he was dealing with a difficult situation as best he could.

The President said in substance that the Committee should proceed to work out as best they could the plan Mr. Vinson had outlined, with a view to meeting as well as possible the abuses described in his tax message of 1936. The President expressed no further disapproval of the 20-16 plan so that the understanding is that the President is willing for the Committee to proceed with the modifications of the undistributed profits tax as outlined at this conference.

The President asked what had happened with respect to the taxation of the interest on tax exempt bonds. Mr. Vinson said that the Committee had waited for the decision of the Supreme Court in the Dravo case but that the decision was not helpful on this particular point. Mr. Vinson said that the decision of the majority indicated that the Chief Justice had wanted to confine himself closely to the question of the taxability by a state of the gross receipts of an independent contractor working on government contracts. He said some of the dicta in the case indicated that the Court still held to its old view that the interest on state and municipal bonds could not be taxed by the Federal Government. Consequently, the Subcommittee had decided not to recommend a statutory change in this respect. The President asked how it would be for him to send a message to Congress after the first of the year pointing out the vast accumulation of tax exempt securities

- 3 -

and urging that the situation be corrected either by constitutional amendment or by statute; that the Glass proposal was a possible solution and a good many lawyers thought that it would be valid. The message would also point out the fact that a constitutional amendment was a very slow way of making the change. I said I hoped the President would send such a message.

As the conference broke up Mr. Doughton said that he thought the Subcommittee ought not to attempt to pass legislation at this time upon such controversial questions as community property and percentage depletion. The President promptly agreed that these matters need not be proposed or put into the tax bill under the circumstances.

The conference lasted from about 4:20 until about 4:45.

hm

Reary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
December 11, 1937.

TO Mrs. Klotz

FROM Mr. White *HW*

Subject: Secretary's proposal for the record.

The Secretary expressed the view that the serious economic difficulties confronting several of the Latin American countries were causing some of them to turn for assistance to the fascist countries eager to deal with Latin American countries on the basis of arrangements not possible with the United States. The resultant strengthening of trade and financial relations between some Latin American countries and Germany, Italy and Japan is an important factor tending to drive those Latin American countries into fascist programs and practices.

The Secretary proposed that if the governments of those countries could be stimulated to ask for our cooperation in seeking a sound solution—a careful and exhaustive survey of the Cuban and Mexican situation could be made with a view to ascertaining whether it might be possible to help them reorganize their finances so that the credit of those countries would be sufficiently re-established to promote a sounder economic situation in those countries and thereby a strengthening of democratic tendencies in Latin America.

He thought it might be preferable to begin with Cuba, as it presented a less complex problem than did that of Mexico.

Sunday, December 12, 1937

I told Jesse Jones I would like to return to him the letter which he had left with me asking whether he could sell his own securities and that I did not want to do anything about it until we got legislation to fix up his balance sheet, and he agreed to it. I am to return his letter to him, which Bell has. Jesse Jones wants to see me Tuesday.

Taylor was up to see me with a press release on the Hungarian debt. They are going to pay us something on their debt and I approved it and Taylor called the Secretary of State and told Feis it was O.K.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 13, 1937.
12/11/37.

Press Service
No. 11-94

Secretary of the Treasury Morgenthau announced today that on last Saturday United States Savings Bonds cash sales passed the billion dollar mark. This billion investment represents a sale of approximately 4,500,000 bond units, which were purchased by about 1,200,000 people.

The actual cash sales to that date amounted to \$1,000,566,181.95. As United States Savings Bonds are sold on a discount basis, and mature at the end of ten years for 33-1/3 per cent more than their purchase price, this sale, expressed in maturity value, amounts to \$1,334,088,242.60, or a daily average maturity value sale of \$1,571,364.24 for each of the 860 business days, which have elapsed since March 1, 1935, when these bonds were first offered.

The annual sale of Savings Bonds has steadily increased. The sales for the ten-month period in which these bonds were sold in 1935 amounted to \$259,000,824.77, maturity value; in 1936, \$473,515,140.78, and to this date in 1937, \$601,572,277.05.

Approximately 120,000 individual investors purchase Savings Bonds on the average each month. Many thousands of these are regular purchasers, who have adopted the Regular Purchase Plan offered by the Treasury Department for systematic saving through the purchase of Savings Bonds each month, each week, or at other intervals of their choice. Approximately 30,000 new investors buy these bonds each month.

- 2 -

It is permissible under the law authorizing United States Savings Bonds that \$10,000 (but not more than \$10,000) maturity value, issued during any one calendar year (January 1 to December 31) may be held by any one person. An additional \$10,000, maturity value, issued during each or any subsequent calendar year may be so held.

Analysis of sales of Savings Bonds show this year, as in previous years since these bonds have been on sale, that thousands of investors as the end of year approaches, are applying at the post offices throughout the country, or by mail to the Treasurer of the United States and the Federal Reserve Banks for purchases of Savings Bonds which will bring their respective holdings to the permissible \$10,000, legal limit, for the present calendar year. A large number of investors have bought the annual permissible maximum for each of the three years that Savings Bonds have been on sale and now own a total of \$30,000, maturity value, of these bonds.

The State of Illinois is, and has been almost constantly, the leading State, both in the amount of sales and the number of bonds bought. Attached are tabulations of sales by states and leading cities, arranged in the order of the amounts sold, from the beginning of the sale of bonds on March 1, 1935, through October, 1937.

The attached charts graphically present the totals from the beginning of the sale of Savings Bonds on March 1, 1935, through October 31st of this year according to the denominations of bonds purchased, the types of investors buying, and the sales according to population in the metropolitan cities, lesser cities, villages and rural America.

It will be noted from these graphs that the \$100, maturity value, bond is the most popular and accounts for 30.34 per cent of the total sale to date. The \$25 bond is next with 23.48 per cent, then the \$1,000 unit with 18.48 per cent, the \$50 unit with 18.39 per cent and the \$500 unit with 9.31 per cent in the order named. More than 50 per cent of the total amount, expressed in dollars, of bonds bought are in denominations of over \$100, but over 85 per cent of the purchasers are in the groups buying \$25, \$50 and \$100 units.

These graphs also show that approximately 85 per cent of the bonds purchased are bought by individuals, 9.71 per cent by banks, and the remainder by corporations, associations, fiduciaries, etc. The most popular registration is in the names of two people, usually man and wife, as co-owners, and accounts for 33.42 per cent of the sale, while 21.21 per cent of the bonds sold to date are registered in the individual names of men and 16.43 per cent in the names of women.

As to population groups, these graphs show that the metropolitan cities of 100,000 and over account for 44.54 per cent of the sale, cities of 25,000 to 100,000, 13.91 per cent, 10,000 to 25,000 population, 10.21 per cent, 5,000 to 10,000, 7.70 per cent, the remaining 23.64 per cent going to the villages and rural America.

The ownership of Savings Bonds by approximately 1,200,000 people marks these bonds as the most widely held single security in the United States. Although a Savings Bond may be redeemed at any time after 60 days from its issue date, over 92% of the total money received for the purchase of these bonds remains thus invested.

UNITED STATES SAVINGS BONDS SALES
 MARCH 1, 1935 THROUGH OCTOBER 31, 1937

271

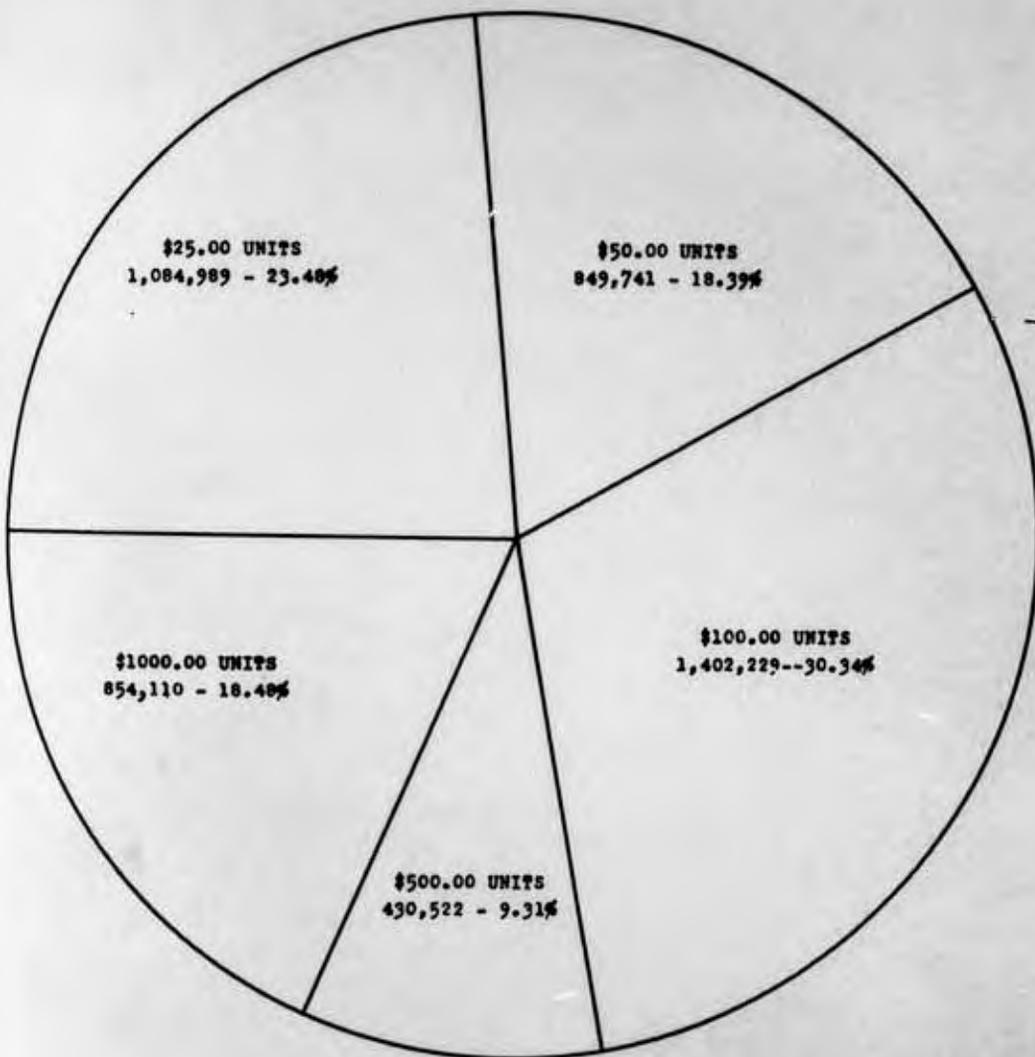
STATES	MATURITY
ILLINOIS	132,267,925
NEW YORK	96,221,625
PENNSYLVANIA	76,495,000
OHIO	74,274,200
MINNESOTA	61,687,375
IOWA	57,554,925
MISSOURI	57,126,850
CALIFORNIA	56,757,275
MICHIGAN	54,549,375
TEXAS	49,391,275
WISCONSIN	45,024,000
INDIANA	44,360,650
DIST OF COL	42,042,000
KANSAS	41,504,750
NEBRASKA	30,555,200
NEW JERSEY	26,301,775
MASSACHUSETTS	26,107,350
WASHINGTON	21,535,325
OKLAHOMA	21,438,975
COLORADO	18,497,250
KENTUCKY	16,868,975
NORTH CAROLINA	15,472,275
OREGON	15,150,950
VIRGINIA	14,676,575
MARYLAND	14,212,200
TENNESSEE	13,180,325
MONTANA	12,877,550
FLORIDA	12,773,950
WEST VIRGINIA	12,658,550
GEORGIA	12,161,550
LOUISIANA	10,812,700
NORTH DAKOTA	10,230,675
MISSISSIPPI	9,640,975
ARKANSAS	9,349,450
SOUTH DAKOTA	9,108,650
ALABAMA	9,097,075
CONNECTICUT	7,202,425
SOUTH CAROLINA	6,681,075
MAINE	5,231,625
IDAHO	3,940,950
WYOMING	3,579,575
ARIZONA	3,293,550
UTAH	3,266,100
NEW MEXICO	3,042,000
RHODE ISLAND	3,014,750
NEW HAMPSHIRE	2,680,575
VERMONT	2,616,025
NEVADA	1,579,850
DELAWARE	1,111,650
SUB TOTAL	1,279,205,675
POSSESSIONS	2,125,200
FOREIGN	1,265,275
GRAND TOTAL	1,282,596,150

UNITED STATES SAVINGS BONDS SALES
 MARCH 1, 1935 THROUGH OCTOBER 31, 1937
 SALES AT FIFTY LARGEST OFFICES

OFFICES	MATURITY
CHICAGO ILL	66,693,625
NEW YORK N Y	59,980,200
WASHINGTON D C	25,098,550
DETROIT MICH	22,058,300
MINNEAPOLIS MINN	19,064,225
PHILADELPHIA PA	18,908,850
ST LOUIS MO	18,766,300
MILWAUKEE WIS	18,421,425
CLEVELAND OHIO	16,149,200
LOS ANGELES CAL	14,708,900
KANSAS CITY MO	13,927,325
BOSTON MASS	13,780,925
PITTSBURGH PA	11,355,825
ST PAUL MINN	10,406,950
DENVER COLO	10,254,450
BALTIMORE MD	9,146,500
PORTLAND ORE	8,279,275
OMAHA NEB	8,244,700
CINCINNATI OHIO	8,230,050
SEATTLE WASH	7,912,025
INDIANAPOLIS IND	7,685,425
SAN FRANCISCO CAL	7,653,800
DES MOINES IOWA	5,941,250
DALLAS TEXAS	5,513,575
LOUISVILLE KY	5,409,175
COLUMBUS OHIO	4,970,425
NEW ORLEANS LA	4,613,700
HOUSTON TEXAS	4,552,975
TOLEDO OHIO	4,262,000
NEWARK N J	4,205,775
DAYTON OHIO	3,919,575
MEMPHIS TENN	3,824,700
BUFFALO N Y	3,497,850
ATLANTA GA	3,329,250
RICHMOND VA	2,953,175
OKLAHOMA CITY OKLA	2,662,125
OAKLAND CAL	2,388,450
FORT WORTH TEXAS	2,240,475
AKRON OHIO	2,162,975
JERSEY CITY N J	2,123,325
ROCHESTER N Y	2,035,675
PROVIDENCE R I	1,792,525
NEW HAVEN CONN	1,397,975
HARRISBURG PA	1,338,000
SYRACUSE N Y	1,325,425
NASHVILLE TENN	1,253,075
HARTFORD CONN	1,089,200
ALBANY N Y	1,061,475
SPRINGFIELD OHIO	536,350
TOTAL	477,127,300

UNITED STATES SAVINGS BONDS SALES
MARCH 1, 1935 THROUGH OCTOBER 31, 1937
ACCORDING TO BOND DENOMINATIONS

TOTAL UNITS: 4,621,591

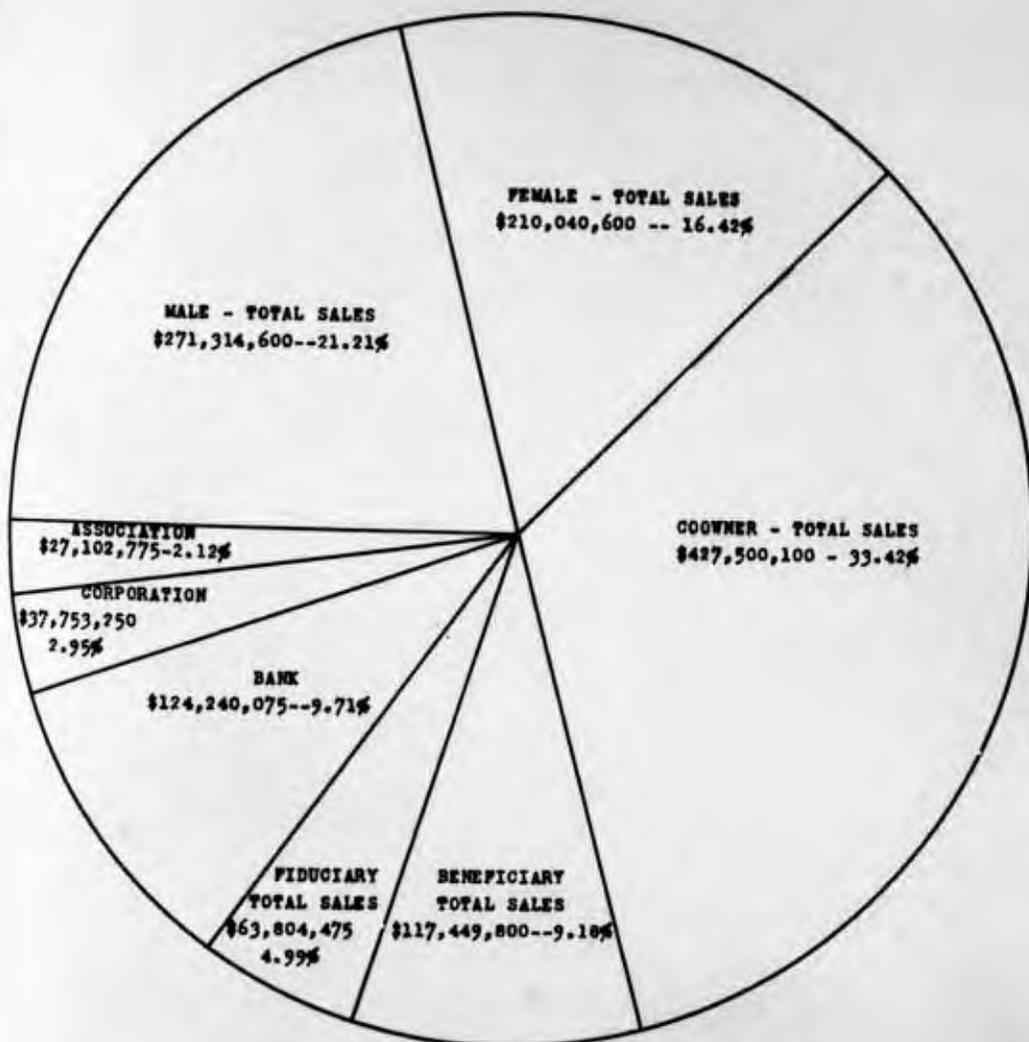


DIVISION OF SAVINGS BONDS
TREASURY DEPARTMENT

JAMES WILLIAM BRYAN, CHIEF
INFORMATION SECTION,
ROOM 18, TREASURY BLDG.

UNITED STATES SAVINGS BONDS SALES
MARCH 1, 1935 THROUGH OCTOBER 31, 1937
ACCORDING TO TYPES OF PURCHASERS

TOTAL SALES: \$1,279,205,675

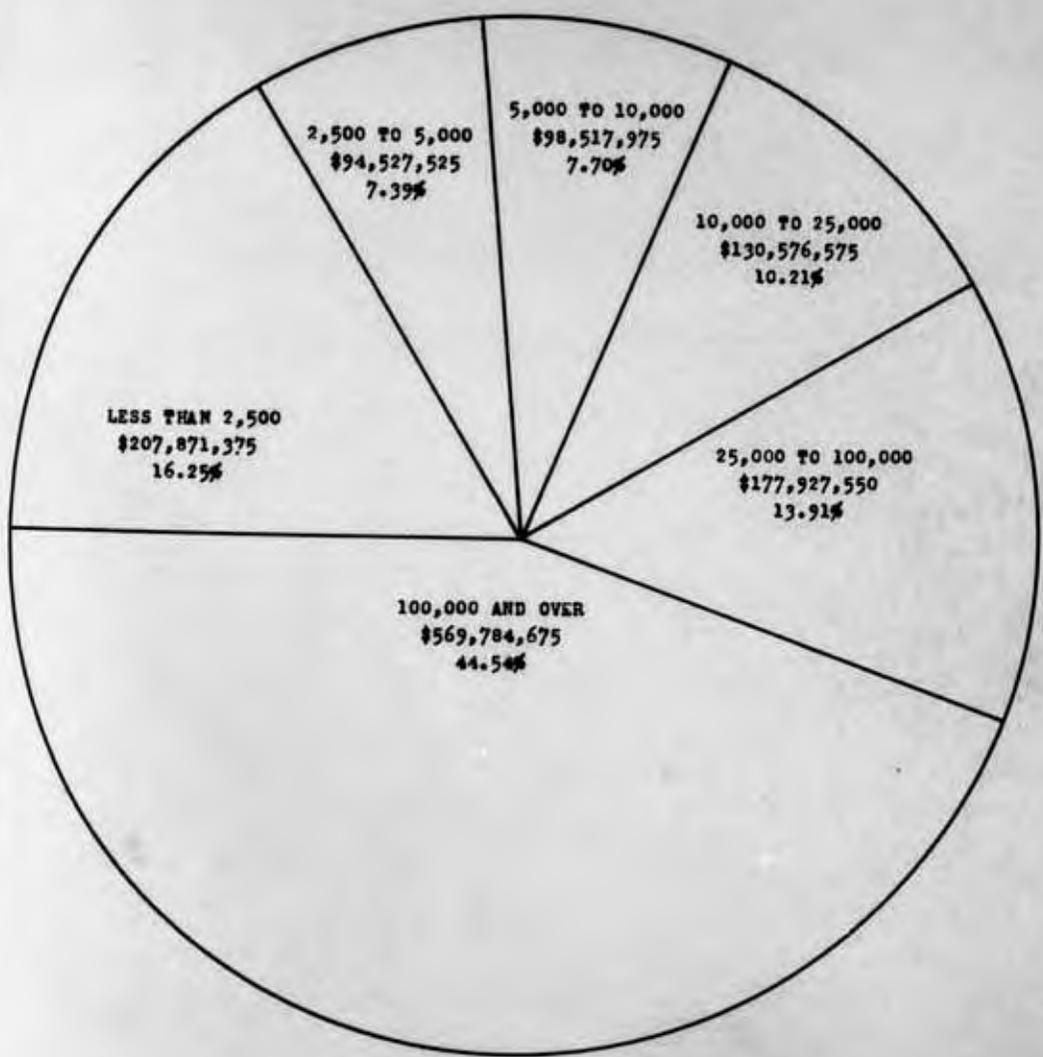


DIVISION OF SAVINGS BONDS
TREASURY DEPARTMENT

JAMES WILLIAM BRYAN, CHIEF
INFORMATION SECTION,
ROOM 18, TREASURY BLDG.

UNITED STATES SAVINGS BONDS SALES
MARCH 1, 1935 THROUGH OCTOBER 31, 1937
ACCORDING TO POPULATION

TOTAL SALES: \$1,279,205,675



DIVISION OF SAVINGS BONDS
TREASURY DEPARTMENT

JAMES WILLIAM BRYAN, CHIEF
INFORMATION SECTION,
ROOM 18, TREASURY BLDG.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Cotton Situation

Summary

Cotton prices held their ground this week despite a half-million bale increase in the official estimate of the crop. (Chart 1). Although the estimate of 18,746,000 bales was considerably above expectations, the size of the crop had apparently been so thoroughly discounted that prices rose immediately after the report.

A decided spurt in cotton goods buying in the Worth Street wholesale market this week, at slightly higher prices, has tended to confirm reports that inventories of finished goods have in many cases been allowed to run too low. There has been no heavy buying of cotton textiles in nearly nine months.

Having declined to the low levels of early 1936, cotton mill activity shows some signs of becoming stabilized, the seasonally adjusted New York Times index having held for more than a month within the range of 105 to 111. (Chart 2). Sales of goods by mills, with the exception of the past week, have continued below production however, which suggests the possibility of some further curtailment in production during the next six weeks. The recent tendency toward stabilization, with the revival in textile buying, encourage our belief in an upturn in mill activity after January.

Cotton exports (Table 1) hold above last year, with materially increased takings of American cotton by Great Britain, Germany, and several other countries offsetting the severe reduction in exports to Japan.

The amount of cotton going into the 9-cent loan stocks is increasing rapidly, 400,000 bales having been pledged under the loan last week. This has been one factor contributing to the stability of prices. The price of middling cotton is about 2 cent below the loan price, the 10-market average on Friday being 8.09 cents.

Cotton exports from the United States by countries of destination, August 1 through December 10, 1937, with comparable data for 1936 ^{1/}

	1937	1936
Great Britain	904,890	529,657
Germany	511,264	360,049
France	479,191	418,329
Italy	255,118	133,107
Canada	123,647	118,792
Poland	116,665	86,020
Japan	111,547	729,056
Belgium	99,873	67,115
Holland	82,668	51,466
India	60,914	3,600
Sweden	45,875	39,218
Denmark	32,817	26,015
China	21,309	13,147
Others	49,491	41,187
	<u>2,895,269</u>	<u>2,616,758</u>

Source: New York Cotton Exchange

^{1/} Includes 98,000 bales of linters in 1937 and 93,000 bales in 1936.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Cotton Situation

Summary

Underlying strength in the cotton situation was demonstrated this week when cotton prices rose instead of declining after the official crop estimate showed the cotton crop substantially larger than had been expected. Prices for raw cotton have been gradually improving since early in November. (Chart 1.)

Sales of cotton goods this week exceeded production for the first time in six weeks, and increased to the largest volume since last March, according to trade reports. This upturn in buying tends to confirm earlier reports that inventories of goods in many cases had been allowed to run too low during the nine months in which new buying has been light.

Having declined to the low levels of early 1936, cotton mill activity shows some signs of becoming stabilized, the seasonally adjusted New York Times index having held for more than a month within the range of 105 to 111. (Chart 2.) Sales of goods by mills, with the exception of the past week, have continued below production, however, which suggests the possibility of some further curtailment in production during the next six weeks. The recent tendency toward stabilization, with the revival in textile buying, encourages our belief in an upturn in mill activity after January.

Cotton exports (Table 1) hold above last year, with materially increased takings of American cotton by Great Britain, Germany, and several other countries offsetting the severe reduction in exports to Japan.

The amount of cotton going into the 9-cent loan stocks is increasing rapidly, 400,000 bales having been pledged under the loan last week. This has been one factor contributing to the stability of prices. The price of middling cotton is about one cent a pound below the loan price, the 10-market average on Friday being 8.09 cents.

Secretary Morgenthau - 2

Prices show strong undertone.

The strength displayed by the cotton market this week, when it opened at higher prices after publication of a Government crop estimate considerably above trade expectations, seems to indicate that the crop had been fully discounted in the previous price decline. Buyers in both the raw cotton market and in the cotton goods market were apparently awaiting the removal of uncertainty over the crop estimate to re-enter the market on the buying side. Factors pointing to an improving price trend for cotton are: (1) The effect of the Government loan in removing surplus cotton from immediate market channels. (2) The prospect of a reduction in acreage next year, with a probability that the average yield in 1938 will be substantially lower than this year's record figure. (3) Decreasing hedge pressure from now on, and an increasing proportion of hedge buying as merchants dispose of their spot cotton. (4) The prospect of an increase in mill buying during the spring and summer of 1938.

Goods buying increases.

The first important upturn in textile buying since last March was seen this week in the Worth Street wholesale market, with orders reported to have been placed for 40 to 50 million yards of print cloths and gray goods. The buying was done entirely by large finishers and converters, who are bare of stocks, according to reports. Buyers for the large mail order companies, who have been out of the market for months, are inquiring for goods, and commission houses expect them to begin buying next week. It is reported that these companies have been working for some time to get stocks as low as possible, and since retail sales have been fairly good, their inventories are believed to have been materially cut. Industrial users of cotton goods, such as the automobile companies, have not yet entered the market.

Government buying helping textiles.

Tangible results of the Administration's move to advance Government buying seem to be showing up in the cotton goods market, judging from comments in the Journal of Commerce. It is mentioned that the Relief Administration has bought millions of yards of cotton goods this month, and intends to buy more before the turn of the year. The Navy also is said to be shaping up contracts that will take a lot of stock goods out of the market, and will also aid some mills in starting additional machinery.

Secretary Morgenthau - 3

Mill activity shows more stability.

Cotton mill activity (Chart 2), on a seasonally adjusted basis, has held very steady since the latter part of October, following its decline to around the low levels of early 1936. The range during the past six weeks, as measured by the New York Times index of mill activity, has been between 105 and 111. Cotton textile activity in early 1936 was unduly low because of a general belief that cotton prices were on the verge of a serious decline as a result of the Supreme Court decision against compulsory crop control. The recent stability may not be entirely maintained during December and January, since sales by mills have until this week continued below production, but in connection with this week's sharp increase in sales it encourages our belief that an improvement in the cotton industry is likely to occur shortly.

Cotton exports continue above last year.

The exports of cotton for the current week, totaling 210,000 bales, compare with 174,000 bales for the same week last year. A comparison of our exports this season by countries of destination, shown in Table 1, brings out the fact that the severe reduction in takings by Japan has been more than made up by marked increases in takings by practically all other important countries. Exports from August 1 through December 10 total 2,895,000 bales, versus 2,617,000 bales for the same period last year. It is noteworthy that Germany has moved into second place as a buyer of American cotton.

Domestic mill takings lower.

Pointing toward the probability of some further curtailment in domestic mill activity during the next few weeks in advance of a general improvement, the forwardings of cotton to mills in this country during the current week declined to 116,000 bales, as compared with 160,000 bales last week. Foreign mills, on the other hand, increased their takings of American cotton to 152,000 bales from the previous week's total of 118,000.

Cotton rapidly moving into loan stocks .

The Commodity Credit Corporation reports that cotton loans had been made on 3,478,022 bales of the 1937 crop through December 9, representing an increase of 400,000 bales during the week. This compares with an increase of 430,000 bales during the preceding week. The rapid movement of cotton into the loan stocks has been one factor of strength in the market. The current market price is nearly a cent a pound below the loan level, the 10-market average on December 10 being 8.09 cents.

Cotton exports from the United States by countries of destination, August 1 through December 10, 1937, with comparable data for 1936 ^{1/}

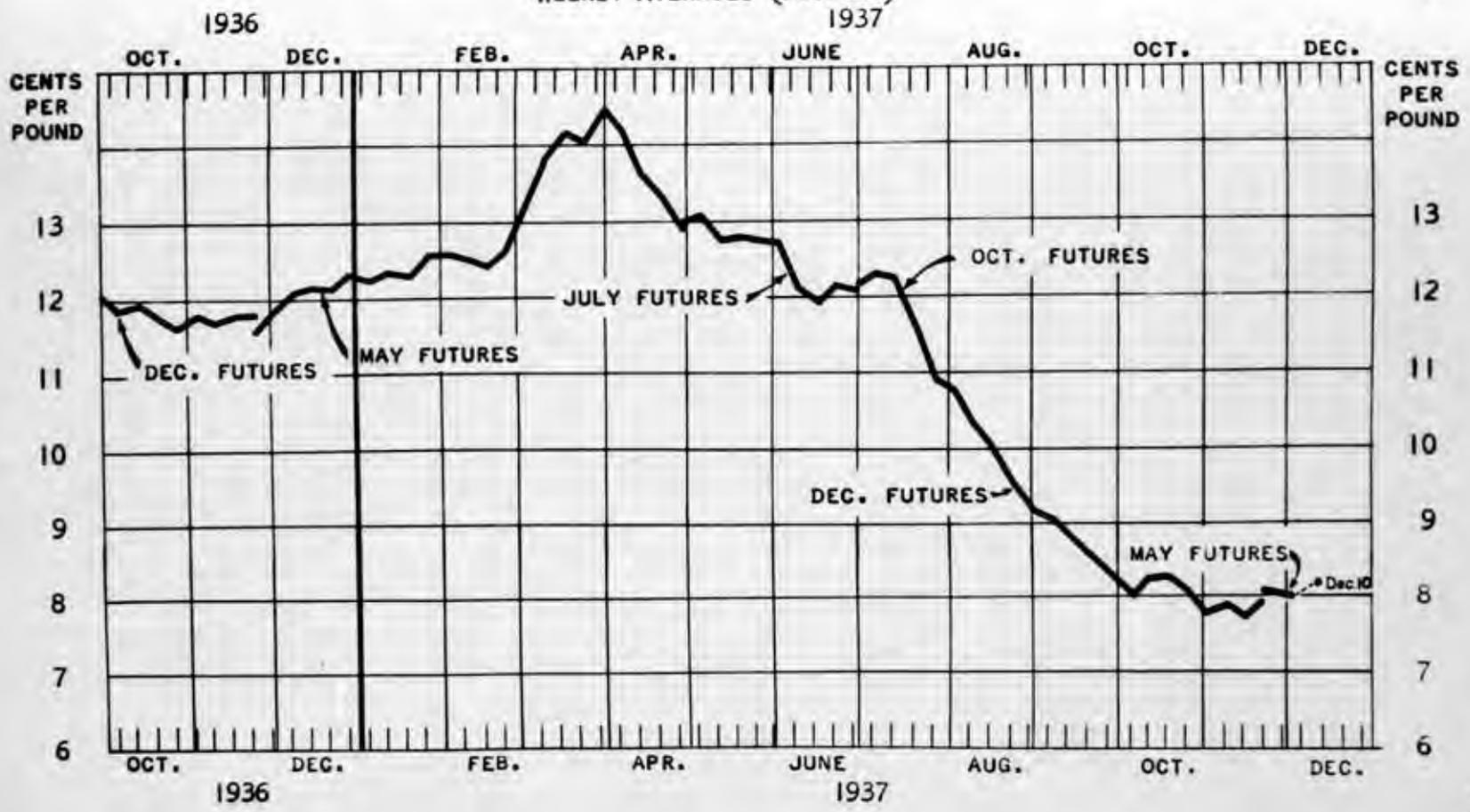
	1937	1936
Great Britain	904,890	529,657
Germany	511,264	360,049
France	479,191	418,329
Italy	255,118	173,107
Canada	123,647	118,792
Poland	116,665	86,020
Japan	111,547	729,056
Belgium	99,873	67,115
Holland	82,668	51,466
India	60,914	3,600
Sweden	45,875	39,218
Denmark	32,817	26,015
China	21,309	13,147
Others	49,491	41,187
	<u>2,895,269</u>	<u>2,616,758</u>

Source: New York Cotton Exchange

^{1/} Includes 98,000 bales of linters in 1937 and 93,000 bales in 1936.

PRICES OF COTTON

WEEKLY AVERAGES (FUTURES) 1937



GROUP MEETING

December 13, 1937
9:30 a.m.

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

H.M.Jr: Didn't have a chance to see you (Lochhead). Everything quiet?

Lochhead: Fairly quiet. The francs are inclined to be a little bit easy - a little bit uneasy, I'd say. And silver is going to have a rough day, I think.

H.M.Jr: It is. All right.

McReynolds?

McR: I haven't anything except a letter from Altmeyer about a matter of pure detail over there on Social Security tax forms. He wrote the letter to you on Saturday, but sent it to me with a note, leaving it more or less to me whether I'd bother you about it. He and Graves didn't agree about the use of an identical form for the state tax and the Federal. Graves objects, and I agree with Graves, that it would be unfortunate for us to permit every state to instruct the taxpayer what to put on a Federal form. That's what they wanted to do, and Graves said no; he asked me and I said no. Well, Altmeyer has written a letter to you appealing. But I don't think there is anything here I want to bother you with at all.

H.M.Jr: You and the rest of you - I find myself again spending too much time entirely on details.

McR: Well, Altmeyer was good enough to send the letter with a separate note to me, and it's just something Altmeyer hasn't had enough experience on to know the significance of. He's nice about it. He isn't nasty and he isn't fussy. I haven't got any complaint about Altmeyer. But I just wanted to know that he had you

-2-

written the letter to you and I'm not going to bother you with it.

H.M.Jr: O.K.

McR: That's all.

H.M.Jr: No, I'm getting bogged down too much again.

Are you (Magill) going up on the Hill?

Magill: Yes, but I think I can stay this out, because they've got the practice lately of calling the meeting for ten and if they get there quarter of 11 they're doing well.

H.M.Jr: All right.

The silver market hasn't opened?

Lochhead: Not yet. Going to be down, but don't know how much.

Gibbons: Some day - I'm speaking of details - I've got to get down with you on this cut-down in Customs force. Herman, I understand, has just rendered an opinion that the Comptrollers of Customs, who are doing a lot of unnecessary clerical work, in my opinion - they have legislated themselves into doing it, isn't that it, Herman?

Oliphant: Well, perhaps about 125 years old.

Gibbons: Yes, but I can see where we can cut the budget about a million dollars over there.

H.M.Jr: Well, go do it.

Gibbons: Well, it's a question of legislation.

H.M.Jr: Well, you've got

Gibbons: It's a question of policy.

Oliphant: The three of us can work it out.

Gibbons: I've been working on it. Haven't bothered you with any of that detail.

-3-

H.M.Jr: George?

Haas: I'll have a more complete report by noon today on those figures.

H.M.Jr: Well, let's just see how we're coming this morning.
- - Well, supposing - when will you be ready?

Haas: Well, before I came in, I instructed them to make a cut-off ...

H.M.Jr: Come in 11:45.

Haas: I said 12. That's fine.

H.M.Jr: What?

Haas: That's fine.

H.M.Jr: 11:45 - will you, George?

Haas: Yes, sir.

H.M.Jr: Bring in any statistics and stuff you've got. What?

Haas: O.K. I have a few other things. I also checked with Mac that other matter you asked me to, about that compensation.

H.M.Jr: Yes. Good.

There seems to be - I don't know how - we've got to straighten this out some time. The Straus people are talking to Bell about their financing. I don't quite understand it. We've got to get that straightened out. Maxcy came over to see him, see? Well, as long as he started, I didn't want to say no - whether they should sell - I don't - there's a little confusion there. He talked to me; I guess I don't understand it. What?

Taylor: Neither do I.

H.M.Jr: What?

Taylor: No, I haven't talked to anybody about Straus.

H.M.Jr: I don't know why Maxcy should come over and bother

-4-

Bell. Bell has got more than he can attend to.

Taylor: Foley is the only one I talked to and that's about that one thing we talked about last night.

H.M.Jr: Yes. Well, I don't know, it's a - I thought I'd have Straus come over here at three and then turn him down on his legislation.

Taylor: Uh-huh.

H.M.Jr: What?

Taylor: (Nods yes)

H.M.Jr: All right?

Taylor: I think what I discussed with you yesterday - I think that half of it is all right, but maybe this isn't the time.

H.M.Jr: No, what I'll tell them - Mac found this out on investigation - that the various units sat back and wouldn't do anything on housing, waiting for the Federal Government to do it all. Now, Straus has got 30, 40 million dollars worth of commitments where the communities are going to do ten percent, and if in the middle of that he makes it easier for the cities to put up ten percent, or makes it a phony ten percent, well, we'll be right back where we were before, and we'll find that the cities will hold up and they won't do anything.

McR: Sure.

H.M.Jr: Mac, why don't you see Straus and see if you can't clear that for me? Tell him he's making a tactical mistake, see?

McR: All right.

H.M.Jr: I mean that this question of legislation that he's got - he should leave it alone until after the first of January. If he starts monkeying with this legislation, all these cities that are coming in and meeting him half-way will just fall by the wayside.

-5-

McR: All right, I'll talk to him.

H.M.Jr: And that we think it's a tactical mistake and we're willing to take up this question of legislation with him after

McR: In the regular session.

H.M.Jr: Yes.

McR: Has he submitted to you any draft of what he

H.M.Jr: Yes. You get Foley and he'll give you the whole thing. You and Foley see him. All right?

Oliphant: (Nods yes)

H.M.Jr: All right, Wayne?

Taylor: (Nods yes)

H.M.Jr: Let Foley and Mac see Straus. Just tell Straus he's making a mistake. Now LaGuardia comes in; he's ready to put up the ten percent. Then Straus says, "No, we'll take it in tax-exempts, street widening," so forth and so on, and he'll lose everything he's got.

McR: They ought to get the ten percent and ought to get the taxes and service besides.

H.M.Jr: And the other thing he tried to do is perfectly silly. He is willing to say to a city that puts up ten percent that they have - I don't know what the legal language is - that their first mortgage is just as good as the Federal Government's first mortgage.

Taylor: Even talking about giving them priority.

H.M.Jr: Even want to give them priority. Just stupid. How you going to explain - somebody puts up 90 percent and he steps aside for a city that puts up 10 percent. I mean Straus is over-anxious now. He's doing all right. 40 million dollars - City of New York, another five million; he'll have 60, 75 million dollars worth in as the bill is written, and if he recedes from that position, I bet you his applications stop.

You (McR) know what experience you had. You said,

-6-

"They're all sitting back waiting to get it for nothing."

- McR: And they'll get it for nothing in spite of the law if he lets them.
- H.M.Jr: You talk to Foley, but you better talk to Foley alone first, because Foley is still a little bit
- Oliphant: Pro.
- H.M.Jr: Well, pro "gimme."
- Oliphant: Let me suggest that he talk to Foley first and then he see Straus alone and not with Foley.
- H.W.Jr: No, be good education for Foley.
- Oliphant: But I wouldn't want Straus to feel that it was a hang-over from that other ... Foley was an obstructor.
- H.M.Jr: All right, let Mac see him alone. But Foley has got to learn a little bit Treasury. A little bit soft - not legally, but ...
- McR: All right, I'll see him.
- H.M.Jr: I mean get this over to Straus, that if he just keeps on the way he is and if he'll do it in a businesslike way, he'll get much further along.
- And also on - if they've got any financing to do, the person that handles financing for the independent agencies is Mr. Taylor.
- McR: Yes, I'll make that clear to him.
- H.M.Jr: See? Wayne?
- McR: Well, they can't float their bonds without your approval anyway.
- H.M.Jr: But why bother Danny Bell? I asked Danny Bell to do, for instance, something like this, which is really important - to tell me what the agricultural

-7-

bill, House bill, is going to cost. He says, "I'm so busy I haven't had time to find out." Well, that's important and that's the kind of thing I want to concentrate on. Here's the Director of the Budget and the Secretary of the Treasury, and I'm sure the President of the United States - don't know what a bill costs which has passed the House. And I say about ten minutes of one I want to know. Huh?

McR: Yes.

H.M.Jr: You (Oliphant) don't have anybody following that, do you. Let's see what you say. You've got down "indefinite."

Oliphant: (Nods yes) I don't think any estimating has been done except by Ezekiel's organization.

Taylor: Mac, on that Foley thing, I've had three or four hours with that; I'd just like to give you one thing on that.

H.M.Jr: If you'd rather see Straus

Taylor: No, but I want to give Mac the part of it that I think is all right at the right time.

H.M.Jr: I mean I'm more than willing to have you see Straus, but I thought I'd save your time.

Taylor: No, that's fine.

H.M.Jr: What?

Taylor: Fine.

H.M.Jr: Now, what have you got?

Taylor: I slept on what you told me to sleep on last evening.

H.M.Jr: Yes.

Taylor: And I have a slight modification that I'd like to suggest.

H.M.Jr: All right. Plenty of time.

-8-

Taylor: Yes.

Gaston: No, I haven't anything.

H.M.Jr: You and Oliphant going to get together on this question of the

Oliphant: Yes, got that all on my desk.

H.M.Jr: What?

Oliphant: That's all on my desk.

H.M.Jr: Will you (Gaston) see that fellow today?

Gaston: Yes. Yes, I'll call him right away.

Taylor: I'm going to give Herbert all that Hungarian stuff so that he'll understand it.

H.M.Jr: Goulash.

Gaston: Yes.

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

Gaston: That's all.

H.M.Jr: Herman?

Oliphant: Nothing.

Taylor: Stand over there, Herman.

Magill: (Nods nothing)

H.M.Jr: You weren't there (at Gridiron Dinner), were you?

Magill: (Nods no)

H.M.Jr: You're lucky. The ladies had a better time than the men did.

Gaston: Yes, I understand they had a good party over there.

Magill: I went to bed at 9:30 Saturday night. It was a fine idea.

-9-

H.M.Jr: Well, I have nothing else.

Oliphant: I want to see you just a minute when you finish.

H.M.Jr: Sure.

Just to tell you what I'm doing - we've got the Minister of Mexico at eleven. That's the only thing I've got.

That fellow who was complaining against the tax thing - Hornblower-Weeks of Boston - isn't showing up. It's lucky I read his case. This is the fellow that says he's persecuted. I read his case. Sent it up to me. It's a good thing for him he didn't come down. I was going to turn to Helvering and say, "Why in the hell are you so easy on this man?" For four years systematically he's cheated the Government. Don't see why they don't put him in jail.

Taylor: What's his name?

H.M.Jr: Heller. He's the manager, I think, for Hornblower-Weeks. For four years systematically he's cheated the Government. And he claims he's being persecuted.

Magill: Are they charging fraud?

H.M.Jr: They haven't. I think they should when he's done it four years running.

You're all right?

Magill: (Nods yes)

H.M.Jr: All right. Herman, you see me a minute.

December 13th, 1937

11 a. m.

Present:

Ambassador Najera
Finance Minister Suarez
Mr. Taylor
Dr. Feis
Mr. Lochhead
Dr. White

HM, Jr: Have a good flight?

Mr. Suarez: Yes, Mr. Secretary. Very pleasant,
thank you.

HM, Jr: That's nice. You have no worries?

Mr. Suarez: I have, Mr. Secretary.

HM, Jr: You have a few worries?

Ambassador: The only thing he has now.

HM, Jr: Can you borrow on them? I don't want to borrow any of yours. I have enough of my own, but we are glad to discuss our mutual problems.

Mr. Suarez: Yes, sir. Well, Mr. Secretary, my worries are about the exchange situation. I have been, since last March, losing foreign exchange heavily. The explanation is the difference in price level between the United States and Mexico and the United States and Europe. Your price has been coming down and we have got to maintain a very high price level. In the last two months we have been able to price our price level down two points. The difference in price level affects us in two ways: first, our imports have increased in number and the value of our metals, cotton, coffee

HM, Jr: Excuse me. I want another man to come in. (Telephoned for Dr. White to come in.) Excuse me.

Mr. Suarez: And all the time increased the imports from the United States. So we have been losing

-2-

heavily. Since June we lost about 70,000,000 pesos. The maladjustment in price level has had its psychological effect. People are beginning to think that we will be unable to hold the peso and we have had capital flight last month and we have it every month.

HM, Jr: Where is the money going?

Mr. Suarez: To the United States.

HM, Jr: Mexican capital?

Mr. Suarez: Mexican capital and foreign capital as well. That is -- for instance, an American firm in Mexico has to pay for automobiles or goods they get here in the United States. They buy dollars and buy future dollars in order to cover their future purchases, of their obligations that are not due for months. And some Mexican capital we are also losing. They keep it in bonds.

(Dr. White joined the meeting at this point.)

Mr. Suarez: So that is our present situation. We have for the near future, next year, we will perhaps be able to increase our exports in oil. We are developing our oil reserves which are very good. We are drilling and we hope by the end of the year our production will be about 50,000 or 60,000 barrels a day. The Government production.

Ambassador: That is Government production.

Mr. Suarez: Government production, Mr. Secretary. At present our production is about 10,000 barrels a day. We are drilling two wells now in the Puruandiro (?) field which is a proven field and we have two working and we will have two more by the end of the year so we will drill four wells at the same time. It takes about five months to drill a well. Very deep where the oil is. And we hope by the end of the year we will have 11.

HM, Jr: That's the end of 1938?

Mr. Suarez: Yes. And we have entered also into a contract with Aguila Oil Co., which is a subsidiary of the Shell Oil Company.

Ambassador: The Mexican Eagle Co.

Mr. Suarez: We have had a long dispute with them about some properties and we have settled with them and we have entered into a contract by which we take 35% of the production or 13,000 barrels minimum a day. It was signed last month so that in December we will have this 13,000 gallons minimum guarantee a day. Besides that Aguila has to increase production in order to pay the royalty and we hope that we will be able to increase our production up to 20,000 a day. We are also trying to settle with other companies in order to reach similar agreements that we arrived out with Aguila in order to increase the production of oil. That will be the Government's production and we hope by the end of the year we will be in good position as far as exports are concerned. But for the time being we are in poor condition, because we are losing heavily gold and we are thinking that in the meantime while we have this additional production, if we could have assistance of the United States Government. We would ask three things.

The first one, is it possible to have a loan from the Stabilization Fund.

HM, Jr: Of foreign exchange?

Mr. Suarez: Foreign exchange; yes. We will keep that in case you make us a loan, we will keep it here in the United States and we won't use it, but would only be for psychological effects.

HM, Jr: The same way you did last time?

Mr. Suarez: The only think we can't give you a similar arrangement because according to our law we have to have this reserve gold. We would pledge ourselves not to withdraw that gold.

HM, Jr: That's our trouble. We can't do it unless you do pledge the gold or silver.

Mr. Suarez: Unless we pledge?

HM, Jr: Unless you pledge gold and silver just the way you did last time. Think that over. We stand ready to do it on exactly the same basis as you did last

-4-

time and you have got a lot of gold and silver here.

Mr. Suarez: Yes, we have.

HM, Jr: We are ready todo it on exactly the same basis as we did before, but we can't do it any other way. You think it over. But that's number 1.

Mr. Suarez: Number 2. If you could buy some silver. We have surplus of silver, 35,000,000 ounces.

HM, Jr: If you don't mind my talking frankly, I don't quite understand. You say you can't pledge the silver that you have here because that's part of your reserves, but the second thing you say, you have silver for sale.

Mr. Suarez: We can't convert it because we can't use it.

HM, Jr: You have silver here and gold here, both. I don't carry the figures in my mind. Well, let me listen to the whole thing first.

Mr. Suarez: The third thing is, in order to protect our reserve, gold, we will have to propose as a temporary measure to be used in discrimination to raise our tariffs. With great caution and only as a temporary measure we can raise your prices and we can bring down ours and increase imports.

Ambassador: That's Mr. Hull.

Dr. Feis: That would make Mr. Hull very happy.

HM, Jr: But as you know by now, the State Department and the Treasury work very closely together, but we will pass number 3.

Dr. Feis: I believe the Ambassador has an engagement to speak to the Secretary of State later in the day.

Mr. Suarez: The fourth, have the right to buy silver next year.

HM, Jr: Purchase silver for 1938? That agree-

ment is up December 15th?

Mr. Lochhead: It will be up for renewal about the middle of the month. It expires December 31.

HM, Jr.: That question ties up with our own question of what the President is going to do about silver domestically and that decision has not yet been made, so until the President makes up his mind what we do about silver, our own domestic silver, we will have to wait a little bit until we decide what we will do with foreign silver. Now, I don't know just how long you are going to be here. It isn't a matter of a day or two? You will be here several days?

Mr. Suarez: Yes, Mr. Secretary.

HM, Jr.: Well, that's the fourth. Anything else?

Mr. Suarez: That's all.

HM, Jr.: Well, what I would suggest would be this: (to Mr. Lochhead) Have you figures on how much gold and silver ...

Mr. Lochhead: They have been changing around, some gold released, but there was about \$6,000,000 gold on Saturday, earmarked gold, and about a little over \$5,000,000 silver at present prices.

HM, Jr.: Now we could -- we are ready to make exactly the same arrangements on the same terms to you that we did last time, only we will do a little bit better as far as the interest rate. I think the last time we charged you 3%, but since then we have made an arrangement with another country and we always believe in treating people the same and we would charge $\frac{1}{2}\%$ above the discount rate of the Federal Reserve of New York.

The discount rate of the Federal Reserve is $1\frac{1}{2}\%$, so you add another $\frac{1}{2}\%$, so it would be only 2% and it would be 2% instead of 3%.

Mr. Suarez: Yes, Mr. Secretary.

HM, Jr.: We treat everybody the same, so it would be 2% instead of 3%. But if you can work it out so

-6-

that you could make the same arrangements as you did before, we are ready to meet you on the same basis, but we can't do it any other way because we have other arrangements with other countries on the same basis and we treat everybody the same and on the subject of either gold or silver, buying foreign exchange, it's necessary to pledge the gold or silver.

Mr. Suarez: Yes, Mr. Secretary.

HM, Jr: Now, maybe if you could think it over.

Mr. Suarez: I will, Mr. Secretary.

HM, Jr: When would you like to come back to discuss that particular point again. →

Mr. Suarez: Any time tomorrow that suits your convenience.

HM, Jr: (To Dr. Feis) When would you think?

Dr. Feis: They are talking with Mr. Welles and the Secretary this afternoon. I should think tomorrow would be all right to try to keep moving forward.

HM, Jr: All right. Would eleven o'clock tomorrow be a good time?

Mr. Suarez: Yes, Mr. Secretary.

Dr. Feis: Yes.

HM, Jr: So if you gentlemen would come back tomorrow at eleven. Is that all right for you, Mr. Ambassador?

Ambassador: Perfectly all right.

HM, Jr: Anything else you want to ask me?

Mr. Suarez: No, Mr. Secretary.

HM, Jr: How about you, Mr. Ambassador?

Ambassador: No. I am listening.

-7-

HM, Jr: Good listener, too. All right, see you again tomorrow at eleven.

(The Ambassador and Mr. Suarez left.)

HM, Jr: (To Dr. Feis) If the Statement Department wants anything more than that to trade with! We had a dress rehearsal before this meeting and the State Department can't collect their money down there. Herbert, I was good!

Dr. Feis: Very.

HM, Jr: And if that does not give you enough to trade with!

Dr. Feis: Well, I gather, a real effort is going to be made. I think one of the difficulties has been that they have taken an impression of American policy not so much from anything that has been said up here, but from what Ambassador Daniels has said to them down there and the Ambassador has a benevolent outlook on his wards down there so anything they do he perchance has a tendency to approve and I think that's one reason they developed the anticipation that we would not speak up in behalf of any American difficulties and that we would not refuse them anything they ask.

HM, Jr: Well, if you fellows can't get what you want when they want all of this, you are a bunch of sissies over there.

Dr. Feis: Except, they have put themselves in such a position -- their own domestic politics, but even more serious is the risk you get. They assent to what you put up, but when it comes to a realization of it in fact, that's always the problem with these countries, not to get promises, but to make the promises good in the years that follow.

HM, Jr: We have them in a beautiful position.

Dr. Feis: Yes, I don't think this fellow would be here unless he were in real difficulty.

HM, Jr: Will you do this? There is not much use in talking, but can you again come over tomorrow at

-8-

eleven -- fifteen minutes ahead of time.

Dr. Feis: That was my thought. And report on this afternoon's conversations.

HM, Jr: And let me know just where you are at.

Dr. Feis: I think that's absolutely essential.

HM, Jr: I did not want to go too fast, but as between No. 1 and No. 2, He wants to sell us silver, but if he has silver for sale there is no reason why he can't pledge it because he could sell silver and deposit gold.

Dr. White: He wants that additional money. He wants both to sell it and not pledge the other because they can't pledge the other and yet he wants to be able to say he has additional exchange for the psychological effect.

HM, Jr: It's just incredible to me. Here is a country that has an unlimited market for three things, gold, silver and oil and a favorable balance of trade, and these fellows have to go out and dig some oil wells and they ought to be in the most beautiful position financially.

Dr. White: That's what they are trying to do now, by getting back some of the material they think they lost.

HM, Jr: But they have everything -- low cost labor; everything.

Dr. Feis: But his exposition of the chief reasons is, of course, out of focus. He gives as the chief reason the cost of the balance of merchandise trade. That in itself would not create his difficulties. They are created by the fact that their internal policies have stopped the entry of foreign capital into Mexico, on the one hand, and on the other hand, fear of their external policies has led to this withdrawal of capital out of Mexico and that they are still developing their spending schedule all the time and in that way constantly augmenting the fears of the future for the peso. That's the real dominating force in the situation; not merchandise balance of payments.

-9-

Mr. Taylor: They also ignore completely all these other steps and their potential effects on balances of payments when he talks about 50,000 barrels of oil when in the meanwhile they are creating additional future burdens on their balance of payments by this appropriation of American properties. It's a little unrealistic.

Dr. Feis: As long as I have been in the Department, I have never yet seen a careful talking through between ourselves and the Mexicans of their economic relations with us. Maybe this will be the time.

HM,Jr: I hope so.

Mr. Taylor: Unless you take advantage of this situation -- all these boys reminded me of was our friend Krueger. He was going to be all right. He was going to find this gold mine in Sweden. That was the first thing that came to my mind.

Dr. Feis: Sure.

HM,Jr: Listen, Herbert. Between the two Departments we ought to be able to do a job that will be good for a while, really good, and if you will be here

Dr. Feis: I will be here at least 15 minutes earlier and perhaps I should suggest to Welles that he come too.

HM,Jr: He will be more than welcome.

Dr. Feis: I think he ought to come too.

HM,Jr: Thank you very much.

oOo-oOo

December 13, 1937. 301
12:18 p.m.

Colonel
Harrington: Yes, Mr. Secretary.

H.M.Jr: When you come over, if you could have the figure that Hopkin's used. He seemed to have a figure of all governmental units that will be spending money on employment other than your organization.

H: I see.

H.M.Jr: He kept using a figure of fifty million a month.

H: Yes.

H.M.Jr: Now whether he gets that from Leon Henderson or where he gets it, if you could make inquiry, because he told me that he figured ~~there~~ would be much more money available other than PWA agencies.

H: Yes.

H.M.Jr: Once before. He seemed to have a combined figure of states, counties, cities social security, the whole thing you see.

H: Yes.

H.M.Jr: If you have it, I wish you'd bring it with you.

H: Well, I can get that, I'll bring it Mr. Secretary.

H.M.Jr: Thank you.

H: All right, sir.

H.M.Jr: Thank you.

December 13, 1937.
12:34 p.m.

H.M.Jr: Yes.

Operator: Go ahead.

Nathan

Straus: Hello. Henry?

H.M.Jr: Yes, Nathan.

S: Am I disturbing you?

H.M.Jr: No.

S: I wanted to ask you for that report on the amendment because today is my last day. The Banking and Currency Committee is going to report the Bill and unless I can get the amendment in today, I'm through.

H.M.Jr: Well I asked McReynolds to see you and explain it to you.

S: He hasn't called me.

H.M.Jr: Well that's his fault. I told him at nine thirty.

S: Are you going to give us the endorsement?

H.M.Jr: No.

S: Well Henry, the thing is this. If - there is no provision in the Bill, you understand, for the cities to raise any amount of money. We can raise the other ten per cent anywhere, and if we don't raise it through that means, we're going to go adding up to float it through private bankers, which I hate to do.

H.M.Jr: Well, everybody that's looked at it thinks that you should go along until the first of January.

S: Yes.

H.M.Jr: That if you begin to let down the bars.

S: Yes.

H.M.Jr: The Government will find itself just where we've been, that the cities will lay back and wait to get it for nothing. We think you're making a great mistake,

where the things are coming in as fast as they are now.

S: Yes.

H.M.Jr: Particularly with the ten per cent.

S: Well, there isn't any - there hasn't any come in so far, not one.

H.M.Jr: Well, I thought you had thirty or forty -

S: No, my boy, all of those people said that if we would earmark the funds, that they would go back and see what could be done, in order to raise the ten per cent. I haven't got one single city here in this broad land of ours, that has come to me and said, 'Here is the ten per cent', not one.

H.M.Jr: Then your publicity has been misleading.

S: Well the publicity has been earmarking them in the belief that they would be able to raise it, which I'm going to do, I'm going to keep on believing it until it's disproved. I can't do anything else.

H.M.Jr: I haven't got it before me, but certainly reading it I got the distinct impression that you had come to an agreement with the cities to the extent of thirty or forty million dollars.

S: That is absolutely untrue.

H.M.Jr: Well then your publicity has been - I'd like to - I'd like to see your release.

S: Let me see my - I'll send you my last release on the subject.

H.M.Jr: Well I told McReynolds, and I'd like to switch him over because he and Taylor and Foley have got together.

S: Yes.

H.M.Jr: And in order - I couldn't make an appointment, I wanted to save you time, and I'd like to talk, when I get through, to McReynolds, and then to have him call you.

S: Could we do this Henry? Could Mr. McReynolds, Mr. Taylor and Mr. Foley meet me and Mr. Maxie and Mr. Kiserling this afternoon and go over this thing for about half an hour?

H.M.Jr: I know that McReynolds is available, and I know he's ready to talk.

S: Well I think if we could sit down with them, in a half an hour we could get this thing settled, either perhaps we're wrong, but I don't think we are, and I'd like to have a chance to talk to them.

H.M.Jr: Well, the whole thing, the reason that I - after listing them, took the position that I am, was, that I figured if you could lend thirty or forty million dollars, why monkey with it, when it was going from

S: My dear boy, if we could have lent thirty or forty million, I never would come over and cry on your shoulders.

H.M.Jr: Well, Nathan that was - either I didn't read the stuff, or it was printed wrong.

S: Well Henry, I deliberately made the publicity a little more encouraging. The fact - you wouldn't have me do anything else, would you? The publicity was that these cities hoped to be able to raise the ten per cent. There has not been one city, and I said that publicly, that's come into me yet and say, we have the ten per cent, not one.

H.M.Jr: Well, do you mind sending me over the release.

S: I'll send you the release but I would ask you, in reading it, to bear in mind that I was trying to be encouraging and not star gazing. It doesn't say that, it says that they - I've forgotten the exact words - I'll send the last release over to you, and meanwhile could we see McReynolds and the other fellow this afternoon?

H.M.Jr: He'll call you within two minutes.

S: Beg pardon.

H.M.Jr: He'll call you within two minutes.

S: All right. Good.

H.M.Jr: He'll call you within two minutes.

S: All right. I'll send the release over to you.

H.M.Jr: Thank you.

S: All right.

December 13, 1937.
12:34 p.m.

Operator: Hello.

H.M.Jr: Mr. McReynolds.

O: Right. McReynolds.

H.M.Jr: Hello.

McReynolds: Yes, Henry.

H.M.Jr: Mac, Nathan Straus just called me. He said today is the last day that they can do - get in an amendment.

M: Yes.

H.M.Jr: And he hadn't heard from you.

M: Well, I just came from Wayne Taylor's office. I couldn't get him. He wanted to talk to me before he talked to Wayne. I always - I've been away - back from Wayne's office three minutes.

H.M.Jr: Well, when I hang up, I'd wish you'd call him.

M:

H.M.Jr: I told Straus that I based this - my idea that we wouldn't go along because he had lent thirty or forty million dollars worth of stuff. I read it in the paper, see?

M: Yes.

H.M.Jr: Is that your impression?

M: Yes. I understood that they had that.

H.M.Jr: Well, he said that's just to cheer people up, that he actually hasn't let a contract, or hasn't got a further committment from any city. That it was just to cheer people up.

M: Well.

H.M.Jr: The damnest thing I ever heard of. You call him up. You'd better see him this afternoon.

M: Yes. I will.

- 2 -

H.M.Jr: I mean that doesn't get anybody anywhere announcing they've got thirty of forty million dollars worth of contracts. Hello.

M: Yes.

H.M.Jr: And then he said that's just to let them know he wasn't star gazing. I think it's the darneest thing I ever heard of.

M: That's only one of a number of things of similar kind that I'm afraid Nathan has pulled over.

H.M.Jr: Well, you'd better go into it, and please take a look at his release because certainly the release left me with the impression that - that he had done business to the extent of thirty or forty million dollars.

M: I get the same impression.

H.M.Jr: I don't want to -

M: I - of course, I knew it wasn't so when I read it, from -

H.M.Jr: Yes. Please call him, and please take care that - and I don't want -

M: I'll call him immediately -

H.M.Jr: Because I know him too well, I don't want to get on a personal basis with him.

M: All right.

H.M.Jr: Thank you.

M: O.K.

December 13, 1937.
12:53 p.m.

H.M.Jr: Hello.

Operator:
Marriner
Eccles: Go ahead.
Hello.

H.M.Jr: Hello Marriner.

E: Oh, hello Henry.

H.M.Jr: Good morning.

E: Say, I told you last week that I was leaving town today, and I'd give you a ring before I left.

H.M.Jr: Right.

E: So we had a meeting this morning, the Executive Committee, and we decided that for the coming week we wouldn't do anything in the market, this week.

H.M.Jr: Yes, that's right. Yes.

E: Unless there was some change.

H.M.Jr: I understand.

E: But the way the thing is now, we'll - it doesn't seem to call for any action, it's - it's plenty strong without any.

H.M.Jr: Everything seems all right.

E: Well, we disposed of twenty - I think about twenty four million of the twos and a half.

H.M.Jr: Yes.

E: We have - we have fifty six million now.

H.M.Jr: Yes.

E: And we had replaced them with - with notes of varying maturity, running from thirty eight to forty two.

H.M.Jr: Yes.

E: And what we were going to do is to reduce it down to about fifty million, holding fifty.

H.M.Jr: Yes.

E: And then shifting some of our long-term bonds as the market seems to - not go out and undertake to sell them but merely try to meet the demands for them.

H.M.Jr: Yes.

E: That may come into the market.

H.M.Jr: Yes.

E: Replacing them with - with shorter maturities.

H.M.Jr: I see.

E: I mean that's the general policy. Now, it is decided that it may be inadvisable or difficult to do much of anything until after currency starts coming in after Christmas.

H.M.Jr: I see.

E: Until after the first of the year. We will consider the thing again next week, and if the situation seems to call for anything, why -

H.M.Jr: Well, I'll see you next week.

E: That's right.

H.M.Jr: Well good luck.

E: I just want to let you know that's - that's

H.M.Jr: Perfectly all right.

E: Everything's all right.

H.M.Jr: Entirely satisfactory.

E: O.K. then.

H.M.Jr: Thank you.

E: Goodbye.

December 13, 1937

Present:

Colonel Harrington
Mr. Ross

HM,Jr: You don't mind my being frank.

Col. H: I hope you will.

HM,Jr: Is this sure? (Referring to table showing number of men who could be put to work.) (See page 4, where the Secretary returned this table to Col. H.)

Col. H: No, sir. It can be made effective, in my judgment. I did some calculations on the basis of our present employment to see what the possibilities of this thing were. I took that employment and just arbitrarily subdivided that load of unskilled and semi-skilled and professional and technical and on the August load that would show a saving of about \$3½ millions a month. With a larger load, of course, the saving would of course be correspondingly increased.

HM,Jr: But not enough to put on 350,000 people?

Col. H: No; that's correct, Sir.

(HM,Jr then requested that his remarks not be recorded.)

HM,Jr: He has never broken his word with me. (Harry Hopkins)

Col. H: Neither of us saw him after he saw you. He took the train.

HM,Jr: You men will just have to take my word for it. Don't misunderstand. This has happened before. I have been with Hopkins five years and four years in New York. I am not questioning -- I am not intimating that I question your word.

Let me tell you what he said to me before he left, so that we get the picture. We have had a situation like

-2-

this before when he was sick -- Aubrey Williams and I before. He said, Whatever I do it will not be above 1 billion 3. I promise you: nothing above 1 billion 3 without talking to you again. He said: We are going to try to work out something on putting between 250,000 and 500,000 men on by making the money go further per person. He took the train that night. The figures we have got -- is that yours or Bell's?

Col. H: It must be Mr. Bell's. However, in this scale we did not make any allowance for reduced wage cost which Mr. Hopkins was talking to you about, which might very well make the difference between the large figure and the 1 billion 3. Our estimates on monthly cost are made up of wages and materials and administrative.

HM, Jr: What we have got down here -- this isn't even for trading purposes -- but they worked out something.

Amount available:	
Total amt. for Works Projects	\$1,159,000,000
National Youth Adm.	40,000,000
Administrative expenses	63,000,000
	<hr/>
	1,262,000,000
Transferred to other agencies	
from the quota	45,000,000
Total WPA quota	<hr/>
	1,307,000,000

Now, in doing that we figure \$8,000,000 short using \$61.00 per month. You people are running \$64.00. We figure that you could go to January, \$1,750,000; February, \$1,675,000; March, \$1,675,000; April, \$1,560,000; May, \$1,410,000; June, \$1,335,000. But this is the important thing: the outside figure that you gentlemen can figure on, keeping faith with Hopkins, myself and the Budget is \$1,307,800,000.

Mr. Ross: I am sure Mr. Hopkins did not consider this \$45,000,000 that's going into the other agencies as part of this money.

HM, Jr: These are Bureau of the Budget figures.

Mr. Ross: But in Mr. Hopkins' statement to you he did not include the \$45,000,000.

HM, Jr: He kept using the figure of 1 billion 3.

Col. H: I understand that that was what the Pres-

-3-

ident told him. You know?

HM, Jr.: No. I don't know. Hopkins said -- I said, Wait a minute. (I had these figures in my bedroom.) I said, This checks with what Bell and I have -- 1 billion 3 -- and, you see, Bell had been over there that afternoon; he was there and gave me his working papers and these are his working papers and the figure that he unquestionably used over there was 1 billion 3 and that's where the President got it. Whether Hopkins knew what the breakdown was, I don't know, but wasn't it that afternoon they had a meeting?

Col. H.: Yes. We had had a meeting the afternoon before.

HM Jr.: If that \$45,000,000 disturbs you, the thing that disturbs me is the \$1,379,000,000.

Col. H.: Of course, Mr. Secretary, it is possible to meet any one of those figures, but it means the readjustment of this last schedule that we bring you.

HM, Jr.: I am going to ask you until Hopkins returns in view of our understanding -- and you say the President said 1 billion 3?

Col. H.: That's what I thought.

HM, Jr.: Well, Hopkins said 1 billion 3; Bell said 1 billion 3 and I say 1 billion 3, so we are all together on the figure, but apparently the only people who know how that was arrived at are Bell and myself. You people know now.

Mr. Ross.: I also wonder if he knew NYA was in there.

HM, Jr.: No reason why you should not go into the Budget and see Keene because these figures were developed by Keene, but I think it's terribly important. Who sees Keene from your shop?

Col. H.: I see him on certain things, but not on finance.

HM, Jr.: You know your way back there.

Col. H.: Yes, I know Mr. Keene.

HM, Jr.: If you don't mind, I think it's terribly

-4-

important that you see him and let him tell you where they get the billion 3 and then Bell and Colonel Harrington and I should sit down together. Maybe Hopkins will be away two months so if you want me to I will call up Bell and tell him now about this and as soon as you are ready I think we ought to get together.

I just sensed this because I have been in exactly the same position with Aubrey Williams and I had a talk with Hopkins alone and he did not have a chance to tell it to Aubrey and we had a misunderstanding.

Col. H: We will have to do some whittling on that to cut down \$79,000,000.

HM, Jr: There is no question in our mind that you only have 1 billion 3 at this time and that's taking in the \$100,000,000 reserve.

Mr. Ross: I don't know. I have no idea. We figure 1 billion 375.

HM, Jr: We are dealing with human beings and we can't afford to make a mistake. I feel terribly upset over this.

Mr. Ross: What has happened, Mr. Keene is reserving X dollars for this and X dollars for that, that we haven't known anything about.

(The Secretary telephoned to Mr. Keene.)

HM, Jr: He says they have a meeting which will be over in ten minutes with the Secretary of the Interior. If you want to come up, either or both of you, they will see you right away. And then I will leave it this way: just as soon as you are ready, I want to do this.

Mr. Ross: We will try to get it this afternoon.

HM, Jr: No mystery, but just a misunderstanding. I don't think I am going to keep this. (The chart brought over by Col. Harrington and Mr. Ross, referred to on first page of this transcript.) You are just as anxious to do this as I am.

Col. H: I should say so.

-5-

HM, Jr: You won't reach -- you will go out of December with how many people? What do you think?

Col. H: We are assuming average employment in December on this schedule of 1,725,000, but I doubt that we will have it.

HM, Jr: What do you think?

Col. H: 1,538,000 was December 4. I doubt whether our average employment is over 1,600,000.

Mr. Ross: I think it might be.

HM, Jr: Then this week when we come to an understanding there is still time to adjust the January and February schedule of 1,300,000.

Col. H: There are always things that can be done in April, May and June. \$79,000,000, which is the amount that's in discussion here, means about $1\frac{1}{2}$ million men, month employment. That means $1\frac{1}{2}$ will have to come out of here some place.

HM, Jr: We are all right for December because you won't be able to reach it.

Col. H: The only thing that Hopkins did say before he dined with you, he said: I always find that we don't spend as much money as we expected whenever these quotas are increased.

HM, Jr: Well, that's most likely true, but we don't want to take any chances.

Mr. Ross: I remember we were scraping for our last nickel

HM, Jr: You had me down.

Mr. Ross: and had a carry-over for June and July.

HM, Jr: But that does not make any difference. We are both entitled to know his figure of 1 billion 3 and if it is, let's cut our cloth to that until we decide whether we need more cloth or can get along with this cloth. I am

-6-

going to wait until I hear from you and whenever you have this straight, let's have another meeting.

Col. H: And whatever figure we do arrive at, you would like this kind of statement of what we are going to do.

HM,Jr: Yes, because this is my biggest problem.

oOo-oOo

December 13, 1937

The price of silver in London declined well behind the price in New York this morning. Mr. Morgenthau sent for Haas, White, Taylor and Lochhead and told them that he wanted them to put down on paper whether they favored reducing the price which we paid in New York for foreign silver and, if so, to what price. The attached slips show how Haas, Taylor and Lochhead voted. Dr. White said that he wanted to give further thought before he expressed his opinion. Mr. Morgenthau said that when we move on silver we better wait and do nothing on the 45¢ price until the President takes care of the 77 $\frac{1}{2}$ ¢ price. Mr. Morgenthau told Lochhead to take anything up to a million ounces of silver to-day at the fix.

42.10

B. Maas

Drop price to
43¢

A. L. Miller

Drop price
to 42.50

net.

Ribbon copies of this memo were sent to following, with letters of transmittal dated December 14, 1937:

Secy. of War - Attention: Col Strong

Secy. of Navy - Attention: Rear Adm.
R. S. Holmes

Secy. of State, Attention: Dr. Feis

321

Copy to be sent to:

Secretary of War, Attention Col. Strong, G-2.

Secretary of Navy, Attention Rear Admiral
R. S. Holmes

Secretary of State, Attention Dr. Feis.

TREASURY DEPARTMENT

322 ~~SECRET~~

INTER OFFICE COMMUNICATION

DATE December 13, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Japan's Foreign Exchange Resources

Summary

Conclusion:

Japan can continue military operations upon the present scale for at least another year before exhausting her foreign exchange resources.

However, the possibility of war with Russia makes it highly desirable for Japan to conserve for that contingency as much of her exchange resources as possible.

Notwithstanding that contingency the amount of foreign exchange resources that Japan will use up during the next three months does not appear to be enough to force a settlement of the Sino-Japanese war. The decisive factors in her Chinese campaign during the next few months seem to us to be political and military - not shortage of foreign exchange.

I. How much foreign exchange resources has Japan now?

(a) She can with ease obtain \$200 million.

(b) If pressed to the limit, she could double that sum without increasing her exports or decreasing her imports.

These amounts are conservatively estimated as follows:

1. Gold in excess of legal reserve requirements	\$75	million
2. Foreign balances	65	"
3. Foreign securities at liquidation value	85	"
Total	\$225	"

Secretary Morgenthau - 2

If pressed Japan could raise an additional \$250 million as follows:

1. Gold now kept as legal reserve	\$200 million
2. Sale abroad of Japanese securities	25 "
3. Recoverable gold and silver	<u>25</u> "
Total	\$250 "

These are very conservative estimates. It is quite likely that Japan could, if essential to her military success, raise in a short time foreign exchange to the value of \$600 to \$700 million.

II. How fast is Japan using up her exchange resources?

Apparently at the rate of \$30 to \$40 million a month.

At that rate Japan can go at least five months before using up her "ready" foreign exchange resources; and at least twelve months before exhausting all her foreign exchange resources.

Moreover, if forced by military need, there are numerous measures that Japan can resort to in order to increase her foreign exchange resources. These measures, if adopted, could greatly extend the period in which Japan could carry on military operations.

If pressed to the limit Japan can at the present rate of consumption of necessary materials probably go two or even more years before being forced to curtail military operations through shortage of foreign exchange.

III. What will be her foreign exchange situation if U.S.S.R. enters the fight?

Japan will need much more war material than she is now using up. How much more we do not know, but a conservative estimate would seem to be an increase in consumption of oil, machinery, war material of double current uses. (Our Army and Navy Departments can probably estimate Japan's monthly needs of imported war material in a war with U.S.S.R. and China.)

Secretary Morgenthau - 3

Faced with the danger of disappearing as a major power, Japan would leave no step untried to strengthen her weakest link - - her need for foreign exchange. Confronted with that possibility there is little doubt Japan could develop enough of a surplus of foreign exchange to meet the needs of a large scale war for six months or so.

By then her assets convertible into foreign exchange will be exhausted and her position will grow precarious. Italy and Germany can will help, but their own needs will leave little for Japan.

The decisive factor in a war with U.S.S.R. and China lasting more than six months will be the aid other countries will give Japan - either directly or by giving aid to Germany and Italy. That aid can take the form of either increased purchases of Japanese goods or of export credits. Loans to Japan will be a very poor financial risk - but political considerations, not financial, will doubtless be the determining factor.

JR

GRAY

London

Dated December 13, 1937

Rec'd 3:14 p.m.

Secretary of State,
Washington.

771, December 13, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

A loan of 5,000,000 pounds at 4% maturing 1960 has been arranged for the Belgian Government by Barings, Morgan, Grenfell and the Westminster. Barings state that "a considerable part" of the proceeds will be spent in this country: part will also be used to liquidate an obligation to a third country presumably France. Barings also said that the Treasury gave its permission because of the above and as an expression of the Treasury's interest in Belgium's financial wellbeing which was increased by reason of the fact that she is an adherent to the tripartite arrangement.

There was some difficulty in fixing the price of silver which in the end was reduced to $18\frac{1}{2}$ pence being $\frac{5}{16}$ ths pence down. There was a fairly substantial amount on offer but a more drastic price reduction was avoided by setting the level at just ^{BELOW} above the limit of a considerable number of selling orders.

JOHNSON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: December 14, 1937, 1 p.m.

NO.: 627

I refer to telegram No. 531 of November 11, 1 p.m., from the Embassy, on the subject of shipments to the United States of Japanese gold.

The Commercial Attaché of the Embassy has been informed by the Bank of Japan's Vice Governor that since the report in the telegram above referred to, the following gold shipments have been made:

208,000 ounces, approximate value 25,000,000 yen, on November 30.

331,000 ounces, approximate value 40,000,000 yen, on December 11.

According to the Vice Governor, the Bank of Japan will not make any more gold shipments this year.

GREW.

EA:LWW

RECEIVED
TELETYPE
TRANSMITTED
NOV 15 1937