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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 11, 1938, 9 a.m.

NO.: 41

FROM COCHRAN.

This morning I returned from Basel where on Sunday and Monday the BIS directors met.

The governors at their Sunday meeting discussed the question of changing the share capital from the gold basis; as yet they have taken no decision. Opinion is divided with the British and Swedish representatives favoring the change, and the change being opposed by the Dutch, French and Swiss. If the change would make repayment of BIS credits to Germany less expensive, Schacht would be in favor of it.

At the meeting a committee was set up to study a plan for reorganization of the bank staff; the members are Schacht, Niemeyer and Azzolini. In order to prevent difficulties such as were present at the recent selection of the French general manager, some board members are in favor of having the statutes changed to abolish the titles of general manager and assistant general manager. They would have the president actually serve as general manager as Beyen does in fact, and let the board name as many "managers" as would be warranted by circumstances.

Auboin

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Auboin, who took office on the first of January, was welcomedd at the meeting on Monday. The directors paid tributes to former governors Franck of National Bank of Belgium and Vissering of the Netherlands Bank, both of whom died in December, 1937. There was brief discussion of world wholesale prices, the French production report, budget of the United States, cost of living and industrial production.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 41
OF JANUARY 11, 1938, FROM PARIS.

The directors did not hide their concern over the world armaments race which appears to be growing more competitive at present. Not counting the waste therein, these men who have the responsibility for protecting their respective currencies realize the increasing difficulty of this task in the face of a movement like this. The latest Italian announcement that the navy will be increased was disappointing, since it is realized that the burden thereby imposed will weigh very seriously on a country which is already poor.

The outlook in France is a source of worry to the bankers in view of the unrest, economic depression, recrudescence of capital flight and a government there which is lacking in sincere unity. The Governor of the Bank of France, Fournier, had come to Basel directly from Italy where he had been for the holiday season. He was not called upon to discuss recent developments in France. On Sunday the Under Governor of the Bank of France, de Boisanger, came to Basel to tell Fournier about the French situation, but he returned to Paris at once. I talked with Auboin, who was importantly responsible in preparing a French report on production. He said that no radical changes in the economic set up were required, but too rigid application of the forty hour week had damaged it. In his opinion, business can be adapted to this gradually, considering the extent

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extent of the depreciation of the franco.

END SECTION TWO.

BULLITT.

PARAPHRASE OF SECTION THREE, TELEGRAM NO. 41 OF
JANUARY 11, 1938, FROM PARIS

I was told by the President of the Netherlands Bank, Trip, that by the end of December a Dutch banking syndicate had turned over to France on recently opened credit over 100 million florins. On December 31 the option for additional amount expired but was extended to the fifteenth of January at which time the syndicate will pay over a further 12 1/2 million florins. It is not certain whether France may receive the balance of 37 1/2 million required to make the total of 150 originally envisaged. Only 5 million florins of the credit have been held by Mendelssohn. Other Dutch financial institutions have taken 35 million florins, and Swiss, British, Swedish and French purchasers have taken the other 72 1/2 million. The credit has not been open to the public, and it is becoming increasingly difficult to place it with banks. It is not likely, under the circumstances, that any new Dutch loans will be made to France, especially in the near future when it is expected that there will be an important Dutch Government conversion loan.

Governor Trip told me that Dutch business recovery is leveling off, and that if world trading becomes more restricted, it may be difficult for his country to maintain its high standard of living. The Dutch budget has made
him

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him a little unhappy. He feels that if the Prime Minister, Colijn, and the Minister of Finance, deWilde, do not shortly take a more resolute stand against the spenders and political money seekers, there will be a weakening of their own positions. The present, he insists, is the time when firmness on the part of the Government is required, and the individual must work hard. Trip said, incidentally, that Prince Bernhard was making such a complete recovery from his accident that he (Trip) and others in the Government are planning work for him to "keep him out of mischief".

END SECTION THREE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS FOUR AND FIVE OF TELEGRAM NO. 41
of JANUARY 11, 1938, FROM PARIS.

Basel observers, including Trip, who know the Far East, expect that the invasion of the Japanese in China will make necessary an important yen devaluation and will wreck the Japanese economy. Imports of wool and cotton into Japan being now curtailed will increase prices for manufactured goods, there will be an increase in unemployment, and so on.

I talked with the President of the Swiss National Bank, Bachmann, who was quite happy over the working of tripartite transactions with our country. At the end of the year, he said, some Swiss firms had liquidated dollar balances, He also said that some new flight capital was coming in from France, that it is believed there will be a longer winter tourist season productive of more foreign exchange than usual, and that he recently purchased some gold on the London market. For the present he will maintain a policy of converting dollars into gold, as needed, in the United States. Bachmann said that in Switzerland the banks had so much trouble passing on to the public the French railway loan they recently undertook that there is no likelihood there will be a new French operation on the market in Switzerland. He also said that his bankers fear that France will come to exchange control.

Norman

- 2 -

Norman, the Bank of England Governor, said that no negotiations for a credit in London had been begun by France. He is of the opinion that no useful purpose was served by the last credit and he is not in favor of giving a new one to France. Sir Otto Niemeyer believed that a profitable deal might be welcomed by British bankers, who might even give a longer term credit if the French would pledge adequate guarantees; he did not think that British officials would be enthusiastic about such a credit. I was told by Niemeyer that a Frenchman who does not live in France and who has great wealth and has in the past been correct in every move toward saving his fortune, predicts that by June the franc will be 175 to the pound and by the end of the year it will be 250. Very soon Governor Norman will sail for a cruise in the West Indies.

The Belgian industrial director, Galopin, said that by the end of February the resources of the French Treasury will be exhausted. Galopin believes that there has been so much deterioration in the general French situation that to avoid a dictatorship will be extremely difficult. Today the new governor of the National Bank of Belgium may be appointed. It was the opinion of one Basel observer that the government might still offer the place to Paul Van Zeeland. However, since both Franck and Barmat are no longer

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longer living, it may be more difficult than ever for Van Zeeland to reestablish his standing and hold a position in the public eye.

I had a talk with Schacht, who said he had been quite happy to have a "party magazine" publish his recent article on the desirability of a gold standard, since the need for a gold basis had been belittled by certain of the Nazi leaders. Schacht maintains that more than ever experience is teaching that there must be an "independent" basis for a currency and that the only medium that meets the requirements is gold. He is opposed to having a currency managed by domestic politicians or tied to a unit which a foreign power manages.

END SECTIONS FOUR AND FIVE.

BULLITT.

EA:LWW

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PARAPHRASE OF SECTION SIX ~~XXXXXXXXXXXXXXXXXX~~ OF TELEGRAM
NO. 41 OF JANUARY 11, 1938, FROM PARIS.

Schacht, as always, denounced the practice of statesmen criticising other countries in the speeches which they make; he does not believe that much speechmaking of this kind will be heard in Germany hereafter.

Schacht said that he didn't think the report of Van Zeeland would have any concrete results unless Van Zeeland withholds release of the present document for the present. He thinks Van Zeeland's best plan would be to communicate with the heads of important states, telling them what he wants to do and asking them to put in writing what they are willing to do to further this; then there would be some hope that a constructive report could be written.

Officials of the BIS will be unhappy if as rumored Van Zeeland's report may contain Frere's old idea about setting up a fund with the BIS, from gold of monetary authorities, to be used for credits to those countries who need relief for their currencies. In their opinion technical and political grounds would defeat such a plan under the present circumstances. For instance, Germany would not be guaranteed a sound currency, given a credit, in view of its unbalanced economy. Then too, in view of the likelihood that the money would be spent on armaments, the credit would be politically impossible. In addition, it would be decidedly hopeless to hold an early world economic and monetary conference.

END SECTION SIX.

EULLITT.

PARAPHRASE OF SECTIONS SEVEN, EIGHT AND NINE OF
TELEGRAM No. 41 OF JANUARY 11 FROM PARIS

I talked with Beyen, President of the BIS, who said he did not know how he, in his position, could administer such a fund if it were created in view of the international political discord prevailing. He expressed the hope that the BIS may eventually be instrumental in heading up joint credits to selected central banks when entirely favorable circumstances are presented. Governor Trip emphasized that it would be futile to make loans to strengthen currencies unless there are facilities for imposing rules as to how the funds are to be used, and rules as to the conduct of economic and financial policies. Governor Niemeyer said he could not picture creditor countries putting a part of their gold reserves at the disposal of an institution for possible lending to countries which are already in debt to them and are even defaulting on those debts. He believed that unless at least the United States and Great Britain gave advance approval Van Zeeland would not put the gold fund recommendation in the report.

The American silver program aroused little comment, but there was considerable curiosity as to the means and measures which the United States and Mexico might pledge to hold a fixed parity between their respective currencies. [I have since my return to Paris read a report in AGENCE ECONOMIQUE of the statement by Secretary Morgenthau concerning

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cerning the limited provisions in the arrangement for purchase of silver from Mexico.] The remark was made by one Basel observer that the United States is being very helpful to China in the present crisis through her policy of purchasing silver from China.

The Swedish Bank Governor, Rooth, talked to me in favor of the United States and Great Britain entering an agreement to maintain a rate parity which could only move within narrow limits between their two currencies without reference to gold. It is still his opinion that the United States fixed too high a price for gold. Rooth is watching for any signs of inflation in the United States, naturally hoping that there will be no decline in the dollar. He wondered, incidentally, whether there might not soon be a rise in the Treasury bill rate considering the increased program for issuance of such bills.

The American economic situation is receiving a great deal of attention. The fact that the President continues to consult with businessmen pleased observers, as well as the fact that Congress does not seem inclined to pass legislation which is of a very radical nature. These observers believe that if President Roosevelt makes peace with business, has an economic pickup in the Spring, and negotiates a trade agreement with Great Britain, the world
will

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will be given much encouragement and it may even aid certain wavering countries such as France and some countries of Latin America to maintain the forms of government they have at present.

I gathered from some of my friends that they believe there is now developing in many lands a cynicism and a bewilderment that may precede and lead to steps toward sanity in national economic affairs. The French were cited as being extremely bewildered at the present time; they have seen their country follow a deflation policy which exposed it to great hardships, and after that an expansion policy which likewise did not seem to help the situation materially. It appears that they believe experiments have been tried and that it is hard to see what more can be done. There are indications that these people have been prone to forget that real welfare will rise only if there is an increase in the volume of production. It is vain to expect any betterment in the standard of living if the measures that are taken do not bring about a greater output of commodities and services. If no new labor-saving methods are introduced higher prices will only be the result of a shortening of hours of work. However, it is not just an overnight job to bring about rationalization of production. New machinery
may

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may be acquired by existing industries and fresh capital at reasonable rates of interest must be obtained for that. Such was the main conclusion of the French inquiry into production. Should experiments in the financial and monetary field not favor (or if such experiments are not accompanied by measures that favor) the intensification of production and an increase in volume of output, my friends insist that they are of no help in improving the standard of living and may indeed be very harmful.

February 14 has been set as the date for the next meeting of the BIS.

END OF MESSAGE.

BULLITT.

EA: LWW

GROUP MEETING

January 11, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Bell
Mr. Lochhead
Dr. Viner
Mr. Gibbons
Mr. Upham
Mr. McReynolds

Magill: I don't think I have anything.

H.M.Jr: You're all fixed?

I don't think I'll call up every day. If there's something important, you people can call me. I'd say 9:30 would be a good time of day - in the morning.

You (Magill) say you have nothing?

Magill: I don't think so. No.

H.M.Jr: Wayne, I think I'll write the President a little note - will you listen to this, Mac, then tell this to O'Connor. Tell him that due first to the fact Patman produced a bank holding bill, plus a lot of other reasons, I think I'll postpone - get the message ready, but we won't do anything on bank holding companies until I get back. See? But we'll get everything ready, and that gives the Committee time on it.

I spoke to Herbert Feis last night as man to man on that thing, and he's going to walk into Mr. Hull's office at 9:30 this morning and try to get - see whether he can't get him to move. And if he doesn't, why, I'm just going to sit tight. I can't see myself calling up the President of the United States and asking him, will he please take up a foreign matter and send for Mr. Hull and myself. I just can't see it. I mean I don't think it's right. I'm sure Mr. Hull would be the first one to object.

Taylor: I had one additional suggestion which was along those same lines, that you'd call up Secretary Hull and say good-bye to him before you go, say, "I'll take

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this up when I get back."

H.M.Jr: Well, I'm perfectly willing to call up and say good-bye, but after all, I've sent him two messages within 18 hours on this thing, and I know Mr. Hull, and if Mr. Hull wants to take up a matter that affects foreign matters, he can do it awfully quickly. He was awfully in a hurry Saturday; at six o'clock I had to meet him at my house. It was on Hungary's debt. And I just - I know him; I mean I can't ... As a matter of fact, I know the President; if I'll call up and say, "Mr. President, won't you send for Mr. Hull and myself," chances are two out of three he'll say, "Well, if Mr. Hull wants to see me, why doesn't he say so?" But after Hull had had an hour and a half with him, together with Sumner Welles, they say nothing. When he wants something, he is expressive. But Feis

Taylor: My only point is, I don't think there's any point in getting in a fuss about it.

H.M.Jr: There is no point at all. I never was quieter. But I'm not going to call up the President and ask him to see Mr. Hull on a matter that is distinctly in Hull's department.

But Feis said he'd go in there again at 9:30 and try him. No fuss.

Bell: Could very well be delayed anyhow, couldn't it, a few months?

H.M.Jr: Well... - then, did you know Feis - I didn't quite get it - told me in strictest confidence that we don't have strictest confidence, that there is a difference between the Foreign Office and the Treasury in Hungary?

Taylor: Yes.

H.M.Jr: Did he tell you that in strictest confidence? Which does the Foreign Office want, and which does the Treasury want?

Taylor: I don't know. Yes, I think I do. I gathered that the

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Foreign Office thinks that payments ought to be kept up and the Treasury thinks they shouldn't be.

H.M.Jr: Then you talk to Win Riefler and he says that when we got \$9,800 that's all we're going to get. He sat with the Hungarians for a week. He said, "Don't expect to get any more."

Well, anyway, the next move - I mean I called him last night, so we can wait for across the street.

Taylor: You'd like to have a Jefferson nickel with Monticello on the reverse side?

H.M.Jr: Yes. Got a national competition. We still uphold Lincoln.

Taylor: Well, I'm glad of that.

H.M.Jr: Dr. Viner?

Viner: (Nods nothing)

H.M.Jr: You look very satisfied this morning.

Viner: All right. Nice weather.

H.M.Jr: Mr. Gaston?

Gaston: I don't know of anything.

H.M.Jr: Herbert, I don't like this particular line in here - that last sentence - because I'm very jealous of the fact that I don't tell the newspapermen one thing one day and another thing another day. I never told them that. See the bottom (of article entitled "Morgenthau Denies Financing Rumors" in N. Y. Times of January 11)?

Gaston: Uh-huh.

H.M.Jr: What? I never told them what our financing would be in January.

Gaston: Uh-huh.

H.M.Jr: I mean I just don't think it does any harm to tell

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this fellow that I constantly said all through December, "This is simply for the present, and what we do in January I don't know." You can look up the notes.

Gaston: Yes.

McR: Lots of newspaper comments to that effect too.

Gaston: I think this was just an assumption that

H.M.Jr: I never said we'd start the June notes in January.

Gaston: No. It says here you might borrow in anticipation of June tax receipts.

H.M.Jr: But he said I told reporters that.

Gaston: Yes, I don't think you did.

H.M.Jr: Will you handle it if I'm right?

Gaston: Yes.

Gibbons: The young boy in Honolulu - we're making him a Deputy Collector of Internal Revenue.

H.M.Jr: You get me a new Collector of Customs?

Gibbons: Yes.

H.M.Jr: You lost two Collectors of Customs.

Gibbons: Yes. Terrible about Joe Maynard. I knew he was in bad shape.

The other old fellow out there has been writing himself letters for about a year.

H.M.Jr: What?

Gibbons: The other fellow in Oregon has been writing himself letters for about a year. He's about 80 years old.

H.M.Jr: What else have you got?

Gibbons: Nothing.

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H.M.Jr: How was the dinner up in New York?

Gibbons: Very good as far as attendance. About 1200 people up there. The Governor made a very good speech.

H.M.Jr: Did he?

Gibbons: Uh-huh. The high spot of the whole affair was Tremaine on taxes. Just simply

H.M.Jr: I can't hear this morning.

Gibbons: He simply said that the tax situation - our taxes will have to be changed; until then, business wouldn't get anywhere. He was on the tail-end and read the speech, and went right to town on Magill, you know. I sat there, thinking of Magill being down there.

H.M.Jr: Well, how did that dovetail with Mr. Robert Jackson's ...

Gibbons: Well, Robert Jackson was up in the front, about the third or fourth. Tremaine - only about eight or nine speakers, and Tremaine was the last one.

Viner: Only about eight or nine!

H.M.Jr: What sort of a hand did Jackson get?

Gibbons: None.

H.M.Jr: None?

Gibbons: No, just

H.M.Jr: Who would you say of the candidates seemed to get the best hand?

Gibbons: Lehman.

H.M.Jr: Huh?

Gibbons: Lehman. Probably Bennett. Bennett - of course, he's always got the soldiers.

H.M.Jr: But Jackson didn't get

Gibbons: Jackson didn't get a ripple, and I sat and just

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listened - here and there, spotted it.

H.M.Jr: How about in the halls and the gossip? Any gossip?

Gibbons: Well, of course, they all think that Jackson was eliminating himself from New York as Governor.

H.M.Jr: Really? Did you go to that Saturday luncheon?

Gibbons: The luncheon? Yes. And the same thing there. They seemed to think Jackson's out.

H.M.Jr: Still birth. A still birth. Is that correct?

Gibbons: They think Lehman will be renominated.

Viner: Miscarriage.

Taylor: Getting very technical now.

H.M.Jr: Which?

Viner: Jackson.

H.M.Jr: Oh, he was of full age when he was born.

Viner: But not his ambitions.

H.M.Jr: I think still birth.

Viner: It wasn't still at all; it was very noisy.

H.M.Jr: You win. All right. You win.

Magill: Can't beat these professors for language.

H.M.Jr: All right, we'll go along.

Upham: (Nods nothing)

H.M.Jr: Aren't you wearing your hair shorter since you go up on the Hill with Magill?

Viner: And grayer.

Upham: I always try to imitate the man with whom I am associated.

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- Magill: Have to be careful and not look academic.
- Bell: How about collegiate?
- Upham: Do you prefer it long? If you do, I'll be glad to let it grow.
- Taylor: Make the class of '39 at Ossining.
- H.M.Jr: Not very long, but I'd prefer it thick.
- Upham: I'm afraid I can't help that.
- Viner: It's a good sample.
- H.M.Jr: All right, go ahead, Archie.
- Lochhead: I've already given all I know this morning.
- H.M.Jr: All right. Japanese have no silver or gold for sale?
- Lochhead: The Japanese haven't - we have had no more advice of shipments of gold. Silver - small amount of silver coming out all the time. The smelting - finally have a branch over in Japan; buy silver over there all the time. Nothing special at this time.
- H.M.Jr: I think you people might be interested in knowing that for the first four weeks in December the importation of silk dropped off three million dollars, and we had a favorable balance of trade with Japan for the first time of three million dollars. And they have again started to buy cotton. But it looks as though silk was down. This one month is too early to tell. But that's quite a sharp drop. Dropped from eight million to five million dollars in December.
- What do they use this paper base they buy so much from us for?
- Viner: Rayon.
- H.M.Jr: Is that what they use it for?
- Viner: You mean they buy sort of a pulp?
- H.M.Jr: Cellulose.

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Viner: Rayon. They're the biggest manufacturers of rayon.

H.M.Jr: It's a paper base. Is that what they use?

Viner: Rayon.

H.M.Jr: What?

Viner: Yes. They're the biggest manufacturers, aren't they, of rayon in the world?

Taylor: (Nods yes)

H.M.Jr: But that's for rayon.

Viner: Probably mix it up with some of their domestic stuff.

H.M.Jr: Silk?

Viner: No, pulp. They cut a little.

Taylor: Also with silk, also with cotton, also with wool.

Viner: Yes.

H.M.Jr: Danny?

Does that look all right?

Bell: Not strictly comparable, but that's about it.

H.M.Jr: These are the figures which I've been trying to get for two weeks. I finally got them. For the next six months, exclusive of WPA, all the agencies will spend for relief, state and otherwise, 770 million dollars; and WPA, 620. So that's one billion, 390 million dollars.

And last year, January to June - last year

McR: Same period.

H.M.Jr: Same period, same agencies, about one billion six. In other words, we're going to spend 200 million dollars less the present six months for relief purposes than we did before.

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Bell: I think that figure should be 680, shouldn't it, Mac?

McR: No, if you look at your top sheet there, it isn't.

Bell: 680.

McR: You're talking about January to June, Danny. That's from July to December.

Bell: No, it isn't. Your first quarter in your fiscal year is July to September, and second quarter is October to December. 680. 60 million. Talking about the quarters of your fiscal year.

McR: Oh, that's right.

Bell: You were taking calendar year.

McR: Taking the calendar year makes a difference.

Bell: There isn't a lot of difference when you come right down to it.

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

Bell: That's exactly the basis on which we figured out the relief appropriation for the District of Columbia this year. Just taking the relief appropriation alone shows a substantial reduction, but when you add back the unemployment and the old-age assistance, you get practically the same figure that you had last year, and more than they had in previous years.

H.M.Jr: I think that's very interesting. Much better than you would guess, wouldn't you think so? 1450 as against 1600 for the second six months.

Viner: (Nods yes)

H.M.Jr: Dan?

Bell: I have nothing.

Viner: Means it was too big last year.

H.M.Jr: Correct.

Anything while I'm gone that you can think of?

-10-

Bell: I don't know of anything except the R.F.C., and I take it Mr. Taylor

H.M.Jr: I gave that to the President. He accepted it.

Bell: I mean the drafting of these bills. I assume Mr. Taylor will work with Jesse.

Taylor: When he gets back, which will be today or tomorrow, why, we'll go ahead with that.

Bell: The two phases.

H.M.Jr: Mac?

McR: Nothing.

Taylor: President did sign the letter?

H.M.Jr: Well, he didn't - he read it very carefully and he said, "That's all right, that's fine; that's just what I want." Didn't sign it in my presence, but he said, "That's fine, that's all right." He was quite tired yesterday afternoon; it was late, and so he said, "That's fine."

Magill: Do you want these meetings to go on while you're away?

H.M.Jr: I think they're good. Sort of keep track of Cy Upham, Steve Gibbons, the boys who don't know what they're doing.

Magill: You - as I gather from what you said first, you probably will not be talking to all of us every morning.

H.M.Jr: I don't think so. I mean I love you all dearly, but

Magill: I wanted that assurance.

H.M.Jr: But I think it would be good for both of us if we skipped a day or two. If the market should go up three or four points in a day, Archie might call me and tell me, just to cheer me up. If it goes down, needn't bother.

Taylor: Read that in the morning.

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H.M.Jr: I think so. Nice part of Sea Island, kind of being off on that little island there - I mean your mail takes from two to three days. I don't know why, but it does.

Bell: You're leaving about noon?

H.M.Jr: Yes. We're going up to Princeton - I mean with Henry; then we leave New York at one o'clock tomorrow. I'll call up tomorrow morning from New York.

Bell: Two letters in the mail. I don't know that - one of them is on the way to you: Vandenberg letter on Social Security; and the other one is the LaFollette letter, which has been laid aside for a day or so.

H.M.Jr: Well, I'm going to ask Mac to come down to the train when I come through. I'll have Kieley give you a slip. If there's anything, you come down to the train, Mac, will you?

McR: Be glad to.

H.M.Jr: Will you, when we go through tomorrow? So if anybody wants anything, they can - Mac will have five minutes to decide the financial fate of the world.

Well, all be good. As I say, keep your eye on Gibbons and Upham.

January 11, 1938.
10:54 a.m.

H.M.Jr: Hello.

Operator: Senator Glass.

H.M.Jr: Thank you.

Operator: Senator ...

H.M.Jr: Hello.

Unknown: Just one - wait one minute. Capitol ...

Capitol
Operator: Yes.

Unknown: Put this on 974.

C.O.: All right.

Operator: Sorry. I thought that was the Senator on the line.

H.M.Jr: Hello.

Carter
Glass: Yes.

H.M.Jr: Hello. Hello.

G: Mr. Secretary?

H.M.Jr: Yes, Senator.

G: Carter Glass.

H.M.Jr: How are you?

G: I'm fairly well, thank you.

H.M.Jr: Recovered from your birthday?

G: No, I have not.

H.M.Jr: I see.

G: Mr. Secretary.

H.M.Jr: Yes, sir.

-2-

G: I'm told that there's an evil statement in the Herald this morning that I made some slighting remark about you.

H.M.Jr: Oh, I just thought that was funny.

G: Well, I didn't think there was anything funny about it. I think it was a most - a breach of the truth as well as civility.

H.M.Jr: Well now, you're

G: I didn't say anything of the kind, and had I said anything of the kind it was indecent in a newspaper to undertake to repeat things that might have happened in my apartment.

H.M.Jr: Well now, Senator, it's terribly nice of you to call up, and I just thought it was one of your witticisms.

G: No, it wasn't one of my witticisms, and I've never gotten off any witticism about you.

H.M.Jr: Well, that's

G: I've never spoken of you except in terms of affection.

H.M.Jr: Well now, that's awfully nice of you. But even if you had, coming from you, I - I would have smiled and have enjoyed it.

G: I think my granddaughter has plenty of sense, as far as that's concerned.

H.M.Jr: I agree with you, and I

G: But

H.M.Jr: .. and I wouldn't mind the ...

G: But I wouldn't have made an unpleasant contrast.

H.M.Jr: Yes. Well now, ...

G: So I just wanted you to understand that there is no grain of truth in it.

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H.M.Jr: Well, that's terribly nice of you to call me up.

G: Those two fellows, Allen and - ah- whatever the man's name is

H.M.Jr: Pearson.

G: ... are two of the biggest liars that ever lived on earth anyhow.

H.M.Jr: Well, I have no doubt ..

G: Never bother to check.

H.M.Jr: I have no doubt that's so.

G: Yes. Well, I wanted you to understand there isn't a word of truth in it.

H.M.Jr: Well, thank you so much for calling me.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, January 11, 1938.

Press Service
No. 12-10

Secretary Morgenthau today sent the following letter to Representative John J. Cochran as Chairman of the Committee on Expenditures in the Executive Departments and as Chairman of the Committee on Government Organization of the House of Representatives, to Senator J. Hamilton Lewis as Chairman of the Committee on Expenditures in the Executive Departments of the Senate and to Senator James F. Byrnes as Chairman of the Select Committee on Government Organization of the Senate:

My dear Mr. Chairman:

The Annual Report to the Congress of the Acting Comptroller General of the United States for the fiscal year 1937 contains statements seriously reflecting on the conduct by the United States Treasury Department of the public business with which it is charged by law, involving the care of the public funds entrusted to it.

It is my belief that charges of this character having been brought formally to the attention of the Congress it is my duty, as responsible head of the Department which has been criticized, to reply to them, and I am therefore addressing myself to you as Chairman of a Committee of the Congress which will have before it for consideration matters touched upon by the Acting Comptroller General's report.

The specific criticism directed at the Treasury Department by the Acting Comptroller General is that the Treasury Department has failed to cooperate with the General Accounting Office in providing a proper accounting system for the Government, and two instances are cited by the Acting Comptroller General to sustain this criticism.

Obviously, nothing can be more vital to the orderly transaction of public affairs than the safekeeping of the

- 2 -

public funds and the maintenance of accounts in such form as to permit the efficient transaction of the public business, and to preserve an accurate record of all transactions for the information of Congress and the people. The Secretary of the Treasury is charged with a grave responsibility for the collection, safe-keeping, and proper disbursement of the public moneys, a responsibility which he must discharge in full compliance with the laws enacted by the Congress. He can not relieve himself of this responsibility by obedience to the mere direction of any other officer of the Government.

Realizing to the full this responsibility with which I am charged by law, I began, as soon as the report of the Acting Comptroller General was brought to my notice, a careful review of the relations between the Treasury Department and the Office of the Comptroller General, with the particular purpose of determining whether there was justice in the criticism which the Acting Comptroller General has made of the Department. It is my belief, after a most careful examination, that the criticism of the Acting Comptroller General is without merit and that it is merely an incident in a continuing effort of the General Accounting Office to assume duties not entrusted to it by law, and to assert authority neither expressly granted by law, nor properly deducible by implication from the law.

This effort of the Office of the Comptroller General is well illustrated, I think, by the two instances cited by the

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Acting Comptroller General to show lack of cooperation by the Treasury Department with his office. They also reveal, it seems to me, a most serious basic fault in the whole conception of their responsibilities which seems from the start to have prevented the officers in charge of the General Accounting Office from rendering the public service that the Congress expected of them when it passed the Budget and Accounting Act. For that reason, after dealing with the specific criticisms of the Treasury in the report of the Acting Comptroller General, I shall offer some observations on this deeper phase of the matter.

The first of the two instances cited by the Acting Comptroller General relates to the failure of the Treasury Department to use symbols and titles prescribed by the Comptroller General for appropriation and receipt accounts. The other relates to failure of certain corporations to comply with accounting procedures prescribed by the Comptroller General.

Symbols and Titles for Appropriation
and Receipt Accounts

The criticism of the Treasury relating to its failure to use symbols and titles for appropriation and receipt accounts appears on pages 2 and 3 of the Acting Comptroller General's report, and reads:

" * * * a new system of symbols and titles for appropriation and receipt accounts was prescribed by General Regulations No. 84, dated June 15, 1936. The obvious purposes of General Regulations No. 84 are --

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- "(a) A proper classification of public moneys, both receipts and appropriations.
- "(b) A positive identification of receipt accounts with their related appropriation accounts.
- "(c) A more thorough and speedier analysis of the financial accounts of the Government.

"On the whole the new system and procedure, as modified to fit unusual conditions, has proven satisfactory and is a decided improvement over the old systems. The change from the old system of symbols and account designations to the new entailed some additional work and expense during the fiscal year 1937, both in the General Accounting Office and in the administrative offices, but the results justify and more than offset the difficulties encountered. In effecting such change the departments and establishments generally cooperated fully. The Treasury Department, however, refused to adopt the prescribed symbols in connection with its records and as a result many administrative offices have been compelled to show both the old and the new symbols on many of their accounting documents. Repeated efforts have failed to elicit from the Treasury Department any real reasons why the new symbols should not be adopted there, or that such adoption would not be altogether in the best interests of the Government. The situation thus disclosed evidences the type of difficulties encountered by the General Accounting Office in its efforts to develop and establish a proper and adequate system of accounts for the Government. Under existing law it may prescribe but no power is given to enforce compliance with prescribed procedures."

In definite answer to the foregoing statement it may be said:

1. The Comptroller General exceeded his authority in prescribing the new system of symbols and titles for appropriation and receipt accounts as carried in the official accounts of the United States Treasury.

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2. The "obvious" purposes of the new system were not as indicated on page 2 of the Acting Comptroller General's report under the captions (a), (b), and (c), (above), for the reason that all of such purposes were being served under the old system of symbols and account titles.
3. The determination of titles of appropriation and receipt accounts has been a prerogative of the Secretary of the Treasury from the beginning of the Government and has never been questioned by a Comptroller. It is a necessary incident to the drawing of warrants, for which the Secretary of the Treasury is responsible under the law.
4. The classification of receipts and expenditures of the Government is of more concern to the Treasury Department than it is to the General Accounting Office. The new system of symbols consisted of approximately 700 pages, involving 12,000 items, and subsequent revisions proved that they were not sufficiently reliable for use by the Treasury Department. The Treasury's accounts must be accurate.
5. The regulations prescribing the new symbols were dated June 15, 1936, only 16 days before the beginning of the new fiscal year to which they were to apply. The regulations were never officially transmitted by the Comptroller General to the Secretary of the Treasury. The Department was able to procure a copy informally about June 22nd. This was after the Treasury had prepared all of its ledger sheets and warrants covering appropriations for the new fiscal year.
6. The Treasury had not been previously consulted as to whether the new system would meet its needs.
7. The Treasury endeavored to reconcile its differences with the General Accounting Office, with no success.

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8. The new system has resulted in an increase in the administrative expenses of the Government. (See for instance, hearings before the House Appropriations Committee on the Navy Appropriation Bill for the fiscal year 1938.)
9. The soundness of the Treasury's position is definitely established by the correspondence between the Secretary of the Treasury and the Acting Comptroller General, copies of which are attached hereto.

Corporations

The second matter on which the Acting Comptroller General alleges that the Treasury has failed to cooperate with the General Accounting Office in establishing a proper accounting procedure relates to the handling of funds of corporations, particularly the case of the Federal Savings and Loan Insurance Corporation. It is said that "the Treasury Department still refuses to cooperate with the General Accounting Office in having such funds covered into the Treasury."

Several facts stand out in the case of the Federal Savings and Loan Insurance Corporation. These may be enumerated as follows:

1. The law neither requires nor authorizes the covering of the Corporation's funds into the Treasury.
2. The Corporation is authorized to "deposit" its money into the Treasury; or, with the approval of the Secretary of the Treasury, it may even deposit its money with a Federal Reserve bank. Or, it may invest its money in obligations of the United States, or in obligations of which the principal and interest are guaranteed by the United States.

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3. It is the policy of the Treasury not to become a party to procedures which are not authorized by law, even though prescribed by the Comptroller General. The Treasury Department does not interpret the Budget and Accounting Act as relieving it of its own responsibilities to see that the laws of the United States in which it is concerned are complied with.
4. Upon request of the Corporation, the Treasury attempted to reconcile the opposing views of the Corporation and the General Accounting Office. In fact, the Treasury proposed a procedure which was substantially the same as the regular established procedure, the only difference being as follows: Instead of using a formal requisition prescribed by the Comptroller General and a formal Treasury warrant, the procedure involved provided for the writing of a letter to the Secretary of the Treasury by the Corporation, requesting the transfer of money from the Corporation's general account to a disbursing account. It is important to note, however, that provision was made for the approval of such requests by the Comptroller General before the money was to be made available to the Corporation for disbursement purposes. This procedure was agreed to orally by representatives of the General Accounting Office and was followed for some time, until the Comptroller General himself, by a formal letter, upset the procedure; whereupon the Corporation determined further attempts to cooperate with the General Accounting Office were not warranted.

In considering the case of the Federal Savings and Loan Insurance Corporation, and comparing it with a regular department or establishment of the Government, it must be borne in mind that the Treasury Department has entirely different responsibilities in the two cases.

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As to the Federal Savings and Loan Insurance Corporation, the Treasury's responsibility was only that of a depository. The capital of this Corporation was provided through the subscription of \$100,000,000 of its capital stock by the Home Owners' Loan Corporation, which stock was paid for in the form of HOLC bonds. Congress did not even make an appropriation from the Treasury in this case as is usually done in creating corporations. The Treasury Department did not have the responsibility of issuing a warrant authorizing the Corporation to spend its money, as is done in the case of a regular department or establishment of the Government. The Treasury Department acted only as the Corporation's bank.

On page 21 of the Acting Comptroller General's report it is stated that the Electric Home and Farm Authority "is another instance where the action of the Treasury Department undertakes to counsel and direct the setting up of accounting procedures", and on page 27 a similar reference is made to the Treasury Department concerning the Home Owners' Loan Corporation.

The facts in these cases are essentially the same as those mentioned in connection with the Federal Savings and Loan Insurance Corporation.

The Treasury Department has never interfered with the setting up of accounting procedures by the Comptroller General, but, on the contrary, has frequently attempted to reconcile the differences between the General Accounting Office and adminis-

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trative agencies in order to promote the general public interest wherever the Treasury Department was in any way involved. In the instant cases the Treasury Department is responsible for handling the corporations' funds, and has felt a duty to seek solutions to the problems submitted to it by administrative agencies in connection with its daily operations. The reconciliation of these differences is not a task coveted by the Treasury Department, and the work of the Treasury would be greatly lightened if the General Accounting Office should attempt seriously to understand the operating problems of administrative agencies, and should cooperate in devising accounting practices to meet the requirements of good administration.

Both of the instances above are revealing in their reflection of the general attitude of the Office of the Comptroller General toward its responsibilities. They illustrate not only the effort of that office to extend the sphere of its responsibility in disregard of the law, but the arbitrary and peremptory method that it adopts to accomplish this object. The first of the two cases is more important, however, since it shows very clearly the spirit of the approach of the General Accounting Office toward one of the most important of the responsibilities with which it is charged by law.

That responsibility is stated in Section 309 of the Budget and Accounting Act as follows: "The Comptroller General shall prescribe the forms, systems, and procedure for adminis-

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trative appropriation and fund accounting in the several departments and establishments, and for the administrative examination of fiscal officers' accounts and claims against the United States."

It was on this authority that the Comptroller General relied in attempting to force on the Treasury Department, without consultation or adequate notice, an entirely new and complicated set of symbols for the central receipt and appropriation accounts in the Treasury, symbols that were proved by subsequent revisions and corrections to be ill suited to meeting Treasury requirements. Commenting on the refusal of the Treasury to adopt these symbols instantly, a course which inevitably would have caused great confusion in the public accounts and needless expense to the Government, the Acting Comptroller General comments:

"Under existing law it (the General Accounting Office) may prescribe but no power is given to enforce compliance with prescribed procedures."

Later he adds:

"Much more rapid progress would be assured if the law imposing this tremendously important responsibility carried also the means for compelling observance."

Elsewhere in his report (Page 4) he gives his idea of the purpose which this authority to prescribe forms should serve in the hands of the Comptroller General. There the primary need of adequate records for administrative purposes, to fulfill the functions for which the Government exists, is recognized but

briefly. The Acting Comptroller General's interest is centered in providing papers for audit. He says:

"In such circumstances the General Accounting Office becomes peculiarly related to the entire fiscal machinery of the Government and through the utilization of the fiscal data necessarily concentrated in the General Accounting Office for the purposes of the audit it constitutes the center into which the accounting records of the Government should and are now being properly coordinated."

It should not require argument to convince any reasonably intelligent person that the main purpose of Government or the main purpose of keeping Government accounts is not to provide materials for an audit. The main purpose is to provide the working equipment for carrying out the Government's functions. It is an administrative purpose; auditing is an incident, and a system which adequately serves administrative needs must necessarily furnish adequate information for complete audit. But to subordinate the working needs of the Government to the purpose of providing an abundance of documents for auditing purposes would inevitably be fatal to administrative efficiency.

The Congress has not given the General Accounting Office any authority to do this. The failure of the Congress to give the Comptroller General authority to force upon the executive departments any accounting system he may devise can not be regarded as an accident or an oversight, since it corresponds to a common-sense view of the problem. Surely no private corporation would force on

its administrative staff an accounting system devised by a firm of auditors without giving its own accountants and executives a thorough opportunity to pass upon its worthiness and suitability; and no firm of accountants worthy of confidence would undertake to recommend such a system without full consultation with staff accountants and executives as to the working requirements of the business and a most thorough effort to satisfy them on every step contemplated.

What the Congress did in fact impose upon the Comptroller General was a duty to consult and cooperate with the officers of the executive departments in devising and putting into effect a thoroughly adequate system of departmental records. That commission by its very nature could not have been accomplished without the most thorough cooperation, diligent effort to understand the problems with which operating executives are faced and a spirit of mutual respect and patient endeavor to reach a meeting of minds.

The Treasury Department has always stood ready to give effect to the law in its full letter and spirit and to accomplish the sort of cooperation which the law contemplated. But it has not been met by a similar spirit on the part of the Comptroller General. It has not enjoyed the cooperation from the Comptroller General's office which it had a right to expect, in view of the express terms of the law. The Comptroller General's actions have

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not been cooperative; they have instead been peremptory, arbitrary, and capricious.

I shall be glad to supply to your Committee, if you should desire it, abundant evidence in support of this statement.

The Comptroller General appears to have taken too literally the press references to his position as that of "watchdog of the Treasury", and in seeking to realize that figurative description to have conceived his function to be that of snapping at the heels of the administrative officers of the Government, and undertaking to hamper them in the faithful performance of their duties, rather than cooperating with them to render more efficient service. However appropriate that attitude may be to the work of the Comptroller General in his function as an auditor, it can not be applied to those functions -- such as that of prescribing forms of records -- which are supplemental to the work of the administrative branch of the Government, without causing injury to the public service.

To interfere with the proper exercise of administrative authority is to interfere with, and to divide, administrative responsibility. That has been the direction of the Comptroller General's effort. Not satisfied with what he has accomplished by a process of determined infiltration and assertion of unauthorized authority, he is now seeking from the Congress a most amazing grant of power.

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To combat that request is one of the chief purposes of this communication. I do not combat it out of any jealous desire to safeguard the lawfully granted authority of the Treasury Department, but rather because of a sincere belief that to grant the Comptroller General the authority he seeks would be absolutely fatal to good administration and would introduce untold possibilities of confusion and betrayal of the public trust.

The Comptroller General's request for this new authority is contained on page 12 of his report. He proposes an amendment to Section 309 of the Budget and Accounting Act (cited above) to read as follows:

"Provided, that appropriated or other moneys, available to any department or establishment as indicated in Section 2, shall not be advanced for expenditure or be expended whenever there is substantial failure to install and maintain systems of accounting and procedures relating to the receipt, deposit, application or expenditure of public, quasi-public, trust or corporate funds, prescribed pursuant to this section."

The effect of the enactment of this proposal would indeed be to make a very czar of the Comptroller General. It would give him authority to interfere with and to nullify almost any act of an administrative officer of the Government, to hamper by delay and to blockade by inaction or caprice the exercise of the most essential governmental functions. It would in effect make him the most powerful administrative officer of the Government, but without any responsibility to the Chief Executive elected by the people and with

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only such supervision of his acts as the Congress might be able to supply through occasional investigation.

Such a mingling of huge executive responsibility with the function of audit could not do otherwise than to prejudice the integrity of the Comptroller General's audits, besides introducing hopeless confusion into governmental affairs.

The inability of the Acting Comptroller General to visualize the implications of his proposal is, I think, a more serious reflection on his capacity to undertake such a responsibility than any criticism of him which anyone else might voice.

It is extremely important that a good and effective system of audit of Government accounts be maintained, and not the least of the dangers in this proposal of the Acting Comptroller General is its menace to the integrity of the auditing process. It would be menaced not only by confusion of responsibility but by the probability that so stringent a control over expenditures would result in the exemption by Congress of many specific appropriations from all supervision by the General Accounting Office.

Very truly yours,

HENRY MORGENTHAU, JR.

Secretary of the Treasury.

Enclosures.

TREASURY DEPARTMENT

Office of the Secretary

Washington, D. C.

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July 11, 1936.

Dear Judge Elliott:

This has reference to the conference between you and the Commissioner of Accounts and Deposits of this Department, relative to General Regulations No. 84, issued by the General Accounting Office under date of June 15, 1936.

These regulations, I understand, provide for a new system of symbolizing the various revenue and appropriation accounts of the Government. The digest of symbols issued as a part of the regulations is a manual consisting of 388 mimeographed sheets, the greater part of which are printed on both sides of the sheet, so that the manual covers approximately 700 pages. The manual of symbols was not delivered to the Secretary of the Treasury, as is customary, until after the beginning of the new fiscal year; nor was the office of the Secretary of the Treasury consulted or made acquainted with the contents of the manual prior to its receipt.

Aside from certain implications which are of concern to the Secretary of the Treasury with respect to the designation of account symbols and titles to be carried on warrants issued by the Secretary of the Treasury pursuant to law, and carried in the public accounts maintained upon the books of the Treasury, failure to furnish this Department with a copy of the manual of symbols, or to acquaint the Treasury with its contents sufficiently in advance to permit of the planning of its work, presents certain practical difficulties to the Department which it did not anticipate.

I am sure that you will agree that the Treasury Department and General Accounting Office have a mutuality of interest in matters of this kind which extend beyond the interest which other departments of the Government may have. While the Treasury Department, as all other departments, has its administrative accounting problems in each of its several administrative bureaus and offices, the Secretary of the Treasury has, in addition thereto, an entirely separate and distinct responsibility with respect to the issuance of warrants on the Treasury and the maintenance of the public accounts relating to all departments and establishments of the Government.

Presumably, General Regulations No. 84 were issued pursuant to Section 309 of the Budget and Accounting Act. Although I do not question the motives which actuated the issuance of Regulation No. 84, these regulations and the oral statements made with reference thereto imply that hereafter the General Accounting Office proposes to perform a function heretofore performed by the Treasury Department. While the statements made by representatives of the General Accounting Office emphasize the need for symbols to be used for audit purposes, the

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manner in which the regulations were issued, when considered in the light of other circumstances, is such as to warrant the assumption that hereafter the General Accounting Office, rather than the Secretary of the Treasury, proposes to determine the character of the information to be carried in Treasury warrants and in its official accounts. If this assumption is correct, then I must take the position that the General Accounting Office has assumed authority which, in my opinion, has not been vested in it by law, and in which the Treasury will not concur.

It should also be stated that the Treasury Department does not question the advisability of devising a system of symbolization of accounts, to be released in convenient form and made available as a handbook for the use of Government officers and employees. The Department does, however, question the manner in which such purposes are proposed to be accomplished, especially when it involves a prerogative of this Department of fundamental importance, and which eventually may lead to difficulties in the handling of the routine work which has been imposed upon this Department by law. In this connection I am not unmindful of Section 309 of the Budget and Accounting Act, or the fact that this matter may be looked upon from a slightly different angle by the accounting officers in the General Accounting Office. Nevertheless, I feel that the objective sought can be better accomplished and the interest of the Government would best be served if there should be a better understanding between the Treasury Department and the General Accounting Office concerning their respective functions under the law and in which they have a related interest.

I therefore wish to make this suggestion with respect to General Regulations No. 84, namely, that the system of symbolizing revenue and appropriation accounts contained therein be deferred until October 1, 1936, during which time the Treasury Department and the General Accounting Office may take joint action with respect thereto. Having in mind that the changing of appropriation symbols to numbers consisting of more digits than those in the present symbols may involve some serious difficulties in other branches of the Federal service which use mechanical equipment, and may in other respects increase the administrative expenses of the Government because of the work already done which would have to be changed, it would seem desirable that the departments of the Government generally be given an opportunity to participate in a friendly discussion of the new procedure.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Hon. R. N. Elliott,
Acting Comptroller General
of the United States,
Washington, D. C.

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON

A-51607

July 20, 1936.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

Dear Mr. Morgenthau:

There has been received and very carefully considered your letter of July 11, 1936, as follows:

"This has reference to the conference between you and the Commissioner of Accounts and Deposits of this Department, relative to General Regulations No. 84, issued by the General Accounting Office under date of June 15, 1936.

"These regulations, I understand, provide for a new system of symbolizing the various revenue and appropriation accounts of the Government. The digest of symbols issued as a part of the regulations is a manual consisting of 388 mimeographed sheets, the greater part of which are printed on both sides of the sheet, so that the manual covers approximately 700 pages. The manual of symbols was not delivered to the Secretary of the Treasury, as is customary, until after the beginning of the new fiscal year; nor was the office of the Secretary of the Treasury consulted or made acquainted with the contents of the manual prior to its receipt.

"Aside from certain implications which are of concern to the Secretary of the Treasury with respect to the designation of account symbols and titles to be carried on warrants issued by the Secretary of the Treasury pursuant to law, and carried in the public accounts maintained upon the books of the Treasury, failure to furnish this Department with a copy of the manual of symbols, or to acquaint the Treasury with its contents sufficiently in advance to permit of the planning of its work, presents certain practical difficulties to the Department which it did not anticipate.

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"I am sure that you will agree that the Treasury Department and General Accounting Office have a mutuality of interest in matters of this kind which extend beyond the interest which other departments of the Government may have. While the Treasury Department, as all other departments, has its administrative accounting problems in each of its several administrative bureaus and offices, the Secretary of the Treasury has, in addition thereto, an entirely separate and distinct responsibility with respect to the issuance of warrants on the Treasury and the maintenance of the public accounts relating to all departments and establishments of the Government.

"Presumably, General Regulations No. 84 were issued pursuant to Section 309 of the Budget and Accounting Act. Although I do not question the motives which actuated the issuance of Regulations No. 84, these regulations and the oral statements made with reference thereto imply that hereafter the General Accounting Office proposes to perform a function heretofore performed by the Treasury Department. While the statements made by representatives of the General Accounting Office emphasize the need for symbols to be used for audit purposes, the manner in which the regulations were issued, when considered in the light of other circumstances, is such as to warrant the assumption that hereafter the General Accounting Office, rather than the Secretary of the Treasury, purposes to determine the character of the information to be carried in Treasury warrants and in its official accounts. If this assumption is correct, then I must take the position that the General Accounting Office has assumed authority which, in my opinion, has not been vested in it by law, and in which the Treasury will not concur.

"It should also be stated that the Treasury Department does not question the advisability of devising a system of symbolization of accounts, to be released in convenient form and made available as a handbook for the use of Government officers and employees. The Department does, however, question the manner in which such purposes are proposed to be accomplished, especially when it involves a prerogative of this Department of fundamental importance, and which eventually may lead to difficulties in the handling of the routine work which has been imposed upon this Department by law. In this connection I am not unmindful of Section 309 of the Budget and Accounting Act, or the fact that this matter may be looked upon from a slightly different

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angle by the accounting officers in the General Accounting Office. Nevertheless, I feel that the objective sought can be better accomplished and the interest of the Government would best be served if there should be a better understanding between the Treasury Department and the General Accounting Office concerning their respective functions under the law and in which they have a related interest.

"I therefore wish to make this suggestion with respect to General Regulations No. 84, namely, that the system of symbolizing revenue and appropriation accounts contained therein be deferred until October 1, 1936, during which time the Treasury Department and the General Accounting Office may take joint action with respect thereto. Having in mind that the changing of appropriation symbols to numbers consisting of more digits than those in the present symbols may involve some serious difficulties in other branches of the Federal service which use mechanical equipment, and may in other respects increase the administrative expenses of the Government because of the work already done which would have to be changed, it would seem desirable that the departments of the Government generally be given an opportunity to participate in a friendly discussion of the new procedure."

It is regrettable that there was not more time between the date of distribution of the regulations in question and the date on which they were made effective. Likewise, it is regrettable - because of the joint action required on warrants and the advantage of having the records of your department and of this office show the same account symbols, etc. - that there was not consultation with your department before the regulations were issued. I feel that in all such matters there should be cordial cooperation between this office and your department.

I wish to assure you there is no intent or purpose on the part of this office to assume or to interfere with any of the powers, functions, or responsibilities which the law vests in or imposes upon the Treasury Department with respect to the preparation of warrants or the maintenance of fiscal records, etc.

I assume it would not seriously be questioned that the primary purpose of receipt and appropriation symbols is accounting. The use of such symbols on the warrants and the accounts set up on the basis of the warrants in no way affects the character or validity of either and would serve no good purpose other than in connection with the administrative and fiscal accounting and audit procedures which follow the issuance of the warrants and the setting up of the accounts. Hence, there would appear to be no room for reasonable doubt that the prescribing of the symbols is a proper function of this office - a function which has been exercised by this office for many years. See, particularly, General Regulations No. 44 of June 1, 1925, and No. 67 of June 27, 1928. General Regulations No. 84, here in question, is primarily a revision of former regulations and prescribes only such requirements as have been deemed necessary for accounting and audit purposes. The sole purpose of this revision of the regulations is to improve accounting and audit procedures.

It is appreciated that the work incident to changing all of the symbols on the records of your department is such that it could not be conveniently accomplished for sometime after June 30, 1936, but

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it is believed the benefits which will result from the change will more than compensate your department for such work and the time necessary for its accomplishment. I am advised that the revised symbols have been adopted and put in use by all other departments and establishments of the Government and I hope you will find it possible to have your department make the necessary changes as soon as may be, without interruption of the present operation under the new series of symbols, with the assurance on the part of this office that should it be found that any provisions of the said regulations or any of the symbols prescribed therein are not workable in your department, any changes which you may suggest will be given most careful and sympathetic consideration. If, however, upon further consideration of the matter, you feel that the effect of the regulations upon your department will be such that the interests of the Government can best be served by suspending the operation of the regulations until October 1, 1936, and you will so advise me, that can be done, but I sincerely hope such action will not be necessary.

Cordially yours,

(Signed) R. N. Elliott

Acting Comptroller General
of the United States

Office of the Secretary

TREASURY DEPARTMENT
Washington, D. C.

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August 10, 1936.

Dear Judge Elliott:

In the absence of Secretary Morgenthau, who at present is out of the city, I wish to acknowledge the receipt of your letter of July 20, 1936, A-51607, in reply to the Secretary's letter of July 11, regarding General Regulations No. 84, relating to the symbolization of receipt and appropriation accounts.

I conferred with the Secretary over long-distance telephone concerning the subject matter of his letter of July 11th, and he has directed that ~~the~~ Treasury make no commitments with respect to the use of the new symbols referred to in Regulations No. 84, in so far as the Treasury warrants and disbursing accounts are concerned, until a more definite understanding is reached as to the working arrangement which is to exist in the future between the Treasury Department and the General Accounting Office as it relates to the issuance of warrants on the Treasury for which the Secretary of the Treasury, under the law, is primarily responsible. Until such understanding is reached, it is believed that the effective date of General Regulations No. 84 should be postponed.

While the Secretary appreciates the statements contained in your letter concerning the desirability of closer cooperation, a careful reading of the letter fails to disclose a proper recognition of the Treasury's authority and responsibility under the law. It would also appear that there is not a proper comprehension of the Treasury Department's need or concern with respect to the use of account symbols in its daily routine.

Your letter assumes, for instance, that the use of symbols on warrants and accounts is of concern principally in connection with the administrative and fiscal accounting and audit procedure and, therefore, it is concluded that the prescribing of symbols is a proper function of the General Accounting Office. It is not clear whether your reference to fiscal accounting was intended to differentiate between fiscal accounting in the Treasury Department and the administrative accounting in the several departments, but, in any event, the Treasury Department does not concur in the conclusion.

The Treasury Department considers the classification and symbolization of accounts as a matter principally of its concern, and any system of account symbolization which is designed for the purpose of classification must serve the requirements of the Treasury Department equally as well as the auditing needs of the General Accounting Office. It is not apparent how the General Accounting Office can become sufficiently acquainted with these requirements without consulting the Treasury Department.

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It is essential that the Treasury's accounts be so arranged as to make them susceptible of expeditious classification and analysis. The principal need of the General Accounting Office, on the other hand, would appear to be a means of ready identification of transactions with the account to which they relate.

The Secretary has asked me to say that he would appreciate it if you would issue instructions that hereafter no changes be made in the General Accounting Office on warrants signed by or on behalf of the Secretary of the Treasury, and that all warrants which it is believed have not been "warranted by law" be returned with a letter setting forth the reasons therefor.

The Secretary has asked me to say also that while he feels that the responsibility imposed upon him by law with respect to the issuance of warrants on the Treasury and the keeping of the public accounts makes it necessary for him to take the position outlined herein, he wishes to assure you of the Department's desire to fully cooperate with the General Accounting Office to the end that a proper accounting will be made to the General Accounting Office by all persons who come into possession of moneys belonging to the United States.

Very truly yours,

(Signed) Wm. H. McReynolds

Administrative Assistant to the Secretary

Honorable Richard N. Elliott,
Acting Comptroller General
of the United States,
Washington, D . C.

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON

A-51607

April 24, 1937.

The Honorable,

The Secretary of the Treasury.

Sir:

The Chief Disbursing Officer, Treasury Department, in rendering his accounts current to this office uses symbol numbers which were in effect prior to the promulgation of General Regulations No. 84 making it necessary for this office to translate the symbols shown by him to the new symbols prescribed in General Regulations No. 84, thus retarding the progress of the audit and unnecessarily increasing the expenses of the Government.

I shall be pleased if you will take such action as will cause the Chief Disbursing Officer to symbolize his accounts in accordance with General Regulations No. 84, thereby facilitating the economical flow of the work in which we are all interested.

Respectfully,

(Signed) R. N. Elliott

Acting Comptroller General
of the United States.

Office of the Secretary

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YTREASURY DEPARTMENT
Washington, D. C.

June 14, 1937.

My dear Judge Elliott:

I have your letter of April 24, 1937 (A-51607), requesting that action be taken to cause the Chief Disbursing Officer to symbolize his accounts in accordance with General Regulations No. 84.

On July 11, 1936, I wrote to you concerning General Regulations No. 84, issued by the General Accounting Office under date of June 15, 1936, for the purpose of prescribing a new system of symbolizing the revenue and appropriation accounts of the Government. In my letter I called to your attention certain objections which this Department had concerning the manner in which those regulations were issued.

Your reply of July 20, 1936, while acknowledging the need for close cooperation between the General Accounting Office and the Treasury Department in matters dealing with the handling of appropriations, failed to suggest a reasonable basis on which a proper working arrangement might be established.

On August 10, 1936, during my absence from the City, the Administrative Assistant to the Secretary of the Treasury, at my long distance telephone direction, acknowledged your letter of July 20th. In the Department's letter of August 10th, the Treasury endeavored more fully to set forth its position in the matter, and indicated its willingness to cooperate with the General Accounting Office, with the understanding, of course, that due regard would be given to the functions and duties which the Congress has vested in the Secretary of the Treasury in matters involving the issuance of warrants on the Treasury (U. S. Code, Title 5, Sec. 242, and Title 31, Sec. 147) and the keeping of the public accounts (U. S. Code, Title 5, Sec. 255).

It seems to me that the difficulties which have arisen as a result of the issuance of General Regulations No. 84 could have been avoided if the General Accounting Office had given proper recognition to the distinction between the duties and responsibilities vested by the Congress in the Treasury Department in matters relating to the issuance of warrants and the keeping of the public accounts, and those vested in the General Accounting Office with respect to the countersigning of Treasury warrants, and prescribing of administrative appropriation and fund accounting procedures in the several departments and establishments, the audit and settlement of public accounts, and the final determination of questions involving the lawful uses of appropriations.

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It should be understood that this Department does not question the authority of the General Accounting Office to prescribe "the forms, systems, and procedures for administrative appropriation and fund accounting in the several departments and establishments," including the "administrative" appropriation and fund accounting in its own administrative bureaus and offices. However, when the Congress vested authority in the General Accounting Office to prescribe the administrative appropriation and fund accounting procedures in the several departments and establishments, it obviously intended that such procedures would be in harmony with the basic accounting structure of the Government as provided by the Congress itself, and that the authority would not be exercised in a manner which would bring into the General Accounting Office functions which the Congress intended to be performed by other executive departments and agencies of the Government. Therefore, when the General Accounting Office assumes authority to prescribe procedures which interfere with proper performance of the duties vested by the Congress in the Secretary of the Treasury, such as those involving the issuance of warrants on the public Treasury and the keeping of the public accounts pursuant to Section 10 of the Act of July 31, 1894 (U. S. Code, Title 5, Sec. 255), this Department must take exception to such procedures.

The Treasury Department can not assume the responsibility for the difficulties arising under General Regulations No. 84, which apparently have not only retarded the progress of the audit but have unnecessarily increased the expenses of the Government. The Treasury endeavored to avoid these difficulties in the beginning, but was unsuccessful because it was unable to receive from the General Accounting Office such assurances as are considered necessary to provide a harmonious working arrangement in accordance with the principles expressed in the Department's previous letters. Such regulations have not only increased the expense of this Department but apparently have also added to the administrative expenses of other departments (see, for example, House Subcommittee hearings on the appropriations for the Navy Department for the fiscal year 1938, page 387).

With a view to eliminating the added expense in the Division of Disbursement of the Treasury Department as a result of General Regulations No. 84, unless a satisfactory arrangement can be reached, this Department may be forced to the position of advising the departments and establishments that it will be necessary after July 1, 1937, to include in vouchers submitted to this Department for payment the symbols and titles of the appropriations as carried in the official accounts of the United States Treasury Department and included in Treasury warrants. In this connection, I think it advisable for me to advise you that I now have under consideration the setting up on the books of the Treasury as separate appropriations all appropriations which heretofore have been combined, for administrative convenience, under single appropriation titles, effective July 1, 1937. If your office has any suggestions with respect to the matter, I should be glad if you will advise me.

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I regret that it is necessary for me to take the position indicated in this letter, but in view of the attitude that the General Accounting Office has assumed concerning this matter, I see no alternative, since I believe it is my responsibility to discharge the duties imposed upon the Secretary of the Treasury by law.

The present practice of the Chief Disbursing Officer in rendering accounts to the General Accounting Office in accordance with the manner in which funds are advanced to him on Treasury warrants, appears to be in conformity with law. It will be necessary, therefore, that further consideration be given to the request contained in your letter, since it is doubtful whether any change can be made until the difficulties between the Treasury and the General Accounting Office, which were caused by the issuance of Regulations No. 84, can be worked out.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable Richard N. Elliott,

Acting Comptroller General of the United States.

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YCOMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON

A-51607

June 17, 1937

The Honorable,

The Secretary of the Treasury.

Sir:

→ I have your letter of June 14, 1937, as follows:
↖

"I have your letter of April 24, 1937 (A-51607), requesting that action be taken to cause the Chief Disbursing Officer to symbolize his accounts in accordance with General Regulations No. 84.

"On July 11, 1936, I wrote to you concerning General Regulations No. 84, issued by the General Accounting Office under date of June 15, 1936, for the purpose of prescribing a new system of symbolizing the revenue and appropriation accounts of the Government. In my letter I called to your attention certain objections which this Department had concerning the manner in which those regulations were issued.

"Your reply of July 20, 1936, while acknowledging the need for close cooperation between the General Accounting Office and the Treasury Department in matters dealing with the handling of appropriations, failed to suggest a reasonable basis on which a proper working arrangement might be established.

"On August 10, 1936, during my absence from the City, the Administrative Assistant to the Secretary of the Treasury, at my long distance telephone direction, acknowledged your letter of July 20th. In the Department's letter of August 10th, the Treasury endeavored more fully to set forth its position in the matter, and indicated its willingness to cooperate with the General Accounting Office, with the understanding, of course, that due regard would be given to the functions and duties which the Congress has vested in the Secretary of the Treasury in matters involving the issuance of warrants on the Treasury (U. S. Code, Title 5, Sec. 242, and Title 31, Sec. 147) and the keeping of the public accounts (U. S. Code, Title 5, Sec. 255).

"It seems to me that the difficulties which have arisen as a result of the issuance of General Regulations No. 84 could have been avoided if the General Accounting Office had given proper recognition to the distinction between the duties and responsibilities vested by the Congress in the Treasury Department in matters relating to the issuance of warrants and the keeping of the public accounts, and those vested in the General Accounting Office with respect to the countersigning of Treasury warrants, the prescribing of administrative appropriation and fund accounting procedures in the several departments and establishments, the audit and settlement of public accounts, and the final determination of questions involving the lawful uses of appropriations.

"It should be understood that this Department does not question the authority of the General Accounting Office to prescribe 'the forms, systems, and procedures for administrative appropriation and fund accounting in the several departments and establishments,' including the 'administrative' appropriation and fund accounting in its own administrative bureaus and offices. However, when the Congress vested authority in the General Accounting Office to prescribe the administrative appropriation and fund accounting procedures in the several departments and establishments, it obviously intended that such procedures would be in harmony with the basic accounting structure of the Government as provided by the Congress itself, and that the authority would not be exercised in a manner which would bring into the General Accounting Office functions which the Congress intended to be performed by other executive departments and agencies of the Government. Therefore, when the General Accounting Office assumes authority to prescribe procedures which interfere with proper performance of the duties vested by the Congress in the Secretary of the Treasury, such as those involving the issuance of warrants on the public Treasury and the keeping of the public accounts pursuant to Section 10 of the Act of July 31, 1894 (U. S. Code, Title 5, Sec. 255), this Department must take exception to such procedures.

"The Treasury Department can not assume the responsibility for the difficulties arising under General Regulations No. 84, which apparently have not only retarded the progress of the audit but have unnecessarily increased the expenses of the Government. The Treasury endeavored to avoid these difficulties in the beginning, but was unsuccessful because it was unable to receive from the General Accounting Office such assurances as are considered necessary to provide a harmonious working arrangement in accordance with the

principles expressed in the Department's previous letters. Such regulations have not only increased the expense of this Department but apparently have also added to the administrative expenses of other departments (see, for example, House Subcommittee hearings on the appropriations for the Navy Department for the fiscal year 1938, page 387).

"With a view to eliminating the added expense in the Division of Disbursement of the Treasury Department as a result of General Regulations No. 84, unless a satisfactory arrangement can be reached, this Department may be forced to the position of advising the departments and establishments that it will be necessary after July 1, 1937, to include in vouchers submitted to this Department for payment the symbols and titles of the appropriations as carried in the official accounts of the United States Treasury Department and included in Treasury warrants. In this connection, I think it advisable for me to advise you that I now have under consideration the setting up on the books of the Treasury as separate appropriations all appropriations which heretofore have been combined, for administrative convenience, under single appropriation titles, effective July 1, 1937. If your office has any suggestions with respect to the matter, I should be glad if you will advise me.

"I regret that it is necessary for me to take the position indicated in this letter, but in view of the attitude that the General Accounting Office has assumed concerning this matter, I see no alternative, since I believe it is my responsibility to discharge the duties imposed upon the Secretary of the Treasury by law.

"The present practice of the Chief Disbursing Officer in rendering accounts to the General Accounting Office in accordance with the manner in which funds are advanced to him on Treasury warrants, appears to be in conformity with law. It will be necessary, therefore, that further consideration be given to the request contained in your letter, since it is doubtful whether any change can be made until the difficulties between the Treasury and the General Accounting Office, which were caused by the issuance of Regulations No. 84, can be worked out."

I appreciate the frank statement of your position in this matter and am mindful of the cause thereof.

As you know, General Regulations No. 84 of June 15, 1936, were issued by the former Comptroller General. I had nothing to do with the issuance of said regulations or with the devising of the system of symbols prescribed therein and, hence, am not responsible therefor. It is much to be regretted that there was not followed in that instance the same procedure which was followed in connection with the prescribing by the Comptroller General (General Regulations No. 44 of June 1, 1925, and General Regulations No. 67 of June 27, 1928) of the system of symbols theretofore in use, and I may say that I have no doubt the former Comptroller General in issuing General Regulations No. 84 assumed that such procedure had been followed.

I agree with the view expressed in your letter, supra, to the effect that the provisions of Section 309 of the Budget and Accounting Act of June 10, 1921, 42 Stat. 25, do not authorize this office to assume or to interfere with the duties imposed upon the Treasury Department under the provisions of Section 10 of the Act of July 31, 1894, 28 Stat. 208, and I fully recognize the distinction between the accounts referred to in said Section 10 and the administrative accounting referred to in Section 309 of the Budget and Accounting Act. If there exists at the present time any instance of what appears to be an attempt on the part of this office to assume or to interfere with duties imposed by law upon the Secretary of the Treasury, I shall be pleased to have such specific instances brought to my personal attention for correction.

A-51607

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I assume it would not be seriously questioned that the duty of prescribing "the forms of keeping and rendering all public accounts, except those relating to the postal revenues and expenditures therefrom", which was imposed upon the Comptroller of the Treasury by Section 5 of the act of July 31, 1894, 28 Stat. 206, is, pursuant to the provisions of Section 304 of the Budget and Accounting Act of June 10, 1921, now "vested in and imposed upon" this office, and that such duty is to be "exercised without direction from any other officer." However, in the performance of that duty and the duties imposed upon this office under Sections 305 and 309 of the Budget and Accounting Act, and all other duties imposed upon this office, it is my earnest desire that there be recognized the powers and duties of the Secretary of the Treasury with respect to the public moneys.

I fully appreciate the fact that there is such a connection between the duties imposed upon the Treasury Department in the matter of issuing warrants and of keeping accounts of receipts and expenditures of public moneys and the duties imposed by law upon this office as to require hearty cooperation to the end that the duties of each establishment may be performed as expeditiously and economically as possible without imposing any undue burden or inconvenience on the other.

The primary object in prescribing the change in the system of symbolizing was to provide for the keeping and rendering of accounts

A-51607

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in such a way that there could be an expeditious audit of expenditures with a view to ascertaining whether the limitations prescribed in the various appropriation acts are being properly observed. I assume it will be conceded that such an audit should be made; and, since it had not theretofore been made, the adoption of any procedure to take care of it would necessarily involve some additional work and expense.

The use of the system of symbols prescribed in General Regulations No. 84 is believed to be the most expeditious and economical ~~means of~~ taking care of the situation. Consequently, it is sincerely hoped that you may overlook any lack of cooperation on the part of this office in the devising or prescribing of the system - an occurrence for which I was not responsible and which, as hereinbefore stated, is regrettable - and adopt said system in lieu of the system theretofore prescribed by the Comptroller General, if and to the extent that its adoption is possible without undue interference with the duties or responsibilities imposed by law upon the Secretary of the Treasury.

While there may be no law authorizing this office to prescribe symbols to be used on warrants or in the accounts required by Section 10 of the act of July 31, 1894, to be kept under your direction, and no law authorizing the Secretary of the Treasury to prescribe symbols to be used in connection with accounting forms or systems which this office is authorized by law to prescribe, it is obvious that it will facilitate the work of both establishments if the same system of

symbols can be used for both purposes. In so far as I am concerned, it is immaterial who devises the system so long as it will meet the needs of both offices. The old system does not meet the present needs of this office in that it does not provide a proper means of indicating the limitations. If the system prescribed under General Regulations No. 84 fails in any respect to meet the requirements of your office, I shall be pleased to adopt any changes you may suggest that will make the system workable in both offices.

You suggest the possibility of carrying each limitation as a separate appropriation with its separate title and symbol. This probably would meet the auditing requirements of this office but it is believed the work and expense incident thereto, - not only in this office and in the Treasury Department, but also in the various administrative offices, - would be largely in excess of the work and expense incident to the accomplishment of the same purpose by the adoption and use by both offices of the same system of symbolizing. Consequently, I trust that you will give further consideration to my request of April 24, 1937. And if you will call to my attention at any time any specific instance of difficulties between this office and the Treasury Department which any action of mine might solve, or of any lack of cooperation on the part of this office, I assure you the matter will receive my prompt and careful consideration.

Sincerely yours,

(Signed) R. M. Elliott

Acting Comptroller General
of the United States.

TREASURY DEPARTMENT
Washington, D. C.

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July 7, 1937.

My dear Judge Elliott:

I have your letter of June 17, 1937, (A-51607), in reply to my letter of June 14, relative to the use of the appropriation symbols prescribed in General Regulations No. 84.

You state that the primary object in prescribing the change in the system of symbolizing appropriation accounts was to provide for the keeping and rendering of accounts in such a way that there could be an expeditious audit of expenditures with a view to ascertaining whether the limitations prescribed in the various appropriation acts are being properly observed.

The Department concurs in your view that the audit of expenditures should be made in such a manner as to see that all limitations in appropriation acts are observed. It is to be noted, however, that the limitations to which you refer (as distinguished from appropriations) are taken care of in appropriation symbols by means of a decimal suffix and, therefore, the audit of limitations would not of itself have necessitated an entirely new system of appropriation symbols. In any event, while a system of symbolizing may be necessary for facilitating the audit of expenditures, this Department does not agree that such purpose is, or should be, the primary object of a system of numerical symbols.

In my previous letters your attention was directed to the fact that under existing law it is this Department's responsibility, not only to issue all warrants on the United States Treasury, but also to maintain the public accounts and to make financial reports

and statements relating to the revenues and expenditures of the Government. The regular financial reports and statements of the Treasury are made through the medium of the Daily Statement of the United States Treasury; the Annual Report of the Secretary of the Treasury; and the annual Combined Statement of Receipts and Expenditures, which is submitted to the Congress at the beginning of each regular session pursuant to specific requirement of law. In addition, the Treasury compiles many other financial statements from time to time in connection with the conduct of its daily affairs. While it may be true that numerical symbols serve a purpose in the audit of expenditures, clearly this is not their primary object. Their primary object is, or should be, to facilitate the posting and classification of accounts relating to revenues and expenditures, and the preparation of financial statements therefrom for the purpose of financial management. The system of symbols prescribed in General Regulations No. 84, does not meet the Treasury's requirements in these respects.

There are a number of reasons why the Treasury is vitally interested in the procedure to be followed for symbolizing the revenue appropriation and expenditure accounts of the Government. First, because under specific provision of law the official accounts relating to revenues, appropriations, and expenditures appertaining to all departments and establishments of the Government (except postal) are maintained upon the books of the Treasury. Secondly, because as the volume of business of the Government increases, the need for using numerical symbols for posting accounts and classifying receipts and expenditures in financial statements through the use of mechanical equipment becomes increasingly important.

The system of symbolizing accounts eventually to be adopted for use by this Department must make provision for needed improvements in the present system of accounting in the Treasury Department. Among other things, these improvements must provide for closer coordination of the accounting work of the Division of Disbursement, the Division of Bookkeeping and Warrants, the Office of the Treasurer of the United States, and related activities. It must meet the need for expeditious posting and proving of thousands of items which are cleared by these respective agencies daily, and the prompt classification of the results in the financial statements of the United States Treasury. It must take into consideration the type of accounting machinery available to take care of the large volume of checks, certificates of deposit, etc., which must be handled by the Treasury daily without interruption. It must take into consideration the fact that the prompt dispatch of the daily business of the Treasury requires that hundreds of clerks - many in low grades - must be trained in following established routine; and this routine cannot be upset overnight without injurious results.

Maximum efficiency requires more expeditious designation of new symbols to take care of new accounts or classifications than is possible under a procedure which would require formal advance approval of the General Accounting Office in each particular instance. In former years the designation of new appropriation symbols and titles was a comparatively simple matter (as it should be) through close telephonic communication and cooperation between the Division of Bookkeeping and Warrants of the Treasury Department and the Bookkeeping Division of the General Accounting Office; but since the General Accounting Office has assumed that the prescribing of appropriation

symbols is one of its functions, there have not only been unnecessary delays in the issuance and clearance of Treasury warrants, but the whole procedure has become more expensive than it need be.

In the Department's letter of June 14, you were advised that the Treasury has had under consideration the setting up on its books, as separate appropriations, certain appropriations which heretofore have been combined, for administrative convenience, under single appropriation titles. Your reply indicates that you are under the misapprehension that the Department had reference to so-called limitations under appropriations, and you suggest that the purpose could be accomplished by using the system of symbolization prescribed in Regulations No. 84. The department, in its letter of June 14 did not have reference to limitations under appropriations but rather to the separate and distinct appropriations heretofore combined under single titles. It is not understood how the system of symbols prescribed in Regulations No. 84, would enable the Treasury Department to discharge its own responsibility with respect to the keeping of an account under each separate head of appropriation and of reporting the expenditures thereunder to the Congress pursuant to Section 15 of the Act of July 31, 1894. However, in view of the long-standing practice and the proximity of the beginning of the new fiscal year, I have determined to hold in abeyance the setting up of the additional accounts until the beginning of the fiscal year 1939. This will afford the Department ample opportunity to confer with the Bureau of the Budget, and House and Senate Appropriations Committees, and the interested administrative agencies before the changes are effected. I should also be glad to have the Department's representatives confer with the General Accounting Office should you consider such action advisable.

Hon. R. N. Elliott - 5

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May I suggest for your consideration the rescinding of General Regulations No. 84, as of July 1, 1937, with the understanding that during the fiscal year 1938 the Treasury Department and the General Accounting Office will devise and jointly prescribe a system of symbolization, for installation on July 1, 1938.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Hon. R. N. Elliott,
Acting Comptroller General
of the United States.

LMS

GRAY

London

Dated January 11, 1938

Rec'd 3:38 p. m.

Secretary of State,
Washington.

24, January 11, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The city is receiving increasingly pessimistic reports from Paris. At the same time London foreign exchange dealers calculate that the French fund lost the equivalent of some 10,000,000 pounds last week and about 6,000,000 pounds yesterday and today. The pressure was heavy in the morning and early afternoon but though the future rates widened towards the close the pressure was less. The closing rates were spot 147.65; one month's future 3-7/8; three months 7.

The underwriters of the former 40,000,000 pounds French credit state confidentially that they have not yet been approached by the French authorities for a similar loan (See my 718, November 15, 8 p. m.). From informal talks with officers of the big five joint stock banks it seems clear that only the Midland Bank is now favorably disposed; the others take the view that to aid the French Government in

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LMS 2-No. 24, January 11, 7 p. m., from London.

an exchange operation is one thing but to assume the burden which the French tax payer and lender should carry is another.

JOHNSON

TVC:KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 11, 1938, 6 p.m.

NO.: 45

RUSH FROM COCHRAN.

Yesterday, and particularly today the French control experienced one of the worst periods since its creation. Market traders believe that around 4,000,000 pounds were lost by the fund yesterday, and 5 or 6,000,000 today. Tomorrow morning I have an official appointment and at that time I shall try to check the estimates just given. Today sterling opened at the level of yesterday, 147.50, but most of the day it has been around 63; this evening there is continuing terrific pressure. The fund made an effort to peg three months' sterling rate at five, but the premium moved to six and three quarters this evening at a quarter past five. Now traders are wondering whether exchange control may follow this attack, whether a bank holiday will be declared until some new plan can be arranged, or whether the franc will take a further big drop.

Using the figures which I gave in my telegram No. 29 of January 7, 5 p.m., and my No. 17 of January 5, 5 p.m., as a basis of calculation, at the close of business on January 7 the fund contained approximately 3,900,000,000 francs
of

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of gold and foreign exchange. Figuring a loss on Saturday, Monday and today of 9,000,000 pounds or 1 point 300,000,000 francs, the fund must now have left in gold and foreign exchange around 2,600,000,000 francs. This amount can, of course, be replenished by selling francs to the Bank of France and taking gold, but within a few days such a move would reveal at least the weak exchange as well as the true situation of the Treasury.

The present pressure on the franc is largely due to concern over the financial situation of the Treasury, the conflict between capital and labor, and possible political upset which may follow from these two things. Should there be a meeting tomorrow of employers and labor that does not result in some degree of harmony, business circles believe the likely result will be a general strike. It is not likely that a tentative arrangement between the two groups will inspire capital considering the elements of discord which during the past few weeks have come to the fore. The Treasury's weakness is further shown by call today for a loan for the Government of Algeria, 600,000,000 francs at 89 1/2, tax free, for twenty years. For this month it is planned to have one or two more issues by public bodies - the Treasury to get the proceeds. Reference is made to my telegram of January 4, 5 p.m., No. 12.

END OF MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 11, 1938, 9 p.m.

NO.: 46

RUSH.

This evening the Government was placed in a critical situation by the action of the employers who told Chautemps at seven o'clock that they would not be at tomorrow's meeting at the Hotel Matignon.

Today the franc flight reached alarming proportions, and is likely to reach an extraordinary figure tomorrow unless the employers reconsider their decision tonight.

The Right has been placed in an extremely weak position in view of the revelation that the bombs which killed two policemen on the eleventh of September, 1937, were planted by the "Cagouards". I just had a talk with Blum, who may be the next President du Conseil in view of the present crisis. At the present moment neither Blum nor anyone can predict the outcome, but it seems clear that extreme weakness of the franc is to be expected and also a revival of agitation for exchange control for France.

BULLITT.

GROUP MEETING (SECRETARY ABSENT)

January 12, 1938.
9:20 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Bell
Mr. Lochhead
Mr. Upham
Mr. McReynolds

Magill: I've got to go up to the Hill this morning. The Sub-committee is having its meeting to approve its report at ten o'clock. As you know, the Secretary said yesterday we should continue to have these meetings. I don't know whether it would be possible ~~for me~~ to do it every day because of the public hearings starting Friday and Saturday. I have to do a little getting ready for them, hence may not be able to do this. But we'll see how it works out.

I thought we might clear anything we had before the boss calls up at 9:30, as he said he would. I'll have to get out of here shortly thereafter.

Herbert, I'm sending in to you this morning - you may have already got it - that statement which we have prepared for me to give on Friday at the opening of the public hearings on the bill. I wish you'd look it over to see whether or not from a public point of view the thing is all right. The figures have been checked, and I'm having them rechecked, but I want to make sure that there isn't anything that's going to get us into difficulties. I've got a reference, for instance, in there to personal exemptions that you may not want to make; I don't know.

Gaston: You're going to be up on the Hill this morning?

Magill: I'll certainly be up there this morning and may even this afternoon. But I'll try and see you before you get away this evening.

Gaston: Yes.

Magill: And I think I'll probably be free tomorrow. How long will it take them to get it mimeographed?

Gaston: How long is it?

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Magill: 23 pages.

Gaston: 23 pages. Well, we can divide it up and get it out in a couple of hours, I should think.

Magill: Well, I should think if it could be done tomorrow afternoon, that's probably the best, because maybe we'll want to fuss with it a little tomorrow morning.

Gaston: Yes, yes.

Magill: As a matter of fact, I haven't yet seen the Sub-committee report on which I'm commenting learnedly for 23 pages, so it might be helpful to have a look at it for some time.

Mac, have you got anything on your mind?

McR: No. Want to tell the boss when he calls that the Opper appointment has been cleared and will be sent up to the Senate this morning.

Magill: Who?

McR: Opper appointment to the Board of Tax Appeals.

Magill: Oh, that's ...

McR: Cleared it with the Senators.

Magill: Why isn't he here so we can congratulate him?

McR: And it will go to the Senate this morning.

Magill: Senators all right?

McR: Yes.

Magill: That'll give the boys something to talk about.

How is Graves coming along on his plan?

McR: Well, he got Willie Marrs and Charley Russell and Bill Sherwood to, I think, more or less enthusiastically concur on that proposal that he gave to the boss. I told Guy Helvering last night that these

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other boys were all in agreement and I supposed he'd have to agree.

Magill: But you haven't heard yet?

McR: Well, he didn't - Graves hasn't had a chance to talk to him in detail about it, but I think the thing is cleared now. I don't think there's any question at all but the boys will go along without any I think the boys down there in the Bureau feel they're being gypped, but they feel they're being gypped

Magill: In a very artistic manner.

McR: ... very kindly, and the best thing to do is take it.

Magill: Well, let me know when it gets by Guy, because the boss will probably be glad to hear about it.

Cy, how's your conscience?

Upham: Perfectly clear, thanks.

Magill: Wanny?

Bell: I haven't anything, Ros.

Magill: Archie?

Lochhead: Well, the only news in the foreign field is that France has apparently managed to work itself into another periodic crisis. Don't know how it will turn out. The discount on 30-day francs is at an equivalent of 45 percent per annum this morning. They've been losing anywhere from 15 to 20 million dollars gold a day, last four or five days; as far as we can estimate, they can't have very much left. But we have heard nothing as to what they intend to do. There is some talk of exchange controls again, of course, over there.

Taylor: Practically all the labor situation.

Lochhead: It's all the labor situation.

Magill: Herbert?

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- Gaston: The United States News had a paragraph last week on this Social Security thing which was picked up and reprinted in the Social Security Board's digest of news. It said that the Treasury Department to date - they had been delayed over there because the Treasury Department hadn't gotten them over any names of individual beneficiaries. The facts are that at that time they had some 30 million out of 36 million names ...
- McR: Yes, already.
- Gaston: ... in their hands.
- McR: And today - as of last Saturday, the only lacked about two million of having a complete list. About as close as they'll ever get.
- Gaston: We straightened the United States News boys out on that, but I thought it would be a good idea for us to foment a story, not as a reply to that thing, but a general story about the progress that they are making in handling the Social Security information returns.
- McR: I think the boys will give you a tabulation of just the factual data as to what has been accomplished with respect to handling those. That could be worked into an entirely independent news story.
- Magill: Yes.
- McR: Just an information news story as to how that job is going.
- Gaston: I thought we'd put out a story either under Guy Helvering's name or under yours, Ros, noting with satisfaction what progress they have made over there.
- Magill: As soon as the boss gets away something always happens on Social Security. A year ago it was the Railroad Retirement. Now, Mac, we can get into a good fight with the Social Security Board.
- McR: I don't think there is any question of a fight there. I don't know how that stuff got out, but I don't think

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there is any

Magill: I should think you could get up an independent story on that.

McR: But I do think that information ought to be given out.

Gaston: Yes. I didn't want to make it in any sense a reply to this story or raise any row with the Social Security Board. I'd let Resnick know just exactly what we're doing.

Magill: Yes.

McR: Yes, I think so.

Now, there's another - Danny wrote us a letter the other day that I did not show the boss, about Social Security. They had written us and tried to get us to make a lot of changes in the form. We refused to do it. The boss - first Altmeyer tried to get Graves' concurrence; then he came to me, tried to get mine; then he wrote the boss a letter, but he had courtesy enough to send that letter to me with a note protesting against our refusal to concur in their idea of a combination form for the two; that is, for the state uses and the Treasury uses. I merely told the boss about it, showed it to him and told him what was in it, told him we were turning it down. He said, "It's your business. Doesn't bother me." Now they wrote the President the same damn thing.

Bell: That's right.

McR: Dan told us about it.

Bell: Molly (Dewson) wrote the President.

McR: I don't think there's any occasion for discussing the details of it. What they wanted to do was for us to put out a form for reporting on our tax collections on Social Security, which would be used also by the states - in reporting to the states on the Title 9 stuff, and which would be susceptible of instruction to the taxpayer from Washington and from the states, and every place.

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Well, my attitude on that was that if we expected to get any returns from the taxpayer that are accurate and satisfactory, we've got to retain the authority over that, and nobody else can tell them what to do with it. Now, it's just basic. You can't get around it. We can't have six different people instructing the taxpayer what to do with a particular form and expect to get any satisfactory results. And I just refused to concur.

They wanted to make the thing by carbon process. I said, "You can use our form. We'll put it in shape so that all of the information that is contained on our form will be in the shape where you can use it for your state purposes. But you can't tell them - but we won't add the column that you need for the other on that, not because we have any objection to it, but because if we do, your state people will be telling them when to submit it and what to put on it and who has to do it."

You see, the coverage isn't identical for the two things. Some states on the Title 9 - they don't send for all employers. On ours, they do, and ...

- Magill: Does the state have a separate form now?
- McR: There is some little difference. They wanted to make one form for the use of both the state and the Treasury.
- Magill: Couldn't we do that and keep it under our own control?
- McR: We could - see, they can use the form that we've got by adding certain information. See, you've got an employer - in some states on the state form they only need it where there are eight or more employees, and they need some additional data.

Now, I told them they could use copies of our form and have the additional data - give their own instructions about the additional data that they had to have, and all that sort of thing.

Their principal difficulty, as I see it, is that if we make the one form covering the whole thing, you're bound to get confusion on the part of the taxpayers as to whether they shall submit a return or not, if it

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happens to be a case that they are not required for the state. It is difficult enough to get the damn things anyhow, but if you give them an alibi so they can say with any reason that they misunderstood and thought they shouldn't submit it, we just won't get them, that's all. Now, I don't think a job of that size can be done unless you can make it just as clear and just as concrete as possible, and shorn of all confusion.

Magill: I think that's true. What I was thinking of - and I guess you have it in mind - you could fix it up in such a way that a man could make out one return and a carbon copy which goes to the state, but he does the job once for all.

McR: That's exactly what Social Security wanted us to do, but it was necessary, to do that, for them to have two sets of instructions, and it is exactly what I objected to, and the other boys did. When there are two sets of instructions to use with respect to our form, particularly when the instructions in the other case tell them that they don't have to submit a return at all unless they've got at least eight employees, I don't think we'll get it.

Those fellows over there ought to be just as anxious as we are to see that we get a full coverage on these returns. Certainly they've been fussing about it.

Magill: Yes.

McR: And I don't believe, just as a practical matter, that it is possible to combine them without getting sufficient confusion so as to make a difference in the few million returns that you get. And we seem to be on the way to getting a pretty fair result on this Social Security stuff now. We turned all of our - well, 80 percent of our field deputies loose for two months to clean that thing up, to get it out of the way. It's coming along a damn sight better than I ever thought it would, and I don't want to mess it up. I won't if I can help it.

Taylor: I think we've got this LaFollette letter - did Eddie Bartelt have a chance to go over that with you (Bell) last night or ...

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Bell: Not after he talked to you. I went over it before. Thought it was in pretty good shape.

Taylor: I didn't change the sense of it any. There was wording in various places and a few things like that that we worked on for an hour and a half, I guess it was, yesterday afternoon. I think it's ready to go now.

Bell: Uh-huh.

Taylor: And we'll try to give it to Mac so that the boss can sign it on the train, you see.

Magill: What's he asking about?

Taylor: This is about capitalizing and depreciating public buildings, and so on, referring to the Australian method. What he's talking about isn't the Australian method, but that's neither here nor there. But I think it's a hell of a good letter the way it is.

Bell: Extraordinary budget in a sense; that's what it is.

Gaston: If you're going to do any such thing as that, it would just be a part of a Federal running inventory. Public buildings would be only one item.

Bell: Public works in general.

Taylor: It would be public works in general. Then you get into battleships and a few other things like that.

Bell: Washington Monument.

Taylor: But in any case I think it's a swell job.

Bell: Yes.

Taylor: And the other thing is that - remember about these mixed claims and so on? Well, I arranged to have Clarence Opper talk to Hackworth, which he did last night, and there doesn't seem to be much possibility of its working out. But he's talking to Judge Moore today to find out if they want us in at this particular stage.

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Bell: He doesn't think there's any possibility?

Taylor: No.

Bell: Well, the lawyers don't feel that way about it; and the German Government, I understand, has agreed to it.

Taylor: Well, there seems to be some difference of opinion about that. Hackworth himself apparently isn't optimistic at all, particularly right now.

Bell: Uh-huh.

Taylor: And then ...

Bell: I hope they won't throw it on our desk on the eighth of March and expect to ...

Taylor: Then there is a question as to whether you could do what they propose without legislation, and there is very serious question about that.

Bell: Surely.

Taylor: But ...

Bell: That's the reason I want the Treasury in on it, because it's really our job in the end.

Taylor: Well, it's - you'll hear more from it probably some time today. But they don't seem to think that there's much chance of it happening. That's what Hackworth thinks, anyhow.

Bell: It's a pretty good scheme, if it can be worked out. I mean it wipes the whole thing right off the books - just slick.

Taylor: According to Clarence, you have this piece of legislation that was passed in 1934, which created this moratorium, whatever you want to call it, as long as Germany was in default, you see.

Bell: Uh-huh.

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Taylor: And whether they can make these compromise payments, whatever you call them, there with that piece of legislation still on the books is - they have to argue about it.

Bell: I realize that.

Taylor: And in effect it would go finally into the control of the German Government itself, because they move in wherever it might pay their nationals.

Magill: Well, either the boss overslept or something. I'll have to go on up there. I guess - if he calls up, why, suppose you (Taylor) pass the time of day.

Taylor: All right.

Magill: I guess there's nothing particular to convey.

Bell: I haven't got anything.

McR: Nothing.

Magill: All right.

JAN 12 1938

My dear Senator:

Reference is made to your letter of December 15, 1937, addressed to Assistant Secretary Taylor, which was acknowledged by Mr. Taylor on the same date, relative to the capitalization of governmental expenditures for public works.

You state that it is your understanding that some nations, which have been conducting public works programs, such as Australia, have adopted the policy of carrying the completed projects as capital assets, to be depreciated through the estimated life of such projects, rather than virtually writing them off within the period during which construction was carried on. You state that this particular procedure is of interest to you and you desire to obtain from the Treasury approximate figures for such projects as have been undertaken by the United States Government within recent years.

You also request, in the event the Treasury has adopted this procedure with respect to completed projects, as well as to make allowance for recoverable assets and the proprietary interest of the United States in Governmental corporations and credit agencies, as of June 30, 1929-37, how such procedure would have affected the Treasury deficits and public debt totals for those fiscal years.

Your letter raises several interesting questions with respect to the following:

- I. The distinction between investments in recoverable assets, and non-recoverable expenditures.
- II. The treatment of expenditures for recoverable assets and their effect on Treasury deficits and the public debt; the retirement of debt created as a result of making such investments; and the relation of such retirements to the sinking fund.
- III. The capitalization of non-recoverable expenditures for public works and its effect upon the budget and the public debt; the amortization of such expenditures through depreciation appropriations and the relation of such appropriations to the sinking fund.

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IV. Budget and accounting practice followed in the United States as compared with other countries.

In your letter you ask the following specific questions:

"In the event the Treasury had adopted this procedure with respect to completed projects as well as made allowances for the proprietary interest of the United States in Governmental Corporations and Credit Agencies and recoverable assets therefrom, as of June 30, 1928-29, how would this have affected the Treasury deficits and public debt totals for these fiscal years?"

In response to this question, I have had prepared a statement which, while based upon approximations, for the reasons hereinafter mentioned, will present in general the results of the procedure which you mention in your letter. You realize, of course, that the statement is subject to some serious limitations.

I. Distinction between investments in recoverable assets and non-recoverable expenditures.

From the standpoint of the Federal budget an important distinction should be made between expenditures made for recoverable assets and expenditures for public works. Undoubtedly, a large amount of recoverable assets have been acquired as a result of the expenditures of the Government during the past few years. Such expenditures have increased the Treasury deficits and when repaid will affect future budgets and the public debt. The means by which such assets are acquired and the laws under which they are held and subsequently disposed of, however, do not lend themselves readily to budgetary or Treasury accounting control.

In view of the large amounts invested by the Government in capital of governmental corporations and recoverable assets, the President issued an Executive Order on October 10, 1934 (No. 6869), under which the Treasury Department publishes in the Daily Treasury Statement on the last day of each month, a combined statement of the assets and liabilities of governmental corporations and credit agencies of the United States. It is to be remembered, however, that the financial transactions of such agencies are not of record in the official accounts of the Treasury Department, nor does the Treasury exercise supervision over their accounting systems. The

purpose of publishing the combined statement was to make available in convenient form essential information concerning the Government's investments and the financial condition of corporations and credit agencies in which the United States has a proprietary interest. A copy of the statement as of November 30, 1937, is enclosed herewith for your convenient reference.

II. Treatment of expenditures for recoverable assets and their effect on Treasury deficits and the public debt.

During the fiscal years 1932 to 1937, expenditures for recoverable assets have increased Treasury deficits in the sum of three and a half billions of dollars, and have caused a corresponding increase in the gross public debt. This amount, of course, includes a large sum invested in the capital stock of Governmental corporations for which the Congress has made no provisions for liquidation and return to the Federal Treasury. Some of these investments are permanent in character while others will be returned when they have accomplished their purposes.

The Government's budget, as you know, is operated on a "cash income" and "cash out-go" basis, and consequently such items have been accorded the same treatment for budget purposes as the revenue income and the operating expenses of the Government. For accounting purposes, however, such items have been classified in a separate category as may be noted from a copy of a statement which I am enclosing for your convenient reference.

The receipts from the repayment, sale, or disposition of such assets will be deposited in the general fund and therefore will operate either to reduce the amount of future borrowing which otherwise would be necessary or should result in debt retirements over and above the amounts which will be retired through the statutory sinking fund. Whereas no specific provision of law exists requiring the use of such receipts for debt retirement, I think it would be desirable if there were such a law.

III. Capitalization of non-recoverable expenditures for public works and its effect upon the public debt.

Reference has already been made to the fact that distinction should be made between capital expenditures for investments in recoverable assets and those made for public works, for the latter, by their very nature are intended to be permanent in character, and the sale or disposal of individual improvements is not contemplated.

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In considering this matter distinction must also be made between the treatment of public works expenditures for accounting purposes, and the treatment to be accorded such expenditures for budget purposes. Theoretically, there is a great deal to be said in favor of an accounting system which would distinguish between the running expenses of the Government and those for public works construction and capital improvements. Actually, however, under the laws which control the Government's accounting system, it is extremely doubtful whether such a segregation could be made with sufficient accuracy as to be trustworthy. The capitalization of public works expenditures for budget purposes usually involves a more vital question -- one of financial policy.

Occasionally the question is raised as to why the Federal Government does not follow commercial practice in capitalizing certain expenditures. In determining its surplus or deficit, a commercial undertaking must distinguish between capital outlays for additions to plant, and operating expenses (including charges for depreciation and obsolescence) chargeable against operating revenues; and it is necessary for such organizations to include in their statements of financial condition the value of capital outlays. There are a number of reasons why this is done. In the first place, the relationship between current and fixed assets and liabilities must be considered in determining the financial standing of a business for credit purposes. Secondly, capital expenditures are not proper charges against income in the determination of tax liability or the declaration of dividends. Thirdly, stockholders are interested in the relation between current earnings and invested capital.

New buildings and other public works are not always constructed by the Government on the basis of its operating needs. Frequently they are based upon monumental and other considerations. Governmental improvements cannot be exactly compared with those of a private business, as the value of a Federal improvement should be measured by its service to the citizens rather than by any profit which might ensue from its continued operation.

Expenditures for public works have been a substantial factor in governmental financing problems. Capital expenditures and their relation to the total cost of Government are reflected not only in increased taxes to meet that portion of such expenditures which are financed from current revenues, but also in the issuance of public debt obligations which must

later be liquidated by taxes. Then the cost of proposed improvements is to be met through the issuance of bonds. It is often easier to gain popular approval for such expenditures than if the cost has to be met immediately from current taxation. As the indebtedness of the Government increases, the budget is necessarily expanded to take care of growing charges for interest payments and sinking fund retirements. Further, in extraordinary times, such as those through which we have been passing during the past few years, -- a period involving successive unbalanced budgets, -- the principle of the sinking fund for the retirement of debt is not of practical application, for the reason that a sinking fund is not truly effective unless the Government's revenues are adequate to take care of not only its operating expenses, but also its sinking fund requirements.

The capitalization of expenditures, and the exclusion of such expenditures from the Government's operating budget as and when the expenditures are made, presupposes annual or periodic charges in the operating budget for (a) depreciation and obsolescence, or (b) for mortification of debt retirement through a sinking fund.

In addition to the question of financial policy, there are two serious practical difficulties which would arise in the application of the principle:

1. Neither the Budget Bureau nor the Treasury Department has authority under existing law to exercise over-all supervision of the accounting systems, procedures, and records in the several departments and establishments of the Government.

2. The time required, and the expense involved, in determining, and subsequently verifying, the amount of depreciation to be charged in the annual budget against each capital item would be substantial.

A reasonably accurate estimate of depreciation and obsolescence on Government property would require years of engineering research at considerable expense, with rather doubtful results. Controversies would arise with respect to the rates of depreciation to be used and the method by which they should be applied. The budget surplus or deficit could be increased or decreased simply through changes in the rates or methods. The results would probably be misleading and of little value to the Congress in its consideration of the Federal budget.

It is generally admitted that the distinction between capital and revenue expenditures is often merely a matter of opinion. This was expressed by Mr. Ray B. Keeler, O.P.A., professor of accounting at Columbia University, in Accounting - Theory and Practice, as follows:

"Many phases of the problem of capital and revenue expenditures are extremely difficult of determination and in their final analysis rest on estimates and opinions rather than definitely established facts. Too often it is feared that decision in matters of this kind is 'influenced' by unexpected individual caprice and by considerations of the financial convenience of the moment; for the allocation of such items may sometimes represent the margin between a profit or a loss for the current period. As is said to be true of geometry, so here there is no royal highway to the solution of these problems."

The United States Treasury Department has always favored the "pay-as-you-go" basis for financing public works expenditures. The benefits of the "pay-as-you-go" policy are not necessarily in curbing improvements but in curbing the desire to incur expenses for a future generation to pay, which gradually reduces ability to maintain Government at a moderate cost.

As of possible interest in this connection I direct your attention to a report of the United States Chamber of Commerce on the financing of capital expenditures in the states and cities. In this report it was stated -

"Advocates of the pay-as-you-go system for state and local governments have attributed many advantages to it, probably the most important of which is the reduction of cost through avoidance of interest payments. Its benefits, however, extend beyond the mere question of cost. Spending officials and taxpayers are more deliberate about acquiring improvements of doubtful necessity when the cost has to be met immediately. Individual projects are undertaken on a more economical basis for the same reason. Construction of unnecessary improvements is deterred when payments of such improvements are compelled to justify an increase in the tax rate at the time they advance such expenditures".

IV. Public and accounting practices
followed in the United States as
generally with other countries.

The public and accounting practices of different nations are not uniform. With respect to Australia, it is understood that the receipts and expenditures of the Commonwealth Government are operated by means

of three distinct funds. Through the United States Government operates through a single fund, commonly known as the "General Fund", Australia has (1) a Consolidated Revenue Fund, through which are handled the surpluses and the running expenses of the Government; (2) a Loan Fund, into which are deposited the proceeds from the sale of public debt obligations, and from which expenditures, mainly for public works and productive enterprises, are financed; and (3) a Trust Fund, composed of miscellaneous amounts administered outside the annual budget. It appears that the three accounts forming the budget system are handled separately and that the surplus or deficit in each is also stated separately. It is also understood that the Trust Fund serves as a reserve upon which the Government draws in case of a deficiency in the Consolidated Revenue Fund, and when there is a surplus in the Consolidated Revenue Fund, such surplus is credited to the Trust Fund and is available for budget expenditures during succeeding years. In the United States, unexpended balances of appropriations are not available for obligation in subsequent years without specific authorizations of the Congress, and moneys held in trust are usually invested in Government obligations, the proceeds of which, when sold or redeemed, are available only for the purpose of the respective trusts.

It appears that the governments of several countries, at different times, have undertaken to distinguish between "current" and "capital" expenditures, and the means of financing each group, by dividing the general budget into two parts. These parts are sometimes referred to as the "operating budget", and the "improvement budget", respectively. Two major objections to the practice are -

1. Expenditures properly belonging in the operating budget, are frequently transferred to the improvement budget, simply as a matter of administrative convenience or expediency.
2. The two budgets are sometimes considered by the Legislature at different times, and without relation to each other.

Mr. John Waller Hills, M.P., formerly Financial Secretary to the British Treasury, in The Finance of Government, says that Great Britain has no capital account in the sense that a large business has one. The United States Government follows very much the same practice.

The terms "operating budget" and "improvement budget" are sometimes referred to as "ordinary budget" and "extraordinary budget". Under such a dual budget system there is always the temptation to balance the "ordinary" or "operating budget" by transferring to the "extraordinary budget" certain expenditures which should be met from current revenues. The extraordinary budget is then balanced or provided for through the use of public credit,

On this subject, Mr. Arthur H. Book, Institute of Public Administration, Columbia University, in The Budget in Government of Today, says -

"In this way a fictitiously balanced budget may be easily produced by simply shifting expenditures from the ordinary to the extraordinary category. The extraordinary budget then becomes, as a Belgian legislator once said, 'the juggler's bag, by means of which the Minister of Finance disposes of the deficit.'"

"In actual practice the tendency is for the two budgets to become separated when the legislature is scrutinizing them. Legislative attention is then directed less and less to the extraordinary budget, which remains chronically out of balance. Upon observing this situation in several European governments, Stemon was prompted to declare that 'extraordinary budgets are everywhere regarded with suspicion', and that 'they have been universally condemned' by their results."

"These tend to obscure budgetary equilibrium and to disrupt the unity of the financial plan."

It is doubtful whether any Government, -- national, state, or local, -- makes available to its citizens more comprehensive information concerning its financial activities than the Government of the United States. The estimated revenue, appropriations, and expenditures of the United States Government, appropriately classified, are set forth in considerable detail in a single budget document. And the United States Treasury issues for every business day of the year, a classified statement of the actual receipts and expenditures of the Government, the current surplus or deficit; the public debt and the condition of the Federal Treasury. The receipts, expenditures, and the surplus or deficit appearing therein, are based upon definitely known money transactions. The surplus or deficit represents the net result of money flowing into and out of the Treasury pursuant to revenue and appropriation laws and is currently reconciled with the cash balance in the Treasury and changes in the public debt of the United States.

In conclusion, with reference to your inquiry as to how the practices of capitalizing certain expenditures would have affected the public debt, during the period covered by your inquiry, you are advised as follows: Assuming that the public works program had not been enlarged as a result of such practices, and assuming that the proceeds from the sale of

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public debt obligations had been used for public works expenditures, the gross public debt would not have been otherwise affected. In other words, the amount of the gross public debt would have been exactly the same as that officially published by the Treasury for the periods indicated.

If there is any further information covering this matter which you desire, I hope you will feel at liberty to call upon me.

Very truly yours,

(Egd) H. MORGENTHAU, JR.

Secretary of the Treasury.

Hon. Robert M. La Follette, Jr.,

United States Senate.

HFB:MLB

1-12-38

Enclosures.

C
O
P
YUNITED STATES SENATE
Committee on Finance

December 15, 1937

Honorable Wayne C. Taylor,
Assistant Treasurer,
United States Treasury,
Washington, D. C.

Dear Mr. Taylor:

It is my understanding that some nations which have been conducting public works programs, such as Australia, have adopted the policy of carrying the completed projects as capital assets to be depreciated throughout the estimated length of life of such projects rather than virtually writing them off within the period during which construction was carried on.

This particular procedure is of interest to me and I should like to obtain from you approximate figures for such projects as have been undertaken by the United States Government within recent years.

In the event the Treasury had adopted this procedure with respect to completed projects as well as made allowances for the proprietary interest of the U. S. in Governmental Corporations and Credit Agencies and recoverable assets therefrom, as of June 30, 1929-37, how would this have affected the Treasury deficits and public debt totals for these fiscal years?

I shall deeply appreciate receiving estimates on the above request at your earliest convenience.

Sincerely yours,

s/ Robert M. LaFollette, Jr.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 12, 1938, noon

NO.: 47

RUSH

FROM COCHRAN.

This morning when the banks opened the demand for sterling was immediate and heavy. Seven and one quarter was the discount on the franc against three months sterling.

At 11 a.m. I visited the Bank of France. I was told that the pressure was even more terrific than it was yesterday; most of the requests were for sterling, but some of the flight is to Swiss francs, florins and belgas. The demand for dollars is not significant. Temporarily the transactions are ahead of the bookkeeping operations of the control. However, I was assured that there is still gold and foreign exchange in the control, and that when this amount is exhausted it will immediately purchase gold from the Bank of France against francs unless they receive some government instruction to the contrary. The Bank up to the present has had no intimation from the Government with regard to any anticipated control of exchange, looking to London for an early credit, or permitting a drop in the franc rate.

There is a feeling among my friends in the Bank that

a

- 2 -

a most complex political situation has arisen, and until this is cleared up it is not possible to get relief for the currency. It would be of no avail to make use of technical measures, such as manipulations of rates by the control. Apprehension over the currency would presumably increase should a further Left Government come into power.

BULLITT.

EA;LWW

FROM AMERICAN EMBASSY PARIS

January 12, 1938 NOON

Received January 13, 9:20 a.m. NO. 57

STRICTLY CONFIDENTIAL FOR THE SECRETARY

Today a number of conferences between Chautemps and the members of his government have been held. It seems likely that as a result the government will tomorrow, Thursday, resign. ✓

Tonight Blum gave me an account of those conferences; the capital flight he said had reduced the equalization fund to practically nothing. Blum felt that the finance minister, Bonnet, had been reckless in paying the British credit out of the equalization fund, as well as paying the Bank of France the four billion francs. ✓

Blum had made the suggestion to Chautemps and Bonnet that they should take back for the equalization fund the gold which was turned over to the Bank of France. However, Bonnet was not willing to do this as it would show him up as having been over-confident about their situation; Bonnet in fact made it clear that rather than take this action he would resign. The resignation of the minister of finance would, of course, cause the resignation of Chautemps as well as the rest of the French Government. It would be preferable Chautemps agreed for Bonnet to resign rather than draw from the Bank of France the gold paid in. Exchange control is not desired by Chautemps and Bonnet; therefore it seemed certain that in the next twenty-four or forty-eight hours the government would have to resign. ✓

Blum
The Prime Minister went on to say that he felt it would not be possible for France to continue to live at the mercy of speculators;

- 2 -

the currency had already been sufficiently devalued, and to envisage another devaluation was impossible. ^{Blum} ~~Blum~~ himself had opposed exchange control intensively, but now he felt that exchange control was the only conceivable alternative.

I was then asked by Blum how our government would view the establishment in France of exchange control; I said that in this regard I had had no instructions. I could say that as a personal opinion, there would be great disappointment if such action were taken. The United States Government had been doing its utmost to free international commerce from the shackles which bound it, and it would obviously be a blow to their program, which I consider a step in the direction of peace, if France should establish exchange control.

The Prime Minister said that he hoped it would be realized that it would only be under the pressure of absolute necessity that such a step would be taken. He hoped that the sympathy of the American Government and of the people of the United States would not be lost thereby. Blum said again that he felt certain that exchange control will have to be established by any Government which might succeed the present Government.

The Prime Minister went on to say that it might have been possible a few weeks ago to have had the present Government replaced by a Government slightly further to the right. This government would have included Reynaud, Pietri and Flandin. However, in view of the immense resentment against the right which revaluation had caused, and in view of the fact that the "Cagoulards" had been responsible for the killing of two policemen, it was inevitable that there would be a swing to the left. In addition, Blum said/^{today} that it was discovered the murder of the Rosselli brothers was the work of the "Cagoulards". The right had lost all moral standing because of the use of the murder as a political weapon.

I then asked Blum whether LeBrun had revealed to any one the name of the man he would call on to form the next government in France. So far as he knew, he said Le Brun had not indicated his intentions to any one. However, I gathered from the entire conversation, that Blum felt it likely he would be the man called on. It is my impression that Sarraut or Herlot, rather than Blum, would be the first choice of LeBrun. In my opinion, the fall of the present Government, in any event, is imminent.

January 12, 1938.
3:00 p.m.

H.M.
Cochran: Hello, Wayne, how are you?

Wayne
Taylor: Fine.

C: Wayne, I wanted to give you a little information. I sent you two cablegrams today, but since then I have gotten a little more.

T: Yes.

C: Tonight our friends have less than one billion francs left.

T: Yes.

C: You understand.

T: Yes.

C: And there is a strong possibility that the government may fall very soon.

T: Yes.

C: Right in the next day or so.

T: I get it.

C: They think - my friends think that a Socialist Government is impossible.

T: Yes.

C: Just make more trouble. So the choice is likely to go to someone like Herriot or Bonnet himself.

T: Yes.

C: If the government falls, there's a possibility that they might let the franc exchange rate slip temporarily anyway.

T: Yes.

C: That's not sure, and they promised to keep me

-2-

informed. The belief is here that the capital which has gone away now really does not believe that a new devaluation is economically necessary.

T: Does not?

C: ...that a new devaluation, a further depreciation of the franc, is really necessary economically. But these people just want to be on the safe side, getting their money out of the country.

T: Right.

C: So my friends figure that if they get a strong government in which inspires confidence, that some of this money would then return, and they might bring the rate back to where it is today.

T: Yes.

C: So it's not sure yet, but they've tipped me off that they might let the rate slip for a while anyway, if the Government falls.

T: That's only if the Government falls.

C: Only if the Government falls.

T: Are they discussing at all just shutting up shop for a day or two?

C: I don't hear.

T: Are they discussing the possibility of closing everything - bank holiday, et cetera - for a few days, as an alternative?

C: That was talked of on the market, but the officials have said nothing to me about it.

T: Yes.

C: I raised that, and they said, "Oh, there's so many rumors. The whole thing is political. We can't solve anything until the political problem is solved."

T: It would - the reason I mentioned it, it would seem a more logical thing to do than fussing around with

-3-

the other one.

- C: Yes, yes. Quite. Well, that - that was everything I've sure the Government will have to change pretty shortly. But I'm - I'm
- T: You're sure of that, eh?
- C: Well, about as sure as I could be.
- T: Yes.
- C: I can't swear it, but still ...
- T: No, no. It looks very much that way.
- C: Because the drain these three days has just been terrible.
- T: Yes.
- C: I'm sure there's not enough to take them through tomorrow.
- T: And you think that the choice lies between the two that you mentioned.
- C: I think that's where it is, yes.
- T: Yes. Ah - if it were Herriot, would Bonnet go in the cabinet?
- C: He would go in as Minister of Foreign Affairs, probably.
- T: He would?
- C: And they might try to get Renaud in as Finance Minister.
- T: I got it.
- C: See?
- T: Yes.

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C: That's a pretty good combination.

T: Yes.

C: But so far this is merely in the formative state, and there's so many things coming up almost every hour, on

T: Yes.

C: ... business, and so on, that it's dangerous to predict how much. But I just want to let you know how at least they were talking officially this evening at seven o'clock.

T: There is practically sure to be a change, then?

C: It's almost inevitable.

T: Yes.

C: I don't think they can go on very long, that's all.

T: Well, I think that's - just a minute and I'll see if Archie has any questions here.

(Short aside conversation)

No, he has none.

C: I see. Well, I've sent you two telegrams which give a little more. But I didn't want to put this last information

T: Right.

C: ... about the amount of cash...

T: Yes.

C: ... in either one of them, you see.

T: All right, fine.

C: Fine. And the Ambassador has sent some today too.

T: Yes. We saw one of those.

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C: Yes. Well, there's been more this evening.

T: Yes.

C: I have sent two.

T: All right, fine, Merle; thanks very much.

C: All right. How are you getting along?

T: Outside of that news, all right.

C: (Laughs) Well, sorry to give you that.

T: Yes. The Secretary, as you may know, is going to be away for about ten days.

C: No, I didn't know it, though, at all.

T: Yes.

C: But if any - if I get any dope that this rate is to slip, anything like that, I'll get you a radio.

T: All right, fine. And I may want to put you through to him down at Sea Island. He isn't there yet, so that there's - I guess there's nothing to do in the meantime.

C: No. I have in a request to see Bonnet whenever he can receive me.

T: Right.

C: But I'm not going to push him until this thing is a little further along.

T: All right, fine.

C: Fine. All right, sir.

T: Thank you.

C: You're welcome. Good night.

T: Good night.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 12, 1938, 5 p.m.

NO.: 52

RUSH

FROM COCHRAN.

Pressure on franc has continued throughout the day with three months' discount on franc against sterling passing 10 1/2. Rentes down around one franc; French shares weak; internationals strong; market atmosphere bad.

I saw Rueff and de Murville in the Ministry of Finance at 5:00 p.m. The meeting between Chautemps and Jouhaux labor organization was still going on at that time. I was told by Rueff that the control was continuing to yield large amounts of sterling at 147.85; I asked whether this would be kept up until the fund was exhausted and then whether more gold would be drawn from the Bank of France, and Rueff said he had told the Finance Minister that it was foolhardy to continue to give exchange at this rate unless some very early change which would restore confidence was in prospect.

I was assured by Rueff that exchange control would not be voted for by Bonnet. However, he would not say exactly whether he thought the confidence-inspiring move should be a change in the Government or a large franc drop. He insisted that the question was a political one for the most part. Rueff is not sure, should Blum return, whether he might

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might not be influenced by his followers to favor exchange control in view of the present circumstances. Rueff told me that very soon big political decisions will have to be taken.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

107

OFFICE CORRESPONDENCE

DATE January 12, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

BANK OF ENGLAND.

FROM L. W. Knoke

I called Bank of England at 12:08 and, in the absence of Mr. Bolton on account of illness, I spoke to Mr. Hawker. The situation in France, the latter said, was becoming really critical. It started a week ago when the Bank of France's weekly return showed renewed borrowing by the Government in the total of 5,000,000,000 francs. That, he said, set it off. People began to calculate what was left in the Fund and became more nervous. Then the strikes started. Following that, the Socialists began renewing their pressure for foreign exchange control and restrictions which, of course, made the position very much worse. In order to remedy the labor situation Chautemps consented to meet employees and employers in joint session but the employers politely declined because only the French Labor Party had been asked to represent the employees although there were many other labor organizations in France which were possibly somewhat more liberal minded. The difficulty in France was entirely political and social. Chautemps kept on talking about some sort of bill covering minimum labor conditions. The whole outlook was very black at the moment, with the result that the Bank of France had been subjected to constant pressure and losses during the last week or so had been terrific. Today had been the biggest day so far. The franc had been under constant attack without any lull at all. Close to 25% per annum was bid for sterling for one day. Cariguel, of course, was forced to keep the franc pegged at a time that meetings were going on. The only movement the franc had been allowed was about 10 or 12 points a day, but, far from warding

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 12, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

BANK OF ENGLAND.

- 2 -

off the demand for foreign exchange, this had increased it and made it more acute. Foreign banknotes and gold coin were much in demand, the latter selling at a premium of 3 1/4%. The position was very, very black at the moment and Hawker felt sure that something would have to be done in the next 24 or 48 hours. Quite possibly this night, again, true to French habit, be some kind of a compromise. There was nothing that could be done by anybody. In London they had been forced to take gold from central banks everywhere, with the result that their gold stock was creeping up. This, I suggested, was the reason for the London gold price going down, with which statement Hawker agreed after a fashion. People did not want to pay the high price in London as long as the dollar was steady. Only if the latter weakened was the public anxious to go after gold. As things were at the moment, the demand for gold was not big enough to force the premium up. The turnover had probably been half a million or less, which, of course, did not justify a very much higher premium, not even a premium of 8 or less than 7 pence as today.

I pointed out that possibly the mental approach to the whole problem was wrong. Why talk of a premium above the lower gold point rather than a discount from the higher gold point? As long as the movement of gold had been from east to west it had undoubtedly been correct to speak of a premium over 34.77. Recently the movement had somewhat reversed itself and one might well ask whether, particularly if the latter should continue, it did not make more sense to quote on the basis

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 12, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHBANK OF ENGLAND.FROM L. W. Kneke

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of our export price and speak of a discount on that. Hawker thought that was correct as "Unfortunately, there is no parity."

I referred to the recent silver arrangements made by the Treasury and Hawker thought that they had made a good impression and the effect had been good.

I asked whether he knew anything about Brazil but he replied that they were waiting for some indication from down there as to just what the situation was.

LWK:KMC

RECEIVED

JR

PLAIN

London

Dated January 12, 1938

Rec'd 3:22 p.m.

Secretary of State,
Washington.

27, January 12, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

The pressure on the franc has further increased today. The fact that the one month's future rate at one time touched $6\frac{1}{2}$ and the three months $10\frac{1}{2}$ when the Bank of France withdrew its support is indicative of the atmosphere. The advices from Paris are so confused that the City has formed no concerted view of the prospects but it is generally believed here that the French fund does not have at its disposal more than the equivalent of thirty million pounds in gold or foreign exchange and that if the pressure continues the franc must be further depreciated. Foreign exchange dealers report that the Bank of France is making day to day money hard to obtain in the hope of curtailing bear operations. This would seem to be a weapon to be used in combatting a short movement but in a long fight it might be self-destroying: bills falling due might not be renewed and thus the intrinsic weakness of the French position would be revealed and augmented.

HPD

JOHNSON

Mr. Tolhead 111
DATE January 15, 1936.

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Kroke

Mr. Bolton called Mr. Kroke at 10:39 today. The latest franc rate was 151, he said, that is about 3.51 cents per franc in our terms. Once again, as in last June, the market was talking of 180 to 200; whether there was any validity in that, of course, he did not know. The demand for dollars was very, very small. Europe's inclination, he continued, was to be suspicious of it, suspicious that things were not really improving over on our side. This was the feeling which quite a number of people in Europe had had for some time, particularly those who had capital in America. If it were not for the greater weakness of the franc, he thought the dollar would be under pressure too. Meanwhile he was having a very difficult time being swamped with gold from across the channel. He was gaining very rapidly, at a far greater rate now than ever before, he thought. During the last two days he took in something like 15 or 16 million pounds of gold, a very large portion of which came from France. Just what the situation in France was, he did not know. So far, no resignations of cabinet members had taken place. According to latest reports Chautemps was preparing an appeal to the country to pull itself together. The trouble was entirely within France, he thought. No external solution was available. There was nothing one could do about it. The French would have to be convinced of the stability of their own institutions and currency before anything could happen. The only other development of any interest at all, for the time being, seemed to be the weakness in belgas which was probably rather a natural sympathetic movement.

LWK:EMC

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 13, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

At 5:05 Feis called me and read me a cable of instructions to Ambassador Bullitt in reply to Bullitt's confidential report of his conversation with Blum. In general this instruction stated that he should continue to express the attitude which he had already taken; that the Treasury had already talked to Henry here and had told Henry that the Treasury contemplated making no statement on the situation of the franc and under no circumstances would do so except in consultation with the French Government and even under those circumstances would be quite reluctant to do so. However, that it was the Secretary of State's personal hope that exchange control could be avoided and if it were necessary to impose a control rather than to face a panic situation in the franc, that the control would operate so as to not interfere with merchandise transactions and would apply only to capital movements. I approved this statement.

W.T.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 13, 1938, noon

NO.: 58

RUSH - FROM COCHRAN

The French control had yielded one million dollars by 11:45. Today's demand for sterling on the chaotic market was even greater than that of yesterday. Three months sterling was at ten one half, and the sterling rate has slipped to 148.50. The Paris banks have been requested by the Bank of France to limit their exchange dealings as much as possible, but the anxiety appears to have been increased by this request. No arbitrage operations are being undertaken by Guaranty, which bank presumes that similar cooperation is being given by other American banks.

BULLITT.

EG

GRAY

Paris

Dated January 13, 1938

Rec'd 12:55 p.m.

Secretary of State,
Washington.

RUSH

60, January 13, 3 p.m.

FROM COCHRAN

Issuance of government communique (which is being cabled separately) at 1:30 p.m. at conclusion of Cabinet meeting was taken for a few minutes on London market as bull point for franc and rate temporarily improved to 148.20 but soon weakened. Demoralized Paris market is still taking a tremendous lot of sterling with control letting rate slip 20 or 30 centimes at a time and 149.95 was level at 3 p.m. Traders estimate that barring this hour control has today lost 12 to 15 million pounds. No significant change in bank statement as of January 6.

BULLITT

HPD

MBo

PLAIN

London

Dated January 13, 1938

Rec'd 3:15 p.m.

Secretary of State,
Washington.

RUSH.

29, January 13, 8 p.m.

FOR TREASURY FROM BUTTERWORTH

Although the franc was allowed to decline as far as 154 to the pound and closed at 151 the pressure continued to increase throughout the day and reached panic proportions. Very little business was able to be done in the future market.

The City in general anticipates that the French Cabinet crisis cannot be postponed and is at the moment more interested in the avoidance of exchange restrictions than the possibility of the franc depreciation.

As of possible interest Morange, French banker who has just arrived from Paris, made the following points in the course of a luncheon conversation today: (1) that the political importance of the Tripartite Agreement was such as to prevent the imposition of exchange controls in France; (2) that the franc would have to be further depreciated and "find its own level;" (3) that

the

2- No. 29, January 13, from London.

the hope of a real reconstruction Ministry lay in the possibility of an understanding being reached between Blum and Reynaud who were the only two men able to satisfy respectively the Left and Right factions.

I am meeting with Phillips and Waley tomorrow at 11 a.m.

JOHNSON

HPD:

January 13, 1938
3:33 p.m.

Operator: Here's Mr. Cochran.

H.M.
Cochran: Hello.

Operator: There's your call, sir.

Wayne
Taylor: Hello.

C: Hello, Wayne. Yes.

T: Hello, Merle.

C: Can you hear me well?

T: I can indeed.

C: They've had a very bad day here. Can you hear?

T: Yes.

C: I am sure they have had to draw heavily the gold from the Bank to replenish the control. At ten o'clock I cabled you that the sterling rate had gone to 154; then it turned back to 151, due to some liquidation by the market here, and a report that appeared on a London ticker to the effect that the French Government had asked the American and British authorities to prevent trading in francs on their respective markets if the Paris Bourse should close tomorrow. You've heard that rumor?

T: No.

C: Anyway, that was on the London ticker, and telephoned over here, so it was - got all around the market, and some people sold out on that report. And I got in touch with our friends, and at 7:15 my best friend called me back, and he said that he had just telephoned to the Bank of England to tell them not to stand by tonight, that he did not think there would be any message for them.

T: Yes.

C: And he said that he would call me tonight, even late,

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if there should be anything. They took a terrible beating today, and there was pretty wide feeling that they might have to close up tomorrow, but there was no decision taken to that effect this evening.

Parliament met and then adjourned at six o- - a little past six, after Chautemps had spoken. Chautemps gave a good speech, saying that it was the time for everyone to show their sincerity, to respect the law, discontinue features which embarrassed the country and the Treasury, and that they should defend the franc, which is technically sound, and avoid exchange control. He spoke strongly against exchange control. He told them to think it over and meet tonight at 9:30.

T: 9:30.

C: They adjourned. The Radical Socialist group has got together and decided to support the Government. I haven't heard yet what the Socialists and Communists have decided. But they're going to meet at 9:30, and there'll presumably be a vote of confidence on this financial proposition.

Getting all of it?

T: Yes.

C: And if they do not get a majority, they will resign. If they do get a majority, it's possible, though not sure, that they may try to work in some new Ministers a little more to the Right for defending the franc. But that's what they'll have to work out after they see how it goes tonight.

T: Without the Communist votes - even without them, they're all right, aren't they, if the other two stick together?

C: Yes, their Socialist votes, and the Radical Socialists - they - they can get by without the Communists.

T: That's what I thought.

C: Yes. But the question is whether the Socialists would stick with the Radical Socialists if the Radical Socialists are trying to throw the Communists out of the Popular Front.

-3-

- T: Yes.
- C: That's what our friend wanted who used to be over with you.
- T: Yes, that's what I gathered.
- C: He's trying to cut loose from that group, and he was in the mood this morning to resign, but has stayed on, and they're trying this now. And if they should go out, or if they should close the banks, they might - then the logical thing would be to swing to Blum. If he should come in, it would be almost sure that they would stick to exchange control. And he might get it in the Chamber, but the Senate would make difficulty for him probably.
- T: Yes.
- C: But that's just about as near as I can tell now.
- T: Yes. Well, that's a slight switch from yesterday, isn't it?
- C: Well, we - I was sure last night that there was going to be a crisis.
- T: No, I mean in terms of the possibility of the type of government; in other words, instead of it being Herriot or our friend that was here
- C: Yes. Well, after - this afternoon when Herriot spoke, he got all the applause. He was the most popular man over there. And there's a chance that he might come in yet, you see.
- T: Yes.
- C: The Government is to stay in tonight. They might try to work him in yet some way.
- T: I see.
- C: I mean it hasn't arrived at the crisis stage yet. But if the Government gets their vote on the policy of protecting the franc and of avoiding exchange control, then these two leaders, the Prime Minister

-4-

and the Finance Minister, may try to get some of these strong men ...

Taylor: Uh-huh.

C: like the man I just mentioned.

T: Yes.

C: And Flandin and maybe Renaud - get some of them into the Government.

T: I get it.

C: I don't know whether that will come or not, but that's what they're talking tonight.

T: So that there would be a shift in the cabinet if they got the vote, with the other boys left out - the Communists left out.

C: That I tell you for just what it's worth.

T: Yes.

C: I mean you can't tell yet. But that's what they were thinking about.

T: Ah - well, in terms of time, why, they're convening now, aren't they?

C: Beg pardon?

T: In terms of time, they're practically convening now, aren't they?

C: No, it's - let's see, it's 8:30 now.

T: 8 - ah - another hour then.

C: - :30.

T: Yes.

C: So it will take some time, and we'll get off a cable as soon as the vote is over.

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- T: Right.
- C: But I shan't call you unless I have some word from the officials themselves in regard to our assistance tomorrow.
- T: Yes. Now, there's - there's one thing I might tell you. I just talked to Henry (Counselor of French Embassy) here.
- C: Yes.
- T: He asked me about a rumor which he had heard that our Treasury was going to issue a statement on the franc. I told ~~him~~ that there was absolutely nothing in it, and that we would only do so in consultation with them and at their request.
- C: I see. Fine. Well, this is all I have, and part of it, as you see, is - is just
- T: Yes.
- C:natural. But I wanted to let you know what has taken place...
- T: Yes.
- C: ... and how it looks now.
- T: Well, we'll know a lot more in about two hours, I'd say.
- C: Two hours. If you wanted me to call you, I could, but - it's just as you wish.
- T: Well, use your own judgment about that.
- C: I'll use my own judgment. If it's simple and we can get off an early wire, I shall not call you.
- T: All right.
- C: But if there's something that I think you ought to have right away, I'll call you again. I'm speaking from home now, and I'm going downtown.
- T: Right.

-6-

C: And then - then I can call you from there, or here.

T: Just a minute.

C: May- - maybe you'd better not mention this call to the State, see?

T: I won't.

C: Fine, Taylor. All right.

T: Ah - now, is there anything in this march that took place today that doesn't appear?

C: In the what?

T: We got a cable report that fifteen hundred transport strikers swarmed down the boulevard late today singing the Internationale and battling police.

C: Oh yes.

T: What?

C: The police dispersed them without too much trouble.

T: Yes.

C: But to me it seems the beginning of what might come.

T: Yes.

C: But these Left people - they do not participate in the Popular Front.

T: Yes. Well, that was my interpretation there.

C: Well, that's it, because if - if Labor gets the worst of it, they're going to demonstrate, certainly.

T: Yes.

C: And have more strikes. So it's not a very bright picture yet.

T: All right, Merle.

C: All right, Wayne.

T: Fine. Thank you.

EG

GRAY

Paris

Dated January 13, 1938

Rec'd 3:40 p.m.

Secretary of State,
Washington.

RUSH

66

January 13, 6 p.m.

FROM COCHRAN

Sterling reached 154 between 5 and 6 o'clock but came back to 151 at 6 o'clock due to some liquidation by market on report that appeared on London ticker to the effect that French Government had asked British and American authorities to prevent trading in francs^{on}/their respective markets if Paris Bourse and exchanges should be closed tomorrow.

BULLITT

HPD



DEPARTMENT OF STATE
WASHINGTON

January 13, 1938.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury and
encloses a copy of telegram No. 62 of January 13 from
Paris.

RECEIVED
4:05 P.
JAN 13 1938
TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

EG

GRAY

Paris

Dated January 13, 1938

Rec'd 1:55 p.m.

Secretary of State,
Washington.

RUSH

62, January 13, 5 p.m.

After a Cabinet meeting this morning which was called to discuss the present financial and political situation and which lasted over two hours and a half, the following communique was issued:

"The President of the Council and the Minister of Finance informed the Council of the political and financial situation and of the serious repercussions it is producing on the exchange market. The Council unanimously indicated its objective energetically to defend the financial situation and the franc. In order to associate Parliament and the nation in this work of public welfare, it has been decided that the President of the Council would today make before the Chamber the declaration which the government owes to the nation".

Please repeat to Treasury.

BULLITT

CSB

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: January 13, 1938, 7 p.m.

NO.: 16

Reference is made to your telegram No. 57, today's date.

It seems to me that the remarks which you made to Blum represent the wise attitude to be shown by the American Government toward the immediate crisis facing the French. Should you be approached again, you may continue to indicate this as the attitude of the American Government. You will realize that for us to judge here what policies the French Government can successfully carry through is most difficult.

This afternoon Henri spoke to the Treasury, having called with reference to a rumor that a statement concerning the franc was about to be made by the Treasury. The Treasury denied this, and told Henri that it does not want to make any statement on the subject and that none would be made except in consultation with and at the request of the French Government, and even then it would be very reluctant to do so.

The following is for your guidance only -

I should greatly regret of course if the French resorted to exchange control. However, short of the French Government consulting us, I do not see how this Government can attempt seriously to influence events for two reasons.

First,

- 2 -

First, in France it might then be charged, on one side or another, that we are intervening in French affairs. Second, because we cannot judge whether, in the absence of control, it will be possible for France today to escape a state of panic depreciation.

If exchange control should be imposed, I of course greatly hope that this control will not be applied so as to interfere with ~~the~~ movement and payment for merchandise and that it will apply only to prevent the flight of capital.

We are informed by Butterworth that the City in general anticipates that the French Cabinet crisis cannot be postponed. He states that the City is at the moment more interested in the avoidance of exchange restrictions than in the possibility of depreciation of the franc. At eleven o'clock tomorrow morning he is to meet with Treasury officials.

HULL.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 13, 1938, 9 p.m.

NO.: 68

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

I gathered from Chautemps that he had little hope that the franc flight would be stopped by his appeal, but it appeared that he and Bonnet had decided the most dignified issue upon which to fall would be that of exchange control.

BULLITT.

EA: LWW

January 13, 1938

Colonel Harrington telephoned that revised figures for January 1 were 1,670,617. Employment figures for week ending January 8 were 1,712,053, an increase of 41,436.

nmc

January 13, 1938

The Secretary today instructed Mr. McReynolds to send a copy of this report to the President and he did so.

OFFICE OF THE COMMISSIONER OF CUSTOMS

January 12, 1938.

MEMORANDUM TO MR. GIBBONS

FROM MR. MOYLE:

In accordance with Mr. Rose's telephonic conversation with Mr. Freeman, the following table showing the value of imports and exports for each month of the calendar year 1937 is furnished.

Month	Exports (Including re-exports)	General Imports
January	\$ 222,665,000	\$ 240,452,000
February	233,125,000	277,709,000
March	256,565,000	307,474,000
April	268,946,000	286,838,000
May	289,922,000	284,901,000
June	265,341,000	285,925,000
July	268,185,000	265,209,000
August	277,934,000	245,707,000
September	296,629,000	233,370,000
October	332,879,000	224,391,000
November	314,682,000	223,226,000
December	331,000,000	212,000,000
TOTAL	\$3,357,872,000	\$3,087,202,000

The figures for each of the first eleven months are those officially reported by the Department of Commerce. The figures for December are estimated from data transmitted by the collectors of customs. These estimated figures should be used with considerable caution and should probably be given no publicity.

(Signed) J. H. Moyle

COPY

Mr. Lush...
132

FEDERAL RESERVE BANK
OF NEW YORK

DATE January 14, 1926.

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

WITH BANK OF FRANCE.

L. W. Knobe

I called Mr. Cariguel at 9:30 today. He confirmed that the Bank of France had requested all banks ^{in Paris} to abstain from exchange operations today and that naturally the banks had agreed. As a result the exchange market had been closed this morning and was closed this afternoon also but - and he was very anxious to get this across - the stock market was open and all transactions in foreign stocks were absolutely free. I asked whether he had given exchange orders to foreign markets and he replied no, except to London where they had standing instructions from him to buy sterling at 150 to the pound. Their intention was to ask London to sell sterling for French account at between 153 and 155. He had spoken to Bolton a little while ago and understood from him that only about 30,000,000 francs had changed hands in the London market.

I offered our services for transactions for his account in this market and Cariguel replied that he would cable instructions later in the day. I mentioned what Besulieu had told me late last night, namely, that, in his opinion, the time might be ripe for a new coalition government in France leaning on the socialists, radical socialists and some of the parties to the right, but not on the communists. Cariguel seemed to agree with this although he added that nothing, of course, was absolutely sure at the moment.

Tomorrow being Saturday, all banks in Paris will be closed anyhow, so that the franc should have a breathing spell of 48 to 60 hours.

LWK:KNC

GROUP MEETING (SECRETARY ABSENT)
IN MR. MAGILL'S OFFICE

January 14, 1938
9:20 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Bell
Mr. Lochhead
Mr. Opper
Mr. Gibbons
Mr. McReynolds
Mr. Upham
Mr. Gaston

Magill: Has anyone talked to the Secretary since he left?

Taylor: Yes.

Magill: Have you? Anything on his mind particularly?

Taylor: Well, he was very annoyed to find out that the French were in trouble again. That was the only thing I talked to him about. I've got a call in for him now to tell him that the boys fell, and

Magill: Wouldn't they know that down at Sea Island?

Taylor: Well, not necessarily.

(Phone rings)

Taylor: (On phone) Hello. - Yes. - Hello. - Good morning, Henry. - No, but you're in Ros's office. Cabinet fell as predicted. - The cabinet fell in France. - No, apparently just a minor bruise. They're out now trying to form a new cabinet. It looks like Herriot at the minute. - He's against it, as I understand it. Now, this is an attempt to form a government a little more to the Right and on a straight popular national emergency basis. The banks aren't quoting - aren't doing any business over there, but the stock exchange is open. There's a nominal quotation in London at about last night's close. - No. - No. - Watchful waiting. - We've got all the troops here, if you want to converse with any of them. - All right. (Motions for Gaston to come to phone) Coming right up.

Gaston: (On phone) Hello. - Good morning. How are you?

-2-

- Good. - Uh-huh. - Oh, is that so? -
Yes, he is. - Uh-huh. - Yes. - Yes.

Dan, come here a minute. On that question - he said - he asked to have that language cut out that he opposed all subsidies.

Bell: He has to have it cut out?

Gaston: You want to talk to him for a moment?

Bell: (On phone) Hello. - Yes. - Yes. - I remember the discussion, but I don't know what it was that was agreed upon at the conference. - It was left in, huh?

Was that quoted this morning?

Gaston: Yes.

Magill: It's here on the front page of the Times.

Bell: (On phone) I see. - Uh-huh. - I remember the discussion in your office, and you agreed to certain changes, but I don't remember the details. Don't know whether we've got a record of it or not. I remember you saying something like that. - Well, I don't either. I don't know whether this comes from the record or whether it comes from Taber's speech. Taber made quite a speech, I understand. - Yes. - Yes. Asked my removal. - Well, that I was under the influence of the Treasury too much and that the President ought to have a regular Director. Not so much against me as it was against the policy of having an Acting Director and having a subordinate in the Treasury in the job. - Well, that's to be expected from a fellow like him. - Yes. - Yes. Well, we'll look at the printed hearings. - Yes, we'll do that today. - Yes, sir. - Well, I'll send it off today. -

(Continuing on phone) You did what? - Well, it isn't exactly a veto provision, but it's a - it's much broader than a veto; it's authority to reduce appropriation items, which is much broader. - No, not exactly, but it operates on the same principle as the '33 reorganization powers. It goes to Congress

-3-

and lies there sixty days. Really ... - Huh?
 - Yes, Woodrum put that in. - He put it in, yes. -
 Yes, went through the House. - Why, it's very good.
 - I think they're attacking him on the outside - I
 mean outside of the House chambers, and he was a little
 worried yesterday; I talked to him. - Well, they
 thought that he slipped something over. I guess there
 was only a handful on the floor at the time the vote
 was taken, and of course that was their fault, not his.

(Continuing on phone) Yes. - Un-huh. - Yes,
 that was a good report, and I think the Treasury
 bill also is pretty good. I don't think it hurt
 the Treasury much. Look out some of the larger
 items, which we'll probably have to submit supple-
 mental on next year. They've stuck pretty well to
 the budget. - Well, I - Mac is here and he's been
 over it, I guess. - I haven't - only thing I saw
 is last night's paper. - Well, I had a date here
 this morning at ten o'clock, so I came down. - All
 right, I'll do that. Fine.

Where's Wayne? Are you still selling seven million
 dollars a day Baby Bonds?

Taylor: They've dropped to around three and a half....

Bell: What?

Taylor: a day. Just that one big day, and last two
 days have been under four million.

Bell: For the two days?

Taylor: No, each day.

Bell: (On phone) He said the last two days have been just
 under four million. - All right, that's a lot.
 Who else? (Points to Magill)

Magill: (On phone) Good morning. - Well, well, I see the
 French crisis leaves you undisturbed, still fluent. -
 Well, the hearings are going to start apparently
 tomorrow, instead of today. Positively Monday.
 On the bill. Got the report done, and it will be

-4-

published and available this morning. - Well, I had Cy tell them that, but they wouldn't believe him. - Yes, sir.

(Continuing on phone) The beacon? - Yes. - Ask the President? - Ask McReynolds. I'll ask him right now.

How about the beacon on the President's church, Mac? Have you made good on it?

McR: He's already appointed.

Magill: (On phone) Oh, it's deacon instead of beacon. I thought this was a beacon. But this is a deacon.

McR: He's already appointed.

Magill: (On phone) Mac says he's already appointed. I don't think he was until I spoke to Mac, but Mac says he's appointed. - All right. - Yes. - Yes. - All right. - Yes, all right, I'll tell him that. I'll give that straight to him.

How about Senator Wagner's boy friend?

McR: He isn't ready yet. He won't be down here for a couple weeks yet.

Magill: (On phone) Mac says he's not ready yet, won't be down for a couple weeks. - All right. - Well, I'm glad you're keeping your punch; you're getting it, anyway. That's good. Full of personnel matters. - I say you're full of personnel matters and French. I don't know of anything else.

Anybody else want to talk to him?

McR: Yes, I want to talk to him.

Magill: (On phone) They sit very quietly, except Mac; he says he wants - he's got a couple words. - Good luck to you, Henry.

McR: (On phone) Hello, Mr. Secretary. - How are you feeling? - Swell. - On those - those two appointments to that review board; I had the boy -

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the President's man over here yesterday
 (portion here drowned out by buzz of conversation
 in room) O.K., yes, I'll do that.
 On the Wagner man, Wagner himself called up and
 said that he didn't want to come down until the
 20th or 21st. So that's up to them. But we're
 not holding back. - Well, Lonigan says she's
 starting this evening, and she's got the line-up
 straight. - All right. -

Herbert, the boss wants to know whether Arthur
 Krock is still good.

Gaston: Yes, no disturbance at all.

McR: (On phone) He said he's still good, still a good
 boy. -

Boss says he doesn't believe it.

(On phone) You want to talk to anybody else? -

(To Operator) Hello? - The boss wants Chauncey.

Magill: Mac, you got anything?

McR: I received this notice from you.

Magill: Be sure you get that beacon on the church. You got
 this thing?

McR: Yes, he told me about it. I saw you already had
 written it down.

Magill: Well, I guess that's all, isn't it?

Will you (McR) check up with Harold on the reaction
 to that Los Angeles memorandum of his?

McR: Well, he said he wanted to talk to me again after
 he talked again to the Commissioner. But he had
 a hundred percent concurrence on the part of all the
 other boys involved.

Magill: Good.

McR: No question about it.

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- Magill: I'm glad he shut it up as a regional affair. Did you see his memorandum?
- McR: He talked to what's-his-name over there, the head of the technical staff - Marrs - Charley Russell, and Bill Sherwood, and all three of them said they were enthusiastic about it, really sold on it.
- Magill: Looks as if maybe if we keep pushing at this rock we'll get somewhere.
- McR: Yes, I think so. I think he's done a good job on getting the boys lined up. Very much better to do it that way than to have to force it on them.
- Magill: Oh yes.
- McR: So you're not going to start your hearings today?
- Magill: Not until tomorrow morning, I guess.

January 14, 1938

To: Secretary Morgenthau

From: Mr. Magill

Re: Cabinet Meeting, Friday, January 14, 1938

Present: The President, Vice President, and all members of the Cabinet except Secretary Morgenthau and Secretary Roper, represented by Messrs. Magill and Draper.

The President said that he had just told his press conference that public utility holding companies should be abolished; and in answer to a question regarding industrial holding companies, that he felt the same way about them. The ~~principal~~ objection that he cited was control from the larger centers of companies doing business in smaller communities. He cited the Marine Midland Bank as an illustration. The Vice President added that additional difficulty was that the directors frequently did not direct.

The President said that the Ickes and Jackson speeches had been very useful in bringing industrial executives to conference with him and in putting them in the proper frame of mind. He had pointed out to them the fact that this administration needed confidence and support in its objectives as much as business executives needed confidence and support. He had pointed out that crop control and wages and hours legislation would be very beneficial to business. In his conference with Mr. Sloan and others, for example, he had cited the measures adopted by a grand duke in Germany in 1700 for the benefit of the people in the Black Forest. The essential elements were to set aside a small piece of land in the valley for each family to raise its own vegetables, etc; and to employ one out of each four members of a family in the communal forest during the winter. As a result the Black Forest had been transformed into an economically successful area. The President thought similar treatment might be adopted for the 3,000,000 whites living in the Appalachian Mountains. Mr. Sloan had listened to him with his mouth open and said he had never heard of such a thing. The President thought that the industrial leaders of the country needed to go to kindergarten. He thought that they would go along with the administration except on the major issue of decentralization of control of industry and on that point it would be necessary to go to bat in a definite case through the Department of Justice.

The Attorney General reported on his conference with the State Department respecting the Japanese crab and salmon fishermen off the Alaskan Coast. He reported that a Presidential Proclamation forbidding the use of these waters by the Japanese would be contrary to established precedents of international law and would, therefore, be apt to lead to an international arbitration in which we would be unsuccessful. The President was strongly dissatisfied with this conclusion, suggesting

that international law should be brought up to date. There was a general discussion of alternative possibilities. The President suggested, in particular, the passage of legislation reciting the migratory habits of crabs and salmon and forbidding any fishing by our own or other nationals within a line drawn from the Aleutian Islands to Juneau.

The President suggested the desirability of a Red Cross campaign for money for the relief of civilian Chinese. Mr. Hull said that he thought some method might be arranged but it would need to be done carefully.

The Attorney General called the President's attention to two senate bills. One to provide some eighteen additional district and circuit court of appeals justices and the other to provide for an administrative office under the direction of the Chief Justice to manage the dockets, calendars and other administrative affairs of the Federal Courts.

Secretary Swanson suggested that it might be well to permit the passage of the naval bill providing, among other things, for two battleships and then later to ask for two additional battleships. Secretary Hull said that since France and Russia are as completely potent in international affairs as if they were in the center of the earth and only Great Britain and ourselves are left with any power, that international banditry can only be prevented if we appear to be acquiring additional naval strength and he thought it was very important to start work on a total of four battleships at once. He was seconded by the Postmaster General, who said he thought the country would favor this course. The President then said that all major advances in weapons of warfare had been proposed and developed by civilians. Generally our battleships are a year or so behind naval developments in other parts of the world and he thought steps should be taken to insure that this time we build some unique and more powerful type of battleship. Secretary Woodring seconded the President's observations regarding civilians by pointing out that American bombers were two years ahead of the rest of the world, but only because civilians had been in charge of the development.

Secretary Wallace said the farm bill was improving. The President asked what it would do to his pocketbook and Secretary Wallace replied "nothing serious as yet". The President said that he would veto a bill for \$50 million for seed loans, since there was no need for so much money. The Vice President added that it would be cheaper for the United States to buy the State of North Dakota and convert it into a park rather than spend so much money on seed loans and other agricultural relief.

Secretary Perkins reported that John Frey, following a trip to England, had gradually come around to support wage and hours legislation. She also emphasized the importance of pressure by the

- 3 -

administration (in particular Attorney General Cummings and Postmaster General Farley) to prevent the executive council of the A. F. of L. from expelling the C.I.O. at its Miami meeting on January 24th.

Vice President Garner said the situation on the anti-lynching bill was bad and the end is not yet in sight. Secretary Perkins suggested that the bill be traded off for wages and hours legislation. The Vice President said that this was entirely impractical, particularly since the negroes of the north, 80 or 90 percent of whom were now supporting the Democratic Party regarded this bill as essential legislation.

Rm

January 14, 1938

(Dictated January 15, 1938)

The Secretary called Lochhead at 7:45 p. m. and Lochhead informed him that there had been considerable strength in the Government bond market in the last two days.

The Federal Reserve Bank of New York had strongly recommended the execution of orders on hand for sale of bonds for the Postal Savings and the Civil Service Retirement Fund. Lochhead informed the Secretary that on both Thursday and Friday we had sold \$1,000,000 worth of bonds for each of these accounts. The Secretary remarked that it was his intention and instructions that we sell only a total of \$1,000,000 in any one day. Lochhead explained that these sales had been made on the supposition that there could be \$1,000,000 sold from each account in any one day, but the Secretary repeated that he only wished a total of \$1,000,000 sold in any one day and these orders were not cumulative.

Lochhead explained that he had been under great pressure from the Federal regarding the sale of these bonds and that Mr. Burgess had called up Mr. Bell and endeavored to have him change the instructions to allow them to sell larger amounts at their discretion. The Secretary expressed surprise that Mr. Burgess had called Mr. Bell instead of Mr. Taylor and said that he wished to spread out these sales so that we would be in the market up until the middle of March and that if the Federal Reserve wished to sell any larger amounts of bonds, it is up to them to do so from their own portfolio.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 14, 1938, 10 a.m.

NO.: 71

RUSH

FROM COCHRAN.

Yesterday noon at the close of the Cabinet meeting French control representatives were called in for discussion. Some members of the Cabinet advanced the idea that the Bourse should be closed and all dealings on the Paris exchange stopped at once, which idea was opposed by the control representatives. These representatives also recommended that foreign centers should not be asked to take any steps at the present.

This morning at 5:20 I had a telephone call from my official friend in regard to the fall of the Government. He told me that at 8:30 this morning a meeting was to be held at the Bank of France to decide on the day's bank and exchange program. He told me at 10 o'clock that an official request had been made by the Bank of France of the Paris banks to refrain today from foreign exchange operations. So far, he said, foreign governments or central banks had not been asked to restrict franc operations on the markets in their countries. At the time I talked with him he said that the question as to whether the Bourse would be open today had not been settled. I have received confirmation from Paris-American banks that they

- 2 -

they had received the above request from the Bank of France and that they are not entering into any operations in foreign exchange. On the opening of the London market the franco was quoted at 153.

Yesterday the control had to take gold from the Bank of France. My friend believes that if a government comes in which inspires confidence, the technical position of the market is such that there might be enough early repatriation of capital to avoid the above mentioned gold loss of the Bank of France appearing in the next statement to be issued.

BULLITT.

EA:LWW

EG

GRAY

London

Dated January 14, 1938

Rec'd 10:40 a.m.

Secretary of State,
Washington.

RUSH

31, January 14, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

At a meeting at the British Treasury this morning Phillips began by summarizing the franc movements of yesterday and stated that the Bank of England's estimate of French gold losses for the day amounted to some ten million pounds. Phillips then referred to a ticker report that Lebrun will ask Daladier to form a government and that the latter will attempt to create a purely radical ministry with the exception of one or two members of the central groups such as Reynaud who will be offered the Ministry of Finance. The report also mentioned that the Bank of France had requested French financial institutions to cease franc transactions involving foreign exchange and that the British and American Governments had agreed to suspend franc dealings in New York and London. Phillips said that no such suspension had been authorized in London, that inasmuch as there was no

legal

-2- #31, January 14, 1 p.m. from London

legal validity to the Bank of France's action which in his opinion probably would not be fully carried out, the British authorities ^(had?) on no grounds for terminating franc dealings. He went on to say that in point of fact the franc rate now prevailing in London was about 150 due to covering by bears who feared the imposition of exchange controls.

Phillips said that he was afraid his previous gloomy predictions were now about to be realized but that there was nothing to do until it could be seen what was to be expected in the way of a new French Government. The situation was as we had discussed it in Washington last autumn -- either the franc would be further depreciated or exchange control would have to be tried. In his opinion exchange control would create "a hell of a mess"; ^(this?) aside even from their injurious effects, in the case obviously they would prove administratively unworkable. Phillips said that unfortunately ROWE Dutton, British Financial Attache at Paris, was now on leave in London and I agreed to pass on any information I obtained from Cochran by telephone.

JOHNSON

CSB

EG

GRAY

London

Dated January 14, 1938

Rec'd 3:35 p.m.

Secretary of State,
Washington.

34, January 14, 7 p.m.

FOR TREASURY FROM BUTTERWORTH

One. The volume of trading in francs has been fairly large today and as reported in my 31, January 14, 1 p.m. bear covering has lent substantial support but at times the control operating through private banks has also supplied support. The rate closed at about 150.

Two. With reference to the first paragraph my 813 December 30, 5 p.m. confidentially informed that Bank of England has circularized the pertinent city institutions requesting that no new credits be granted Germany until further notice.

Three. Today's London financial press carries full account of Secretary Morgenthau's statement to the Ways and Means Subcommittee.

Four. The Chancellor of the Exchequer made a speech last evening before the Swansea Chamber of Commerce which contained no particular statements worthy of note,
but

-2- No. 34, January 14, 7 p.m. from London

but, as the TIMES puts it --"its value is that it reveals the British Government is fully alive to the importance of helping to raise prices to a reasonably remunerative level and of maintaining them at that level without the bewildering fluctuations so destructive to confidence and so damaging to employment".

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 14, 1938, 5 p.m.

NO.: 78

RUSH FROM COCHRAN

At 4:30 this afternoon I talked with Rueff when nothing definite regarding a new government was known. Rueff said he was pleased that in London the franc had been firm today, the French control had absolutely not intervened on that market. Another thing which pleased him was that the Paris securities market which functioned today as usual witnessed recovery in French shares and rentes. The Paris exchange market he insists should reopen on Monday, after the normal bank and market holidays Saturday and Sunday, irrespective of the political situation and, he "surely hoped", without any restrictions on exchange.

It is the opinion of Paris-American bankers that the steadiness of the franc at London today was because some people who require francs for Monday had done short covering. I was told by Morgan partner that he believes many business people in France will bring funds back at an early date if a government free from extreme Left influence will give them real encouragement. However, he and my other banking contacts realize that the political situation, with
the

- 2 -

the labor complications, may make it impossible to form a Cabinet including confidence-inspiring men, from the capitalist standpoint, who would have a majority vote. On slight encouragement there might be some buying back of francs very quickly, but there would be no sustained repatriation of capital, and only further general deterioration of France's finances, unless the Government which comes in shows that it is really able to bring about a fundamental change in the Government.

I am told by market contacts that there are current all manner of rumors about exchange control, with rate of 36 to the dollar, requisition of foreign balances, embargo on gold, and so on.

BULLITT.

EA: LWW

JR

GRAY

London

Dated January 15, 1938

Rec'd 8:50 a.m.

Secretary of State,
Washington.

35, January 15, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

Non-voluntary bear covering continues and the British control operating in behalf of the French authorities continues to hold the franc at the squeeze rate of 149. The volume of trading is quite small.

JOHNSON

JLS:KLP

FEDERAL RESERVE BANK
OF NEW YORK

152

OFFICE CORRESPONDENCE

DATE January 15, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF FRANCE.

Mr. Cariguel called at 11:07 today and asked how things were in our franc market. I told him that under his order, up to 11 o'clock, we had sold 1,000,000 francs at 355 1/8 and that, as far as I knew, this was the only amount of francs that had changed hands in this market this morning. Cariguel explained that he had called me because things in London had not this morning gone exactly as they wanted: they had to buy about 40,000,000 francs and he was anxious to know how things were here. I inquired whether, in case francs turned in this market, he would still want us to buy francs and Cariguel answered in the affirmative. I also inquired whether, in case we found out that offers in this market originated from France, he wanted us, in view of the request made by the Bank of France to the French banks not to engage in franc operations, to refuse to take francs in cases where we knew the seller was a bank in France. Cariguel replied that it did not matter a great deal if we took such offers unless, naturally, they were in large amounts. In that case, he would like us to use our judgment.

I inquired what the latest news were and told him that according to a cable on my desk received here in the market from a London commercial bank, Bonnet had failed in his efforts to form a cabinet and that Sarraut was now trying. Cariguel did not know about this, asked me to hold on for a moment and then came back to say that according to their latest information Bonnet was still continuing his efforts and that the prospects were fairly good.

I suggested that if he wanted to get in touch with me

OFFICE CORRESPONDENCE
CONFIDENTIAL FILESDATE January 15, 1938.TO _____
FROM L. W. KnokeSUBJECT: TELEPHONE CONVERSATION
WITH BANK OF FRANCE.

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tomorrow I would be at his disposal.

- - - - -

Cariguel called again at about 12:20 p. m. and asked whether we had done anything more in the market. I told him that the total sold was 2,950,000 francs as follows:

2,000,000 to the National City Bank
200,000 to the Bankers Trust Company
150,000 to the Irving Trust Company
600,000 to the First National Bank of Boston.

LWK:KMC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

Date: January 15, 1938, noon

No.; 81

FROM COCHRAN.

Yesterday evening at a quotation of 150 the French control gained a little sterling in London. This morning up to 11:30 the control had done practically nothing on the quiet London market. On that market short covering operations continued for a while, the rate varying between 149 and 152 1/2. At the present time it is too early to make any decisions about exchange trading for Monday since the French have not yet settled the question of a government.

At 12 noon I had a talk with Rueff; he can only confirm the above information for the present.

I am told by bankers that since half-past eleven this morning ~~xxxxxxxxxxxxxxxx~~ the Bank of England has been purchasing some francs at a quotation of 149.

BULLITT.

OFFICE OF
THE SECRETARY OF THE TREASURY

155

January 15, 1938

Ribbon copies of the attached memo of January 15, 1938 were sent to the following today:

The President

The Secretary of State

The Secretary of War,
Attention, Col. Strong
(G-2)

Letters of transmittal were dated 1/15/38 and were signed by Wayne C. Taylor, as Acting Secretary of the Treasury, in the Secretary's absence.

TREASURY DEPARTMENT

156

INTER OFFICE COMMUNICATION

DATE January 15, 1938

TO Secretary Morgenthau
 FROM Prepared by Mr. White

Subject: Current trade with Japan and China

A. United States trade with Japan during December 1937. 1/

(1) United States exports to Japan.

United States exports to Japan in December 1937 were 11 percent less than during November 1937, and approximately the same as in December 1936.

	<u>1937</u>	<u>1936</u>
December	\$16,140,000	\$16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000
July	26,509,000	11,975,000

Excluding exports of raw cotton, our exports to Japan in December 1937 were about \$3,000,000 less than our exports during November 1937, and were considerably less than the average for the last six months.

United States exports to Japan, excluding raw cotton:

	<u>1937</u>	<u>1936</u>
December	\$14,232,000	\$ 8,691,000
November	17,336,000	9,335,000
October	18,558,000	9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000
July	24,566,000	10,965,000

1/ Previous reports cover weekly figures only. This report is for the whole month of December.

Secretary Morgenthau - 2

(2) United States imports from Japan.

United States imports from Japan in December 1937 dropped sharply from the levels of the preceding months, and were considerably under December 1936.

	<u>1937</u>	<u>1936</u>
December	\$11,674,000	\$16,427,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000
July	16,482,000	12,187,000

(3) Cotton exports to Japan increased during December 1937, compared with the previous month, but were still only a small portion of our usual exports of cotton to Japan.

U. S. exports of cotton to Japan

December 1937	\$1,908,000
November 1937	797,000
October 1937	1,571,000
December 1936	7,753,000

(4) Exports of iron and steel scrap to Japan continued to decline in December, compared with previous months in 1937.

U. S. exports of iron and steel
scrap to Japan

December 1937	\$ 479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average, May to August 1937	5,600,000

Secretary Morgenthau - 3

(5) The following export items show important increases in our trade with Japan during December 1937, compared with November 1937. The values of these export commodities during December 1936 is shown for comparison.

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Industrial machinery	\$2,540,000	\$1,507,000	\$1,005,000
Cotton	1,908,000	797,000	7,753,000
Paper base stocks	1,388,000	1,103,000	524,000
Tobacco	257,000	140,000	278,000
Wood, unmanufactured	119,000	94,000	19,000
Lead	101,000	63,000	Nil

(6) The following export items show important decreases in our trade with Japan during December 1937, compared with November 1937. The value of these exports during December 1936 is shown for comparison.

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Petroleum products	\$3,744,000	\$5,706,000	\$2,008,000
Iron and steel semi-manufactures	1,385,000	1,622,000	350,000
Copper	964,000	2,433,000	402,000
Brass	304,000	723,000	34,000
Hides and skins	278,000	372,000	47,000
Fertilizers	134,000	262,000	108,000
Coal-tar products	128,000	206,000	75,000

(7) The decrease in our imports from Japan during December affected all but a few of the major items of import.

(a) The import items showing significant increases in trade were:

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Chemicals and related products	\$214,000	\$123,000	\$316,000
Fish meal and scrap	154,000	33,000	120,000

(b) The import items showing significant decreases were:

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Raw silk	\$5,909,000	\$8,943,000	\$11,004,000
Cotton manufactures	858,000	1,130,000	1,294,000
Fish	317,000	764,000	213,000
Pyrethrum flowers	277,000	455,000	77,000
Silk manufactures	252,000	533,000	373,000
Earthenware	143,000	232,000	86,000
Rayon and manufactures	127,000	227,000	332,000
Wool and manufactures	117,000	227,000	33,000
Glass and manufactures	104,000	221,000	51,000
Perilla oil	25,000	385,000	Nil

(8) Of the total exports of \$16,140,000 to Japan during December 1937, the following items account for almost all. The values of these items of export in November 1937 and December 1936 are shown for comparison.

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Petroleum products	\$3,744,000	\$5,706,000	\$2,008,000
Industrial machinery	2,540,000	1,507,000	1,005,000
Cotton	1,908,000	797,000	7,753,000
Paper base stocks	1,388,000	1,103,000	524,000
Iron & steel semi-mfrs.	1,385,000	1,622,000	350,000
Copper	964,000	2,433,000	402,000
Iron and steel scrap	479,000	633,000	289,000
Brass	304,000	723,000	34,000
Hides and skins	278,000	372,000	47,000
Tobacco	257,000	140,000	278,000
Fertilizers	134,000	262,000	108,000
Coal-tar products	128,000	206,000	75,000
Ferro-alloys	124,000	170,000	90,000
Wood, unmanufactured	119,000	94,000	19,000
Lead	101,000	63,000	Nil
Chemical specialties	81,000	19,000	136,000
Naval stores, gums and rosins	76,000	92,000	299,000
Electrical machinery and apparatus	74,000	34,000	68,000
Edible vegetable prod.	66,000	44,000	95,000
Nickel	43,000	59,000	23,000
Other	<u>1,947,000</u>	<u>2,054,000</u>	<u>2,830,000</u>
Total	\$16,140,000	\$18,133,000	\$16,433,000

Secretary Morgenthau - 5

(9) Of the total imports of \$11,674,000 from Japan in December 1937, the following items account for almost all:

	<u>December</u> <u>1937</u>	<u>November</u> <u>1937</u>	<u>December</u> <u>1936</u>
Raw silk	\$5,909,000	\$8,943,000	\$11,004,000
Cotton manufactures	858,000	1,130,000	1,294,000
Tea	509,000	535,000	246,000
Porcelain and china- ware	325,000	355,000	129,000
Fish	317,000	764,000	213,000
Paper and manufactures	300,000	315,000	92,000
Pyrethrum flowers	277,000	455,000	77,000
Edible vegetable prod- ucts, except tea	262,000	284,000	296,000
Silk manufactures	252,000	533,000	373,000
Chemicals and related products	214,000	123,000	316,000
Metals and manufactures	179,000	234,000	151,000
Flax, hemp, ramie and manufactures	163,000	157,000	19,000
Fish meal and scrap	154,000	33,000	120,000
Wood manufactures	149,000	164,000	95,000
Earthenware	143,000	232,000	86,000
Rayon and manufactures	127,000	227,000	332,000
Wool and manufactures	117,000	227,000	33,000
Glass and manufactures	104,000	221,000	51,000
Bristles	75,000	67,000	97,000
Camphor and oil	55,000	90,000	73,000
Printed matter	39,000	35,000	14,000
Furs, hides, skins, leather & manufactures	33,000	20,000	38,000
Perilla oil	25,000	385,000	Nil
Other	<u>1,088,000</u>	<u>1,661,000</u>	<u>1,278,000</u>
Total	\$11,674,000	\$17,190,000	\$16,427,000

B. Trade with China in December 1937.

(1) United States exports to China, Manchuria and Hong Kong decreased in December 1937 compared with November 1937, but are higher than our exports during December 1936.

	<u>To North China and Manchuria</u>	<u>To Shanghai, South China and Hong Kong</u>	<u>Total</u>
December 1937	\$2,748,000	\$5,199,000	\$7,947,000
November 1937	3,490,000	6,212,000	9,702,000
December 1936			5,430,000

(2) United States imports from China, Manchuria and Hong Kong.

United States imports from China, Manchuria and Hong Kong decreased in December 1937 compared with the previous month, and were about the same as during December 1936.

	<u>From North China and Manchuria</u>	<u>From Shanghai, South China and Hong Kong</u>	<u>Total</u>
December 1937	\$1,200,000	\$4,395,000	\$5,595,000
November 1937	2,129,000	4,749,000	6,878,000
December 1936			5,497,000

(3) The principal items of export to China were:

(a) To North China and Manchuria:

	<u>December 1937</u>	<u>November 1937</u>
Iron and steel semi-manufactures	\$1,521,000	\$1,967,000
Vehicles, parts & accessories	445,000	325,000
Industrial machinery	266,000	14,000
Petroleum products	199,000	572,000
Tobacco and manufactures	96,000	198,000
Wood, unmanufactured	59,000	61,000
All other	<u>162,000</u>	<u>353,000</u>
Total	\$2,748,000	\$3,490,000

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(b) To Shanghai, South China ports and Hong Kong:

	<u>December 1937</u>	<u>November 1937</u>
Vehicles, parts and accessories	\$1,229,000	\$1,354,000
Petroleum products	1,103,000	1,566,000
Iron and steel semi-manufactures	615,000	762,000
Tobacco and manufactures	605,000	415,000
Vegetable products, edible	335,000	292,000
Printed matter	206,000	237,000
Industrial machinery	118,000	156,000
Chemicals & related products	117,000	375,000
Electrical machinery and apparatus	103,000	104,000
Paper manufactures	101,000	79,000
Firearms and ammunition	99,000	243,000
Wood, unmanufactured	93,000	75,000
All other	<u>475,000</u>	<u>554,000</u>
Total	\$5,199,000	\$6,212,000

(4) The principal items of import from China were:

(a) From North China and Manchuria:

	<u>December 1937</u>	<u>November 1937</u>
Bristles	\$ 417,000	\$ 879,000
Wool and manufactures	237,000	545,000
Leather and manufactures	107,000	163,000
Cotton manufactures	83,000	60,000
Flax, hemp & ramie and manufactures	64,000	52,000
Perilla oil	57,000	63,000
Animal products, edible	45,000	54,000
Minerals, metals and manufactures	30,000	24,000
All other	<u>160,000</u>	<u>289,000</u>
Total	\$1,200,000	\$2,129,000

Secretary Morgenthau - 8

(b) From Shanghai, South China ports and Hong Kong.

	<u>December 1937</u>	<u>November 1937</u>
Tung (wood) oil	\$784,000	\$814,000
Flax, hemp and ramie and manufactures	690,000	653,000
Tin	598,000	776,000
Bristles	289,000	210,000
Vegetable food products, except tea	226,000	170,000
Furs, leather and manu- factures	222,000	161,000
Wool and manufactures	175,000	263,000
Raw silk	164,000	420,000
Tea	139,000	153,000
Cotton manufactures	126,000	113,000
Tungsten ore	110,000	58,000
Metals and manufactures, except tin and tungsten ore	71,000	3,000
Fish	51,000	21,000
Chemicals and related products	50,000	84,000
All other	<u>700,000</u>	<u>850,000</u>
Total	\$4,395,000	\$4,749,000

January 17, 1938

9:30 am

(Secretary absent in Sea Island, Georgia.)

Present:

Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Bell
Mr. Lochhead
Mr. Upham
Mr. Gibbons
Mr. McReynolds

Mr. McR: We have a letter over here for the Secretary's approval prepared by the Acting Collector of Internal Revenue to the Collector of Internal Revenue. It's on the Chemical Foundation and they have ruled that because of the nature of the set-up the Chemical Foundation is not entitled to tax exemptions. The ruling is not retroactive but applies only to the 1937 return.

Mr. Magill: I don't like to have the Secretary approve the ruling, because it just calls attention to the kind being somewhat out of order.

Mr. McR: I don't see why he should approve it.

Mr. Magill: I don't either if it is no change in the regulations.

Mr. McR: It is just a ruling with respect to the exemptions in the law.

Mr. Magill: And there is no law against Charley Russell or his people deciding to examine some exempt case. As a matter of fact, they sent out questionnaires to a whole flock of these exempt companies and this could be regarded as the first fruits of that effort.

Mr. McR: Okay. I will send it back to them and tell them to decide their own cases.

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Mr. Magill: Did you see an article in the Friday Times about this Taussig-Tugwell-Berle conference?

Mr. Taylor: Just that they had been here; that Tugwell had not but Taussig had.

Mr. Magill: The Secretary referred to the article, which I had not seen, and he said they discussed some kind of a five-point program, that three or four points of it concerned the Treasury and he had the idea that some of the boys might be over here any minute now to get some additional information, get cooperation, etc.

Mr. Gaston: Yes, I saw that.

Mr. Magill: What did it say?

Mr. Gaston: It said that they were going to see the President; said, I believe, that Tugwell had organized the group and that he was to be one of them. He was not, though.

Mr. Magill: The Secretary referred to it. I had not seen it. He said it outlined this five-point program and two or three points had to do with the Treasury -- gold sterilization program, I think, was one, and taxation was one, and they discussed what they were going to do with the Federal Reserve, the public utilities and something else.

Mr. Gaston: To tell the truth, I did not read down into the story.

Mr. Magill: The boss wanted me to bring it up and he said, in substance, 'Don't let them inch in on us and get stuff on the theory that they were going to propose a financial program -- no ammunition, as I understand it.

Mr. Gaston: Berle and Taussig could take care of all that.

Mr. Magill: He said, Don't let them inch in.

Wayne, you have anything on your mind?

Mr. Taylor: No.

Mr. Magill: I told him we were going to try to

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stir up a crisis for him.

Mr. Taylor: Doesn't have to wait; there is one.

Mr. Magill: Herbert, have you anything on your conscience?

Mr. Gaston: Nothing that I want to tell, Ros.

Mr. Magill: Dan?

Mr. Bell: I haven't anything.

Mr. Magill: No answer to the Republican leaders at all?

Mr. Bell: No, sir.

Mr. Gaston: We are getting out a series of releases on the statistics of income for 1935, part 2. I don't suppose you are particularly interested. Printed copies will probably be along in a couple of months, but we are doing, as last year, getting out tables with a little introduction, mimeographed copies, spreading them out over the next week or so.

Mr. Magill: Archie?

Mr. Lochhead: Normal in my line. French are in difficulties, as usual.

Mr. Magill: Will this fellow Blum succeed?

Mr. Lochhead: Blum has stepped out. Chautemps is back, so we are where we started. Interesting point is the Labor party seems to be asserting itself very forcibly and blocks any attempts to move towards the right.

Mr. Taylor: They had to go through this business of giving the other boys a chance and saving Mr. Herriot for the big game.

Mr. Magill: What is the Labor party called over there? Conservative Capitalist Party?

Mr. Lochhead: They are more or less the Socialist group.

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Mr. Magill: The Radical Socialist is more conservative?

Mr. Lochhead: The Radical Socialist is the most conservative.

Mr. Gaston: About the center group.

Mr. Lochhead: Yes.

Mr. McR: Is the Radical Socialist the Peoples' Front?

Mr. Lochhead: A combination.

Mr. Bell: I take it the French being in difficulties is a normal situation.

Mr. Lochhead: Normal situation; business as usual.

Mr. Magill: Cy?

Mr. Upham: Did you see the Wall Street Journal's story, this morning?

Mr. Magill: Uh-huh.

Mr. Upham: Everyone seems to have that idea that we are going to come along and change the individual income tax. When they say 'It was learned today'

Mr. Magill: I always assumed this fellow Duffield had a private pipe line to you and Gaston.

Mr. Gaston: I can't remember what I told him!

Mr. Magill: I never saw him. He knew all about our statement two days before it came out. Maybe he's married to Miss Humphreys. I don't know. I didn't think it was particularly bad, did you?

Mr. Upham: Oh, no. I will be asked a lot of questions today, whether it is true or not.

Mr. Magill: As far as I know, it is not. One thing, we are going to get all this program fixed up and

-5-

we might have it any minute now in the form of a bill.
Good heavens!

Mr. Gibbons: The boss called me yesterday about
Opper.

Mr. Magill: Mac, how is Graves coming along?

Mr. McReynolds: Very well, I think.

Mr. Magill: Is he going out to the West?

Mr. McR: Well, I think he will be ready to start
on that directly. I don't know how soon he has to go.

Mr. Magill: The boss did not say whether he would
call up today or not.

Mr. Gibbons: I heard from underground -- one tax
man comes down here to represent one of the Standard Oil --
was over in the Bureau and he says they are all sore as the
devil at Graves -- some of the fellows in those conferences
over there. Graves has nothing to do with them. Just a
natural disturbance, I suppose.

McR: I haven't heard it. First indication that
anybody was peeved at Graves. Thought ht was getting along
pretty well. Only reaction I had.

Mr. Gibbons: These fellows in the legal end over
there, passing on a case, finding out whether they would
allow this deduction or not.

Mr. McR: Graves would not be in on that.

Mr. Magill: They have a polite way in the Bureau --
every time any change is made or anybody is appointed or any-
thing happens, why he is responsible for the adverse results
in any given case; in other words, Standard Oil of New
Jersey present a case to the Conference Division and who-
ever he presents it to decides to turn him down; he says
I am turning it down, but I am doing it on instructions from
Mr. Graves.

Mr. Gibbons: That actually happens?

Mr. Magill: That's what you get from the lawyer

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all along. I don't think there is anything in it.

Mr. McR: Graves would have no more idea of going into individual cases or even inquiring about individual cases than I would.

Mr. Gibbons: He wouldn't have anything to do with this particular Division.

Mr. Magill: That's the old game of passing the buck. I don't know whether these fellows who are lawyers who make it up or whether some old-timers tell them that as a means of getting rid of them.

Mr. McR: These fellows might have found out that they are going to try out discontinuing Bureau conferences and have them somewhere else and they are trying to build up a barrage against it -- only thing I can imagine.

Mr. Magill: I don't know whether the boss plans to call up this morning or not. I suppose he will, but he did not say so yesterday.

Mr. Gibbons: He said he wanted to talk to me and for me to talk to you before he did call up. I assumed he would call up about 9:30.

Mr. Magill: Anything new on the Opper case?

Mr. Gibbons: Yes. There is some opposition -- Kent has caused some opposition up on the Hill.

Mr. Magill: That's all I have.

* * * * *

Mr. Gibbons and Mr. McReynolds remained with Mr. Magill and the rest of the group departed.

Mr. Gibbons: The boss told me that Kent has started some opposition.

Mr. Magill: I don't think that's true. I talked to the boss and mentioned the fact, particularly that I had got the word that Bob Horton of Scripps-Howard had been thinking about writing a story calling attention to the fact

that Opper had been appointed to the Board of Tax Appeals job whereas Kent, who holds the same position as Opper, had not been appointed although Kent was the man who had tax experience and Opper wasn't.

Mr. Gibbons: Do you have to be a lawyer to go on this Board of Tax Appeals?

Mr. Magill: Not necessarily, although Horton didn't know that and I don't think he ever wrote his story. As a matter of fact, that's how we heard of it, on account of his inquiring whether Kent was admitted to the Bar.

Mr. Gibbons: You know, we tried to put Kent in to succeed Bob Jackson and couldn't because he had never been admitted to the Bar.

Mr. Magill: As far as I am aware, Kent is not stirring up any fuss.

Mr. Gibbons: I said to the boss I can't believe that Kent is. Stewart Berkshire was a candidate and I don't think he either ...

Mr. Magill: I don't think Kent has stirred up any trouble.

Mr. Gibbons: Berkshire said if he got this he wanted to send his son to college here and he would be definitely set for 8 or 10 years. If he did not, that's all there would be to it. I will get hold of Opper and take him up and introduce him on the Hill. The two senators from New York are going along with him. King had a candidate.

Mr. McReynolds: He always has a candidate.

Mr. Gibbons: I am following up what the Secretary said. Take Opper down and introduce him to Garner, Guffey, Harrison, that crowd.

Mr. Magill: I think that would be a very good thing to do.

oOo-oOo

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 17, 1938, 10 a.m.

NO.: 86

RUSH - FROM COCHRAN.

This morning the Bank of France is permitting foreign exchange operations which can be proved to be actually transactions for commercial purposes. The Bank has forbidden speculative transactions.

The foregoing are the provisional rules for trading this morning, and the Bank of France is so informing the Paris banks. Up to the present moment, no decision has been taken as to whether the official exchange market will be opened this afternoon or not. This morning the control will allow considerable freedom in the movement of the franc, but it will not abstain completely from intervention. Trading is opening at 151 to 152.50 at ten o'clock. Naturally the bankers are pessimistic over Bonnet's failure to form a cabinet and over the prospects of a government under Blum which will possibly have Communist activity.

BULLITT.

EA:LWW

EG

GRAY

Paris

Dated January 17, 1938

Rec'd 10:08 a.m.

Secretary of State,
Washington.

RUSEH

87

January 17, noon

FROM COCHRAN

Reference my 86, January 17, 10 a.m.

Bank of France has informed Paris American banks that official Exchange Bourse will open today at usual hour of 1:30. So far trading here has been dull with reluctance to enter commitments while the political situation is so uncertain.

BULLITT

HTL:JAC

GRAY

LONDON

Dated January 17, 1938

Rec'd 2:25 p.m.

EG
Secretary of State,
Washington.

38, January 17, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

Non-voluntary bear covering has continued today and the volume of London trading in francs has been increased by reason of the fact that dealings in Paris are confined to necessary and "legitimate" transactions. French speculators with contracts falling due are therefore having recourse to such neutral markets as London for cover purposes. The spot rate moved down to below 148 and transactions value tomorrow receptions around 146. There are no signs to indicate that the British control is operating here on its own or in behalf of the French authorities.

JOHNSON

HPD

TREASURY DEPARTMENT

Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,
Monday, January 17, 1938.
1/14/38.

173-A
File
Press Service
No. 12-12.
C. G. ...
Fisher
Return

Secretary of the Treasury Morgenthau announced today that a record for one day's sale of United States Savings Bonds was set on Monday, January 10, of this year, when \$10,029,780, maturity value, of these bonds were reported sold on this single day. Sales by post offices throughout the country on that day represented \$9,025,360, maturity value of bonds, and direct-by-mail orders were received in Washington for Savings Bonds of a maturity value of \$1,400,020.

The total maturity value sale of Savings Bonds to the close of business December 31, 1937, amounted to \$1,367,935,000. This total was purchased by more than 1,200,000 investors, and represents an average sale for each business day since March 1, 1935, when these bonds were first sold, of \$1,577,800.

The sale of Savings Bonds for the calendar year 1937 was 34.6 per cent greater than for 1936, and the year 1936 exceeded the ten-months sale of these bonds in 1935 by 82 per cent.

The total maturity value sale for the calendar year just closed amounted to \$635,419,200, with approximately 490,000 purchasers, and an average sale for each business day for the year 1937 of \$2,090,200.

Detailed analysis of the daily sale at each of the post offices throughout the country authorized to sell Savings Bonds was begun on September 1, 1936, and for the year ending August 31, 1937, showed that there was a maturity value sale of \$636,748,500, or an average sale of

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\$2,101,500, for each business day for the first year these records were kept.

The attached tabulations show for this period of one year the cash sales of the first ten ranking cities, towns and villages of the first, second, third and fourth class post offices, which led the nation in their respective classes in the sale of Savings Bonds for this period.

Likewise, there is shown for the same period the first, second, third and fourth class offices in each state in accord with the total cash amount of bonds respectively sold.

Direct-by-mail and post office sales from Chicago, Illinois, give that city the lead for the Nation and for the first class post offices. Chicago's cash sale for the period was \$25,577,200.

Spencer, West Virginia, leads the second class post offices, with a cash sale of \$271,987.50. Osceola, Nebraska, leads all third class post offices, having a cash sale of \$65,737.50.

The fourth class post offices, of which there are more than 34,000 throughout the United States, are led by Plemons, Texas. This town of less than 100 people had the extraordinary cash sale of \$58,500.

Approximately 16,000 post offices throughout the country are authorized to sell United States Savings Bonds. Regional reports as to annual sales at each of these offices and mail order sales originating in their respective territories are being prepared, and as completed will be forwarded to the postmasters concerned. This distribution will be completed, it is estimated, within the next two months.

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UNITED STATES SAVINGS BONDS CASH SALES
From September 1, 1936, through August 31, 1937.

AVERAGE DAILY CASH SALES - \$1,576,110.12
AVERAGE PER CAPITA SALES FOR THE NATION - \$3.81

First 10 Post Offices in each class, ranked by Total Sales

First Class Post Offices

	Post Office Sales	Mail Order Sales	Total Sales	Rank
Chicago, Ill.	\$22,636,062.50	\$2,941,137.50	\$25,577,200.00	1
New York City, N.Y.	17,970,400.00	5,646,725.00	23,617,125.00	2
Detroit, Mich.	7,137,375.00	1,014,362.50	8,151,737.50	3
Minneapolis, Minn.	7,092,550.00	897,768.75	7,990,318.75	4
Philadelphia, Pa.	6,143,718.75	1,457,606.25	7,601,325.00	5
Milwaukee, Wis.	6,571,781.25	158,868.75	6,730,650.00	6
Los Angeles, Calif.	6,099,825.00	581,368.75	6,681,193.75	7
Saint Louis, Mo.	5,977,750.00	521,275.00	6,499,025.00	8
Washington, D.C.	4,594,175.00	1,634,975.00	6,229,150.00	9
Boston, Mass.	4,397,643.75	1,795,100.00	6,192,743.75	10

Second Class Post Offices

Spencer, W. Va.	271,500.00	487.50	271,987.50	1
Greenville, Mich.	245,206.25	2,175.00	247,381.25	2
Seward, Nebr.	192,362.50		192,362.50	3
Orange, Iowa	178,800.00	1,800.00	180,600.00	4
Livingston, Mont.	160,537.50	9,037.50	169,575.00	5
New Brighton, Pa.	165,343.75	525.00	165,868.75	6
Mount Sterling, Ky.	152,700.00		152,700.00	7
Larned, Kans.	148,143.75	412.50	148,556.25	8
Wheat, Okla.	146,981.25	1,500.00	148,481.25	9
Everyn, Ill.	120,300.00	22,162.50	142,462.50	10

Third Class Post Offices

Deosola, Nebr.	63,487.50	2,250.00	65,737.50	1
Nora Springs, Iowa	59,725.00		59,725.00	2
East City, Mich.	53,925.00	1,500.00	55,425.00	3
Newington, Ind.	28,912.50	23,887.50	52,800.00	4
Polyrood, Kans.	52,275.00	37.50	52,312.50	5
Billinga, Okla.	49,650.00	2,268.75	51,918.75	6
Michigan, N. Dak.	11,981.25	37,875.00	49,856.25	7
Horse Cave, Ky.	48,787.50		48,787.50	8
Edgewater, N.Y.	48,112.50		48,112.50	9
Baldwin, Wis.	45,750.00	18.75	45,768.75	10

Fourth Class Post Offices

Flonca, Texas		58,500.00	58,500.00	1
Odd, Va.		31,875.00	31,875.00	2
Albany, Ill.	20,268.75	7,500.00	27,768.75	3
Wilner, Ga.		25,500.00	25,500.00	4
Bippus, Ind.		24,000.00	24,000.00	5
Ac Grass, Mich.	4,481.25	16,500.00	20,981.25	6
Falifax, Iowa		20,550.00	20,550.00	7
Danielsville, Pa.		20,250.00	20,250.00	8
Turners, N.Y.	20,025.00		20,025.00	9
Dannlorn, Minn.		15,862.50	15,862.50	10

Source: Weekly Reports from Postmaster, Weekly Reports from Federal Reserve Banks,
Fifteenth Census of the United States - 1930, Rand McNally Commercial Atlas 1937.

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UNITED STATES SAVINGS BONDS SALES
From September 1, 1936 through August 31, 1937.
Highest Total Sales in each Post Office Class

	<u>ALABAMA</u>			
	Post Office Sales	Mail Order Sales	Total Sales	
Birmingham	\$1,045,817.50	\$ 41,231.25	\$ 1,087,048.75	1st class
Scottsboro	66,131.25	12,300.00	78,431.25	2nd class
Centerville	34,575.00	1,462.50	36,037.50	3rd class
Fauntleroy		11,250.00	11,250.00	4th class
		<u>ARIZONA</u>		
Phoenix	391,687.50	35,100.00	426,787.50	1st class
Prescott	59,900.00	34,387.50	94,287.50	2nd class
Somerston	18,075.00		18,075.00	3rd class
Chin Lee		7,575.00	7,575.00	4th class
		<u>ARKANSAS</u>		
Little Rock	434,675.00	14,643.75	449,318.75	1st class
Forsyth City	89,793.75	3,675.00	93,468.75	2nd class
McCrory	38,756.25	375.00	39,131.25	3rd class
Neldon		9,000.00	9,000.00	4th class
		<u>CALIFORNIA</u>		
Los Angeles	6,099,925.00	581,368.75	6,681,293.75	1st class
Chico	45,568.75	7,912.50	53,481.25	2nd class
Los Altos	17,625.00	6,693.75	24,318.75	3rd class
Newport Beach	8,681.25	750.00	9,431.25	4th class
		<u>COLORADO</u>		
Denver	3,864,275.00	122,818.75	3,987,093.75	1st class
Canon City	87,318.75	356.25	87,675.00	2nd class
Hugo	18,656.25	15,000.00	33,656.25	3rd class
Baldwin		9,750.00	9,750.00	4th class
		<u>CONNECTICUT</u>		
New Haven	342,956.75	244,387.50	587,344.25	1st class
Fairfield	41,268.75	4,237.50	45,506.25	2nd class
Suffield	22,950.00		22,950.00	3rd class
West Myatts		3,000.00	3,000.00	4th class
		<u>DELAWARE</u>		
Wilmington	186,981.25	47,250.00	234,231.25	1st class
Milford	30,656.25	13.75	30,670.00	2nd class
Millsboro	17,531.25		17,531.25	3rd class
Bethel		3,750.00	3,750.00	4th class
		<u>DISTRICT OF COLUMBIA</u>		
Washington	4,594,175.00	1,634,975.00	6,229,150.00	1st class
		<u>FLORIDA</u>		
Miami	732,587.50	111,312.50	843,900.00	1st class
Sanford	55,612.50	24,000.00	79,612.50	2nd class
Bonifay	23,793.75		23,793.75	3rd class
Oakland		8,250.00	8,250.00	4th class
		<u>GEORGIA</u>		
Atlanta	1,020,050.00	174,543.75	1,194,593.75	1st class
Americus	102,618.75	6,018.75	108,637.50	2nd class
Coker	37.50	39,000.00	39,037.50	3rd class
Wilner		25,500.00	25,500.00	4th class
		<u>IDAHO</u>		
Boise	192,937.50	9,975.00	202,912.50	1st class
Saint Maries	88,481.25	2,175.00	90,656.25	2nd class
Potlatch	18,750.00	8,737.50	27,487.50	3rd class
Headquarters	4,668.75		4,668.75	4th class

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UNITED STATES SAVINGS BONDS SALES
From September 1, 1936 through August 31, 1937.
Highest Total Sales in each Post Office Class

	Post Office Sales	Mail Order Sales	Total Sales	
<u>ILLINOIS</u>				
Chicago	\$ 22,656,062.50	\$ 2,741,137.50	\$ 25,397,200.00	1st class
Springfield	120,300.00	22,162.50	142,462.50	2nd class
Yvesville	44,793.75		44,793.75	3rd class
Albany	20,268.75	7,500.00	27,768.75	4th class
<u>INDIANA</u>				
Indianapolis	2,851,650.00	229,475.00	3,081,125.00	1st class
Columbia City	119,437.50	900.00	120,337.50	2nd class
Remington	28,912.50	23,887.50	52,800.00	3rd class
Bippus		24,000.00	24,000.00	4th class
<u>IONA</u>				
San Meinae	2,222,031.25	31,931.25	2,253,962.50	1st class
Osage	178,800.00	1,800.00	180,600.00	2nd class
Mora Springs	59,725.00		59,725.00	3rd class
Fairfax		20,550.00	20,550.00	4th class
<u>KANSAS</u>				
Wichita	1,425,081.25	34,737.50	1,459,818.75	1st class
Larned	148,143.75	412.50	148,556.25	2nd class
Holyrood	52,275.00	37.50	52,312.50	3rd class
Moscow		15,000.00	15,000.00	4th class
<u>KENTUCKY</u>				
Louisville	1,896,462.50	133,893.75	2,030,356.25	1st class
Mount Sterling	152,700.00		152,700.00	2nd class
Morse Cave	48,787.50		48,787.50	3rd class
Union		15,000.00	15,000.00	4th class
<u>LOUISIANA</u>				
New Orleans	1,620,806.25	298,987.50	1,919,793.75	1st class
Monroe	97,050.00	1,725.00	98,775.00	2nd class
Urania	26,625.00		26,625.00	3rd class
Larrea		5,250.00	5,250.00	4th class
<u>MAINE</u>				
Portland	325,218.75	27,131.25	352,350.00	1st class
Belfast	82,368.75	581.25	82,950.00	2nd class
Orphan	19,556.25		19,556.25	3rd class
East Sebago		7,500.00	7,500.00	4th class
<u>MARYLAND</u>				
Baltimore	3,162,143.75	429,462.50	3,591,606.25	1st class
Chestertown	22,856.25	16,818.75	39,675.00	2nd class
Union Bridge	32,156.25		32,156.25	3rd class
Chesapeake Beach	4,893.75	7,650.00	12,543.75	4th class
<u>MASSACHUSETTS</u>				
Boston	4,397,643.75	1,795,100.00	6,192,743.75	1st class
Concord	81,600.00	3,000.00	84,600.00	2nd class
Rutland Heights	5,643.75	11,793.75	17,437.50	3rd class
Marshfield Hills		8,343.75	8,343.75	4th class
<u>MICHIGAN</u>				
Detroit	7,137,375.00	1,014,362.50	8,151,737.50	1st class
Greenville	245,206.25	7,175.00	247,381.25	2nd class
Case City	53,925.00	1,500.00	55,425.00	3rd class
St. Croix	4,481.25	16,500.00	20,981.25	4th class

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UNITED STATES SAVINGS BONDS SALES
From September 1, 1936 through August 31, 1937.
Highest Total Sales in each Post Office Class

	Post Office Sales	Mall Order Sales	Total Sales	
<u>MINNESOTA</u>				
Minneapolis	\$ 7,092,550.00	\$ 897,768.75	\$ 7,990,318.75	1st class
Little Falls	108,587.50	750.00	109,337.50	2nd class
Clara City	7,968.75	31,406.25	39,375.00	3rd class
Dennison		15,862.50	15,862.50	4th class
<u>MISSISSIPPI</u>				
Jackson	511,550.00	10,593.75	522,143.75	1st class
Corinth	118,443.75	637.50	119,081.25	2nd class
Iuka	43,200.00	375.00	43,575.00	3rd class
Tennolen		6,000.00	6,000.00	4th class
<u>MISSOURI</u>				
Saint Louis	5,977,750.00	521,275.00	6,499,025.00	1st class
Trenton	112,675.00	1,537.50	114,212.50	2nd class
Fairfax	36,375.00	750.00	37,125.00	3rd class
Centerview		15,000.00	15,000.00	4th class
<u>MONTANA</u>				
Butte	571,487.50	6,112.50	577,600.00	1st class
Livingston	160,537.50	9,037.50	169,575.00	2nd class
Hysham	4,912.50	37,500.00	42,412.50	3rd class
Peplar	14,475.00		14,475.00	4th class
<u>NEBRASKA</u>				
Omaha	2,816,000.00	109,843.75	2,925,843.75	1st class
Seward	192,362.50		192,362.50	2nd class
Osceola	63,487.50	2,250.00	65,737.50	3rd class
Neston	3,487.50	7,500.00	10,987.50	4th class
<u>NEVADA</u>				
Reno	177,356.25	10,612.50	187,968.75	1st class
Tonopah	43,537.50	75.00	43,612.50	2nd class
McCall	12,956.25	450.00	13,406.25	3rd class
Elgin		6,000.00	6,000.00	4th class
<u>NEW HAMPSHIRE</u>				
Portsmouth	130,106.25	16,387.50	146,493.75	1st class
Berlin	47,631.25	6,300.00	53,931.25	2nd class
Mansook		7,500.00	7,500.00	3rd class
Merrimack		15,000.00	15,000.00	4th class
<u>NEW JERSEY</u>				
Newark	1,573,993.75	175,600.00	1,749,593.75	1st class
Millville	54,375.00	8,137.50	62,512.50	2nd class
Clamenton	15,543.75	3,787.50	19,331.25	3rd class
Lake Como		7,500.00	7,500.00	4th class
<u>NEW MEXICO</u>				
Albuquerque	403,256.25	11,512.50	414,768.75	1st class
Gallup	64,218.75	8,625.00	72,843.75	2nd class
Spanola	14,437.50		14,437.50	3rd class
Esino		4,556.25	4,556.25	4th class
<u>NEW YORK</u>				
New York City	17,370,400.00	5,646,725.00	23,017,125.00	1st class
Frederia	71,731.25	23,700.00	95,431.25	2nd class
Edmeston	48,112.50		48,112.50	3rd class
Towners	20,025.00		20,025.00	4th class

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UNITED STATES SAVINGS BONDS SALES
From September 1, 1936 through August 31, 1937.
Highest Total Sales in each Post Office Class

	<u>NORTH CAROLINA</u>			
	Post Office Sales	Mail Order Sales	Total Sales	
Charlotte	\$ 457,368.75	\$ 50,697.75	\$ 508,066.50	1st class
Albemarle	73,968.75	468.75	74,437.50	2nd class
Littleton	31,893.75	2,550.00	34,443.75	3rd class
Lotitia		10,500.00	10,500.00	4th class
	<u>NORTH DAKOTA</u>			
Fargo	494,100.00	7,631.25	441,731.25	1st class
Grafton	87,818.75	112.50	87,931.25	2nd class
Michigan	11,981.25	37,875.00	49,856.25	3rd class
Whitman		10,012.50	10,012.50	4th class
	<u>OHIO</u>			
Cleveland	5,241,431.25	912,506.25	6,153,937.50	1st class
Van Wert	129,056.25	131.25	129,187.50	2nd class
New Vienna	43,031.25	1,106.25	44,137.50	3rd class
Hamlet		7,500.00	7,500.00	4th class
	<u>OKLAHOMA</u>			
Tulsa	1,280,856.25	32,062.50	1,313,918.75	1st class
Wask	146,981.25	1,500.00	148,481.25	2nd class
Billings	49,650.00	2,268.75	51,918.75	3rd class
Paoli		15,000.00	15,000.00	4th class
	<u>OREGON</u>			
Portland	2,712,406.25	43,950.00	2,756,356.25	1st class
Grants Pass	110,493.75	15,150.00	125,643.75	2nd class
Tigard	24,656.25		24,656.25	3rd class
Seneca		5,925.00	5,925.00	4th class
	<u>PENNSYLVANIA</u>			
Philadelphia	6,143,718.75	1,457,606.25	7,601,325.00	1st class
New Brighton	165,343.75	525.00	165,868.75	2nd class
Albion	41,681.25		41,681.25	3rd class
Danielsville		20,250.00	20,250.00	4th class
	<u>RHODE ISLAND</u>			
Providence	616,575.00	296,006.25	852,581.25	1st class
Westerfield	21,900.00	75.00	21,975.00	2nd class
Slateraville	9,000.00		9,000.00	3rd class
Carroll		300.00	300.00	4th class
	<u>SOUTH CAROLINA</u>			
Columbia	319,668.75	32,006.25	351,675.00	1st class
Orangeburg	74,650.00	8,775.00	83,425.00	2nd class
Yell	18,412.50	11,250.00	29,662.50	3rd class
Gaffney	5,043.75	9,000.00	14,043.75	4th class
	<u>SOUTH DAKOTA</u>			
Sioux Falls	335,962.50	21,593.75	357,556.25	1st class
Lead	37,087.50	3,243.75	100,331.25	2nd class
Edgemont	30,693.75	6,112.50	36,806.25	3rd class
Cottonwood	6,843.75	1,687.50	8,531.25	4th class
	<u>TENNESSEE</u>			
Memphis	1,402,406.25	57,175.00	1,459,581.25	1st class
Maryville	56,418.75	787.50	57,206.25	2nd class
Manchester	26,962.50	6,168.75	33,131.25	3rd class
DuKedom		7,500.00	7,500.00	4th class

UNITED STATES SAVINGS BONDS SALES
 From September 1, 1936 through August 31, 1937.
 Highest Total Sales in each Post Office Class

<u>TEXAS</u>				
	Post Office Sales	Mail Order Sales	Total Sales	
Dallas	\$ 2,047,912.50	\$ 270,237.50	\$ 2,318,150.00	1st class
Conroe	140,200.00		140,200.00	2nd class
Hubbard	5,062.50	33,000.00	38,062.50	3rd class
Plemons		58,500.00	58,500.00	4th class
<u>UTAH</u>				
Salt Lake City	720,575.00	49,743.75	770,318.75	1st class
Price	46,068.75		46,068.75	2nd class
Milford	13,181.25		13,181.25	3rd class
Soffield		7,500.00	7,500.00	4th class
<u>VERMONT</u>				
Rutland	133,406.25	105,187.50	238,593.75	1st class
Fair Haven	100,556.25	2,250.00	102,806.25	2nd class
Manchester Center	600.00	7,875.00	8,475.00	3rd class
Hartford	4,050.00	131.25	4,181.25	4th class
<u>VIRGINIA</u>				
Richmond	983,206.25	127,575.00	1,110,781.25	1st class
Crova	56,306.25	8,250.00	64,556.25	2nd class
Parkeley	42,375.00		42,375.00	3rd class
Odd		31,875.00	31,875.00	4th class
<u>WASHINGTON</u>				
Seattle	3,110,793.75	65,193.76	3,175,987.50	1st class
Centralia	63,731.25		63,731.25	2nd class
Concrete	21,750.00	7,537.50	29,287.50	3rd class
Thornton		7,500.00	7,500.00	4th class
<u>WEST VIRGINIA</u>				
Charleston	378,356.25	5,418.75	383,775.00	1st class
Spencer	271,500.00	487.50	271,987.50	2nd class
Harrisville	27,037.50		27,037.50	3rd class
Pickens	7,743.75	750.00	8,493.75	4th class
<u>WISCONSIN</u>				
Milwaukee	6,571,781.25	158,868.75	6,730,650.00	1st class
Menom	104,662.50	75.00	104,737.50	2nd class
Baldwin	45,750.00	18.75	45,768.75	3rd class
Stoddard		15,112.50	15,112.50	4th class
<u>WYOMING</u>				
Cheyenne	266,006.25	6,937.50	272,943.75	1st class
Douglas	115,925.00	650.00	116,575.00	2nd class
Hanna	9,093.75	750.00	9,843.75	3rd class
Forsen		3,750.00	3,750.00	4th class

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UNITED STATES SAVINGS BONDS SALES
 From September 1, 1936 through August 31, 1937.
 Highest Total Sales in each Post Office Class

POSSESSIONS

		<u>ALASKA</u>		
	Post Office Sales	Mail Order Sales	Total Sales	
Juneau	\$ 43,443.75	\$ 543.75	\$ 43,987.50	2nd class
Nome	16,775.00		16,775.00	3rd class
Kanakanak		2,250.00	2,250.00	4th class
		<u>HAWAII</u>		
Honolulu	314,356.25	15,262.50	329,618.75	1st class
Lihue	13,237.50		13,237.50	2nd class
Captain Cook		8,475.00	8,475.00	3rd class
Kalaupapa		1,125.00	1,125.00	4th class
		<u>PUERTO RICO</u>		
San Juan	89,531.25	1,668.75	91,200.00	1st class
Guayama	10,762.50		10,762.50	2nd class
Utuado	1,256.25	7,500.00	8,756.25	3rd class
Patillas	2,400.00		2,400.00	4th class
		<u>VIRGIN ISLANDS</u>		
St. Thomas	3,862.50		3,862.50	2nd class
Frederiksted		93.75	93.75	3rd class
Charlotte Amalie	2,081.25		2,081.25	4th class

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 17, 1938, 5 p.m.

NO.: 90

FROM COCHRAN.

Official exchange market was fairly active with strengthening of franc from its opening rate of one hundred fifty and one-half against sterling being attributed to short covering. Market observers do not look for this reaction to last much longer unless new factors develop. Rentes improved.

I had a talk with Rueff at 5 o'clock. He said that without any official intervention the franc had behaved satisfactorily today. The manager of National City Bank said his bank had witnessed today only a small volume of exchange transactions. This banker said he had had no difficulty in connection with the rules of the Bank of France mentioned in my telegram No. 86 of January 17, 10 a.m., since the applications made by his clients for foreign exchange were fully justified in almost all cases. There had been some short covering, he said, and there was some purchasing of francs for immediate commercial purposes. He said the exchange rates today were not significant because the market was so thin and abnormal.

BULLITT.

EA:LW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 18, 1938, noon

NO.: 93

RUSH

The control stated at 12 noon that this morning they had purchased a few pounds on a market that was somewhat wild, but only small transactions were made. The control regards ~~market~~ the franc exchange tendency as satisfactory, considering the continuing difficulties in forming a government.

My usual market contact confirmed that this morning there had been considerable nervousness but not much business.

BULLITT.

EA:LWW

GROUP MEETING (SECRETARY ABSENT)

January 18, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Bell
Mr. Gibbons
Mr. Lochhead
Mr. Upham
Mr. McReynolds

Magill: Wayne, how are your French friends?

Taylor: No news, as far as I know.

McR: He doesn't know who his friends are over there.

Taylor: Got to wait until one of them comes up on the top side.

Magill: The Japs haven't declared war yet, have they?

Taylor: No. No, there's no good international news that I can think of.

The Erie apparently is going to fold up today - Erie Railroad.

McR: Oh, the I.C.C. is not going to recommend loaning money to them?

Taylor: Or something like that.

Gaston: The R.F.C. going to take it over and operate it?

Taylor: I don't know. They've been trying to get the Chairman of the Board of the C & O to get the C & O to help out on financing, but they won't play any, so they're in a nice cat-and-dog fight on that.

Magill: What happens then?

Taylor: I don't know - 77-year, or something else.

Magill: Good enough railroad, but too many bonds, isn't it?

Taylor: Well, I'm not so sure about the first thing you said.

Magill: Herbert?

-2-

Gaston: No news.

Magill: That's good.

Gaston: The boss asked me about this Scripps-Howard man.

Magill: We must think up something for the boss to chew on.

Gaston: And his understanding was that the man had talked to you.

Magill: He had not.

Gaston: When I got hold of Cy and found out what actually happened, and we agreed that there was nothing to be done.

Magill: Well, nothing even to be excited about that I can see. Can you?

Gaston: No. No, there's nothing to be excited about.

Magill: No story has ever come out, has it?

Gaston: No.

Magill: None is coming out.

Gibbons: It's on the Opper thing.

Gaston: And if they do, we can't help it.

Magill: Now that Pegler has gone in for "Snow White and the Seven Dwarfs," however, maybe the Internal Revenue Bureau will be left alone for a while.

Taylor: Just a rest period.

Magill: Danny?

Bell: I haven't a thing, Ros.

Magill: What did you do about that bill

Bell: Everything's quiet.

Magill: enthusiastically endorsing?

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- Bell: You mean that monetary thing?
- Magill: Yes.
- Bell: I've still got it on my desk around at the Budget. I'm going to bring it around, show it to you.
- Upham: Is that the one to draft money and credit in war?
- Magill: I understand you (Upham) put a paragraph at the end of the report that this was a fine idea, although now was not the time.
- Upham: Well, I haven't seen it, but I did say we were in favor of it, with some modifications.
- Magill: Well, that's good.
- Steve?
- Gibbons: Nothing more than what I reported to you yesterday. I spent three quarters of the day on it.
- Magill: Oh, that's good.
- Gibbons: Got about three times the results.
- Magill: Boys have any other troubles on their mind?
- Gibbons: No. Well, Pat Harrison had the Customs place down at Biloxi, Mississippi, that we want to do away with, and of course the only thing that's there are these motor boats; that's a Department of Commerce function, but the Customs people - we have one deputy there. We are reimbursed by Commerce, so it only costs us \$2,000 a year, and we take in about \$200. And I think it's worth two thousand to have Pat on ... - my God, he raised the devil with me.
- Magill: How about it, Danny?
- Bell: Save \$1800. Looks good to me.
- Gibbons: But these people have to go about fifteen miles down to Gulfport to have their licenses issued, and if there is a violation, you know, on their boat, why, they have

-4-

to go down again, so they've been protesting to Pat. Biloxi's about fifteen thousand people.

Magill: Gosh, it's intolerable to have to go down fifteen miles. Imagine anybody driving a car that far.

Upham: Pat's home town, too.

Gibbons: Yes, he was quite wrought up about it.

Magill: I should think he'd want to get the business concentrated in Gulfport there. Well, that's between you and the boss.

Gibbons: It's just a picayune thing. He thought that's what I wanted to see him about. I called up and wanted to see him. He had his Congressman over there, so as to bear down.

Magill: Archie?

Lochhead: Well, the French exchange rate is managing to hold up pretty well - about \$.0335 this morning. Of course, they're still restricting dealings over in Paris, but they're squeezing shorts. In the meantime, no newer news than what you have in the newspapers. Chautemps is still trying to form a cabinet, and apparently Blum is inclined to go along with him on the split in the Socialist Party.

Magill: When do they start work over there, about noon?

Lochhead: I imagine most of their work is being done at night over there.

Magill: Never seems to be anything done in the morning.

Taylor: Stay up all night.

Lochhead: They run around during the day; then they have these night sessions.

Gibbons: Any more serious than LaGuardia's set-up in New York right now? He's having all kinds of trouble, you know, with his new Council.

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Lochhead: One of the interesting things, though, on the purchase of securities by foreigners - they are steadying back towards the purchase side fairly heavily; for instance, yesterday over a million and a half, with Great Britain taking over half of that.

Magill: How was it last month, Archie?

Lochhead: Well, net purchases. But for one week it started in going the other way. Just for one week, steadily, they were selling - not very large, but consistently; and we thought that might be a change in the trend. But it's turned again now and for the last six or seven days they've been slightly on the buying side, with a tendency toward increased buying.

Magill: Like Great Britain

Lochhead: Great Britain, Holland, and Switzerland. Those are the three sources that do most of the buying.

Magill: Cy?

Upham: I think we ought to encourage anyone here who wants to to come out and testify on the tax bill. Having difficulty getting witnesses.

Magill: Paper said we might have to run an extra meeting.

Gaston: What time this morning?

Upham: Ten o'clock this morning.

Gaston: Can you fix it?

McR: Nobody can go up but Ros.

Upham: Well, that's killed, then.

McR: The Secretary notified the Chairman that Ros is the only testifier.

Magill: That was bad enough, but he wanted to make it worse.

Gibbons: He's the only Treasury testimonial.

Magill: Well, Mac, what have you been up to? Nothing?

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McR: No, fussing around, but nothing worth talking about. Just going around in circles. Nothing unusual.

Steve, did you get hold of Carter?

Gibbons: Oh yes. Yes.

McR: Is he happy?

Gibbons: Yes. Where he got the date confused - you know, that fellow served probably a month before he was confirmed. Well, we take it from the date of confirmation.

Magill: When does George get back?

Gaston: 27th, isn't it?

McR: The 20th. He's due back the 20th. Boat's due back the 19th.

Magill: Is Seltzer still sick?

McR: Oh yes, he'll be away a month.

Gaston: Who's that?

Taylor: Seltzer.

Gaston: Is that so?

McR: He's back from the hospital, back at home now. I talked to him yesterday, and he's going to have to go south; I suppose he'll probably go way down in the corner of Florida there some place. Asked the Coast Guard boys to find out whether they can get a cottage for him that he can rent for a month down there and take his family. Larry's really in bad shape. Doctor's had him on his back. Got a very bad case of ulcers.

Upham: Couldn't eat anything but cream for days.

McR: Gave him cream every hour. Better now, and he's home.

Magill: Will they operate on him?

McR: No.

-7-

Taylor: If he's back in two months, he'll be lucky.

McR: Can't tell when Larry can get back.

Magill: Who runs that place in the meantime?

Upham: Miss Michener, I think.

McR: Well, Larry's got an assistant over there. Forget what his name is.

Upham: Murphy or Lindau?

McR: Well, I think Murphy pretty largely.

Gibbons: Ros, I think probably on this - Joe Guffey said yesterday that since the Black appointment he thought that everybody that was appointed now - his Sub-committee would want to see them.

"Well," I said, "will you be Chairmen of that Sub-committee?"

He said, "I'll try to arrange it." So ...

Magill: So you think they'll get Clarence up there.

Gibbons: I imagine they will. Well, he's met about eight of them and they were all for him. Introduced him to everybody we could reach, including Garner, and of course Garner was very nice.

Magill: Uh-huh.

McR: I can't imagine, though, there being any difficulty.

Gibbons: No, I don't think there will be. But, you know, for a while they'll be a little finicky on account of the Black appointment.

McR: They're not going to slide anybody through.

Magill: Well, Clarence doesn't belong to the Klan, does he?

Gibbons: I don't think so. I asked him if he was born in Manhattan.

Magill: Well, that's all I have.

LMS

GRAY

London

Dated January 18, 1938

Rec'd 3:40 p. m.

Secretary of State,
Washington.

39, January 18, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Conditions applicable to franc dealings today have been similar to yesterday. Spot rate fluctuated between 148 and 150 but movements in the future market have been wider, the one month's rate for example moving from 6 to 3 and then back to 6. The volume in both spot and future was small.

Two excerpts from articles in today's TIMES are of interest in themselves and as reflections of views held in the city and in government circles:

(1) "Meanwhile the crisis goes on with each new set-back or delay confirming an impression in the minds of many that whatever new arrangements may be made it will be short-lived. Neither the Right nor the Left is ready to believe that the situation is serious enough to forbid the luxury of partisan passion and the probability

is

LMS 2-No. 39, January 18, 6 p. m., from London.

is that only the threat of real disaster will once more bring together Frenchmen of all classes as it has done before. But already one thing seems certain. It is that what is really needed today is a man of character at the head of affairs who will create and make use of a spirit of unity while leaving intact the essential qualities of the nation. It has been done before. It can unless France is no longer France be done again."

(END SECTION ONE)

JOHNSON

CSB

LMS

PLAIN

London

Dated January 18, 1938

Rec'd 3:45 p. m.

Secretary of State,
Washington.

39, January 18, 6 p. m. (SECTION TWO)

(2) "The budget problem is still the core of French disequilibrium. Even if it be assumed that the ordinary budget is in balance at 53 milliards of francs the Government is indebted to the Bank of France for some 32 milliards of francs. Together budget expenditure and loan expenditure for armaments, et cetera, represent a total of 85 milliards, a figure equivalent to one-third of the national income of 250 milliards. Unless the capital which has fled the channel and other frontiers of France can be induced to return and is put to productive use that is a burden which is beyond the capacity of France except at the cost of a drastic reduction of the standard of living. Neither solution has yet been accepted by Frenchmen. Capital will not return unless it is assured of fair remuneration and the whole trend of recent government policy has -- however excellent the motive -- been directed towards limiting the remuneration of capital. Recent social

LMS 2-No. 39, January 18, 6 p. m., Sec. 2, from London.

social strife is the outward expression of the rejection of the second alternative -- a reduction in the standard of living. Sooner or later some compromise will have to be reached." (END MESSAGE)

JOHNSON

CSB

sms

GRAY

Paris

Dated January 18, 1938

Rec'd 4:45 p.m.

Secretary of State,
Washington.

RUSE

97, January 18, 6 p.m.

FROM COCHERAN

Paris exchange market still nervous and more active this afternoon. Control apparently acquired fair amount of sterling around 148 7/8. Trend turned after 4:00 o'clock when rate went to 150. When news came out at quarter until six o'clock that Socialists would support Chautemps' proposed Radical Socialist Cabinet, the rate immediately turned in favor of franc. The market interprets such a line-up probably with Marchand ~~au~~ as Minister of Finance and Bonnet as Minister of National Economy, as against exchange control. On the other hand there is much uneasiness as to how much difficulty extreme Left and Labor may make for such a government from which they are left out.

BULLITT

sms

JR

GRAY

London

Dated January 19, 1938

Rec'd 2:30 p.m.

Secretary of State,
Washington.

42, January 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The volume of dealings in francs has again been small. The spot rate has been steady at about 148 and due to bear covering and some necessary repatriation the control has had to give sterling.

The city's view of the newly formed French Government is briefly as follows.

That it is a stopgap government which cannot last long;

Two. That the most significant happening in the period of cabinet formation was the fact that Blum was willing to ask Reynaud to participate in a government which is regarded as auspicious;

Three. That by breaking up the Front Populaire, isolating the Communists and creating the present modern government, Chautemps has prepared the way for the (formation?) information of a broadly based government of national concentration when the next crisis arises.

JOHNSON

KLP:HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 19, 1938, 5 p.m.

NO.: 102

FROM COCHRAN.

It appears that considerable sterling, at around 148.66 to 80 was gained by French control. Opinion of market operators is that 700,000 pounds may have been acquired during day. Rentes up and forwards considerably better.

Therefore since Chautemps has succeeded in forming a government sentiment is better; financial circles however still think that the situation is very delicate. In the circumstances the Government is perhaps as good as can be expected and it is better than it was before in that it is free from the Communists. The Government is however at the mercy of the Socialists and Communists on any question. There should be quiet for at least a few days if, as is now anticipated on the market, the Government obtains a vote of confidence when presented to the Chamber Friday afternoon. There still remain the fundamental problems of production, foreign trade, and financing the needs of the Treasury.

For the month of December the French foreign trade returns showed a deficit of 2,193,000,000 francs; the year's deficit was 18,380,000,000. For the year 1937 the imports

were

- 2 -

were 16,901,000,000. Exports in 1937 were 8,444,000,000 greater than in the year 1936.

The January fifteen statement of the Swiss National Bank showed a gold gain of 98,000,000 francs. This has led to report in press that the gentlemen's agreement has not proved effective and that further steps to check the inflow of foreign funds are being considered by the Central Bank.

BULLITT.

EA:LWW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 20, 1938, 5 p.m.

NO.: 111

FROM COCHRAN.

After meeting with Bonnet yesterday Marchandau gave an interview stating that as Minister of Finance he would follow the policy of reform which "under the intelligent administration of Monsieur Georges Bonnet, has given results which it is to the highest degree desirable to see pursued and developed". He stressed the need for order and renewed economic activity. Cabinet meeting this afternoon to prepare Government's declaration before Chamber tomorrow.

During forenoon's official session French control acquired quite a little sterling around 148.58 to 75. After Bourse the rate fluctuated wildly to 152. Since there was no significant change in Bank of France statement (except a rise in deposits which presumably came from conversion of control's gold into francs during drive against franc) traders this evening attribute the upset to three rumors which emanated from London and circulated here: (one) that market will open on Monday at 170 to the pound; (two) that Socialists will not support the Government tomorrow; (three) that a general strike will come over the weekend. While this is purely unconfirmed gossip I report it to show nervousness and susceptibilities of franc on a
thin

- 2 -

thin market.

I had a talk with my official friend at 5:30. He said that the turn on the market had been due entirely to rumors. He said that the control had at that hour brought rate back to 151, and through giving sterling would bring it even lower yet this evening.

BULLITT.

EA: LWW

RECEIVED
JAN 31 1951
INTERNATIONAL DEPARTMENT
U.S. DEPARTMENT OF STATE

January 19, 1938

Col. Harrington's office telephoned today that employment figures as of January 15, 1938, were 1,767,099, an increase of 55,039 over January 8.

January 19, 1938.

To: Mr. Morgenthau

From: Mr. Shoup

Changing the Fiscal Year - Problems to be Studied.

In my memorandum to you of December 21, 1937, I outlined a plan for changing the fiscal year so that it would begin on April 1, and postponing the income tax collection dates a month and a half. The purpose would be to make estimates of revenues (especially the income tax) and of expenditures more reliable.

If this matter is to be brought up again for discussion - for instance, when a revision of estimates is made sometime in April - I suggest that the appropriate departments in the Treasury start at once to gather data and form opinions on the following points:

- 1) Has the Congress in the past several years taken much more than three months after the budget speech to enact the appropriation bills? (The purpose would be to ascertain whether the new fiscal year could be opened as early as April 1 without unduly disrupting traditional Congressional procedure. Presumably the Bureau of the Budget could assemble this information).
- 2) Is the existing mechanism for continuing appropriations, or any other similar existing mechanism, adequate in case the Congress did fail to pass most or all of the appropriation bills by the start of the fiscal year? (Presumably the Bureau of the Budget could supply information on this point also).

- 2 -

3) Could the Division of Research and Statistics devise some plan of interviewing samples of large taxpayers (somewhat as in Great Britain) as the calendar year drew to a close, so that the income tax estimates could be made reliable within, say, a 5 per cent margin of error, without having to use the "Refinement A" noted in my December 21 memorandum? Refinement A would shift the date of filing returns so that the returns would be in hand before the estimate was made. (This question would go to the Division of Research and Statistics).

4) In practice, would it be feasible - and if so, to what extent - to divide expenditures into the two classes, flexible and inflexible, noted in "Refinement B"? (Refer to the Bureau of the Budget).

5) Would the accuracy of the expenditure estimates of the various departments of the government be increased appreciably because the fiscal year would now be three months closer to the time when the estimates were being prepared? (The Bureau of the Budget, in collaboration with the several departments, might study this question).

6) Would the shift in fiscal-year dates necessitate or lead to a shift in dates of other parts of the entire budget mechanism? (I do not know of any cases of this kind, but the question should be studied, in order to avoid any difficulties such as those encountered by the French when they changed the fiscal-year dates--see my memorandum to Mr. McGill of December 27, 1937, P. 3, Par. No. 2; p. 5, Pars. No. 5 and 6).

7) Precisely what could be done to lessen the difficulties that would be caused by the failure, under the new plan, of the income tax dates to coincide with the interest and maturity dates of the outstanding debt? (Presumably both the Bureau of the Budget and the Division of Research would have some information on this).

C.S.

London, January 19, 1938.

Strictly Confidential

My dear Mr. Secretary:

Captain Ingersoll of the United States Navy sailed for the United States on the S. S. Manhattan yesterday. Naturally, I saw him when he was here and told him of the message you had sent by me to Sir John Simon and that Sir John Simon had answered that he would be glad to see him.

In turn, Captain Ingersoll informed me that he had talked with you at the White House, and that he had told you he had "really nothing to say to Sir John Simon" and had arranged with you that neither he nor I would request an interview with Simon, but, if the initiative were taken by Simon, he would meet with him and be "prepared to listen." Captain Ingersoll further stated that in his meeting with Mr. Eden upon his arrival and in his subsequent conversations at the

British

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

British Admiralty no mention was made of any contemplated interview with Simcn.

In the circumstances, I, of course, took no action and the Chancellor of the Exchequer, who returned from the Riviera on January 8th, did not make any move, although, beyond the shadow of a doubt, he knew of Captain Ingersoll's presence in London.

Respectfully yours,

Walter D. Bunker

200

WASHINGTON
FEB 3

OFFICIAL BUSINESS

Penalty for private use



Strictly Confidential

The Honorable

Henry Morgenthau, Jr.,

Secretary of The Treasury,

Washington,

D. C.

159

By Powell

Strictly Confidential

The Honorable

Henry Morgenthau, Jr.,

Secretary of The Treasury,

Washington,

D. C.

Attention of

Mrs. Klotz.

GROUP MEETING (SECRETARY ABSENT)

January 20, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Gibbons
Mr. Opper
Mr. Upham

Magill: Well, Wayne, my old "potato," how are the branch banks coming along?

Taylor: Everthing's perfectly lousy, thanks.

Upham: "See my next speech for details," huh?

Gaston: Did you see Jefty?

Taylor: I haven't been able to see him yet. I'll see him this morning. He didn't send that back?

Gaston: No, he didn't.

Taylor: I imagine he was reasonably busy yesterday.

Gaston: I imagine so.

I wonder where Mac is this morning.

Magill: I don't know.

Taylor: Among other things, there are two large countervailing duty cases that appeared on my desk last night. They picked a couple of dandy countries to produce them on - one of them Great Britain and the other one Australia - right in the middle of a negotiation of a trade agreement.

Opper: You recall on that Great Britain case we wrote to the State Department; they said would we please hold it, because they wanted to tell the British it was coming. And we did hold it up and they did tell the British, and the British wrote back and said, "By Jove, very interesting." And that was the end of that. The State Department then wrote us and said, "We have no further desire to have you hold it up." It seemed to me under the circumstances we had nothing to do - the law is perfectly clear - but to

-2-

go ahead and slap it on.

Taylor: I think I'll check again, just to be sure.

Magill: The dear British aren't up to something, are they?

Taylor: They've probably been doing this for how long, ten or twenty years?

Opper: It isn't quite that bad, but it's an order in Counsel for - about two years old.

Gibbons: What does this Mexican situation this morning mean? Jumped the tariffs one, two hundred percent.

Taylor: Oh, it's a furtherance of the good neighbor policy.

(Hearty laughter)

Magill: I was wondering if that was it.

Upham: Preserve the moral integrity of democracy.

Magill: We buy their silver and they jump the tariffs. That makes us even.

Gibbons: Certainly out of a clear sky, wasn't it?

(Phone rings)

Magill: Archie, warm up the machinery.

(On phone) Good morning. - Good morning, Henry. -
Yes, sir. How are you? - That's fine. You got a
lot of snow down there? - Well, we have here. Who
do you want to speak to?

H.M.Jr: Well, I want to talk to Gaston, then I want to say something to Upham a minute.

Magill: You want to be on the loud-speaker?

H.M.Jr: Just as leave.

Magill: All right, you are now on. Archie has got it in fine working order.

H.M.Jr: Is Archie there?

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Magill: Archie's here.

Gaston: (On phone) Hello.

H.M.Jr: Hello, Herbert.

Gaston: Good morning.

H.M.Jr: Herbert, I wish you'd take a look at the California papers, beginning, say, with Thursday.

Gaston: Yes, sir.

H.M.Jr: And try to see if - what the comment and what the trend is on bank holding companies.

Gaston: Yes, yes.

H.M.Jr: If any particular paper has been taking it up one way or the other.

Gaston: Yes.

H.M.Jr: Also on O'Connor, what their idea is.

Gaston: Yes, yes.

H.M.Jr: And when you look at the papers look at some of the papers like - whatever they call it ...

Gaston: Sacramento ...

H.M.Jr: Yes.

Gaston: Sacramento, Stockton, so on.

H.M.Jr: Yes, as well as Los Angeles and San Francisco.

Gaston: Yes.

H.M.Jr: But I'd like to know what the trend is, if they have any attitude. I mean whether Hearst is for or against, just how they line up, on the bank holding thing and also on O'Connor.

Gaston: Yes, yes.

-4-

H.M.Jr: Please watch that. And will you keep the clippings up-to-date on Mexico for me? Please.

Gaston: Yes, yes.

H.M.Jr: That's all I got. What's new?

Gaston: Well, I have a letter here from a man named Callahan in Louisville who is Chairman of a committee giving a banquet to Senator Barkley on Saturday evening, and they'd like very much to have a few lines from you to be read at the banquet. I prepared a telegram.

H.M.Jr: All right.

Gaston: If you want me to, I'll read it to you.

H.M.Jr: No, I'll take it as you wrote it.

Gaston: All right. It's sufficiently friendly, I think.

H.M.Jr: I feel very friendly towards Senator Barkley.

Gaston: Yes, all right.

H.M.Jr: So this telegram, whatever you wrote, will be sincere.

Gaston: All right, very good. It's sincere.

H.M.Jr: All right. All right, Herbert.

Gaston: Somebody next?

H.M.Jr: Hello.

Magill: Hello.

H.M.Jr: Who's this?

Magill: This is Magill. You want Archie?

H.M.Jr: Archie. And I want to talk to Taylor and I want to talk to Upham please.

Lochhead: Good morning.

H.M.Jr: Hello.

-5-

Lochhead: The French situation is still quiet. The francs are holding steady. I don't think they are gaining much, but they didn't gain anything in our market yesterday; but at the same time they are not losing much.

H.M.Jr: Good.

Lochhead: The sterling is holding steady, and silver probably will be off a little bit from yesterday, but still fairly hearty.

H.M.Jr: All right.

Lochhead: Now, the one thing on security purchases - Great Britain, Netherlands, and Switzerland are still on the buying side, but France went on the selling side for the second day with five hundred thousand.

H.M.Jr: All right:

Lochhead: So it may be a favorable sign for them.

H.M.Jr: A favorable? Why?

Lochhead: Well, they possibly may be taking some of their funds back to their own country.

H.M.Jr: Well, you're an optimist.

Lochhead: Well, I have to be occasionally.

H.M.Jr: O.K.

Lochhead: Now Mr. Upham.

Upham: Good morning.

H.M.Jr: Hello, Cy.

Upham: Good morning.

H.M.Jr: When I come back Monday, I wish you'd have me a little treatise on what you would do if it was up to you in connection with bank holding companies.

Upham: All right.

H.M.Jr: Your own ideas.

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Upham: O.K.

H.M.Jr: I mean don't make it too long.

Upham: All right.

H.M.Jr: But first what your opinion would do and then what's the thought on various alternative steps which might or might not be taken, whether you agree with them or not. See, I'd like first your own opinion, you see, and then if you're going to do anything you can do A, B, C. But I'd like to have your own. Didn't you write a book on it or something?

Upham: Oh yes.

H.M.Jr: All right. Will you give it to me? You get what I mean. I'd like to have it Monday.

Upham: Fine.

H.M.Jr: Please.

Upham: You want Wayne?

H.M.Jr: Please.

Taylor: Good morning.

H.M.Jr: Wayne, good morning. I read your telegram.

Taylor: Yes.

H.M.Jr: And I was thoroughly impressed and deflated. I didn't know our selling costs were so high.

Taylor: Yes, you've got a lot of bandits around here.

H.M.Jr: I wouldn't want to send them any letter till I get back and get a chance to discuss it with you.

Taylor: All right.

H.M.Jr: Because if the thing - if that's the way it is - I mean I would want you to consider cancelling all advertising for April, May, and June.

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Taylor: We have already done it for that.

H.M.Jr: All advertising?

Taylor: We have planned to cut - see, we've got the stuff only prepared up through March.

H.M.Jr: Yes.

Taylor: And we're planning to stop everything after March.

H.M.Jr: All magazine advertising?

Taylor: Yes.

H.M.Jr: Oh, I didn't know that. As a result of this?

Taylor: Yes.

H.M.Jr: Didn't you have the money for it?

Taylor: Yes, we're all right on that, but they can use it other places, you see.

H.M.Jr: Well then, in view of this you have cancelled April, May, and June?

Taylor: Right.

H.M.Jr: Well then, you are one step ahead of me. I wouldn't want any letter. I'd let her go.

Taylor: Just let her go.

H.M.Jr: Just let her go. The only regret I had is that the committee had to point this out to me.

Taylor: Well, it's a question of being Columbus, isn't it?

H.M.Jr: Well ...

Taylor: We haven't got anything to apologize for on the advertising.

H.M.Jr: It's - I surely can't see myself writing a letter defending national advertising, in view of what they have said.

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- Taylor: Well, of course, it could be said that you had - that we had made an original mistake, and I don't think there was any original mistake.
- H.M.Jr: Well, I think it's one of those things that can rest until I get back. I'd let her ride. I wouldn't do anything. Is that agreeable to you?
- Taylor: Quite.
- H.M.Jr: All right.
- Taylor: Just a minute. Have you gotten the New York Times this morning?
- H.M.Jr: Yesterday's, yes.
- Taylor: Well, this morning's ...
- H.M.Jr: I've got Wednesday's.
- Taylor: Well, this morning's - why, the Mexicans have just been perfectly dandy.
- H.M.Jr: Have they?
- Taylor: Oh yes.
- H.M.Jr: What have they done?
- Taylor: Well, they've increased all duties God knows how much, they've slapped the oil companies, they've apparently done a very nice, complete job.
- H.M.Jr: Is that right?
- Taylor: Yes. I haven't confirmed any of it from the State Department, but it's
- H.M.Jr: Is the story by Hawthorne?
- Taylor: Yes.
- Magill: No, it isn't he.
- H.M.Jr: Well, maybe the story is as accurate as what he said about our taking the peso.

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Taylor: Supposedly based on a decree - it's a series of decrees - but it looks awfully bad.

H.M.Jr: Well, I'd find out about it.

Taylor: Yes.

H.M.Jr: Be unfortunate if they have.

Taylor: It's in all the papers.

H.M.Jr: Uh-huh.

Taylor: And it's mostly to - supposedly to take care of the balance of payments position.

H.M.Jr: I see.

Taylor: But they boosted the duties a hundred and two hundred percent, and there seems to be a little discrimination against our stuff.

H.M.Jr: Against who?

Taylor: Against us.

H.M.Jr: Nice people.

Taylor: What?

H.M.Jr: Nice people.

Taylor: Oh yes.

H.M.Jr: Well now, Wayne, please keep the French situation steady until Monday, will you?

Taylor: I've got that in good shape. A couple of others I'm not so sure about.

H.M.Jr: All right, Wayne.

Taylor: Who do you want?

H.M.Jr: Does anybody know how Clarence Oppen's getting along?

Taylor: He's under the couch over here. I think I can get him out. Want to talk to him?

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H.M.Jr: No, I just want to know when his name is going to come up.

Taylor: Any dope about that?

Gibbons: I don't know how it will come out of that committee. It's been sent up there. We saw about ten of the fellows, at least, on the committee.

Taylor: No particular news on that so far. It seems to be in good shape.

H.M.Jr: All right. Does anybody want to talk at me?

Taylor: Ros.

Magill: The hearings on the tax bill are still going along, and I think you may be glad to know that we overlooked a bet here.

H.M.Jr: No.

Magill: Mr. Doris Duke appeared yesterday, and Mr. Duke says that if we would do away with all the taxes on him, it would be a better world.

H.M.Jr: I heard that on the radio last night.

Magill: Oh, you did, eh? Well, I'm sorry; you're ahead of us.

H.M.Jr: I've been listening every evening to Lowell Thomas.

Magill: So you put on Mr. Duke. He said he and Doris are worth 50 millions between them.

H.M.Jr: 50-50 sandwich: one horse, one pig.

Magill: He changed his testimony after he got that out. He started out by saying, apparently, that he had 50 million dollars of tax-exempts; then he didn't think that sounded so good, so he said the whole country had 50 billion of tax-exempts outstanding, leaving himself out.

Cy tells me he had a fellow up there by the name of Czerwonky, or something like that, who sat next to

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him and told him what to say. That was convenient. Kind of a Charlie McCarthy act, I take it, with Mr. Duke in the position of Charlie.

H.M.Jr: I see.

Magill: Apparently very interesting. I don't think there is anything else very exciting around here. I try to keep Taylor in hand. The boy is pretty jumpy, but then, I manage to keep him pretty level.

H.M.Jr: Taylor?

Magill: Yes, Taylor. You know how he is - excitable, irritable, and everything. He and Archie both are rather disturbing influences when you're not here.

H.M.Jr: I see.

Magill: Well, I hope you have a good week-end. We're pretty nearly there.

H.M.Jr: All right.

Magill: Good luck. 'Bye.

Upham: Do you (Taylor) know Czerwonky?

Taylor: Oh yes. He's a mechanical engineer.

Upham: One of those engineer economists. The newspaper men noticed him first. He sat down beside Duke and as Duke read the statement Czerwonky would sit there moving his mouth, obviously repeating word for word what Cromwell was saying, and either he had written it or learned it by heart. Very interesting.

Taylor: Well, you know this book ...

Upham: Defense of capital.

Taylor: ... that Cromwell wrote. Whatever it might be, I suspect that Czerwonky, if he's appearing in this thing - that he's the guy that wrote it.

Magill: Well, it would seem to me that James H. R. Cromwell needs a public relations counsel about as badly as

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anybody I ever saw. To me, the most amusing part of the whole thing was old man Doughton, who neither smokes nor drinks, asking Cromwell, after Cromwell had said that he would abolish the income tax and estate taxes and substitute a sales tax - old Doughton peers over and wants to know if he would have the same amount of tax on food that he would have on liquor and tobacco.

Upham: "Same tax on bread and meat as on cigarettes and liquor?"

Magill: And Cromwell says, "Yes, sir!" Well, that was certainly a honey. Was Czerwonky moving his lips at that time, or did James figure that out on his own?

Upham: Well, curiously enough, Czerwonky mouthed the answers to questions as well as the main statement. I don't know how. He'd say the same thing silently that Cromwell said out loud.

Lochhead: Case of mental telepathy.

Gibbons: He's probably learned lip-reading.

Magill: Did you get any impression of this fellow Cromwell? Is he himself smart, or ...

Upham: Well, he seemed to know his story pretty well. He answered questions very well for the most part. He seemed pretty stupid about it all; I mean ...

Magill: He must have been.

Upham: But for what he had to say, he seemed to

Lochhead: He was probably the best witness you'll have up there for the program.

Magill: Oh, I was delighted from the point of view of the committee, because the boys have obviously been getting quite irritated because they haven't had any good red meat in the last two days.

Gibbons: When are they going to call General Johnson?

Magill: Well, General Wood ...

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Upham: General Wood goes up there this morning.

Magill: You better run on along up there.

Taylor: I don't think you'll have the slightest trouble in getting Mr. Cromwell, or Mr. Duke, to testify about anything at any time.

Magill: I guess not. Why don't you call him in on this whole bank holding company thing?

Taylor: Oh, he's busy.

Gibbons: Who's that?

Upham: Well, that's all solved now, anyway, if I can get any time to
(Upham leaves)

Taylor: Yes.

Magill: Herb, you got anything else?

Gaston: I don't believe so.

Magill: Haven't had any letter from MacFarlane for a day or two, have we?

Gaston: Well, I just signed on the one that Cy wrote here yesterday or the day before.

Magill: Well, that's good.
Archie?

Lochhead: The story I gave the Secretary about covers everything we have this morning.

Gibbons: Nothing disturbing me.

Magill: Clarence?

Opper: I haven't anything.

Magill: Strange peace prevails.

Opper: The calm before the storm, probably.

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- Magill: By the way, Herb, there has been an occasional ripple up there in that committee about this Social Security money.
- Gaston: Yes.
- Magill: I imagine the Republicans may want to lay into that in some way.
- Gaston: Yes.
- Magill: Is there anything more that needs to be said besides that statement that you gave them during the executive sessions?
- Gaston: That wasn't a very complete statement on the thing. We have a memorandum that we've been using in reply to letters that explains how the Treasury handles these funds, and we are also carrying now on the daily Treasury statement a complete statement of receipts and disbursements, segregating Title 8 and Title 9 taxes, showing just how much funds are on hand, what are the investments of the different funds, and so on, - what are the payments ...
- Magill: Dr. Parker inquired about it the other day and Reed has been asking about it from time to time. They haven't asked any specific questions, as far as I can see, but I think it might be well to have something in the "kitty" to give them in the event the thing breaks out again.
- Lochhead: I think we have a copy of that letter. Might send it up to my old boss, Percy Johnson. I notice at the annual stockholders' meeting yesterday he outlined the immoral manner in which the Government was handling their security taxes. I'd like you to read that.
- Magill: Well, the main thing with this committee more generally would be pointing out what I assume is true, that the Treasury has done what the law tells us to do.
- Gaston: Exactly, yes.
- Magill: That may be wrong, but anyway that's what we've done.
- Gaston: There's only one point where there is any option

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at all. See, the old age reserve account has to yield three percent, and we can issue specials or we can buy on the market. If we buy to yield three percent - of course, they have been unable to buy to yield three percent. On the unemployment trust, the interest rate is fixed by a different method; it is fixed by the average rate of interest on the public debt, and it is the nearest eighth one-eighth below, and that figure at the present time is two and a half. Well, there have been a few times when we could have bought securities on the open market to yield two and a half, but there wouldn't be any sense to that, because we'd have the cost of buying and the cost of selling.

Magill: Uh-huh. Well, I take it you'll be ready for them if they do come through with some specific question.

Gaston: Yes.

Magill: I haven't anything else.

Gaston: Danny, of course, could handle that very well, or Russell Reagh, if they wanted a witness.

Magill: Uh-huh.

Gaston: Russell Reagh probably has all angles of the thing in better shape.

Magill: Good. All right.

Mr. Lockhead

FEDERAL RESERVE BANK
OF NEW YORK

216

OFFICE CORRESPONDENCE

DATE January 20, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE

I called Mr. Cariguel at 10:53 today. He stated that the market had been fairly good since the beginning of the week and that he had been able to buy sterling up to a few minutes ago when the market turned and francs became rather freely offered. I inquired what he ascribed this sudden change to and whether there was anything new in the situation. He replied he did not think so but rather felt that the demand for francs resulting from short sales last week had now been filled and that this cushion had therefore been removed. I also asked him whether he was satisfied with the way things had gone politically and he replied he thought everything was as good as could be expected.

LWK:KMC

Mr. Luskhead

217

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 20, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

Mr. Cariguel called at 3:45 today to ask how the franc was quoted in New York now. I replied that it was on the bid side at 333 3/8, that we had bought at about 333 net, 12,000,000 francs, practically all from Lazard or Manhattan (the latter works joint account with Lazard, Paris). The lowest rate touched here since Europe closed, I explained, had been 332 7/8. He seemed relieved because he had understood that francs had been offered in this market in the afternoon at below 327. He requested that we change his buying order, which he had given us early in the day, from 149.85 (333 7/16) to 149.50 (334.36) with no limit as to the amount.

LWK:KMC

12 13 40M 637

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE January 21, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

Mr. Cariguel called at 2:05 today with reference to his cable No. 34 in which he had erroneously spoken of a buying limit instead of a selling limit. What he wanted us to do, he said, was to buy francs for his account at 151.10 and to sell them at 149.65. I explained that we had assumed that much from the very context of his cables but that at any rate no business had presented itself in this market so far. He replied that he would send me another cable correcting the previous one.

LWK:KMC

JR

GRAY

London

Dated January 21, 1938

Rec'd 3:05 p.m.

Secretary of State,
Washington.

51, January 21, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The pressure on the franc was fairly heavy this morning and due to the Bank of France's refusal to give sterling, except upon production of satisfactory evidence of the bona fide nature of transaction, there developed at one time two rate trading, the London rate being about one franc above the "legitimate" Paris rate. This spread was eliminated about noon and the control has operated at varying rates between one hundred forty-nine and one hundred and fifty-one five slant sixteen.

Two. The Bank of England has restored a fiduciary issue to its previous level of 200,000,000 pounds at which it stood before being raised by 20,000,000 pounds (my 720, November 17, 6 p.m.) to help buttress the reserve in the banking department against seasonal demands for currency.

Three. The 1937 balance sheets of the (*) "between
the

-2- #51, January 21, 8 p.m., from London.

the five" banks show the biggest rise in advances since their recovery began four years ago. Each bank achieved an important increase and the aggregate was 85,300,000 pounds or eleven per cent up on the year at 849,800 pounds which was only three per cent below the 1929 record figure.

Deposits reached a new high record at 2,030,100,000 pounds but their rate of growth slackened during the year; the banks had to reduce security and bill portfolios and call money to make way for new advances; thus investments were down by 20,900,000 pounds the first reduction for six years, and money market assets down by 54,700,000 pounds.

JOHNSON

WVC:JLS

RECEIVED

JAN 22 1931

INTEGRITY DEPARTMENT

UNITED STATES DEPARTMENT OF JUSTICE

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 21, 1938, 4 p.m.

NO.: 113

RUSH

FROM COCHRAN.

Paris exchange market this forenoon was somewhat puzzling. French control was selling sterling at 149.75 to 95. At the same time 151 was bid in London with no offers.

It is my understanding that in New York yesterday evening the control remedied the 153 rate.

This afternoon market is quieter and the difference between the rate of 149.75 at which the control was giving sterling and the rate of 151.21 at which transactions were taking place between brokers has diminished.

I was told by operators that this diminution followed a request made by Bank of France to brokers to deal at the Bank of France rate only. The control itself increased its buying rate for francs to 151 here. The control also had the Bank of England intervene on the London market at 151. The market has been disturbed by the franc upset of last evening and the two divergent rates of this morning. However the situation is calmer as tonight's vote of confidence for the Government is awaited.

BULLITT.

END SECTION ONE.

EA:LWW

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM NO. 113 of January 21, 1938, from Paris.

At 12 noon today I visited the Bank of France and confirmed officially by that hour that the control had yielded 600,000 pounds here and in London in an attempt to level the various rates. My friend said that this amount could ill be spared at the present time even though it was not very large. Since the political crisis the control had enjoyed three fairly good days in recovering foreign exchange. There has however been no genuine repatriation, only short covering and cashing in when there was an urgent need for francs.

It has always been my friend's contention that the exchange market must be entirely free. He fears that continuation even of present rules of giving foreign exchange for bona fide commercial transactions only may make it hard to prevent development of exchange rates other than the control's rates. In addition, should there be serious labor or other troubles, people will be very much worried if their funds cannot be transferred abroad.

Because of the rumors of the past two weeks regarding prospective banking and other strikes, many Frenchmen have (omission) franc notes from the banks and are keeping them at home for emergencies even though they are not trying to transfer them out of the country.

Yesterday's

- 3 -

Yesterday's Bank of France statement as at the close of business on January 13 showed no gold loss to the control. No gold loss will be shown on the statement as of January 20 which is to be issued on the 27th. It has thus been possible for the control to recover enough exchange to pay back funds before issuing a statement. However, the margin of safety has been very small, on one of these two occasions amounting to only 11,000,000 francs.

The constant London suggestions - especially in financial news - that a much cheaper franc is to be expected are a source of annoyance to the French control. It is the opinion of my friends that the present rate could be maintained if the proper steps were taken in the fields of politics and economics. My friends argue that the fact the franc did not decline further during the recent crisis is proof of general acceptability of the level at which the franc is at present.

END MESSAGE.

BULLITT.

EA:LWW

GROUP MEETING (SECRETARY ABSENT)

January 21, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Gibbons
Mr. Opper
Mr. Upham
Mr. Bell

Magill: What do you (Taylor) know?

Taylor: (Nods nothing)

Magill: Herbert?

Gaston: Well, I don't believe I know a thing.

Magill: Wayne, Clarence and I have been conferring a little bit on what the Secretary wanted about the holding companies Monday. I suppose we'll have something for him, won't we, Wayne?

Taylor: I hope. I'd like to borrow Mr. Upham for a period today.

Magill: On this bank holding company.

Upham: You say you're going to have something Monday?

Taylor: We want to borrow you for it.

Gibbons: All depends on you.

Gaston: We're told we'll have something for Monday.

Magill: Is Shaw up there with you or not?

Upham: Over with the experts.

Magill: Well, he could be spared, couldn't he?

Upham: As far as that's concerned, Mintz doesn't need any help.

Magill: He doesn't?

Upham: No.

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Magill: How much do you (Taylor) need Cy? I don't mean how much, but how long, rather?

Taylor: Half an hour or an hour.

Magill: That's easy. Why don't you do it? I don't think it will be fatal up there.

Upham: All I do is circulate, and if the committee wants anything, why, ...

Magill: Well, I think the circulating is very useful.

Upham: Oh yes. Sure, I'll stay down here all they want.

Magill: Why don't you figure on the hour you could leave there to the best advantage?

Taylor: Why don't we do it around lunch time? Would you miss much down there then?

Opper: Only one thing about that, Wayne. If it were possible to make it a little later in the day, I would hope to have our second draft ready by, say, half past two or three. It might be more helpful if Cy could actually look at that rather than just talk about the general subject. Is it possible?

Upham: Well, I'm busy at 2:30 for an hour or so.

Taylor: How about four o'clock?

Upham: Fine.

Taylor: We'll start at four, then.

Gaston: Uh-huh.

Upham: Four?-

Taylor: Yes.

Magill: Steve, anything new?

Gibbons: Some of the fellows in Jefty's office are talking about giving him and Prentiss a farewell dinner, and they've asked me whether any of you fellows would be

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interested in a luncheon Tuesday. I don't know where it would be. They haven't worked up any details.

Magill: You mean would some of us want to go?

Gibbons: Yes. Just some of his Treasury associates and the fellows in the Comptroller's office there.

Magill: Sure, I should think so. Wayne, you would want to go.

Taylor: Yes.

Gibbons: Mr. Diggs is the one that's

Gaston: That's a different thing than Mr. Diggs' breakfast.

Gibbons: That's on Sunday.

Gaston: Sunday, yes.

(McR comes in)

Gibbons: Hello, Mac.

Magill: Hello, Mac.

Gibbons: I'll talk to Diggs. I just simply wanted to get your

Magill: Sure, I should think somebody would want to go.

Gibbons: Wayne, have you heard anything about this conference the President's having with business men? I had a fellow in to see me yesterday and he says they're all walking out and laughing at the idea, that he isn't getting anywhere.

Taylor: No.

Gibbons: I'll check on it again. This came from the vice president of an insurance company. They say he's nuts, and laugh about it - that it's just talk and nothing concrete.

Taylor: I haven't seen anybody that's been to - I haven't seen anybody since they've been to them.

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- Magill: You're not going to get very far with a conference such as they had yesterday of fifty members of the Business Advisory Council, and I think that suggestion
- Gibbons: Did anybody hear Girdler last night on the radio?
- Gaston: No.
- Gibbons: He's the head of the Republic Steel. I was working; I didn't hear him. Maybe I can get a copy of his speech. You (Taylor) might check around, see what
- Gaston: Waley-Eaton had a discussion of those in their letter this week that presents quite a different point of view on the thing, and I think they talked to several people. Surprisingly favorable reaction they got.
- McR: The press on it has been right favorable.
- Gibbons: Well, this - he's the vice president of an insurance company. Young fellow - Superintendent of Insurance, State Insurance Department. Has usually been right. Just dropped in to see me yesterday.
- Upham: Who's that, Jim Madden?
- Gibbons: No, he's from Ohio. A protege of Donahey. Very smart young chap and usually gets the right dope. You know, these fellows will say out in public one thing and behind closed doors say another. I think he's getting the real low-down; I don't know. Hard to get the right reaction to it. That's all.
- Well, I can declare all you fellows in on the luncheon, I suppose.
- Magill: Well, that wasn't what we said, but then, it's a good idea.
- Gibbons: Well, I'm asking you. I'm asking you.
- Magill: Archie?
- Lochhead: The French situation is a little uncertain. The francs have been nervous yesterday afternoon and

-5-

this morning, and they seem to feel that they will get a vote of confidence today, but it's not a solution of the question yet.

One interesting point was that yesterday afternoon the French forced the market up a little bit over here. They asked us to raise the rates up and we forced the francs up here to about \$.0334. It cost them about a million dollars worth of exchange to do it. And then this morning it's eased off again to \$.0331, and the indications we get are that they have asked the banks on the other side again to investigate the transactions to make sure they're commercial. So it shows that they're trying to get an effective strength, but they're meeting a little bit more than they want to handle.

Gibbons: What will the Securities And Exchange Commission say about that?

Taylor: Haven't got a French committee.

Magill: Any more about foreign purchases and sales?

Lochhead: The British and the Dutch and Swiss are still on the purchase side; the French are again on the sale side. Put on balance the foreigners continue to buy American securities.

Magill: Well, they've got the right idea: buy when they're low.

Bell: At their low, you say?

Magill: Uh-huh. Don't you think so?

Lochhead: Can we depend on that?

Bell: If so, it's good information.

Gaston: He said when they're low.

Bell: I was trying to

McH: Nos said, buy them while they're low, didn't he? The implication is there. That's what Danny wanted

-6-

to get; he wanted to be sure.

Bell: I just wondered if they were on bottom.

Magill: I'm just going by all these charts that Research and Statistics prepares, all of which have a little wiggle on the end pointing up.

Bell: The only thing they do every week is move it forward one week, huh?

Magill: Clarence?

Opper: This is a matter of general interest. The Stamp Bill, providing for liberalization of permission to reproduce postage stamps, was unexpectedly passed by the House a couple of days ago; it had already been passed by the Senate. It is on its way through for the President's signature. It permits the Secretary to issue regulations easing up on those pretty stringent limitations that have been in the law for about fifty years, and we've gotten up some regulations, and will have them ready in a day or so.

Magill: There is something in that law about an official publication of reproductions, isn't there?

Opper: Well, there is an official publication, but it doesn't print reproductions, it just prints descriptions. That's already been done. As a matter of fact, that catalog has been out for about six months.

Magill: Well, they had reproductions - had pictures.

Opper: They did have pictures?

Gaston: Yes, they had pictures. Had black-and-whites.

Magill: That was the big point.

Gaston: Your shop went into the question of whether we could print the black and white reproductions, and I think the decision there was that the Treasury was not subject to the law forbidding that.

Opper: I didn't recall whether they were actually in the book or not.

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Magill: Oh yes, they had pictures. That was the chief value of the book.

Opper: But at any rate

Magill: Now the Scott Stamp and Coin Company can publish pictures too, if the Secretary says they can.

Opper: Yes, but they have to be off-size.

Upham: Off-side?

Opper: Off-size. Bigger or littler.

Magill: Either smaller or larger. Have to have a line through them or anything?

Opper: No. All you're going to require is that they can't be the same size as the stamp.

Magill: Such generosity should be ...

Lochnead: Will it be printed in only black and white?

Opper: Beg pardon?

Lochnead: Will it be printed only in black and white?

Opper: Yes, only printed in black and white. Of course, we'll have to clear with Secret Service and Hall and all those fellows; but we went just as far as the law permits us to go in drafting the regulations, on the theory that that was the way to get the question started.

Magill: Just the way you do on the income tax.

Opper: That was all I had.

Magill: Cy?

Upham: Incidentally, there was a good deal of hard talk yesterday about the Treasury going further than the law permits in their income tax regulations.

Magill: Well, as Clarence has just said, when they pass the

-8-

law, it opens the door then and we go the limit. What are they kicking about, what part of the regulations? Just the whole book?

Gibbons: Probably don't know.

Upham: Well, I think they had reference to one particular one; I think it was in connection with 102, but - they were pretty general anyway.

(Phone rings)

Magill: (On phone) Hello.

Operator: Secretary. - Mr. Magill.

Magill: Good morning, Henry.

H.M.Jr: Good morning, Ros.

Magill: How are you, sir?

H.M.Jr: I'm better, thank you.

Magill: Well, that's good. You were better yesterday too.

H.M.Jr: Well, I've still got a little trouble in the back. But it's all right.

Magill: Well, I hope it will clear up in a day or so. Well, all the boys have got their shining morning faces around here.

H.M.Jr: Did they use Ivory Soap?

Magill: I think so. I'm not sure about Clarence, whether he did or not, but the rest of them seem all right. Clarence, I think, used Palm Olive.

McR: No, Lux Flakes.

Magill: Haven't been able to produce anything very exciting except that Archie has got a very few words of cheer.

H.M.Jr: All right. Is Bell present?

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Magill: He's there.

H.M.Jr: When I get through, I want to talk to him.

Magill: He came here late, but he got here.

H.M.Jr: They're all very chipper?

Magill: They look so. Particularly Wayne. He's been putting the heat on the bank holding companies; says he's got them licked to a frazzle. Want to talk to him and have him tell you in his own words?

H.M.Jr: All right.

Magill: Wayne.

Taylor: Hello.

H.M.Jr: Hello, Wayne.

Taylor: Good morning, Henry. No particular news except I think I've got fallen arches.

H.M.Jr: Got what?

Taylor: Fallen arches.

H.M.Jr: Well, the only way to cure them is go south.

Taylor: Well, we'll find out.

H.M.Jr: Well, what else?

Taylor: Everything else just about as it was yesterday. A little flurry back and forth, but nothing happening. Our French boys go for their vote of confidence today.

H.M.Jr: Got your bank holding thing all lined up?

Taylor: No.

H.M.Jr: You haven't?

Taylor: No, we've got some - we've got some stuff on it. Clarence will have a bill this afternoon, and we're

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going to have a session with Cy and Herbert. The Comptroller is a little hard to get at these days.

- H.M.Jr: I see. Well, I wonder how he'll feel as the potential candidate for Governor in regard to this.
- Taylor: Maybe we better not take it up with him.
- H.M.Jr: Uh-huh. Well, I got another letter from him.
- Taylor: Yes, he's very pleased at your telephone conversation.
- H.M.Jr: I think it's unfortunate the way the President worded his letter to him - that he said he should devote part of his time to the Comptroller's job from now until the time.
- Taylor: Uh-huh.
- H.M.Jr: What?
- Taylor: Well, I don't think that makes much difference.
- H.M.Jr: No.
- Gibbons: It's only sixty days.
- H.M.Jr: All right. The Comptroller was sweet.
- Taylor: Oh, very.
- H.M.Jr: But here's the last for you and Bell. Am I on the loud-speaker?
- Taylor: Yes.
- H.M.Jr: I got a letter dated January 19 from Jesse Jones about this interest business, you see.
- Taylor: Yes.
- H.M.Jr: And at the bottom, in his own handwriting, he says "We should get started soon." Well, who the hell does he think has been holding this bill up?
- Taylor: Charlie McCarthy.

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H.M.Jr: What?

Taylor: Charlie McCarthy.

H.M.Jr: Have you seen this letter he wrote me?

Taylor: No.

H.M.Jr: Well, I wish you and Bell would get a copy, and you can tell dear Jesse that we have been just sitting around waiting for him since last March, that we were ready to go in March or April last year.

Taylor: Well, I think you can tell him that better than we can.

H.M.Jr: Ha ha ha! If he'll ask for an appointment to see the President next Tuesday, I'd be delighted to go over there and see him with you and Bell and myself.

Taylor: All or any part.

H.M.Jr: What?

Taylor: All or any part?

H.M.Jr: I don't hear you.

Taylor: I said all or any part.

H.M.Jr: How do you mean?

Taylor: Of the people you mentioned.

H.M.Jr: No, the three of us will go over there. We can go over there and see the President with Jesse.

Taylor: Yes, I'll tell Jesse to try to make an appointment for Tuesday.

H.M.Jr: We'll put it this way: that the Treasury and the R.F.C. will meet with the President at the President's convenience.

Taylor: All right.

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- H.M.Jr: No, I'm - and it's perfectly silly to decide that we've been holding this thing up. But that's all right. I'm getting full of English vigor.
- Taylor: Apparently.
- H.M.Jr: But I'm not going to waste a lot of time, and if Bell can hear me, I want Bell to prepare a memorandum for me why we're not going to pay any interest back, which we can give to the President. But you've got to get a copy of this letter of mine. Ask Jesse to give you a copy of his letter to me of January 19.
- Taylor: ~~All~~ Right.
- H.M.Jr: And then I'd like Bell to write a memorandum for me.
- Taylor: O.K.
- H.M.Jr: And if Jesse will ask for the appointment, why, we'd be more than pleased to go over there.
- Taylor: Right.
- H.M.Jr: Have you seen the C.C.C. bill?
- Taylor: Oh yes.
- H.M.Jr: And he doesn't say anything about my getting off as ex-officio member. But that's all right. You talked to him about it?
- Taylor: Oh yes. No, you see, what they did was send - they only sent up five names....
- H.M.Jr: Yes.
- Taylor: ... yesterday. They dropped off the other gentlemen.
- H.M.Jr: And myself?
- Taylor: Didn't say anything about you, because you don't have to be confirmed, you see.
- H.M.Jr: Oh, do I expire or what?

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Bell: No.

Upham: Does he expire?

Taylor: Just sort of quietly like.

H.M.Jr: I mean

Taylor: It will take a change in the law to do it.

H.M.Jr: What?

Taylor: It will take a change in the law to do it.

H.M.Jr: That's right. Well, how is he going to do that?

Taylor: As part of his other stuff.

H.M.Jr: Part of this bill.

Taylor: I imagine so.

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

Now, who's going to tell me about France? Archie?

Taylor: Archie will do that.

H.M.Jr: All right.

Lochhead: Good morning.

H.M.Jr: Hello, Dan - hello, Archie.

Lochhead: The French have been trying to keep their exchange steady, and yesterday afternoon Cariguel called up and (clicking sound on phone) ...

H.M.Jr: Hello?

Lochhead: Yesterday afternoon Cariguel called up.

H.M.Jr: Maybe that's Mr. Glavis on the wire.

Lochhead: That was Mr. Mac trying something up there.

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H.M.Jr: I see.

Lochhead: But yesterday afternoon Mr. Cariguel called up the Federal.

H.M.Jr: It's McReynolds that showed them how. Go ahead.

Lochhead: Cariguel called up yesterday afternoon and asked the Federal to bid for francs, and they bid them up to \$.0334, and as a result, about 30 million francs bought - about a million dollars, roughly. I imagine they wanted to have a strong tone this morning for the francs when they opened over there, when they were going to ask for their vote of confidence. However, this morning on the other side they apparently got a little too much pressure, and they asked the banks over there only to put through commercial transactions again, so they are not really free, absolutely free. But the francs are holding at about \$.0331.

H.M.Jr: And are the French still selling our securities?

Lochhead: The French are selling again. Sold about \$200,000 again. But the British, Dutch, and Swiss are on the buying side, and enough on the buying side to make it net buying. Nothing else, as I say. The French will ask for a vote of confidence, probably get this vote, but what will happen afterward nobody seems to be absolutely sure of.

H.M.Jr: All right. O.K. I'd like to talk to Mr. Bell.

Lochhead: Mr. Bell.

Bell: Good morning.

H.M.Jr: Hello, Dan.

Bell: Yes, sir.

H.M.Jr: I'm just dying to ask you why the Treasury didn't get in earlier on this so-called matter of C.C.C. camps. I mean don't we audit their books?

Bell: No.

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- H.M.Jr: Well, what - how is that done? What's the mechanics on that?
- Bell: The whole accounting and disbursing matter is handled by the Chief of Finance of the Army.
- H.M.Jr: Oh.
- Bell: And we haven't anything to do with it. I don't know the low-down on it, but the slip-up apparently is between the Army officers and the Interior Park Service officials.
- H.M.Jr: So we're not in on it at all.
- Bell: Not in on it at all.
- H.M.Jr: It's entirely a matter between Army and Park Service.
- Bell: That's right. The Comptroller, however, audits the vouchers.
- H.M.Jr: Well, he didn't find it, did he?
- Bell: Well, he's way behind. I guess he hasn't gotten to it. I don't think he'll find it out, other than what he gets in the newspapers. Something you couldn't catch from the accounts.
- H.M.Jr: But we're not in it at all.
- Bell: No, sir, we are not.
- H.M.Jr: Well, what did Paul Mallon mean that we got something from income tax on this? Have we been in on that at all?
- Bell: Not that I - wait until I ask Mac.
- McR: Well, we naturally are picking up the income tax on this boy, but it hasn't anything to do with
- Bell: Naturally we get the income tax returns on this boy, but it hasn't anything to do - but they wouldn't find this discrepancy. I don't know just how he got away with it. It's awfully hard to

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H.M.Jr: But it's between the Army and the others and in no way are we in on it.

Bell: No way at all, except paying checks. We did that. But we had no way of telling whether they're forged.

H.M.Jr: What I wanted is, after you get this letter of Jesse Jones, I'd like a sort of formal statement to take over to the White House with me, just restating the position. And I think we might as well settle it once and for all.

Bell: All right, I'll look at that.

H.M.Jr: What?

Bell: I'll look at that.

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

Bell: Not a thing. Everything's pretty quiet, running along about as usual.

H.M.Jr: All right. Anybody else?

Magill: Steve.

Bell: Steve Gibbons.

Gibbons: Hello.

H.M.Jr: Hello.

Gibbons: How are you?

H.M.Jr: I'm all right.

Gibbons: I got a call from Miss Wais about some posters that Mrs. Morgenthau is interested in, and I had located them but they're - there's only one copy of each.

H.M.Jr: Posters?

Gibbons: Yes, the 1928 campaign - Mrs. Morgenthau has got something she wants.

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- H.M.Jr: Oh.
- Gibbons: And I was wondering if she wanted any particular one or a whole group of them. I'll have them reproduced.
- H.M.Jr: It's in connection with doing a stunt for the President's birthday.
- Gibbons: Well, I'd better have them brought down here, hadn't I?
- H.M.Jr: Unless there's an awful lot of them. We wanted some with some floaters on them, you see.
- Gibbons: Well, the lithographer who did the job - he had them and they're just his copies, his file copies, and he wants them back.
- H.M.Jr: Well, we'll take good care of them. Tell them confidentially we want to use them at the White House. Stunt party for the President.
- Gibbons: Well, Mrs. Duffy got them for me. You know who she is.
- H.M.Jr: Yes.
- Gibbons: O.K.
- H.M.Jr: Can't keep anything from you, Steve, can we?
- Gibbons: Huh?
- H.M.Jr: Can't keep anything from you.
- Gibbons: Well, couldn't get them. I had to go put on the pressure to get them.
- H.M.Jr: Fine. If we could have a few that had some floaters - just those with his picture.
- Gibbons: I'm talking to Jim today about Opper. I think we're at the mercy of Pat to get that thing moving, and I'll have Jim put the heat on him today.
- H.M.Jr: Ask Opper if he knows when Oliphant gets back.
- Gibbons: When does Oliphant get back?

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Opper: I think on Monday.

Gibbons: On Monday, he thinks.
All right, sir, anybody else?

H.M.Jr: Let me talk again to Magill.

Magill: Hello.

H.M.Jr: Hello.

Magill: Yes, Henry.

H.M.Jr: I think my going away keeps you and the rest of them in a good humor; I better stay away.

Magill: Oh, we're just giving you the smiling face that conceals the aching heart, Henry.

H.M.Jr: I'm worried about Wayne Taylor's falling arches.

Taylor: So am I.

Magill: It really looks bad.

H.M.Jr: Connected with the falling franc?

Magill: He sort of staggers around the halls, and he says it's fallen arches, but I don't know. He's blushing a good deal over there. It may be

Taylor: It's those damn Mexicans.

Magill: He says these Mexicans are in his hair today, too.

H.M.Jr: Well, when you get Mexicans in his hair ...

Magill: ... and falling francs in your feet ...

H.M.Jr: ... you're in a bad way.

Magill: Well, I don't think there is anything else. The tax hearings ...

H.M.Jr: You're going to Cabinet?

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Magill: Yes, I'll go over this afternoon. The tax hearings are still rolling along. We have the left wing spanking us on the one hand and the United States Chamber of Commerce spanking us with the other.

H.M.Jr: I read what Mr. Roper's conference said.

Magill: They didn't say much, did they?

H.M.Jr: Well, they - kind of hard to see where they did stand.

Magill: Yes, yes. I think that was one of those diplomatic statements.

H.M.Jr: Yes. Well, take care of everybody.

Magill: All right, Henry. Well, we'll see you Monday.

H.M.Jr: You bet.

Magill: All right, good luck. 'Bye.
Mac, you got anything?'

McR: No.

Magill: I want to see you for a couple minutes.

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Cabinet Meeting - January 21, 1938

Present: The President, Vice President, and all members of the Cabinet except Secretary Morgenthau, who was represented by Mr. Magill

The President reported progress on his educational program for business leaders. He observed again, as he did a week ago, that business men were not accustomed to thinking of the nation as a whole nor of conditions and businesses other than their own. He said he had just been talking to the officials of corporations handling automobile installment paper. They had suggested that the Federal Reserve Board might place restrictions upon the rediscount of installment notes. For example, notes running for longer than eighteen months or requiring more than x percent of the family income would not be rediscounted. The President expressed to these men his amazement at this proposal for strict Government regulation, and told them that if such restrictions were generally applied we would not have state socialism but fascism.

The Vice President observed that the Federal Reserve Board could only change the rediscount requirements and not the discount requirements which are in the hands of the local bankers. The President stated, however, that the big acceptance corporations generally passed their paper to the big banks which rediscounted it.

The President said that the automobile manufacturers admitted privately that they had oversold the market in 1937 but they would not admit it publicly. He was asking them as he was asking other businesses to work out for themselves ways for preventing extravagant production and extravagant selling.

The President observed further that there were not enough good investments for the man of moderate-sized means, and in particular that he did not know where to go to secure reliable advice. In 1929 the local banker and local lawyer advised him to buy securities which had for the most part been passed on to the smaller communities by the big city banks. Literally, every investor had been stung. Consequently, these people were leaving their money in the savings banks at nominal interest rates. The President thought there was \$15,000,000,000 of such idle money. He said that he felt that bonds of some public utility operating companies were an excellent buy to yield 5 or 6 percent but, of course, he could not say so publicly.

He said he told the business conferees that he needed confidence as much as they did and that he had adopted this policy: That if the business men hit him on the chin, he was going to hit them in the nose. He said that this was the explanation of some of the December speeches. Even at that, the Administration had been hit ten times for each blow it struck in return, and he thought a ratio of 10-1 was big enough in this instance.

The President asked how things were going on the Hill. The Vice President said, "We are doing fine. We are all up there." The Vice President doubted that the anti-lynching bill would be passed. He said originally he figured 68 senators for it, but that now there were under 60. The President said that there is a growing feeling over the country that the legislative processes should be brought up-to-date and that it is bad for the party for a small minority to be able to hold up legislation on important topics. He cited the wages and hours bill, the reorganization bill, and the crop control bill as examples. The Vice President said that he had put the most rigid possible interpretation upon the Senate rules in the case of the anti-lynching bill, but that since the Western Republicans would not vote for cloture there was nothing more to be done.

The Vice President suggested the desirability of cutting down the jurisdiction of the Federal courts in cases arising between citizens of different states. The Attorney General said that this jurisdiction was given to the Federal courts by the Constitution; and that in any event he did not think the issue should be raised at this time. If the two Senate bills which he mentioned at the last Cabinet meeting, could be adopted, the Administration would have won 98 percent of its objectives in the court fight.

The President spoke of despatches from our minister at Nanking and our ambassador at Tokyo, reporting horrible atrocities committed by Japanese troops in Nanking and indicating further that these atrocities were undoubtedly committed with the approval of the military officers but without the approval of the civil government at home. The President feels that the civil government has completely lost control of the army and that the distinction between the sincere apologies of the civil government and the barbarism of the military forces must be brought home in some way to the American people. He suggested that Secretary Hull consider how the information from the despatches could be given out.

I reported that the hearings on the tax bill were still proceeding before the Ways and Means Committee but would be concluded in a few days. The Vice President said that it was very doubtful whether the bill could be passed before March 15th and we would then have the confusion of supplemental returns. I pointed out that the proposed bill would not take effect earlier than January 1, 1938, and, hence, would not affect the March 15th returns. I said that we had had difficulty in November and December in preventing legislation retroactive to January 1, 1937, and that the U. S. Chamber of Commerce was still urging it. We expect to be able to prevent retroactive legislation in the House but I did not know about the Senate.

The President mentioned that Mr. Doughton had come to him and expressed a desire to retire from Congress at the end of this session. The President had urged him not to do so and had asked him to see the Vice President. The President and the Vice President spoke of the

fact that none of the next three ranking Democratic members of the Committee (Messrs. Thomas Cullen, Christopher Sullivan, and Morgan Sanders) would be at all suitable for the chairmanship.

The Attorney General reported that Anders had confessed to the Ross kidnapping and that \$30,000 additional ransom money had been recovered, leaving only \$6,000 of the ransom unrecovered.

Secretary Ickes complained that Senator Pittman was not only holding up the confirmation of Mr. Burlew but was casting reflections upon the whole Administration. Pittman's investigation could only give ammunition to the Republicans. Secretary Woodring complained that Mr. Burlew had put the responsibility on the War Department for the CCC swindle, but the President and Secretary Ickes both said that Burlew had simply given the committee the files as he necessarily had to do. Secretary Ickes said all the members of the committee would vote for Burlew's confirmation except Senator Pittman.

Secretary Wallace said that he was considering releasing the 1938 agricultural program next week, since cotton planting would start around the first of February. The President said he would endorse an appeal to the cotton farmers to limit their acreage voluntarily to the extent that the pending crop control would probably provide. Secretary Wallace cited as an example in the present monopolies two instances where labor unions had agreed to go on strike if their employers cut prices. He said that labor unions appeared to have little conception of the rights of the consumer.

Secretary Roper reported that for 1937 exports from the United States exceeded imports \$262 million. Secretary Wallace thought this was undesirable and the President said he would like to see exports and imports balance. Secretary Perkins said that the House was gradually getting behind the wages and hours bill and in particular the Governor of South Carolina. The President predicted that the Governor could defeat Senator Smith for the nomination if he went on the stump and conducted an active campaign. The President had previously expressed the hope that Moody would run against Senator Nye in North Dakota; and that if he decided not to do so, the President would even prefer former Governor Langer. The meeting adjourned at 3:45.

RM

Notes taken by Mr. Magill

OFFICE OF
THE SECRETARY OF THE TREASURY

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1/25/38

Ribbon copies of the attached memo of 1/22/38 were sent to the following by the Secretary on 1/25/38:

The President

The Secretary of State

The Secretary of War - Attention:
Col. Strong (G-2)

Letters of transmittal were dated 1/25/38 and were signed by the Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1938

TO Secretary Morgenthau

FROM Mr. Haas *MH*Subject: Current United States trade with Japan and China
(Preliminary data)

(1) United States exports to Japan during the first two weeks of January 1938 show a slight decrease compared with our first two weeks of December 1937, but were slightly higher than during the first two weeks of November 1937.

United States exports to Japan

	<u>1st Week</u>	<u>2nd Week</u>	<u>Total - 1st 2 Weeks</u>
January 1938	\$2,726,000	\$3,758,000	\$6,484,000
December 1937	1,704,000	5,305,000	7,009,000
November 1937	1,180,000	4,813,000	5,993,000
October 1937	1,727,000	5,746,000	7,473,000

(2) United States imports from Japan during the first two weeks of January 1938 were higher than during the same weeks of December 1937, but were lower than during the first two weeks of November 1937.

United States imports from Japan

	<u>1st Week</u>	<u>2nd Week</u>	<u>Total - 1st 2 Weeks</u>
January 1938	\$2,034,000	\$4,185,000	\$6,219,000
December 1937	2,159,000	3,407,000	5,566,000
November 1937	3,245,000	3,654,000	6,899,000
October 1937	3,328,000	3,984,000	7,312,000

Secretary Morgenthau - 2

(3) The following items show large increases in our exports to Japan during the first two weeks of January 1938, as compared with the first two weeks of December 1937:

	First two weeks of		
	January 1938	December 1937	November 1937
Petroleum products	\$1,958,000	\$1,408,000	\$1,694,000
Cotton, raw	1,533,000	287,000	246,000
Industrial machinery	851,000	684,000	526,000
Copper	430,000	234,000	738,000
Ferro-alloys	136,000	51,000	331,000
Pig iron	110,000	Nil	25,000

The following items show sharp decreases in our exports to Japan during the first two weeks of January 1938, compared with the first two weeks of December 1937:

	First two weeks of		
	January 1938	December 1937	November 1937
Iron & steel semi-mfrs.	\$372,000	\$ 631,000	\$512,000
Paper base stocks	392,000	1,314,000	260,000
Vehicles, parts & access.	230,000	480,000	481,000
Scrap iron and steel	45,000	411,000	44,000
Coal-tar products	26,000	99,000	81,000
Hides and skins, raw	12,000	42,000	311,000
Scrap brass and brass	Nil	304,000	8,000
Tobacco and manufactures	Nil	257,000	Nil
Fertilizer and fertilizer materials	Nil	134,000	118,000
Wood, unmanufactured	Nil	100,000	40,000
Pig lead	Nil	75,000	41,000

(4) The imports of raw silk were approximately \$1,000,000 more in the first two weeks of January 1938 than in the first two weeks of December 1937, but imports other than raw silk continued to decline.

Imports during first two weeks of

	Raw silk	Total imports other than raw silk	Total
January 1938	\$3,780,000	\$2,439,000	\$6,219,000
December 1937	2,937,000	2,629,000	5,566,000
November 1937	3,916,000	2,983,000	6,899,000
October 1937	4,128,000	3,184,000	7,312,000

Secretary Morgenthau - 3

(5) Of the total of \$6,484,000 of exports to Japan during the first two weeks of January 1938, the following items account for almost all:

Petroleum products	\$1,958,000
Cotton, raw	1,533,000
Industrial machinery	851,000
Copper	430,000
Paper base stocks	392,000
Iron and steel semi-manufactures	372,000
Vehicles, parts & accessories	230,000
Ferro-alloys	136,000
Chemicals and related products	125,000
All other	<u>457,000</u>
Total	\$6,484,000

(6) Of the total \$6,219,000 of our imports from Japan during the first two weeks of January 1938, the following items account for almost all:

Raw silk	\$3,780,000
Cotton manufactures	307,000
Pyrethrum flowers	170,000
Silk manufactures	138,000
Dead or creosote oil	114,000
Vegetable foods, except tea	112,000
Fish and fish products	108,000
Tea	107,000
China and porcelain ware	106,000
Perilla oil	101,000
Flax, hemp and ramie	76,000
Fish scrap and fish meal	74,000
Metals and manufactures	74,000
All other	<u>952,000</u>
Total	\$6,219,000

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United States trade with China during the first two weeks of January 1938.

(1) United States exports to China and Manchuria during the first two weeks of January were slightly higher than during the first two weeks of December 1937, and about double the first two weeks of November 1937.

United States exports to

<u>First two weeks of:</u>	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
January 1938	\$1,119,000	\$2,114,000	\$3,233,000
December 1937	1,323,000	1,808,000	3,131,000
November 1937	854,000	770,000	1,624,000
Whole month of January 1937			\$6,623,000

(2) United States imports from China and Manchuria during the first two weeks of January 1938 were slightly lower than during the first two weeks of December 1937.

United States imports from

<u>First two weeks of:</u>	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
January 1938	\$629,000	\$1,559,000	\$2,188,000
December 1937	541,000	1,905,000	2,446,000
November 1937	797,000	1,498,000	2,295,000
Whole month of January 1937			\$6,882,000

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(3) Leading export items to China:

(a) To North China and Manchuria:

	First two weeks of January 1938	December 1937
Iron & steel semi-manufactures	\$654,000	\$629,000
Petroleum products	122,000	173,000
Vehicles, parts and accessories	106,000	424,000
Industrial machinery	83,000	11,000
Raw cotton	72,000	Nil
Copper	54,000	Nil
All other	<u>28,000</u>	<u>86,000</u>
Total	\$1,119,000	\$1,323,000

(b) To Shanghai, South China ports and Hong Kong:

	First two weeks of January 1938	December 1937
Vehicles, parts & accessories	\$756,000	\$458,000
Firearms and ammunition	420,000	97,000
Dynamite and T.N.T.	150,000	Nil
Inedible vegetable products	135,000	229,000
Petroleum products	130,000	237,000
Edible vegetable products	108,000	144,000
Metals and manufactures	91,000	309,000
Industrial machinery	79,000	36,000
All other	<u>245,000</u>	<u>298,000</u>
Total	\$2,114,000	\$1,808,000

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(4) Leading import items from China during the first two weeks of January 1938:

(a) From North China and Manchuria:

	First two weeks of	
	<u>January 1938</u>	<u>December 1937</u>
Bristles	\$176,000	\$207,000
Textile fibers & manufactures	139,000	181,000
Non-metallic minerals & products	83,000	6,000
Chemicals and related products	48,000	N11
Metals and manufactures	46,000	16,000
Perilla oil	41,000	57,000
Other	<u>96,000</u>	<u>74,000</u>
Total	\$629,000	\$541,000

(b) From Shanghai, South China and Hong Kong:

	First two weeks of	
	<u>January 1938</u>	<u>December 1937</u>
Tung (wood) oil	\$429,000	\$330,000
Flax, hemp and ramie manufactures	270,000	285,000
Tungsten ore & concentrates	192,000	N11
Edible vegetable products	122,000	123,000
Bristles	110,000	195,000
Cotton manufactures	58,000	53,000
Edible animal products	48,000	83,000
Other	<u>330,000</u>	<u>836,000</u>
Total	\$1,559,000	\$1,905,000

EG

GRAY

London

Dated January 22, 1938

Rec'd 10:17 a.m.

Secretary of State,
Washington.

52, January 22, noon.

FOR TREASURY FROM BUTTERWORTH

The franc opened at 151 and was bid down to 150 at which point the control intervened and pushed the rate back to 150½. The volume of trading was small and London foreign exchange dealers take the view that the newly formed French Government's real vote of confidence has not yet taken place.

In this connection and with reference to the last paragraph of my 42, January 19, 6 p.m., the following excerpt from an article in today's TIMES may be of interest:

"At its first appearance before the Chamber today the new Chautemps Ministry received the confidence of the House by 501 votes to 1, only the Extreme Right abstaining. Judged merely by size alone such a majority would in any circumstances have been remarkable. But when it is remembered that only a few days ago M. Chautemps forced his own downfall, shook the Front Populaire to its foundations

-2- #52, January 22, noon, from London

foundations, infuriated the Communists and indirectly provoked the departure of the Socialist Ministers, the sight of all these heterogenous elements combined in apparent unity verges on the fantastic.

Yet the solution is simple enough. M. Chautemps today made it clear from the very beginning that he intended to rely on a Front Populaire majority and on that alone. To this end both the Governmental declaration and the speech by Prime Minister which closed the debate were phrased and framed in a manner likely to appeal to the Socialists and Radicals while arousing sufficient disapproval from the Centre and the Right parties to secure their abstention. The Communists, it was assumed earlier in the day, would abstain. Only Monsieur Chautemps himself could know for certain what was in his mind. Others, however, were at least free to guess. And their guess was that he felt the approval of the Centre to be hardly the best method of securing continued Socialist support. At the same time abstention by the Communists would keep him still free of the taint of which, at Monsieur Bonnet's insistence, he rid himself a week ago.

The maneuver was well conceived, beautifully carried out -- and it failed. It failed because both the Communists and the Centre perceived it and perceiving

took

-3- #52, January 22, noon, from London

took a SWEET REVENGE by voting for him. So by a curious paradox every vote additional to those upon which Monsieur Chautemps counted was a sign of weakness not of strength, a crack in the masonry not a buttress. This does not necessarily mean his immediate downfall. But sooner or later there will come a time when he will be glad of the votes of one or the other flank -- and they will be wanting."

JOHNSON

RR:HPD

RECEIVED
JAN 23 1933
TREASURY DEPARTMENT
U. S. DEPARTMENT OF THE TREASURY



DEPARTMENT OF STATE
WASHINGTON

January 22, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 114 of January 21 from Paris.

RECEIVED
JAN 22 1938
TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

JR

GRAY

Paris

Dated January 21, 1938

Rec'd 3:30 p.m.

Secretary of State,
Washington.

114, January 21, 6 p.m.

The ministerial declaration of the new government, which we have just heard read in the Chamber by Chautemps, contains no surprises. It states that the essential characteristic of this Government will be its fidelity to the line of action of its predecessors; the social reforms obtained by the workers will not be diminished but on the contrary will be protected by adapting them to the life of the nation; all attempts to provoke disorder from whatever quarter they arise, will be vigorously dealt with; there will be a balanced budget and the franc will be defended on a basis of monetary freedom and within the framework of the tripartite accord (there was no applause from the Socialists on this); the new code to regulate relations between capital and labor will be submitted to parliament early next week; one of the outstanding tasks of the Government will be to put into effect the recommendations of the Committee of Inquiry into production in order to combat

-2- #114, January 21, 6 p.m., from Paris.

combat rising prices and the deficit in the trade balance through an increase in production; fidelity to the League of Nations and to France's traditional friendships and alliances, with the will to develop normal relations with all countries.

The debate is continuing in the Chamber and it is evident that, short of some unexpected incident, the Government is sure to receive a substantial vote of confidence. It is not yet clear whether the Communists will vote for the Government or abstain.

BULLITT

WVC:HTM

LMS

GRAY

Paris

Dated January 24, 1938

Rec'd 3:15 p. m.

Secretary of State,
Washington.

126, January 24, 4 p. m.

FROM COCHRAN.

Lifting this morning by Bank of France of last week's ban upon speculative transactions did not suffice to prevent an unsatisfactory exchange market today. Control gave sterling in endeavor to improve opening rate of $150\frac{1}{2}$ but could not keep it below 150 to $\frac{150}{\lambda}$ and a quarter. Has been working through several banks and apparently lost a fair amount. Renten down. Part of market unhappiness came from a typical week-end speech by labor leader Jouhaux, favoring control and nationalization of credit, and from threat of Socialist Federation of the Seine to swing away from Blum and the more conservative Socialist leaders toward the Communists.

Press reports Swiss Attorney General plans prosecution of Swiss journals recently alleging official decisions toward new devaluation of the Swiss franc.

Following is summary of AMSTERDAM TELEGRAAF account
of

LMS 2-No. 126, January 24, 4 p. m., from Paris.

of interview with Bachmann on result of recent Swiss measures against inflow of foreign capital.

"Only a part of the undesired refugee capital had left Switzerland since the conclusion of the gentlemen's agreement, another portion had accepted the new regulations, while the remainder had sought investment in securities. (END SECTION ONE)

BULLITT

HPD

LMS

GRAY

Paris

Dated January 24, 1938

Rec'd 3:10 p. m.

Secretary of State,
Washington.

126, January 24, 4 p. m. (SECTION TWO)

Professor Bachmann did not think that export of capital was the best means of offsetting the excessive inflow since, if effected on too large a scale, it would bring with it a danger of great illiquidity. He gave it to be understood that further measures must be preceded by an understanding with the other central banks which have similar measures in view. After pointing to the impossibility of collecting precise data as to the volume of refugee capital in Switzerland, Professor Bachmann said that to interpret the gold and foreign exchange position of the Swiss National Bank as giving a true picture of the capital movements into and out of Switzerland was erroneous, since the bank had to keep a certain stock of foreign exchange, particularly dollars, to ensure exchange of payments with foreign countries and Switzerland had since the institution of the measures against hot money, resumed lending abroad. As however, flight capital could in present circumstances

hardly

LMS 2-No. 126, January 24, 4 p. m., Sec. 2, from Paris.

hardly be induced to subscribe to foreign loans, in granting credits Switzerland must keep within the limits of her own capital resources".

According to the press, certificates of 16 American bonds, including 11 railway bonds, will be introduced on the Amsterdam Bourse January 27. (END MESSAGE)

BULLITT

CSB

RECEIVED

JAN 25 1918

RECEIVED
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

263

PARAPHRASE OF SECTION ONE, TELEGRAM NO. 122 of
January 24, 1938, 11 a.m., AMERICAN EMBASSY, PARIS.
FROM COCHRAN.

The following situation confronts the new Chautemps
Government;

1. During the recent political crisis the French
stabilization fund exhausted its gold and foreign exchange.
Afterwards it recovered enough foreign exchange to repay
the gold taken from the Bank of France during the crisis
without having to declare this in the last official statement
of the Bank. Therefore there was but a small amount of
foreign exchange recovered and the latter part of last week
the trend became adverse. Today the total gold and foreign
exchange holdings are much less than one billion francs,
it is certain. In French currency the fund still has some
twelve billion francs.

2. As yet definite information is not available as
to whether the Dutch banking syndicate will give France the
37,500,000 florins needed to complete the originally
envisaged total of 150,000,000 florins; by January 15 the
amount of 112,500,000 had been given to France. The stabil-
ization fund would get the foreign exchange if the 37,500,000
florins were received.

END SECTION ONE.

BULLITT.

EA:LWW

SECTION TWO. No. 122 of January 24 from Paris.

It seems doubtful whether the present French Government could get any new credits on either the Swiss or the Dutch market, in view of the skepticism which Bachmann and other Swiss bankers disclosed regarding France when I was in Basel on January 10, and in view of the fact that the Dutch bankers experienced difficulty in spreading the Mendelssohn credit above mentioned - furthermore, the Netherlands is now carrying out a very large conversion operation. Recently I have heard of no developments with respect to London banks granting a French credit. In previous reports I have indicated my impression that British officials do not look with enthusiasm upon an operation of this nature.

3. The Bank of France held 59 billion francs gold as of January 13. It is possible of course for the stabilization fund to draw gold from the Bank of France and pay for it in francs. However, since, during the crisis, it was not permitted that gold lost from the bank to the fund alone [foregoing garbled] it would presumably be politically embarrassing for the Chautemps Government now to draw upon the Bank to replenish the fund since it would be an admission that since the solving of the political crisis there has been no significant return of capital to France.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS THREE TO SIX, INCLUSIVE,
TELEGRAM NO. 123 OF JANUARY 24, 1938, FROM PARIS

This morning the Bank of France informed Paris banks of complete freedom in exchange trading. Last week, it will be recalled, bona fide commercial firms were the only ones granted exchange. It remains to be seen what the effect of today's move will be.

4. The Bank of France's gold holdings are valued on the basis of 43 milligrams to the franc, and the actual franc value is approximately 33 $\frac{1}{3}$ milligrams, at the present exchange rate. Therefore there is opportunity for a revaluation which would yield a profit of about 17 billion francs, on the basis of the holdings above indicated. New legislation would be needed in order to make available to the stabilization fund all or part of such gold profit.

5. It is still possible for the Treasury to draw on the Bank of France for francs in the amount of five billion, one hundred and eighty million. As of January 13 the Treasury had a cash balance of 720,000,000 francs with the Bank of France. That the Government needs funds urgently was shown by the call on January 11 for a loan to be floated in the name of the Government of Algeria for 600 million francs at 6 percent, issued at 89 $\frac{1}{2}$; as yet there has been no notice of the closing of this loan.

At the first of the month Treasury officials anticipated that

- 2 -

that during January there would be issued at least one other loan by a public body, the proceeds to go to the benefit of the French Treasury. The outlook for such a loan is not particularly promising because of the political crisis and the still uncertain situation. It might be possible to evolve some scheme for getting new gold assets for the stabilization fund and taking the approximately 13 billion francs which it contains and crediting it to the Government. New legislation would, however, be required for this also.

6. Ordinary Treasury bills up to a maximum of twenty billion francs outstanding for the current calendar year could be issued by the Government. At the end of December approximately six billion six hundred million was the total in circulation. A margin of thirteen billion four hundred million thus remains. During the past two years, however, experience has been that it is practically impossible to bring this figure above ten billion, one half of the approved total, because French investors are reluctant to subscribe to such operation. The Government could also voluntarily convert its floating debt. But such a move at present would hardly be possible, as indicated by the interest rates on Algerian loan and quotations of Government rentes.

The

- 3 -

The total of the national debt is about 500 billion francs, not counting inter-allied debts, and including twin guaranteed obligations such as those of the railways and public bodies. Up to the present no responsible French political leader or party has come forward with the courage to work directly for a forced conversion of any part of this debt which is so expensive. For the current year, outside of revenues approximately 35 billion francs must be raised.

7. For the year 1937 the deficit trade balance was more than 18 billion francs. There is an increase in unemployment in spite of armament activities and in spite of the fact that firms have had to increase their employees because of the social laws. The French railways, for example, during the past year added 90,000 men. As yet prices have not leveled off and there is a continued rise in the cost of living.

8. The Chautemps Government, in its declaration to the Chamber, declared its fidelity to monetary freedom without exchange control. It indicated that it would work toward a code of social peace which incidentally would preserve the well-earned rights of labor. It remains to be seen whether the Government can indefinitely preserve monetary liberty.

It

- 4 -

It is the opinion of certain British writers that the proper thing for the French to do would be immediately to depreciate the (omission) to around 175 to the pound. They would thus give a spurt to foreign trade and the State would have a more easily bearable rate. In the opinion of conservative French observers, simply depreciating the franc would not be successful unless they clear up certain factors by ^{some means} other than manipulating the franc. To maintain a stable currency is hardly possible until there is a rise in industrial production which would help improve the trade balance, until there is a leveling off of the cost of living and prices, and until bold steps to convert the public debt have been taken. Of course in order to succeed along these lines it will be necessary to have serious application of labor, social peace, confidence in the Government and return of capital which went abroad. A close watch is being kept by capitalists to see what success the present Government may have along these lines. The hope is expressed by some of the more liberal capitalists that the Government may make some progress in the economic field, just as progress in the financial field was made by Bonnet. On Tuesday the labor question comes before the Chamber, which will be the first approach to France's unsolved problems.

END MESSAGE.

BULLITT.

EA:LWW

COPY

January 24, 1938.

Secretary Morgenthau

Mr. Haas

Subject: The Business Situation.

Summary.

While business activity during January has so far shown but a slow improvement from the low levels reached at the end of December, a rising trend of retail sales is an encouraging factor in the business outlook. Indications so far give no evidence that the FRB index of industrial production for January will differ from the December index of 84 (revised).

The Current Situation.

The New York Times business index for the week ending January 15 stands at 82.0, as compared with the low point of 78.3 reached two weeks before, and with a level close to 85 held for five weeks previously. The entire year-end decline has not yet been regained, despite a strong recovery in steel operations and cotton mill activity, largely because of continued low levels of automobile production, carloadings, and lumber production, on a seasonally-adjusted basis.

Retail Sales.

The movement of goods into consumption, as indicated by the trend of retail sales, has made a more favorable showing this month than it did during December, and continues to be one of the most encouraging features of the business situation.

While department store sales during December, in dollar values, were 2 per cent lower than in the previous year, the sales for the first half of January were about 1 per cent higher than in the corresponding period of last year. In terms of physical volume, the December sales are believed to have been about equal to those in the previous year, since prices were slightly lower. Further price declines during January have still further improved the comparison in terms of physical volume, making the sales for the first two weeks probably about 4 per cent higher than last year.

Variety store sales, in dollar volumes seasonally-adjusted, recovered strongly during December to a level appreciably higher than in the previous year. The December index of 110.5 compares with 101.0 in November and with 106.0 in December 1936.

Rural retail sales, in dollar volumes seasonally-adjusted, also turned upward noticeably during December, though remaining slightly below the previous year's volume. The December index of 127.5 compares with 118.5 in November and with 131.0 in December 1936.

The continued heavy movement of goods into consumption arises from the fact that the national income, as estimated monthly by the Department of Agriculture, has shown a relatively small decline despite the sharp setback in industrial activity. In this respect the business recession differs markedly from that in the fall of 1929, when national income fell off coincident with the decline in business activity, and compares more nearly with the situation in the summer of 1924, when a sharp setback in industrial production was accompanied by no more than a slight decline in national income.

Reports of marked reductions in inventories of retailers and wholesalers, with actual shortages in some lines, as a result of the continued heavy movement of goods into consumption, suggest that a buying movement in consumers' goods is likely to occur during the spring. Buyers in the textile market have anticipated such a development by unseasonal purchasing in heavy volume during December and January. Noticeable improvement is also under way in the shoe industry and in the woolen and worsted industry, which has already been reflected in employment and payrolls during December. The same influences which are affecting retail sales, and consumer goods buying in general, should tend to maintain the level of automobile buying during the spring.

The steel situation.

Steel production during the current week has increased to 29.8 per cent of capacity, representing the third successive increase since the last week of December, when a low of 19.2 per cent was reached. This week's increase raises the steel production rate to the equivalent level of new orders, according to our estimates. An average of 28 per cent of capacity during January will be required to maintain the FRB adjusted steel production index at the December level.

The demand for steel products so far during January has proved disappointing, in that no real improvement in demand has occurred since the holidays. The rise in production during the past several weeks is attributed partly to the

- 3 -

filling of previous orders dated for shipment after January 1. Our confidential reports from the U. S. Steel Corporation show no indication of an improving demand so far, although new orders are being maintained at about the same rate as during December.

A better sentiment in the steel industry has resulted from the release of orders by the Buick Motor Company for a substantial tonnage of steel, sufficient to take care of manufacturing needs through the first quarter. Heretofore all automobile companies had been buying only for immediate needs, generally on a week-to-week basis. It is felt in the trade that the steel industry for the time being will be closely geared to orders from the auto manufacturers, since little is expected from the construction industry or from the railroads during the next few months. Reports of a slight clearing in the used car situation since the first of the month has contributed to a better feeling in the automobile industry.

The textile situation.

Heavy sales of textiles have continued through the past week, with new orders for cotton yarn during the week reported as the largest in six months. The high level of retail sales has contributed to the larger volume of textile buying, and brought a more optimistic feeling throughout the industry. Domestic cotton consumption during December, while declining by slightly more than the usual seasonal amount, was higher than expected in the trade. The increased sales of cotton goods will probably not be reflected immediately in mill activity, since mills are still selling from inventories. The report of the New York Cotton Exchange this week, however, mentions for the first time that mills whose stocks have been appreciably reduced are increasing operations. The report summarizes the situation by saying that "although unsold stocks at mills are understood to be now relatively light, and unfilled orders have increased, it is yet doubtful that orders are greater than stocks, and manufacturers want more forward business before they can be certain of a healthy position for expansion of output."

Cotton exports have picked up again, and are now about 407,000 bales ahead of last season, with the first half of the season not yet completed. An important factor in the increased export demand, despite Japan's decreased takings, is the low level of prices for American cotton. Our cotton is not only low in absolute prices, but is probably at a record low in relation to prices for foreign cottons.

Commodity Prices.

Prices of sensitive commodities have sagged somewhat from the highs reached about the 10th of January, with copper and hides showing most noticeable weakness. A reduction in copper prices by primary producers, who had for some time been holding their asking prices above the general market level, was an unfavorable market factor. A recent reduction in demand for finished leather is reported to have weakened hide prices. The BLS index of prices for 30 sensitive commodities remains above the December level, while the decline in the Dow-Jones futures index has carried it back to its December level.

The development of drought conditions in the Middle West has recently had some effect on wheat prices. During the last four months of 1937, when moisture is normally stored in the ground to supply winter and spring crops, the amount of precipitation in Iowa was only 56 per cent of normal and in South Dakota 54 per cent. It ranged between 65 and 67 per cent of normal in Kansas, Nebraska, Missouri and Minnesota. A drought might become an unfavorable business factor in the fall of 1938, though its effect in stimulating price rises for agricultural products would be an offsetting factor.

Our studies of production trends in relation to basic demand indicate that the situations in the petroleum and lumber industries are likely to have a retarding effect on business activity over the next several months. The production of crude petroleum, which has a weight of 5.0 per cent in the FRB index, has for some months been running at a level substantially higher than consumption. As a result, the domestic stocks of gasoline on January 15 had increased to a level that could normally be expected at the end of March, when the peak is usually reached. Inventories of other petroleum products have shown corresponding increases. Production curtailment measures recently initiated seem likely to be continued for some time in order to reduce stocks to near normal.

Lumber production, which has a weight of 3.0 in the FRB index, has likewise been running for some months at a higher rate than consumption, according to our estimates. Despite a decline in lumber prices during 1937, which should tend to stimulate demand, residential construction has continued at a level apparently too low to reduce lumber inventories. A declining rather than a rising trend in lumber production seems likely over the next several months unless a substantial improvement in residential construction occurs.

- 5 -

The BLS index of factory employment during December (unadjusted) declined to a level 9.6 points lower than in December of the previous year. The December index of 88.5 represents a severe drop from the index of 94.7 in November. Payrolls were 14.3 points lower than in December 1936. The payroll index of 80.9 in December compares with 89.5 in November, and with 95.2 in December 1936.

The FRB production index for January, according to Dr. Goldenweiser of the Federal Reserve Board, on the basis of data available for the first half of the month, seems likely to be no different from the December index, which has been revised upward to 84.

January 24, 1938

Lunched with the President.

I told him that we had not yet let the letters go out for Mexico and Canada wherein we inform them that we will buy silver for February. I asked him if he had any feelings in regard to our continuing the purchase of silver from Mexico. He said he had none and knew nothing about it, but I should check with the State Department. Told him that up to now our silver purchasing program had been entirely independent of any political conversations that were carried on between our two Governments.

Asked him about O'Connor's leaving. He shrugged his shoulders and I said, 'Do you know the new Deputy Comptroller of Currency?' He said, 'I don't even know his name.' So I said, 'I think we ought to look into him very carefully if he is going to be Acting Comptroller of Currency,' and he said, 'Absolutely.'

I talked to him about bank holding companies and he said, 'I think we will be ready to send a message up on the Hill about February 10th.' I told him that we were not ready yet as we had the Interdepartmental Committee working on it.

I told him that as far as I knew this committee of Prof. Merriam and Ruml was simply studying what was below the earth's surface and were not studying the people on top of the earth's surface. He said, 'That's quite right.' He said, 'I hope after the Reorganization Bill goes through to have directly under me two committees, one studying the earth's surface and one the people on top of it. He said, 'To give you an example, the Army engineers were going to build a bigger canal somewhere in South Carolina and when it came to locating an industry there they had no idea what the district could support.'

I told him in discussing this matter with Prof. Mitchell that he had put it something like this: that we should plan so that for every person who has something to sell, there will be somebody to buy it. I told him that my experience with him for the last 9 years, first in Conservation and afterwards Farm Credit, I felt, suited me admirably to work on this kind of a committee and that I was very anxious to do it as up to now I had not felt that we were doing any long-time planning to find a job for people who wanted to work.

He absolutely agreed with me and was very enthusiastic about my working on such a committee. I said, You can disregard the fact that I am Secretary of the Treasury; I don't have to be chairman of such a committee, but, I said, all of my social service instincts urge me to do that kind of work.

I told him that I doubted whether Miss Roche would come back on the first of March and that I wanted an able manufacturer to come in as Assistant Secretary and take charge of Procurement, Bureau of Engraving and Printing and the Mint. He first asked me whether a man like Lowell Mellett would do. I told him I was very fond of Lowell Mellett, but he would not do. He then suggested Dick Fuller, who, he said, succeeded Herbert Lehman in buying cotton textiles during the War for the Navy. I wasn't very enthusiastic about him.

Then he said, 'How about Cason Callaway. He would be perfectly grand.' The President said, 'You know, his brother runs his business and he has time enough.' He said, 'He is going away for a three weeks' trip on February 6th.' The President said, 'Would you put Public Health under him?' and I said, 'No; no use upsetting Tom Parran.' The President agreed to phone Cason Callaway and ask him whether he wanted to be Assistant Secretary.

The President gave me a long talk on what he has been saying to business men. He feels that his conferences have been distinctly worthwhile. He feels that most of them, as far as their knowledge of Government is concerned, have the intelligence of an eighth grade school boy. He let them understand that if they continue to attack him he is going to attack back and, he said, nothing that the Government has said equals the bitter attacks of business on him.

I found the President in excellent form, full of pep and vigor.

We got on to the Jewish question and he told me that when Dr. Stephen Wise called on him he told him that he might as well give up any idea of the Jews getting Trans-Jordan, and why didn't they think of moving the German Jews to a place like the colony formerly held by the Germans in West Africa or get some new lands in Venezuela or Lower California or Mexico? He said when he suggested the possibility of having the German Jews moved some place other

-3-

than Palestine, Dr. Wise got terribly excited and begged the President not to mention it to anybody else as it would destroy all their possibilities of winning their objectives in Palestine.

The President said to me, 'Do you see anything so terrible in my suggestion?' I said, 'No, I think it is most practical and I think it is the only hope that I know of of establishing the German Jews where they can live and earn a living.' I said, 'You know, my father visited Palestine years ago and made a report that the Jews should not send any more of their people to Palestine as the land could not support them and he was terrifically criticised.' The President said they ought to have at least \$1,000 a family; that certainly the Jews in America and other places could raise enough money and that many Christians would give money for such a purpose.

January 24, 1938

For the Secretary:

You have asked that I give you a memorandum on what I would do about holding company banking.

I have no compelling conviction that action with respect to bank holding companies is essential at this time. Before being too cocksure about my suggestion, I would want to devote more time to the matter. I realize, however, that it would not be very helpful to suggest either that nothing be done, or that a study be instituted.

Assuming then that the decision has been made to "do something" about so-called group banking, (and the more I think of that decision the less I am inclined to disagree with it) the following suggestions are offered looking toward

- (1) Eventual break-up of existing holding company bank systems;
- (2) Prevention of future expansion of holding company banking;
- (3) Closer interim supervision of existing systems;
- (4) Limitation of branch bank expansion within group systems.

I regard the proposed penalty under Recommendation No.1 as essential in avoiding serious difficulties in connection with break-up of existing systems. The idea for this penalty is not my own, but I favor it.

Upm

Recommendation Number 1.

Prohibit any corporation (or similar business organization, but not a Government corporation) from owning or controlling, directly or indirectly, after December 31, 1938, more than ten per cent of the stock of any insured bank.

As a penalty for violation of this prohibition, either (1) deny to the insured bank the right to declare and pay any dividends or (2) deny to the holding company and its shareholders, and to any affiliated corporation any right to receive dividends from the insured banks whose stock is held in excess of the ten per cent. This penalty, while permitting a now-existing holding company to escape the hardships of immediate dissolution, would nevertheless give a strong urge to prompt liquidation. It would be especially strong, I believe, in the case of Transamerica Corporation.

This recommendation and the next go farther than the President has gone in that they would eliminate holding company banking within a State as well as across State lines. I can see no more justification for the Marine Midland type of group than for the Minneapolis type.

As a collateral requirement to Recommendation No. 1, make it compulsory either

- A. For all banks receiving deposits subject to check to become insured banks, or
- B. For all banks, more than ten per cent of the stock of which is owned by a corporation, to become insured banks.

Recommendation Number 2.

Prohibit any future acquisition of the stock of an insured bank by any corporation (including by definition similar types of business organizations; but not including Governmental corporations) which would bring the total of the corporation's holdings, direct or indirect, above ten per cent of the total stock of the insured bank. Make the effective date the date of enactment of the Act.

As a penalty for violation of this prohibition provide severe fines upon the holding company and upon its officers. Perhaps deny ~~the~~ trading privileges on exchanges licensed by the S.E.C.

The collateral requirement to Recommendation No. 1 would apply here also.

It will be seen that this would prevent the expansion of holding company banking within State lines as well as across them. Thus the future development of multiple-unit banking would take the form of branch banking and be limited by State law in any way the State might see fit. There is no reason why a wholly intra-State group should be permitted to exist in a State which does not permit State-wide branch banking. Yet the State might be powerless, in the absence of such a Federal enactment as is suggested, to prevent the formation of a State-wide group. On the other hand, where State-wide branch banking is permitted, there is no need or excuse for holding company banking-- indeed there is every reason for not permitting it; unless the view is held that group banking is preferable to branch banking.

Recommendation Number 3.

Provide for complete examination and supervision of a corporation and all its affiliates (corporations which it controls and which are controlled by it) where the corporation owns ten per cent or more of the stock of an insured bank. Make the effective date the date of enactment of the Act. Provide appropriate penalties for refusal to submit to examination and supervision.

(If the banks are national, examination and supervision can be by the Comptroller of the Currency; if member State banks, by the Federal Reserve; if insured non-member State banks, by the F.D.I.C.--or, since all three classes are insured, examination and supervision might in all cases be by the F.D.I.C.)

Recommendation Number 4.

Prohibit an insured bank, more than ten per cent of the stock of which is owned by a corporation, from opening any new branch. Make the effective date the date of enactment of the Act. Provide appropriate penalties on the bank and its officers.

This would provide a further urge to Transamerica to dissolve. They now have branch systems in California, Oregon, Washington, Nevada, and Arizona. In each of these states it may be possible to continue toward complete State-wide branch systems before dissolution of Transamerica.

Recommendation Number 5.

Prohibit an insured bank from making loans to or secured by the stock of any corporation, or to the officers of any corporation, or to affiliates of any corporation, which owns or controls, directly or indirectly, more than ten per cent of its stock. Make the effective date December 31, 1938. Provide penalties on the bank and its officers.

January 24, 1938.
12:36 p.m.

H.M.Jr: Hello.

Operator: Senator Harrison. Go ahead.

H.M.Jr: Hello.

Senator:

Harrison: Hello Henry.

H.M.Jr: How are you?

H: I'm all right. Got a cold, that's all.

H.M.Jr: Oh, I'm sorry.

H: How are you?

H.M.Jr: I'm fine. I've been away for ten days.

H: Just got back.

H.M.Jr: Just got back.

H: Yes.

H.M.Jr: And what I'm calling up about is Clarence Opper for Board of Tax Appeals.

H: Well, we've been - haven't been able to report it yet because Wagner hasn't been here.

H.M.Jr: I see.

H: He only got here today.

H.M.Jr: Uh-huh.

H: And we're waiting to get his O. K., he's for him.

H.M.Jr: Yes.

H: But he hasn't O. K'd it today, so we'll get it right in.

H.M.Jr: Has Wagner O. K'd it?

H: Well, he will today. He just got back.

H.M.Jr: I see.

H: I instructed my secretary to get his O. K. right off.

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H.M.Jr: Anything I can do?

H: No, everything will be all right, I think.

H.M.Jr: Well -

H: If there is, I'll let you know.

H.M.Jr: Will you do that, Pat?

H: Yes.

H.M.Jr: Thank you.

H: All right, Henry.

H.M.Jr: Goodbye.

January 24, 1938.
3:03 p.m.

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H.M.Jr: Hello

Operator: Mr. Welles.

H.M.Jr: Hello

Welles: Hello, Henry. How are you?

H.M.Jr: Oh, I'm fine.

W: I hope you had a good trip.

H.M.Jr: Very successful.

W: Did you get a rest?

H.M.Jr: Complete.

W: I'm delighted.

H.M.Jr: The boys were - had brains enough not to send out the letter to Mexico and Canada in regard to our purchasing silver for the month of February.

W: Yes.

H.M.Jr: I had lunch with the President. I asked him if he had anything on it, and he shrugged his shoulder and said no, that he knew nothing about it, but he thought it would be wise to talk to you. I told him that up to now we hadn't mixed our silver with international politics.

W: Yes.

H.M.Jr: And he guessed - the part he was concerned - he had nothing in mind, but I should talk with the Department - the State Department which I am now doing.

W: Yes.

H.M.Jr: Now, I wonder how you people feel over there.

W: Well my own feeling is exactly what you've indicated, because I don't think the two things ought to be mixed up unless it's absolutely imperative, and I don't think it is, as yet.

H.M.Jr: Well, I'll tell you what I can do without mixing them. I can hold the letter up to the very last day, see.

W: That's about a week from now, isn't it?

H.M.Jr: Yes.

W: Yes.

H.M.Jr: And, well - I don't know why, it had to go up to New York from the Federal Reserve to the Bank of Mexico.

W: I see.

H.M.Jr: And I'll hold it to the very last day, and if they get nervous and run around to see you, that wouldn't do any harm.

W: That's right.

H.M.Jr: What?

W: That wouldn't do any harm at all.

H.M.Jr: No. Well, I'll hold it up to whatever the last day is.

W: All right.

H.M.Jr: I think the end of the week.

W: All right, I don't think that'll do any harm.

H.M.Jr: Now, of course Suarez warned us that he might have to do something like this, didn't he.

W: Yes, he did, and every effort was made to dissuade him, but I think what happened was that it was done while he was away.

H.M.Jr: I see.

W: And he went back to find

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

W: Entirely unsatisfactory, couldn't be -

H.M.Jr: No.

- 3 -

W: More so.

H.M.Jr: No.

W: I understand the difficulties just as you do, and I can only hope that they can come through.

H.M.Jr: Well, some time this week I want to talk to you, because the last time I saw the Mexican Ambassador, he said, "Now, when are we going after the big things." I suppose he meant, you know, the suggestions that we helped him.

W: Yes.

H.M.Jr: But there's no use even talking to him until I talk to you, and are you ready to talk?

W: Well, I was going over that very problem this morning with some of our people, and we are practically ready, and I said to find out when your people will be ready, do you know?

H.M.Jr: No, but -

W: Well, they're in touch with some of your people over there, and they're going to report back to me what they say.

H.M.Jr: I see.

W: Well, I think the understanding is about the end of this month, wasn't it?

H.M.Jr: Yes.

W: Yes.

H.M.Jr: Well, I'm - I'm ready any time.

W: Well, fine. Let me then have a chance to come over and talk to you about it, just as soon as those recommendations are formulated.

H.M.Jr: Will you give me a ring when you're ready.

W: I will indeed.

H.M.Jr: Thank you.

W: Thank you. Delighted you're back.

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H.M.Jr: I'm glad to be back.

W: Goodbye.

January 25, 1938.
9:59 a.m.

Gochran: All right, thank you. Hope you had a nice holiday.

H.M.Jr: Very good.

C: Good. Fine.

H.M.Jr: Now, what are you doing with the franc?

C: It's pretty wild today.

H.M.Jr: Yes.

C: It opened very nervous this morning and then got rather steadily worse.

H.M.Jr: Yes.

C: The control came in and has given considerable amount of sterling, not big deals but scattered all around through a lot of banks, but it's improved a little bit the last half hour.

H.M.Jr: Uh-huh.

C: Came down from one fifty three seventy to one fifty two eighty to the pound.

H.M.Jr: Now I tell you what I'd like, and I wish you would discuss it with the Ambassador.

C: Hello.

H.M.Jr: I wish you would discuss this with the Ambassador. Hello.

C: I didn't hear you now.

H.M.Jr: I want you to talk over with the Ambassador what I'm going to ask you now.

C: All right.

H.M.Jr: I'd like to get from the new Minister of Finance, a declaration of policy.

C: Yes.

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H.M.Jr: In regard to the - his - the French Government's attitude toward the tripartite agreement.

C: Yes.

H.M.Jr: Now I haven't had any declaration from him. Hello.

C: Yes.

H.M.Jr: And I'd like to get one from the new Minister of Finance.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: I'd like to get it today.

C: Hello.

H.M.Jr: I want to get it within twenty four hours.

C: You want it within twenty four hours.

H.M.Jr: I want a declaration from the New Minister of Finance, what is his attitude and the attitude of the new Government toward the tripartite agreement.

C: Of course Chautemps gave that in his address to the Chamber.

H.M.Jr: I know.

C: But Marchandean has not yet.

H.M.Jr: No, I want it from the Minister of Finance.

C: Right.

H.M.Jr: And I want to know what - between what limits he's going to try and hold the franc.

C: Between what limits he'll try to hold the franc.

H.M.Jr: Yes. I don't - I don't want any of these general declarations. I want to know between what limits he's going to hold the franc.

C: I see.

H.M.Jr: See? And I want it within twenty four hours.

C: All right, sir.

H.M.Jr: Now the other thing.

C: Private, of course, sir.

H.M.Jr: What?

C: You don't want him to make any general public declaration, you want it just for yourself.

H.M.Jr: I want it for the Secretary of the Treasury of the United States.

C: Right.

H.M.Jr: Now - Hello.

C: Yes.

H.M.Jr: When is the next payment from Holland due to France?

C: There's no payment agreed upon as near as I could tell yesterday.

H.M.Jr: Yes.

C: The payments on the 15th of January -

H.M.Jr: Yes.

C: Are twelve and a half million francs.

H.M.Jr: Twelve and a half million francs.

C: That was twelve and a half million florins.

H.M.Jr: Yes.

C: That was the 15th of January.

H.M.Jr: Yes.

C: And when I asked my friend yesterday if any more was to be paid across, he said they are still talking about it.

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H.M.Jr: Well, I'll get authorization for you to go to Holland, and I want you to go over there and find out if they are going to go through with that or not.

C: I only hear an occasional word.

H.M.Jr: I will get you - I will get you an authorization to go to Holland - hello, hello.

C: Hello, I hear you now.

H.M.Jr: I will get you an authorization to go to Holland.

C: Yes.

H.M.Jr: To find out what they are going to do about the balance of their French loan.

C: I think I can get it by telephone if you want me to try it.

H.M.Jr: Well, I'll get you the authorization and if you don't need it, that's all right. Hello.

C: Hello.

H.M.Jr: But I want to know what Holland is going to do.

C: Well, do you - I can try it by telephone this afternoon, and I think I can get it that way.

H.M.Jr: All right, but in order to save time I will ask the Department to give you the permission to go to Holland.

C: So, if I do not get it by phone, then I will go up by train.

H.M.Jr: That's right.

C: Right.

H.M.Jr: But I want you to see the new Minister of Finance, and tell them - and I want to know what is he going to do about the franc.

C: All right.

H.M.Jr: And I'd like you if possible to see him today.

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C: Yes. You want Bill to see him or me to see him?

H.M.Jr: I want you to see him, but I want Bill to know about it.

C: And for me to see him.

H.M.Jr: Yes.

C: Right.

H.M.Jr: And I'll get - get off a confirming telegram on this, on both things.

C: Good.

H.M.Jr: See.

C: And I'll - I'll try to get the word from Amsterdam this afternoon.

H.M.Jr: Yes.

C: And I'll try to see the Minister after talking to the Ambassador.

H.M.Jr: That's right.

C: And if I don't get their dispatches on the Dutch then I'd be ready to go up when the word comes.

H.M.Jr: That's right.

C: After I settled up with the Minister here.

H.M.Jr: O. K.

C: Fine.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Thank you.

C: Goodbye.

January 25, 1938.
12:39 p.m.

H.M.Jr: Hello Butterworth.

Butterworth: Speaking. How are you sir?

H.M.Jr: All right. Butterworth, as you most likely know the French franc is behaving very badly today.

B: Yes I do.

H.M.Jr: And I've asked Cochran to see to new Minister of Finance.

B:

H.M.Jr: And ask him if he won't give me a declaration of policy.

B: Uh-huh.

H.M.Jr: And when I asked for that - tell him I don't mean just generalization, I'd like to know at between what points he expects to keep the franc.

B: Yes.

H.M.Jr: Hello.

B: Yes.

H.M.Jr: And I thought you might pass that along to the British Treasury.

B: I will indeed, sir.

H.M.Jr: And I wondered if they might not want to ask for a similar declaration.

B: Uh-huh.

H.M.Jr: You see.

B: Yes.

H.M.Jr: I don't mean for public purposes but just where we know where we stand.

B: Yes.

H.M.Jr: Because the franc is now worth, in our money, three twenty three and a half.

B: I know.

H.M.Jr: And I'd like to know where they are going to let it go.

B: Quite.

H.M.Jr: So - and I told Cochran. I'm very insistent that I do want to know about that.

B: Quite.

H.M.Jr: And the other thing that I'm trying to find out is whether the Dutch are going to go through with the balance of their loan to France.

B: Uh-huh.

H.M.Jr: And I have - unable to find out anything about that.

B: Yes, sir.

H.M.Jr: And I wondered if the British Treasury knew anything about that.

B: All right, sir.

H.M.Jr: But I told Cochran to make every effort to get through today, of course I know - what - what time is it over there now, seven?

B: No sir, it's about ten minutes to six.

H.M.Jr: Six. Well, it's pretty late tonight. But you'd better see them the first thing in the morning.

B: Right, sir. I'll see them tonight if they're there.

H.M.Jr: Well, maybe you can see them tonight. If you get anything, call me back.

B: Yes, sir, I will, and I can give you what the market feels about the franc over here.

H.M.Jr: Go ahead.

B: And as you said the franc dropped today to almost one five four to the pound.

H.M.Jr: Yes.

B: And it would have gone further.

H.M.Jr: Yes.

B: But there was a scare on the part of the exchange dealers.

H.M.Jr: Uh-huh.

B: Of a squeez.

H.M.Jr: Yes.

B: They didn't know at what point the control might come in and push it back.

H.M.Jr: Yes.

B: But the control is not operative very much here today.

H.M.Jr: I see.

B: And the general feeling is with the market with the stabilization - the French stabilization fund.

H.M.Jr: Yes.

B: Hasn't got very much foreign exchange of gold.

H.M.Jr: Yes.

B: And that they are going to let the rates fly.

H.M.Jr: I see.

B: And there is a general sense of demoralization.

H.M.Jr: Yes.

B: Although the parliament trading has not been large.

H.M.Jr: Uh-huh. Well, if you get anything tonight, you call me, will you?

- 4 -

B: My impression is that the people here, that is the official people here, feel that the French are headed for depression and really don't know what their policy is.

H.M.Jr: Uh-huh.

B: Or is going to be.

H.M.Jr: I see. All right.

B: But I shall talk with them.

H.M.Jr: Yes, and if you get anything, call me.

B: I will, sir. Thank you very much.

H.M.Jr: Goodbye.

B: Goodbye.

OFFICE CORRESPONDENCE

DATE January 25, 1939.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at noontime and asked whether, apart from the general unfavorable situation, there were special reasons for today's weakness of the franc. He thought there were and enumerated them, (1) the French exchange fund is "busted", (2) Chautemps was having a very poor time with his labor charter bill, that is the bill which is trying to bring employers and employees into some sort of arrangement and provides for arbitration rather than strikes, (3) it was believed that the socialist party had split and that the extreme left of that party had thrown Blum over. While francs were at 154 1/2 at the moment, the market talked freely about 170 rate (that is 2.90 cents to the franc).

The weakness of the franc, he thought, had brought about quite an attack on the belga but, apart from this sympathetic effect, he thought the weakness of the latter currency was also due to the political situation which was not as good as it appeared on the surface and partly also to the fact that trade restrictions were beginning to affect the situation. Whether the weakness of the belga would develop further was a question that was being asked in the various markets just now.

Static interruptions made continuation of the conversation impossible. When I called Bolton again, about one-half an hour later, he said he had spoken to Belgium and Paris in the meantime.

Belgium, they had told him, on the telephone, had lost about \$250,000 worth of gold to London and Switzerland. This was the first

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 25, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

- 2 -

tine this had happened since the franc had turned weak in December. I suppose it is a sign of the market's interpretation of what is going to happen to the franc.* It was doubtful whether the belga would be able to remain at the present level with the franc permanently weak although weakness of the belga would not necessarily follow by any means as the situation in Belgium was quite different from that in France. After all, they did have in Belgium a fairly solid economic position. Cariguel had seemed very worried. Bolton did not think the French intended really to peg the rate at any level, which, he thought, was a wise thing for them to do. I asked whether continued weakness of the franc would affect the Tripartite Agreement in any way. He answered, "As far as we are concerned, it won't. We have talked this situation over inside-out. It seems preferable to me to put up with the disadvantages of a fluctuating franc for the time being rather than that France should establish exchange control." He emphasized that this was his own personal opinion.

I inquired how the dollar was behaving and he replied that it was beginning to become a little stronger. The distrust under which it had been recently did not seem quite so evident now. Bolton was much interested in our situation and inquired whether things were improving with us. I talked to him at some length, spoke about commodity prices, the latest figures for steel production, etc. He seemed primarily interested in our capital market and anxious to know whether there were indications of its emerging from what to them, at a distance of 3,000

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 25, 1938,

~~CONFIDENTIAL FILES~~

SUBJECT: TELEPHONE CONVERSATION WITH

BY L. W. Knoke

BANK OF ENGLAND.

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files, seemed to be a completely frozen condition.

He referred to the Japanese situation by saying that there had been no more evidence recently of Japanese activities in the London market and inquired whether we knew of any more gold shipments. I told him that we did not and mentioned that there seemed to be no immediate need, at least, for further gold shipments, judging by the fact that Japanese balances had gone up a few million dollars according to the latest figures reported to us.


LWK:KMC

RECEIVED
JAN 28 1938
FEDERAL RESERVE BANK
OF NEW YORK

January 25, 1938.
2:38 p.m.

H.M.Jr: Hello.

Knoke: Mr. Secretary.

H.M.Jr: Yes, Knoke.

K: Knoke. I called London about noon time.

H.M.Jr: Yes.

K: And there are a few things which I thought you might be interested in knowing.

H.M.Jr: I do.

K: First of all he ascribes the weakness, today's weakness, of the franc in addition to the general situation, to the following three reasons.

H.M.Jr: Yes.

K: Firstly, the French fund is better as he put it.

H.M.Jr: Yes.

K: Secondly Chautemps is expected to have a very poor time with his labor charter bill.

H.M.Jr: Yes.

K: That is the bill which tries to bring employers and employees to some sort of an arrangement to arbitrate and not to strike.

H.M.Jr: Yes.

K: The third is that the Socialist party has split, and the Radical wing has thrown over whole head - has thrown Blum over.

H.M.Jr: Yes.

K: Consequently there is a likelihood - there's nobody knows just how the socialist would vote.

H.M.Jr: Yes.

K: Then he says the London market's off a hundred and seventy against a hundred and fifty four, at the present time.

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- H.M.Jr: Just a minute - (aside) better let him go.
Hello.
- K: Talked of the rate of a hundred and seventy, very
reminiscent of what they talked about some three
or four months ago.
- H.M.Jr: Yes.
- K: Then he spoke of the belga.
- H.M.Jr: Yes.
- K: Said the weakness is partly - partly sympathetic,
partly due to the fact that the political situa-
tion is undesirable, and thirdly that trade re-
strictions are beginning to affect the position
there.
- H.M.Jr: Uh-huh.
- K: Then we were cut off, and brought him back a
little later, he said he had, in the meantime,
spoken to Benjamin in Paris.
- H.M.Jr: Yes.
- K: Benjamin, he said, had just told him they had
lost two hundred and fifty thousand pounds worth
of gold today. In Paris, they are very much
worried, he said. There's probably no intention
to paying the rate at any particular level. I
asked him, "Do you think it'll affect the tri-
partite agreement in any way." He answered, "As
far as we are concerned, it won't. We've talked
about this situation inside out."
- H.M.Jr: Yes.
- K: "It seems preferable to put up with the disad-
vantages of a fluctuating franc, for the time
being, rather than to have to resort to exchange
control." He gave that as his personal opinion.
- H.M.Jr: Yes.
- K: The dollar, he said, is beginning to become a
little stronger.
- H.M.Jr: Uh-huh.

- K: They wanted to know about our position. He was very much interested in our capital market, but is evidently beginning - beginning to show a sign of unfreezing.
- H.M.Jr: Yes.
- K: He spoke about the Japanese, there's been no activity financially in - by the Japanese, in the London market.
- H.M.Jr: Yes.
- K: And - but - he asked when a new gold shipment, I told him we didn't know anything.
- H.M.Jr: When we what?
- K: About any new gold shipment on the way.
- H.M.Jr: No.
- K: From Japan.
- H.M.Jr: No, no.
- K: I told him we didn't know of any. But that is briefly what he told me, and -
- H.M.Jr: Who - who were you talking to?
- K: To Bowden.
- H.M.Jr: Right. Now, what I've done, and this is for you and Governor Harrison, only, nobody else, see? Just for the two of you.
- K: Governor Harrison is away.
- H.M.Jr: Well then, it's for you only.
- K: I see.
- H.M.Jr: For you only. I have sent an official message, through Cochran, to the Minister of Finance of France, asking him to tell me what that's policy is going to be, in terms of rates, see?
- K: Yes.

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- H.M.Jr: And I wanted an answer in twenty four hours.
- K: Uh-huh.
- H.M.Jr: And I also sent word to the British Treasury that I've asked the French that question.
- K: Yes.
- H.M.Jr: Now - I did that this morning, now we'll see what will happen. I said I didn't want any speeches, I wanted them to talk to me in terms of rates, and we'll see what happens.
- K: He probably wishes he could tell you.
- H.M.Jr: Well, I'll say this for Bonnet. You know - you know the time Bonnet told us, and he stuck to it, you know. He - when Bonnet was the minister there, he'd tell us he'd keep it between such and such, and he did. You know that.
- K: Yes I remember. Of course I would say today probably the position is - has gotten worse
- H.M.Jr: Well.
- K: And in that reason - in that connection
- H.M.Jr: Right. Well, thanks very much and if you hear anything let me know, and as soon as I hear from them, I'll call you. Did they make a rate today?
- K: Oh, yes.
- H.M.Jr: They did.
- K: But they just lowered it as a matter of fact. Current buy at three twenty eight, close to three twenty nine, and they just sent another cable if the franc should be under strong pressure we should reduce the rate to about three twenty eight.
- H.M.Jr: Three twenty eight.

- 5 -

K: Yes.

H.M.Jr: Well, it was three twenty three wasn't it?

K: Oh well, that was a week ago on Thursday. This morning it was the lowest - three twenty five.

H.M.Jr: Uh-huh.

K: Then it improved a little about three twenty eight. We bought about two million francs of three twenty eight and a half, roughly, and just now the second cable has come in.

H.M.Jr: The rate now - the selling rate is what?

K: Well we are to sell francs at three thirty three, we are to buy them at three twenty eight.

H.M.Jr: Buy at three twenty eight. And what is the rate now?

K: About three twenty eight and a half.

H.M.Jr: I see. All right.

K: All right, sir.

H.M.Jr: It's a nice business.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 25, 1938, 5 p.m.

NO.: 137

CONFIDENTIAL.

This morning the franc opened at 150.30 to the pound. The rate had dropped to 153.70 by three o'clock. I feel my comments on this subject are unnecessary since the information which you have received in the telegrams from Cochran is so full and accurate. It occurs to me, however, that perhaps you may be interested in a few generalizations.

At the present time France is trying simultaneously to pay for the last war and to prepare for another one. France's burdens from interest on the public debt, pensions and armament expenditures are greater than can be carried by any taxation system that can be devised on the basis of France's national income at present.

It is possible that if a national government were formed in a moment of great emergency the government could decree a forced conversion of the public debt so that there would be a great reduction in interest charges. Expenditures for pensions might possibly be reduced also. However, the country will have to keep up expenditure for land armament. Large additional expenditures this year for the air force and the navy will also be required. Thus if any savings were made
through

- 2 -

through reduction of pensions and reduction of the interest rate on the public debt, they would probably be absorbed by increased expenditures on the navy and the air force.

It appears therefore that the only escape from the financial impasse would lie in the chance that it might be possible in the next few months to work out ^{by direct negotiations} some agreement with Germany for limitation of armaments. The financial system of France probably will break the back of one Minister of Finance after another, until there appears to be at least some prospect of limitation of armaments.

BULLITT.

EA:LWW

RECEIVED
NOV 13 1941
YORKTOWN PRINT
OFFICE OF THE SECRETARY OF WAR

SECTIONS 2, 3 and 4 OF TELEGRAM NO. 140 of JANUARY 25, 1938,
FROM PARIS.

I was positively assured by Marchandean that he, as Minister of Finance, would be loyal to the Tripartite Agreement; there was absolutely no other course for himself or for the present French Government.

Marchandean said that at the present time he was not planning a monetary move. I asked the Minister specifically whether they intended to let the currency depreciate to a certain point or whether they intended to revalue the Bank of France's gold stocks. To both of these questions he answered negatively. I made the remark that today the franc had been permitted to fluctuate more than usual, having moved to 154.75 from the opening rate of around 150.30. I asked the Minister what would be the limit to which the franc would be permitted to fall. In answer he said the franc was floating, and that today the French stabilization fund was maneuvering; the franc would not be left free to drop precipitately or indefinitely. Marchandean insisted that today the market had gone further than was justified and he thought there might be room for a reaction because of this.

I was told that the stabilization fund had enough foreign exchange resources to take care of the business today. However, if there is a continuation of the pressure on the franc

- 2 -

franc such as was witnessed today, it is not certain that there will be enough gold and foreign exchange in the fund to tide over the next two days. Marchandau confirmed my impression that the Swiss banking loan to the French railways would produce no more foreign exchange. He told me that negotiations with the Dutch banking syndicate were still in progress but they could not definitely expect further funds from that source.

I asked the Minister whether, if and when the present resources of the French control are exhausted, the control would take gold from the Bank of France. He replied that the control would do this. The fund, he pointed out, had not only provided the 6,000,000,000 francs foreign exchange to pay off the credit from the London bankers, but had also ceded to the Bank of France approximately 4,000,000,000 francs gold. He explained that for the fund to take gold from the Bank of France when it needed it was only a normal move, just as the fund had yielded gold to the Bank of France when the fund needed francs and was full of gold.

The Minister said that today the franc rate had not been held steady because the control wanted to see what the market's reactions would be following the removal yesterday

- 3 -

terday of restrictions on speculative transactions. Another reason was that the control wanted to conserve its slender resources until it might better see what the trend of the market would be. I questioned the Minister again as to how far the franc would be permitted to decline. He replied that no limit had been established and that on this question only the Government could take the final decision. The Minister is free to instruct maneuvering such as the fund had done today, and he said he would not hesitate to have the fund get gold from the Bank of France to halt the depreciation when it appeared that such intervention was timely.

I asked the Minister about the resources of the Treasury itself. He said that in order to meet the end of January requirements of the Treasury, it would not have to use its credit of more than 5,000,000,000 francs with the Bank of France. The French have not entered into any negotiations for a new credit from the British bankers. It is planned for the present to take care of the Government's needs during February without recourse to the credit at the Bank of France. The present plan is to do this by issuing further loans on the Paris market by public issue of the type of the Algerian Government loan, which is still open to the public.

Minister Marchandean sent his warmest regards to Secretary Morgenthau. He expressed his sincere desire to

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give full cooperation on the tripartite declaration to his American colleague.

I had a talk with Rueff after I left Marchandau. During the conversation with Rueff I gained the very definite impression that the present French Government has actually decided upon no new monetary policy, and will follow the same tactics as Bonnet used and as set forth in the foregoing. Allowing the franc to drop to today's level through maneuvering is the only difference so far. In strictest confidence Rueff intimated that a new majority in the Chamber is necessary for any new moves. In the circumstances it may be, therefore, that the current franc decline may not be entirely unwelcome to the Conservative element in the Government, and that this event may even be used in an effort to eliminate Communist support. Thus there might eventually be a move further to the Right, and finally the type of Nationalist Government might be achieved which is considered essential by the capitalists before they can think of repatriating the funds they have abroad.

I had a telephone conversation with the Bank of France at 5:45. Today approximately 900,000 pounds had been lost by the control. At closing the control had managed to bring the rate to 151.90. In my friend's opinion, today's attack was purely speculative. I have an appointment Wednesday morning to call on him.

END MESSAGE.

EA:LWW

BULLITT.

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 25, 1938, 7 p.m.

NO.: 38

Secretary Morgenthau requests that Cochran be authorized to go to the Netherlands if and when it appears to him to be necessary. The purpose of the visit is to try to get information regarding the matter discussed over the telephone with him by the Secretary of the Treasury on January 25. It is assumed that Cochran will keep the Legation in the Hague fully advised on this matter.

The Department is agreeable to Cochran's making this trip.

HULL.

EA: LWW

RECEIVED
JAN 26 1938
U.S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 140 (SECTION ONE)
DATE: January 25, 1938, 6 p.m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE
TREASURY FROM COCHRAN.

Immediately after receiving your telephone call at 3:00 o'clock this afternoon, I telephoned Trip in Amsterdam. I was informed by him that subsequent to the paying over of the twelve and a half million florins on January 15, no arrangement had been concluded with a view to granting France any new installment of the Amsterdam banking credit. Conversations are continuing, and no definite decision has been made. In this connection The Dutch have placed some questions to the French Government, but replies have not yet been made. The French financial situation was worrying Trip; he still thinks that unsatisfactory political factors are the principal cause. It was his opinion that French banks could not give the French Treasury much new support, and, on account of the credit now running, he was certainly not optimistic about much more help coming from the Mendelssohn group.

I

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I was received for the first time by the new Minister of Finance, Marchandau, at 5:00 o'clock. Rueff, who was also present, showed the Minister a cablegram which had been received this afternoon from the French Financial Attaché in the United States. This cable set forth New York rumors with reference to the franc and regarding the possibility that the franc might upset the tripartite monetary agreement.

END SECTION ONE.

BULLITT

EA:EB

R + S - China ³¹⁵ & Japan
1-25-38

re: attached "Washington Star" of 1/24/38 -

"Great Britain and Japan have reached an agreement whereby Japan will not carry the war to Canton, etc. "

Treasury Department
Division of Research and Statistics

Date 1/25/38 1937

To: Secretary Morgenthau

From: Mr. White

Confirmation of this report
does not appear in this morning's
"Times", "Herald Tribune", "Washington
Post", or "Wall Street Journal".

copy of "Star" returned to Dr.
White 2/3/38 as per Miss
Chauncey's suggestions. - mac

January 25, 1938.
9:12 a. m.

Operator: Go ahead.

H.M.Jr: Hello.

Wright
Patman: Hello there, Mr. Secretary. This is Wright Patman.

H.M.Jr: How are you?

P: Fine, thank you sir. How are you today?

H.M.Jr: Very well.

P: I didn't know you got down so early.

H.M.Jr: Oh, you'd have to call earlier than this.

P: I see.

H.M.Jr: I'm a - I'm a farmer, you know.

P: That's right. Well, I am too.

H.M.Jr: Good.

P: Here's what I want to ask you about. You know I introduced a holding company bill over here.

H.M.Jr: Yes.

P: And you know I've been advocating that a good long time.

H.M.Jr: Right.

P: And I just feel like maybe that - that you gentlemen should recognize my bill over here - let me push it.

H.M.Jr: Well, as a matter of fact I haven't seen your bill, Congressman.

P: Yes. Well, if you introduce one I think you ought to let me introduce it.

H.M.Jr: Well, can I think about it?

P: Yes, you can think about it. The reason is this, I assure you that I'd appreciate very much and I'd bend backward to reciprocate for it.

H.M.Jr: I understand. It's just that - the reason I'm hesitating is that I've got this committee of all the agencies that have to do with banks, see?

P: Yes.

H.M.Jr: And we're supposed to meet this week and talk it over again.

P: Yes.

H.M.Jr: As I've said publicly, as far as I'm concerned I've made up my mind.

P: Yes. Now, let me send you a copy of my bill.

H.M.Jr: Do that.

P: My bill has been very carefully prepared.

H.M.Jr: Will you do that?

P: Yes, it's prepared in the Treasury.

H.M.Jr: In the Treasury.

P: Yes.

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

P: Yes.

H.M.Jr: Who prepared it?

P: Well, no - it was prepared in the Comptroller's office, in the Treasury Building.

H.M.Jr: Oh, the Comptroller's office.

P: Yes.

H.M.Jr: I see. Well, you send it on down and if things work out, I'd be more than pleased to work with you.

P: All right. Now I realize that we must give those holding companies time to liquidate or it will be deflationary.

H.M.Jr: Oh, I think, I - personally, it seems to me that three years ought to be ample.

P: Well, I put in that two years.

H.M.Jr: Well, even two years.

P: But we can change that if necessary. Well I'll send it to you Henry.

H.M.Jr: Thank you.

P: Thank you very kindly.

H.M.Jr: Thank you.

P: Goodbye.

GROUP MEETING

January 25, 1938.
9:30 a.m.

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

H.M.Jr: Good morning, everybody. Where's my Mr. Mac?

Magill: Out playing golf.

H.M.Jr: Mr. Magill, this note of yours last night kind of disturbed me.

Magill: Not only kind of, it completely disturbed me.

H.M.Jr: Do you mind if I read it out loud?

Magill: No.

(Gibbons comes in)

H.M.Jr: Hello, Steve.

Gibbons: Good morning.

H.M.Jr: This is from Magill - a memorandum I get at night.

"The Commissioner informed me this morning of a special situation which has arisen with respect to processing tax deductions and refunds. Processing taxes paid were deductible for Federal income tax purposes. In 1936 the tax was held unconstitutional and the Bureau now has some 25,000 claims for refund aggregating over \$500 millions. The Chief Counsel originally took the view that the processing tax was Now, when you say "Chief Counsel," does that mean Oliphant?

Magill: No, in this case it means Shafroth - either Shafroth or Wenchel.

Oliphant: It was Shafroth; I've looked it up.

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H.M.Jr: "..... that the processing tax was properly deductible in the first instance."

(McR comes in)

Good afternoon.

Those two sentences don't seem ... - "and that refunds of the tax would constitute taxable income when paid." What does that mean?

Magill: It means this. I can give you an illustration; you'll see it better. The year they are particularly concerned now with is 1934. Now, on his return for 1934 an individual who had paid these taxes....

H.M.Jr: What taxes?

Magill: Processing taxes. ... would take a deduction on his income tax return for the amount of processing taxes paid.

H.M.Jr: Give me an example.

Magill: Here's a packer.

H.M.Jr: Take Armour.

Magill: Armour and Company report gross income of, let's say, \$50,000,000, or whatever it is. Now, during the year they have paid two million dollars in processing taxes; so on their income tax return they deduct two million dollars from the \$50,000,000 gross income in arriving at the net income subject to the income tax. Now, that is so far so good. Then in 1936 the Court holds the processing tax unconstitutional, so the question at once arises whether or not this deduction which Armour took in 1934 was a valid deduction or not. See?

H.M.Jr: Yes.

Magill: Now, meantime, we've got the other factor. Armour and Company has filed a claim for refund of the processing tax which it paid in 1934.

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H.M.Jr: I see.

Magill: On the ground that the tax was illegal, therefore it is entitled to get it back.

H.M.Jr: Yes.

Magill: Now, that refund, if allowed - and there is a lot of question about that - if allowed, will be allowed, say, in 1939 or 1940, and it may then get the million and a half, whatever it is. Now, the original ruling which was made and published was that Armour and Company could deduct the processing tax in 1934 on the income tax, but that when they received the refund in 1939, say,

H.M.Jr: Refund of what?

Magill: Refund of processing taxes. ...that that would constitute taxable income to them in 1939.

H.M.Jr: That was the original ruling?

Magill: That was the original published ruling. And in that way

H.M.Jr: Well, did they know when they published that ruling that the processing tax had been declared illegal?

Magill: Oh yes.

H.M.Jr: I see.

Magill: Now, in that way, as they regarded it, the thing would wash itself out; the company would have had the deduction but they'd have to pay an income tax on the refund, so the thing would wash out.

Now, I perhaps can explain orally the rest of this; you may understand it better.

Now, when some of these cases start going through the Review Division of the General Counsel's office - of the Chief Counsel's office, the Review Division arrives at what seems to me to be the correct conclusion that should have been made all the time.

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H.H.Jr: What's that?

Magill: And that is that there is very great doubt as to whether this refund will constitute taxable income when it is received.

H.H.Jr: The refund of the processing

Magill: ... of the processing tax; and that consequently the better way to handle the situation is to disallow deduction on the income tax return of the processing taxes, in so far, at least, as the individual has claimed a refund of those taxes.

H.H.Jr: Well now, look, I'm not a lawyer, and that's what bothers me - not that I'm not a lawyer, but this: that a published ruling of the Treasury Department says that a man can make a deduction for processing taxes paid; and I'd kind of like to lay this down as a principle for you people to think about. You see - I don't want you to take my word - but if we make a published ruling and we subsequently find we're wrong, I think the Government should be the loser rather than the taxpayer. Now - I mean I'd like you to think that over. I mean I don't know anything more disturbing than for the United States Government to make a published ruling that you can make a deduction and then we find that we're wrong and then we go back and say, "Well, the United States Government was wrong; we're terribly sorry. We can't allow that, and you've got to pay in '34."

Now, if we're wrong, if we were so dumb as to make a stupid move, then I think the United States Government should have to stand the loss, and not the income tax payer. I just don't think it's fair; I don't think it's fair.

Magill: I think both Mr. Oliphant and I would agree with your general philosophy.

H.H.Jr: I mean as a general philosophy.

Oliphant: Let me add this

Magill: Now, one difficulty in this particular case, just to give you the idea, is that you've got \$40,000,000 in

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taxes turning on this point.

H.M.Jr: For deductions?

Magill: That is, we stand to lose

H.M.Jr: Not for deductions - not allowable - I mean 40 million dollars?

Magill: In income taxes.

H.M.Jr: That people deducted on income taxes?

Magill: Probably - they tell me around 50 million dollars that you're very apt to lose completely.

H.M.Jr: Why?

Magill: On the basis of this earlier ruling.

H.M.Jr: Now wait a minute. You made a ruling, and I'm Armour, and you say to me, "If you paid your processing tax, you can deduct from your gross income the amount of tax you paid," and I deduct it.

Magill: Now, you see, you get into a funny quirk, and that's the point of the memorandum. The statute of limitations on assessments for 1934 will run on March 15, in most cases. Now, the taxpayer has taken this deduction already on his return and gotten whatever benefit there was from it. Now, suppose that it is held, as it very likely will be, ...

H.M.Jr: By whom?

Magill: ... by the Federal courts, that these refunds are not income at all. The result will be we can't go back and change the 1934 returns, because they will be closed, and the result is that we will lose the tax with respect to this deduction.

Oliphant: May I come back

H.M.Jr: Let me ask you - will you (Oliphant) hold your thought? Supposing Armour and Company - and there are some companies who don't fight this thing; there are some, aren't there?

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- Magill: Yes. There won't be. They're all fighting it now.
- H.M.Jr: But supposing there are some companies that say, "All right, we're not going to challenge the Government. We want to take our deduction. We're not going to ask for a refund." Do I make myself clear?
- Magill: Yes. But I think there are practically none of that category.
- H.M.Jr: But I mean - do I understand that they say you can make this deduction, but if the processing tax - what was the additional part of the ruling? Was it all one ruling? What did they say in addition?
- Magill: They took the position that the processing tax could be deducted on the income tax returns, that that was all right, but that when the refunds were received, that those would be income. Well now, the difficulty ..
- H.M.Jr: When the refunds
- Magill: When the refunds of the processing tax are received, those will be taxable income. Now, a difficulty that you run into on the income tax all the time is that deductions on the income tax side of the thing are for many purposes completely distinct. To state it in the legal form, as simply as I can, the Treasury or the courts can give a taxpayer deductions any time they want to. There is no limitation on that. Congress can. On the other hand, the question whether an item is income or not is regarded as a constitutional question, and it doesn't make a darn bit of difference whether it's equitable to regard this as income, as it would be in this case, or not. That is, if the court will say - it might very well say, "A refund of taxes is just not income. To be sure, the taxpayer has had the benefit of this deduction, but that's nothing in our lives. The Bureau wrongly - erroneously gave him that deduction; shouldn't have done it. But we can't help that now."
- H.M.Jr: To summarize it.....
- Magill: In a nutshell, the situation is this. I think - to my way of thinking, the original ruling, which was

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made some time in 1936, I guess, was pretty clearly wrong. Don't you (Oliphant) think so?

Oliphant: Well, it depends on whether or not it was followed by safeguarding legislation.

Magill: The most disturbing feature of the whole thing is that you've got hundreds of millions of dollars turning on this thing and nobody does a darn thing about it until here, seven weeks before the statute of limitations is to run; then they come over and say, "Will you please get us through a piece of legislation which will fix us all up," and the legislation would have to be got through before March 15, and your chances of getting it through are certainly not so good.

Gibbons: Well

H.M.Jr: Just a minute, Steve, please.

Oliphant: I want to come back to your general proposition about the undesirability of the Government taking one position and the taxpayer's relying on it and our later changing our position.

H.M.Jr: Yes. That was what I started with.

Oliphant: That's what you started with. I think that's very sound and one of the most fundamental criticisms that can be levied against the administration of our government, and I want to point out that the Department has been working for a couple years on that problem in connection with declaratory rulings. Let me also point out that it is a very complicated problem - while we could very easily have a statute which would enable the Commissioner and the Department to bind itself when it once made a ruling, we've got a very complicated problem in getting the taxpayer bound too. That whole problem is focused and has had two years' work on it in connection with a plan for declaratory rulings which would take care of this situation.

H.M.Jr: I thought you had announced

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- Oliphant: We have announced it, and the Sub-committee has approved
- H.M.Jr: What?
- Magill: Ways and Means. That requires legislation.
- H.M.Jr: You've got to get a law through on that?
- Oliphant: Yes.
- H.M.Jr: All right. So we're going ahead on that.
- Oliphant: That's right.
- H.M.Jr: But it comes back to this, and I'd like to raise this question. The so-called Chief Counsel over there - I mean what is the whole purpose of having these things come through the General Counsel's office to the Secretary's office, if this thing has been cooking over there for I don't know how long; and then suddenly, on whatever the date is - January 24 or 25 - it is laid on my desk.
- Oliphant: That's right. Well, what actually happened is that Mr. Shafroth, without consulting anybody, buried it.
- H.M.Jr: Buried it?
- Oliphant: Yes.
- H.M.Jr: How did he bury it?
- Oliphant: What was up was the necessity for safeguarding legislation to safeguard the position which the Government had taken, and he signed a memorandum closing the files on the necessity for new legislation, and I knew nothing about it.
- H.M.Jr: When was it brought to your attention?
- Oliphant: Brought to my attention last night.
- Magill: I don't see on
- Oliphant: I'm discovering that frequently - things that you'd ordinarily think

- Magill: I wish you'd suggest - but I don't see over here on this kind of a thing, which is certainly a matter of the ordinary operation of the Bureau - I don't see how we're going to know about it over here unless somebody brings it to our attention.
- H.M.Jr: Well, the whole purpose of this whole set-up is to have a General Counsel who has supervision over all of the lawyers in the Treasury.
- Oliphant: That's right.
- H.M.Jr: Now, it's
- Oliphant: And we now have a Chief Counsel who is cooperating with the General Counsel.
- H.M.Jr: But it's his responsibility to see that the important things come to him, and then to come to the office of the Secretary if and when he needs help. I mean that's the whole object of having the General Counsel of the Treasury, not having it the way we used to have it, with everything - all these fellows independent and clearing through the commissioners to me - to the Assistant Secretary.
- But I still haven't got this thing. I still don't - you say in the memorandum you're going to give me another memorandum?
- Magill: Well, in this way.
- H.M.Jr: I think it's - to me it just sounds impossible - I mean it just sounds impossible that these
- Magill: It's outrageous. The additional memorandum which I want to give you is this. They come up here with this idea, but neither the Commissioner nor the Chief Counsel has any concrete idea as to what should be done to cure the situation. They throw their hands in the air and say, "We should have legislation," but they don't agree on what the legislation should be. Now, I say, "Well, heavens, there's nothing more important you can do. Now, devote a couple days and make up your mind as to whether or not you - what legislation you want, and then we'll see what we can do about it."

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Oliphant: Well, Wenchel does have a pretty definite - his 2-B plan.

H.M.Jr: Well, all right, I'll see you people 10:30 Friday. That gives you time enough, doesn't it, to come in with an answer?

Magill: It ought to be done before that.

H.M.Jr: Well, I'll put it this way: as soon as you're ready to see me, I'll give you the privilege.

Magill: I'd like to do that.

H.M.Jr: I'll put it this way: as soon as you're ready. How do you describe this thing?

Magill: Processing tax deductions.

H.M.Jr: Well, as soon as you're ready, I'll see you. How's that?

Magill: Fine.

H.M.Jr: Now, have you got anything else? I want to make a little statement. Got something else?

Magill: No.

H.M.Jr: Mac, I wish - I have an idea - I don't know whether it's practical or not - on this. I've had it for a long time. I believe that we must have 15 or 20 administrative assistants to the various commissioners all around the Treasury. I mean every fellow has an administrative man, and you're supposed to meet with them once a month.

McR: Once a week.

H.M.Jr: Do you?

McR: Not every week, but I do an average of once a month, I suppose.

H.M.Jr: Now, do these people have about the same Civil Service rating?

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McR: No.

H.M.Jr: Are they more or less

McR: It depends on the bureau - size of the bureau.

H.M.Jr: All right. Now, this is the thought I had in mind. About 15 or 20 of them, aren't there?

McR: Yes.

H.M.Jr: I'd like to swap them around. I'd like to, for instance, take every administrative assistant in Customs and put him in Public Health; put the Public Health man over in Customs; and the fellow who's in the Bureau of Engraving - put him over with the Treasurer. And I'd like to do it about - certainly once while I'm here. I think these fellows get, in some instances, to be little martinets, and far too much influence and power. And I'd just like to completely revolve the whole group around without hurting them as far as Civil Service goes. But I'd just like to completely - I think every two years they should be shifted. But I want to shift everyone once while I'm here - these fellows - and then with the idea to go through the whole thing.

And the little things that grow up over a period of time - little carelessness here, little carelessness there, inching a little bit - this fellow gets a little something, not illegal or immoral, but a - just a little. That grows up in bureaucracies. But a new man, when he comes in - just as when I came in, started this investigation in Internal Revenue in New York; every fourth man was dropped, either because of his bank account or something. Every fourth man, on investigation, was dropped. And we found that the same man - income tax man for four years straight had examined - we took the hundred richest men in New York and found out who examined the income tax; in every case the same man for the previous four years had examined his income tax. It takes a clean broom to go in ever so often.

And I just very seriously - I mean little things here and little things there, which you may find. As I know myself, right in the Treasury, without

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mentioning any names, we have found things going on for 15 or 20 years, and it took me - the greatest difficulty in cleaning up little funds which had accumulated here and there. Those things can't help but hurt the Government. The best way I know is to take these administrative fellows and put them in a shaker and just shift them around.

Mac?

McR: I get the idea.

H.M.Jr: Yes.

McR: I'm entirely sympathetic with the idea. The practicability, of course - some of these fellows - of course, it would be a good thing if more than one person knew the job, it's true.

H.M.Jr: O.K., to use an example ...

McR: I don't think you can do it at one fell swoop.

H.M.Jr: I don't ask you to. But we'd still have our butter fund here; we'd still have people borrowing from it on things which they had no right to do. Now, I don't know how many butter funds there are in the Treasury. I can't do that kind of stuff. I'm willing to gather there are lots of them, and I'm willing to gather there are lots of things which are just on the border line.

Gibbons: In Customs, right down the line - this 70-year old age - we find when a man who is to get out - there's nobody to succeed him, there's no understudy.

H.M.Jr: I know I'm right.

McR: Perfectly sound.

H.M.Jr: And I don't say do it all at one fell swoop, but I'm sure - and then if you follow the thing, you most likely will be dumfounded. And I'm telling you this, with two Civil Service men sitting here: I'm doing you fellows a kindness.

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McR: I realize that's true.

H.M.Jr: I'll tell you why. You take Burlew, who, from everything that I hear and the one and only experience that I had with him - I found him to be a square-shooter.

McR: He is a square-shooter.

H.M.Jr: That one and only experience I had, I found him to be a square-shooter. That fellow has got to take the rap for things which he's absolutely not responsible for. And I've protected you fellows - like I never let Harold Graves go up on the Hill again; if I had, he'd never - wouldn't be with me, because he's got a matter which doesn't go on the Hill. But it's a protection to you regular Civil Service fellows, because things grow up, you're here, you're going to stay here after I've left; it's difficult, without being personal, for you men to criticize fellows you've worked with for 25 years, 30 years. But if the thing came in and the shake-up was here, as far as we're concerned, it would keep our thing - be just a jump ahead of an investigation.

What do you think, Dan?

I mean * really personally think I'd be doing the Civil Service men a kindness.

Bell: Well, I think the idea has a lot of merit, but I can't see how you could take an administrative officer from some bureau where he's absolutely needed - his experience is needed - and shift him over to another bureau where he won't be worth a dime for a year.

H.M.Jr: Same argument - no one was born Secretary of the Treasury.

Bell: well, that's true.

H.M.Jr: I mean nobody was born Secretary of the Treasury, no one is born President of the United States. Just like the story the President told - "When I first went in the first day, I looked at the rows of buttons on the desk and I pressed all the buttons and sat there waiting. They all came rushing in and

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said, 'What do you want?' I said, 'I want something to do.'

No one is born Secretary, no one is born President of the United States. No one is born an administrative assistant to the Secretary of the Treasury. And I'm saying that the things - and you know me well enough now - I have a sixth sense, and I always say that in Washington the thunderclap never drops on you; you always get plenty of warning. And there are things which have been going on the last couple weeks, not in the Treasury, which I don't like, and I'd like to get my shop ready. I'd like to have my own shop swept and cleaned, and I can't guarantee it, because there were things that were found here when I came in... Take Narcotics, take any of these things - I mean Internal Revenue and those people. I don't go out and make public speeches, say, "Look at the number of people I've removed."

But I'm telling you two fellows, particularly McReynolds, that if you play my hunch, which is pretty good most of the time, I'd get busy and go right straight through this whole business with a fine tooth-combing, and I'd shift these fellows around just as fast as you can. And tell them, "When you go in, look for things" - I'm not saying things that - "look for things that look off-color." That's the best way to describe it. And then I'd take a fellow, Mac, get him in there, get him started; then take another; let's say over a period of a year you shift them all. Over a period of a year, every administrative fellow in every division of the Treasury - put a new man in there.

Gibbons: Can't be done by evolution.

H.M.Jr: Now, Mac, just let my old sixth sense, my elbow, work.

Gibbons: You know, poor old Gus Genmerich - speaking of Secret Service - my God, one Secret Service fellow held a revolver like that to shoot it off; they were supposed to be protecting the life of the President.

H.M.Jr: If we ever got any publicity on Civil Service employees

-15-

of the Treasury, we'd just be crucified. Will you play it, Mac, for what it's worth?

McR: Yes, sir.

H.M.Jr: And use your common sense. I say I give you 12 months to turn over the lot. But I don't know - I haven't got the time - I did when I went in, because I wasn't going to let this bootlegging thing lick me, and I spent half of my time on it. I can't do it any more.

But there's things - every time you go into these things, it doesn't do - I get sick. For instance, when I find three Customs inspectors, and so forth, in New York all mixed up in a world narcotic ring, and that kind of stuff - and I don't know how much more. But if you could only keep shifting these fellows so they get themselves out of this groove - who are little czars - I mean it ruins any government in the long run; any government just falls by these fellows that get into these ruts. I mean - the Chief Clerk, I mean - you know that. I mean he got into a rut and he got to doing the thing so long that, by God, it looked all right. It looked all right to some people who, if you asked them point blank, "Would you do so and so?" - "Of course not." But the fellow had been doing it for 30 years and after 30 years it looks all right.

Now, I have nothing particular in mind except the old funny bone kind of aches a little bit. See, I'm not aiming at anybody - but just the old funny bone. Mac?

McR: O.K.

H.M.Jr: What you (Oliphant) got?

(On phone) Hello. (Has conversation with Cochran)

(Mr. Dietrich comes in during conversation)

H.M.Jr: Will you (Taylor) see that the cable goes off confirming both things, or do you want me to do it?

Taylor: I can.

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H.M.Jr: You get what I want? One, that I want a declaration

Taylor: Declaration from the Minister, and to consult the Ambassador. The other is the authorization to go to Holland.

H.M.Jr: That's right. Will you do it when you go out?

Taylor: (Nods yes)

H.M.Jr: I think it's time we got one.
You got anything?

Taylor: This thought: this fellow is just a stooge.

H.M.Jr: A what?

Taylor: A stooge.

H.M.Jr: For who?

Taylor: Bonnet probably.

H.M.Jr: Well, that's all right. I'm entitled to a declaration. I'm entitled to it.

Oliphant: Nothing. I'll handle it with Mac.

H.M.Jr: All right.

Gaston: Nothing, I think.

H.M.Jr: (To Dietrich) That's all; I wanted you to hear that conversation. (Dietrich leaves)

Haas: I have nothing. Some time today you may get that Chronology - may be 12 o'clock tonight.

H.M.Jr: You doing imports and exports from America - little graph?

Haas: Yes, I better check that. Harry was working on it.

H.M.Jr: I asked Harry last night. Said he never heard about it.

Haas: Well, I know that's not right.

-17-

- H.M.Jr: What?
- Haas: We'll find out.
- H.M.Jr: You know - imports and exports.
- Haas: You want all South American countries and all other
- H.M.Jr: The other important countries.
- Haas: I told him right at my desk. He said he'd go to work on it.
- Gibbons: I sent you in a memorandum of the total amounts for the year.
- H.M.Jr: Yes, I got that. I sent it to the President.
- Gibbons: I have nothing else.
- H.M.Jr: If you (Upham) hear any gossip one way or the other on this bank holding business, see, will you keep me posted?
- Upham: Surely.
- H.M.Jr: I mean on the Hill you may hear something one way or the other. Keep your ear open, will you?

Incidentally, Mr. Wright Patman called me up and said that if there's going to be any bank holding company bill, would we let him handle it. So I said, well, I'd have to think it over. "Well, I'll play with you. I got a good bill. It was written in the Treasury."

I said, "Oh, was it? Well, that's funny."

"Well," he says, "it was written in the Comptroller's office."

(Hearty laughter)

Oh, I'm always in the same place. Either play your cards on top of the table, or be darn sure you don't

-18-

get caught. Either one or the other. And it's better to play them on top of the table.

Upham: You won't get much help from Mr. Steagall if you let Mr. Patman have the legislation.

H.M.Jr: Well, I'm telling you just to keep your ear open.

Bell: I haven't anything.

H.M.Jr: You fellows are coming back at 10:30, aren't you?

Bell: Yes.

Gibbons: Did you see Waesche's picture in this morning's paper?

H.M.Jr: Yes. Good picture.

Bell: He was arguing for that airport, I saw. Treasurer said he didn't care one way or the other.

McR: You wanted to know about this little housing project out in Idaho.

H.M.Jr: Yes, very much.

McR: The application is in Idaho now, being checked up by the Agriculture people. Ed was over there yesterday afternoon about three hours on the later project, and he says that's going along, it's going to go through. We can get the reports back and forth from the field people of Agriculture.

H.M.Jr: It's at Iona ...

McR: And ...

H.M.Jr: I-o-n-a- name of the city, town, village. Go ahead.

McR: ... they expect that to be actually through and the money available some time in the next ten days.

H.M.Jr: Grand.

McR: Just a matter - appears to be nothing but just the formalities necessary to complete it.

-19-

H.M.Jr: Yes.

McR: On the other project that is to be carried out here

H.M.Jr: Yes.

McR: ... the Agriculture boys expressed themselves as perfectly willing to go ahead with it. Of course, the application has to be approved on the basis of a specific project proposed. Now, Udo Rall and Ed Foley are working the preliminaries up. They'll come to you with a specific proposal with respect to some particular locality that they have picked out for your approval....

H.M.Jr: Fine.

McR: ... in due course. And Perry, at Agriculture, says that if the thing can be completed in its preliminary stage and a definite proposal made any time between now and the first of July, they can see that it is financed sufficiently, and are apparently enthusiastically willing to do it.

H.M.Jr: All right. Now, will you find out for me who in Farm Credit is the man that I could send for who knows the most about how Resettlement handled their loans to farm families? Not the relief, but the loans. Who is over in Bill Myers' shop who knows the most about it, see?

Dan, I picked up a report on that. For instance, you see - for instance, they take everything away from the family on a loan in Resettlement, even take the tin jars in which they put the preserves, and they leave the family with nothing.

"Well, what do you do it for?"

"The Bureau of the Budget says we have to collect the money."

Bell: Is that what they said?

H.M.Jr: Yes, and I'm going to run this thing down. They take everything away. First place, they overload the

-20-

fellow with more than he can handle, see; loan him much more. Then, when he can't pay - what do you call the legal thing, when you have this - the legal

Oliphant: The lien?

Gibbons: Repossess.

H.M.Jr: There's another word.

Oliphant: Foreclosing?

H.M.Jr: No, they have - there's a word that they use.

Gaston: An attachment?

Magill: Probably invented one. That's a new concept.

H.M.Jr: Here it is - "repossess." And then, when they do this thing, they say - I wouldn't circulate it - when they do this thing, they say, "Well, the Bureau of the Budget is forcing us to do this thing." They just leave the family flat. After overloading them with three times as much as they can afford, then they take the stuff away from them, even the fruit jars, see? And they say, "Well, the Bureau of the Budget is forcing our hand."

Gaston: Probably Steve Garwood.

H.M.Jr: Well, whoever it is, I want to see them.

All right, gentlemen.

January 25, 1938

Bell and Taylor met with the Secretary today at 10:30 to discuss reply to Jesse Jones' letter to the Secretary, dated January 19th. HM, Jr thought the letter as prepared was very good. Taylor suggested that the portion on page 2 reading "During the next three fiscal years ended June 30, 1937, the Treasury received repayments on account of RFC advances in the net amount of about \$750,000,000 leaving, in effect, more than \$1,800,000,000 of the original advances still unpaid as of June 30, 1937. Since a substantial portion of the advances made prior to July 1, 1934 is still outstanding, I do not feel that you can refer to the financing of the Corporation of the Treasury as being on a three-year basis." might be left out. Bell explained that he was just showing the amount outstanding on which the Treasury is paying interest. HM, Jr said he thought the letter as prepared was O.K. and affixed his signature.

Mr. Bell then handed the Secretary a reply to Jesse Jones' letter of December 10th re sale of RFC obligations to investors, and the Secretary approved this letter and signed it.

(In connection with second paragraph of this letter see record of meeting with Bell and Taylor in connection with Dec. 10th letter which is filed in diary under date of January 7.)

JAN 25 1938

Dear Jesse:

Reference is made to your letter of December 10, 1937, suggesting in view of the apparent necessity for a continuation of Reconstruction Finance Corporation lending for some time to come, that the Corporation be permitted to sell its notes to investors as it needs the funds for further disbursements on loans already approved or for new lending, and for such additional amount as may be necessary to return to the Treasury the Budget estimate for the current fiscal year for the Corporation.

You will recall that I talked with you some time ago about this matter and told you that I would be glad to give consideration to your suggestion as soon as legislation has been obtained for adjusting your balance sheet along the lines proposed in my letter of April 27, 1937 and subsequent correspondence. In discussing this matter it will be necessary to bear in mind the President's letter of January 10, 1938, in which he indicated that the proceeds from the sale of any Public Works Administration obligations held by the Reconstruction Finance Corporation should come into the Treasury as a repayment on account of the Corporation's notes held by the Treasury.

- 2 -

As soon as the proposed legislation becomes a law,
I shall be glad to talk with you again about this method of
financing.

Sincerely yours,

(Sgd) H. MORGENTHAU Jr.

Secretary of the Treasury

Honorable Jesse Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

DWB:HBW

JAN 25 1938

Dear Jesse:

I have your letter of January 19, 1938, concerning the draft of proposed bill which authorizes the adjustment of the balance sheet of the Reconstruction Finance Corporation. You state that the directors of the Corporation desire to include in this bill a provision covering interest amounting to approximately \$25,000,000 paid to the Treasury on the money borrowed to make the advances which are proposed to be written off.

It is noted that in support of your position you state that approximately \$85,000,000 of the \$304,000,000 interest paid to the Treasury by the Corporation on its general obligations represent a profit to the Treasury on the basis of the difference between interest paid by the Corporation and the cost to the Treasury of three-year money.

I cannot agree with your contention that the Treasury has profited on its advances to the Corporation to the extent of \$85,000,000 when you take into consideration all the various factors involved in advancing these funds. During the three fiscal years ended June 30, 1934, the Reconstruction Finance Corporation drew out of the Treasury for direct loans, including advances to the Commodity Credit Corporation and the Export-

- 2 -

Import Banks, the net amount of approximately \$2,575,000,000, almost 75 per cent of which was advanced during the fiscal years 1932 and 1933. During the next three fiscal years ended June 30, 1937, the Treasury received repayments on account of Reconstruction Finance Corporation advances in the net amount of about \$750,000,000, leaving, in effect, more than \$1,800,000,000 of the original advances still unpaid as of June 30, 1937. Since a substantial portion of the advances made prior to July 1, 1934 is still outstanding, I do not feel that you can refer to the financing of the Corporation by the Treasury as being on a three-year basis. As a matter of fact the financing of the Corporation would seem to be on a four or five-year basis rather than a three-year basis, and I am sure when you take into consideration the long period which will probably be necessary to liquidate the Corporation's activities, that even this basis will prove to be too short.

Furthermore, I should like to call your attention to the fact that during the period which the Treasury has made these advances, it has been necessary on several occasions to borrow funds on short term at rates in excess of those paid by the Corporation to the Treasury. If the funds obtained by the Corporation from the Treasury are to be paid on a strictly cost basis, it would be necessary to go back and adjust the rates to accord with the higher rates paid by the Treasury and to include all other attendant costs. The Treasury has not, however, attempted to do this, but has from time to time fixed rates which seemed to it to be justified on the basis of market

- 2 -

and other conditions at such times. You will recall that in connection with the fixing of such rates the Treasury always took into consideration the rate paid by the Corporation on its notes given to the Treasury for advances to other Governmental agencies for which the Corporation received no return. In order to adjust this rate and the amount of interest previously paid to the Treasury on account of advances to these Federal agencies, the rate on advances made for general loans has been purposely fixed at a figure lower than would have been otherwise the case.

The position which you take appears to overlook the fact that the Corporation has had the use for nearly six years of its capital stock amounting to \$800,000,000, but upon which there has been no return to the Treasury. It also fails to take into consideration that in addition to the interest cost of such money, the Treasury has absorbed the expenses of issuing and redeeming public debt obligations involved in this financing.

Another point to bear in mind is that interest paid to the Treasury by the Corporation has been covered into the Treasury as a miscellaneous receipt and if provision is made for the cancellation of the Corporation's obligations to the Treasury in an amount equivalent to the interest paid on certain of its advances, the Congress should provide an appropriation for an equivalent amount. The revenue accounts of the Government for the years during which this interest was paid have been closed and made public. It would, therefore, be impossible to adjust these

- 4 -

accounts retroactively and any change made in the current account for the purpose of this adjustment would distort the current picture. This would not be the case in connection with the obligations representing allocations to Federal agencies which it is proposed to cancel, inasmuch as the Government's accounts heretofore have reflected expenditures in a like amount for each of such agencies.

I am glad that the adjustment of the balance sheet of the Reconstruction Finance Corporation, which the Treasury suggested in its letter of April 27, 1937, has now reached the stage where, except for the question of interest, it can be submitted to the Congress for consideration. I appreciate the views expressed by your Board with respect to this interest item, but I hope that it will not insist upon its present position and that this matter can now be promptly submitted to the Congress.

Sincerely yours,

(Sgd) H. MORSENTHAU Jr.

DWB:MLB

Secretary of the Treasury.

1-25-38

Honorable Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

JAN 25 1938

Dear Jesse:

I have your letter of January 19, 1938, concerning the draft of proposed bill which authorizes the adjustment of the balance sheet of the Reconstruction Finance Corporation. You state that the directors of the Corporation desire to include in this bill a provision covering interest amounting to approximately \$25,000,000 paid to the Treasury on the money borrowed to make the advances which are proposed to be written off.

It is noted that in support of your position you state that approximately \$85,000,000 of the \$304,000,000 interest paid to the Treasury by the Corporation on its general obligations represent a profit to the Treasury on the basis of the difference between interest paid by the Corporation and the cost to the Treasury of three-per-cent money.

I cannot agree with your contention that the Treasury has profited on its advances to the Corporation to the extent of \$85,000,000 when you take into consideration all the various factors involved in advancing these funds. During the three fiscal years ended June 30, 1934, the Reconstruction Finance Corporation drew out of the Treasury for direct loans, including advances to the Commodity Credit Corporation and the Export-

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Sincerely yours,

(Sgd) H. H. H. H. H.

DWB:MLB

Secretary of the Treasury.

1-25-38

Honorable Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

JAN 25 1938

Dear Jesse:

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- 2 -

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I shall be glad to talk with you again about this method of
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Sincerely yours,

(Sgd) H. MORGENTHAU JR.

Secretary of the Treasury

Honorable Jesse Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

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RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

January 19, 1938

Dear Henry:

The draft of the bill to eliminate from our balance sheet items disbursed by direction of Congress, with respect to which the directors of the Reconstruction Finance Corporation had no choice, is ready, including the item of interest paid the Treasury on the money we borrowed to make these advances.

Approximately \$14,000,000 of this \$25,000,000 interest item was for interest paid the Treasury on the \$280,000,000 1932 relief money advanced to the states under the Emergency Relief and Construction Act of 1932. This money was to have been returned to the Reconstruction Finance Corporation with interest at 5% per annum by deducting the several amounts from future Federal highway appropriations to the states, but Congress later repealed this provision for reimbursement.

Of the \$8,800,000,000 which we have disbursed in loans and investments for which our directors have responsibility, a little more than 70% has been repaid, which means that upon the average our loans and investments have been repaid in less than 3 years. However, assuming 3 years as the average, approximately \$85,000,000 of the \$204,000,000 interest paid the Treasury in these 6 years has been profit to the Treasury on the basis of the cost of 3 year money to the government.

I point this out to show that we have not been an expense to the Treasury, and in justification of our claim that we should not be required to lose this interest item of \$25,000,000.

The money all comes out of the same pocket, but you have always taken the position, and rightfully so, that one government department should not profit at the expense of another, and we respectfully request that you concur in the proposal that the interest item be included in the cancellation of these obligations in which, due to the direction of Congress, we had no choice.

You will recall that the reduction in our rate, effective July 1, 1936, from 2-3/4% to 2-1/4% was to enable us to reduce rates to our borrowers proportionately, and with that understanding.

Sincerely yours,

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

Chairman.

(In Longhand)

We should get started soon.
C.C.C. bill is also ready. J.H.J.



TREASURY DEPARTMENT

WASHINGTON

January 25, 1938

CONFERENCE ON RECONSTRUCTION FINANCE
CORPORATION BALANCE SHEET AND RECONSTRUCTION FINANCE
CORPORATION FINANCING IN THE OFFICE OF THE SECRETARY
OF THE TREASURY ON JANUARY 25, 1938

Those present besides the Secretary were Mr. Jesse Jones, Mr. Taylor, Mr. Mulligan and Mr. Bell.

The Secretary referred to the fact that he had received a letter dated December 10, 1937, from Mr. Jones suggesting that the Reconstruction Finance Corporation be permitted to sell its own notes in the market to raise funds with which to meet its current requirements. The Secretary handed Mr. Jones a reply dated today.

The Secretary then referred to the letter of January 19, 1938, which Mr. Jones sent him at Sea Island, Georgia, regarding the proposed legislation to eliminate from the balance sheet and financial statements of the Reconstruction Finance Corporation certain asset items representing allocations to Federal and State agencies, including interest that the Reconstruction Finance Corporation had paid the Treasury on advances to meet these allocations. The Secretary handed Mr. Jones a reply to this letter.

Mr. Jones read these two letters and said that the first one met with his wishes and the second one was all right except for the

- 2 -

matter of interest. He said that this item is carried on the balance sheet of the Reconstruction Finance Corporation as an asset and that if Congress authorizes the elimination of the other items, the interest item will stick out like a sore thumb and would have to be shown as an asset. I contended that this item should not be shown as an asset, but should be shown as an interest expense, just like all other interest payments made by the Reconstruction Finance Corporation.

After some lengthy discussion back and forth it was finally decided that Mr. Jones would submit his legislation in the form agreed upon by the Treasury and that at the hearing before the committee considering this proposed legislation, Mr. Jones would bring up the question of the \$25,000,000 interest item. The Secretary said that Mr. Taylor and I should be there to explain the Treasury's viewpoint and leave the matter entirely to the committee as to whether the interest item should be eliminated from the Reconstruction Finance Corporation's balance sheet.

-c00-

SWB

Mr. Taylor then brought up the question of legislation transferring the railroad obligations held by the Treasury to the Reconstruction Finance Corporation for collection and disposition. Mr. Jones said that some one in his organization had suggested that the Treasury might transfer these obligations to the Corporation under the provisions of 77 (b) of

- 2 -

the Bankruptcy Act. The Secretary did not want to discuss the railroad legislation and suggested that Mr. Taylor look into the question raised by Mr. Jones and that he and Mr. Jones work it out.

DWB

January 25, 1938.
10:37 a.m.

H.M.Jr: Hello.

P.
Harrison: Hello, Henry?

H.M.Jr: Hello, Pat?

H: I called a meeting. I've got this Customs bill up this morning.

H.M.Jr: Oh, yes.

H: Committee, so I called the other committee fifteen minutes ahead of time.

H.M.Jr: Yes.

H: For Oppen.

H.M.Jr: Yes.

H: But they wanted to hear something about Oppen.

H.M.Jr: Yes.

H: So I appointed a subcommittee and they'll go into it immediately this week.

H.M.Jr: Right.

H: Right away.

H.M.Jr: Right.

H: And the subcommittee is King, and Herring from Iowa, and Capper from Kansas.

H.M.Jr: Yes.

H: They'll - they'll look into it this week. I told them I wanted some of them up there, get through the thing.

H.M.Jr: Anything I can do?

H: Well, I told them I wanted them to connect you. I want them to contact you, I told the committee, the subcommittee.

H.M.Jr: That's King, -
H: King, Herring -
H.M.Jr: Herring.
H: And Capper.
H.M.Jr: Capper.
H: Yes.
H.M.Jr: Well now, will they - is it up - who makes the
move? They contact me?
H: What's that?
H.M.Jr: Will they call me?
H: Yes.
H.M.Jr: I mean it's not up to me to call them.
H: No. They'll call you.
H.M.Jr: They'll call me.
H: They'll contact you.
H.M.Jr: Right.
H: All right.
H.M.Jr: Thank you very much.

January 25, 1938.
12:07 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Marriner
Eccles: Hello Henry.

H.M.Jr: Hello Marriner.

E: Did you have a good trip?

H.M.Jr: Oh very good. Good rest. Feel fine.

E: Say, I'm - I've got to apologize to you because I was going to come over and have lunch today.

H.M.Jr: Yes.

E: And the White House called. I've been trying to get you for a while.

H.M.Jr: Yes. I've had those people in here.

E: I see. Well, I talked to Kieley.

H.M.Jr: Yes.

E: And a week ago today - a week ago yesterday, I guess, when I was over with Jim Roosevelt, talking over various matters, it was suggested that I might see the President.

H.M.Jr: Yes.

E: And so last week I thought that I'd see him Wednesday or Thursday.

H.M.Jr: Yes.

E: And as a matter of fact, I was going to see him about on - I guess it was Friday, that Mac called me up. Well he was terribly busy and I went over there and he was about an hour behind schedule.

H.M.Jr: I see.

E: So I said, "Let me walk out, I don't - ", let me help him get caught up on his schedule here and he can put my meeting off. So Mac said, "That's fine".

- 2 -

I said, "You call me any time that it's convenient."
See.

H.M.Jr: Sure.

E: Well he called this morning and gave me this appointment. Now I had no idea that I would - that I would be going over there -

H.M.Jr: Uh-huh.

E: Until possibly the latter part of the week or at least until I called again because usually you have to call a half a dozen times.

H.M.Jr: Yes.

E: So I just wanted to tell you that.

H.M.Jr: Well did you want to come over some other time.

E: Yes, I'd like to.

H.M.Jr: Because there's several things I'd like to see you about.

E: I'd like to come over. I - I -

H.M.Jr: If you'd like - well,

E: But here's what I - the - there's two vacancies on this Board.

H.M.Jr: Yes.

E: The President for about two months now, has been asking me to talk to him about it, and to - he's been anxious to do something.

H.M.Jr: Yes.

E: He's been under a little pressure one way or another by - I don't know, I wouldn't say pressure, but at least he's felt that two vacancies, one of them over a year.

H.M.Jr: Yes.

E: And the other one, now, for several months, that he'd be subject to criticism.

H.M.Jr: Yes.

E: And so those are the two things that I wanted to talk to you about, and I also - in connection with them - I wanted to say that - hello.

H.M.Jr: Hello. I'm here.

E: Yes. In connection with that, I've wanted to ask him that we might defer action on them, pending a discussion that I wanted to have with you and that's why I wanted to see you first.

H.M.Jr: I see.

E: Discussion that I wanted to have with you with reference to this - the Comptroller's set-up because he's leaving, as you know, and Leo Crowley is talking of course, in fact he's going to go this year, I'm sure of that and possibly very soon. That - that it was my thought that we ought to at least consider this whole banking set-up to see whether or not we are going to do anything.

H.M.Jr: I see.

E: That - that certainly the situation is not - is not a very satisfactory one and that it's my opinion that we might defer at least until you and I could discuss whether or not anything should be done with reference to the whole set-up.

H.M.Jr: Well now, how are you fixed tomorrow afternoon?

E: Oh I can come over. Suit me fine.

H.M.Jr: How would three o'clock.

E: Fine.

H.M.Jr: Wednesday.

E: Fine.

H.M.Jr: Supposing if you - if that's convenient -

E: Yes, sir. That'll suit me fine. I'll come over tomorrow at three.

H.M.Jr: At three. I'll allow plenty of time.

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E: All right. Yes, do that. Let's - we ought to figure an hour.

H.M.Jr: Yes, I'll allow plenty of time.

E: Well then, I'll come over alone tomorrow at three.

H.M.Jr: O.K.

E: O.K. then.

H.M.Jr: Thank you.

E: Goodbye.

January 25, 1938.
2:38 p.m.

H.M.Jr: Hello.

Knoke: Mr. Secretary.

H.M.Jr: Yes, Knoke.

K: Knoke. I called London about noon time.

H.M.Jr: Yes.

K: And there are a few things which I thought you might be interested in knowing.

H.M.Jr: I do.

K: First of all he ascribes the weakness, today's weakness, of the franc in addition to the general situation, to the following three reasons.

H.M.Jr: Yes.

K: Firstly, the French fund is better as he put it.

H.M.Jr: Yes.

K: Secondly Chautemps is expected to have a very poor time with his labor charter bill.

H.M.Jr: Yes.

K: That is the bill which tries to bring employers and employees to some sort of an arrangement to arbitrate and not to strike.

H.M.Jr: Yes.

K: The third is that the Socialist party has split, and the Radical wing has thrown over whole head - has thrown Blum over.

H.M.Jr: Yes.

K: Consequently there is a likelihood - there's nobody knows just how the socialist would vote.

H.M.Jr: Yes.

K: Then he says the London market's off a hundred and seventy against a hundred and fifty four, at the present time.

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- H.M.Jr: Just a minute - (aside) better let him go. Hello.
- K: Talked of the rate of a hundred and seventy, very reminiscent of what they talked about some three or four months ago.
- H.M.Jr: Yes.
- K: Then he spoke of the belga.
- H.M.Jr: Yes.
- K: Said the weakness is partly - partly sympathetic, partly due to the fact that the political situation is undesirable, and thirdly that trade restrictions are beginning to affect the position there.
- H.M.Jr: Uh-huh.
- K: Then we were cut off, and brought him back a little later, he said he had, in the meantime, spoken to Benjamin in Paris.
- H.M.Jr: Yes.
- K: Benjamin, he said, had just told him they had lost two hundred and fifty thousand pounds worth of gold today. In Paris, they are very much worried, he said. There's probably no intention to paying the rate at any particular level. I asked him, "Do you think it'll affect the tripartite agreement in any way." He answered, "As far as we are concerned, it won't. We've talked about this situation inside out."
- H.M.Jr: Yes.
- K: "It seems preferable to put up with the disadvantages of a fluctuating franc, for the time being, rather than to have to resort to exchange control." He gave that as his personal opinion.
- H.M.Jr: Yes.
- K: The dollar, he said, is beginning to become a little stronger.
- H.M.Jr: Uh-huh.

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K: They wanted to know about our position. He was very much interested in our capital market, but is evidently beginning - beginning to show a sign of unfreezing.

H.M.Jr: Yes.

K: He spoke about the Japanese, there's been no activity financially in - by the Japanese, in the London market.

H.M.Jr: Yes.

K: And - but - he asked when a new gold shipment, I told him we didn't know anything.

H.M.Jr: When we what?

K: About any new gold shipment on the way.

H.M.Jr: No.

K: From Japan.

H.M.Jr: No, no.

K: I told him we didn't know of any. But that is briefly what he told me, and -

H.M.Jr: Who - who were you talking to?

K: To Bowden.

H.M.Jr: Right. Now, what I've done, and this is for you and Governor Harrison, only, nobody else, see? Just for the two of you.

K: Governor Harrison is away.

H.M.Jr: Well then, it's for you only.

K: I see. *Cochran*

H.M.Jr: For you only. I have sent an official message, through Congress, to the Minister of Finance of France, asking him to tell me what that's policy is going to be, in terms of rates, see?

K: Yes.

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H.M.Jr: And I wanted an answer in twenty four hours.

K: Uh-huh.

H.M.Jr: And I also sent word to the British Treasury that I've asked the French that question.

K: Yes.

H.M.Jr: Now - I did that this morning, now we'll see what will happen. I said I didn't want any speeches, I wanted them to talk to me in terms of rates, and we'll see what happens.

K: — He probably wishes he could tell you.

H.M.Jr: Well, I'll say this for Bonnet. You know - you know the time Bonnet told us, and he stuck to it, you know. He - when Bonnet was the minister there, he'd tell us he'd keep it between such and such, and he did. You know that.

K: Yes I remember. Of course I would say today probably the position is - has gotten worse

H.M.Jr: Well.

K: And in that reason - in that connection

H.M.Jr: Right. Well, thanks very much and if you hear anything let me know, and as soon as I hear from them, I'll call you. Did they make a rate today?

K: Oh, yes.

H.M.Jr: They did.

K: But they just lowered it as a matter of fact. Our- buy at three twenty eight, close to three twenty nine, and they just sent another cable if the franc should be under strong pressure we should reduce the rate to about three twenty eight.

H.M.Jr: Three twenty eight.

K: Yes.

H.M.Jr: Well, it was three twenty three wasn't it?

K: Oh well, that was a week ago on Thursday. This morning it was the lowest - three twenty five.

H.M.Jr: Uh-huh.

K: Then it improved a little about three twenty eight. We bought about two million francs of three twenty eight and a half, roughly, and just now the second cable has come in.

H.M.Jr: The rate now - the selling rate is what?

K: Well we are to sell francs at three thirty three, we are to buy them at three twenty eight.

H.M.Jr: Buy at three twenty eight. And what is the rate now?

K: About three twenty eight and a half.

H.M.Jr: I see. All right.

K: All right, sir.

H.M.Jr: It's a nice business.

January 25, 1938.
4:33 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Dr. Burgess: Hello, Henry.

H.M.Jr: How are you?

B: Well I wanted to say hello to you. Did you have a good trip?

H.M.Jr: Very good.

B: That's fine. All full of are you now?

H.M.Jr: Quiet. I'm quiet.

B: Well, that's better still.

H.M.Jr: I'm not looking for any trouble, but I can take it if it comes.

B: Well I haven't got any trouble to report.

H.M.Jr: Good.

B: We've - as you know we've had, our greatest problem's been to keep this margin from going through the roof.

H.M.Jr: Yes.

B: And it's - we've done some transactions for you and we've done some for ourselves.

H.M.Jr: Yes. I got your report, which -

B: Yes.

H.M.Jr: Was that a new form of report? That all was brought out, I mean, showing just what you've done, and we never had it before.

B: That's just the same.

H.M.Jr: No, report showing the whole thing, everything that you've done in greatest of detail.

B: Oh, we do that once a month, something like that.

H.M.Jr: Oh, I had never seen it before.

B: Well, it got stalled on its way, I guess.

H.M.Jr: Well, I - I - I enjoyed seeing that.

B: Yes.

H.M.Jr: I - I want to talk to you one of these days, not too far distant, on how you feel, if you have any opinion on bank holding companies.

B: Yes. Well I did some work on that once when the first draft Glass bill was under way.

H.M.Jr: Oh, you - you've got an opinion on it.

B: Yes, I've got some - some views about it.

H.M.Jr: Well, one of these days, not so far off, I'll give you a ring.

B: All right, I'll be glad to come down any time.

H.M.Jr: And another thing I wish you'd be thinking about. If you'd care to write me a memorandum, whether we should, in any way, ease up on the regulation to permit banks either to do a little underwriting or to get in on the capital markets -

B: Yes.

H.M.Jr: Like capital. See?

B: Yes. Yes.

H.M.Jr: Those two things, if you'd be thinking about them. If you'd care to either write me or maybe you'd come down and see me about it.

B: All right. I'll be glad to do that. I'm interested in both of them.

H.M.Jr: See?

B: Yes.

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H.M.Jr: Both those things.

B: Yes.

H.M.Jr: They're both in your field aren't they?

B: Yes. Absolutely.

H.M.Jr: O.K.

B: Yes.

H.M.Jr: Let you know the old bean hasn't gone to seed.

B: That's right. Henry, you noticed the market has eased off a little the last couple of days.

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

B: But I think that's very wholesome. One - one point was that the dealers' portfolios has been getting pretty high.

H.M.Jr: Yes.

B: And on Saturday we gave them a little warning that they were all getting high.

H.M.Jr: I see.

B: That's partly the reason for this.

H.M.Jr: O.K.

B: But it's - it's also that we did do a little selling, but I think it's a wholesome thing to have a little -

H.M.Jr: It's all right. I'm glad you called. Think about those two things.

B: Yes, I'll be very glad to, Henry.

H.M.Jr: All right.

B: All right.

H.M.Jr: Fine.

B: Goodbye.