

DIARY

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

JEROME N. FRANK
COMMISSIONER

February 1, 1938

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

Dear Sir:

Responding to your inquiry of this morning with reference to the comment that costs of registration are an important factor in preventing the procuring of funds by small industries, I enclose a copy of a letter dated January 17, 1938 from Chairman Douglas to Representative Mead.

The letter, I think, will serve to answer such comment.

Very truly yours,
Jerome N. Frank
Jerome N. Frank
Commissioner

*Mr. Meyer -
This letter does not give me what I want. Please talk to me, Mr. J.*

COPY

January 17, 1938.

My dear Mr. Mead:

I am in receipt of your letter of January 5 with which you enclosed a copy of a letter which you had received from a Buffalo business man on the subject of the effect of the Securities Act of 1933 and the regulations of this Commission upon financing by small business. You have asked for my comments on this letter.

The general problem of financing for small industry has been of real concern to the Commission, and as a matter of fact is now being studied. It is clear, however, that this question is related to many factors other than this Commission and the legislation under which it operates.

The Securities Act of 1933 indicates that there was legislative recognition that the procedure of registration and filing with the Commission might be burdensome in some cases for corporations desiring to sell only small amounts of securities. Section 3(b) of the Act gives the Commission power to exempt from the registration requirements of the Act additional classes of securities, to be specified by it, provided that the aggregate amount at which any issue so exempted is offered to the public does not exceed \$100,000. Pursuant to this section, the Commission has promulgated certain rules and regulations which, subject to certain conditions, exempt from the registration requirements of the Act issues with an aggregate offering price not exceeding \$100,000. (See Regulation A of the enclosed General Rules and Regulations under the Securities Act of 1933.)

However, it is obvious that these exemptions do not cover the situation of an issue of more than \$100,000 but less than \$1,000,000, in the flotation of which there are undoubtedly problems of high cost. Many of such issues do not come within the exemptions provided in Sections 3(a) and 4 of the Act itself, and consequently must be registered

The Honorable Jas. W. Mead

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with the Commission. They represent the type of financing with which your constituent is concerned.

Studies which have been made by the Commission indicate that the costs of underwriting, the expenses of preparing securities, a registration statement and prospectus, and the other charges of flotation are relatively higher for small issues than for larger ones. However, these studies suggest that, to a substantial degree, the causes for this difference are to be found in factors other than the Commission's regulations or the registration and prospectus requirements of the Securities Act.

I enclose herewith several copies of a tabulation recently released by the Commission, which presents a compilation of the expenses of flotation of issues registered under the Securities Act during 1936 and the first six months of 1937, classified according to size. The table indicates that the average total expenses of flotation were between 16% and 18% of the gross selling price in the case of common stock issues, between 5% and 7% for preferred stock issues, and between 2.7% and 3% for bonds. Such expenses, expressed as a ratio of the gross amount of the offering, were noticeably higher for issues of less than \$1,000,000 than for those of \$10,000,000 or more.

It is apparent that the explanation for a very substantial part of this difference lies in the fact that the commission and discount (i.e., the compensation to underwriters or investment bankers for the distribution of the issue) were considerably higher, as a proportion of the amount of the offering, in the case of the small issues. Expenses other than underwriting commission or discount seldom were more than 2% or 3% of the value of the offering, even in the case of the smallest issues. It would appear, therefore, that Mr. Bowen's estimate of \$25,000 as the minimum for "setting up a security issue" was high. On the basis of data contained in registration statements, this minimum would seem to be much closer to \$5,000 or \$10,000.

Moreover, the breakdown of expenses indicates that only a portion of the fees and expenses other than commission

The Honorable Jas. M. Mead

and discount is traceable to the Securities Act and its registration requirements. The item in which there was the greatest variation as between small and large issues was legal fees and expenses. Although this, in part, may represent added costs due to the necessity for registration, in large measure the necessity for such charges also existed prior to the Act, and there is reason to believe that then, as now, the proportionate expense was higher for a small issue than for a larger one. There is always a tendency for such fees to have a minimum level below which they are not likely to fall, even when the issue is very small.

This leads to what is probably the crux of the situation with respect to small financing. In my opinion, the problems of raising capital for small industrial concerns existed prior to the Securities Act just as they exist today, and existed in the period 1927-1929, when business was presumably prosperous, just as they have existed in depression and recession years. This is not difficult to understand. An investment banker naturally incurs certain minimum expenses whenever he handles an issue. Therefore, he can afford to charge only 2% or 3% on the flotation of \$10,000,000 or \$20,000,000 issues, whereas he must charge 8% or 10% on the flotation of \$500,000 or \$1,000,000 issues. Not only is it necessary to charge higher fees in order to cover these minimum expenses but there is some reason for believing that it is more difficult to dispose of small issues than larger ones. To the extent that larger issues represent financing by substantial and well-known concerns, familiar to the public, security buyers are more ready to invest in them. On the other hand, when the issuing corporation is small and relatively unknown, the task of selling and distribution is likely to be difficult. The problem of covering the minimum fees and expenses of accountants and lawyers also has existed at all times. For these reasons it would appear that the weightiest problems of the small issuer existed prior to the enactment of the Securities and Exchange Commission.

If I am correct in this conclusion, it is obvious that, in order to satisfy the needs of small corporations

The honorable Jas. W. Mead

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for legitimate financing, we must have some new financial mechanism in addition to the existent investment and commercial banking organizations. Some attempt to provide these facilities, as an emergency measure, was made in 1934. I refer to Section 5d of the Reconstruction Finance Corporation Act, which authorizes the Corporation to make loans to any industrial or commercial business "when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks," and to the amendment to Section 13b of the Federal Reserve Act which authorizes the Federal Reserve banks to make working capital loans to established industrial and commercial businesses which are "unable to obtain requisite financial assistance on a reasonable basis from the usual sources", and to discount for or purchase from other financial institutions up to 80% of loans of that type made by such financial institutions. It was the purpose of this legislation to make available intermediate credits which banks were unwilling to provide because in most cases they represented capital loans, and which corporations were unable to raise by the sale of securities through investment bankers in the capital markets.

However, these industrial loan operations of the Reconstruction Finance Corporation and the Federal Reserve banks have not been of major significance. In three and one-half years, the two agencies disbursed total funds of less than \$250,000,000, and by 1937 such loans had tapered off to very insignificant amounts. Thus, it is possible that something more permanent should be considered. Among other suggestions, we have heard some for a government intermediate credit bank or a federal mortgage corporation, both of which presumably would use government funds to provide credit for or purchase shares of small industrial concerns which are unable to secure their capital requirements either from commercial banks or through the ordinary channels of the capital market.

I have gone to some length in commenting upon this problem because it is one which appears quite vital to me. At the same time, this letter does not by any means represent an exhaustive survey of the situation. Therefore, if you have any further questions on this problem I should be

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pleased to go into the matter with you and in any case would be gratified to receive any ideas on this subject which you may have.

I am sending a letter substantially in the same form to Representative Beiter, who forwarded to me a similar letter which he had received from Mr. Percival V. Bowen of Buffalo, New York.

Yours faithfully,

William O. Douglas,
Chairman.

The Honorable Jas. M. Mead
House of Representatives
Washington, D. C.

Enclosures.

GROUP MEETING

February 1, 1938.
9:30 a.m.

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

H.M.Jr: Last night I was a little worried about Mr. Taylor's attitude about the deficiency on our Baby Bonds, and I called up Mac; and I thought the time to do our fighting was now rather than later, because once it gets out and becomes an issue, it's pretty hard to fight it. So that an explanation - just tell me again.

McR: I talked to the clerk of the Committee. Of course, the clerk of the Committee is not permitted to notify a department what is going to be in a report of a bill, but I said, "I know, Mark, you can't tell me that, but my boss wants to go talk to the Chairman of the Committee, if you're not going to give us what we're asking for. I want to know whether it is necessary for him to talk to him now." He said, "No, it isn't necessary for him to talk to him now." He said, "You might get your fingernails trimmed a little bit, but you won't get any blood on them."

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

McR: So ...

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

McR: It will be all set.

H.M.Jr: O.K., thanks.

Now, Mac, on this matter, I understand that Mr. Magill recommends that we remove Collector Kelly from New Jersey.

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McR: Mr. Helvering recommends it.

H.A.Jr: (Smiling) Oh, it's Helvering. I'm sorry. I made a mistake.

Magill: Very natural mistake.

H.A.Jr: I just wanted to know who the "butter and egg man" of Jersey City should see....

Klotz: Oh, good.

H.A.Jr: But that's not original. ...when he calls on us. I want to know who's going to see him.

Magill: Have him see the Commissioner.

McR: Yes, Ros very much prefers to stay out of personnel cases.

H.A.Jr: Well, that's ...

McA: I talked to Guy about it. We talked about it last week, and we had to have it back yesterday. Of course, what he did with it is just what he ought to do; turned it over to Elmer Ireby, had him write up the report. He signed what Elmer put up. I started to put it back to him yesterday, told him to have the conference before we sent it in. Herbert and I talked it over. He'd gone over the case. And we both felt that Guy, unless there was some reaction about White House support on it, might be in an embarrassing situation on that particular thing.

H.A.Jr: Well, this carries out my understanding with Magill - I just tease him - because there is no reason why he should get in on this. I mean if anybody gets in on it, being political, it would be Gibbons.

Gibbons: I haven't seen it yet.

H.A.Jr: Well, you might - I mean this is a very difficult one.

Gibbons: I'll make you a bet it comes to me first. I mean the politicians.

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H.M.Jr: But I'd make a bet with you you wouldn't handle it.

Gibbons: Well

H.M.Jr: I mean to a conclusion.

Gibbons: Sure. I have a general idea of what this fellow has been after.

H.M.Jr: I mean, without being ...

Gibbons: Oh sure.

H.M.Jr: I mean just as well handle it in the beginning as in the end; do it in the end.

Mac, what you can do for me on White House strategy - I think there are two things we can do. We can ask the fellow to hand in his resignation or we can have an alternative letter removing him, and when I go over there Wednesday for lunch with the President, I'd like to take both of them.

McR: All right.

H.M.Jr: See? And will you get those letters - I mean you might as well keep this and see that - give it to Mrs. Klotz so she can see I take it to the White House. It's a very difficult thing, because this fellow Kelly has been very smart. What?

McR: I say he's smart.

H.M.Jr: But I might just as well handle it.

McR: But there is no question of the facts, and we don't have any alternative, it seems to me, and even Guy admits he doesn't.

H.M.Jr: Who wants to help me out on small business men? I mean who is it that sits in on some of this stuff? George, I haven't called on you recently. What?

Haas: All right.

H.M.Jr: I'll give you - and I'll give these people an

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appointment, Mrs. Klotz, Wednesday after my meeting with the President. Three o'clock is open Wednesday. Find out what time - I don't know when I'm seeing the President - about an hour, see?

Klotz: Wednesday. Yes.

H.M.Jr: We'll let George sit in on it. And then there are a couple letters coming in from these small business men, some letters that Chauncey had and I didn't know who to give them to.

Now, here's - before you follows give me a report on how to handle the banking situation, just thought you'd be interested that Mr. O'Connor came in last night to say good-bye to me. See, this was me, no one else. And he says, "I want to say good-bye to you." I mean this took place in my office, nobody else's office - in my office - and he says, "The only way I can describe how I feel toward you - I love you."

Klotz: Look at Bell.

H.M.Jr: The only fellow around town that keeps his word and is a square-shooter and treated him properly, and no one else around town has kept his word. But, in repeating it to somebody, they said they thought he had been associating too long with Elisse Landi.

Well, this here - I better say this one first. Then he writes me a memorandum: "A. P. Giannini had a conference with Mr. Crowley 2:30 Saturday. Mr. Giannini reported after the conference that the chairman told him he would grant his application for branches of state banks, as requested."

Wright: He what?

H.M.Jr: "... he would grant his application for branches of state banks, as requested. This merely completes my memorandum to you of Saturday."

Are you (Upham) sort of acting as secretary to this Treasury committee? (Hands memo to Upham) Is that all right, Wayne, with you?

Taylor: (Nods yes)

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- H.M.Jr: Now, dear Mr. Eccles tells us they served notice on him a year ago: no more branches, and - but they'll let him take on more state branches. Now, who's ready to tell me what - is somebody ready to report? Are you (Oliphant) ready to report?
- Oliphant: Part of it on
- H.M.Jr: Wayne?
- Taylor: Haven't got the legal aspects of it as yet.
- H.M.Jr: Well, is that - could you have - has it got to you, or haven't you got time to digest them? What?
- Oliphant: There's two questions. Question of man like Tom Smith and question of this sort: - ...
- H.M.Jr: Yes. Little louder.
- Oliphant: Then the general question of the Secretary of the Treasury's legal relations to all the organizations concerned - all the organizations in town which might be concerned with that situation. And that later turns out to be a bigger job than we anticipated.
- H.M.Jr: That's all right.
- Oliphant: It will take a day to finish it up.
- H.M.Jr: O.K. That's all right.
- Oliphant: Now, on the first thing, when we look into the law we find very rigid legislation beginning eight days after the Treasury Department was organized, to prevent people from being employed who deal or have anything to do with dealing in Government bonds. This apparently was not gone into earlier when Eccles was here and when Tom Smith was here. And it looks like the only feasible solution for it, both to legalize their employment and give them full access to the records they would need to work with you intelligently, would be for them to be employed - their nominal employment to be either by A.F.C. or F.D.I.C. rather than in the Treasury.
- H.M.Jr: I thought - I thought - now, for instance, what

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you're telling me surprises me very much, because I thought you always advised me that only applied to the Secretary of the Treasury himself.

Oliphant: No, it applies

H.W.Jr: Well, I have never got any such ruling from you, because I have asked for this two or three times on account of my own family and then on account of other people who are in the Treasury. And I have never been so advised; as to myself, yes, but not as to anybody else.

Oliphant: Well ...

H.W.Jr: Positively never been advised that way before. Well, say so yourself. I mean in connection with people in this room who came to work and - I mean their list of securities that you go over with them. And I have never, never been advised that, other than the Secretary of the Treasury, they couldn't own or buy or sell a Government bond.

Oliphant: Well, all requests for rulings by the department - legal department - on the legality of the employment, so far as I know, have been answered.

H.W.Jr: Well now, do you mean to say that an employee of the Treasury Department can't buy a Baby Bond?

Oliphant: No, he can't be engaged in the business of dealing in Government bonds.

H.W.Jr: well, that's one thing. But the thing that you have ruled on me is that I can't buy a Baby Bond.

Oliphant: well, there is a special rule relating to you, with reference to ownership.

H.W.Jr: Yes. But how about an Assistant Secretary?

Oliphant: That rule doesn't apply.

H.W.Jr: Oh.

Oliphant: But the rule does apply for all employees from top to bottom so far as engaging in the business of buying and selling bonds.

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- H.M.Jr: Well - and that would apply to a man, Mr. X, who was the President of a bank, wouldn't it?
- Oliphant: Yes. Now, there is no such limitation on the employment of people by R.F.C. or by F.D.I.C., either of which would give it - be both a legal connection and also give access to the confidential records.
- H.M.Jr: How about coming down and volunteering his services?
- Oliphant: That would be perfectly legal, for him to come down and volunteer his services, but we'd have a difficult problem of authorizing him to have access to confidential records if he didn't take an oath of office.
- H.M.Jr: I see.
- Upham: Of course, a National Bank is definitely prohibited from dealing in securities, so a National Banker couldn't be said to be engaged in the business of dealing in Government bonds.
- Oliphant: Well, he doesn't - he buys and sells for his portfolio.
- Upham: For the Bank. That's not the business of buying and selling securities.
- Oliphant: Well ...
- H.M.Jr: I think he raises a very good point. I think he raises a very good point.
- Upham: I think the Comptroller holds that. He may be wrong, but ...
- H.M.Jr: Well, anyway, I think he raises a very good point. You're (Oliphant) not ready to report on that particular phase.
- Oliphant: Well, I'll be glad to go into the details of that.
- H.M.Jr: Well, I would. Well, the point - supposing I wanted to bring down a President or a Vice President of a National Bank. Could I pay him \$25 a day and his expenses?
- Oliphant: Yes.

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H.M.Jr: Hun?

Oliphant: (Nods yes)

H.M.Jr: And - now, I could pay him out of this Emergency Banking money, couldn't I - that '33 Act.

McR: Yes, you could pay him out of any of the ones that you've got here.

H.M.Jr: But you feel I could - the fact that his bank, the portfolio

Oliphant: If he came down on that basis, then the problem would be the problem of giving him access - allowing him to have access to the confidential records of the Department.

H.M.Jr: But he could have access - he could do it if he was on the payroll of the F.D.I.C.?

Oliphant: That's right; then he would have taken an oath of office.

H.M.Jr: Well, it looks to me as though I was just circumventing the law. I wouldn't want to do that.

Oliphant: That isn't true, because ...

H.M.Jr: But I think the point - if the law says somebody who deals in Governments, I don't consider that a National Bank does deal in Governments. I mean they're very careful about that. Take a look at it.

Oliphant: All right.

H.M.Jr: Now, that's that. That is the employment of special assistants. But my relation generally to the Comptroller you're not ready to report on.

Oliphant: No, that's a large order.

H.M.Jr: O.K.

Oliphant: Of course, it's the relation to the Comptroller and all the other agencies around here.

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H.M.Jr: Now, I think that I can call up, if you want me to - listen to this, Wayne, one of you - or I don't see why Upham can't call up Mr. Crowley and say that we'd like to know - well, we have this information and we'd like to know what there is to it, that's all - about his licensing ...

Upham: Oh yes.

H.M.Jr: ... additional banks for Giannini.

Upham: AS a matter of fact, he's asked me to see him this morning on another memorandum which he's preparing for you.

H.M.Jr: Well, will you ask him that informally?

Upham: Surely.

H.M.Jr: Is that all right with you, Wayne?

Taylor: (Nods yes)

H.M.Jr: Do you see any reason - incidentally, you (Upham) are invited for lunch today. Mr. Eccles is coming over. I mean I want you to come back into this. One o'clock.

Taylor: State banks - are they member banks?

Upham: Probably not. Otherwise it would be the Federal Reserve.

Taylor: Seemed to me that way.

H.M.Jr: Was it you (Upham) that sent me this?

Upham: Yes.

H.M.Jr: This doesn't mean that you subscribe to Professor Cassel's ...

Upham: No, but I thought it very interesting.

H.M.Jr: It is very interesting, but when you get all through Cassel doesn't say - he criticizes the Federal Reserve policy, says they don't conform to what the President laid down for maintaining uniform purchasing power for the dollar; but he doesn't say what to do.

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Upham: Well, he says what not to do.

H.M.Jr: Yes, exactly. But this is the second article I've had by Cassel, but he doesn't say what to do.

Upham: That's true.

H.M.Jr: What?

Upham: I think that's true.

H.M.Jr: But I was very much interested. George, take a look at it. But the trouble with Cassel is, you read him and he's never - he's always very critical but never positive.

But coming from you - I mean I just - I had to read it three times. I just wondered, I mean.

Mac, you all right?

McR: (Nods yes)

H.M.Jr: Good.

You (Upham) got anything?

Upham: I have this very crude thing of my own manufacture on those points that you asked me to get about the different treatment by the agencies. I'll want to do it over.

H.M.Jr: All right.

Upham: Just as I started in here, I was handed a letter to you by the Comptroller, which I haven't had time to read, which suggests an amendment permitting banks - National Banks to underwrite investment securities in very limited circumstances. I believe he mentioned it to you.

H.M.Jr: Have you had time ...

Upham: I have not had time to read it.

H.M.Jr: Well, will you? And right on that, here's a suggestion from Burgess along the same lines - also limited, and very interesting, and I think distinctly worth while;

I mean on permitting banks to - which I asked him for. I asked him for this just the way I asked for that. I mean this thing here - I think we've got this lid screwed down so tight that it's almost impossible for people to borrow, and as Burgess points out - he says, "You talk about your monopolies. You're giving a handful of underwriters a monopoly, and if they don't want to underwrite - the thing is completely in their hands." Now, it's just in the hands of a dozen people, practically. He said, "They've got complete control."

And he makes a suggestion which I think - and this committee - I'd like to refer this, Wayne, to this some banking committee, which would bring Orlin in. Doesn't he - his representative is on this committee. And I'd like you fellows to study this. But I think - you (Klots) make a note that Burgess's letter of the 29th - I notice he sent a copy for Harriner - just as received, and give it to Ugham. I'd like to get into that. I think it's distinctly ...

Bell: Is this the camel's nose under the tent?

H.A.Jr: Excuse me?

Bell: Is that the camel's nose under the tent?

H.A.Jr: How do you mean?

Bell: Oh, just edging back, and in a couple years - too limited to do any real business, so you'll have to lay the bars down a little more, and first thing you know you've got the banks back in the underwriting business.

H.A.Jr: I don't know what the answer is, Dan, but I do think you've got about ten investment houses that completely control the situation who took a licking to the extent of ten million dollars last year in their capital; so it's a fight.

Bell: That will be worse if you magnify it and put that ten million dollars in the banking structure.

H.A.Jr: You may be right, I don't know. But what I'm trying to do here is besides what I'm trying to do - I'm

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spending a lot of time with S.E.C. and I want to go into this whole question of - and I think we're going to have it thrown in our lap this week - of a legitimate business man that wants to borrow either for his daily business needs or his working capital, or whatever he needs. And I think it is partly fight and I think it is partly possibly too tight restrictions. I don't know, but I'm going to make it my job to find out. I've been begging them to bring me in examples of people who can't borrow, but it's awful hard to get them. People are terribly afraid to open up, and the fact remains that the flow of capital for investment purposes is just completely - you've got another log-jam the way we had the first part of this Administration.

Now, whether the banks should be permitted in this very limited way, the way Burgess suggested, or not, or whether the investment trusts should be permitted to do this thing, or people like commercial investment trusts, and the one at Baltimore - whether they should be permitted to do it, I don't know. But some place or other I think you've got to have more than just one group of underwriting houses to do it, that's all.

Now, when Tom Smith was here, he openly disagreed with us on the thing that we took. He was very shoveboard about it. He thought we were making a mistake.

I'm not prepared to say, but I'd like to go into each one of these people who used to be in the business and find out what is the matter. There's something definitely wrong, and I don't know that anybody's making a survey, and I've been asking people like Burgess and the Comptroller. I'm going to ask my friend over in Baltimore - what's his name?

Taylor: Griswold.

H.S.Jr: (to Klotz) Make a note - I'm going to ask Ben Griswold of Baltimore to come over and talk to me and different people, and find out what's the matter.

Oliphant: B. Howell Griswold.

Taylor: Junior.

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H.M.Jr: What?

Taylor: B. Howell Griswold, Junior.

H.M.Jr: By the way, did you find out the name of a good investment banker

Taylor: I'm working on it.

H.M.Jr: ... in Rochester.

Taylor: There don't seem to be too many local ones in Rochester. Mostly branches of Buffalo and New York. Apparently funny situation. I think it's terribly important on this subject to differentiate between borrowing and capital in the business. Now, most of the conversation that I hear around this town, say, thinks that credit is what these people need. Now, they don't need that a damn bit. What they need is junior money in their business. And all the Wallace conversation, all the other conversation, this question about getting the banks into the underwriting business, haven't got a damn thing to do with the fundamental thing that is underneath it.

H.M.Jr: I think I agree with you. The thing I'm worrying about is the fellow who wants new capital.

Taylor: That's right. Should be new capital in the form of equity capital rather than borrowed capital.

H.M.Jr: And the fact they're getting all mixed up on - part of our trouble on surplus taxes - they say they pay out all of their working capital in the form of a surplus tax, and then when they have to borrow it back to get new capital, they can't get it. Well, I think the trouble is that on account of many reasons it is difficult to get junior capital, and that's got nothing to do with the surplus tax. But the surplus tax, selling on them to pay it out, aggravates a situation. But the situation is there not due to the surplus tax, but because we've got so many lawyers, it's so expensive to get anywhere, that the surplus tax aggravates it, and therefore they blame it all on the surplus.

Do you (Magill) think that's

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Magill: A good deal in that.

H.M.Jr: What?

Magill: Good deal in that.

Olyphant: Law firm in as important a center as Indianapolis throws up their hands - "We don't know, we don't understand the S.E.C. We - I'd like to go down to New York." One of those five firms down in New York - I mean five law firms.

H.M.Jr: Well, I just want to serve notice on the crowd here that I'm digging, and this same committee which I've set up - I'll keep throwing it at you, and then you people can throw it back at me. See? But I'm keeping - I'm asking questions. Anybody that's got anything, why, put it in the pool.

All right.

Upham: That's all.

H.M.Jr: Gibbons?

Gibbons: Nothing.

H.M.Jr: Strictly in this room, I've been told to look around - I mean it's marked triple-confidential - for another Collector of Customs for Savannah. I don't know why. I'm going to try to find out. C-o-n-f. In place of Cone. I don't know why, but they don't seem to like him across the street.

Gibbons: George - Senator George - I think he's been reconfirmed.

H.M.Jr: No, the name was held up at the White House.

Gibbons: Well, I meant it went through

McR: went over there.

H.M.Jr: Went over there, then they sent it back to me. But it was marked triple-confidential. In other words

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Gibbons: I wonder what they'll do with this fellow down at Norfolk. Carter Glass and Harry Byrd are both bearing down. Of course, the White House - now, the only thing we can do is send it over, send the name over.

H.A.Jr: But you might - as I say, I don't know what to do.

Gibbons: That's the first - when you asked me

H.A.Jr: Make a note.

Gibbons: When you asked me, Senator George had called me up and I knew the name had gone through. It's over at the White House.

McR: Yes, I knew it. But I met Cone when I was down there; had quite a visit. I think he's a pretty good man.

Gibbons: Well, as far as his Customs ability he's all right, but it's something over there; we don't know. Do you know what it's all about?

H.W.Jr: On Mr. Cone? No.

Gibbons: You haven't any idea what it's about?

H.A.Jr: No.

Gibbons: No.

H.A.Jr: All right, Steve?

Gibbons: Yes.

H.A.Jr: Dr. Parren called on us yesterday on his bill for three million dollars to fight syphilis, and the position I took was this - and I want to check it with you (Bell) -; that he brought this to me about this time last year and at that time I think I took it to the White House and we agreed - the President said that he wanted this money spent over a period of years. Am I right?

Bell: I just have a faint recollection of it.

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H.M.Jr: Well, he said it was too late, that the bill was in - Treasury bill - and I couldn't go up on the Hill and say, "Now, I want some more money."

Dr. Parran comes in yesterday under the wing of Mr. McReynolds and says, "Now, I want to - we start hearings on" - I don't know, the 14th, something like that - "on this bill." And he wants me to write a letter endorsing it, calling for three million dollars beginning with July 1, 1939. I said, "No." I said, "Again I'm on record - no more money."

"Well, we have to have enabling legislation."

So I said, "Dr. Parran, I'm with you on this, but why didn't you bring it to me last fall?" I said, "Did you bring this up before the Treasury Budget Committee?"

"No."

"Have you brought it to Mr. McReynolds' attention?"

"No." So he says, "Well, I don't know. I thought Miss Roche was going to do it. So what about signing a letter recommending this?"

I said, "No, you should have got your enabling legislation through last fall, or at least tried to. Now, we've been on record, or we could have appeared."

"We're going to try to get this through. We want three million dollars earmarked."

"But it's three quarters through - the Treasury bill. I'm not going to do it."

"Send it over to Bell. Let Bell"

I said, "No, I'm not going to do it. I don't work that way with Bell. Might put Bell on the spot."

He said, "I guess I've been kind of dumb about it."

I said, "I'm not going to argue about it. I think

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it's terribly important. I'll see what I can do. But the best suggestion I've got is that you get enabling legislation to start this July 1, '40." I said, "We, the Treasury, can't come along now and ask for three million dollars." I said, "Why you haven't been around here before I don't know."

Now he's going to start his hearings, and I can't - I can't start anything calling for three million dollars at this time. But you and I, I think, are going to be put terribly on the spot.

Bell: I don't think I've seen that bill. The bill I've seen was 200 million, and one 25 million

McR: Fortunately, I didn't even bring that to the boss at all. I merely turned it down, and we reported to the Committee on the Hill that we couldn't approve. We had to rewrite the report over here that came from Public Health.

Bell: Yes, I remember that.

McR: But they took that; they realized they had to do that. But here - Doc said it's a perfect situation on this. He can't get any money in the budget by regular submission because there isn't any enabling legislation; then when it comes along a little later, he can't get enabling legislation because he hasn't got any money in his budget. So ...

Bell: well, the bill has been introduced for three million dollars.

McR: Oh yes, and he's been asked to appear at the hearing, and he was in - he came in last week to me with a proposed favorable report on the bill and I told him we couldn't send that, he'd have to talk to the boss about it. So we made a date to talk to the boss, and that's how it comes up.

Bell: so you're not going to make a formal report.

McR: Have to make a formal report. We've been asked for it.

Bell: well, that will have to come from the Budget. Wouldn't it?

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McR: Sure, it's got to come through from the Budget. But the point is - the boss's point and the point I originally raised was that we won't send over a - throw the thing on your lap or send over a proposed favorable report on it when the Secretary of the Treasury couldn't, on his own account give a favorable report of it even if you approved it.

H.A.Jr: I mean there's nobody to blame but Dr. Parran, and he admits it. But what we've got to get is this terrific publicity machine which he's paid lots of attention to, and he's spent all of his attention on the publicity and he completely overlooked the necessity of coming around last fall and saying, "Now, I better get the enabling legislation," so forth and so on. And you and I work so closely together and I'm not going to throw this into your lap. I'd like you to think about it, because I'm going to see the President and talk to him about it at noon tomorrow. I don't know just what to do.

Bell: Well, I see no reason why you shouldn't discuss it with the President. I would do so, knowing his interest in it and knowing the statement he made to the medical profession.

H.A.Jr: But Parran has nobody to blame but himself. He tried to throw it a little bit on Miss Roche. But he's just exactly where he was a year ago. It's very stupid. But I told Parran, "Notwithstanding that you've made this blunder and everything else, I'm going to see what I can do to help you."

I'd like to help the man if possible, because I'm thoroughly in accord with what he's trying to do and I think it is most important.

Bell: Well, I think maybe the three million dollars is more justified than the eight million dollars for the Army.

H.A.Jr: Pardon me?

Bell: I think maybe the three million dollars is more justified than the eight million dollars for the Army that the President sent up in his message.

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H.M.Jr: I agree with you. I don't know anything that's more important.

Bell: Certainly was put on the spot there.

H.M.Jr: "no?"

Bell: The President. No justification for that, whatever, in my opinion.

H.M.Jr: Tell me what you think about it?

Bell: Yes.

H.M.Jr: Please.

Gibbons: Pardon me. You know the Coast Guard Air base at San Francisco was recommended.

H.M.Jr: What about that?

Gibbons: Well, the President said, "Let it go over to 1940."

Bell: "Right."

McA: (Laughs)

Gibbons: I got a call the other day from a Congressman, and I said, "Bell is the Budget Director." He says, "I understood it was going over until I got hold of Dan. Well, is it or isn't it?"

Bell: Well, the President signed a memorandum that I put up to him. And I put up a memorandum this way. It would unsettle all the Treasury estimates to include the Coast Guard at San Francisco. I told him that that station was not a priority; that the Coast Guard had definitely said that the one on the Atlantic Coast had priority, and that if he sent this one he'd have to send the other one. So he did not sign the estimate, but sent it back and said, "Eliminate it. Can't we let it go over until 1940?" So I have eliminated it. But I don't think, within the room, it will stick. McAdoe will get hold of the President.

Gibbons: Congressman claims there's a definite promise from the Federal Government.

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- Lochhead: Although the price of gold has gotten up to \$35 in London, there doesn't seem to be enough volume to say that we'll lose anything for a little while at least.
- H.M.Jr: Wayne?
- Taylor: (Nods nothing)
- H.M.Jr: George, will you come in at 11:30. You're ready to give me a report on business conditions. Would you (Taylor) like to sit in on it?
- Taylor: (Nods yes)
- H.M.Jr: Herbert?
- Gaston: Thought you might like to see this Frank Kluckholm article on Mexico - "Revolution on Silver Platter." Just mentions the silver incidentally - that we're helping to finance their revolution. Kluckholm is the man that wrote that story that caused us trouble, you know, after the conference with Suarez - New York Times man.
- H.M.Jr: Well - I mean the revolution against what?
- Gaston: Oh, it's just the general revolution that's going on, of the distribution of land and so on, and he cites the various - I haven't read it very carefully - cites various injustices to American property owners, and we're putting up the money.
- H.M.Jr: I get it at home. It's all right. I mean I won't deprive you of your copy. I'll get it.
- Gaston: I just bought that copy.
- H.M.Jr: All right, I'll read it.
- Olipiant: (Nods nothing)
- Magill: I'll settle that processing tax, then, as you and I discussed it?
- H.M.Jr: Well, I read the minutes on this question and it looks as though it's just about the way I originally wanted

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it, doesn't it? I think I'm right. Now, I'll repeat it so you fellows ...

The taxpayer who made a deduction on his income tax in 1934 for processing tax paid - that in his case we'll say to him, "If you have asked for a refund, before giving you the refund we will deduct the amount that we allowed on your return." To the man who has not asked for any refund, we will permit him the full deduction.

Is that right?

Magill:

That's right.

McA:

That's just what they're proposing to do in that letter.

H.M.Jr:

I know, but they've been talking about it for ten days. I read my minutes; that's what I thought was fair in the beginning. Is that right?

Magill:

That's right.

H.M.Jr:

That's the way we

Now, I just want to say something, Mac, and I wish you'd kind of think about it. There may be nothing to do about it, but it bothers me a little bit. It's happened several times before and it bothers me quite a lot. This report on how to handle bonded whiskey in Kentucky is on my way in my office.

McA:

It's on my desk.

H.M.Jr:

Now wait a minute. Thirty minutes before you bring it in here, somenow or other, it looks as though Senator Barkley knows it is on the way to my desk, and he calls me up. Now, it's happened two or three times before, as though some place, somewhere, there is some clerk who knows that this report is on my way and gets word to Senator Barkley to call me up, which he does. As you yourself said - he said, "Boss, I tried my best to get to you. I brought it in the minute it came to me; rushed it in so I could get it to you before somebody would call you on the phone."

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But somehow or some place, somebody telephoned Barkley - "This is on the way to the Secretary. Call him up quickly and hold it up."

Now, this - I think it's you (Taylor), wasn't it, spoke to me once before.....

Taylor: (Nods yes)

H.M.Jr: ... about how these things - that some mysterious chain that seems to be able - and it's usually on Alcohol, isn't it?

Taylor: I seem to remember it in connection with Alcohol more than anything else.

H.M.Jr: Now, there is some clerk somewhere that knows that these things are on my way in my office, and they get word. And that same day on the telephone - "Mr. Rosenstiel, President of Schenley, wants to talk to you." Well, I told Kieley, "I won't talk to Mr. Rosenstiel. Find out what he wants."

"No, Mr. Rosenstiel only wants to talk to you."

That call is cancelled. Now, there's that, plus Barkley. See? And yesterday the report of Clarence Lina for the Journal of Commerce says that report is on your desk. I said, "Yes, it is in my office." But the fact - some place, Mac, there is a leak. Now, I don't know where it is, but it's happened before and it's one of those things, I think - I mean these reports on Alcohol; they know they're on my way. What?

Mac: I have a very definite idea about what probably happens. Barkley's office probably called Alexander and asked him if he had got his regulations out, and Alexander probably told him he'd signed them and sent them to the Secretary for approval. I can find out whether he told them openly that way.

H.M.Jr: All right. But the timing is too perfect. Now, the minute you got them, you came in here, didn't you?

Mac: Yes.

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H.M.Jr: How did they know they had gotten from Oliphant's office to your office? I mean that's the ...

McR: It isn't that, because I asked you

H.M.Jr: You said ... I wanted it; you said, "Well, they were in Mr. Oliphant's office for about two days."

McR: No, they had them 24 hours.

H.M.Jr: What?

McR: They had them 24 hours.

H.M.Jr: All right. You told me a couple days. All right, 24 hours. Then you said the minute that they came to you, you brought them in to me.

McR: Five minutes from the time I got them.

H.M.Jr: Some awful quick work.

Gibbons: When were you called, between the time it left Oliphant's office and his office?

McR: Didn't make any difference. Would have had the same effect any time after they left Alexander's office. We were trying to avoid appealing to the Secretary.

H.M.Jr: Call to my office Saturday morning from Rosenstiel and from Barkley.

Bell: I think that is innocently done sometimes.

Gibbons: Sometimes it is, but if it happens often, you can check back.

Taylor: They never miss.

H.M.Jr: What?

Taylor: They never miss.

H.M.Jr: If I'm right, Wayne, you're the fellow that talked to me some months ago; it bothered you so. Some night

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when we were walking home, you said they always seemed to know, and I think it was Alconol ...

Taylor: It happens on other things, but I think it is particularly on Alconol. I know things that come to - people called me up - that I didn't even know were coming to me, and they said, "We understand this is on the way to you and you're going to act on it." I didn't even know what the hell it was until they called me up about it.

McR: Well, there's a particular reason for those fellows wanting to do that. The liquor interests want to get a decision by the Secretary of the Treasury rather than a decision by the Administrator of the Federal Alconol Administration, and they deliberately watch and try to find the spot where the Administrator has taken an action that must be approved by the Secretary, in order to get the thing at the point where the Secretary has jurisdiction.

H.W.Jr: Well now, what happens - I've got to take a couple of hours and study this thing, see, and have to call in people and everything else; got to burn myself up using a couple of hours on this, when I might be studying now to get some junior capital for some legitimate business. Well ...

McR: It's a very troublesome thing. It's not a complicated question.

H.W.Jr: I still say

McR: I'll find out. I'll find out on this case where ...

H.W.Jr: I wish you would, because I'm not

McR: I think it can be done.

H.W.Jr: I'd like to know.

Gaston: I think it would be a good idea for Mr. McReynolds to put out a letter of instructions on that subject. People ought to know enough ...

H.W.Jr: No, this is - if I'm right, this is too smooth. No letter of instructions.

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- Taylor: Same thing other places. I mean I remember over in Agriculture exactly the same thing was true. Those people knew within ten minutes when anything had left one office and gone to another. How they know, I can't tell, but they know.
- Bell: I have the same trouble, Mr. Secretary, in the Budget on W.P.A. These Senators and Congressmen, and their secretaries, know the ropes, and they'll start with the clerks and go right straight through, and they have a line - a telephone to them right through their desk. After they get word then they'll call me, and then they'll put pressure on the White House.
- H.M.Jr: I'm suspicious where it is. But just do a little sleuthing, Mac, will you?
- McR: Yes.
- H.M.Jr: No written orders.
- Incidentally, I couldn't help but be amused, seeing that Tom Dewey has the same trouble I had. Read the Times story on Tom Dewey. Also a good man! On this publicity.
- Gaston: All right.
- H.M.Jr: If you can, write Tom Dewey a story - a little letter for me to sign: "Dear Tom: You and I both started something about the same trouble, and I was able to work out of mine. I'm sure you will work out of yours." Something like that, see?
- Gaston: Yes, yes.
- H.M.Jr: Write a little note about that, will you?
- Gaston: Uh-huh.
- H.M.Jr: All right, gentlemen. I'm sorry to make it run so long, but I got lots of troubles.

February 1, 1938.
10:41 a.m.

H.M.Jr: Hello.
Jerome
Frank: Good morning, Mr. Secretary.

H.M.Jr: How are you?
F: Very good, thank you.

H.M.Jr: I was just inquiring about our little utility company, up the Genesee valley.
F: Yes.

H.M.Jr: How are we coming?
F: Well, the boys have done. I was out of town yesterday. One of them came in to see me this morning and showed me what looked like, at a hasty glance, a pretty good plan.

H.M.Jr: Yes.
F: I haven't - neither Bill nor I had a chance to take the matter up in any detail with the other members of the Commission.

H.M.Jr: Yes.
F: And I want to do that this morning. Want to get clearance on it, and I think we can bring something over this afternoon, if you'd like.

H.M.Jr: Oh really. Now, let me just -
F: I'm not sure about that. Perhaps I'd better check to make certain.

H.M.Jr: Well, you don't mind my crowding in.
F: No, indeed. We want to be crowded.

H.M.Jr: Well, I tell you. The President is sending over a Congressman Bender with about ten charts this afternoon.
F: Yes.

H.M.Jr: How about if we said tomorrow morning.
F: Very good.

H.M.Jr: I mean that wouldn't.

F: No that wouldn't crowd us.

H.M.Jr: Well supposing - would you think you'd be ready, say at - by ten-thirty tomorrow morning.

F: Yes, I think so.

H.M.Jr: What?

F: Yes, I think so.

H.M.Jr: Well, supposing I put you down and if I don't hear from the contrary - is that a good time for you?

F: Very good.

H.M.Jr: At 10:30 tomorrow.

F: Very good.

H.M.Jr: Now, I want to ask you something. Is there anything to this criticism of the cost of registration before your SEC?

F: I - I'm not well informed enough to know.

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

F: But - do you mean at small enterprises?

H.M.Jr: Yes. Well, I mean at any of them, small or large.

F: Would you like - would you like a report of some kind on it.

H.M.Jr: Very much. I mean, I'm constantly getting that.

F: Very good. I'll try - I'll take it up with the Commission this morning and see if I can get a report on it.

H.M.Jr: I mean you don't - I mean - all I'm trying to - you know by now, I mean - I'm going to work I mean I'd much rather come and ask you, you see?

F: Yes, surely.

H.M.Jr: And I think we're all working for the same end.

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F: Of course.

H.M.Jr: But I'm getting this all the time. I wonder what the answer is.

F: Well, let me find out and I'll try to get a report to you quickly.

H.M.Jr: And then ten-thirty tomorrow, unless I hear to the contrary.

F: Very good.

H.M.Jr: Right.

MEETING WITH MR. HAAS'S GROUP RE
BUSINESS CONDITIONS

February 1, 1938.
11:15 a.m.

Present: Mr. Taylor
Mr. Haas
Mr. White
Mr. Murphy
Mr. O'Donnell
Mr. Daggit
Miss Michener

H.M.Jr: I was saying to Murphy he'd better get in on this bank business, because he seems to know something about it.

Taylor: He does.

H.M.Jr: All right, supposing you take a look at this before I get too much excited about it, and give it to me tomorrow. Upham prepared it. Talk to Upham about it.

Haas: I thought we'd have Mr. Daggit start as usual. But I might tell you in advance that I - at the last meeting you suggested we have some other companies send us reports. We asked five: American Woolen; Pacific Mills, Cannon Mills - two cotton; Texas Corporation, and Standard Oil Of New Jersey. We got a hundred percent rapid response.

H.M.Jr: Good.

Haas: Standard Oil sent an assistant comptroller who was down here, asked him to stop in. Going to get some very interesting figures. He opened up his whole book; I just picked up the figures I wanted. And a breakdown as to different types of products.

H.M.Jr: Grand.

Haas: They only had them once a month, but they said they'd have them by about the 10th of the month for four companies - not only Standard Oil of New Jersey, but three others.

H.M.Jr: And I saw the Texas figures...

Haas: Uh-huh.

H.M.Jr: .. which surprised me. And on that thing - if we get American Woolen so bad - what's the matter? I'm going

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to ask you to bring in a report the next time on what's the matter with the woolen industry. I never saw such figures. They were terrible.

- Daggit: They had an over-expansion along with other textiles.
- H.M.Jr: Yes, but I didn't realize they were as bad as that.
- Haas: They're comparing now with the very peak of their production.
- H.M.Jr: Well, I still say I didn't realize it was as bad as that.
- Haas: They're worse than cotton.
- H.M.Jr: Then the other thing which I think is interesting - the fact that that tentative chart that you fellows prepared showing that the oil people are getting - that their inventory position looks bad, but the sales of gasoline seem to be distinctly up.
- Daggit: Yes. That is quite different, of course, from crude petroleum production, which the Federal Reserve Board uses, and which we use in the other chart.
- H.M.Jr: But I still say here are gasoline sales distinctly up.
- Daggit: Which is very encouraging.
- H.M.Jr: So I think that ought to be re-examined.
- Haas: No, that doesn't
- Daggit: No, that doesn't affect the comparison.
- H.M.Jr: It doesn't?
- Daggit: No. In fact, it bears out our idea that movement into consumption continues at a high level, but the production stays below ..
- Haas: ... consumption levels.
- H.M.Jr: I see. Well, it seems as though when we get to the

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point of consumption, in most all instances that's - it seems to be good.

Daggit: Yes.

Haas: In consumers' goods.

H.M.Jr: In - consumers' goods seem to be holding up.

Haas: That's right.

H.M.Jr: Huh?

Haas: That's right. Checks with your department figures. That's another ...

H.M.Jr: But the one bad one seems to be Woolen. Of course that's a manufacturing

Daggit: Yes, that's manufacturing.

H.M.Jr: But the consumption thing seems to be holding up very well, doesn't it?

Daggit: Yes, it does.

H.M.Jr: Well, if that continued, along after a while they'd eat into it, wouldn't they?

Daggit: They're already doing that.

H.M.Jr: I wouldn't ask for any more for the time being. I think we've got enough. Don't you?

Haas: No, I certainly ...

H.M.Jr: Let's watch it. I think getting these figures this way

I wanted to ask another question. I'll again let you fellows talk. If you (O'Donnell) don't mind, when I come around to you I want to ask you about the fourth quarter earnings. Just remember that. I mean if they're beginning to show up - I mean how they look in comparison with what we estimated; because the ones I see in the paper look awful good.

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I mean it seems as though the people - certainly in the fourth quarter they wrote off everything they could, but they still - take United States Steel and the rest of them; when they all get through, they still seem to have plenty of money left. I mean I wonder whether that was better than we thought or about as we thought. Do you know?

O'Donnell: I haven't made any detailed analysis. I'd be glad to do that.

H.M.Jr: I wish you'd get it - either the ones we want or the ones Standard Statistics uses. It looks to me so far that the published earnings look better than what I thought they would be, considering that November and December for most companies was bad. Will you take a look at that?

O'Donnell: Let me report to you on that next time.

H.M.Jr: Now, Mr. Haas, the purpose of this thing is for me to listen.

I can't - I'll get rid of this man, just shake his hand. Then I can concentrate.

(Secretary goes out to see Mr. Wingate, and returns)

All right, gentlemen. Now we're free.

Daggit: I think the trend of the stock market would give as good a picture as any of the point at which we are now. There seems to be - we seem to be at the bottom of one of these successive reactions that we have from time to time, and which seem to be characteristic of the period when the bottom in stocks or business is being made. Industrial stocks have not reached the low made in December, and that one was higher than the November lows. The volume of sales has not been as large as this in December, and was much larger than the volume in October, which seems to me to indicate that liquidation is drying up. However, we are at a point which we must watch carefully, because any - of course, any general decline from here might lead into a worse situation than we had anticipated.

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However, commodity prices in their market action to me have been very encouraging. In spite of the sharp decline in stocks, the E.L.S. sensitive commodity index has shown no more than a gradual decline, and is holding - seems to be holding very well, at about the December levels.

These are the weekly figures, which show how prices have become stabilized.

The foreign commodity price index has been weaker than the domestic. Reuter's Index has declined to a new low, below the low made in December, while Moody's Index, which is the most nearly comparable to our index, has held above its December low, in fact has not reached - has scarcely reached the average of the December level.

The various business series. The New York Times index has improved, but rather slowly, after the first upturn from the sharp drop at the end of the year. It seems to be a characteristic of business indexes to fluctuate fairly widely when the bottom is being made.

Now, automobile production is not - doesn't look so encouraging, partly because sales have been curtailed by the very cold weather of the past week. Production is expected to hold rather low during February.

Steel production turned down slightly this week. It is not shown yet on the chart. The authorities in the trade expect another upturn later in the month, probably increasing in rapidity during March, as I gather from the various trade journals. I might call your attention to the fact that we have declines - we had a decline in '37, had a slight decline in '36. These movements seem to be rather irregular during the winter months.

Construction we have shown more clearly on this large chart. Following the letting of WPA orders which raised heavy construction considerably during the latter part of the year, we have had the sharp drop as a reaction from this.

H.A. Jr:

Goshi

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Daggit: Well, this is just during a six-day period. We don't know what the full month period would show.

Residential has held up about the same as during the latter part of December. Turned up slightly, and is now at the same level as in '36.

H.M.Jr: All right.

Daggit: (to Haas) Do you know of any other things

Haas: Well, PWA rather than WPA.

Daggit: Oh, PWA.

Haas: Might stay with the domestic.

I asked Henry Murphy to call up some people in Detroit. He had previously lived up there and he had made trips up there for automobile contacts, and I asked him if he'd call them up and see what their views are with regard to the automobile situation. Might have that next.

H.M.Jr: All right.

Haas: And have Harry come at the end with the international.

Murphy: The persons whom I called at Detroit were Mr. Court, the statistician of the Automobile Manufacturers Association, ...

H.M.Jr: The what?

Murphy: Mr. Court, the statistician of the Automobile Manufacturers Association - Mr. DuBrul, of General Motors, Mr. Scoville, the statistician of Chrysler, and Mr. Stanford Taylor, the President of the Investment Research Corporation, which is one of the statistical organizations there; runs the investments for several investment trusts, and, not being directly concerned in the industry, they are sometimes able to give a better view of it than the persons who are concerned in the industry directly.

All four of them were pretty blue. They told me that sales in the automobile industry as a whole were

running 50 to 60 percent below last year, and they thought they might go somewhat lower before they went higher; but none of them believe that they would be that much below last year for the whole year. Their estimates ranged from 30 to 50 percent below. Three of them gave that range. Mr. Taylor, looking at the industry somewhat from the outside, was the most bearish of them all, and gave a range of 40 to 50 percent below. Since the production for the year just ended is almost even five million cars, the range from 30 to 50 percent would be two and a half to three and a half million cars, and the range from 40 to 50 percent would be two and a half million to three million; that's two and a half million to three and a half million, and two and a half million to three million. That isn't as bad as it seems, because the production in 1934 was about 2,900,000; so on the basis of about the mid-point of our more bearish estimate, we would be back to 1934 on a production basis.

- H.M.Jr: what proportion of total output is exported?
- Murphy: I don't know, Mr. Secretary.
- H.M.Jr: Well, that's terribly important.
- White: Much less than ten percent.
- H.M.Jr: Well now, wasn't - last year?
- White: Exports?
- H.M.Jr: Yes. Well, check. Don't let's guess; don't let's guess. Let's check what proportion of their business last year was export and what proportion of the fourth quarter was export - particularly the fourth quarter. I tell you, if you could get last year their export business by quarters, I think it would be very interesting. What the percentage of their export business is by quarters - that ought to be available.
- White: Have to get it from them, because our trade figures only give total amounts.
- H.M.Jr: I think it would be quite interesting. I think you'll see it shoot up in the fourth quarter.

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Murphy: I'd like to say in explanation of this position that this is out of my main field. Mr. Haas asked me to do it because I am personally acquainted with the persons and so am able to get personal adumbrations that I couldn't get otherwise.

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

Murphy: I asked all of them what they thought about the outlook for retail prices in the automobile industry, and all four of them rather emphatically said that they thought there was not much chance of automobile prices being cut materially, and for two reasons: first, because they didn't think the cost situation justified it; and second, because even if the price cut should be made either because of a changed cost situation or irrespective of the cost situation, they didn't think that the demand would respond to it materially.

One of them stated that he thought that with lower prices they would take in less in dollars than they do now. Another stated that he thought that with lower prices they'd take in about as much in dollars as they do now, whereas, of course, their costs would be higher. None of them felt their dollar volume would be increased enough by a cut to pay the cost of production of the additional units.

I asked them what they thought of credit terms in the industry. Well, they said they had hardened considerably during the past year, but they didn't think there would be any further change in credit terms as a result of the White House conference. Most of the things I discussed there were things that had already taken place. And they didn't think these hardened credit terms were one of the important factors in the industry, and they thought very few additional cars would be sold should credit terms be relaxed.

Mr. Scoville, Chrysler Corporation, particularly emphasized the used car situation. He said that used cars were a very bad problem now. And I know from past experience that Scoville isn't a person to whom used cars are always a problem, as is true in so many cases. But he said used car prices had gone down quite a bit and were still going down; that this, of course, increased the differentials

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between used car and new car prices, and it hurt sales in two ways. In the first place, many people who would be marginal purchasers of new cars instead buy good used cars; and in the second place, when used car prices slip, the dealers aren't able to offer good trade-ins any longer, and that cuts down purchases of new cars by persons who would be marginal purchasers of new cars in different times.

DuBrul said that General Motors Corporation was actually warehousing new cars now, which was unusual; that despite their greatly contracted production, the new cars were piling up on them to some extent - they are warehousing in Mountain City, where they have an assembly plant - but they expected to get rid of those on the spring bulge.

Their parts inventories, which were very high last spring, he says, have not been reduced, but they are not at all afraid of it. And Scoville said the same thing, that their parts inventory is still large, but they are content with it, not making any effort to reduce it at all.

All of them spoke much more encouragingly about the labor situation in Detroit than they have at any previous time that I have talked to them. They say that labor efficiency has risen quite a bit in the last six months, as we would expect it to do in a recession, when people begin to be afraid of their jobs. But they are none of them confident of what would happen to the labor situation if there should be either an attempt at a general wage cut or if there should be a general business revival, so removing fears of loss of jobs in workmen. They feel that if there is a revival, the labor leaders will likely fight it out on the labor question.

- H.M.Jr: That's a good report. I think with the automobile situation as bad as that - I think we better follow it every week. Let Henry follow it every week until she gets better or worse, because that is such a major part of our industry, and that sounds pretty sick.
- Haas: May I comment a little bit on that?
- H.M.Jr: Sure.

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Haas: I know these men he talked to, and although what Henry says is true, that used cars aren't a chronic problem with Scoville, I have noticed that when they are down in the bottom they really get a good deal bluer than the situation is. And people who have come in to talk to me recently - oh, people with investment trusts, and so on - they have been terrifically blue in the picture they've painted. And I think some of them do it unconsciously and others don't. I think they feel that if they're talking to anybody connected with the Government, the bluer they can paint the picture the better it is, - tax program, monopoly, and all that sort of thing - I think we can discount it a little bit.

So I asked one of these people in to see me, and he gave me this very blue talk, looking at it from the investment trust picture. I asked him, "You buying stocks?" after he got through, and he said - hesitated a bit. He didn't tell me, but he let me believe he wasn't selling any. He said, "Well, after all, I'd take more stock in the way the market's acting than I would in the economists' analysis." Then he went on to describe it. I said, "Now, just exactly what do you think will happen?"

"Well, what do you think? You tell me some other things."

I said, "I don't know. Just make your own guess."

And he gave a picture just about the way we're feeling about it.

H.M.Jr: Who was this?

Haas: This was Ellsna Friedman*, Vice President of

Murphy: ... General American.

Haas: General American.

Daggit: He's a good economist.

H.M.Jr: Oh, I thought that fellow up there - his name was Frank Altschul.

Haas: General American?

* Secretary & Treasurer of United Continental, 165 Broadway, NYC. An H. G. Friedman is a Vice President of General American.

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- H.M.Jr: Yes.
- Haas: I don't know. I've known Friedman for a number of years.
- H.M.Jr: Is he their head man?
- Haas: I don't know.
- Murphy: He's Vice President.
- H.M.Jr: Is that the way he felt?
- Haas: I pulled it out of him. Might get a spring bulge, might get another 40, 50 percent, and then they wouldn't make any money; but that's a lot better than '29.
- H.M.Jr: Well, I still - I'm glad to have you evaluate it, but I still say we ought to have
- Murphy: I could add several remarks on that. As a check, I asked each one of these four what they thought of the general business situation, because that would color their views of the automobile situation; and none of them were particularly bullish. They all felt that it easily could develop into another '29 recession, only of course starting from a much lower base. Naturally, all of them being somewhat Rightist, they said that it would develop into a bad situation unless the Government evidenced a much more cooperative attitude toward business than it had hitherto.
- Mr. Court, differing from the other three, felt that we also needed a great deal of pump-priming if we were going to get out of this. The other three disagreed with him on that.
- But I think the fact that these people all have a rather bearish outlook on general business - much more bearish than the outlook we have adopted here - doubtless colors their views on the automobile difficulties, and their views on the automobile industry ought to be interpreted with that background in mind.
- I checked Mr. Taylor's views in the same way that Mr. Haas
- H.M.Jr: Mr. Taylor?

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Murphy: Stanford Taylor, the Investment Research man.

H.M.Jr: Yes.

Murphy: And I remarked to him that on December 31 I noticed that they had no automobile stocks at all in their portfolio, and had they any today? He said, "Not a share." So he's betting his own money rather than - he's betting his employers' money.

H.M.Jr: They have no automobile stocks?

Murphy: They have no automobile stocks, and they're operating in Detroit; so they're sincere in their bearishness on the automobile situation.

There is another little piece of - little light on it that I ought to mention, and that is that the best record in the industry now is being made by Buick, much to the surprise of General Motors, since there are no radical innovations in the new Buick. They don't know why, but the new Buick has caught the public fancy, is going over much better than any other General Motors car, and probably than any other car in the market. And in one or two states it is now in third place in sales, having broken ahead of one of the low-priced cars.

Daggit: (Smiling) High consumer income.

H.M.Jr: What else?

Murphy: That's all, Mr. Secretary.

H.M.Jr: Now, I'd have him for a while do this each week, so that we - because it is so important.

Haas: All right.

H.M.Jr: Now, who is the next man?

Haas: Might take O'Donnell and then Harry.

O'Donnell: I deal a little bit in, instead of forecasting, - in history, because I want to tell you about our collections; and I have had prepared today on the

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basis of one day estimated the latest daily Treasury statement in comparison with our estimates that we made a month and a half ago. We had estimated for January, 1938, receipts of 308.2 millions. Estimating one day, we now estimate that we will receive 324.9 millions. That is 16 million dollars more than we estimated - approximately five percent more. This is our estimate.

H.M.Jr: Of when?

O'Donnell: This is for January.

H.M.Jr: I mean estimate as of when?

O'Donnell: This is the estimate early in January.

H.M.Jr: In which you estimated we'd get ...

O'Donnell: Get in ...

H.M.Jr: 308 million?

O'Donnell: That's correct. Now we think we'll get 324 - we did get it, but January 30 is just estimated. That is 16.7 millions more than we estimated, or five percent more. Now, from July through January our estimate is up 16.7 - that's the basis on which we worked - which is a half of one percent over.

H.M.Jr: Now, you're lacking one day?

O'Donnell: One day only.

H.M.Jr: Could you have that tomorrow for me?

O'Donnell: We'll have that late this evening.

H.M.Jr: Will you bring it in 9:30 tomorrow morning.

O'Donnell: And the detailed collections, which became available about the 25th of the month for the month of December - we were plus three-tenths of one percent, \$2,700,000 over what we estimated.

H.M.Jr: That's for December.

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O'Donnell: That won't be available for January until about the 25th of February.

H.M.Jr: Do we release this, George?

Haas: No, sir.

H.M.Jr: No.

Haas: You mean a comparison? No.

O'Donnell: We never do that.

This is January through yesterday on a collections basis. Make lots of errors, but we have lots of compensations - up on one thing and down on the other.

H.M.Jr: Well, the whole picture ...

O'Donnell: The whole picture ...

H.M.Jr: Decimal one. Lucky boy!

Haas: Has to be sometimes.

H.M.Jr: What else you got?

O'Donnell: Those were the main things I wanted to report on this morning.

H.M.Jr: All right, now, who comes next?

Haas: Harry, unless Miss Michener ...

Michener: No, I have nothing.

H.M.Jr: Trot out those South American things. Let's have a look at them. Either behind Mr. Taylor or there somewhere.

White: There were two others.

H.M.Jr: Well, everything is there.

Haas: There they are.

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White: I could preface this by saying that the first blue note in the international position is the temporary figures of our exports, which show a very sharp decline for the first few weeks in January.

H.M.Jr: Exports?

White: Yes. It's the first time.

H.M.Jr: Yes.

White: Those are the preliminary figures for the first three weeks.

H.M.Jr: Well, go ahead.

White: The decline cannot be allocated to the Japanese situation, because our exports to there have slightly increased. The decline, though we don't know to what countries it has taken place, we do know that the South American situation, from the point of view of our sales to them, is bad. Mexico, of course, you know. And Brazil likewise is in poor shape. And all the countries there are suffering, as I think we indicated a few weeks ago, from the sharp drop in the price of their exports. That is one of the factors which is responsible for their increasing exchange difficulties; and they are beginning to buy much less in the last few weeks.

So much for the general situation.

On the Latin American situation, you indicated an interest in the position of the various countries.

H.M.Jr: Yes. Aren't you going to explain these to me?

White: Yes, shall I?

H.M.Jr: Yes.

And, incidentally, whoever your expert chartist is - these charts are very hard on the eyes. I don't know what there is

White: Lot of black.

H.M.Jr: I think it's - there's something about that chart

which is very hard on the eyes. Whoever your expert is, just let him study it; and, in doing it, if they can relieve the black with another color - but there is something about that which is very hard. Might just as well make it easy.

O'Donnell: Too much on one page.

H.M.Jr: Something about it.

Do you (Taylor) want to sit back here? Want to get this?

(Taylor takes chair near Secretary)

White: This is the imports of Latin American countries - now what we're talking about exclusively, - the imports of the various important Latin American countries from what we consider our leading competitors: United Kingdom, Germany, Italy, and Japan. Italy is not important, but one of those countries we have some interest in.

These are in terms of percentages, and they are for '28. That would be before the depression. And then for the last three years. So you can tell whether these countries are buying a larger or smaller portion of their goods from the United States, or United Kingdom, or Germany, or so on.

Now then, we find that so far as the United - none of these countries, with the exception of U.K., is back where they were in '28. None of these four countries.

H.M.Jr: I don't quite get that.

White: This is the '28 percentage.

H.M.Jr: Yes, I get that. What is this here?

White: Well, that is their sales to us. I thought you'd be interested first in their purchases.

H.M.Jr: Now, this is

White: Their purchases from abroad - Latin American countries' purchases from abroad.

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H.M.Jr: Well, is all this South America? - Oh, Argentine.

White: Just Argentine.

H.M.Jr: This is what they bought.

White: This is the percentage of their imports from the United States. Now, they bought a smaller portion of their total imports from us in successive years.

Taylor: '37 is up.

White: That's right. Less than '28. But last year we improved our situation even in Argentine.

H.M.Jr: Yes.

White: England ...

H.M.Jr: Go ahead.

White: England, on the other hand, hasn't changed very much even since '28, though she lost a little last year, lost in proportion. These are not absolute; the absolute ones we can get off the others.

Germany has also lost compared with '28, but you will note that she got a little bit more in '37.

Italy has lost in practically all the countries since '28, and her proportion is very small, in any case, with the exception of a couple of countries. The rest of them - they're almost negligible. She's improved her position in some of them last year.

H.M.Jr: Have you got the whole figures for '37?

White: Yes, we have them.

H.M.Jr: I mean able to complete '37?

White: Well, we have estimated it on the basis of eleven months. December we haven't got. These are - well, they're still missing Mexico; we have no figures at all.

H.M.Jr: Now, go ahead with Brazil.

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White: Now, just one word about Japan, because Japan is very important, significant in all this. I suppose not in this chart but in this other chart, it shows that Japan in the last six months has put on a lot of pressure and the results are that she is increasing her exports to all these Latin American countries, and most of them very substantially, in terms of percentages. But her business has never been large, so in terms of absolute amounts it isn't very great; but in terms of percentage sometimes it is a hundred, two hundred, three hundred, and in some cases four and five hundred percent for some of these countries, the last few months.

Taylor: That doesn't show in average figures.

White: No, it doesn't; but it will show.

Now, if we take Brazil, the situation is much the same, except that United Kingdom has lost a good deal. And again Italy and Japan ...

Taylor: Germany got the Brazilian business, didn't they? That shows everything that they (U.K.) lose comes

White: Germany has done very well, although not any better last year than previous years. But she has much increased her percentage over ...

H.M.Jr: That is true of Mexico.

White: And that is true of Mexico, although in Mexico the last year, we think, she has lost a little. Mexico doesn't publish any figures at all, so we can't get them; but from other indications, using German figures and others, she hasn't - there hasn't been any substantial increase.

Cuba - of course we have the bulk of the business, and it's been increasing and is even higher than '28.

There is another instance of Germany. This was her best year; Germany's best years, '35 and '36 - apparently '38 has not been quite as good - Colombia here.

But we have done, I'd say, well on most of these

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countries; at least, we haven't done badly.
Peru - Colombia.

Now I'll give you a picture of the total.

H.M.Jr: Aren't you going to explain the other side? Going to keep on the import side?

White: I thought that's what you were particularly interested in. If you're interested in our purchases from them - well

H.M.Jr: This is exports to

White: This is Argentine's exports to the United States as a percentage of total of Argentine sales. In other words, we buy a much smaller percentage of Argentine's total business than does U.K. We are second on the list. We buy more than we used to in terms of percentage, but about the same the last few years. England, on the other hand, has bought much more and dropped back some....

Germany is not buying as much as she did in '28. Italy has suddenly jumped up.

Taylor: What is your basis for this, volume or ...

White: No, value converted into dollars, and at the then current existing price of exchange. And we used here a \$.25 rate. May depend on what rate - maybe a little relative - the positions of all. I mean what would be comparable to a \$.25 rate.

Mexico - we are the biggest customers of Mexico, of course - the sales in Mexico and Cuba.

Then we've got some of the smaller countries. This will give you the picture of it.

Here is our total trade with Latin America in terms of actual dollars - what it was in '35. This is our exports to Latin America.

These charts were done in a hurry.

H.M.Jr: I see.

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White: In '35 our exports increased, and our exports last year increased almost 50 percent to the whole of Latin America. That was likewise true of ...

H.M.Jr: This is a favorable balance?

White: That is an unfavorable balance - the import column.

And now, these were the actual amounts. Now we are coming to how important that is in our trade. Now, we exported an increasing share of our business to Latin America - 16 percent, 18, and 19; whereas, on our imports, you see, we almost get a fourth of our imports dropped - came back. Can't show a balance on this. Now, that is America's position with the total Latin America.

Here is England. England, of course, imports much more than she exports - great deal more, and her exports have increased, but nowhere near ours, whereas their imports have increased much more, she is buying much more.

This is the same thing in terms of percentage exports to Latin America. Very little change. Some increase last year.

Here is Germany. Germany, you see - total business is much less important than ours - five percent - but it is increasing. In other words, there is an increasing share of Germany's business that is going to Latin America. - Oh, excuse me, that isn't percentage, that is reichsmark. Here's the percentage.

H.M.Jr: You say it's important.

White: Well, to the total Latin America - this is her exports, whereas here are her imports. She exports about 12 and imports about 18. She is approaching in importance to Latin America to what we are.

But this is Japan. Now, this shows Japan's very substantial increase, but it doesn't really show the whole picture, because the increase in Japan came particularly during the last half.

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Italy is negligible, except this last year she began to buy a lot more goods.

H.M.Jr: All right.

White: But Italy's imports apparently - as a percentage of Italy's business, 53 percent of her imports now are from Latin America, and she is looking now toward Latin America, which is true of Italy and true of Germany and Japan. Not of U.K. That's the total Latin American.

H.M.Jr: Now, what's this?

White: Well, this is our business with various countries.

H.M.Jr: By months.

White: This is by months. And the black lines were the months of this year; shaded lines are the months of last year. Shows how much our exports have increased over last year every month. We haven't got December yet, but that's all increased.

H.M.Jr: What is this line?

White: That's the balance that - an import balance.

H.M.Jr: You mean ...

White: That's an import balance, but that doesn't show - that's last year; December isn't ...

H.M.Jr: You mean above the line ...

White: .. is export balance, favorable balance, so-called.

H.M.Jr: Favorable.

White: Below is so-called unfavorable.

H.M.Jr: What will it be this year?

White: It will be favorable, definitely favorable. We made up more this last month - over 110 million in December.

H.M.Jr: Well, you haven't got it yet for December.

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White: We've got it now. We didn't know when this chart would be completed.

H.M.Jr: Didn't know when you could complete it.

White: Yes. We can put this figure on now. We can't put those figures on for another month.

H.M.Jr: You mean the breakdown.

White: But we'll put the total. Now we can see the situation.

H.M.Jr: Well, here it is favorable; I mean our balance of trade with Mexico was favorable. ~~Cuba.~~

White: That is termed favorable.

H.M.Jr: Argentine is ...

White: Turned favorable too, for the first time.

H.M.Jr: Brazil, favorable; Colombia, unfavorable; New Zealand, favorable; Chile - damn small, isn't it?

White: All the rest of the countries are very small, so we didn't put them on.

H.M.Jr: That's just what I wanted.

White: That was George's idea.

H.M.Jr: Fine.

White: These are the leading countries. This is United Kingdom up there - customer. Shows how much more we exported than imported, above the line. See, there isn't a great deal of difference in our trade with United Kingdom from the point of view of our purchases from them, but our sales to them have greatly increased.

This is Japan. Of course, we have imported less.

H.M.Jr: I'm going to study that.

White: Now, there are a lot more comparisons. But the charts are all on the basis of figures. If you

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like, we can make charts of them.

H.M.Jr: I think I've got enough herefor the time. Let me absorb this.

White: Now, this is just a conclusion of the Latin American - just the first two pages.

H.M.Jr: All right. Now, what else you got?

White: Why, there are two points I'd like to raise. One is that, as you know, capital is continuing to flow out the last week. Second is, I just want to raise for your consideration this thought: that one of the reasons way we put gold in the inactive account was because it was supposed to and did at the time reflect hot money, so-called - capital coming in. That is no longer true. The gold that we are putting in the inactive fund now reflects, to what extent we can't exactly say - but it reflects mostly gold which is coming in in settlement of the international balance of payments, as distinct from hot money. I just wanted to raise that for your consideration.

Taylor: It's been the domestic newly-mined, not the imports.

H.M.Jr: Yes. I mean that's going into our

White: I mean it's flowing out; the last few months there should have been an outflow.

H.M.Jr: Well - and I still say, so what?

White: It is an additional reason for reduction - in so far as that was a reason for adding to the inactive account, it now constitutes a reason for reducing the inactive account, even though gold is not now flowing out.

H.M.Jr: Well, how would you do it?

White: Oh, just spend it.

H.M.Jr: How?

White: Let the bills run off, don't borrow so much. Issue gold certificates against the inactive account to the

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extent that the incoming gold does not reflect capital movements.

I don't like to use this as an argument, but incidentally that is what England - that's the way England operates.

H.M.Jr: And increase the reserves?

White: That would be one of the inevitable effects.

H.M.Jr: Well, you can't just ...

White: No, I'm just saying, for consideration.

H.M.Jr: I mean you can't quite ...

White: Well, an increase of reserves personally doesn't bother me at all.

H.M.Jr: Well, it does a lot of other people.

White: Well, I just want to leave it with you.

H.M.Jr: You're raising a question, but you're not putting a solution in my lap.

White: Well, I have a solution that satisfies me, but I don't want to give it to you now in the form of a question. If you want to think further about it, I'll be glad - we'll present a brief memorandum on it.

H.M.Jr: I'd rather have a memorandum. It is too important.

White: All right.

Haas: We're working on another thing which follows that - that other thing we were discussing yesterday afternoon.

H.M.Jr: What's that?

Haas: I mentioned it to you one other time. We're having a good deal of trouble trying to get up a graphic picture which shows the effect of all these forces over which some government agency has control, whether deflationary or inflationary - to give a picture at

-25-

specific time intervals. And then we had planned to draw some conclusions from that. We're working on that.

H.M.Jr: Let me see a minute. This fellow coming in at three o'clock, Congressman Binderup, had a long time with the President yesterday. I'd like him to come ...

(To Kieley) Have Congressman Binderup's charts come?

Kieley: Yes.

H.M.Jr: Where are they?

Kieley: Ryan is saving them downstairs.

H.M.Jr: Could they be brought up so we could take a look at them.

I'll see what it is. He wants to get me alone, but I don't think I want to be alone. I'll just see.

White: Our sharp reduction in exports is one of the early important indications that things are beginning to be bad somewhere outside. Don't know exactly where.

H.M.Jr: Well, I just - I want to just wait one minute, see what that is.

Just while waiting, got one thought you might be thinking about, George! whether we want to invite anybody else in from any other department when we do this once a week, see? For instance, take a fellow like Lubin.

Haas: Yes. I think it would be quite good.

H.M.Jr: I mean then he could see what we're doing, and he could make a contribution. I mean I'd want to do it very carefully and very slowly as to who we'd have in. But I think of all the people around he could contribute most. What do you think?

Haas: All right. Start easy and then if you want

H.M.Jr: What do you think, Wayne?

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- Taylor: I think he's a very good man.
- H.M.Jr: Anybody question that? He's very discreet, Lubin is. I've found him so.
- Any comment?
- White: Not awful hot about just one man. If you want to make it a policy and select three or four of the best - but Lubin's contribution - I don't know. He's in touch with the labor situation, but whether Their figures are always six weeks late. I'm not very enthusiastic about his coming in unless you want to make it a policy.
- H.M.Jr: Well, I was thinking
- White: He would be one of several if you were to make a selection.
- H.M.Jr: Well, it's an hour I'd like to do each week; I want to get as much as I can.
- Haas: There is one field - he does make trips around the country and he has specific facts about different industries, so on. There is one field, the employment field, in which as far as I know he is the outstanding person in Washington.
- H.M.Jr: See, I've seen him present his stuff and I've listened to him. And the beauty about Lubin is he doesn't talk.
- Haas: If you're going to have a complete circle - well, of course, that would be much bigger.
- H.M.Jr: But you get - that's the trouble; then there's always leaks. That's the great trouble.
- Haas: You have to figure there will be leaks.
- O'Donnell: Might be better to invite particular men on occasions when you think they can contribute to something under discussion. If, for instance, you're interested in some banking problem, might be better to take some of the Reserve Boarders over, and if labor is particularly important a particular week, to have Lubin over.

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H.M.Jr: Well, the thing I'm afraid of is, we may kind of get in a rut here, we may not be covering the whole field, and

Taylor: Get Commerce and Agriculture.

H.M.Jr: Yes. God! the great trouble is that these other meetings - there's always a story. And you pick up the Wall Street Journal - I didn't happen to be in the meeting; meeting took place Saturday night, and the Wall Street Journal has it. Of course, the great trouble - as soon as you invite people from the outside, there are always leaks.

Haas: Yes, it's quite so.

H.M.Jr: Well, think about it, George. Think about it.

Taylor: Could simply have that individual talk, and the only thing he'd be leaking about is what he'd talked about.

H.M.Jr: You mean have it get out.

Taylor: Have him come in here

H.M.Jr: (To Kieley) Are those charts here?

Kieley: They're on the way up. They're way downstairs.

H.M.Jr: Well, have them in your room and Dr. White will take a look at them.

Well, let's think about it.

February 1, 1938

I asked Oliphant at a quarter to one to-day to have somebody make a study for me of the most recent 100 companies that registered with SEC to find out what law firms each company used; which accountants and the total charges of each company and a breakdown of these charges in each case ~~_____~~.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 1, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information.

Pursuant to appointment, I saw the Attorney General today at 3:00 on the bids. I outlined the changes in the situation since the middle of September, when the matter was last up for discussion. I described the Treasury's experience with the bids and our further thinking on the most practical way to deal with the problem.

He agreed that it was desirable for the practice to be uniform for all departments, provided the plan for uniform handling was consistent with the budget limitations of his Department. I sketched the plan set forth in the attached memorandum for discussion, which he said seemed satisfactory to him.

He said he would undertake to have an Executive Order drafted along the lines of the plan I sketched. I left with him a copy of the attached memorandum to serve as a basis for further work and discussion.

The problem of finding independent and competitive sources of supplies when identical bids were received twice and private negotiation was thereby authorized came up for discussion as I had anticipated. I stated that a smooth working of a uniform plan would depend more largely on personnel with the skill and knowledge necessary to find such independent sources than on any other single factor and added that such skill and knowledge would be found or provided in the Procurement Division.



Enc. 1

Regraded Unclassified

PLAN FOR UNIFORM HANDLING OF IDENTICAL BIDS FOR ALL DEPARTMENTS

54

1. Reduce the number of cases in which identical bids will be submitted by requiring a convincing showing that the Department could not use just as well some article other than that on which identical bids would probably be received. This should be done in any event to avoid the danger of getting but a single bid. The Procurement Division would assume the responsibility for competence to review these showings.
2. The procedure for handling identical bids is based on the Attorney General's Opinion of August 10, 1937, to the effect that, in the absence of any special showing, such bids constitute a prima facie case of collusion. That the article in question is patented, copyrighted, or for some other reason is available from only one source, would constitute the sort of special showing referred to.
3. In the absence of such special showing, identical bids should, in all cases and without reference to the Department of Justice, be rejected pursuant to the Opinion just mentioned, and the bidders notified of the reason for such rejection. There should thereupon be a readvertisement for bids with special efforts to get bids from parties theretofore not bidding and likely to submit genuinely competitive bids. Such readvertisement to bid might require that an affidavit to the effect that the bid was not arrived at in agreement with others be submitted with each bid (the precise form to be determined in conference with the Department of Justice).
4. If identical bids are again received after such readvertisement, the Director of Procurement would proceed by non-competitive negotiation to make the purchases in question; and such negotiations would be lodged

- 2 -

in the Director of Procurement even though the purchases in question were ordinarily handled by the separate Departments.

5. Full information on all cases of identical bids should be made available by the Departments concerned to the Attorney General and the Federal Trade Commission.

Prepared by
H. D. White
Division of Research and Statistics.

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INTER OFFICE COMMUNICATION

DATE February 1, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: The British Exchange Equalization Account.

1. The British Exchange Equalization Account was established in April 1932. The fund started with 25 million pounds of foreign exchange and a borrowing capacity of 150 million pounds. This borrowing capacity (i.e., privilege of issuing Treasury bills) was increased by 200 million pounds in April 1933 and by a further 200 million pounds in June 1937.

The British Treasury decided in June 1937 to publish quarterly (with one quarter lag) a statement of the gold held in the account. The last date reported was September 30, 1937. The amount of gold in the fund on that date was \$1,395,000,000. In addition the fund has (a) a gold loss claim on the Bank of England for gold sold to the Bank of England at the statutory price which is about 40 percent below the market price; (b) some foreign exchange and some sterling, and (c) borrowing capacity of probably over one billion dollars. (A detailed statement of the account is not divulged and, therefore, the breakdown of the fund is not known.)

Since that date the account has doubtless gained several hundred million dollars more of gold and probably now has between 1.6 and 1.8 billion dollars of gold.

2. Purpose of Fund

It has been stated several times by Mr. Chamberlain and Sir John Simon that the British Treasury considers the purpose of the fund to be not at all directed to any permanent alteration in the relative exchange value of the pound. Its use, they claim, has been directed towards (a) smoothing out the day to day and hour to hour fluctuations in exchange rates; (b) neutralizing the effects of inflows and outflows of short-term funds on the domestic monetary structure.

Secretary Morgenthau - 2

Of course, there are excellent grounds for skepticism with respect to this claim. Any action taken to alter exchange rates, or to prevent exchange rates from altering must influence underlying conditions.

We do not know whether the British Treasury policy with respect to operations of their Equalization Account is actually one of offsetting only international short-term capital movements and of reducing day to day fluctuations, as they claim. We only know that

(a) They could alter the sterling price for gold (and hence exchange rates) and by so doing influence the underlying forces determining her balance of payment in either direction desired.

(b) They are justly hesitant about appreciating sterling further, because of the effect of such action on her foreign trade and because of the repercussions to such action in other countries of the sterling bloc.

(c) They are likewise hesitant about depreciating sterling because of the resultant pressure on other European currencies, and possible increased inducement to gold acquisition.

Whether England is wise to have kept gold around 139½ shillings (equivalent to about \$5 per pound) is a moot question.

3. How does the Account operate?

Much the same as does the combination of our Stabilization Fund and "Inactive Account".

(a) The British Account can "sterilize" inflowing gold -- paying for the gold with funds raised by the issue of Treasury bills; and it can "desterilize" gold by selling the gold and employing the funds received to purchase Treasury bills. By this operation the effect of inflows and outflows of gold on the credit base can be neutralized to roughly the same extent as is possible here. (The difference between the legal reserve requirements here and the traditional ones there make the degree of neutralization somewhat different.)

Secretary Morgenthau - 3

(b) It can be used to tighten the money market -- by selling bills and "sterilizing" the sterling proceeds (by depositing the proceeds with the Bank of England); or ease the money market by buying bills with sterling it may have; or with sterling it may acquire by selling some of its gold assets. That is, it can carry out open market operations.

In a similar fashion our "Inactive" account could be used to ease the money market by "desterilizing" gold; and could tighten it by calling in gold certificates already outstanding with the Federal reserve bank, placing the gold so released in the "Inactive Account" and replenish our balance in the Federal reserve bank (which had been drawn down in the process) with the sale of additional Treasury bills, (i.e., transfer of government deposits from depositories to the Federal reserve bank).

(c) The British Account can - (within limits) - be employed to strengthen or weaken sterling, or prevent it from rising or falling vis a vis gold, or vis a vis the dollar or any currency; just as our Stabilization Fund (not our "Inactive Account") can be similarly used - but also only within limits.

4. There are certain differences between the British Equalization Account and our combined Stabilization Fund and "Inactive Account".

(a) Whereas we started with our fund all loaded up with gold, the British Equalization account started with a little gold and mostly borrowing capacity. The distinction is of practically no significance so long as the 200 million dollar portion (Special Fund) of our Stabilization Fund can when loaded up with gold sell it to the Treasury which can add it to its "Inactive Account". Our mechanism has no legislative limit while the borrowing capacity of the British Equalization Account has. Inasmuch, however, as the British would again add to the borrowing capacity of their account when necessary, this advantage is negligible.

(b) The British Equalization account can and does purchase its bills through the "tap" (i.e., so-called "tap" bills are those taken direct from the

Secretary Morgenthau - 4

Treasury -- bills usually purchased by government departments with their surplus cash) as well as through the open market, whereas we would have to let the bills run out without issue of new bills. (Of course, our Federal reserve banks could purchase the bills.)

Again, the difference is of no practical significance. If our Treasury needed funds and if the objective were to "desterilize" gold (i.e., reduce the "Inactive Account" in order to ease the money market) the Treasury would simply issue the desired number of gold certificates against gold in the Inactive Account.

(c) The British Treasury publishes quarterly (with lag of one quarter) the amount of gold in the Equalization account. Our Daily Statement, on the other hand, shows that we have \$1,500,000,000 in gold, and also shows daily the amount of gold in the "Inactive Account", but no statement is published indicating the extent to which the 200,000,000 dollar remainder consists of gold.

It is very doubtful whether the additional power the British Equalization Account has of obscuring the volume of its gold transactions yields it any significant advantage.

(d) The Equalization account can determine and can alter the price of gold in terms of sterling. We, on the other hand, cannot alter the domestic price of gold in terms of dollars except by Presidential proclamation. This gives to the British somewhat more flexibility in its international monetary policy.

(e) Another important difference is that importation of gold may be partly, wholly, or not at all sterilized, depending on the decision of those in charge of the British Equalization account. In the United States under present practice, importations of gold are added automatically to the Inactive Account and thus sterilized. That gives the British Treasury a more flexible weapon than the United States Treasury (as distinct from the Federal Reserve Board, who can up to a point resort to open market operations).

Secretary Morgenthau - 5

(f) The fact that gold may be privately held in England to some extent takes the burden of purchasing gold that flows to England from the Equalization Account. In the United States it is mandatory that the Treasury purchase gold through the Inactive Account in order to sterilize it. In England, gold inflows are first offered on the free gold market and to the extent that private individuals purchase gold the Equalization Account need not purchase it. The significance of this point rests in the fact that some of the gold may be sterilized without increasing the public debt.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 1 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information

At the conference with you and Magill January 5, 1938, concerning the Mellon case, it was agreed that motions should be made and pressed in the Board of Tax Appeals to put the record in shape for appeal and that with the results thereof before us we would later canvass the wisdom of appeal to the circuit court. The motions were filed with the Board and were brought to the attention of counsel for the taxpayer. The latter filed printed objections to the granting of the motions. The motions were denied on January 24th. The orders denying the motions were signed by Members Van Fossan and Turner, without any supplemental opinion.

There was an ambiguity on the face of the Board's opinion in this case as to what it had actually decided concerning the so-called McClintic-Marshall reorganization transaction. The purpose in filing the motions was to clear up that ambiguity, and although the Board did not write a supplemental opinion the desired result has been partly accomplished by reason of statements contained in the argument of taxpayer's counsel in opposition to the allowance of the motions. This will enable the government to present the questions to the circuit court with less uncertainty as to the meaning of the Board's decision.

Herman Oliphant

AM 72

HM

GRAY

Paris

Dated February 1, 1938

Rec'd 9:40 a.m.

Secretary of State,
Washington.

168, February 1, 11 a.m. (SECTION ONE)
FROM COCHRAN.

In a broadcast speech yesterday Minister of Finance Laroche made important statements with respect to the French financial situation and the policy which the present government proposes to follow. He said textually:

"You are aware that the international framework of our monetary policy is constituted by the tripartite agreements concluded in September 1936 by Messrs Blum and Auriol.

I want to emphasize immediately that the very basis of policy which I intend to follow is the very firm determination to remain faithful to these agreements. In a world where there exists practically nothing but floating currencies these agreements constitute the only dam capable of arresting monetary disorder. The action of the exchange equalization funds

-2- #160, Feb. 1, 11 a.m. from Paris

funds makes it possible to canalize movement of exchange and places at the disposal of the financial authorities the only means which in present circumstances they are able to utilize to avoid too rapid or profound variations, in excess of those which should be the perfectly warranted ~~final~~ outcome of a floating currency.

BULLITT

RR:WTC

JR

GRAY

Paris

Dated February 1, 1938

Rec'd 10:10 a.m.

Secretary of State,
Washington.

168, February 1, 11 a.m. (SECTION TWO)

Our attitude in this respect differs in no way from that of the conceptions of other contracting partners.

As a matter of fact these conceptions have been made clear during the last few days on the part of the British and American Governments in the sense of the most close and confident collaboration.

Therefore, no reason exists which could justify any disturbance of opinion that would risk paralyzing the normal and regular action of the institutions whose management calls for considerable sang-froid. They understand very well abroad the reasons why limited fluctuations may develop in the franc market. I quite realize that the French people are unaccustomed to the movement of floating exchanges but nevertheless under prevailing circumstances they should try and understand these movements. If they would do this, they would considerably aid those who carry the responsibility of the monetary destinies of our country".

The

-2- #168, February 1, 11 a.m., (SECTION TWO) from Paris.

The Minister pointed out how immensely important the condition of public finances and currency is to that large section of French economy represented by rentiers and pensioners. Describing the Treasury deficit as "enemy number one" and estimating it at about 28,000,000,000 francs for 1938, the Minister compared it with the national income of France "generally valued at 200,000,000,000". He announced that the entire Government was determined to prevent any increase of this deficit.

Monsieur Marchandreau very vigorously denounced any policy of exchange control and, after enumerating the evils of such a policy, he pointed out that once contact had been broken with foreign countries, a profound devaluation would be necessary when the time came to reestablish contact. Furthermore, referring to Schacht's renouncing advocacy of reestablishment of the gold standard, the Minister pointed out that it was obviously not the moment for France to enter autarchy.

BULLITT

KLP:HPD

JR

GRAY

Paris

Dated February 1, 1938

Rec'd 11 a.m.

Secretary of State,
Washington.

168, February 1, 11 a.m. (SECTION THREE).

Nevertheless, Marchandreau stressed it was not sufficient to cry our liberty from the house tops -- France must follow a policy that would make it possible to safeguard this liberty. Budgetary economy must be practiced and everything possible must be done to increase the national income. In a word he very strongly emphasized that the total resources of French capital and labor must be fully utilized. This he said was particularly essential in view of the fact that the deficit to be covered was exceptional and to the extent of nearly one-half, was due to the proper action of French national defense. Armament expenditures in the ordinary and special budgets exceed 23,000,000,000 francs yearly.

Turning to social reforms the Minister emphasized that they had his complete sympathy and support but that account must be taken of financial possibilities.

The

-2- #168, February 1, 11 a.m. (SECTION THREE) from Paris.

The last part of his speech was devoted to an appeal to the country to speed up production and to accept legitimate profits.

The Minister was unsparing in his condemnation of those who send their capital out of the country. In conclusion he repeated that the Government's financial program was composed of two rules, namely, monetary freedom and budgetary balance.

French financial press this morning praises the Minister's speech and urges that the truth be realized in regard to need for immediate rectification of those economic, fiscal and social factors which are retarding French recovery. Lacking this, it is emphasized that the most orthodox domestic financial policy and the most complete international collaboration will not suffice.

(END MESSAGE)

BULLITT

KLP:HPD



LMS

GRAY

London

Dated February 1, 1938

Rec'd 2 p. m.

Secretary of State,
Washington.

80, February 1, 6 p. m.
FOR TREASURY FROM BUTTERWORTH.

One. As authorized, I gave Phillips the substance of Marchandau's conversation with Cochran for which he expressed appreciation. He said it was evident that the French were nervous and bewildered and he suspected that they really did not know what to do. He added, however, they were a resourceful people and he had an uneasy feeling that they were "cooking something up" and that sooner or later they would come to the United States and Great Britain with a "proposition". Phillips said that the Chancellor of the Exchequer had received no answer from Marchandau and that there seemed to be nothing to do but await developments.

I asked him whether he still held to the opinion expressed in Washington (see memorandum of conversation of September 21, 1937) that participation in the tripartite agreement was a sufficient domestic political

asset

LMS 2-No. 80, February 1, 6 p. m., from London.

asset to ensure successful resistance to the imposition of exchange control. He said he did: that the Radical Socialists held the balance of power in the French Chamber of Deputies and he thought they would continue to hold out for a liberal form of an economy. He (*) on to reiterate how futile as a remedy the imposition of exchange controls would be in much the same terms reported in my 31, January 14, 1 p. m.

Two. Phillips referred to the economic outlook of this country and was more gloomy than I had ever seen him. He said that the only two optimistic signs were (1) the statements of the bank ^{chairmen} ~~changed~~, which, even though fundamentally sound, were always on optimistic side and (2) the good revenue returns which, however, were not mainly a reflection of current or future conditions. Phillips also expressed decided concern that commodity prices should still be sagging and he admitted that unemployment in this country was increasing with unpleasant rapidity and that a definite check was at hand. He inquired about the possibilities of recovery in America particularly as to signs of activity from the automobile industry and in passing said that he was sorry to see the dollar weakening, the reason for which was to him obscure.

JOHNSON

JLS:TC
(*) Apparent omission.

February 1, 1938.
2:56 p.m.

Operator: Go ahead.

H.M.Jr: Hello.
Sen.
King: Mr. Secretary.

H.M.Jr: Morgenthau, Henry.

K: Yes. This is Senator King. Somebody - I was told that you were calling me.

H.M.Jr: Yes. I tell you what I'm calling you up about.

K: Yes.

H.M.Jr: I was notified some time last week that you're chairman of the subcommittee to consider the nomination - or whatever you call it.

K: Yes. That's right.

H.M.Jr: Of - of Clarence Opper.

K: Yes, that's right.

H.M.Jr: And inasmuch as he worked for me for five years, I'd be more than pleased to call on you and tell you what I know about him.

K: Well, - we've been so infernally busy, and - and - in the near future I'll call a meeting of the subcommittee.

H.M.Jr: Yes.

K: And then I shall drop you a note so that you can come before the subcommittee.

H.M.Jr: Because it's -

K: Very glad to get your views.

H.M.Jr: Because it's been -

K: Beg your pardon.

H.M.Jr: I don't know, it's been a couple of weeks now.

K: Yes.

- 2 -

H.M.Jr: And if you could get around to it -

K: Yes.

H.M.Jr: I would appreciate it.

K: Well, I'll try and get around to it within the next few days. I'll say, very frankly, that I'm not very much impressed with him.

H.M.Jr: Yes.

K: And - many criticisms will come to me, but we'll be glad - I have an open mind, be glad to get your views.

H.M.Jr: Well, it's - I didn't recommend him lightly, and as I say, I have known him and seen his work for five years.

K: Yes. I see.

H.M.Jr: So -

K: Well and we'll ask him to come before the committee, too.

H.M.Jr: All right. Well, do you think you could get around to it within a reasonable time.

K: Oh, yes, we'll get around to it, if not this week, very early next week.

H.M.Jr: Thank you, Senator.

K: All right.

IMS

PLAIN

London

Dated February 1, 1938

Rec'd 4:05 p. m.

Secretary of State,
Washington,

81, February 1, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer made the following statement in the House of Commons this afternoon:

"In view of the present condition on our exchanges I have come to certain decisions on the subject of our policy on foreign lending and I welcome the opportunity of communicating them to the House. As I have already informed the House I do not consider that the time has come when consents in respect of foreign issues as defined under the Foreign Transactions Advisory Committee's terms of reference can be given indiscriminately and I refer in particular to those on behalf of foreign governments, foreign local or public authorities, or state-controlled organizations. Applications of that kind will continue to be considered on their merits along the lines laid down in the Committee's terms of reference and with regard to the general policy of

His

LMS 2-No. 81, February 1, 8 p. m., from London.

His Majesty's Government. Greater latitude will, however, be allowed until further notice in respect of applications which do not fall within the class which I have mentioned. I refer particularly (A) to the raising of new money in this market on a long term basis on behalf of British borrowers, in which terms I include borrowers in any part of the Empire for the purpose of acquiring assets or developing enterprise in foreign countries. (B) To transactions involving large blocks of foreign-owned securities which were the subject of my predecessor's letter on twelfth June 1933, to the chairman of the Stock Exchange Committee.

Applications should still be made to the Foreign Transactions Advisory Committee in respect of such proposals not only because the Treasury will continue to avail itself of the advice so tendered but because it is essential that we should know what is going on. Such applications will, however, in general receive the sympathetic consideration of the Committee though I do not of course say that in particular cases there may not be reasons of public policy which would lead to their rejection. That I have just said applies of course

LM3 3-No. 81, February 1, 8 p. m., from London.

course to long-term lending and illustrates the desire of His Majesty's Government to encourage a suitable expansion of international capital transactions. I should add that foreign short-term lending of a non-commercial character involves other considerations and raises special difficulties which ~~render~~ it generally undesirable. I must take this opportunity of expressing the thanks of His Majesty's Government to the Foreign Transactions Advisory Committee for the valuable services which they have rendered and will continue to render. I am glad to be able to state to the House that the modification in our policy of foreign lending which I have just announced has the full approval of the Committee and the work of the Committee could not have been and could not be fully effective were it not for the helpful spirit which I wish to acknowledge of the financial community which responded to the request which it was found necessary to make to them from time to time."

Simon expressed surprise at the "suspicious" character of some of the supplementary questions put to him and maintained the desirability of relaxing restrictions on foreign lending as a means of fostering international trade.

JOHNSON

LMS

GRAY

Paris

Dated February 1, 1938

Rec'd 4:25 p. m.

Secretary of State,
Washington.

172, February 1, 4 p. m.
FROM COCHRAN.

French control yielded fair amount of sterling at opening rate of 152.95 and at 90 early this forenoon. Market's own pressure then took rate to 152.50 where control has been acquiring sterling. At 4:00 o'clock my market contact thought control was then a gainer of foreign exchange on balance for the day. Rentes are up, forward franc rate better and general market atmosphere more cheerful. This further improvement upon the trend noted in my 163, January 31, 4 p. m., is attributed principally to Marchandean's speech summarized in my 168, February 1, 11 a. m. Market is, however, still conscious of labor situation and other factors which might easily upset Government.

BULLITT

SMS:NPL

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

February 2, 1938.

My dear Mr. Secretary:

I am enclosing for your confidential information the first section of a telegram just received from Ambassador Bullitt, in which he reports the substance of a conversation which he had with the Minister of Finance, Marchandau.

Sincerely yours,

Herbert Feis

Enclosure:

Paraphrase, No. 176,
February 2, 1938,
from Paris. Sec. 1.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: February 2, 1938, 11 a.m.

NO.: 178

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

In the course of a long conversation Marchandieu told me last night that he wanted to express to me officially for transmission to the American Secretary of the Treasury his heartiest thanks for the statement of January 27 issued at the Treasury Department. The Treasury's statement he said had been timed perfectly, and was admirable in tone and content. The franc flight had been stopped thereby. He said he had acquired some gold yesterday for the first time since he had been Minister of Finance.

The Minister of Finance went on to say that he regarded the present Ministry as a transition government. He said that it was entirely obvious that if Stalin wanted to do away with the present Ministry he could do so by having the French Communists start a sufficient number of labor troubles to produce further capital flight. The present Minister of State, Martensard, was trying to arbitrate a dispute in the northern metal industries which might lead to a general strike in the north and a sympathetic strike in the region of Paris.

The Minister of Finance said that he did not think the present would be the time the Communists would choose to push matters to this extreme. The northeastern part of

France

- 2 -

France and the Paris suburbs were the only two regions in France in which Communist influence was still extremely strong; the rest of the country unquestionably was in a mood to work hard and to live a quiet life. The Communists know that if they at this moment took an extreme position the country would be against them, and the army, with national approval, could crush a general strike. The next Government then would probably be further to the Right, perhaps with Daladier at the head.

Should the Communists on the other hand decide merely to make sufficient trouble to continue to frighten the French capitalists, they could probably bring about further franc flight and then in view of the ensuing financial difficulties the fall of the present Government.

END SECTION ONE.

BULLITT.

EA; LNW

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM
No. 176 of February 2, 1938, from Paris

I was assured by Marchandean that he personally was opposed absolutely to exchange control. He said he would resist it to the end and that rather than be a party to any steps leading to it he would resign.

It was a mistake, in the Minister's opinion, to assume that if the present government should fall because of difficulties over financial matters that it could be succeeded by a national government under Herriot or anyone else. It would on the contrary be succeeded by a Blum Government in which the Communists would participate. Imposition of exchange control would be the first act of such a Government.

The Minister believed that unless a fresh flight of capital should be provoked by Communist action or some other cause, the predictions that a financial crisis in France was inevitable in the month of March would prove to have no basis. The Treasury had, in addition to the equalization fund, five billion francs in gold at the Bank of France at present. He said he would not hesitate to use this fund to defend the position of the franc if necessary. During February he said he hoped to launch a large financial operation which he hoped would bring considerable resources to the Treasury. I asked the Minister whether he was able to define for me exactly what operation was being planned, but he said he had not yet decided whether to issue a large long term loan or a short term loan. He added that he would

much prefer a large operation all in one rather than a series of small ones in the name of the City of Paris, the Caisse des Amortissements, Credit National, and so on.

Marchandean said he was confident he would be able to meet the first of March payments without difficulty, although he might in the end have to give up his idea of one operation and be forced to put through several small loans.

The Minister said that there was of course one resource to which his mind inevitably turned - this was the possibility of getting from the United States some sort of a large loan. He told me he was familiar with the Johnson Act, but that he thought it might be possible to float a loan in our country which would not come under the Johnson Act but the funds of which would eventually come to the French Government.

My answer to this was that I was certain any such thought should be put out of his mind entirely, that the Johnson Act had been meant to cover all loans whether direct or indirect from the United States to the Government of France or any subdivision or any agent of the Government of France. I added that I was certain action would be taken at once to stop up any hole in the Johnson Act if there was one, before it would be possible to float the loan. The Senate and the House of Representatives would vote almost unanimously

in this manner. I said that since this was the case it was not even worth while to discuss whether or not the American market would be prepared to absorb a loan to France at the moment.

The Minister of Finance said that he understood this position perfectly, and that he in fact agreed with it, between ourselves. At the time of the French default on its debt to the United States, he had been closely associated with Herriot; he considered the Johnson Act wholly justified.

The present political situation was further discussed. The Minister said he believed that the evolution of the domestic situation would depend on the skill with which the Premier should maneuver on one side and the Communists on the other side. Should the Premier go too far in action against the Communists, the largest part of the Socialist Party would escape from the leadership of Blum. Under the leadership of Pivert they would work with the Communist party. On the other side, if the Communists should be too unreasonable the largest part of the Socialist Party would follow Blum and would lend their support to the Radical Socialist Party. Marchandau expressed the hope that the present Government could hang on until the month of June and that it might be possible then to form a national government which would take in the Blum wing of the Socialists, the Radical Socialists, and the Reynaud, Pietri and

- 4 -

Mandel groups.

END MESSAGE.

BULLITT.

EA: LWW

RECEIVED
FEB 8 1953
TREASURY DEPARTMENT
U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C.

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM
No. 176 of February 2, 1938, from Paris

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- 3 -

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- 4 -

Mandel groups.

END MESSAGE.

BULLITT.

RECEIVED
FBI - NEW YORK
JAN 10 1951
COMMUNICATIONS SECTION

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 2, 1938, 4 p.m.

NO.: 179

FROM COCHRAN.

At 11:45 this forenoon I had a talk with the Bank of France. I was told by my contact that it was difficult to tell how the day would turn out but that the demand for sterling had opened more active than yesterday. The larger Paris banks were not among the purchasers; Swiss banks for the most part were active.

At 3:30 p.m. market contact said control had been giving sterling steadily all day, opening at 152 5/8 but having to move shortly to 152.8 where it has remained. Purchases of sterling by Swiss banks with French francs are interpreted as capital flight operations from France, the market transactions merely emanating from outside of the country.

Strength of dollar attributed partly to Secretary of the Treasury's denial of plans for further devaluation and partly to statement yesterday by Chancellor of the Exchequer in regard to easing British restrictions on foreign loans. It is believed that a number of contemplated operations on the London market have accumulated, held in abeyance, and will now tend to weaken the pound if issued in rapid sequence.

END SECTION ONE.

BULLITT.

EA:LWW

LMS

GRAY

Paris

Dated February 2, 1938

Rec'd 3:40 p. m.

Secretary of State,
Washington.

179, February 2, 4 p. m. (SECTION TWO)

French notes lower and yesterday's more cheerful market atmosphere has disappeared. Worry over labor situation and France's other unsolved problems continues. Referring to my telegram No. 151, January 27, 6 p. m., Journal Official today announces opening of issue on February 7 of 6% loan for one billion francs by the Credit National (which finances the Government's public works to a fixed limit) to be amortized in forty years by lottery drawings and to be issued at 94, a higher price than market anticipated.

Referring editorially to Marchandau's Monday speech today's TEMPS says in part:

"Among the many reasons which weigh against exchange control the Minister especially pointed to the very serious consequences which would result from a rupture of the so-called tripartite agreements concluded in the autumn of 1936. As one of the purposes of these agreements precisely

LMS 2-No. 179, February 2, 4 p. m., Sec. 2, from Paris.

precisely consisted in the pursuit of the progressive suppression of exchange control in the countries where it existed, it is difficult to see how these agreements could be maintained if one of the signatory countries -- the same one which had initiated them -- decided in its turn to suppress free trading in currencies."

L'INFORMATION praises Marchandean's speech, approving a continuity of monetary policy for France and pointing out what a disappointing failure exchange control would be for this country.

BULLITT

WVC:KLP

LM3

GRAY

Paris

Dated February 2, 1938

Rec'd 3:55 p. m.

Secretary of State,
Washington.

179, February 2, 4 p. m. (SECTION THREE)

In an article in the Socialist paper POPULAIRE, Vincent Auriol, who is now out of the Government, becomes rather bitter, criticizing certain politicians who denied him their support when he was Minister of Finance but who are now approving Marchandau. After speaking of needs of state for heavy borrowing to finance armament, pensions, public debt, railways, et cetera, he says: "To these facts of an internal order, let us add international anarchy, and above all, alas! the absence of real and practical collaboration of the great democracies of the world, as much from the monetary point of view to check speculative movements of capital as from the economic point of view to improve trade and the balance of commerce and payments. Therein, however, lies the common salvation. We had differentiated it in the declaration of the tripartite agreement -- which was, at one and the same time, too disparaged and too highly praised. We had even tried to go further. It will not

LMS 2-No. 179, February 2, 4 p. m., Sec. 3, from Paris.

not be long before developments impose this necessary solution on the threatened nations."

END MESSAGE.

BULLITT

WTG:SMS

LONDON

Dated Feb. 2, 1938

Recd 6:21 p.m.

Secretary of State,
Washington.

88, February 2, 9 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The Chancellor of the Exchequer's announcement on foreign lending reported in my 81, February 1, 8 p.m. has occasioned laudatory but unenlightening comment in the financial press.

It is interesting that the British Treasury should have taken this step when the adverse balance of payments is greater than at any time since the crisis year of 1931 and at a time of declining trade prospects and of dollar weakness about which Phillips was disturbed as indicated in the final sentences of my 80, February 1, 6 p.m.

Two. The following conclusions of Castellani, Paris representative of the Bankers Trust Company (whose brother is in the French Embassy here) may be of interest: "In brief I would say that in order to restore the balance of external and internal accounts of this country it would be necessary to cut the deficit of the balance of trade by 10,000,000,000 francs a year and to reduce by 10,000,000,000 francs a year the Government's current expenditures, which would involve drastic curtailment of the pensions, budget and conversion of the debt.

The gold

Regraded Unclassified

CA --2--88 from London..

The gold reserve is looked upon as the minimum reserve needed by the country in case of war and therefore further exports of gold will not be permitted. The equalization fund is probably empty and efforts to raise money by selling colonial and municipal bonds are not meeting with any satisfactory response from the public. In the absence of a foreign credit which would do nothing more than further postpone the necessary measures and in the absence of a return of capital which is conditioned by a return of confidence nothing different from what is happening to the exchange today could be expected. These problems are finding their own solution in the continuous depreciation of the currency. I believe everybody agrees that it is a very poor solution but in the absence of any energetic action it looks as though it were the only possible one.

Please disargent n'est pas mortelle but unfortunately the inability to solve the internal problems creates a very bad impression abroad and weakens this country's position in the eyes of others. This is undoubtedly the most serious aspect of the situation. No doubt the 'redressement' will eventually take place as has always been the case in the past but the question is whether it will arrive in time or whether it will only come on the verge of an international crisis."

JOHNSON

SFS NPL

February 2, 1938

(Meeting with group of small business men.)

PRESENT:

Mr. Lawrence G. Nusbaum, Chairman
 Mr. Charles Courtney
 Mr. George A. Gottlieb
 Mr. Henry Modell
 Mr. J. Preston Mutter
 Mr. I. S. Immerman
 Mr. W. C. Hardesty
 Mr. Harry G. Barr

Mr. Magill (for part of the meeting)
 Mr. Haas
 Mr. Gaston

HM, Jr: How is your meeting going?

Mr. Nusbaum: Progressing, Sir. We are here representing small business -- small business throughout the nation. Most of the representatives who are here are from the New York area. I personally have been made Chairman of the Planning and Steering Committee and also represent the whole entire Metropolitan area.

We have summarized 14 points, very brief points, which we have the endorsement of New England, Indiana and Ohio as to methods of relief for small business. We would like to know if you want to hear all of them or only those which may deal with finance.

HM, Jr: I think those that come under the Treasury -- those which I might be helpful on.

Mr. Nusbaum: The first is that we would like to set up a Government agency for immediate financial relief to small business and a liberalization of the credit policies of existing agencies extending financial aid to small industry; restoration and extension of Title I of the Federal Housing Act, and adequate provision for long-term financing.

-2-

Most of us have gone through rather a hard siege in the last seven years. We have now reached a point where very few of us can stand any more of the strain. The banks will not meet our requirements. They ask for collateral of such a nature that renders it impossible for us to get any loans and we are, therefore, here with the request that some financial aid from the Government, some agency to be set up to give small business some finance to carry us over this depression.

HM, Jr: What kind of capital do most of you people need? Is it to buy merchandise with, to put in machinery or plant? What money do you need?

Mr. Nusbaum: We represent retailers, wholesalers, service industries, jobbers, and we find it necessary for either the payment of merchandise or for equipment. We would like some aid from an agency that we can borrow this money from.

HM, Jr: I mean, do you people find, for instance, when you go to the banks that you can't get what you need?

Mr. Nusbaum: That's true.

HM, Jr: Is that true in all the cases?

Mr. Nusbaum: Most cases.

They make no loans. I will give you one specific instance. We have a man who is in the Diesel engine business -- reconditions Diesel engines. He got an order from the Atlantic and Pacific Tea Company for three engines to be reconditioned for \$20,000. He had three options on three engines which he wanted to take to his plant, recondition and fill this order. He needed \$10,000 to finance that transaction and he could not get the \$10,000, nowhere. His banks turned him down.

Now, that this prevalent in every respect. If you want money for the purposes of carrying on your business, for capital to pay your payroll or meet your material expenses. His assets were of a nature that you would not call free, liquid assets. He had heavy machinery, great big pumps, a warehouse to store them in.

HM, Jr: He had a contract with the Atlantic and Pacific Company?

-3-

Mr. Nusbaum: But he had a written contract from the A & P for \$20,000, to be paid 80% against documents. The engines were to be put on board ship to Alaska to their canneries up there and it was 80% to be paid then and there and the order to be filled in less than 60 days.

HM, Jr: Did he lose the business?

Mr. Nusbaum: Thus far he's going to try to get the business.

HM, Jr: If you give me the fellow's name and everything, I think I can help him get it. What we need here, if we are going to be helpful, I think ~~we~~ have to think this thing through very carefully. We have got people in business, banks in business, just the way you are also and I think we ought to be awfully sure that we don't put somebody else out of business by starting up an agency. You see what I mean? What we are trying to do here is, we came through this period and had a lot of emergency agencies. Some of them have been liquidated and some haven't. And when I was at the Farm Credit Administration there was not in the whole State of Arkansas a single agency that would lend one dollar to anybody and the only agency that would lend anybody in the whole State was Farm Credit. Not a single private agency left. Since then we have built up many private agencies. Do you want to wipe them all out and have the Government go back in the lending business?

Mr. Nusbaum: No. We feel there is sufficient, ample, funds for business in the private banks and some measures should be taken to compel them to loosen up.

HM, Jr: What I need to help you people -- I am anxious to help you all the time, we need definite cases.

Mr. Nusbaum: Like the one I illustrated?

HM, Jr: Exactly. If you will give me this man's name, I won't make him come to Washington. I will have somebody call on him, and sit down and we will take the time, if we could get cases like that, but don't give me impossible cases, but what you have given me sounds like a very good one and if I was in business and had the money I would be glad to lend it. Sounds like a good proposition. If you can give me cases just like that -- we had a case in Alaska; 200 men, whaling fleet, wanted to start out; could not get

-4-

a loan; ships were ready; men ready; everything was set, but they need to buy food. I think they needed \$25,000 or \$50,000. I got it for them in 24 hours from a private bank. And the fleet sailed and they had a very successful season. And I got a whale's tusk out of it.

But I need particular cases and if you will give Mr. Haas, George Haas, those cases, we will go to the man. Can't do anything more than that. And we will sit down with him. We won't make him pay the expense of coming here. We will go to him. It won't be a matter of weeks. I can do it -- matter of days. And if we find we get enough cases, we can form an opinion. But a great many people who come in won't give us names, won't give us facts; they talk in generalities.

Mr. Nusbaum: You know around New York, the big banks such as Chase National, Manhattan, have managers whose jobs are dependent on what they show at the end of the year. You can't get in there. The small banks are better where they do business on a man's record.

HM, Jr.: If you people could give me 100 cases, I would be delighted.

Mr. Gottlieb: I have mailed to you only two days ago, similar to what you have released to the press, about liking to help the small business man on money. I have facts. That's what you want.

Under the FHA plan, if you recall, when it went into effect in August 1934, I was so enthusiastic about the idea that I did not waste a month. In fact, the records will show we made an application for a loan within 30 days and received it for one of our buildings that needed rehabilitation. In 1934 within 30 days I received my first loan; in fact, I have sent a letter to the President complimenting him as to the marvelous procedure because I noticed that I received the money and that was what I needed. The amount was only \$5,000.

Immediately I went to rehabilitate this piece of property, and that is what I mean, hired my plumbers, carpenters, painters, and insured all type of mechanics, made the building livable, not only for slum clearance, not only for reasonable profits for myself, but for unemployment,

-5-

because I put men to work and naturally that creates purchasing power because the man on the street who did not have a job has a job; he is going out, rent a room or an apartment and buy clothes with that money. Incidentally, I received almost \$40,000 from Manufacturers Trust.

In New York City the law expired, in fact it was for 18 months and was extended for another year, expiring March 31, 1937. I urged the various congressmen to please continue this law for another year or two because to was beneficial to our organization and I felt if it was beneficial to me it is to another man in the same type of business. The plan was marvelous. Banks liked it and I will give you some facts.

The law expired. Before this law expired I will tell you exactly what we spent in those years -- matter of record also.

Before FHA went into effect (August 1934) we had many properties that needed rehabilitation. We tried to obtain loans from various institutions in order to put them in good shape but were unsuccessful -- so we had to leave them alone until such time as we might get some money. In August 1934 when this Title I plan went into effect, we immediately took advantage by borrowing monies and the result was expansion and employment for many skilled and unskilled workers. This program ran to about \$126,000 for alteration costs, \$11,000 for furnishings making a total of \$237,000. That makes \$237,000 we expended inside of those two and one-half years. Title I plan expired March 31, 1937, immediately thereafter our firm stopped expanding and the result was laying off of 20% of our employment.

Therefore, I recommend that FHA Title I be put into effect immediately, not for 18 months as is being considered today, but for five years or longer. And where previously a loan of over \$5,000 had to have a commitment from the Federal Government the amount should be for \$25,000. instead, so as to eliminate all unnecessary delay in putting the loan through so that the applicant can immediately commence his program instead of waiting months as he had to do in the past. This should be a new and separate law, apart from any other Housing Act.

In order to relieve the small business man, which is the most important thing today, is to Free money. I

-6-

further recommend that a Regional Board be appointed by the Government, so that when an individual applying for a loan at any bank is turned down, he can appear before that Board for consideration and determination as to whether or not the refusal was justified.

I am heartily in accord with the views as set forth by the New York area in their 14-point program.

In conclusion, you will note that I have not mentioned anything about labor. This I have left to those present who will discuss it comprehensively. However, I want to stress one point -- we must recognize Labor since that is the purchasing power and by all means try to settle disputes between both labor leaders.

Thank you.

Mr. Mutter (s) or Mr. Barr(?): Mr. Secretary, about three years ago I received an order from the Government for G.C.C. merchandise and at that time I owed the Bank \$7,000 or \$8,000 and this order which I had from the Government amounted to \$15,000. I could not get five cents unless I paid off my first loan to the Bank, which was not due, and which I ultimately paid off 50 to 60 days, but I was unable to fill the G.C.C. order from the United States Government, War Department, and I will mention the Bank if you want it, but it's one of those conditions.

HM, Jr.: What I am talking about -- if somebody has some orders now and wants to go to work and can't get the money.

Mr. Mutter or Mr. Barr: Yes, but I stopped taking orders from that time.

HM, Jr.: But if somebody has some business and wants financing and put somebody to work and can make a profit, that's the thing to do.

Mr. Gottlieb: We have right now purchased two pieces of property. We are taking title in the month of February. This property needs rehabilitation. We haven't got the funds because we are anticipating this 18-month plan, and that's why we bought it.

Mr. Courtney: I would rather take my case to Mr. Mann because mine is quite something different. The Government

-7-

owes me money. I have waited a long time for \$5,000. I have waited, I will say, five months and the Government owes me on one job a thousand dollars and I believe it's a tear. We cannot go to the bank and make loans on that money, but they are cases which concern myself and I don't think that this Committee should listen to any of this. I would rather take my problem to Mr. Haas and I will put it on record and give it to him.

HM,Jr: What is your business?

Mr. Courtney: Lock maker; locksmith; we make locks safes, vaults and special locks.

HM,Jr: Mr. Haas will listen and if the Government is slow, I am glad to know it.

Mr. Courtney: We have a job for the S. S. Republicm going to Honolulu and we have to wait until the ship comes back until we get paid.

HM,Jr: Thank you.

Mr. Immerman: Can I present the problem of the merchant, the small retail merchant? I am speaking for the assorted men's wear group. We are met with a situation where the retailer's outlet has fallen off, the purchasing, buying public, and we have stock on hand which we are forced to sell at prices to take the profit out of the article and we are forced by creditors to meet our bills, as a result of which we had 40 or more failures in two weeks in the City of New York and I quote accurately when I make that statement and we are met with the problem that we would like to have something like Federal Housing or some agency which will permit us to save our vested interest as the farmer was helped and we ask more or less credit based on past business experience and the right to believe that we have ability to go ahead. The banks won't give us anything because we can't show a fair statement and we submit our problem not with the demand of asking a definite answer, but we say if it is your wish to get the pulse of the business public, that's the problem of the business man today and unless something is done, chain stores will continue to grow and the small fellow who needs assistance will be thrown to the discard.

HM,Jr: Forty out of how many were wiped out?

Mr. Immerman: One thousand retail haberdashers within

the greater City of New York and in that group we had 40 or more within the last few weeks, but there has been a constant falling off since 77-b where they were forced to settle on 25 cents on the dollar. Next the wholesaler will be forced because we are hitting him on account he can't possibly stand up.

Will there be a moratorium to help us, to tide us over until purchasing power increases, or we won't be there.

HM, Jr.: Your problem is a difficult one.

Mr. Immerman: It is, but it is a practical problem.

Mr. Modell: May I mention, speaking on a broader basis, not concerned with the individual problem, it seems to me that there is sufficient funds in the private banks and if some measures could be devised to regulate those banks where they would be obliged in doing their business to do a certain amount with the small business man, it might have some cohesive effect in compelling them to do business and lend money to the small man. I don't believe so much in Government financing, because it has other repercussions, because it brings on increased taxation and inflation. We could keep up our present status as far as the National debt is concerned, but get these private banks to open up and do business with their own neighbors who have been getting credit until the last ten years. That's what they are for. Then we will solve it.

One other thing, not directly in your Department but you are a member of the Cabinet, the activities of the Government with regard to monopolies is, I think, quite salutary. I think to a certain point monopolies control, in many instances, raw materials. Armstrong Cork Company controls the import of cork from Spain and Portugal, which are the two principal growers of that product in the world, and when a competitor of Armstrong, in the same line or one of their branch lines, wants to buy his raw material he has to buy from his competitor, Armstrong, and while there are few other importers of this product, these importers are more or less linked up with Armstrong and are subjected to Armstrong's policy so that the independent cork manufacturer can only have a limited amount of this raw material on a very restricted credit basis and when it comes to the sale of cork products, the small man, unless he considerably undersells Armstrong, he gets no business at all. They have a virtual

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monopoly. Furthermore, they have the raw material and if you buy in large quantities you get a discount. If the small man hasn't the means to buy a large quantity, he does not get it on account of he can't compete with the big fellow.

These monopolies are undermining the small business and in their practices, whereby they control the raw material and whereby they have these discounts on quantity purchases. These are just a couple of the bad practices that these monopolies engage in to the detriment of the small business man.

Mr. Modell: Some of the banks blame the State Bank Examiner for their troubles. They say, 'I would like to make it, but I am afraid of the Bank Examiner. He won't permit that kind of loan. The State Bank Examiners are nouncing us.' Maybe the Federal Government could ease the situation by controlling the State examiners through a different agency.

HM, Jr: We have such a thing as State rights.

Mr. Modell: That's the crux of complaints I get.

HM, Jr: The only thing is, we get them and we always take a particular case and run it down and very often they blame the Federal bank examiner and the only thing is I can deal with particular cases and we do that all the time and I am more than pleased, and sometimes we find that the Federal bank examiner is too hard and he feels that's what he's hired for, to be tough, and there is a happy medium somewhere, but I don't really think you want us to go in and take over all State banks.

Mr. Hardesty: We are somewhat more fortunate in some respects. Mine pertains to the little fellow. I would say that I am ready to place at least \$10,000 to \$15,000 in the way of tanks, wooden, steel, aluminum; pumps; refrigerating equipment, etc., for my plants. Therefore, what I have to say, Mr. Secretary, pertains really to the financial set-up, the undistributed surplus tax.

HM, Jr: Now, have you got all your figures on your own business?

Mr. Hardesty: Yes, sir!

HM, Jr: I'll have Mr. Magill come in. He's Under-secretary of the Treasury and his business is taxes.

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(Mr. Magill came in.)

HM, Jr: (To Mr. Magill) Sit over there.

Mr. Hardesty: I am W. C. Hardesty of W. C. Hardest Co., Inc. And business is good! We have done more business in the first two weeks of January than we did the whole month of December. We find inventories very low. People who order from us, like Firestone Tire and Rubber Co., when they send their orders in want them shipped the same day. Wonderful!

We entered business in 1926. We go overboard, hook, line and sinker for everything we had when we go through the depression of 1931-1932. Then we get our friends to come to our rescue with \$150,000, to be paid \$15,000 each year. We go to the banks. No trouble. So I have to digress for a minute and differentiate between getting money and not getting it.

Had no trouble, but in so doing we had it understood with our banks, 'You fellows can borrow \$150,000; yes. And with the understanding that you do not pay dividends until you pay us.'

So we still have faith and we get along and in 1935 we purchase \$33,590.81, tanks, equipment, cork insulation, hydraulic machinery, etc., and we paid taxes of \$11,371.18. In 1936, still with the spirit of enthusiasm, we spent \$31,705.09 and, glad to say, we paid \$25,207.53 taxes.

HM, Jr: Federal?

Mr. Hardesty: Federal taxes.

HM, Jr: Just Federal.

Mr. Hardesty: Federal income tax. All of which you can, of course, substantiate.

For the first 9 months of 1937, I suppose we had lived in this air of good business and paying our bills and we suddenly woke up to the fact that we had spent \$63,392.79 in 9 months on new machinery, bricklayers for our buildings, new boilers, automatic stokers for our boilers, rehabilitating, and we have a reserve, ready for use, of \$44,099.98, of which the surplus tax is 27%. Hits us, I think, around \$23,000. But,

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to my amazement, when I analyze my figures at the end of the year, after paying \$45,000 to the banks and the \$15,000 bond -- I may be wrong, but I find that no provision is set up for these obligations prior to this law, and that must be paid. I find that our capital is deflated \$14,000 after this magnificent year and the machinery, the \$63,000 which we bought, has cost us 27% more. I am not protesting against the tax ...

HM, Jr.: But you are only giving us half the story.

Mr. Hardesty: I would like to have the other half from you.

HM, Jr.: You have not told us your gross profits -- for us to answer you intelligently. You have only given us -- so much material and taxes are so much. What was your gross business and gross profits?

Mr. Hardesty: Gross profits 11%.

HM, Jr.: You ask him, Mr. Magill, for what you need.

Mr. Hardesty: I would be entirely willing. Gross business, \$1,800,000 and net profit for 9 months was \$153,000. I have the exact figures here.

What I would like to know, in fairness to myself and my directors and in answer to the fellows up there who are now giving us the ha-ha, and who are saying 'The \$63,000 you are spending on machinery, you are now penalized 27% and your company is worse off than when you started the beginning of the year.'

Mr. Magill: You have to give us all the figures.

Mr. Hardesty: I will be glad to give them to you if you will show me my answer.

HM, Jr.: But you are getting your profits and capital expenditures all mixed. Do you mind giving those to Magill. He's the tax man.

Mr. Hardesty: Is there any allowance for bond? I thought there was.

Mr. Magill: Yes, there is.

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Mr. Hardesty: In order to facilitate the discussion by this group, I would suggest you let me talk to you, maybe afterwards, if you

HM, Jr: Mr. Magill is ready.

Mr. Magill: Sure. I can see him at any time.

HM, Jr: When do you want to see Mr. Magill. He can see you right now.

Mr. Hardesty: All right. That's fine.

Unfortunately for me, I am one of the fellows who thinks the Government has done a swell job. I want to congratulate the Government and the wonderful spirit which is going along. If we can help this thing along of buying from tradesmen, tanks and pumps, I want to keep on doing it. I think we are one of the small corporations who in their enthusiasm to buy to keep the pump going have forgot that they have obligations to pay. We did not pay a dividend because we could not until we paid our bonds and banks.

Let me say, from my angle, my treatment from the banks was fair, from the Manufacturers Trust, from the National City, from the Sterling Bank; all right. We are getting a very moderate rate. It is not fair to make a comparison with the small fellow, but so far as I am personally concerned, I have no complaint.

oOo-oOo

Mr. Chairman, Ladies and Gentlemen - My name is George A. Gottlieb, President of the George A. Gottlieb & Co. Inc. operators of furnished apartment hotels, employing 103 people. Inasmuch as my time is limited I have reduced my 5-page comments to this short brief.

Before FHA 3-year Modernization plan went into effect (August-1934) we had many properties that needed rehabilitation. We tried to obtain loans from various institutions in order to put them in good shape but were unsuccessful - so we had to leave them alone until such time as we might get some money. In August 1934 when this Title 1 plan went into effect, we immediately took advantage by borrowing monies and the result was EXPANSION and EMPLOYMENT for many skilled and unskilled workers. This program ran to about \$126,000. for alteration costs, \$111,000. for furnishings making a total of \$237,000. Title 1 Plan expired March 31, 1937 - immediately thereafter our firm stopped expanding and the result was laying off of 20% of our employment.

Therefore, I recommend that FHA Title 1 be put into effect immediately, not for 18 months as is being considered today, but for five years or longer. ^{insert} And where previously a loan of over \$5,000. had to have a commitment from the Federal Government the amount should be for \$25,000. instead, so as to eliminate all unnecessary delay in putting the loan thru so that the applicant can immediately commence his program instead of waiting months as he had to do in the past. This should be a new and SEPARATE law, apart from any other Housing Act.

In order to relieve the small business man, which is the most important thing today, is to FREE money. I further recommend that a Regional Board be appointed by the Government, so that when an individual applying for a loan at any bank is turned down, he can appear before that Board for consideration and determination as to whether or not the refusal was justified.

I am heartily in accord with the views as set forth by the New York area in their 14 point program.

In conclusion, you will note that I have not mentioned anything about Labor.

This I have left to those present who will discuss it comprehensively. However, I want to stress one point - we must recognize LABOR since that is the purchasing power and by all means try to settle disputes between both labor leaders. THANK YOU

PLANNING COMMITTEE: L. C. Huston
C. St. Jean
G. A. Gottlieb

J. P. Mottur
C. Portugal
J. C. Hardesty

FOURTEEN POINTS FOR PROGRESS AND RECOVERY FOR SMALL BUSINESS AS
PROPOSED BY NEW YORK DELEGATION

- 1st: Set up a Government agency for immediate financial relief for small business.
- 2nd: Liberalization of the credit policies of existing agencies, extending financial aid to small industry, and the restoration and extension of Title I of the FHA act, and adequate provision for long time financing.
- 3rd: Require the incorporation of labor unions and make them as responsible as business. Amend the Wagner Act so as to give all employers equal protection.
- 4th: Repeal immediately the undistributed surplus tax and take steps to adjust capital gains tax downward.
- 5th: Restore equal opportunity for the success of small business through strict enforcement of all anti-monopoly laws and prompt action by the Federal Trade Commission on all charges of unfair competition and trade practices.
- 6th: Approval of the new Patman chain store bill. Approved by Ohio Delegation.
- 7th: Provide for a broad housing program to restore employment.
- 8th: The present unemployment tax, with a minimum of eight, works a hardship on small business. We ask that the minimum be set at twelve.
- 9th: Prohibit the issuance of any further tax exempt bonds of any character.
- 10th: We favor all city, state and federal employees to be subject to the same income taxes as other American citizens.
- 11th: establishment of a Council of small business men to assist the government in a research of means for aiding small business.
- 12th: We disapprove of the proposed Federal licensing of corporations.
- 13th: we urgently request that Congress cease dilatory tactics and enact immediately legislation needed for the recovery by business in this period of recession.
- 14th: An early statement by the Administration of a constructive policy toward business; cessation of criticism of business will restore public confidence, which is primarily needed to encourage general spending without which we can not sustain price levels and stabilize employment without reduction of labor.

Adopted: S.A.M. Feb 2, 1938
Raleigh Hotel
Washington, D.C.

Respectfully submitted,
(Lawrence C. Huston)
Chairman

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A J 20
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CONFERENCE - SMALL BUSINESS MEN
WASHINGTON Feb 2, 1938

OPENING:

~~Mr. Rogers~~, Mr. Chairman, Ladies and Gentlemen of the Assembly -
Inasmuch as my time is limited and I can very well understand that in the short time that is allotted to this Assembly, it would be humanly impossible for me to express my thoughts completely, I have prepared a small program crystallizing certain facts.

My name is George A. Gottlieb. I am the President of the firm of George A. Gottlieb & Co. Inc. operators of furnished apartment hotels, and I am the Chairman of the Board of Directors of the Residence Club Owners of greater New York and their past President.

It is unimportant at this time to place the blame for existing conditions upon any particular factor - what we should and MUST do is find a way out of the jam we are in - - we must get together to plan some kind of positive action in some promising direction still possible for us to take. The FIRST and most important thing is CONFIDENCE between ourselves and the Government and that must be restored at once, before we make any further steps. I am a "small" business man and I have certain constructive thoughts as to what plan can benefit us. I will outline quickly and briefly how I was affected by certain legislature "before and after" --. My plan will help all who have any problems on business anywhere in this Country, and in my humble opinion, this is the SECOND important factor. What will help me will help every retailer, wholesaler, manufacturer and even professional - any and every layman.

SESSION
PAGE 1
BY:

Prior to the inception of the F.B.A. 3-year Modernization plan which came into effect August 1934, my business was conservative, that is, when we purchased a piece of property it took us a long time to accumulate enough money to reconstruct same properly and consequently we could not take advantage of real estate bargains and profitable expansion measures. We had to go "slow and easy". However, when this law went into effect, we immediately took advantage of this act by purchasing buildings that needed rehabilitation. I might add in this respect that when we acquired a piece of property we had sufficient money to

buy but we did not have enough for reconstruction or alteration. As I mentioned before, when this plan became active we applied for loans and received them quickly without "red tape". Throughout the period that this law was in effect, from August 1934 to March 31, 1937 when it expired, we acquired eight buildings, borrowed from institutions for rehabilitation expenditures and spent enough money to insure many employees a good steady living over a period of years, which in turn became circularized in trade and purchasing power. Briefly, within that period we spent \$237,000. Of this amount \$111,000. went for Alteration costs, including painters, carpenters, plumbers, steamfitters, masonmen, etc. etc. and \$126,000. for Furnishings, including furniture, carpets, rugs, mattresses, linens curtains, drapes, etc. etc. These figures mean all manner of industries put to work to produce merchandise. Doesn't this mean that people have money to live and spend decently? Doesn't this mean purchasing power? Certainly! | Our houses were occupied - rentals were paid - people had money to spend - to buy things - to be happy.

ATION:
1

Now ---after March 31, 1937, the expiration of this F.H.A. 3-year Modernisation plan, the unhealthy symptoms became evident. If our thoughts were to purchase a piece of property we had to absorb our capital into the purchase price, and since no funds were available to us for rehabilitation we naturally hesitated to buy. What equity we had in our other properties we had to protect - we did not dare take chances with new houses, and since we had no new business we had to lay off help, all kinds of mechanics, supervisors, etc. etc. The healthy livable condition amongst many people broke down because we were unable to keep them employed. Prior to the expiration of this plan we had beside the laboring employees, as mentioned above, a regular staff of 128 people consisting of maids, porters, upholsterers, elevator operators, managers, handyman, firemen etc. but since we had to curtail expenses we had to drop about 25 from our payroll (and these people were needed for servicing our properties). What naturally happened to these 25 - they had no money - therefore this small percentage stopped trade also and unless we are able to re-employ them and we cannot do it unless we are able to continue to expand, this condition will continue. We disliked very much laying off these people since they were always faithful and conscientious and were with us for many years, but we had

Regarded Unclassified

alternative - our business declined and we were compelled to do it or lose our properties thru non-payment of taxes and interest.

Consequently, within a few months, incomes having become depleted, our percentage of vacancies in our various houses became startlingly increased. Many as you know instead of spending a dollar for a meal would spend 40¢ and where they paid \$9. a week or \$30. a month for a room now paid \$5. a week or \$20 a month. In some cases families doubled up to make ends meet. This has been going on ever since and is still going on and the Fall and Winter when we should show a good rental condition, we have shown the poorest condition since the past 8 to 10 years. That-- is black and white - an existing and disheartening situation.

ACT: I had repeatedly in the past written to the various departments in Washington warning them that this FHA Title 1 plan should not be discontinued. I predicted the calamity that would occur, and I am sure the ^{partial} ~~entire~~ condition as I have already outlined is a direct result of this piece of legislation. The building industry is the backbone of our nation and it certainly should be protected.

My first plan to correct some of these evils is to put into effect immediately, F.H.A. Title 1, not for 18 months as is being considered today, ~~for 18 months as previously~~, but for five years or longer. And where previously a loan of over \$5,000. had to have a commitment from the Federal Government the amount should be for \$25,000. instead so as to eliminate all unnecessary delay in putting the loan thru so that the applicant can immediately commence his program instead of waiting months as he had to do in the past. This should be a NEW and SEPARATE law, apart from ^{any other Housing Act.} ~~any other law and should remain on the~~

RES: I have some figures that are a matter of public record on the old plan that I think is pertinent to the present situation. Over its last life FHA TITLE 1 insured \$660,000,000. Their loss up to date is about \$12,000,000 (an amount which had to be paid back to institutions as part of their insurance policies). About half of this amount \$6,000,000 will be recovered thru sales that they will make. Therefore, the \$6,000,000. net loss is equivalent to 1%. Of course the loss might be a little more since payments are not all in. If you stretch

the loss to the utmost you can say it will be from 2 to 3%. Can one show a better report than that? The Public should therefore encourage the Government to keep Title 1 in effect as suggested above. What harm, if any, can there be for the Federal Government to consider it indefinitely? I challenge anybody for a constructive criticism on this!

We all know that only thru the lending of money to Small Industry freely and easily, can we expect business activity. The velocity of credit and money is what we seek. Where else can it multiply as fast as it surely does thru the Small business man? I showed you in my figures previously quoted how fast that could be and I am not the only man in business. The high cost of obtaining new money is a handicap to any small industry. And small industry represents 90% of the business world, the balance of 10% are capitalists and so-called Big Business men. Therefore, is it not their need - I mean the majority, the 90% I mention, that we are most interested in? Is it not they who bring about circularization of monies thru their many branches - do they not cause the buying and selling - supply and demand?

A fallacy existing today is this same small business man's lack of capital, and important factor in our economic life, and the only way to open up avenues of progress is to help him financially, especially give him enough funds to carry on during a 'crying' period, to keep him alive.

The answer to all this is EASY MONEY -

And the logical solution is some form of law permitting the establishment of Federal Industrial capital banks empowered with all necessary loaning and discounting prerogatives financed by private capital, to cater to the local and regional needs of trade and industry, similar to the FHA insurance policy. Or, if this is not feasible permit the local banks to make loans up to a reasonable amount to be guaranteed in part by the Government, also, much in the same manner under which housing loans are now insured by the FHA, to help the small business man who may be in need of funds and who has no statement which is good for sound banking investments. If these small business men can have a guarantee from the Government to the Banks to loan reasonable amounts this will be a

ANSWER:

channels where they can use this money in a productive capacity. These loans are based solely, not so much on a man's investment but on his character, and somewhat of a tangible record of progress commensurate with the amount of capital he has in his business. And this loan can be paid back in monthly installments as before, and should be used solely for expansion purposes which means LABOR returns to work immediately creating purchasing power.

DI A Regional Board should be appointed by the Government whereby an individual applying for a loan at any bank and is turned down, he can then appear before this Board for consideration and determination as to whether or not the refusal was justified.

MAINF Let me explain: The small business man who lacks capital about which I talked before can usually submit a statement showing his soundness ~~with~~ but with frozen assets. His reputation might be splendid, his character fine and he is probably in business for 20 years or more, and he always respected credit. Yet, when he presents himself with an application for a loan to a banking institution he is turned down because of the "frozen assets". Now, what does a bank expect from a small business man - liquid assets? If so, then this applicant does not NEED a loan. You might ask "Should a man secure a loan if his statement consists of frozen assets but is sound otherwise?" The answer is Yes, because the bank has investigated him, found him to be honest and trustworthy and had met his obligations promptly in the past - he has been in business for many years and has retained his good name. That is sufficient for any Banker to grant a loan on. Of course the amount asked for should be based proportionately upon his assets and liabilities. AND, if there is any reason for not granting it, this man should have the right to appear before a Board to ascertain WHY.

In conclusion, ~~Mr. Speaker~~, Mr. Chairman, Ladies and Gentlemen of this Assembly, you will note that I have not mentioned anything about LABOR - this I have left to those present who will discuss it comprehensively. However, I want to STRESS one point - we must recognize LABOR since THEY are the PURCHASING POWER.

THANK YOU

GROUP MEETING

February 2, 1938.
9:30 a.m.

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

H.M.Jr: All right, Mac~~...~~

McR: There are alternative letters on that Kelly case.

H.W.Jr: Oh yes. I'll take them with me.

Upham: I expect to have that digest of the S.E.C. report ready by noon, if you're interested in it.

H.M.Jr: Yes.

Gibbons: Nothing.

H.M.Jr: When is Ballinger going to be ready with his report on the administrative set-up of Customs?

Gibbons: The Bureau.

Oliphant: It's a very large report.

McR: Herman has it.

Oliphant: Came to me about three or four days....

H.M.Jr: Can't hear.

Oliphant: I say it's a large report; came to me three or four days ago. I am now going over it.

H.M.Jr: About Monday, be ready?

Oliphant: Yes.

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H.M.Jr: Today's Wednesday. About Monday?

Olipnant: Right.

H.M.Jr: but I mean ...

Olipnant: Make it Monday.

H.M.Jr: I mean by that you either will agree or disagree, and tell me why.

Olipnant: (Nods yes)

H.M.Jr: Okey-dokey.

Is Taylor sick today?

Haas: He's over at - I called a while ago; he's at the Export-Import Bank meeting.

H.M.Jr: On.

(On phone) As Mr. Bell if he is coming down. Something that I'd like to see him about. If he can't come down, I want to talk to him on the phone.

Look, you, Haas - you two fellows (Haas and Lochhead) see Taylor - my thought is, now, this report that you give me on the weekly business situation.... My thought was that, in the first place - you can tell this to Taylor - somebody has got to service these two boys, Butterworth and Cochran.

Haas: All right.

H.M.Jr: They write a letter that Sir Frederick Phillips says, "What about the American automobile situation?" Well, I read the cable some time during the night. Now, I don't want to charge with my memory "Is Sir Frederick Phillips answered?" The chances are nine out of ten he won't be answered until I take it up. I oughtn't to have to do that. So I want to make Taylor responsible for servicing London and Paris when they want something; I mean make Lochhead responsible so that if Cochran or the other fellow, Butterworth, wants something, it is up to him to see that any

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question that these boys ask us in their cables - they either get it or don't get it. But the way it is now, I've got to do it. Now, it's another thing that I shouldn't have to do. He can come in and see me - "Should they or shouldn't they have the automobile stuff? Should we send Sir Frederick Phillips a review of what the automobile situation is?" I don't see any reason why we shouldn't, see?

Haas: Uh-huh.

H.M.Jr: Now, the other thing is, incidentally, in this cable of Sir Frederick Phillips he is terribly blue on the English situation.

(Bell comes in)

Hello, Dan.

And then the other question that you fellows take up - I think that we ought to send this report on the American business situation to Butterworth and Cochran once a week with a note "For your information. Not to be circulated, but to be used for reference purposes." See?

Haas: Once in a while there's something in there we'd take out.

H.M.Jr: That's up to you and Archie and Taylor. As for me - but if there's something you don't want to go to the Treasury in Great Britain, you can just delete it. But I read this; there's nothing in it It would be helpful.

Incidentally - this is an awful small thing, but it just confuses me - I mean I wouldn't - but if I'm not mistaken there are some things they put in this thing twice. See?

Haas: Yes.

H.M.Jr: I mean don't

Haas: Like Walla-Walla. Made two copies. Sorry.

H.M.Jr: It's only a small - but I look at it three times. I mean it's not important, but just

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Haas: Got two copies.

H.M.Jr: You know our motto: "We work towards perfection." May not reach it, but we work towards it.

Dan, the reason I wanted to see you this morning - I was simply dumfounded to read this statement, accredited to nobody, about WPA going to two million people and then they're going to lay off a million and a half, and this is what they had to do on account of the reported statements of Mr. Roosevelt and Mr. Morgenthau. And thanks to their statements Mrs. Morgenthau gets a letter this morning that a band of fifty people, on account of the attitude of the President and myself, have banded together to kill the President and myself.

Now, this thing here of Aubrey Williams and this fellow Mr. Niles - is that his name over there, the publicity man?

Bell: I don't know him.

H.M.Jr: What?

Bell: I don't know him.

H.M.Jr: Well, he's the man. If there's anything like this - and I've got a bargain with these boys, and I'm

Bell: You have a bargain with Colonel Harrington.

H.M.Jr: Right.

"One official who would not be quoted by name said WPA was banking everything on a Spring business rise absorbing those demobilized." *all in quotes.

"'Of course,' he said, 'we can't foresee a boom any more than we can a flood or a blizzard, but it is the only thing we have on which to pin our hopes unless - additional relief funds are made available for the remainder of the current fiscal year. It seems, however, that the business recession leveled off in December and that neither hills nor valleys are ahead.'

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"Although there has been some demand in the House for additional relief funds, he said the general apathy of the Senate plus statements from both President Roosevelt and Secretary Morgenthau that no deficiency appropriation would be needed indicated WPA would have to 'make its money last' until July."

The heading is "WPA Rolls to Rise to 2,000,000 Total. Spending to Increase to Take Care of Work Relief Needs for Winter Months. Cut of 500,000 by June. Most of Curtailment to Be in South - Business Gain to Absorb Slack Expected." (N.Y. Times 2-2-38)

(On phone) Colonel Harrington, please.

But isn't that breaking faith and our word and so forth?

Bell: Well, the million and a half is right on the schedule, you know.

H.M.Jr: Oh yes, but two million isn't.

Bell: Well, they're figuring on a million nine as an average.

H.M.Jr: But it's a dirty story, it's a dirty story.

Bell: Oh sure.

H.M.Jr: Just read it. I mean they haven't got guts enough to stand up and say it. I'd think better of them if they'd stand up and say so and so and so and so. Now we come back - depending upon what we see, I'm going to send for these people to come over here; I'm not going to take it like that.

(On phone) Hello. - Oh. - What about Aubrey Williams?

Colonel Harrington's wife is very sick.

Bell: Harry is going to be away another month.

H.M.Jr: When did you hear that?

Bell: Yesterday. Mac told me the President ordered him to stay away another month.

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H.M.Jr: Herbert?

Gaston: No, I haven't anything. I didn't send you - didn't give you any report of yesterday's conference because nothing happened.

H.M.Jr: I was amused to learn in the Pearson-Allen column today that Mr. Douglas and I have got a new scheme for small business, giving me full credit. I never heard anything. It's a nice scheme and I don't mind. It's all right.

Gaston: The White House is giving you full credit. They're sending over all the letters from small business men to be answered over here.

H.M.Jr: Well, I haven't given anything like that to George for a long time. I'm turning all of that stuff over to George.

Gaston: Well, it's all come back to me; that is, the letters have.

H.M.Jr: Well, I only yesterday asked George ...

Klotz: We asked them to give them to him. I spoke to Miss Chauncey; I asked that they be turned over to him.

H.M.Jr: Williams hasn't reached his office yet.
George, you can handle that, can't you?

Haas: Yes, you bet.

H.M.Jr: Huh?

Haas: I'll ask Herbert what to say.

Gaston: I'll ask you, George.

H.M.Jr: Committee of small business men.

Klotz: That's tentative yet.

H.M.Jr: Well, if it's confirmed, let Mr. Haas and Gaston be here, see what they can learn - how to handle them.

Klotz: I told Mr. Haas.

H.M.Jr: All right.

What else, Herbert?

Gaston: I think that's all. The Press Intelligence Bureau wasn't able to find anything in the Rochester papers at all about that Genesee case. We're now having a re-search of the files made in their office and at the Congressional Library.

Now, you people know at 10:30 - I mean S.E.C. is coming on the utility thing. Who is in on that with me? You (Oliphant)?

Oliphant: Opper and Ed.

H.M.Jr: who else? Taylor, I guess.

And I'm trying to get Barkley - he's coming in tomorrow morning and I'm going to handle that liquor business - barrels. I now understand what a light-bodied whiskey is, what a heavy-bodied whiskey is, what the char does and what it doesn't do; which is straight, which is Bourbon; there are 40 to 65 million gallons in storage. I've got the whole story. The only thing missing - I don't know where "Happy" Chandler stands. If I knew that, it would help.

McR: He undoubtedly stands for new cooperage.

Bell: Pat Harrison might tell you.

H.M.Jr: Pardon me?

Bell: Pat Harrison might tell you.

Oliphant: Good thing Senator Robinson isn't in on it.

Gaston: I hope you noticed that the sales of Baby Bonds for January exceeded those of January last year - 99 million, 700 and some thousand.

H.M.Jr: I thought you fellows fell down badly. Couldn't you have shoved it over a hundred million?

Gaston: That's what I should have done - asked Jim Bryan to get it over a hundred million.

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Klotz: He will.

Bell: I thought it did go to 102 million.

Gaston: On the daily base it probably did.

H.M.Jr: Dan's a man after my own heart.

Gaston: Put on a daily statement base.

H.M.Jr: Absolutely, it's got to be over a hundred million.

Gaston: \$102,248,000. We won't put out any release; just call the boys' attention to it.

Bell: 102,248?

Gaston: 102,248.

H.M.Jr: All right. We're all learning.

Bell: See where the Comptroller General is going to investigate the daily?

H.M.Jr: Well, it's taken him a month to think up an answer to you boys' "snapping at the heels" story. That's their answer.

Strictly in the room, the last estimate that Mr. Haas gave me on the revenue, which was some time in December - is this January?

Haas: Uh-huh.

H.M.Jr: What?

Haas: That's the month of January and the first seven months of the fiscal year.

H.M.Jr: Well, the month of January he underestimated by eight and a half million. And I won't scold you. In other words, eight and a half million better than you estimated.

Haas: No, that's percent; 26 million better.

H.M.Jr: What? Oh yes. 26 million for January.

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Gaston: Bob Kintner is coming in today. He asked me over the phone whether our revenues for January were up to our estimates.

H.M.Jr: The answer is "Yes."

Gaston: The answer is just "Yes."

H.M.Jr: But that's better than having to go to the President and take out our handkerchief and say, "We're off 26 million."

Bell: We can rest until March, can't we, George?

Haas: Huh?

Bell: We can rest until March now.

Haas: That's right.

Magill: I'm going to be away all during March.

Haas: I've got the first reservation, Ros.

Bell: Well, I'll be away during April - April 1 on.

Magill: Well, I'm thinking of being away April too.

H.M.Jr: Just a minute.
(On phone) Professor Kiefler at Princeton, please.

Olyphant: I've given you a report - dictated a written report on my conference yesterday with the A.G.

H.M.Jr: Yes, I've got it here.

Olyphant: Very satisfactory, and indicates a cordial attitude on the whole thing, partly as a result of the circumstances you pointed out - the reason for his suggestions that he made; suggested a conference - and also because of our success in the tire case, which has ...

H.M.Jr: We may get somewhere?

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Oliphant: Yes. Just sort of a hundred percent agreement.

H.M.Jr: Will you keep McReynolds informed?

McK: Yes, he told me.

H.M.Jr: What else?

Oliphant: Nothing. Well, I have a memorandum I'll give to Taylor this morning on your powers under the Interdepartmental Banking Committee - your banking powers; and then a general memorandum dealing with the whole subject is in process of being typed now. I'll give it to Taylor in the course of the day.

H.M.Jr: All right.

Oliphant: That's all.

Magill: I had a telephone call yesterday from Assistant Secretary Draper, saying that the small business men, which he described as business men under five feet five, would be over ...

Gaston: Over at the press conference they were called "Roper's Lilliputians."

McK: I wondered why anybody hadn't named them that.

Magill: They are assembling.

H.M.Jr: You say "Roper with the Lilliputians."

Gaston: "Roper's Lilliputians."

Magill: "Roper and the Eight Hundred Dwarfs."

Well, anyway, these little fellows are assembling over there in Commerce, and they have done their best to keep the dirty subject of taxes out of their considerations, but, having constituted twelve different committees on everything else from the kind of desks and rugs they were to use in their office on up and down, they finally have a miscellaneous basket in which it appears that probably taxes might be regarded by some as falling. So Brother Draper asked that I come over and sit on

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the platform with my open front collar and

H.M.Jr: Open front collar.

Magill: ... and if anybody by any chance should ask a question about taxes, why, I would be prepared to rise up and say, "Well, the taxes are just in splendid shape."

H.M.Jr: Well, I'm tickled to death he's asking you. Incidentally

Magill: I don't think I am, but then ...

H.M.Jr: Well, I am, because it - get away to a bad start - I'm tickled to death they have asked you. And the fact taxes was left off I think was rather interesting. I think it is due to the fact that Mr. Early from the doorstep of the White House said they would consider surplus tax and capital gains tax - must have said that entirely on his own - then the President as a result of that told them they mustn't consider the tax thing at all. That was the advance story that went out.

Magill: The thing that amuses me - they have apparently constituted a flock of committees to consider these twelve other subjects, whatever they are; then the 13th, or miscellaneous one ... Well, the twelve, as I take it, are meeting around in rooms of this size, but the 13th, the miscellaneous, is just going to meet in the auditorium, apparently leading all the boys to be miscellaneous.

Wes: You going to be in the auditorium?

Magill: I'm going to be in the auditorium.

Wes: With a microphone.

Klots: You (H.M.Jr) better take the day off.

H.M.Jr: All right.

Magill: Shall I take any reinforcements along with me?

H.M.Jr: On your hip.

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Magill: Some of this cooerage that you're studying.
Do you want to bring this up here?

H.M.Jr: Well, there is really nothing for me to decide,
other than that you just point out that this thing
went out without any of us seeing it. Isn't that
it? This \$100,000 thing. And now that it's out,
you're going to try to make it good. Is that it,
or what?

(On phone) Hello. (Conversation with Win Riefler
follows:)



February 2, 1938.
9:43 a.m.

H.M.Jr: Hello.

Operator: Dr. Riefler.

H.M.Jr: Hello.

Dr. Riefler: Hello.

H.M.Jr: Hello, Win Riefler?

R: Yes.

H.M.Jr: How are you?

R: Fine.

H.M.Jr: If my memory serves me right, I think it was you that told me that when the Housing bill passed, we ought to watch and see how they're going to set up these various -

R: That's right.

H.M.Jr: What?

R: That's right.

H.M.Jr: Well, I think it's a swell idea, and I wondered if you couldn't come down Monday - spend a couple of days looking into it for me, 'cos you - you know this thing from the ground up.

R: Well, I don't know that I can next Monday or not.

H.M.Jr: Well -

R: Let me think it over, will you?

H.M.Jr: Well, if you do it -

R: Because we're just at the verge of fixing our house, you see, and moving in.

H.M.Jr: Well, could you -

R: I haven't -

H.M.Jr: Could you do it next week?

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R: If I can I will.

H.M.Jr: Well, because I think it's important, and we really haven't got anybody around here that knows half as much about it as you do.

R:

H.M.Jr: Excuse me.

R:

H.M.Jr: It - well it passed yesterday.

R: Oh, did it really.

H.M.Jr: Yes, that's why I'm calling.

R: I see.

H.M.Jr: It passed yesterday.

R: Yes.

H.M.Jr: And I figured that by next week they'd have something, and - and I thought if you could spend a day or so with Stuart McDonald and kind of you know, go around.

R: Well I will if I can, and I'll - I'll let you know what day.

H.M.Jr: Will you?

R: Yes.

H.M.Jr: Thank you.

R: All right.

H.M.Jr: Goodbye.

R: Goodbye.

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Magill: Why don't we speak of it here?

H.M.Jr: There's no reason why not.

Magill: The whole story is this. The Commissioner, about the time of the loophole investigation last summer, set up a small unit in the Bureau for the purpose of analyzing the returns of persons with incomes of over \$100,000, one of the ideas being to see what types of property dispositions they were making and consequently what devices were being used for the purpose of reducing their taxes, etc. The justification for that, if you need any, is the fact that in the case of those people, the United States has as much interest in their incomes as they have themselves, and we ought to keep informed as to how those incomes are being utilized or shifted about.

It was not intended, I think, at the time that anything should be said about this unit, but that it should be simply an inside organization for the purpose that I have outlined, and it has been set up and is doing its job quietly down in the Bureau and I think there will be some utility of it.

In November the Commissioner, I think, really out of a clear sky, as he now admits, got out a mimeograph to Collectors, not confidential, to accompany a form which was sent out to the various Collectors and revenue agents for the purpose of the agents giving the form to a taxpayer having an income of over \$100,000 and asking him to fill it out at the time that the agent would be making the examination of his books in the usual course.

The form calls in substance for the taxpayer to set forth the worth of the various assets which he has, principally but not wholly income-producing assets, information which for the most part the revenue agent could get for himself, if he wanted to, from the books and information which is regularly furnished by corporations to the Bureau.

As probably all of you know, the sending out of the letter and form and so forth was immediately in the

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New York papers, and considerable hue and cry was caused.

- Danton: They had not only the form, but they had the complete memorandum.
- Magill: Yes, the whole thing. Well, I don't know why they shouldn't have, because it wasn't marked confidential.
- H.W.Jr: Well, of course, the information that they asked - they have a lot of that - absolutely nothing to do with income-producing stuff. You'd have to - a man with income over \$100,000 would have to hire somebody to come in, make an inventory of all his property, and appraise it.
- Oliphant: You're asking for information that we're not warranted in asking.
- H.W.Jr: Now, there's information in there - I mean that you actually - you'd have to hire an expert to come in and make an inventory of your personal property; then you'd have to get an appraiser to come in and appraise it.
- Magill: The form was undoubtedly poorly devised, and there are two lines on it that are chiefly objectionable. They've got a line in there for "other property," which occurs in such a way that you could at least take it as meaning that you're supposed to list your jewelry and furs and things of that character; and they've got another line in there which is for automobiles, yachts, and so forth - something like that. Well, I don't know what concern we have with an individual's automobiles, whether he has Fords or Rolls-Royces.
- H.W.Jr: I don't either. I had to publicly stand up for it. But it seems some of those questions were absolutely cock-eyed.
- Magill: On the whole, the form was all right. I mean as far as asking for information which we could use.
- H.W.Jr: Well, what you going to do about it, Ros?
- Magill: Well now, the way it comes around is this. The thing

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was sent on, this publicity occurred, and the question was what to do about it. As I say, it went out; it should have been issued with the authority of the Secretary, but it was not. It went out without it. I didn't know anything about it until it came over here a couple days after it had been sent out. Then we talked about it. I talked with Mac and Gaston and the Commissioner one day, I think while Mr. Oliphant and yourself were away, and we were of the view that since the thing had gone out and since there was this disturbance and since you referred to it in a press conference with informal approval or whatever you might call it,

H.M.Jr: Well, I had to.

Magill: Yes.

H.M.Jr: I couldn't help it.

Magill: ... you had better let the thing alone at least for the present. And I contemplated that as soon as the Commissioner and Mr. Oliphant were both back in town, we'd have a further conference about it. Well, we had this conference and Mr. Oliphant was of the view, I believe, that if such information was to be obtained, it ought to be obtained by the revenue agents themselves, and the taxpayer ought not to be asked to fill out such a form.

Oliphant: May I put that the other way around?

Magill: Yes, put it...

Oliphant: My position is that there should be requested from the taxpayer nothing in that form which the agent is not authorized to get from the taxpayer.

Magill: Then, as I understand it, you go further.

Oliphant: Well, that means perfectly obviously that the agent hasn't been doing his job, and if you'd have this information - merely a matter of the agent doing his job.

Magill: Then further, as I understand it, you advise against

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the issuance of a regulation to the effect that the taxpayer shall fill out this form or a modification of this form.

- H.W.Jr: Well, if we're wrong let's withdraw the thing. Didn't I say in my talk that if we're wrong I'll admit it? I'd rather withdraw it. They asked me whether I had the legal thing and I had to say, "Right." I took it for granted that anything that they asked for - that it was clear. My God, they've got 250 lawyers over there. I suppose - I mean this thing keeps coming up all the time - this processing tax, all this hiatus between the Commissioner's office and this office. I just don't
- Magill: Well, there's another point there that I want to discuss with you some day. But I think that can be solved.
- H.W.Jr: Well, on this particular thing will you two gentleman (Magill and Oliphant) get your heads together, plus McReynolds, and give me a formal suggestion. And I wouldn't hesitate a minute to withdraw it if I think we're wrong.
- Oliphant: I'm relieved to hear you say that.
- H.W.Jr: God Almighty! - I mean we're human and if we're wrong let's say so.
- Magill: I don't think it is. I think the idea
- Haas: The idea is good.
- Magill: I think the idea of Mac and I and Oliphant getting together - I don't think you can quite say that it's wrong.
- H.W.Jr: Evidently you and Oliphant haven't had a chance to get together on this. Isn't that right?
- Magill: Well, yes and no. I think it's a thing you've got to decide. Mac is in substance of the view we ought to stand by the thing.
- H.W.Jr: Well, let's put it this way. When everybody is

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ready, including the Commissioner, including the fellow - whoever over there that did this, let's have a meeting here, and we'll set aside an hour and go into it thoroughly and settle it.

Oliphant: I think that's a good idea.

H.M.Jr: Mac, when they're ready let me know; we'll have a meeting.

McK: O.K.

H.M.Jr: How's that?

Magill: O.K. The point I'm making is, I think we're up to that point. It's been fully discussed among all of us. There is no particular occasion for our having another meeting.

H.M.Jr: Well, put it down - I'm tied up - put it down for ten Thursday.

Magill: There's no hurry about it.

H.M.Jr: Ten next Tuesday.

Magill: I won't be here.

H.M.Jr: You won't be here? When will you be here?

Magill: Following day.

H.M.Jr: Wednesday. Do you want to do it first thing after you get back?

Magill: That's all right.

H.M.Jr: 10:30 Wednesday?

Magill: (Nods yes)

H.M.Jr: 10:30 Wednesday. By that time everybody will be ready.

Anything else? All right.

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February 2, 1938.
10:15 a.m.

Aubrey
Williams: Hello, Mr. Secretary.

H.M.Jr: How are you?

W: Well I'm all right. I'm very much better.

H.M.Jr: I'm calling you because they tell me Harrington is out with a sick wife. I didn't want to bother him today.

W: Yes.

H.M.Jr: And I was really very much disturbed, and so was Danny Bell, at this story we read in this morning's paper, page 11 of the New York Times, about increasing your rolls to two millions. And then, at the end of the story, kinda throwing the whole thing in the President's and my lap.

W: I haven't seen that.

H.M.Jr: Well I wish you'd look at it, and it really -

W: Where did -

H.M.Jr: Well I don't think it's keeping faith,

W: Where did this story come from?

H.M.Jr: Out of your shop.

W: Ah!

H.M.Jr: Mentions your name.

W: Mentions me?

H.M.Jr: Yes. Starts off with Aubrey Williams, Acting Administrator - stated that, and -

W: I haven't seen anybody and nothing has been put out.

H.M.Jr: Well, I - I'm, frankly, very much upset about it, and I - I work so hard, and then to kinda throw all this misery in my lap, needless to say the President. I just don't think it's - I - I think it's terrible.

- 2 -

W: Well, I haven't seen it. I don't know what it is. I'll have to look it up, and I don't know where it comes from.

H.M.Jr: Yes.

W: Now, I'll get - I've got the New York Times and I'll read it, and I'll -

H.M.Jr: It's - it's on page 11.

W: Yes.

H.M.Jr: Now I had that trouble once before with your shop, and I went - it's about - a little over a year ago, and Hopkins straightened it out, and -

W: Yes. Well, I -

H.M.Jr: I'd like to have - after you've read it, I'd like to have a heart to heart talk with you. I'm terribly upset over it.

W: Well, why don't I come over there?

H.M.Jr: All right.

W: Well, I'll - what time?

H.M.Jr: 11:30?

W: All right, I'll be there.

H.M.Jr: O.K.

February 2, 1938.
10:28 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley calling.

H.M.Jr: All right.

O: Go ahead.

Sen. Alben Barkley: Hello.

H.M.Jr: Hello.

B: Hello, Henry?

H.M.Jr: How are you?

B: Fine.

H.M.Jr: Alben?

B: Yes.

H.M.Jr: I'm ready to talk to you about barrels.

B: Yes. All right.

H.M.Jr: And I wondered if it would be convenient to have - if you would mind dropping by the office, say tomorrow morning.

B: Sure, be glad to. What time?

H.M.Jr: Is 9:30 too early?

B: No, I can get there at 8:30, if you're there.

H.M.Jr: Well, I'd be here at 8:30, but I don't want to crowd you.

B: Well 8:30 would crowd me a little.

H.M.Jr: How's 9:30?

B: 9:30 is all right.

H.M.Jr: And I'll have Alexander here, and I want him to tell the story, because it's his decision. I've only got to sign it. See?

B: I know.

H.M.Jr: And - but -

B: You don't have to sign it.

H.M.Jr: But, I'll let him tell the story, in my office.

B: Yes.

H.M.Jr: You'll come alone, won't you?

B: Well, now, Joe Guffey wants - he's interested, and he said he'd like to come with me.

H.M.Jr: Well, that's all right. I mean, we don't want any of the whiskey boys.

B: No, no. No. Well, I'll bring Joe with me.

H.M.Jr: You bring Joe with you.

B: Yes.

H.M.Jr: And that'll be sharp nine-thirty tomorrow, and if you want me to come on the Hill, I'll come on the Hill.

B: No, we can drop by there.

H.M.Jr: That all right?

B: Yes.

H.M.Jr: O.K.

B: All right. Thank you.

H.M.Jr: Thank you.

B: Goodbye.

REORGANIZATION OF PUBLIC UTILITIES
HOLDING COMPANIES

February 2, 1938.
10:30 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Opper
Mr. Foley
Mr. Jerome Frank
Mr. Robert E. Healy
Mr. Stuart Guthrie
Mr. Dunn
Mr. Edwin Sheridan
Mr. Peter Nehemkis
Mr. C. Roy Smith

H.M.Jr: All right, gentlemen.

Frank: Well, I wonder, Mr. Secretary, whether you oughtn't to get the slant that Mr. Sheridan has on the situation. Mr. Sheridan is the man that keeps us straight with the public.

H.M.Jr: Is he successful?

Frank: I think he does pretty well.

Healy: He's kept us straight.

H.M.Jr: Wait a second. If you don't mind, I'll have my man that keeps me straight.

(On phone) Tell Gaston to come in, please.

Do you mind waiting a second?

Oliphant: Taylor over ...

H.M.Jr: Taylor's over with Export-Import.

Well, I think - go ahead.

Frank: I was just going to say, there isn't any question but what the S.E.C. is very eager at the earliest possible moment to get this Genesee reorganization. We want to bend every effort to it. And the one major impediment is Maltbie's lack of action, which is no criticism of

nim; but just a question - it is a fact that until he acts we can't do anything. So there is no lack of desire on our part to act with the greatest possible promptness. If Maltbie will act promptly, way, then we can go places.

(Gaston comes in)

Frank: Mr. Sheridan's point of view, however, is that - is with respect to the amount and kind of publicity.

H.M.Jr: Do you (Gaston) know Sheridan. Mr. Sheridan ...

Gaston: How do you do, Mr. Sheridan.

Frank: ad, why don't you tell them just ...

Sheridan: Well, the thing - I don't know but what this - in the light of the question whether we could go ahead on the basis outlined or not. But it did worry me somewhat to think that we had a possible skyrocket here which would emblazon itself on the sky and then die out and not be followed by anything. I had a feeling that it might lose whatever merit, whatever good could be done - whatever good could be done would be lost by virtue of the fact that nothing followed, and business became bewildered rather than encouraged.

H.M.Jr: You mean if this reorganization was not successful?

Sheridan: No, I assume that the reorganization would be successful.

H.M.Jr: You mean if the plan went through.

Sheridan: If the plan went through. But what would happen thereafter, what would be the next step?

H.M.Jr: Well, I'm glad you raised that, because I'm in entire sympathy; we don't want skyrockets.

Sheridan: Yes.

H.M.Jr: We want to go up one step of the ladder and know how we get up the next rung. The thought that I had in this is that I think the people in this country who are interested in public utilities and reorganization and all that

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(Taylor comes in)

- H.M.Jr: Hello, Wayne. Haven't missed anything yet.
- You people have turned down a plan, and you're doing it - I can't quote the legal thing - on the theory that you're not going to recognize the security holders in these holding companies. Isn't that ...
- Olyphants: Common stock or debenture.
- H.M.Jr: All right. You laid yourself that. Of course, people asked, when you gave that ruling, "What are you going to do to dig yourself and the similar companies out of that whole which you have dug?" See?
- Wally: This Genesee Company, of course, was a terrible example. That is, here was one puny little operating company with three holding companies piled on top of it. Now, it is just impossible to save anything for those top holding companies; and I can't see where the preferred or common stockholders of the first holding company above the operating company can look forward to receiving anything. There is nothing there for it.
- H.M.Jr: Well, Commissioner, I am in entire sympathy with what you are doing.
- Wally: Well, the reason we didn't take the next step and suggest a plan of our own, as the statute contemplates we shall do, is because nobody can get up a plan for this company until he knows what the New York State Commission is going to do about an improper accounting entry that was made on the books of the Pavilion Gas Company.
- H.M.Jr: Well, may I just put that aside a moment and try to answer. I wouldn't be terribly afraid of the thing that you (Sheridan) raised, because if this reorganization could be successful and this New York State Public - what's their title?
- Frank: ... Service.
- H.M.Jr: ... Public Service went along, and let's say this

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whole thing was successful and we found some people up in New York State - investment bank - ready to finance it, so forth and so on; I'd feel perfectly - you are perfectly correct that people say, "What's next?" Well, I don't know what is next in your shop and I don't know what else is around, but at least here would be a method by which Mr. Roosevelt's administration said, "This is the way we want to do it."

Now, I don't know how many times this is multiplied, not only in the public utility field, but others. And then it puts Mr. Roosevelt and us who are working for him, in the position: "All right, we have said - we have answered you how you're going to do it. This is the way we want to do it. Now, other holding companies and other people, whether you're in receivership or whether you're in difficulty with the Treasury or not - if you'll follow this plan, we'll get behind you and help you in every way that the Government can as to reorganization."

And I should think that - just to show you how little interest, we can't find that any Rochester paper has run a single thing on this. Gaston has been through the files before and after. Can't even find that they ran that announcement, can you?

Gaston: Search was made over in Press Intelligence. They didn't find anything. I'm having a man check their Rochester files today.

H.M.Jr: Now, I may be making kind of a stump speech, but I want to answer you if I can. Then the hundreds of locally operated companies all over the United States can say, "Well, if this can be done and we can get rid of these top holding companies and get our gas mains repaired and our plant put in good order, and put a local boy in charge, and get the local community to finance it, why can't we do this thing?"

But these people are all - they're just stunned. They don't know. "This is the plan." "Fine." And there are a thousand other communities that must have similar situations who say, "All right, why don't you let us break loose from this remote control and let us do what they have done - what the Government has done in the Genesee Valley." And then

as these things pour in, now, these - I imagine there will be a flood of people say, "Well, our situation is just the same. Won't you help us?" Then it is up to us to be willing, and I'll say for myself I'll give it all the time that is necessary to bring the local community together with the funds.

Now, does that at all answer you?

American: It does in part. I was thinking in terms, of course, of our shop.

W.S.Jr: Well ...

American: And as far as I can find out in our shop, there is nothing in sight which could follow this for a matter of three, four, five or six months, as far as we can see. Now, it may be that we, as you say, will be able to unearth things, other cases will arise by virtue of the attention focused on this particular development, in which case we would move the next rung of the ladder in front of us.

W.S.Jr: Well, let me - I'm more - I may be entirely wrong; if I am, my own people always tell me so. Now listen, I'll just answer you. Mr. Roosevelt makes this speech at the Jackson Day Dinner. What happens? Nothing to date. We have done nothing as an Administration. I'm talking about anything to demonstrate we're going to do anything to put the dog in control of his tail. Now, what have we done? Now, this thing - the reason I'm jumping at even a small one - here's a perfect example in miniature; and there are hundreds of communities that must be in the same shape that we don't know about.

Frank: Well, Mr. Secretary, I think the only difference between you and Mr. Sheridan is this. To be put simply, there isn't any reason why everything we've talked about with Genesee shouldn't be done with promptness and can be. What Mr. Sheridan is bothered about is the character of publicity if we indicate that this is just the beginning and ride along on its heels saying, "There are going to be a lot of others like this." He knows we can't do it because there isn't a single other utility holding company that we

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could do within three or four or five months, within the point that this one is. And he's bothered that just because this is a little bit of a one it might be looked at as the beginning of a circus, with Mickey Mouse coming out dressed up as an elephant and then this circus doesn't come for three or four months. That's what he's bothered about - just the timing of the thing. For instance, if we had another one, even if it were small, or several others that we were going to come along with - but he's afraid they're all likely to look at this and say, "Oh, the New Deal is just making a lot of a little thing. It isn't going to do anything. They're just kidding us."

H.C.Jr: But supposing the President said after this is an accomplished fact, "Now we have demonstrated how we can do this. Any other community that finds itself in a similar situation, if they will come down and see Mr. X - I have appointed a committee who will see representatives from any other community who find themselves in a similar situation, and we'll try and sit down with representatives of the community and work out their problem.

Now, put yourself in his place. He's on the spot. He's made this speech. Now, I'm trying to find out some way that we do this, and that's what I would recommend to the President - that he go on the radio and describe this thing and tell any other community, "Come on down. I'll see you, I'll work out your plan."

Frank: What you (Sheridan) are bothered about is that even if they come down, it will be months before we can do another one.

H.C.Jr: Well, not necessarily. The S.E.C. may not have anything to do with it. It may be a railroad.

Frank: I think if it were a railroad, you're in a much worse situation. Your months

H.C.Jr: Well, it may be any community that finds itself in the position that it can't control its own local business.

Sam: This community, of course, didn't bring this particular

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case to the Commission. Now, this company has filed its plan, as it has to under the terms of the Act. It seems to me that we do our job if - we assume Maltbie gets his commission to act on it - we go ahead and get up a good plan of reorganization here that pleases the community, that is really a good job; it seems to me that that is a pretty fair demonstration of what can be done.

On the subject of money, I don't understand that this company is looking for any financing.

- Smith: It doesn't need very much money. Could use around \$10,000, aside from its tax claim.
- Healy: But that isn't any vital part of it.
- Smith: No.
- Healy: And you'll probably find that the absence of publicity in the Rochester newspapers is due to the fact that certain things in the report reflected on the management and that their advertising influence with the advertising department is enough to keep it out of the Rochester papers.
- H.M.Jr: Well, the Commission can't have any objection if, for instance - if you explain to me where it is with Maltbie and if I call up Maltbie and ask him to hurry this up.
- Healy: Be delighted.
- Frank: Be delighted. And then before we have any publicity sit down and talk the whole thing out.
- H.M.Jr: You don't want to say, "Morgenthau, please step out and let this thing slow down"?
- Frank: I want to restate that we want to move as fast as we can and we're delighted if you'll help us with Maltbie.
- H.M.Jr: See what he did to you this morning?
- Guthrie: On the Commonwealth Edison financing.

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- Healy: Well, that was in before our Commission
- H.M.Jr: No, but I mean it must be very embarrassing to the Edison Company.
- Frank: Well, so there can't be any misunderstanding, we want to move as fast as we can.
- H.M.Jr: What shall I say to Maltbie? How do I describe it to him? What do you want Maltbie to do?
- Smith: Well, we want Maltbie to step into the picture and put his accountants on this particular case and determine just how he proposes to handle this reserve for depreciation and maintenance which these people used up a while back and paid out in the form of dividends.
- H.M.Jr: Well, now - supposing I call him on the phone; how's he going to get this stuff?
- Smith: Well, he's already received a copy of the opinion, Mr. Secretary.
- Frank: Mr. Secretary, his investigators are already at work on this problem.
- Smith: He is aware of the situation now.
- Frank: They started that some time ago. All we want them to do is with promptness decide it one way or the other.
- H.M.Jr: Decide what?
- Frank: What they should do with a certain bookkeeping entry they made on their books.
- H.M.Jr: Have you got a copy of that opinion?
- Healy: I think we ought to send somebody to see Mr. Maltbie.
- Dunn: I think that would be the way to do it.
- Nenemkis: Mr. Secretary, the problem is really this. We have prepared to submit to you a tentative plan of

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reorganization. That plan is dependent upon our fixing a certain value for the entire capital structure. We are unable with any degree of certainty to fix that value until the Public Service Commission determines the amount of this depreciation and maintenance reserve. We understand that Mr. Maltbie will set this proceeding on his calendar for next week or the following week, or as soon as convenient, and determine that amount. We then can proceed with certainty in fixing what the value will be which will underlie the new capital structure of the company. That is the problem.

Guthrie: I think what the Secretary wants to know, perhaps, is the fact that this is the amount of reserve for depreciation.

Frank: This is the story. They did certain things which require the approval of the New York State Public Service Commission. They did not obtain that approval, and the Commission has recently instituted an investigation ...

H.M.Jr: Of the books?

Frank: ... of the books, and until they decide it, we can't pass on the plan. We don't care which way he decides, just so he decides.

H.M.Jr: But he's got to have a hearing?

Dunn: If his accountant comes in with a story, all he's got to do is issue an order to reverse their book entries.

Frank: Or not.

Dunn: Or not. The minute he decides, we can then promulgate a plan, and I think we can get everybody agreed to it, and the judge will agree to it. But we can't move until he does that.

H.M.Jr: Well, the thing is to get him to move. I mean could you people send somebody up there? Who would go?

Healy: Mr. Smith.

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H.M.Jr: Who?

Realy: Mr. Smith.

Smith: I could go or we could send one of the men that worked on the case.

H.M.Jr: Well, the thing would be to ask for an appointment with him to see you people.

Smith: Well, would we ask for an appointment with me, if he wanted

H.M.Jr: What's your initials?

Smith: C. Roy Smith.

H.M.Jr: I'll see if I can't get him right away.

(On phone) See if you can get Milo Maltbie - M-a-l-t-b-i-e - Public Service Commission, Albany; and if he's not in Albany, try and locate him. See if you can hurry it, will you? - Thank you.

What are the initials again?

Smith: C. Roy Smith.

H.M.Jr: I'm not moving too fast?

Frank: Oh no, we're eager to have it done. We're just delighted to get the help.

Dunn: That's the first thing we should have - the conference. No criticism of him. We're not criticizing him.

Realy: I don't believe the New York State Commission knew that the Pavilion had violated the accounting rules of the State Commission until we got into it. Am I correct in that?

Smith: That's right.

Gaston: I think Maltbie has an office in New York. Might be more likely to get him there.

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- H.M.Jr: (On phone) Try both Albany and New York; and if he's sitting, see if you can't get him to come to the phone.
- Frank: See, Mr. Secretary, the only point Mr. Sheridan is making is not what but how it should be treated.
- Sheridan: I just want to bring that point out.
- H.M.Jr: That's fine. And if you've followed the publicity of the Treasury, we practically never make an announcement until we accomplish something.
- Sheridan: Well, I knew that. Just wanted to
- H.M.Jr: If you will get together with Herbert Gaston - and my trouble is I always lean over backwards; but I'm letting my enthusiasm run a little bit on this thing, because I keep thinking of the President's speech. Well, what happens?
- Sheridan: Be a wonderful thing if we could get it really going.
- Oliphant: I'd like to mention an additional aspect of that angle of the thing: the wisdom of doing this and not worrying so much about what follows. Not only is it, as you say, that the President has done nothing about the four-inch tail; but it's been my experience in being out and away from town and talking to people - I'll make the most conservative statement as to what the Government attitude is and the Government intention is, and at the end you get back, "We're sick of words. We've heard you talk. We don't want to hear you talking." This is a case where it seems to me the essence of it is that the Government does something and in the act of doing it makes it clear to the community what its attitude and its policies are, and I don't know any other way now to make that convincing.
- H.M.Jr: Other than action.
- Oliphant: Other than action.
- Frank: You see, one of the troubles with the utilities situation - aside from the character of their

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affairs, which means a lot of different people have to be got together and a lot of hearings had - is that S.E.C. has been somewhat hampered by the fact that there is pending this case before the Supreme Court, and doesn't want to move too much except in a case that comes up through a reorganization. Well, there are only a few of those.

Healy: We have had two other reorganization cases. We have passed on the Peoples Light and Power and passed on American Water Works case. quite a lot of attention paid to it in the press. It shows an attitude on the part of the Commission toward the so-called death sentence of the Holding Company Act. The Peoples Light and Power case was designed to state our position on that part of the Act.

Frank: We want to show them that the death sentence is really a rejuvenation section. Rebirth.

Gaston: Wouldn't it be wise to take Maltbie in very fully on the details of what you have in mind, rather than just take up a detail with him.

H.M.Jr: Sure. If we go up to Maltbie and lay it all on the table, undoubtedly he'd be cooperative to the fullest extent.

Pavilion is the actual operating company.

Olipnant: Would you be likely to get premature publicity, Gaston?

Gaston: I don't think so.

H.M.Jr: Oh no.

Gaston: I shouldn't think so.

H.M.Jr: No, he's all right.

Olipnant: Just trying to think of everything.

H.M.Jr: No, he's all right.

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- Frank: I understand, Mr. Secretary, that the Treasury is willing to take stock for its claim.
- H.W.Jr: Can you lawfully?
- Healy: Is it good politics to become a stockholder in a public utility company?
- H.W.Jr: The right kind.
- Healy: What?
- H.A.Jr: The right kind, why not?
- Oliphant: I'd like to say this ...
- H.W.Jr: I don't know. Here's our legal talent. Go ahead, legal.
- Oliphant: The thing I'm going to say is not legal. What I said a little bit ago - now, I was thinking about the Treasury aspects of this whole picture; there is a lot of uncertainty all over the country about the Government's attitude toward the local investment banker. Now, this sort of action could speak much louder than words as to what our attitude was about it; and of course, we know one of our bottlenecks is the shortage of the local investment bankers' capital, and so forth. And while it is legally possible for us to take stock, or what not, if there could ^{be} some financing in connection with it, I think ...
- Frank: Somebody buy that stock from you.
- H.W.Jr: But legally we could.
- Frank: Mr. Sheridan again got the jitters because if you were going to take ...
- H.W.Jr: (On phone) Hello - Thank you. (Conversation with Milo Maltbie follows:)

February 2, 1938.
11:00 a.m.

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Milo
Maltbie: Hello, Henry.

H.M.Jr: How are you, Milo?

M: Pretty good. How are you?

H.M.Jr: Haven't talked to you in a long time.

M: No.

H.M.Jr: How are things with you?

M: Oh, they're - got plenty to do. If they've got anybody down there that isn't working, why send them up.

H.M.Jr: Well, I'll look around. Maybe you can have somebody.

M: (Laughs)

H.M.Jr: What I'm calling you up about is this. I've got interested in a company called Pavilion Natural Gas Company.

M: I can't hear you very well.

H.M.Jr: Pavilion Natural -

M: That's better.

H.M.Jr: Pavilion Natural Gas Company.

M: Yes.

H.M.Jr: Of Geneseo.

M: Yes.

H.M.Jr: The Treasury is interested through tax deficiency.

M: Yes.

H.M.Jr: Now, we've been working with SEC on this thing.

M: Yes.

H.M.Jr: And what we're trying to do is to get this one

- 2 -

cleared up, as a possible example as to how the Government's attitude toward a local public utility, even though this is a gas one, you see.

M: Yes.

H.M.Jr: And - there are certain questions in regard to the bookkeeping of this Pavilion, pending before your Commission.

M: Yes.

H.M.Jr: And what I'd like to do would be to have you take a personal interest in this, if you didn't mind.

M: Yes.

H.M.Jr: And see somebody from the SEC.

M: Yes.

H.M.Jr: And possibly have a hearing as early as possible.

M: Yes.

H.M.Jr: Now, how does that sound to you?

M: Why, yes. Sure, I'd be glad to do it. They going to send - the SEC going to send someone up to see me.

H.M.Jr: Yes. They'll send - a man by the name of C. Roy Smith will come up the minute - if you'll see him tomorrow.

M: Well I can't do it tomorrow.

H.M.Jr: Well when can you?

M: I might see him Friday.

H.M.Jr: Well, what time?

M: Well, say quarter after two.

H.M.Jr: Quarter after two Friday.

M: Yes.

H.M.Jr: Where?

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M: Here in New York.

H.M.Jr: In New York.

M: Yes.

H.M.Jr: And if you wouldn't mind - I'd greatly appreciate, as I say if you would listen, and while it's an awfully small one, if it has all the diseases.

M: Yes.

H.M.Jr: Of a lot of big ones.

M: Yes.

H.M.Jr: See?

M: I see.

H.M.Jr: And - we'll - while our claim is small, the principles involved are very important.

M: Yes. Yes. All right, you - you have him come up Friday, and I'll see him at 2:15 here in New York.

H.M.Jr: That's C. Roy Smith.

M: All right.

H.M.Jr: Thank you so much.

M: All right, Henry.

H.M.Jr: Goodbye.

M: Goodbye.

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Smith: Well done.

H. A. Jr: What?

Francis: That's progress.

H. A. Jr: Another step, huh? He's a nice fellow and you can talk to him right out straight - I mean just what we're trying to do.

Smith: I think a great deal can be accomplished toward returning the ownership and control of these small utilities to their own homes. I think that the home control and home ownership would be a good slogan in something like that, and at the same time we can get the local bankers interested whenever they see the stuff is coming back to their home.

H. A. Jr: Now let me ask you, has anybody from S.E.C. gone and looked at this plant?

Smith: Yes.

Dunn: Yes.

Smith: Our engineers have been on the ground. They spent a week there, Mr. Secretary, and they came back with a report that it was a very promising situation; that the local management and the local superintendent - I mean by that the men right on the ground - were very capable men, but that they were hamstrung, you might say, by getting instructions and authority from New York City, or the investment bankers who sat up above in control, as a result of which they were not permitted to spend the funds that they needed for the maintenance of the plant and for the expansion of the lines.

H. A. Jr: In other words, if we get this thing out from under, we've got something that will carry itself and go along.

Smith: Yes, we're certain of that.

H. A. Jr: Well, that's most important.

Smith: I took special pains to talk to the engineers, and they said that if that could just be thrown back into

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the hands of the superintendent and management who are now on the ground, it would be a beautiful job.

H.M.Jr: Before I take - buy stock for the Treasury, I want to take a look at the horse's mouth and see if they've got any teeth left.

Smith: Well, this engineer - I might say he's an ultra-conservative. He was very enthusiastic about the possibilities if it was permitted to operate on its own instead of just being sucked dry all the time by outside individuals.

H.M.Jr: Well, what else can we do as of today?

Oliphant: Nothing that I know of.

Frank: Well, if Mr. Maltbie will finish it up on Saturday, maybe we can move.

Smith: Well, I'll see if I can get him to do it.

February 2, 1938.
11:17 a.m.

H.M.Jr: Hello.
Randolph Burgess: Hello Henry.
H.M.Jr: Hello Randolph.
B: How are you, sir?
H.M.Jr: I'm all right. I hear that your Appalachian issue isn't going so well.
B: It's a little sour. They're quoted - quoted a point under the issue price to a point and a half.
H.M.Jr: Uh-huh.
B: But you can't tell yet. Those are the quotations for people who - who are genuine investors. Who put them away.
H.M.Jr: I see.
B: Although I'm a little apprehensive about it. The - apparently some of the insurance companies are taking it and some not.
H.M.Jr: Yes.
B: But it's a little too early to tell about it.
H.M.Jr: I see. Well, I was just curious.
B: Yes. Well I'll let you know if there's some more developments. Henry, while you're on the wire.
H.M.Jr: Yes.
B: This matter of bank holding companies.
H.M.Jr: Yes.
B: That you raised the question of last week, I've been giving a good deal of thought to.
H.M.Jr: Uh-huh.
B: And I think the best way would be if you could spare a few minutes tomorrow, for me to chat with you about it.

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H.M.Jr: That could be done.

B: Give you my views.

H.M.Jr: It could be done. We'd do it after the meeting, I think, because, I tell you, I have a press conference at ten thirty.

B: Yes. Well I have a meeting at the Board at ten, before we come to you.

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

B: All right, I'll stay after the meeting then?

H.M.Jr: If you would. You know what the picture is roughly, tomorrow.

B: About these Treasury bills, is it?

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

B: Yes.

H.M.Jr: It's very simple. We really - we could, if we wanted to get by without borrowing anything more. I mean on increasing bills.

B: Yes. I see.

H.M.Jr: But I - we - what we have in mind is maybe two - two-fifty -

B: Yes.

H.M.Jr: June bills.

B: Well, I think that's desirable. It's simpler than the money market point of view, in June, to have something to lap up the tax money.

H.M.Jr: I think so, and it's just that it gives us a little more comfortable feeling.

B: Yes.

H.M.Jr: To get through to the 15th of March.

B: You're going to avoid new borrowing in March, aren't you?

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H.M.Jr: Yes. We pay off the four hundred fifty bills with cash.

B: Yes.

H.M.Jr: And a conversion on the notes.

B: Yes, I see. Yes. Well, that's what I thought it would be.

H.M.Jr: But I thought that if - remind me, if I can give the boys the picture from now until the 15th, why then there's one less uncertainty.

B: That's right. Yes.

H.M.Jr: And there's no reason why we can't.

B: Well, that's fine. I think that's very helpful.

H.M.Jr: And there would be just that much

B: Yes. Yes.

H.M.Jr: And I've got Postal Savings and FDIC are crowding me on money.

B: They want to invest it, you mean?

H.M.Jr: Yes. And I'm sorry, they've got lots of money, but I - I most likely give them a two per cent note and hold it there for a while.

B: Yes, I think that's - I think that's better. We may need it sometime.

H.M.Jr: Never know.

B: Never can tell.

H.M.Jr: All right. See you tomorrow.

B: Very good.

H.M.Jr: Goodbye.

B: Goodbye.

February 2, 1938

11:30 a.m.

Present:

Mr. Aubrey Williams
Mr. Bell

HM, Jr: I thought we had ourselves all straightened out with you people, but according to the papers it does not seem so. (Referred to article in New York Times of 2/2/38, copy attached.)

Mr. Williams: Well, let's take up this newspaper whole a minute. I found out what happened, but it does not do us much good.

These boys took Corry's testimony on the Hill. They got a copy of that, and then they came down and asked Milford as to the truthfulness of the thing. He's our publicity fellow.

HM, Jr: Is that his last name?

Mr. Williams: Yes. Morton Milford.

HM, Jr: I thought you had another fellow ...

Mr. Bell: Niles?

Mr. Williams: No. He's only General Information, but Milford handles the press.

So this boy takes the story and makes up pretty much his own comments on it. I have been particularly careful to keep away from the press. As a matter of fact, I have not seen any of them except when I came to see the President since Harry went away. I have not had any press conferences. I saw them one day on the Unemployment Compensation stuff and explained that to them. But they patch things together and I don't know, to be frank about it, I don't know anything. I have given instructions, following that story of Leon Henderson's, which I thought was particularly bad

(See pages 1-10)
2-2-38

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forecasting further unemployment -- no possible reasons to be making things worse by saying so -- I issued an order at that time that nobody was to talk to the press but me. Nobody! Well, that's been in effect, but these boys do congregate down in Milford's office and they get something out of him. They finally worm something out of the poor fellow, but I told him this morning that he was simply to absent himself, simply not to be there, and when he was there to know nothing and if they wanted to talk to me that I was out; that they were not to be allowed to get to either one of us, because I am convinced that in this present situation they can ask anybody a question and even a refusal to answer will get you in bad, unless you are deliberately willing to misrepresent what you know to be the truth.

So, while I regret it very much, I think you both understand enough about the whole newspaper technique to know that that kind of thing is

Mr. Bell: Corry did not say, did he, that they had 2,000,000 men on the roll?

Mr. Williams: No. He said 1,900,000.

Mr. Bell: That was three weeks ago.

Mr. Williams: Here's a letter I wrote to you for my signature. Corry wrote it on February 1st. Unfortunately it did not get to you until this morning because I wanted a paragraph changed in it. I wanted that last paragraph put on it.

H.M. Jr.: Shall I read it out loud? Addressed to me and signed by Aubrey Williams. (Photostats attached.)

Mr. Williams: Now, the situation as I see it, Mr. Secretary, our total effect upon the expenditure of money is unchanged and while we must, of necessity, shift somewhat, I mean it's impossible for us to go on a schedule without any modification whatsoever, and I think any attempt to hold us to that is unreasonable. All that we have got to be able to show is that we are going to keep faith with the total expenditure of money. For example, if you take this -- December, what do we say there?

Mr. Bell: \$105,000,000 obligated; \$1,005,000 average.

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Mr. Williams: In January we estimated we would spend \$109,000,000. Now we think it won't go more than \$105,000,000 or \$104,000,000.

Mr. Bell: Because you did your advance purchasing in December.

Mr. Williams: We did our purchasing in December. Now we estimate that even with an increase of 50,000, our February expenditures will only run \$1,000,000 more than we gave you an estimate on before, so if we could settle up this morning we would actually be ahead on what we told you we would be as of the first of March on our present anticipations.

Now, that's why I feel, Mr. Secretary, we are keeping faith with you and you see, I mean, I know you know I am struggling to try to do it.

HM,Jr: It's more personal

Mr. Williams: It gets to the base of my being when you tell me 'You are not keeping faith with me'.

HM,Jr: Frankly, here's what happens. Hopkins comes to my house for supper the evening before he left for the hospital. We talked things over. He left. Nobody knew. Everything was up in the air. Bell and I sat down. I think we actually had four meetings after he left, following the instructions of the President, to work it out with Harrington. We came to an amicable arrangement. See? And the statement that Hopkins made about 350,000 people, nobody knew how they were going to work it out. Well, we worked it out and there has never been even a hint that Bell and I ever in any way

Mr. Bell: ... that we had anything to do with it. Our name did not appear at all.

HM,Jr: Not even in any columnist's story.

Mr. Williams: I think that's regrettable.

HM,Jr: No! We don't want it. We don't want it.

Mr. Williams: You will get the blame for the negative and you won't get any praise.

HM, Jr: I know that. I am perfectly willing. I feel that Bell and I have done everything humanly possible to stretch the money as far as it will go, which we have done, and we helped cover up a very difficult situation on account of Hopkins' illness.

Mr. Williams: I appreciate that.

HM, Jr: Bell and I have, for instance, never got somebody aside and said, 'You know, we have done this and we have done that' and so forth. I think that's why the various Departments have confidence in us. We do the best we can within reason and remembering that human suffering is at stake. Now, you get a thing like this dumped in the lap of the President and myself -- letters which the Secret Service are getting -- my wife got one this morning -- threatening the life of the President and myself -- 50 to 75 fellows organized in New York to get the President and me on account of our stand on WPA. That's what came in the mail this morning.

Mr. Williams: Uh-huh.

HM, Jr: I sent for Wilson and he said they are all coming out of a certain section of New York, getting it down into blocks now, blaming the President and me on account of our stand on this. If I did not know that we had done everything and then pick up this figure of 2,000,000 -- I wasn't saying you, I was saying your organization

Mr. Williams: I am responsible.

HM, Jr: ... has not kept faith. On the other hand, I say that because Dan and I watched this thing like a hawk and our agreement was 1,900,000. Now we know that you had not been able to put on men as fast as you wanted to. There was a little slack and a little saving.

Mr. Williams: That's right.

HM, Jr: Which delighted us, because in the case of some unknown disaster you could take up a little slack. If you come in this morning and say, 'We have this thing,' and put on another 50,000 and take it off a little later, it sounds reasonable. I don't know how Dan feels, but I think it's all right, but I don't like to get it from the papers;

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don't like to get it dumped on the President; don't like my wife to get letters threatening my life and saying I had better resign, and the Secret Service says there are a lot of those letters, and naturally, on a strictly personal basis

Mr. Williams: Of course, on the other hand, I think you appreciate what anybody is up against in an organization of this character. Frankly, I think we have been pretty successful in keeping the press out of this.

HM, Jr.: I did not call you on that Leon Henderson story because I felt that was your own shop; that was your own business. I did not call you. But this thing, I figured if there was going to be a shift, the two men who should know are Bell and myself.

Mr. Williams: That's right. As I say, I have nothing but just regret

HM, Jr.: But wouldn't you like me to call you on it and not go behind your back, which I wouldn't do anyway?

Mr. Williams: Absolutely! But all I want to feel with you is that you have faith that I am going to do what we are committed to do.

HM, Jr.: That's it, and I don't want that faith shaken. I don't want it shaken.

Mr. Williams: And it means a lot to me to feel that.

HM, Jr.: I have said right straight along that this is one of the most difficult things for us that we have had in the picture since the fall of 1933 and 1934. Now, I don't know whether business is going to pick up in April and May and whether industry, when Spring comes, is going to improve. If you ask me are there going to be jobs for these men in April and May, I don't know. We are right at the cross-roads now. I don't know. And I try to get as good business information as we can get in the country and I may come around and I may be the first fellow, the way I was in December -- it was in December I asked Harrington come in and I said, I think you ought to put on more men. And I may take the position in April that we have got to go to

-6-

Congress and ask for more money, but I want to be in touch with each week. I want to be the first fellow you tell next to the President.

Mr. Williams: I would expect to do that. As a matter of fact, what I would like to do is to go over what this whole picture is going to be and I think that it's got to be reviewed.....

HM, Jr: Weekly.

Mr. Williams: in the light of what is going on -- this whole pressure on us because undoubtedly situations are due to exist. For instance, Biggers called up yesterday and asked us to see a delegation from Toledo. Last night he called McIntyre and asked him to see them. He says that there is going to be a riot out there unless something happens. I don't know Biggers. I don't know what weight to put on a statement like that. It seems to me that Biggers is the sort of person who would not make a statement, from what I have heard of him, unless there is some reason for it.

HM, Jr: This is all I want to say. You can call me up any day and say, 'We have got a situation. Things have gotten worse.' I will drop everything and talk to you.

Mr. Williams: Here's one thing, Dan, I want to do pretty soon with you. I would like to find out what -- if there are any resources which we could call on in case of an absolute situation where we had to make some move.

Mr. Bell: There is very little money for expanding any of these programs. I told Senator Byrnes' committee the other day that there was \$35,000,000 free money right now and the possibility that that may increase to \$50,000,000 by June 30th, but I did not think there would be any more than that. The only other situation which seems to be critical at the present time is in the agricultural area for direct relief.

HM, Jr: Alexander's outfit. He has been over here.

Mr. Williams: I guess it is pretty bad.

Mr. Bell: But of course there has been allocated \$4,000,000 of that reserve and they have spread it out over the months. Whether it will be sufficient or not, I can't

tell you, but that's all the money.

Mr. Williams: Our biggest problem we are confronted with is the fact that on the 15th of this month I have got to issue orders which will drop 100,000 people, because you can't wait, you see. I have got to get down by March to 1800,000.

Mr. Bell: How many do you have now? January 31 you would have just around 1900,000.

Mr. Williams: We had a report yesterday. 1,960,400.

Mr. Bell: Supposing you did not give those orders to drop 100,000, but you gave orders not to take on any more ~~....~~

Mr. Williams: I issued orders the 28th of the month putting an absolute stop on every State in the Union that under no consideration were they to put on another person.

Mr. Bell: How about replacements?

Mr. Williams: No. Absolutely dollar control.

Mr. Bell: That will naturally follow.

Mr. Williams: No. There would be replacements, Dan; dollar control -- that when you get up to this amount of obligation, you stop. That would mean if one dropped out, another could be put on, but while there are some replacements, interestingly enough I find in December 216 people went off of one project and went into private industry. Very encouraging on that small front, but taking the nation as a whole there was no substantial number, but that might be one thing to do -- stop replacements.

Mr. Bell: That would be the natural thing to do, instead of issuing an order to drop off people

Mr. Williams: The only thing is, Dan, I would still probably have to drop 75,000. I won't wait a day beyond the 15th of February to issue that order, for the simple reason that I am not going over this figure.

RM, Jr: All right, then. I think the President should see you, Bell and myself on the 14th.

Mr. Williams: All right. Because you can't wait

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until the first to issue that order. You have got to give people time to get those people off of projects.

HM, Jr: Tell you what let's do. Let's write a letter to the President, something to the effect that "On the 14th of February, Mr. Williams, Mr. Bell and I would like to see you and would he give us an hour. At that time we would like to lay plans before him of what we are going to do in regard to people on the employment rolls for the month of March and the 14th is the last date because the orders will have to go out on the 15th."

Mr. Bell: Wouldn't you rather make it Wednesday of next week, about the 9th, because he will have his reports in the Saturday preceding?

HM, Jr: No.

Mr. Williams: I would rather wait until later.

Mr. Bell: He ought to have by that time how many people would drop off each week if he cut out replacements.

HM, Jr: If he says the orders have to go out on the 15th, I would wait until the 14th.

Mr. Williams: Why I would rather wait: things are going to happen undoubtedly and the more we can play for time here, the more breaks we are going to get.

HM, Jr: But let's write the letter and we are on record.

Mr. Williams: Yes. And by that time if we could have a complete picture of funds, because, as you say, it's terribly important.

HM, Jr: Of course, we don't want to mix it. We will know where Alexander is. I will tell you what we have done with Alexander, because Wallace made a terrible crack at Cabinet, so Alexander came over and I said, 'All right, name one county and the State where there are farm folks in need, hungry and without clothes. I want to know' and Baldwin spoke up and said, 'We have not got any such people'.

Mr. Williams: Baldwin said that?

-3-

Mr. Bell: He sure did. He said the pressure was not for grants for food. They were for loans. That's where the pressure was coming back.

HM, Jr: I said, 'Dr. Alexander, go ahead and give me the evidence and I will send a worker with you into the counties. I want to know.'

Mr. Williams: I wish you would do this, because they are passing the buck to us in Arkansas like nobody's business. They come asking us to do something because they haven't got the money. If there is no need, they ought to quit sending them.

Mr. Bell: He did not say need.

HM, Jr: He said they were not hungry. I asked if people were without shelter, hungry and without clothes.

Mr. Williams: I don't want to get into that, because it's another agency, but I wish they would quit sending them to us because they can't do anything for them.

HM, Jr: When I get it, possibly we could send an investigator from your office plus ours and his, and let them go into the field.

Mr. Williams: Delighted!

HM, Jr: How would that be?

Mr. Williams: Fine! And have a fellow like Sharp, who runs our program in Arkansas. He was a Robinson man.

HM, Jr: I don't know what State they are going to
NAME. This meeting was Monday, wasn't it?

Mr. Bell: I believe it was.

Mr. Williams: I would be very glad. I will tell you the chap over there, Mr. Secretary we find the most valuable and that is Milo Perkins.

Mr. Bell: He was out of town that day.

Mr. Williams: He's a great critic of the President, but a fine person.

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HM, Jr: Dan, do you think we ought to show this to the President?

Mr. Bell: No, not necessarily. We have this letter. I don't think we ever intended that you stick to the strict letter of the schedule.

HM, Jr: Will you prepare an answer. He's entitled to an answer.

It's all right as far as I am concerned. How about you?

Mr. Bell: Sure. Just so they live within what the President approved.

Mr. Williams: On dollars, I am still in the black with you. I am in the red on numbers, but in dollars I am in the black.

oOo-oOo

WPA ROLLS TO RISE TO 2,000,000 TOTAL

FEB 2 1938

Spending to Increase to Take Care of Work Relief Needs for Winter Months

CUT OF 500,000 BY JUNE

Most of Curtailment to Be in South—Business Gain to Absorb Slack Expected

WASHINGTON, Feb. 1 (AP)—Works Progress Administration fiscal authorities decided today to spend more on Winter employment and trust that Spring would bring a business spurt to absorb the thousands who will have to be cut off their rolls then.

Aubrey Williams, Acting Administrator, stated that, because of increasing demands, work-relief enrollment would be expanded to about 2,000,000 persons this month and then would be progressively curtailed to 1,500,000 by June. Most of the pruning of the rolls will be in the South.

This, officials said, would require an outlay of about \$184,000,000 in February, compared with an average of less than \$100,000,000 a

month for the first half of the fiscal year. Since WPA spent from July to December, inclusive, \$662,332,025 of the \$1,050,000,000 earmarked for 1937-38 work relief, they asserted that thousands added to the Winter payroll would have to be dropped in the Spring and Summer to keep expenditures within the budget.

Enrollment, which averaged less than 1,500,000 a month in the first six months, mounted to 1,631,961 for the week ending on Jan. 22.

Officials said December spending had been chiefly for November employment, and that it would be ten days, or more, before Treasury disbursement figures showed how much WPA funds have been reduced by the Winter relief demands.

They conceded the remaining funds would be so low that employment rolls would have to be cut much earlier in the Spring and at a more rapid pace than in previous years when appropriations were larger. One official who would not be quoted by name said WPA was "banking everything" on a Spring business rise absorbing those demobilized.

"Of course," he said, "we can't foresee a boom any more than we can a flood or a blizzard, but it is the only thing we have on which to pin our hopes unless additional relief funds are made available for the remainder of the current fiscal year. It seems, however, that the business recession leveled off in December and that neither hills nor valleys are ahead."

Although there has been some demand in the House for additional relief funds, he said the general apathy of the Senate plus statements from both President Roosevelt and Secretary Morgenthau that no deficiency appropriation would be needed indicated WPA would have to "make its money last" until July.

The attached is the latest release which has been mimeographed—the one we sent you last week. We expect the one for week ending January 29th sometime during the day, and as usual will send it to you by special messenger.

Total WPA employment for week ending Jan. 29 was 1,900,614, or an increase of 68,479 over January 22.

1,832,135 +
68,479
1,900,614

Feb. 2, 1938

Jan 29 -

1.869,227 + 68,479

Planned employment
for Feb

1.973,250

~~1907614~~
~~1831902~~

0

EMPLOYMENT ON WPA PROJECTS, BY STATE
 UNITED STATES AND TERRITORIES
 Weeks Ending January 15 and January 8, 1938
 (Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending January 15	Week Ending January 8	
GRAND TOTAL	1,767,099	1,712,060	+ 55,039
CONTINENTAL UNITED STATES	1,764,622	1,709,536	+ 55,086
Alabama	27,246	26,705	+ 543
Arizona	7,533	7,281	+ 252
Arkansas	24,924	23,631	+ 1,293
California	76,622	75,459	+ 1,163
Northern	37,134	36,282	+ 852
Southern	39,488	39,177	+ 311
Colorado	21,352	20,577	+ 775
Connecticut	18,920	17,850	+ 1,070
Delaware	2,349	2,220	+ 129
District of Columbia	6,689	6,229	+ 460
Florida	26,875	25,646	+ 1,229
Georgia	30,169	27,238	+ 2,931
Iowa	8,948	8,227	+ 721
Illinois	117,307	113,529	+ 3,778
Indiana	52,393	48,298	+ 4,095
Iowa	20,469	19,802	+ 667
Kansas	28,019	27,246	+ 773
Kentucky	40,531	40,169	+ 362
Louisiana	26,260	25,134	+ 1,126
Maine	6,535	5,565	+ 970
Massachusetts	10,754	10,566	+ 188
Michigan	78,099	77,351	+ 748
Minnesota	55,328	52,108	+ 3,220
Mississippi	40,364	38,618	+ 1,746
Missouri	21,860	21,293	+ 567
Montana	55,426	54,148	+ 1,278
Nebraska	15,194	14,120	+ 1,074
Nebraska	21,744	21,286	+ 458
Nevada	1,975	1,247	+ 728
New Hampshire	6,744	6,470	+ 274
New Jersey	61,469	58,990	+ 2,479
New Mexico	6,852	6,660	+ 192
New York City	138,110	137,599	+ 511
New York (Excl. N.Y.C.)	50,756	51,611	- 855
North Carolina	24,529	23,847	+ 682
North Dakota	13,669	13,529	+ 140
Ohio	106,378	101,555	+ 4,823
Oklahoma	50,942	48,589	+ 2,353
Oregon	14,111	13,331	+ 780
Pennsylvania	167,877	164,343 A/	+ 3,534
Rhode Island	13,054	13,129	- 75
South Carolina	21,860	20,556	+ 1,304
South Dakota	14,973	15,191	- 218
Tennessee	23,567	22,857	+ 710
Texas	60,830	58,611	+ 2,219
Utah	7,644	7,445	+ 199
Vermont	4,226	3,869	+ 357
Virginia	19,382	19,086	+ 296
Washington	35,214	33,943	+ 1,265
West Virginia	31,722	30,593	+ 1,129
Wisconsin	43,463	42,080	+ 1,383
Wyoming	3,273	2,883	+ 390
Hawaii	2,457	2,524	- 67

A/ Revised.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

February 1, 1938

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

My dear Mr. Secretary:

On December 18, 1937, we submitted to you a schedule indicating that with a total obligation of \$1,500,000,000 during fiscal year 1938, WPA employment would increase to an average of 1,900,000 during the month of February and decline thereafter to 1,800,000 in March, 1,650,000 in April, 1,550,000 in May, and 1,500,000 in June.

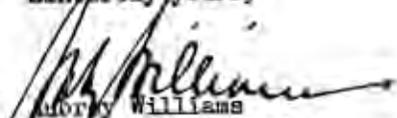
During the past six weeks we have found that the need for employment has increased rapidly and in order to meet as much of the need as possible at the seasonal peak, WPA State Administrators have been authorized to increase employment and we now estimate an average of 1,950,000 workers in February.

This will necessitate a more rapid reduction in employment during the last four months of the fiscal year in order to limit obligations to \$1,300,000,000 for the year. As indicated in the enclosed schedule, if employment reaches an average of 1,950,000 in February, it will be necessary to reduce to 1,800,000 in March, 1,600,000 in April, 1,550,000 in May, and 1,500,000 in June.

You will note that actual obligations incurred during December exceeded our former estimate chiefly as a result of the President's request that advance purchases of materials for later use be made in that month. These advance purchases will result in a decrease in total obligations per worker during the last half of the year.

The savings made by assigning a larger proportion of WPA workers at the unskilled rate has enabled us to increase employment more than we would have otherwise been able to finance.

Sincerely yours,


Morley Williams
Deputy Administrator

REVISED ESTIMATES OF
WPA EMPLOYMENT AND OBLIGATIONS

	Employment (000)	Obligations (in millions) Work Projects
July	1,662	\$115.7
August	1,514	92.1
September	1,458	89.0
October	1,464	89.9
November	1,505	88.6
December	1,578	104.9
	<u>Estimated</u>	
January	1,775	104.8
February	1,950	115.0
March	1,800	107.0
April	1,600	96.0
May	1,530	92.0
June	1,500	90.0
Total work projects		1,185.0
National Youth Administration		50.0
Administrative expense		<u>65.0</u>
TOTAL		\$1,300.0

This estimate is exclusive of the need for working capital in the latter part of June.

February 1, 1938

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Federal Youth Administration		50.0
Administrative expense		<u>65.0</u>
TOTAL		\$1,500.0

This estimate is exclusive of the need for working capital in the latter part of June.

February 1, 1958

EMPLOYMENT ON WFA PROJECTS, BY STATE
UNITED STATES AND TERRITORIES
Weeks Ending January 29 and January 22, 1938
(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending January 29	Week Ending January 22	
GRAND TOTAL	1,900,614	1,832,135	+ 68,479
CONTINENTAL UNITED STATES	1,895,151	1,829,666	+ 65,485
Alabama	29,317	28,690	+ 627
Arizona	7,911	7,642	+ 269
Arkansas	27,162	26,423	+ 739
California	79,930	78,430	+ 1,550
Northern	40,515	39,274	+ 1,241
Southern	39,465	39,156	+ 309
Colorado	23,484	22,470	+ 1,014
Connecticut	20,247	19,546	+ 661
Delaware	2,457	2,451	+ 26
District of Columbia	6,854	6,816	+ 38
Florida	28,038	27,714	+ 324
Georgia	27,744	32,248	+ 270
Idaho	10,488	9,775	+ 713
Illinois	132,424	125,403	+ 7,016
Indiana	56,488	55,088	+ 1,400
Iowa	21,288	20,926	+ 362
Iowa	30,461	29,824	+ 637
Kentucky	41,612	41,332	+ 280
Louisiana	27,986	27,233	+ 753
Maine	7,670	7,288	+ 382
Maryland	11,085	10,901	+ 184
Massachusetts	60,930	78,720	+ 2,210
Michigan	64,749	68,645	+ 6,104
Minnesota	42,938	41,920	+ 1,018
Mississippi	23,809	22,945	+ 864
Missouri	60,888	57,264	+ 3,624
Montana	16,265	15,570	+ 695
Nebraska	23,247	22,134	+ 1,113
Nevada	2,268	2,074	+ 194
New Hampshire	7,323	6,787	+ 536
New Jersey	70,746	64,990	+ 5,956
New Mexico	7,231	7,071	+ 160
New York City	138,750	138,457	+ 293
New York (Excl. N.Y.C.)	52,307	51,474	+ 833
North Carolina	26,101	25,516	+ 585
North Dakota	14,167	13,766	+ 401
Ohio	144,705	140,637	+ 3,868
Oklahoma	53,291	51,886	+ 1,405
Oregon	15,176	14,454	+ 722
Pennsylvania	183,962	174,211	+ 7,751
Rhode Island	15,072	13,887	+ 1,185
South Carolina	27,176	24,856	+ 2,320
South Dakota	16,457	15,200	+ 1,257
Tennessee	26,155	25,353	+ 802
Texas	64,923	62,810	+ 2,113
Utah	8,407	7,848	+ 559
Vermont	4,603	4,469	+ 134
Virginia	20,137	19,824	+ 313
Washington	39,153	37,859	+ 1,294
West Virginia	33,825	32,339	+ 1,486
Wisconsin	44,238	43,744	+ 494
Wyoming	3,482	3,329	+ 153
Hawaii	2,463	2,469	- 6

Required

February 2, 1938

My dear Mr. President:

On the 14th of February, Mr. Aubrey Williams, Mr. Bell and I would like to see you and would appreciate it if you could spare us an hour for a conference.

At that time we would like to lay before you the plans of the Works Progress Administration covering employment for the month of March. My understanding is that the 14th will be the last day for approval of the plans, as the orders will have to go out to the State Administrators not later than February 15th.

Faithfully yours,

The President,

The White House.

Feb 2, 1955

FROM: MR. GASTON'S OFFICE

185

TO:The Secretary.....

Mr. [Name], the public relations man of
[Company], called in to talk to me after the
meeting. He was afraid he hadn't gotten
the message over to you properly. He made
the points:

- (1) He is afraid that you will come
out of the Congress case to justify
the "stuffed" about it.
- (2) He mentioned required (only about
10,000) is so realistic that someone
could not neglect any more. Instead
of the normal routine. He says
the people will be more interested in
the [Company] than the S.T.C.
[Company] has done itself advertised and
has well understood and they have already
got over the [Company] of [Company] were [Company]
[Company] after that too.
- (3) He also says it would be [Company] to [Company]
[Company] in the [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]
- (4) He also says [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]
[Company] [Company] [Company] [Company] [Company] [Company]

February 2, 1938.

LIST OF SUBJECTS YOU WISHED TO DISCUSS WITH THE PRESIDENT TODAY

1. Question of renominating Howell Cone of Statesboro, Georgia, for Collector of Customs, District No. 17.
2. Money for Public Health in connection with investigation and control of venereal diseases.
3. Genessee Valley Gas Company.
4. Cable from Cochran No. 160 in regard to his meeting with Minister Marchandean.
5. St. Louis Star-Times article on Joseph P. Kennedy - Henry Morgenthau, Jr.
6. Report on the investigation of charges against William H. Kelly, Collector of Internal Revenue at Newark, N. J.
7. Two alternative letters to William H. Kelly for the President's signature.
8. A comparison of estimated and actual receipts for January, 1938 and for the first seven months of the fiscal year 1938, prepared by Dr. Haas.
9. Report prepared by Dr. Haas on the business situation.
10. Memorandum from Mr. Opper in regard to his conference with SEC about the Paganucci stock being distributed without registration.
11. Memorandum from Dr. Magill respecting the tax bill situation. *C. J. M. McCormack*
12. Colonel McIntyre's memorandum dated February 1st in regard to A. P. Giannini.

February 2, 1938

Lunch with the President.

On the question of renominating Howell Cone of Statesboro, Ga., for Collector of Customs, District No. 17, the President said I should talk to Dr. Alexander of Resettlement.

About money for Public Health, in connection with investigation and control of venereal diseases, I am to send for Dr. Parran and I will have somebody take down that meeting.

Told the President all about the Genessee Valley Gas Company and what we are doing. Tremendously enthusiastic. When we get it rrough, he wants to go on the air and tell about it.

Showed the President the story about Kennedy in the Star Times of St. Louis.

Told the President all about Transamerica, also Bank of America. Suggested that he hold up sending any message to Congress on bank holding companies until we are sure that RFC has got through examining the various banks in the bank holding companies and make sure that they are O.K.

Spoke to the President about the attached memorandum from McInture and he suggested that I answer it as follows. (See carbon attached.)

THE WHITE HOUSE
WASHINGTON

January 31, 1938

CONFIDENTIAL MEMORANDUM FOR

H. M. Jr.

I am not entirely satisfied with the re-nomination of Howell Cone of Statesboro, Georgia for Collector of Customs District No. 17.

He is very conservative and almost reactionary--honest but not our kind. Can't we look around for another man equally honest and capable who talks our language?

F. D. R.

75TH CONGRESS
3D SESSION

S. 3290

IN THE SENATE OF THE UNITED STATES

JANUARY 5 (calendar day, JANUARY 20), 1938

MR. LA FOLLETTE introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To impose additional duties upon the United States Public Health Service in connection with the investigation and control of the venereal diseases.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Act approved July 9, 1918, is hereby amended by
4 adding, after section 4 of chapter XV (40 Stat. 886; U. S. C.,
5 title 42, sec. 25), sections 4a, 4b, 4c, 4d, and 4e to read
6 as follows:

7 “(a) For the purpose of assisting States, counties, health
8 districts and other political subdivisions of the States in estab-
9 lishing and maintaining adequate measures for the preven-
10 tion, treatment, and control of the venereal diseases; for the

1 purpose of making studies, investigations, and demonstrations
 2 to develop more effective measures of prevention, treatment,
 3 and control of the venereal diseases, including the training
 4 of personnel; for the pay, allowances, and traveling expenses
 5 of commissioned officers and other personnel assigned to
 6 duties in carrying out the purposes of this Act in the District
 7 of Columbia and elsewhere; and for the printing of reports,
 8 documents, and other material relating thereto, there is
 9 hereby authorized to be appropriated for the fiscal year end-
 10 ing June 30, 1939, the sum of \$3,000,000; for the fiscal
 11 year ending June 30, 1940, the sum of \$6,000,000; for
 12 the fiscal year ending June 30, 1941, the sum of \$12,-
 13 000,000; and for each of the ten fiscal years thereafter, the
 14 sum of \$25,000,000.

15 “(b) Prior to the beginning of each fiscal year the Sur-
 16 geon General of the Public Health Service shall determine,
 17 out of the appropriations made pursuant to section 4 (a),
 18 the sum to be allotted to the several States, including the
 19 District of Columbia, Alaska, and Hawaii. The Surgeon
 20 General shall then allot such sum to the several States upon
 21 the basis of (1) the population, (2) the extent of the
 22 venereal-disease problem, and (3) the financial needs of
 23 the respective States. Upon making such allotments, he
 24 shall certify the amounts thereof to the Secretary of the
 25 Treasury. The amount of an allotment to any State for

1 any fiscal year remaining unpaid at the end of such fiscal
 2 year shall be available for allotment to the States for the
 3 succeeding fiscal year in addition to the amount appropriated
 4 and available for such fiscal year.

5 “(c) Prior to the beginning of each quarter of the
 6 fiscal year the Surgeon General of the Public Health Service
 7 shall determine the amount to be paid to each State for
 8 such quarter from the allotment to such State, and shall
 9 certify the amount so determined to the Secretary of the
 10 Treasury. Upon receipt of such certification, the Secretary
 11 of the Treasury shall, through the Division of Disbursement
 12 of the Treasury Department and prior to audit or settlement
 13 by the General Accounting Office, pay in accordance with
 14 such certification. The moneys so paid to any State shall
 15 be expended in carrying out the purposes specified in section
 16 4 (a), and in accordance with plans presented by the health
 17 authority of such State and approved by the Surgeon General
 18 of the Public Health Service.

19 “(d) With the approval of the Secretary of the Treas-
 20 ury and after consultation with a conference of State and
 21 Territorial health officers, the Surgeon General of the Public
 22 Health Service is authorized to prescribe the rules and
 23 regulations necessary to carry out the purposes of this Act.

24 “(e) This Act shall not be construed as superseding or
 25 limiting the functions, under any other Act, of the Public

1 Health Service relating to the prevention, treatment, and
2 control of venereal diseases, or the expenditure of money
3 therefor."

4 "Sec. 2. The following portions of existing law (secs.
5 3 and 4, ch. XV, 40 Stat. 886; U. S. C., title 42, secs.
6 24 and 25) are hereby amended to read as follows:

7 "Sec. 3. That there is hereby established in the Bureau
8 of the Public Health Service a Division of Venereal Dis-
9 eases, to be under the charge of a commissioned medical
10 officer of the United States Public Health Service detailed
11 by the Surgeon General of the Public Health Service,
12 which officer while thus serving shall be an assistant sur-
13 geon general of the Public Health Service, subject to the
14 provisions of law applicable to assistant surgeons general
15 in charge of administrative divisions in the District of
16 Columbia of the Bureau of the Public Health Service. There
17 shall be in such Division such assistants, clerks, investigators,
18 and other employees as may be necessary for the performance
19 of its duties and as may be provided for by law.

20 "Sec. 4. That the duties of the Division of Venereal
21 Diseases shall be in accordance with rules and regulations
22 prescribed by the Secretary of the Treasury (1) to study
23 and investigate the cause, treatment, and prevention of
24 venereal diseases; (2) to cooperate with State boards or
25 departments of health for the prevention and control of such

1 diseases within the States; and (3) to control and prevent the
2 spread of these diseases in interstate traffic: *Provided*, That
3 nothing in this chapter shall be construed as limiting the
4 functions and activities of other departments or bureaus in
5 the prevention, control, and treatment of venereal diseases
6 and in the expenditure of moneys therefor."

A BILL

To impose additional duties upon the United States Public Health Service in connection with the investigation and control of the venereal diseases.

By Mr. LA FOLLETTE

JANUARY 5 (calendar day, JANUARY 20), 1938
Read twice and referred to the Committee on Commerce